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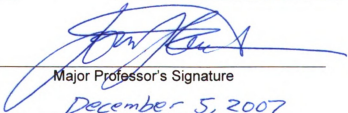
Turning Corporate Social Responsibility into Opportunity: A
Study of Stakeholder Orientation and Marketing

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**TURNING CORPORATE SOCIAL RESPONSIBILITY INTO OPPORTUNITY:
A STUDY OF STAKEHOLDER ORIENTATION AND MARKETING**

BY

TRACY L. GONZALEZ-PADRON

DISSERTATION

To be submitted to
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ABSTRACT

TURNING CORPORATE SOCIAL RESPONSIBILITY INTO OPPORTUNITY: A STUDY OF STAKEHOLDER ORIENTATION AND MARKETING

By

Tracy L. Gonzalez-Padron

Marketers adopting the stakeholder concept shift the firm's focus to a broader set of stakeholders than just customers – including suppliers, employees, regulators, shareholders, and the local community. This research examines the incorporation of stakeholder issues in corporate marketing strategy to explain firm performance. Grounded in stakeholder theory, the study provides a conceptualization of stakeholder orientation based on cultural values that is distinctive from stakeholder responsiveness and examines the relationship of stakeholder responsiveness to firm performance. The study determines the mediating role of marketing outcomes on the impact of stakeholder responsiveness on firm performance. Inclusion of a measure for “globalness” provides for an understanding of the moderating effects of global operations on the ability for a firm to respond to multiple stakeholders. Multiple regression analysis tests hypotheses using a data set consisting of qualitative data obtained from corporate documents and quantitative data from respected secondary sources.

The results of this research have implications to managers seeking to balance multiple stakeholders in the current global environment. The results show that firms focusing attention on more than two stakeholder groups exhibit greater corporate social responsibly behaviors and marketing outcomes. However, there is a slight decrease in outcomes as firms spread attention among five or more stakeholder groups, indicating the need to prioritize stakeholder groups. Consistent with market orientation, firms focusing

on customers are less likely to behave irresponsibly towards the community and other stakeholder groups. Therefore, firms should continue to include customers as a primary stakeholder.

Global operations influence the ability for firms to respond to multiple stakeholders. Findings show that a customer orientation leads to greater responsiveness when the number of countries is higher. However, implementing programs and policies in response to employees and shareholders is more difficult when the percent of international sales and dependence on offshore suppliers increases.

This research provides insights in the relationship between stakeholder responsiveness on customer satisfaction, innovation, and reputation beyond that of prior studies. This study shows that harmful activities have a greater effect of lowering customer satisfaction than social responsiveness has on increasing customer satisfaction. Results from this study also suggest that market-based performance is affected by lower customer satisfaction from negative responsiveness. This research shows that positive social responsiveness increases firm performance through enhanced reputation, but negative reputational activities without positive actions reduce both reputation and financial performance. Firms able to respond to multiple stakeholders through socially responsive actions experience greater innovation. Results show that responsiveness to customers, employees, and the community can increase innovation, while attention to regulatory agencies can decrease innovation, through increased costs and restrictions.

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DEDICATION

This dissertation is dedicated to spouse Tony Gonzalez-Padron,
children Melissa and Dominic, and parents Bruce and Shirley Briggs.

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Chapter I

INTRODUCTION

The marketing concept redefined an assumed managerial obligation to stockholders, creating a following among scholars and practitioners to embrace a marketing orientation to focus on customers (e.g., Deshpande, Farley, and Webster 1993; Kohli, Jaworski, and Kumar 1993). Over time, marketing scholars broadened their perspective beyond current customers and competitors to include future consumer and societal needs (e.g., Day 1994; Narver, Slater, and MacLachlan 2000). In parallel, the management discipline refined a stakeholder concept that redefined organizations as a grouping of stakeholders and stresses that the purpose of the organization is to manage their interests (Friedman and Miles 2006). There is a connection between these evolved marketing and stakeholder concepts, as both position the company obligations beyond shareholders and include customers as one of the primary stakeholders (Lusch and Laczniaak 1987). Marketers adopting the stakeholder concept shift the firm's focus to a broader set of stakeholders – including suppliers, employees, regulators, shareholders, and the local community (Greenley and Foxall 1997; Maignan and Ferrell 2004).

Some scholars advocate a stakeholder relationship model of marketing that focuses on the process of creating and maintaining strong relationships with multiple stakeholders (Payne 2004; Payne, Ballantyne, and Christopher 2005). Firms incorporating customer, competitive, and employee perspectives in strategic planning experience greater marketing capabilities and superior competitive advantage (Greenley and Foxall 1998; Greenley et al. 2004). For example, the communications company

Vodacom exploits a new market opportunity of less-developed markets by offering extremely cheap mobile phone handsets in five African countries ("Business: Calling an End to Poverty; Mobile Phones and Development" 2005).

Likewise, the business press calls for inclusion of multiple stakeholders in strategic planning. A recent survey of executives identifies the role of stakeholder engagement and marketing strategies in addressing social trends effectively (Bonini, Mendonca, and Oppenheim 2006). However, while a call for more attention to social issues is prevalent, companies continue to struggle with tactics for addressing multiple social issues effectively. For example, Toyota markets the hybrid vehicle Prius, the recognized first vehicle to provide a serious alternative to the internal combustion engine (Taylor 2006), while continuing to market vehicles with lower fuel efficiency. Global supply-chain advantages can be overcome by pressures from governments, NGOs, and activist groups to contribute to the economic development, as well as improve the quality of life, of the workforce and community (Bachman 2000). Even Starbucks, known for quality product and good corporate citizenship, is experiencing scrutiny regarding their supplier relations with Ethiopian coffee growers ("Business: Storm in a Coffee Cup; Starbucks Vs. Ethiopia" 2006).

Statement of the Problem

The perception that social responsibility affords an opportunity may motivate the organization to adapt a stakeholder orientation (Porter and Kramer 2006). Stakeholder theory is a theoretical perspective in corporate social responsibility research which incorporates the organization's cultural orientation towards multiple stakeholders (e.g., Maignan, Ferrell, and Ferrell 2005; Munilla and Miles 2005). Proponents of stakeholder

theory argue that managers must satisfy various constituents (e.g., customers, employees, suppliers, local community organizations) that would withdraw support for the firm if important social responsibilities were unmet (Freeman 1984). Stakeholder orientation refers to the extent to which a firm understands and addresses stakeholder demands in daily operations and strategic planning. Adoption of a stakeholder orientation provides firms an opportunity to understand its impact on stakeholders, anticipate changing societal expectations and use its capacity for innovation to create additional business value from superior social and environmental performance (Laszlo et al. 2005).

Although empirical research supports a positive relationship between corporate social performance and financial performance (e.g., Margolis and Walsh 2003; Orlitzky, Schmidt, and Rynes 2003), the nature and boundaries influencing how a stakeholder orientation affects firm financial performance remains unclear. Stakeholder responsiveness refers to the extent that the organization implements policies and programs to address the needs of stakeholder groups and may require a diverse range of activities. The positive relationship with financial performance does not hold across all stakeholders or corporate response activities (Berman et al. 1999; Seifert, Morris, and Bartkus 2004). Questions include how much investment in stakeholder responses is enough, and which stakeholders the firms should address.

This research seeks to understand how valuing each stakeholder group affects firm performance through stakeholder responsiveness and marketing outcomes, as well as the influence of global business operations on stakeholder responsiveness through four specific research questions.

1. How does attention to specific stakeholders drive implementation of programs and policies responding to stakeholders?

2. What is the influence of international sales, number of countries, and sourcing on a firm's responsiveness to stakeholders?
3. Do actions (responding to stakeholders) influence customer satisfaction, innovation, and reputation?
4. How does a stakeholder orientation affect firm performance?

Research Objectives

Further conceptual or empirical examination on the relative impact of various stakeholders on marketing activities is needed (e.g., Laczniaak and Murphy 2006). Marketing activities which relate to product production, introduction, and promotion can unintentionally harm consumers, society, or other stakeholders (Fry and Polonsky 2004), requiring marketers to address ethical issues in activities such as branding (Polonsky and Jevons 2006), market segmentation with youth as consumers (Horgan 2005), and global sales ethics (Ferrell, Ingram, and LaForge 2000). Even so, limited agreement exists surrounding the prioritization of stakeholders, conceptualization of stakeholder orientation, and the impact of stakeholder relations on marketing in a global environment.

Therefore, the overall goal of this research is to examine how the incorporation of stakeholder issues in corporate marketing strategy can explain firm performance by achieving the following objectives:

1. Explain how the incorporation of stakeholder issues in corporate marketing strategy affects firm performance through marketing outcomes.
2. Gain insight on firm performance outcomes of responding to multiple stakeholders over a single stakeholder group.
3. Understand how global operations influence the ability for a firm to respond to multiple stakeholders.

Research Overview

Instrumental stakeholder theory provides a theoretical basis for predicting the nature of the relationship between the firm's stakeholder orientation and its financial performance (e.g., Barnett and Salomon 2006; Margolis and Walsh 2003). Grounded in stakeholder theory, the study provides a conceptualization of stakeholder orientation based on cultural values that is distinctive from stakeholder responsiveness and examines the relationship of stakeholder orientation to firm performance. The study determines the mediating role of stakeholder responsiveness and marketing outcomes (customer satisfaction, reputation, innovation) on the impact of stakeholder orientation on firm performance. Inclusion of a measure for "globalness" (the degree of international sales, manufacturing or supply) provides for an understanding of the moderating effects of global operations on the ability for a firm to respond to multiple stakeholders.

Following a framework that culture drives actions resulting in outcomes, there are five general constructs to answer the research questions. *Stakeholder orientation*, referring to the values and beliefs about customers, employees, suppliers, regulators community, and stockholders, relates to the cultural orientation of the subject firm. Actions are described in *stakeholder responsiveness*, referring to implementation of policies and programs addressing stakeholders. Outcomes include *marketing outcomes* (innovation, reputation, customer satisfaction), and *firm performance* (market-based, financial-based, accounting-based). To examine boundary conditions, *globalness* (i.e., the degree of international operations) is included as a moderator.

Organization of dissertation

The remainder of the dissertation includes chapters that position the research within existing knowledge, provide arguments for proposed relationships between constructs based on theory, describe the chosen research design, present the analytical results, and discuss the implications. Chapter II presents the theoretical perspectives of corporate social responsibility, the stakeholder approach, and the empirical stakeholder research in global marketing through a detailed literature review. Chapter III introduces the conceptual framework depicting how a stakeholder orientation adds value through marketing outcomes, followed by the arguments for a series of hypotheses. Chapter IV describes the research design and methodology for empirically testing the hypotheses advanced in Chapter III, including the unit of analysis, data collection, and statistical techniques. Results are provided in Chapter V, with a discussion of research implications, managerial insights, and directions for future research in Chapter VI.

Chapter II

LITERATURE REVIEW

The concept of corporate social responsibility evolved formally during the past 50 years with various interpretations, theoretical perspectives, and empirical methods (Carroll 1999). Scholars worldwide from several academic disciplines examine the strategic implications of corporate social responsibility, including management, marketing, accounting, economics and political science (McWilliams, Siegel, and Wright 2006). This chapter reviews the theoretical perspectives of corporate social responsibility, the stakeholder approach, and the empirical stakeholder research in global marketing.

Corporate Social Responsibility

Consensus on a single definition of corporate social responsibility continues to elude scholars. Carroll (1999) provides an overview of the evolution of the corporate social responsibility concept from initially focusing on individual manager responsibility for social consequences of actions in the 1950s to the firm's responsibility to multiple stakeholders in the 1990s. Subsequent reviews in the literature focus on trends in the management and business ethics fields, including the challenges of corporate social responsibility in a global context (McWilliams, Siegel, and Wright 2006; Waddock 2004). Theoretical perspectives include differences in the domain of corporate social responsibility, and the relationship with similar concepts such as corporate social performance, social responsiveness, and corporate citizenship.

Domain of Corporate Social Responsibility

Early social responsibility writings focus on the ethical duty of business executives to accept responsibility for the consequences of their actions beyond financial performance. Scholars directed attention to individual manager's decisions and actions, rather than the firm as an entity. Concern for social responsibility in the business literature developed from Bowen's (1953) book *Social Responsibilities of the Businessman*, where social responsibility is described as "the obligation of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (p. 6). Frederick (1960) incorporated the notion that business managers oversee "the operation of an economic system that fulfills the expectations of the public" in ensuring that economic and human resources are used for meeting broad social goals (p. 60). A focus on the thinking of the time was that businesses might lose prized autonomy and economic freedom if not responding to social pressure – termed "negative duty" (Swanson 1995). Linking social responsibility and business power, Davis (1960) proposes an "Iron Law of Responsibility" that if the business abuses its power, society may revoke it by increasing regulation.

Many of the initial definitions for social responsibility focus on "positive duty," representing manager responsibilities to society beyond economic, technical or legal obligations (Davis 1960; McGuire 1963). Examples of positive duty include providing satisfying and meaningful work careers, ensuring product value and safety, and protecting the ecological system (Halal 1977). This idea persists in the corporate social responsibility literature forty years later. For example, McWilliams and Siegel (2001)

define corporate social responsibility as “actions that appear to further some social good, beyond the interests of the firm and that which is required by law” (p. 117).

As focus shifted to the corporation, various definitions for corporate social responsibility sought to establish boundaries of socially responsible behavior. Many scholars continued to distinguish between legal obligations and social obligations based on motivation or voluntarism. For example, Walton (1967) describes corporate social responsibility as relationships between the corporation and society. He identified three elements of corporate social responsibility: a degree of voluntarism, indirect linkage with other voluntary organizations, and willingness to incur unrecoverable costs. Likewise, Manne and Wallich (1972) argue that a socially responsible corporate action must also meet three criteria to qualify: marginal return, purely voluntary, and not for “conduit for individual largesse” (pp. 4-6). While a requirement that an action be voluntary remains in many current views of corporate social responsibility, the determination of motive is difficult to judge (Carroll 1999).

Corporate social responsibility can encompass a variety of different activities that can be described as “good neighborliness” (Eilbert and Parket 1973). Socially responsive firms actively seek to do no harm, for example provide a safe working environment or adopt clean production processes. Corporate social responsibility also includes taking a voluntary role in solving broad social problems such as urban decay, substance abuse, and poverty.

Continuing with the view of social responsibilities as duty-based obligations, Carroll (1979) provides a classification scheme for corporate social responsibility that is widely employed by later research (e.g., Aupperle, Carroll, and Hatfield 1985; Tuzzolino

and Armandi 1981; Wartick and Cochran 1985). He views social responsibility of business as the obligations to meet economic, legal, ethical and discretionary expectations that society has of an organization. Unlike earlier views that social responsibility is beyond economic and legal requirements, the inclusion of an economic component is justified by the societal expectation that a business produces goods and services at a profit while obeying laws. The ethical component refers to the behaviors and norms that a society expects. The discretionary component encompasses voluntary and philanthropic activities that are not as clear-cut as ethical expectations. Examples are drug abuse programs, day care, and welfare to work programs. Carroll (1999) later referred to the discretionary component of corporate social responsibility as being “socially supportive” with contributions of money, time and talent to reflect voluntarism and/or philanthropy.

Other views also recognize that economic and legal obligations are an inherent part of corporate responsibility. Frederick (1987) refers to a “trade-off problem” that exists when costs of compliance with social pressures and accepting positive duty to society conflict with corporate economic goals of profitability. Johnson (1971) describes social responsibility in business as “the pursuit of socioeconomic goals through the elaboration of social norms in prescribed business roles” (p. 51). He elaborates by providing four views of corporate social responsibility. The first view is a stakeholder approach for meeting a “multiplicity of interests” based on a socio-cultural system of norms and expectations (p. 50). The second view, long-run profit maximization, relates to the economic obligations of the firm to perform social programs to add profits to the organization (p. 54). Third, a utility maximization perspective refers to the organization

striving to achieve multiple goals in the interest of other members of the enterprise and fellow citizens. The final view is termed “lexographic,” recognizing that firms engaging in socially responsible behavior are more likely to be motivated strongly by profit. This perspective argues that corporations rank goals in order of importance and only upon reaching their profit target is social responsibility foremost.

Clearly, a major point of disagreement is whether a corporation achieving economic gain for socially responsible actions is truly embracing the concept of corporate social responsibility. Swanson (1995) refers to this as the “moral justification problem” that occurs when it appears that social control and positive duty serve corporate economic goals. Preston and Post (1975) argue that businesses are not responsible for solving all social problems. Rather, businesses are responsible for solving problems that they have caused, and for helping to solve problems and social issues related to their business interests (Wood 1991). In order to differentiate their view from that of social responsibility definitions of the time, Preston and Post (1975) coin the phrase “public responsibility” as “the scope of managerial responsibility ... defined in terms of primary and secondary involvement areas” (p. 95). Drucker (1984) goes so far as to argue that the business ought to convert its social responsibilities into business opportunities. He presents social responsibility of business as taming the dragon by turning “a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs and into wealth” (p. 62).

Relationship of Corporate Social Responsibility and Corporate Social Performance

The concept of corporate social responsibility resides within a broader context of corporate social performance. An early conceptualization of corporate social performance

includes three dimensions: social obligation, social responsibility, and social responsiveness (Sethi 1975). Social obligation refers to corporate behavior in response to market forces or legal restraints. Social responsibility includes behavior meeting social norms, values and expectations. Social responsiveness refers to the adaptation of corporate behavior to social needs.

Corporate social responsiveness in the social performance framework receives the attention of scholars interested in the implementation of corporate social responsibility (Wood 1991). A socially responsive firm monitors and assesses environmental conditions, attends to stakeholder demands, and designs policies to respond to changing conditions (Ackerman 1975). However, corporate social responsiveness does not replace responsibility. Companies can be very responsive to environmental conditions or social pressures, but without reflection or responsibility, they may act irresponsibly or unethically. Arguing that responsibility drives responsiveness, Carroll (1979) proposes three phases of corporate social performance – responsibility, responsiveness, and social issues.

Wartick and Cochran's (1985) model of corporate social performance advanced thinking about business and society. Their model integrates Carroll's (1979) three phases of corporate social performance into a framework of principles, processes, and policies. As such, Wartick and Cochran's interpretation places corporate social responsibility as the ethical component residing in principles (Carroll 1999).

Wood (1991) reformulates the corporate social performance model to integrate principles, processes, and outcomes. The framework focuses on actions, expanding on Wartick and Cochran's (1985) model to define corporate social responsibility as: "a

business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships" (p. 693). There are three principles of corporate social responsibility in the model: institutional, based on legitimacy; organizational, based on public responsibility; and individual, based on managerial discretion. The processes of corporate social responsiveness include environmental assessment, stakeholder management, and issues management. Classifications of outcomes of corporate behavior are social impacts, programs, and policies. Wood's model of corporate social performance became a useful template for organizing research.

Arguing that Wood's (1991) model ignores the duty-aligned perspective of corporate social responsibility, Swanson (1995) reorients the corporate social performance model to address the moral justification problem of why corporations should perform socially responsibly. The conceptual framework includes negative duty, positive duty, and three value processes in decision-making: economizing, ecologizing, and power seeking. Economizing refers to the ability to convert inputs and outputs efficiently through competitive behavior. Ecologizing refers to cooperative, collaborative behavior to sustain life. Power seeking refers to self-centered behavior that seeks to acquire and use coercive power through hierarchical arrangements. Four components of the model interact: 1) macro principles of corporate social responsibility (institutional and organizational), 2) micro principle of corporate social responsibility (executive decision-making), 3) corporate culture (managerial and employee decision making, personal values, corporate social responsiveness, social programs and policies), and 4) social impacts (increases or decreases in corporate value processes).

To address the corporate social responsibilities of global companies, a theory and process of global business citizenship emerged from social responsibility literature (Logsdon 2004; Logsdon and Wood 2005). Logsdon and Wood (2005) assert that global corporate citizenship requires:

- (1) A set of fundamental values embedded in the corporate code of conduct and in corporate policies that reflect universal ethical standards;
- (2) Implementation throughout the organization with thoughtful awareness of where the code and policies fit well and where they might not fit with stakeholder expectations;
- (3) Analysis and experimentation to deal with problem cases; and
- (4) Systematic learning processes to communicate the results of implementation and experiments internally and externally.

Maignan and Ferrell (2004) provide a comprehensive managerial framework of corporate social responsibility from a stakeholder perspective. They define corporate social responsibility as “the duty (motivated by both instrumental and moral arguments) to meet or exceed stakeholder norms dictating desirable organizational behaviors” (p. 5). Organizations acting in a socially responsible manner align behaviors with norms and demands of their key stakeholders. The conceptual framework identifies organizational and stakeholder norms as antecedents to corporate social responsibility initiatives, as well as explain how corporate social responsibility can foster increased stakeholder support. Stakeholders group around communities who interact with one another and share common norms. Pulling from the resource-dependency theory, the ability of stakeholder communities to withdraw resources gives them power over the organization. Maignan and Ferrell define stakeholder orientation as “the degree to which a firm understands and addresses stakeholder demands” (p. 10). They conceptualize stakeholder orientation as

three sets of behaviors following Kohli and Jaworski's (1990) market orientation construct. These include generation of stakeholder intelligence, dissemination of stakeholder intelligence, and responsiveness to stakeholder intelligence.

Stakeholder value and norms are further explored by Maignan, Ferrell, and Ferrell (2005), describing interactions between organizational and stakeholder values and norms. Stakeholders in the model include non-government organizations, customers, government regulatory agencies, environmental groups, trade associations, employees, mass media, shareholders, suppliers, and competitors. Organizational values and norms facilitate corporate social responsibility decisions when stakeholder demands conflict with business goals or among other stakeholder groups. The authors provide a model of stakeholder management incorporating seven steps for marketing decisions to implement corporate social responsible initiatives driven by organizational values and norms. Focusing primarily on applications in marketing, their framework has initiated further research using a stakeholder approach to corporate social responsibility.

Theoretical Perspectives on Corporate Social Responsibility

Research of corporate social responsibility embraces several theories, creating various dialogues. Early research focusing on the managerial role in addressing social issues debates agency and stewardship theories. Alternative perspectives of corporate social responsiveness and performance include social issue life cycle theory, legitimacy theory, and stakeholder theory (Nasi et al. 1997). Recent research examining the link between corporate social responsibility and firm competitive advantage encompasses a resource-based view. The following section describes each of the theoretical perspectives.

Agency Theory

The underlying assumption of agency theory is that a rational actor seeks to receive as much possible utility with the least possible expenditure (Jensen and Meckling 1976). Agency theory focuses on the agency relationship in which one actor or group (the agent) has obligations to fulfill for another actor or group (the principal). An essential concern is resolving problems that can occur in agency relationships under conditions of incomplete information and uncertainty (Eisenhardt 1989). The first is the agency problem that arises when goals of the principal and agent conflict and it is difficult or expensive for the principle to verify that the agent has behaved appropriately. The second is the problem of risk sharing that arises when the principal and agent have different attitudes towards risk that encourages different courses of action. The principal-agent problems exist in most employer/employee relationships, for example, when stockholders contract with top executives to manage corporations. To protect shareholder interests, agency theorists prescribe various mechanisms such as financial incentive schemes and proper management oversight through independent audits (Davis, Schoorman, and Donaldson 1997).

Applications of the agency theory to explain corporate social responsibility often focuses on the actions of corporate management and effect on shareholder value. For example, the agency theory can explain the unethical practices of Enron's top management in the accounting and financial areas (Culpan and Trussel 2005). The Enron case demonstrates that the top executives failed to perform their expected duties in protecting the interests of principals when appropriate control mechanisms to deal with the agency problem were absent.

According to some authors, an agency theory perspective implies that corporate social activities signal an agency problem in the firm whereby managers advance their careers or other personal agendas (McWilliams, Siegel, and Wright 2006). These views are a dominant theme in the popular business press suggesting that corporate philanthropy is giving away someone else's money and destroys shareholder value ("Leaders: The Good Company - the Good Company; Capitalism and Ethics" 2005; "Survey: The Good Company" 2006). Corporate governance mechanisms such as forming a charitable foundation and limiting top executive management direct involvement may mitigate certain agency conflicts in the discretionary area of corporate giving or reduce public perceptions of this conflict. One study finds that CEO's interests, as reflected by affiliations with non-profit organizations, were significantly related with the direction of foundation charitable activities for those causes, unless the company's industry seemed to have institutionalized the practice of donating to particular causes (Werbel and Carter 2002).

Stewardship Theory

Refuting the agency theory, some researchers support the moral imperative perspective stemming from stewardship theory that suggests that managers should "do the right thing" without regard to the affect on financial performance (McWilliams, Siegel, and Wright 2006). Donaldson and Davis (1991) argue for the alternative theoretical approach of stewardship theory, where the crucial factor influencing organizational performance and shareholder returns is the design of the organizational structure so that managers can take effective action by empowering executives. Stewardship theory suggests that managers are likely to act in the best interests of the

company and argues that greater manager discretion is likely to benefit the company even under issues of potential conflicting interest (Davis, Schoorman, and Donaldson 1997).

From a corporate social responsibility viewpoint, management will attempt to garner support from others in the community that best serves the company. Contrary to the agency perspective that managers give opportunistically, the stewardship theory views top management as having a very high level of interest in firm survival and would select funding recipients that would strategically increase the chances for firm survival (Werbel and Carter 2002). According to this perspective, it would be inappropriate to reduce the management discretion in selecting funding recipients.

Social Issue Life Cycle Theory

An alternative perspective of corporate social responsiveness focuses on aspects of the socio-political environment that demand corporate responses. A research stream in business has dealt with social issues management, referring to corporations' attempt to actively manage issues in the social and political arenas (Mahon and Waddock 1992). Issues such as privacy, obesity, off shoring, and pharmaceutical product safety challenge organizations to adapt to changing ground rules that can impact financial and reputation performance (Bonini, Mendonca, and Oppenheim 2006). However, not all social problems escalate to an issue requiring managerial attention. Social issues obtain meaning through the interpretation of the public and other interested parties such as individuals, organizations, associations, governments, and governmental agencies. Managerial attention is warranted when stakeholders capable of influencing governmental action or company policies define social issues as problematic to society, often as a result of a triggering event (Mahon and Waddock 1992). Popular business

press highlights the power of activist groups in escalating a social issue for corporate and regulatory attention. The AFL-CIO and a nonprofit umbrella group, the Center for Community & Corporate Ethics, hopes to get Wal-Mart to alter its employment policies by driving away some business (Bernstein 2005). Student activist demonstrations against Coca-Cola's worker conditions in Colombia cost the beverage company millions of dollars in college contracts (Foust, Smith, and Woyke 2006). Health and wellness trends and concerns of obesity pressured snack and fast food companies such as Pepsi, McDonald's and KFC to change their product offering and marketing strategies ("Business: The Blog in the Corporate Machine; Corporate Reputations" 2006).

Social issue life cycle theory asserts that issues change over time, as does corporate attentiveness and responsiveness to issues. Ackerman (1975) maintains that corporate responsiveness to social issues progresses through three phases labeled policy, learning, and commitment. Likewise, social issues follow a path from a period in which the issue was unthinkable, to a period of increasing awareness and expectations for action, and then to a period where dealing with the issue becomes ingrained in the normal functioning of the company (Zyglidopoulos 2003). Different life cycle patterns of social issues influence the corporate response. A content analysis of shareholder resolutions during 1988-1998 shows that some issues like human rights and energy endure at a consistent level; while environmental and diversity issues follow an interrupted pattern as interests rise and fall (Graves, Waddock, and Rehbein 2001). Social issue life cycle models help organizations to identify emerging social issues, to respond quickly, and to influence legislative or regulatory action (Bonini, Mendonca, and Oppenheim 2006).

The attitudes of consumers are being shaped by an array of advocacy organizations that campaign on various social and political causes, increasing demand that corporations act in a socially responsible way. Nongovernmental organizations (NGOs) are powerful with consumers because they are significantly more trusted overall than business (Deri 2003). Multinational corporations (MNCs) are the frequent target of NGOs in their advocacy efforts, possibly skewing corporate social responsibility practices by the multinational corporation (Schepers 2006). Questions arise about whether the concerns of Northern NGOs, and the responses of the companies they target, are always appropriate. For example, initial responses to campaigns on child labor in the sports-goods industry in Pakistan led to many children losing their jobs and working in more hazardous or abusive industries (Bendell 2005).

Institutional and Legitimacy Theory

Institutional and legitimacy theories view corporate social responsiveness outside of the firm boundary and in the context of societal expectations. From the institutional perspective, firms operate within a social framework of norms, values, and assumptions about what constitutes acceptable behavior (DiMaggio and Powell 1983). Conformity to social constraints of firm behavior encourages homogeneity, or institutional isomorphism. A fundamental consequence of institutional isomorphism is organizational legitimacy, the acceptance of an organization by its external environment. Organizations that conform to the strategies used by other organizations are recognized by regulators and the general public as being more legitimate than those that deviate from normal behavior (Deephouse 1996). Corporations require legitimacy to maintain functional, long-term relationships with the various communities on which they depend (Nasi et al.

1997). Legitimacy is a measure of the attitude of society toward a corporation and its activities, based on cultural norms for corporate behavior. The term legitimacy most commonly refers to the right to exist and perform an activity in a certain way, referred in practice as the “license to operate.” Acutt, Medina-Ross and O’Riordan (2004) provide an example from a comparative analysis of multinational chemical firms:

In South Africa, export oriented chemical multinationals were motivated to adopt Responsible Care primarily by market factors: to meet the expectations of trade associations and peer networks to improve the industry’s image. As one environmental manager commented: ‘Responsible Care is basically an industry requirement, it’s our license to operate’ (p. 310).

An institutional theory framework provides a lens to understand social marketing strategies, such as cause-related and enviropeneurial marketing (Handelman and Arnold 1999). Managers' choices of appropriate strategies depend on the perceptions of the particular managers involved. Different managers likely have different ideas about what society expects and whether community members perceive the organization as complying with these expectations. Legitimacy theory relies upon the notion of a social contract and on the maintained assumption that managers will adopt strategies that show society that the organization is attempting to comply with society's expectations (Deegan, Rankin, and Tobin 2002). For example, Portuguese banks seeking to improve their corporate image publish social responsibility disclosures in annual reports and media releases (Branco and Rodrigues 2006).

From an institutional perspective, three determinants of organizational responsiveness include the content of institutional demands, the nature of institutional control, and an organization’s environmental context (Goodstein 1994). Resistance is more likely when institutional demands conflict with organizational goals or constrain the

ability of an organization to reach its goals. Conformity is more likely when demands are from powerful institutional actors or when norms and expectations have been voluntarily adopted and diffused among organizations within a given field or sector. Acceptance is also likely in turbulent environments to reduce uncertainty, as well as when the diffusion of institutional norms and demands is widespread due to high interconnectivity.

Goodstein (1994) explores organizational responsiveness to institutional pressures related to two primary areas of employer involvement in work-family issues: (1) the adoption of child care benefits and (2) the adoption of benefits that enhance workplace flexibility. He finds that organizations are more likely to acquiesce to institutional pressures depending on the strength of the demands primarily from female employees, the prevailing practices in geographically proximal industries, and whether the adoption would benefit the company without overwhelming costs.

The legitimacy perspective highlights two characteristics of corporate social responsibility. First, the demands placed on corporations change over time, as well as acceptable responses. For example, a study of the evolving conceptions of environmental management shows that while range of available options is limited to that defined as acceptable, as the environmental management field develops, so does the range of options (Hoffman 1999). Second, different communities often have different ideas about what constitutes legitimate corporate behavior. This is particularly evident to organizations operating in multiple countries. Research of multinational chemical companies finds that a shift of societal expectations resulted in economic and legal responsibilities increasingly required in most countries, while the degree of ethical responsibilities and philanthropic responsibilities varied over time and country (Pinkston and Carroll 1996).

The institutional and legitimacy theories can explain variances in the social responsiveness of multinational corporations. Companies operating in multiple countries experience institutional differences in expectation and returns (Doh and Guay 2006). These present challenges in socially responsible operations, especially in developing countries. Reed (2002) argues that two sets of factors increase the responsibilities of corporations active in developing countries to a full range of stakeholder groups: 1) the different (economic, political, and sociocultural) circumstances under which corporations have to operate in developing countries, and 2) several key normative principles, which typically do not come into play in the context of developed countries. A study of chemical companies in Mexico and South Africa highlights several challenges for the chemical industry in moving forward on CSR: credibility, stakeholder engagement, value-chain accountability, disclosure and transparency (Acutt, Medina-Ross, and O'Riordan 2004). A study in Poland identifies the main obstacles of CSR as the negative image of business, a dysfunctional legal background, corruption, difficult economic situation of many companies, the lack of an ethics and ethical standards, and difficult situation on the job market (Lewicka-Strzalecka 2006).

Resource-based-view

One way of examining strategic corporate social responsibility is through a resource-based-view (RBV) perspective (e.g. Coff 1999; Idris et al. 2003; Litz 1996). RBV proposes that organizational performance depends on organization-specific resources and capabilities (Barney 1991; Wernerfelt 1984). A basic assumption of RBV is that firms are fundamentally heterogeneous in resources and capabilities, and when resources are not perfectly mobile across firms, heterogeneity can be long lasting (Barney

1991). Resources include all assets, capabilities, organizational processes, firm attributes, information, and knowledge controlled by a firm. To provide a competitive advantage, resources must be: a) valuable (exploit opportunities or neutralize threats), b) rare (not possessed by large numbers of competitors), c) inimitable (competitors cannot obtain them through unique historical conditions, causally ambiguous links, or social complexities), and d) nonsubstitutable (no strategically equivalent valuable resources) (Wernerfelt 1984). According to RBV, firm resources lead to capabilities, and capabilities influence firm performance.

Applications of RBV to corporate social responsibility assert that social responsibility constitutes a resource or capability that leads to sustained competitive advantage (McWilliams, Siegel, and Wright 2006). Social responsiveness capability is “valuable” to a company because it allows the company to respond to its specific stakeholders issues, and the heterogeneity of these issues makes it difficult for other companies to imitate responsiveness policies (Deniz-Deniz and Saa-Perez 2003). Corporate social responsiveness capability meets all three determinants of inimitability. First, corporate responsiveness policies develop over a period of years and are difficult to acquire on the market by competitors. Second, it is difficult to identify the exact mechanisms by which the corporate responsiveness policies interact to generate value, owing to causal ambiguity. Lastly, socially complex elements such as culture and interpersonal relationships inherent in social responsiveness capabilities further inhibit imitation. Empirical research provides support for the relationship of social responsiveness with financial and competitive advantages using RBV theory, including environmental social responsible performance (Baker and Sinkula 2005; Hart 1995;

Rugman and Verbeke 1998), involvement in a firm's ISO 14001 standard (Delmas 2001), and high commitment employee practices (Deniz-Deniz and Saa-Perez 2003).

Stakeholder Theory

A dominant theoretical perspective in corporate social responsibility research is the stakeholder concept that business has wider responsibilities than economic performance. The stakeholder concept represents a redefinition of organizations as a grouping of stakeholders, and the purpose of the organization is to manage their interests (Friedman and Miles 2006). The implication of embracing a stakeholder concept is that companies that address diverse stakeholder interests perform better than companies that do not (Greenley and Foxall 1998). Stakeholder theory argues that managers must satisfy various constituents (e.g., customers, employees, suppliers, local community organizations) that would withdraw support for the firm if important social responsibilities were unmet (Freeman 1984). According to Clarkson (1995), the survival and profitability of the corporation depends on its ability to create and distribute wealth or value to ensure primary stakeholder commitment.

A profusion of different and overlapping approaches to the stakeholder concept creates confusion and debate, resulting in a multitude of stakeholder theories (Friedman and Miles 2006). Donaldson and Preston (1995) label stakeholder theories as normative, descriptive, and instrumental. Based on ethical principles, normative stakeholder theories focus on how managers should act, many adopting the view that the organization serves a variety of stakeholder interests. Normative stakeholder research explores whether managers ought to attend to stakeholders other than shareholders and, if so, on what grounds these various stakeholders have justifiable claims on the firm (Margolis and

Walsh 2003). Descriptive stakeholder theories are concerned with how managers and stakeholders actually behave, focusing on whether and to what extent managers do in fact attend to various stakeholders and act in accord with their interests (Margolis and Walsh 2003).

Instrumental stakeholder theory focus on the connections between the practice of stakeholder management and achievement of corporate goals (Donaldson and Preston 1995). Donaldson (1999) describes instrumental stakeholder theory as:

[A]ny theory asserting some form of the claim that, all other things being equal, if managers view the interests of stakeholders as having intrinsic worth and pursue the interests of multiple stakeholders, then the corporations they manage will achieve higher traditional performance measures, such as return on investment, than had they denied such intrinsic worth and pursued only the interests of a single group. (p. 238)

Generally adopting a position that stakeholders are seen as a means by which the firm achieves its assumed ends, instrumental stakeholder research includes a strategic approach to stakeholder management, providing direction for enhanced organizational performance (Friedman and Miles 2006). Sustainable companies develop expertise in understanding the formation of stakeholder groups, their key issues, and the potential for helping or harming the corporation. Freeman (1984) warns that consequences of not adopting a stakeholder approach include legal action, regulation, and loss of markets. Therefore, this study will adopt a strategic approach to stakeholder management in examining corporate social responsibility with an instrumental stakeholder theoretical perspective. The next section provides a summary of the strategic stakeholder view of corporate social responsibility and the role of a stakeholder perspective in global marketing strategy.

Stakeholder Approach to Corporate Social Responsibility

An early linkage of corporate social responsibility and the stakeholder concept was made by Johnson (1971) in *Business in Contemporary Society: Framework and Issues*, where the author describes a socially responsible firm as balancing a “multiplicity of interests” that include employees, suppliers, dealers, local communities and the nation (p. 50). Halal (1977) presents a Return-on-Resources model of corporate performance based on an “open system perspective” that views the corporation as a social institution comprised of various stakeholders such as investors, employees, customers, public groups, suppliers, distributors, and other partnering firms. According to Carroll (1991), the stakeholder concept delineates the specific groups or persons business should consider in its corporate social responsibility orientation and activities.

Research involving responses to corporate social activities provides insight on both the scope and limitations of the stakeholder reaction to corporate social responsibility. Customer responses to corporate social responsibility range from unresponsive to highly responsive to corporate social responsibility (Mohr, Webb, and Harris 2001). Curlo (1999) finds that consumers will purchase products of socially responsible companies labeling products as meeting safety standards. A study in 2005 shows that 92 percent of Canadians surveyed are more likely to purchase products from the more socially and environmentally responsible company and 91 percent prefer to work for a more responsible company (Beauchesne 2005). Another study indicated that stakeholders react positively not only in the consumption domain but in the employment and investment domains as well, moderated by stakeholder attributions regarding the genuineness of the company's motives (Sen, Bhattacharya, and Korschun 2006).

Definition of Stakeholders

The stakeholder theory of the firm argues that all persons or groups with legitimate interests in an enterprise do so to gain benefits, and that managerial attention to these stakeholders' interests are critical to success (Berman et al. 1999; Donaldson and Preston 1995). Depending on the context, different definitions of stakeholders have emerged. Friedman and Miles (2006) identify fifty-five definitions for stakeholders that vary on two factors. One is whether the definition perceives stakeholders as strategic through achievement of the organization's objectives or solely based on socially recognized norms. The other factor is whether the definition is broad to include all entities or narrow to only those stakeholders critical for firm success. A widely accepted and popular definition is Freeman's (1984) view of a stakeholder as "any group or individual who can affect or is affected by the achievement of the organization's objectives."

Identification of stakeholders is central to successful stakeholder management, defined as the development and implementation of organizational policies and procedures that consider the goals and concerns of all stakeholders (Post, Preston, and Sachs 2002). Mitchell, Agle, and Wood (1997) provide a model of stakeholder identification that suggests how to identify stakeholders, but also the relative importance of each. Three stakeholder features form an identification typology — power, legitimacy, and urgency. Power refers to the extent that a stakeholder can impose its will in its relationship with the firm. A stakeholder has legitimacy when its actions toward the firm are desirable or proper within the norms, values, and beliefs of the larger society. Urgency is the extent to which stakeholder efforts call for immediate attention by a firm. In a recent study,

Parthiban, Bloom, and Hillman (2007) find that managers are more likely to settle shareholder proposals challenging corporations to improve their corporate social performance that are filed by “salient” stakeholders (i.e., those with power, legitimacy, and urgency).

Firms generally identify two classifications of a company’s stakeholders in developing a stakeholder management strategy (Freeman 1984). Primary stakeholders are those groups whose continued association are necessary for a firm’s survival and often include customers, employees, suppliers, investors, and shareholders. Governments and local communities, whose laws influence company operations and tax obligations while providing infrastructure and markets to the company, can be primary or secondary stakeholders (Clarkson 1995; Frederick, Davis, and Post 1988). Secondary stakeholders can influence the firm or be influenced by the firm, but are not directly necessary for the firm’s survival, and typically include consumer advocate groups, media, unions, political groups, scientific community and trade associations (Greenley et al. 2004; Polonsky 1995). Some organizations classify the natural environment as a stakeholder (Bazin and Ballet 2004; Berman et al. 1999), for example, McDonald’s has reevaluated packaging continually since the 1970’s to minimize the impact on the environment (Polonsky 1995). Even the judicial system in the US recognizes the stakeholder concept. At least 28 states have passed "other constituency" statutes permitting senior managers and corporate directors, while acting in the best interests of the corporation, to consider the interests of other stakeholders groups besides stockholders, especially employees and local communities (Green 1993).

The recognition of the consumer as a stakeholder is a matter of contention in marketing research. Historically, marketing research focuses on two primary stakeholders: customers and channel members (Maignan and Ferrell 2004). Friedman and Miles (2006) assert that marketing views stakeholder management solely in relation to customers and the effect of stakeholder relations on consumption patterns. Fitchett (2005) argues that consumers may not represent a legitimate stakeholder because consumers enter into purchases individually with a limited sense of duty toward the firms or other consumers as a group, thereby failing to meet the established definitions of a legitimate stakeholder. However, Ferrell (2004) asserts that while employees, customers, shareholders, and suppliers are key organizational stakeholders, customers are key stakeholders that help establish the firm's reputation and identification. Therefore, six basic stakeholder groups for most organizations include shareholders (investors/owners), customers, employees, suppliers/distributors, regulators, and host community (Laczniak and Murphy 2006).

For furthering research in stakeholder theory, this study will adopt generally accepted perspectives from the marketing literature relating to the definition of a stakeholder and identification of stakeholder groups for consideration. The study will adopt Freeman's (1984) balanced view of a stakeholder as "any group or individual who can affect or is affected by the achievement of the organization's objectives." Following the stakeholder model from Maignan, Ferrell and Ferrell (2005), six primary stakeholders will be considered. These include customers, employees, shareholders, suppliers, community, and government regulatory agencies.

Stakeholder Orientation

Stakeholder orientation refers to the extent to which a firm understands and addresses stakeholder demands in daily operations and strategic planning. Organizations displaying high stakeholder orientation recognize the needs and expectations of various stakeholders. In one of the initial conceptualizations of stakeholder orientation, Greenly and Foxall (1996) incorporate the degree of research, planning, and corporate culture to measure the relative attention managers give to specific stakeholder groups. Tying the level of stakeholder orientation to moral development, Logsdon and Yuthas (1997) differentiate between narrow market-based stakeholder relationships (owners, customers, employees) and broad stakeholder orientation including both market-based and non-market-based (communities, government agencies). Maignan and Ferrell (2004) conceptualize stakeholder orientation as three sets of behaviors: generation of stakeholder intelligence, dissemination of stakeholder intelligence, and responsiveness to stakeholder intelligence. Attempting to address multiple stakeholder groups, Greenley, Hooley, and Rudd (2005) define a *multiple stakeholder orientation profile* as “the simultaneous ordering of attitudes towards each set of primary stakeholder interests, and allocated managerial behavior to serve these interests.” All of these approaches to stakeholder orientation stress the attitude toward stakeholders and the level of activities that a firm expends to identify, assess and consider relevant stakeholder issues in strategic decision-making.

Understanding and addressing stakeholder demands is a complex undertaking. The stakeholder approach stresses the relationship between a firm and its stakeholders as two-way (Freeman 1984). Stakeholder activities may affect the ability to achieve a firm’s

objectives, while the firm's decisions can affect the well-being of its stakeholders (Berman et al. 1999). Stakeholders have various influence strategies to obtain desired actions from a firm, including consumer boycotts as that against StarKist to change tuna fishing practices (Frooman 1999). Managers should consider that stakeholders not only interact with the firm, but also interact with other stakeholders, increasing the stakeholder power to exert pressure. An example is Monsanto's abandoned attempt to commercialize seed sterilization technology because of protests initiated by Indian farmers that spread worldwide (Hart and Sharma 2004).

Stakeholder orientation is not static. The importance of a stakeholder varies over a firm's life cycle and influences the firm's responsiveness (Neill and Stovall 2005). Power is the primary attribute of stakeholder salience driving corporate social responsibilities, whereas responsiveness to legitimate and urgent stakeholders is not as strong as the responsiveness to stakeholders that have the power to deny support to the firm. Another reason for corporate stakeholder orientations to change over time is reaction to triggering events, such as natural disasters, negative publicity over business practices, and legislative actions (Maurer and Sachs 2005).

Stakeholder Orientation – Performance Relationship

Instrumental stakeholder theory provides a theoretical basis for predicting the nature of the relationship between the socially beneficial behaviors of a corporation and its financial performance (e.g., Barnett and Salomon 2006; Margolis and Walsh 2003). Some scholars argue that social responsibility detracts from a firm's financial performance by raising costs from discretionary expenditures on social responsiveness (Friedman 1970; Jensen 2002). A contrasting view asserts that better social performance

provides the firm with advantages leading to financial performance (Barnett and Salomon 2006). Competitive advantage can be obtained through lower labor costs (Greening and Turban 2000; Turban and Greening 1997), less community opposition and legal costs (Barnett and Salomon 2006; Freeman 1984), and creation of new marketing opportunities (Fombrun, Gardberg, and Barnett 2000). Studies show that corporate social responsibility is positively associated with growth in sales for the current and subsequent year (Ruf et al. 2001).

Proponents of stakeholder theory suggest that the better a firm manages its stakeholder relationships, the better its financial performance over time (Donaldson and Preston 1995; Freeman 1984). Empirical studies support a positive influence on firm financial performance of investments in stakeholder relations (e.g., Berman et al. 1999; Graves and Waddock 2000) and effective stakeholder management (e.g., Hillman and Keim 2001). Shareholders (one of the primary stakeholder groups) financially benefit when management meets the demands of multiple stakeholders (Ruf et al. 2001). While reviews of empirical research support a positive relationship between corporate social performance and financial performance (e.g., Margolis and Walsh 2003; Orlitzky, Schmidt, and Rynes 2003), the nature and boundaries influencing how a stakeholder orientation affects firm financial performance remains unclear. Questions include how much investment in stakeholder responses is enough, and which stakeholders the firms should address.

Companies that perceive stakeholders as competing for the attention and resources of the firm require that the influence on financial performance be substantial enough to convince managers that those stakeholders are worthy of attention (Freeman

1999; Jones and Wicks 1999). Research in the past decade highlights the consequences of paying attention to stakeholders such as employees, the community, and consumers (Funk 2003; Greening and Turban 2000; Greenley and Foxall 1996). However, the interests of one group of stakeholders may not be complementary to another, thereby creating a dilemma for managers to balance stakeholder claims in making strategic decisions (Laczniak and Murphy 2006). For example, Barnett and Salomon (2006) find that investment in community programs influences financial performance while investment in employees does not have a similar effect.

Stakeholder Theory and Global Marketing

Marketers are in a prominent position to include stakeholder concerns in strategic planning and promote corporate social responsibility practices within the firm (Maignan and Ferrell 2004). The experience of marketers in developing customer relationships may extend to establishing relationships with other stakeholders. Additionally, the interests of consumers cannot be considered in isolation from other stakeholders, given that the interests may compete for scarce resources or be dependent on orientations to other groups such as employees (Greenley and Foxall 1998).

One research stream advocates a stakeholder relationship model of marketing (Payne 2004; Payne, Ballantyne, and Christopher 2005). Stakeholder relationship marketing involves “creating, maintaining, and enhancing strong relationships with customer, employee, supplier, community, and shareholder stakeholders of a business with the goal of delivering long-term economic, social, and environmental value to all stakeholders in order to enhance sustainable business financial performance” (Murphy et al. 2005, pp. 1050-51). Application of a stakeholder relationship marketing evaluation

system in China demonstrates that the principles of stakeholder relationships is not new to China, is supported by cultural values, and is consistent with other parts of the world (Murphy and Wang 2006). Polonsky, Schuppisser and Beldona (2002) provide a framework for marketers to analyze their firm's diverse relationships. They distinguish between the positive and negative side of relationships (i.e., the ladder of stakeholder loyalty), and describing the various relational factors (i.e., relationship orientation, trust, communication, learning, power, reciprocity and commitment) that shape a specific relationship.

Firm activities relating to product production, introduction, and promotion can unintentionally harm consumers, society, or other stakeholders (Fry and Polonsky 2004). Some marketing issues include branding (i.e., integrating corporate social responsibility as a core value in brand positioning) (Polonsky and Jevons 2006), youth as consumers and subsequent advertising to children (Horgan 2005), and global sales ethics (Ferrell, Ingram, and LaForge 2000). Additionally, social responsibility registration/certification (SA8000) adoption may impact a firm's marketing activities (Miles and Munilla 2004). SA8000 provides a standard of corporate social responsibility that addresses consumer and investor perceptions of the importance of emerging global social issues such as child labor, worker rights, discrimination, and compensation. Socially responsible marketing involves product differentiation (i.e., environmental), reputation building (i.e., advertising), competitive advantage (i.e., first-mover, barrier to entry), and innovation (McWilliams and Siegel 2001). Empirical studies of multiple stakeholder orientations suggest that firms incorporating customer, competitive, and employee perspectives in

strategic planning experience greater marketing capabilities and superior competitive advantage (Greenley and Foxall 1998; Greenley et al. 2004).

An integral activity to marketing is new product development. Increasingly, concerns regarding the extent to which new products are good and for whom they are good are expressed (Lehmann 2006). However, Luo and Bhattacharya (2006) find that firms need to ensure that they are perceived as innovative and as makers of high-quality products before they undertake major corporate social responsibility initiatives since a low innovativeness capacity reduces customer satisfaction levels. Examples where new product development and corporate social initiatives interact include environmental impact, or “green marketing,” and medical innovations, such as the biomedical and pharmaceutical industry. Research of US and Australian marketers' perceptions of stakeholders' involvement in the green new product development process include stakeholders with broader environmental expertise are included (Polonsky and Ottman 1998). Pujari and Wright (1999) identify six drivers and stakeholders for environmental responsiveness at product development level in manufacturing firms. In a recent application of RBV, Baker and Sinkula (2005) find that a firm's environmental marketing strategy development is positively related to new product success, which is positively related to change in market share.

New product development in the medical industry has a particular need to consider a broad base of stakeholders (Nystrom and Poon-Asawasombat 2003). Addressing a larger population, biotechnology firms face new challenges as their new products account for an increasing share of product approvals and their high costs are under scrutiny by regulators, employers, and consumers (Simon 2006). Pharmaceutical

companies are also under pressure to provide treatments for diseases at a cost lower than needed to recoup development expenses (Blowfield and Frynas 2005; Khanna 2006), potentially stifling innovation and new product development (Calfée and Bate 2004; Miles, Munilla, and Covin 2002).

Global companies are experiencing increasing pressure to contribute to the economic development, as well as improve the quality of life, of the workforce and community (Bazin and Ballet 2004; Wheeler, Fabig, and Boele 2002). International studies suggest that managerial attention to stakeholders from an ethical perspective varies between cultures, most noticeably in employee welfare and environmental sustainability (Blodgett et al. 2001; Cai and Wheale 2004; Maignan and Ferrell 2003). Environmental sustainability in emerging economies is a particular focus of nongovernmental organizations and activist groups (Hendry 2003), prompting companies such as DuPont and Hewlett-Packard to adopt practices that lessen the environmental footprint in all operations (Hart and Milstein 1999). Wheeler, Fabig and Boele (2002) provide an analysis of stakeholder management practices of Shell Oil with the Ogoni of Nigeria. This case, in which environmental and human rights groups accused Shell and its Nigerian subsidiary of degrading the Ogoni environment for four decades, highlights the importance of a stakeholder orientation in corporate strategy.

Although globalization often is perceived as being incompatible with social responsibility, there are examples of multinational businesses spreading ethical and responsible behavior among nations. One example is the empirical results of a study of the pulp and paper industry in India, identified as one of the most polluting industries in the country, indicating that economic liberalization had a positive influence on

environment-friendly behavior (Pradhan and Barik 1999). Logsdon and Lewellyn (2000) argue that a Western European standard for reporting social responsibility activities be adopted in the US. In another analysis, globalization resulted in French firms integrating many practices prevalent in the US private sector, despite France's own political and historical norms with respect to human rights (Colonomos and Santiso 2005).

From the literature review on corporate social responsibility, there is an overlap between principles (social orientation), practices (social responsiveness) and outcomes (performance). In other words, there is a distinction between what firms ought to do, what they put into practice and what potential benefits they might obtain. There are direct parallels between the normative, descriptive and instrumental dimensions of stakeholder theory identified by Donaldson and Preston (1995) and the emphasis on principles, practices and outcomes. Principles have a normative element, practices have a descriptive element and outcomes have an instrumental element.

Marketing research finds that marketers embracing the stakeholder concept have to consider various stakeholder interests, in addition to customers, when making marketing decisions. A stakeholder orientation requires a balanced evaluation of stakeholders and their competing demands, recognizing that complex marketing strategies may alienate a particular group (Laczniak and Murphy 2006). Firms operating across national boundaries experience further challenges due to cultural and institutional variations. The next chapter presents a conceptual framework to examine the incorporation of stakeholder issues in corporate marketing strategy to explain firm performance, and the moderating effect of international operations on successfully responding to multiple stakeholders.

Chapter III

CONCEPTUAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

This chapter discusses a conceptual framework depicting how a stakeholder orientation adds value through marketing outcomes. This research examines the incorporation of stakeholder issues in corporate marketing strategy to explain firm performance and provide further insight regarding the influence of international operations on stakeholder responsiveness. The four research questions are:

1. How does attention to specific stakeholders drive implementation of programs and policies responding to stakeholders?
2. What is the influence of international sales, number of countries, and sourcing on a firm's responsiveness to stakeholders?
3. Do actions (responding to stakeholders) influence customer satisfaction, innovation, and reputation?
4. How does a stakeholder orientation affect firm performance?

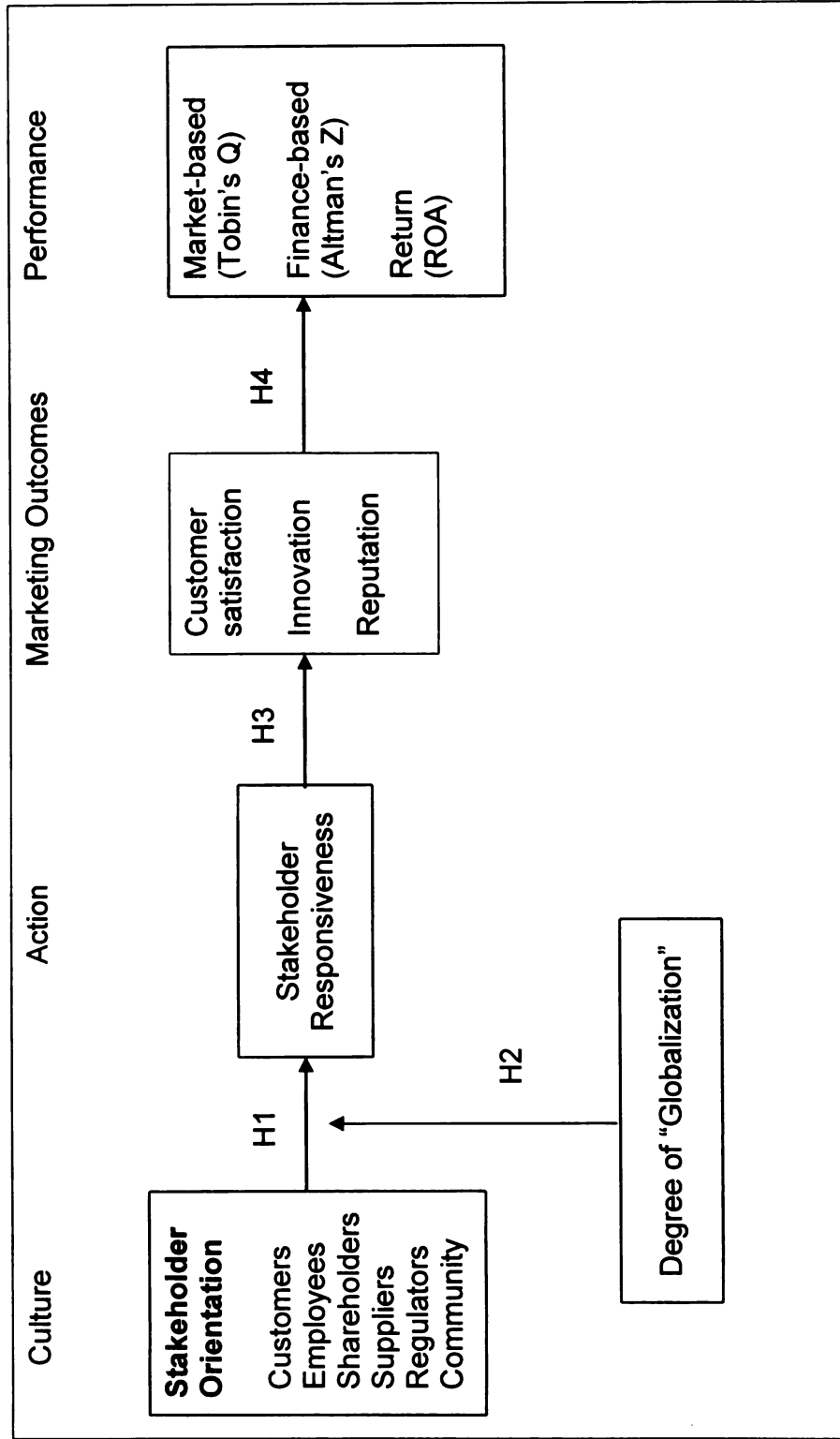
Conceptual Framework

Managers need to understand how a stakeholder orientation affects firm performance. Subsequent Instrumental stakeholder theory provides a theoretical basis for predicting the nature of the relationship between the firm's stakeholder orientation and its financial performance (e.g., Barnett and Salomon 2006; Margolis and Walsh 2003). Results of empirical studies show that the relationship of a proactive strategy for stakeholder management and performance is complex. A number of studies show that firms perceived as socially responsible have higher financial performance (e.g. Maignan, Ferrell, and Hult 1999; Margolis and Walsh 2003; Orlitzky, Schmidt, and Rynes 2003).

However, the positive relationship with financial performance does not hold across all stakeholders or corporate response activities. For example, Seifert, Morris, and Bartkus (2004) show that community philanthropy is not related to financial performance. Likewise, Berman et al. (1999) find that relationships with many stakeholders other than employees and customers have only indirect effects on firm financial performance.

A stakeholder mismatching perspective is one explanation for why the correlation between corporate social responsibility and corporate financial performance varies among studies (Orlitzky, Schmidt, and Rynes 2003). The stakeholder mismatching thesis of Wood and Jones (1995) argues that effects of corporate social responsive actions vary depending on different expectations and evaluations of stakeholder groups. Programs and policies responding to market-oriented stakeholders such as customers and shareholders are more likely to influence market-based firm performance, whereas community-related philanthropic activities may not correlate directly to market-based firm performance. For many stakeholder groups, the effect of corporate social responsiveness may effect non-financial outcomes (Orlitzky, Schmidt, and Rynes 2003). Corporate social responsiveness is found to influence corporate reputation (Brammer and Millington 2005), customer satisfaction (Luo and Bhattacharya 2006), and innovation (McWilliams and Siegel 2001). Based on results of their meta-analysis, Orlitzky, Schmidt, and Rynes (2003) call for additional research to include well-defined stakeholder groups, precise definitions of socially responsive outcomes and appropriate measures for performance.

Figure 1: Conceptual Framework



Therefore, this research seeks to understand how valuing each stakeholder group affects firm performance through stakeholder responsiveness and marketing outcomes, as well as the influence of global business operations on stakeholder responsiveness. A conceptual framework for the study is in Figure 1. Subsequent discussion of the conceptual framework begins with conceptualizing the stakeholder orientation construct and stakeholder groups, defining the stakeholder responsiveness construct and developing hypotheses relating to the research questions.

Hypothesis Development

Research question 1: Stakeholder Orientation and Stakeholder Responsiveness

The concept of stakeholder orientation has been defined and operationalized in prior research focusing on the attitude and behavior of the organization towards various stakeholders (e.g., Greenley and Foxall 1996; 1997; Logsdon and Yuthas 1997; Maignan and Ferrell 2004). A parallel can be made between market orientation and stakeholder orientation, in such that both have been viewed as culture and behaviors (Kohli and Jaworski 1990; Narver and Slater 1990). Homburg and Pflesser (2000) conceptualize market orientation as both culture (values, norms, artifacts) and behaviors (information generation, information dissemination, responsiveness). Noble, Sinha and Kumar (2002) build on a view that customer orientation is a part of an overall organizational culture to develop a competitive culture approach to strategic orientations. Deshpande, Farley, and Webster (1993) argue that internal processes and the organizational strategies are influenced by a deep, culture-driven characteristic of an organization. The competitive culture view allows for the integration of strategic

orientations of multiple stakeholders. For this research, I adopt the Noble, Sinha, and Kumar (2002) definition for market orientation to define stakeholder orientation as an organization's values and priorities in interactions with its stakeholders.

Building on the definition of social responsiveness as the adaptation of corporate behavior to social needs (Sethi 1975; Wood 1991), stakeholder responsiveness refers to the extent that the organization implements policies and programs to address the needs of stakeholder groups. Luo and Bhattacharya (2006) describe stakeholder responsiveness as "a company's activities and status related to its perceived societal or stakeholder obligations." Demonstrating a high degree of stakeholder responsiveness may require a diverse range of activities (including engagement in philanthropic activities, reduction of environmental impacts, and the introduction of practices that empower employees) (Brammer and Pavelin 2006). In other words, stakeholder orientation refers to the firm's belief regarding specific stakeholder relations, and stakeholder responsiveness represents the implementation of strategies relating to those stakeholders.

The notion of stakeholder orientation as culture and stakeholder responsiveness as behaviors is consistent with current thinking on global corporate citizenship. Logsdon and Wood (2005) assert that global corporate citizenship requires: (1) a set of fundamental values embedded in the corporate code of conduct and in corporate policies that reflect universal ethical standards; and (2) implementation throughout the organization with thoughtful awareness of where the code and policies fit well and where they might not fit with stakeholder expectations.

A stakeholder is any group or individual who can affect, or be affected by, the achievement of an organization's purpose, with each of the many stakeholder groups

having a unique set of expectations, needs, and values (Clarkson 1995; Freeman 1984; Mitchell, Agle, and Wood 1997). This research will consider six primary stakeholders identified in the marketing stakeholder model from Maignan, Ferrell and Ferrell (2005). Primary stakeholders are those where direct relationships are necessary for the company to perform its major mission of producing goods and services, and commonly include customers, employees, shareholders, suppliers, community, and government regulatory agencies (Freeman 1984; Friedman and Miles 2006).

Customers are key stakeholders that help establish the firm's reputation and identification. The relationship between a customer and a firm exists because of mutual expectations built on trust, good faith, and fair dealing in their interaction. In fact, there is an implied covenant of good faith and fair dealing, and performance cannot simply be a matter of the firm's own discretion. Not only is this an ethical requirement but it has been legally enforced in some states (Ferrell 2004). Paying attention to customers improves responsiveness to other stakeholders, such as shareholders reacting in a significantly positive manner to improvements in customer service (Ogden and Watson 1999). Consumer orientation emerged as the most important group in studies of stakeholder orientation (Greenley and Foxall 1996).

Equally important, the research indicates that marketing might well need to give as much attention to the strategic management of managers and employees as it does to customers (Jackson 2001). Employees can position the organization in the minds of customers, employees, and other stakeholders (Miles and Mangold 2005). A study of the airline industry finds that labor relations has a direct effect on performance, and an indirect effect on reputation through customer experiences (Martinez and Norman 2004).

While a shareholder orientation typically refers to profits, shareholders are a primary stakeholder that can influence responsiveness to multiple stakeholders. Meeting the needs of creditors directly affects both return on assets and net profit margin (Martinez and Norman 2004). As typical contemporary investors rarely control corporate activities, management feels it is highly questionable whether most have obligations to stakeholders. Whether or not shareholders have obligations to stakeholders, business managers have a greater obligation to educate shareholders about how corporate activities affect stakeholders (Spurgin 2001). Research provides support that the dominant stakeholder group (shareholders) financially benefits when management meets the demands of multiple stakeholders, as change in corporate social responsibility is positively associated with growth in sales for the current and subsequent year (Ruf et al. 2001). Investors are looking with increasing favor on shareholder proposals asking companies to disclose and monitor their political contributions, to report on their fair employment policies, and to issue broad-based reports on sustainability (Voorhes 2006)

A supplier orientation refers to attention both to the needs of the supply chain and to socially responsible purchasing practices, including incorporation of noneconomic buying criteria relating to diversity, environmental, and labor issues. Suppliers expect fair treatment by customers. Key ethical issues influencing supplier relationships include 1) demonstrating partiality towards suppliers preferred by upper management, 2) allowing personalities to improperly influence the buying decision, and 3) failing to provide prompt, honest responses to inquiries and requests (Cooper, Frank, and Kemp 2000). The network of relationships inherent in the supply chain has resulted in a greater likelihood that organizations shoulder more responsibility for actions of their suppliers (Phillips and

Caldwell 2005). As companies recognize social issues that are related to their supply chain, some include paying more for vendors with good social policies, helping competent vendors become socially responsive, and helping socially responsive vendors to become competent (Drumwright 1994).

Regulatory orientation refers to the attention to the regulatory environment, trends, and policies. Distinctive advantages arise from partnerships with local communities or government agencies, such as reduced unfavorable litigation, reduced levels of negative publicity and favorable regulatory policies (Harrison and St John 1996). The values of the management team have a positive effect on working relationships with regulatory agencies. The influences of regulatory forces are all significantly mediated by top management commitment and moderated by industry type (Banerjee, Iyer, and Kashyap 2003). The growing regulatory concerns over the environmental impact of corporate practices have begun to influence marketing policies and practices (Menon and Menon 1997).

A community orientation refers to the attention to social duties relating to the common good of the host community. Pulling from stewardship theory, Laczniak and Murphy (2006) argue that marketers are obligated to ensure that their marketing operations will not impose external costs on society. Community stakeholders include many nongovernmental organizations and other potential activist groups that have an interest in social issues and have the ability to mobilize public opinion (Banerjee, Iyer, and Kashyap 2003). Community advocacy groups can influence corporate strategy. For example, a chemical company's plans to locate in an economically deprived Louisiana community changed in response to community opinion (Berry 2003). Brammer and

Millington (2003) suggest that corporate community involvement activities may be influenced by the preferences of societal stakeholders.

Therefore, while specific stakeholders have varying concerns, companies should strive for responses that appeal to multiple stakeholders. To examine the relationship that each specific stakeholder has on overall responsiveness, the following hypotheses relate to how attention to which stakeholders drives the overall implementation of responsive programs and policies.

- H1: Stakeholder responsiveness is affected by stakeholder orientation:
- a. Customer orientation has a positive effect on stakeholder responsiveness
 - b. Employee orientation has a positive effect on stakeholder responsiveness
 - c. Shareholder orientation has a positive effect on stakeholder responsiveness
 - d. Supplier orientation has a positive effect on stakeholder responsiveness
 - e. Regulatory orientation has a positive effect on stakeholder responsiveness
 - f. Community orientation has a positive effect on stakeholder responsiveness

Research question 2: The moderating role of “globalness”

Firms operating in multiple countries experience cultural and institutional differences in expectation and returns of social responsiveness (Doh and Guay 2006). To examine the moderating effects of global operations on the ability for a firm to respond to multiple stakeholders, the study includes “globalness” as a moderator. The degree of globalness refers to the internationalization of the business, including sales, number of countries, and supply (Johanson and Vahlne 1977). Globalization activities such as global product sourcing, global market seeking, and global partnerships moderate a firm’s market orientation, entrepreneurial orientation, and innovative (Luo, Sivakumar, and Liu 2005). Global companies are experiencing increasing pressure to contribute to the economic development, as well as improve the quality of life, of the workforce and community (Bazin and Ballet 2004; Wheeler, Fabig, and Boele 2002). International

studies suggest that managerial attention to stakeholders from an ethical perspective varies between cultures, most noticeably in employee welfare and environmental sustainability (Blodgett et al. 2001; Cai and Wheale 2004; Maignan and Ferrell 2003). The roles and responsibilities of government are being redefined, with the boundaries between business and government becoming less clear, and the multinational corporation is acting more often in a quasi-governmental role at the global level (Hatcher 2003; Wettstein 2005). It is not surprising then that a recent study finds a direct effect of international diversification (depth and breadth of international sales) on overall corporate social performance (Strike, Gao, and Bansal 2006). Relationships between stakeholders and the firm must be examined in light of the cultural contexts and different forms of market systems within which different firms emerge, operate and interact (Palmer and Quinn 2005). Therefore, the degree of global business interactions can influence the various stakeholder orientations and company responsiveness.

Varying cultural values and ethical beliefs of consumers have been identified between various national groupings (Ford 2005; Rawwas 2001). Consumers in different cultures assess the ethics of a situation based on factors such as religion (Cornwell et al. 2005), cultural values (Chan, Wong, and Leung 1998), nationality (Erffmeyer, Keillor, and LeClair 1999), and both gender and age (Fisher, Woodbine, and Fullerton 2003). Distinct ethical consumer behaviors exist across European countries (Germany, Denmark, Scotland, The Netherlands, Portugal, Spain, Italy, Greece), questioning the ability of organizations to consider even the European Union as one homogeneous market (Polonsky et al. 2001). Differences in consumer ethics and cultural values influence how corporations respond to social issues, as well as how consumers react to those responses

(Babakus et al. 2004) . Maignan (2001) finds that French and German consumers appear more willing to actively support responsible businesses than their US counterparts, and while US consumers value highly corporate economic responsibilities, French and German consumers are most concerned about businesses conforming with legal and ethical standards.

Multinational companies with global production or sales facilities have to address employee stakeholder concerns both in their home market and in international markets. Downsizing due to location of production of goods or services in other countries can reduce employee loyalty and morale (Karake 1998). Production operations overseas often have to address employment issues where legal requirements are less stringent, particularly regarding child labor and low wages (Kolk and van Tulder 2002). Multinational corporations (MNCs) are the frequent target of NGOs in their human rights advocacy efforts, possibly skewing corporate social responsibility practices by the multinational corporation (Schepers 2006). For example, initial responses to campaigns on child labor in the sports-goods industry in Pakistan led to many children losing their jobs and working in more hazardous or abusive industries (Bendell 2005). The experience of two companies, Chiquita Brands International, Inc. and Levi Strauss & Company, both with operations in Latin America, underscore the presence of common challenges that accompany the employment of international labor (Radin 2004).

Organizations that depend on global suppliers for goods and services have to consider how actions are perceived to avoid supply-chain problems like Nike experienced when exposed for “slave-labor conditions” in Asian countries (Bachman 2000). One example includes Starbucks, which claims to pay premium prices for coffees, invest in

social development projects, provide access to affordable loans in coffee growing regions and is considered the fifth most admired corporation in Fortune's 2006 survey (Fisher and Demos 2006). Oxfam, a non-profit organization that works to end global poverty, claims that Starbucks is depriving farmers in Ethiopia of \$90 million a year by rejecting the Ethiopian government's efforts to trademark three types of local coffee bean. Their campaign generated more than 89,000 faxes from 70 countries asking Starbucks CEO Jim Donald to support Ethiopia's ownership of its coffee names ("Business: Storm in a Coffee Cup; Starbucks Vs. Ethiopia" 2006).

Attention and responsiveness to shareholders have two implications for companies with global operations. First, shareholders can influence multinational corporation decisions to downsize (Collett 2004) and to relocate overseas (Birkinshaw et al. 2006). Second, attention to shareholder's concerns influences the ability to attract investors. The growth of social and ethical investment criteria among shareholders, mutual funds, and pension asset managers demonstrate increased demands for good global citizenship (Henderson 2000). In Europe, a tradition of greater concern with a broader stakeholder perspective has changed the capital structure, with practicing Value Based Management common in the UK, Germany, Switzerland and Austria (Mills and Weinstein 2000). Likewise, stock price reactions primarily attributable to institutional investors occur when corporations announce the enactment of corporate governance guidelines (Picou and Rubach 2006).

Shareholder resolutions have become increasingly successful at promoting corporate change in global social responsiveness. Support for social and environmental resolutions reached record levels in the 2006 proxy season, according to Institutional

Shareholder Services (ISS) (Voorhes 2006). In 2006, shareholders asked four companies (Lear, C.R. Bard, Bed & Beyond and Time Warner) to develop and monitor a code of conduct for its operations and suppliers based on conventions of the International Labor Organization and the U.N. Norms for Transnational Corporations.

Companies operating in multiple countries experience institutional differences in expectation and returns, influencing the relationships with regulatory agencies, governments and communities, especially in developing countries (Doh and Guay 2006; Mohan 2006). Research of multinational chemical companies finds that a shift of societal expectations resulted in economic and legal responsibilities increasingly required in most countries, while the degree of ethical responsibilities and philanthropic responsibilities varied over time and country (Pinkston and Carroll 1996). Reed (2002) argues that different economic, political, and sociocultural circumstances under which corporations have to operate in developing countries increase the responsibilities of corporations to a full range of stakeholder groups. A study of chemical companies in Mexico and South Africa finds several challenges for the chemical industry in moving forward on CSR: credibility, stakeholder engagement, value-chain accountability, disclosure and transparency (Acutt, Medina-Ross, and O'Riordan 2004). A study in Poland identifies a dysfunctional legal background and corruption as obstacles of CSR (Lewicka-Strzalecka 2006). In addition, the growing regulatory concerns over the environmental impact of corporate practices have begun to influence marketing strategies (Menon and Menon 1997).

Multinational corporations implement various methods and responsiveness to addressing the complex social issues of stakeholders (Deniz-Deniz and Garcia-Falcin

2002). Khan and Atkinson (1987) find significant similarities and differences of social responsibility practices in India, Britain and America. Another study finds that Japanese firms are able to make quicker and more efficient decisions and have more flexibility when dealing with many stakeholders than US counterparts (Steadman, Green, and Zimmerer 1994). American managers tend to be more legally and ethically driven than French managers who are more concerned about the economic and philanthropic components of corporate social responsibility (Ibrahim and Parsa 2005). In his dissertation research, Mackey (2005) finds that the location and the extent of international operations influence corporate social responsibility, with firms with operations in developing countries tending to have positive associations in terms of community and diversity CSR ratings, but negative associations with product and human rights CSR ratings.

Research questions arise with this observed variation in consumer ethics, employee and supply-chain issues, shareholder perceptions, community and institutional demands inherent in global business. How does firm globalness influence the effect of stakeholder orientation on stakeholder responsiveness? In other words, is it more difficult for companies with greater international sales, number of countries, and sourcing to pay attention and respond to stakeholders? These questions are tested with the following hypotheses:

- H2: “Globalness” moderates the effect of stakeholder orientation on stakeholder responsiveness:
- a. Globalness moderates the relationship between customer orientation and stakeholder responsiveness
 - b. Globalness moderates the relationship between employee orientation and stakeholder responsiveness
 - c. Globalness moderates the relationship between shareholder orientation and stakeholder responsiveness

- d. Globalness moderates the relationship between supplier orientation and stakeholder responsiveness
- e. Globalness moderates the relationship between regulatory orientation and stakeholder responsiveness
- f. Globalness moderates the relationship between community orientation and stakeholder responsiveness

Research question 3: The role of stakeholder responsiveness on marketing outcomes

Socially responsible marketing involves product differentiation (i.e., environmental), reputation building (i.e., advertising), and competitive advantage (i.e., first-mover, barrier to entry) (McWilliams and Siegel 2001). Corporate social responsiveness is found to influence corporate reputation (Brammer and Millington 2005), customer satisfaction (Luo and Bhattacharya 2006), and innovation (McWilliams and Siegel 2001).

Customer satisfaction is defined as an overall evaluation based on the customer's total purchase and consumption experience with a good or service over time (Fornell 1992). An equity approach to exchange evaluation shows that perceived fairness from the customer's view is a strong predictor for customer satisfaction (Symanski and Henard 2001). Unethical marketing that exploits or harms another party reduces the customer's evaluation of perceived fairness and risks alienating the most committed customers (Ingram, Skinner, and Taylor 2005). Not just attention to customers increases customer satisfaction. Consumers react to corporations' initiatives to address outside stakeholders in their evaluation and subsequent loyalty to the organization (Bhattacharya and Sen 2003; Sen and Bhattacharya 2001). For example, an increase in organizational commitment to employees improves customer satisfaction (Roca-Puig et al. 2005). Overall, corporate social responsiveness to stakeholders positively affects customer satisfaction (Luo and Bhattacharya 2006).

Innovation relates to the implementation of new ideas, products, and processes (Hurley and Hult 1998). While marketing traditionally focuses on product innovation, organizational innovation differentiates between technical innovation, referring to work activities related to products and services, and administrative innovation, referring to processes indirectly related products and services (Damanpour 1991). Focusing on the degree to which an organization encourages introducing new ideas and processes, Hult and Ketchen (2001) found an organization's openness to new ideas, products or processes to be an influencing factor in developing positional advantage. There is evidence of a relationship between market-focused companies and innovation (Day 1994; Deshpande, Farley, and Webster 1993). In a study of market orientation, Han, Kim and Srivastava (1998) find a positive relationship between customer orientation and innovation. However, little empirical research exists examining the effect that responsiveness to multiple stakeholders has on firm innovativeness. Miles et al. (2002) proposes that innovation in the pharmaceutical industry would be hindered by pressure from NGOs and governments to provide drugs to developing nations at a substantial loss or for free.

The resource-based-view (RBV) and instrumental stakeholder theory suggest that social responsibility leads to sustained competitive advantage through innovation (Bunn, Savage, and Holloway 2002; McWilliams, Siegel, and Wright 2006). RBV perceives social responsiveness as a capability that is valuable, rare, and inimitable (Deniz-Deniz and Saa-Perez 2003). For example, Baker and Sinkula (2005) find that a firm's capability in environmental marketing strategy development is positively related to new product success. Instrumental stakeholder theory references strategic approaches to stakeholder management that provide direction for enhanced organizational performance

(Donaldson and Preston 1995). A social network perspective of stakeholder management suggests that innovations through new product development result in a particular need to consider a broad base of stakeholders that have direct relationships with one another (Bunn, Savage, and Holloway 2002; Rowley 1997).

There is some research supporting a positive relationship between stakeholder orientation and innovation. DuPont includes a diversity of stakeholders from India, Africa, and Latin America in developing a strategy for biotechnology development, even inviting environmental proponents such as the former head of Greenpeace International to provide divergent views on the issue (Hart and Sharma, 2004). Management found that incorporating different perspectives generated new ideas, modifications, and improvements to the company's approach to biotechnology commercialization. Likewise, managers of oil companies adopting a proactive stakeholder orientation reported a continuing momentum of innovations (Sharma and Vredenburg 1998). Attention to multiple stakeholders increases innovative actions in new product development and distribution.

Reputation refers to a perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all its key constituents when compared to other leading rivals (Fombrun 1996, p. 72). Social responsiveness to stakeholders has external effects on organizational reputation through building a positive image with customers, investors, creditors, and suppliers (Orlitzky and Benjamin 2001). Disclosure alone is not as highly correlated with reputation as social responsiveness. In a study of large US firms, Fombrun and Shanley (1990) found that publics assign higher reputations to organizations that exhibit social responsiveness. Sharma and Vredenburg

(1998) found that stakeholder integration gives competitive benefits that translate into increased goodwill that eased opposition to oil companies' everyday operations and development plans.

Research tends to support the notion that a stakeholder orientation can result in marketing intermediaries such as customer satisfaction, innovation, and reputation through the social responsiveness to stakeholder needs. Therefore, the following hypotheses seek to address whether actions responding to stakeholders generate greater marketing outcomes.

- H3: The greater the stakeholder responsiveness,
- a. the greater the customer satisfaction
 - b. the more innovative the firm
 - c. the more favorable is the firm's reputation

Research question 4: The mediating role of marketing outcomes on the impact of stakeholder responsiveness on performance

The final research question seeks to understand how valuing each stakeholder group affects firm performance through marketing outcomes. Prior research shows that marketing outcomes, such as customer satisfaction, innovation, and reputation, are key determinants of firm performance. Therefore, this set of hypotheses examines the role that the marketing outcomes play in full or partial mediation between stakeholder responsiveness on performance.

Stakeholder theory argues that companies that address diverse stakeholder interests perform better than companies that do not (Clarkson 1995; Greenley and Foxall 1998). Stakeholder-oriented companies develop expertise in understanding the formation of stakeholder groups, their key issues, and the potential for helping or harming the corporation. The stakeholder mismatching thesis of Wood and Jones (1995) argues that

effects of corporate social responsive actions vary depending on the expectations and evaluations of stakeholder groups. Therefore, specific stakeholder orientations may influence different marketing and performance measures (Orlitzky, Schmidt, and Rynes 2003). For example, reputation is basically related to the values of individual evaluators, resulting in different aspects of corporate social responsiveness influencing corporate reputation (Siltaoja 2006). Berman et al. (1999) examine the interaction of stakeholder relationships, firm strategy and performance; finding support for both direct and indirect affects on firm financial performance.

A direct link between social responsiveness and financial performance has been established through a decade of empirical studies (Orlitzky and Benjamin 2001; Orlitzky, Schmidt, and Rynes 2003; Roman, Hayibor, and Agle 1999); however, it does not hold across all stakeholders or corporate response activities (Berman et al. 1999; Seifert, Morris, and Bartkus 2004). The resource-based-view (RBV) suggests that stakeholder orientation and responsiveness constitute a resource or capability that leads to sustained competitive advantage (Deniz-Deniz and Saa-Perez 2003; McWilliams, Siegel, and Wright 2006). Likewise, firms incorporating multiple stakeholder perspectives in strategic planning experience greater marketing capabilities and superior competitive advantage (Greenley and Foxall 1998; Greenley et al. 2004). Luo and Bhattacharya (2006) provide empirical evidence for the resource-based view that a firm's sustainable competitive advantages results from a complementary "bundle" of valuable internal (corporate abilities) and external (CSR initiatives) assets. Stakeholder responsiveness has been shown to influence firm performance through customer satisfaction (Luo and Bhattacharya 2006), innovation (Bunn, Savage, and Holloway 2002; McWilliams and

Siegel 2000), and reputation (Brammer and Pavelin 2006; Orlitzky, Schmidt, and Rynes 2003; Preston and O'Bannon 1997).

Customer satisfaction has significant implications for the economic performance of firms (Bolton, Lemon, and Verhoef 2004). One reason is that customer satisfaction has a negative impact on customer complaints and a positive impact on customer loyalty and usage behavior (Bolton 1998; Fornell 1992). Therefore, customer satisfaction may reduce costs related to warranties, complaints, defective goods, and field service costs (Fornell 1992). Anderson, Fornell, and Mazvancheryl (2004) find a strong relationship between customer satisfaction and Tobin's Q (as a measure of shareholder value) after controlling for fixed, random, and unobservable factors. Recently, Fornell, Mithas, Morgeson and Krishnan (2006) find that customer satisfaction, as measured by the American Customer Satisfaction Index (ACSI), is significantly related to market value of equity.

Innovation capability is an important determinant of firm performance (Deshpande, Farley, and Webster 1993; Hurley and Hult 1998). Organizational innovation in products, managerial systems, and marketing strategies can lead to successful market performance (Weerawardena, O'Cass, and Julian 2006). New product research finds that firm innovativeness is positively related to firm performance (Montoya-Weiss and Calantone 1994). The diffusion of innovations literature suggests that firms must be innovative to gain a competitive edge in order to survive (Li and Calantone 1998). The foundation for this competitive advantage relates to a full understanding of customer needs, competitors' actions, and technological development (Calantone, Cavusgil, and Zhao 2002). A linkage exists, therefore, between cultural

orientations, innovativeness, and performance (Deshpande, Farley, and Webster 1993; Han, Kim, and Srivastava 1998).

Reputation has a complex relationship with firm performance, as past financial performance is one component of a company's reputation dimension (Fombrun and Shanley 1990). However, recent studies find that reputation influences future financial performance after controlling for past performance (Eberl and Schwaiger 2005; Roberts and Dowling 2002). Fombrun (1996) argued that a positive reputation could present an organization with a competitive advantage that enables the firm to charge premium prices and economize on promotional costs. Black, Carnes and Richardson (2000) found that organizations devote resources to the intangible asset of reputation, with the expectation that these efforts will improve the performance of the firm. For example, a positive reputation has been shown to affect customers' buying intentions (Yoon, Guffey, and Kijewski 1993) and supplier choice (Weiss, Anderson, and MacInnis 1999), and to support superior profit outcomes over time (Roberts and Dowling 2002). In sum, this would lead to higher profitability for the "well reputed" firm.

Therefore, there are a number of mechanisms influencing the relationship between stakeholder responsiveness and firm performance. Understanding how and why stakeholder responsiveness increases performance requires probing the mediating roles of marketing outcomes on performance. Thus, the following series of relationships are hypothesized:

- H4: Stakeholder responsiveness increases firm performance through marketing outcomes:
- a. Stakeholder responsiveness → satisfaction → performance
 - b. Stakeholder responsiveness → innovation → performance
 - c. Stakeholder responsiveness → reputation → performance

Chapter Summary

The conceptual framework and hypotheses described in this chapter contributes to our understanding of the performance outcomes of stakeholder orientation and responsiveness beyond prior studies. First, is the conceptualization of stakeholder orientation as culture, referring to the firm's belief regarding specific stakeholder relations, and stakeholder responsiveness as behaviors in the implementation of strategies relating to those stakeholders. By studying the orientation to six specific stakeholder groups, the study will provide insights on whether the prioritization that each firm gives to a specific stakeholder allows for greater or lower overall responsiveness. Second, is the inclusion of globalization measures reflective of current practice as a moderator for the difficulty in responding to multiple stakeholders. This work may also contribute to marketing by empirically testing the link between stakeholder responsiveness and firm performance through intermediary marketing outcomes. The following chapter provides details of the research design and method for testing the hypotheses.

Chapter IV

RESEARCH DESIGN & METHOD

This chapter presents the research design and method for examining the hypothesized relationships developed in Chapter III. First, the sample frame and sample achieved are discussed. Next, the data collection processes for the qualitative and quantitative aspects of the study are explained. Within the discussion of the data collection process are the measures used to operationalize the model constructs.

For this research, the firm is the unit of analysis to examine the influence of globalness on the relationships between stakeholder orientation, responsiveness and performance. While variances in responsiveness may vary among strategic business units or locations, the overall strategic orientation of top management and company financial performance are often studied at the firm level (e.g. Baker and Sinkula 2005; Luo and Bhattacharya 2006). Testing of the hypothesized model draws from a sample of companies representing publicly traded firms on the US exchange. Prior marketing studies of strategic orientation and stakeholder management have used a similar sample frame for empirical research (e.g., Berman et al. 1999; Hillman and Keim 2001; Noble, Sinha, and Kumar 2002).

Limiting the study to publicly traded firms provides for both qualitative document review and quantitative secondary data sources for enhanced understanding of the phenomena. A mixed method approach of qualitative and quantitative data collection provides for enhanced understanding of the phenomena. . Harris (2001) argues that qualitative content analysis of secondary data can provide a “reality check” for a

conceptual framework, which encourages researchers to develop closer links between the theoretical and empirical components of the research. Data collection through document review for data collection enhances the validity of results by mitigating method biases (Kolbe and Burnett 1991). This study incorporates qualitative data obtained from corporate documents with quantitative data from respected secondary sources.

See Table 4.1 for summary of data sources for statistical analysis.

Table 4.1 Data Sources

Construct	Definition	Data Source
Stakeholder Orientation ○ Customer ○ Employee ○ Shareholder ○ Supplier ○ Regulatory ○ Community	An organization's values and priorities in interactions with its stakeholders (Noble, Sinha & Kumar 2002)	Annual reports (2004)
Stakeholder Responsiveness	The extent that the organization implements policies and programs to address the needs of stakeholder groups (Luo & Bhattacharya 2006)	KLD STATS (2005)
Degree of globalness	Degree of international business (Johanson and Vahlne 1977) and international diversification (Strike et al. 2006) Firm's sales outside the US Number of countries operating outside the US Dependence on foreign suppliers	Mergent Online & Compustat® (2005) Annual Reports & Corporate websites
Reputation	A perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all its key constituents when compared to other leading rivals (Fombrun 1996)	Fortune's Most Admired (2006)

Table 4.1 (cont'd)

Construct	Definition	Data Source
Customer Satisfaction	An overall evaluation of the post consumption experience of products or services in the minds of customers (Luo & Bhattacharya 2006, Fornell 1992)	American Customer Satisfaction Index (2006)
Innovation	The implementation of new ideas, products, and processes (Hurley and Hult, 1998)	KLD STATS (2006)
Market-based Performance (Tobin's Q)	Stock price-based measure of firm market value (Luo & Bhattacharya 2006)	Compustat® (2006)
Finance-based Performance (Altman's Z)	Forecasts the probability of a firm entering bankruptcy within a two-year period (Altman 1968)	Compustat® (2006)
Return on Assets	How efficient management is at using its assets to generate earnings	Compustat® (2006)
Controls		
Industry	Primary industry	Compustat® (2006)
Age	Years since incorporation	
Size	Assets	

Sample Achieved

The study sample consists of 141 firms obtained from merging data from the different archival sources. See Appendix A for list of companies in sample. Although KLD has ratings for 3016 firms, the sample is limited by many firms excluded in other data sources such as FAMA, with reputation ratings of only 587 firms and ACSI, with data on approximately 190 firms. As the measure for customer satisfaction was the limiting factor in the sample size, sixteen firms were added by using a comparable measure from the Reputation Institute, described in detail in the subsequent data collection process section. The final data set includes individual firms in various

industries, thirty firms (21.3%) are from durable goods (e.g., automobiles, household appliances, personal computers), thirty-four (24.1%) from nondurable goods (e.g., beverages, pharmaceuticals, cigarettes, apparel), thirty-one (22%) are services (e.g. airlines, hotels, and banking), twenty-six (18.4%) are retail (e.g., department stores, discount stores, supermarkets), and twenty (14.2%) provide utilities (e.g., power, telecommunications). The firms range from four to 154 years old, have total sales on average of US\$38.85 billion (from \$1.8 billion to \$346 billion), and employ from 1,700 to 1.9 million people. Almost 70% of the firms have some international sales, although only 19 generate more than 50% of their revenue from foreign markets and only 39 firms report employees outside of the United States.

Table 4.2 Comparison of Means for Sample

		N	Mean	Sd	Std. Error	Min	Max
SR Agg	Exclude	2874	-.569	1.84	.03	-8	10
	Sample	141	.099	4.17	.35	-9	11
	Total	3015	-.536	2.01	.04	-9	11
Cust Sat	Exclude	87	75.66	7.67	.82	55	87
	Sample	67	75.98	6.33	.77	62	87
	Total	154	75.80	7.10	.57	55	87
Reputation	Exclude	444	6.08	.93	.04	3.20	8.06
	Sample	139	6.65	1.01	.09	3.90	8.60
	Total	583	6.21	.98	.04	3.20	8.60

In order to derive general conclusions about the relationship between stakeholder orientation, stakeholder responsiveness, and performance, it is important that this sample is representative of the population of US traded companies. Company selection on availability of data in multiple data sets could result in a biased sample. Table 4.2 reflects the results of tests to examine if the means of the study sample varies significantly from

the excluded companies. Independent sample t-tests show no significant difference in the customer satisfaction from the sample used in this study and the excluded companies, with only a slight ($p < .10$) difference of stakeholder responsiveness. There is a significant difference in the means of the reputation ranking from the Fortune's Most Admired Companies between the selected and the excluded companies, with the study sample reflecting higher reputation scores.

Data Collection Process

In this section, a discussion of the data collection process includes the data sources for each of the model constructs. To address an anticipated lag between expressing values toward stakeholders, responsiveness, and performance outcomes, the year of the data sources is included in Table 4.1. The measures for stakeholder orientation and stakeholder responsiveness represent 2004 and 2005 positions respectively. The measures for marketing and firm financial performance reflect the most recent (2006) results. Additionally, a three-year average for stakeholder responsiveness and performance outcomes was used in a subsequent analysis to address the influence of time while also reducing alternative explanations for performance variance.

Qualitative Data Collection

Qualitative data collection involves reviewing and categorizing content in corporate annual reports, fulfilling two purposes for this study. First, a qualitative review allows an assessment of the theoretical framework of relationships among specific stakeholder orientations, globalness, stakeholder responsiveness and outcomes. Second, content analysis of corporate documents provides a measurement of corporate

orientations to specific stakeholders and the globalness of the sample companies for statistical analysis of hypothesized relationships.

Content analysis is a method for analyzing a variety of text, visual, and verbal data through reducing large quantities of content into defined categories (Harwood and Garry 2003). Theoretically, publicly scrutinized annual reports reflect the values and positioning of the top management team, representing the values of the organization rather than the individuals (Bettman and Weitz 1983). Therefore, through cognitive mapping techniques, the managerial mind-set expressed in annual reports can offer insights on the strategic orientations of the firm (Noble, Sinha, and Kumar 2002). Methodologically, content analysis of corporate annual reports has been used in marketing studies of customer orientation (Judd and Tims 1991), market orientation (Noble, Sinha, and Kumar 2002) and corporate social responsibility communication (Branco and Rodrigues 2006).

Content analysis was selected for this research because the use of self-reported data in many empirical studies of business ethics attracts criticism regarding respondent bias and failure to address validity (Harris 2001). Self-reporting of business ethics involves asking questions that are sensitive, embarrassing, threatening, stigmatizing or incriminating and result in a strong bias to “answer according to the wishes of the person asking the question,” distortion to avoid reporting honestly about one’s own unethical behavior, and a social desirability bias to deny socially undesirable traits and to admit to socially desirable ones. Content analysis has been used in dissertations and published research for examining corporate social responsibility issues. A sample of journal articles

in Table 4.3 illustrates the various applications and instruments available to corporate social responsibility researchers.

Table 4.3 Sample of CSR Research Articles Using Content Analysis

Author/Year	Purpose of Study	Instrument
(Deegan, Rankin, and Tobin 2002)	This study examines social and environmental disclosures.	Annual reports
(Nasi et al. 1997)	Examines social performance of corporations	Annual reports
(Thompson and Zakaria 2004)	Assess the state of corporate social responsibility reporting in Malaysia.	Annual reports
(Cramer, van der Heijden, and Jonker 2006)	Investigates how companies make sense of CSR	Annual reports and interviews
(Moir and Taffler 2004)	Study motivation for business giving to the arts	Case studies
(Kolk and van Tulder 2002)	Examines the way in which multinationals, business associations, governmental and non-governmental organizations deal with child labor	Codes of conduct
(Kernisky 1997)	Analyze the legitimacy and ethicality of one of crisis management strategies over a 10-year period.	Company published bulletin
(Harris 2001)	The extent to which the executive virtue of courage was observed	International daily newspapers
(Peyrefitte and David 2006)	Use of mission components to communicate to stakeholders	Mission statements
(Snider, Hill, and Martin 2003)	Examining the content of what firms are communicating to various stakeholders about their commitment to socially responsible behaviors.	Websites
(Campbell and Beck 2004)	Examine “ethical” reputation management communication in response to public allegations	Websites
(Chun 2005)	Examine ethical values or equivalent statements	Websites (followed up by a questionnaire survey)
(Siltaoja 2006)	Explores the nature of corporate social responsibility (CSR) and corporate reputation	Interviews

Nasi et al. (1997) provide four reasons that annual reports are appropriate for corporate social responsibility research:

- 1) They are an unobtrusive and easily accessible measure;
- 2) Annual reports are an essential part of the company's public image strategy, portraying the model of the corporation that management has decided to portray to the outside world;
- 3) Annual reports provide a reasonable surrogate measure of the attention and priority that managers allocate to various social issues, given that they have to account for the corporation's activities within the limited space of an annual report;
- 4) A number of authors suggest that annual reports are a reasonable surrogate for corporate social performance.

However, there are criticisms of content analysis. For example, ethical codes of conduct often express the official values of the companies, and do not necessarily reflect everyday work ethics as experienced and expressed by employees (De Geer, Borglund, and Frostenson 2002 p. 333). When researching global contexts, there are difficulties in cross-cultural content analysis of messages (Lerman and Callow 2004). To overcome some limitations of content analysis, a multiple source approach is recommended, including documents, observations, and interviews (Harwood and Garry 2003).

Content Analysis as data collection for quantitative analysis

This research used the computer software Atlas.ti[®] to organize, code, and analyze quotations from the annual reports relating to the appropriate variables. Computer assisted qualitative data analysis software (CAQDAS) offers many advantages in both the qualitative and quantitative analysis of data from annual reports (Lindsay 2004).

Features of Atlas.ti include tools to manage, extract, compare, explore, and reassemble meaningful quotes from the documents through visual linking of concepts (Muhr and

Friese 2004). Use of CAQDAS software provides more rigor and traceability, thus enhancing reliability (Lindsay 2004). The Atlas.ti[®] software allows multiple coders to access documents for consistent coding of stakeholder orientation and globalness for the quantitative analysis.

Multiple independent coders for each document were trained, supervised, and provided a codebook to establish interrater reliability (Noble, Sinha, and Kumar 2002; Swenson-Lepper 2005). A master code list (Appendix B) was generated from the prior literature and an initial qualitative review of annual reports. Two independent coders conducted a manual pre-test of the coding instructions using annual reports not in the research sample. As a result, the code list, coding instructions, and coding process improved, including the decision to permit coding to occur only on campus using designated computer workstations.

For this research, measurement of stakeholder orientation and globalness does not rely solely on frequency counts of words. One approach of content analysis is that the number of mentions, or the percentage of sentences, regarding an issue represent how relevant the topic is to the company (Noble, Sinha, and Kumar 2002; Thompson and Zakaria 2004). Another approach uses a scoring system to establish the quality of the statement surrounding an issue (Campbell and Beck 2004). For example, companies may mention responsibilities towards employees only as part of their legal obligation or as a critical part of their organizational culture. During the pretest, attempts to assess the quality of the statement increased the complexity and time for the coder. Since the Atlas.ti[®] software allows for further linguistic analysis of coded quotations, the raters

only coded each phrase reflecting orientation towards a stakeholder or globalness without assessing quality or motivation.

In order to test the hypotheses, four graduating marketing majors were hired as raters to identify and code sentences that express an orientation toward stakeholders and firm globalness. Extensive training involved the analysis of annual reports for companies not included in research sample. First, the students were given background information on the purpose of the data collection, definition of all constructs, and coding instructions. Next, the students manually reviewed a printed copy of two annual reports for companies not in the research sample. Discussions ensued regarding which sentences reflect orientations to the six stakeholder groups. For example, the students found that understanding the industry of the firm was important in order to recognize terminology for customers. Students were assigned unique user names and passwords for Atlas.ti[®] and provided instruction on the use of the software. After the students were comfortable with the basic features of the software, they coded the two annual reports in a test environment. Actual coding of the annual reports for the sample companies began after all four students were confident in their understanding of the assignment and utilizing the software.

The documents for coding consisted of Annual Reports from fiscal year 2004 from Mergent OnLine[™] or the corporate website. Where available, the narrative annual report was the primary coding document, supplemented by the first sections of the SEC 10-K report. In order to provide as consistent documents for coding as possible, photos, financial charts, tables, and management's discussion of the financial reports (i.e. "Notes" and/or "Changes in Accounting") were not included in the coding process. The

amount of content in the original documents varied greatly, even with the removal of graphics and tables. Each document was assigned to two coders by generating a random sequence number for eliminating industry or company bias and avoiding pairs of coders consistently working on the same documents.

Stakeholder orientation

Coding of stakeholder orientation involves identifying the extent that the organization values and prioritizes the needs of stakeholder groups. For example, statements representing orientation should include an action verb such as value, focus, depends, believe, consider; or express a relationship with or responsibility to a particular stakeholder. For consistent coding, a sentence was the unit of analysis.

A procedure for calculating inter-rater reliability allowed the coders to identify where there were discrepancies in classifying a sentence as representing orientation to one of the six stakeholder groups. While some researchers report a percentage agreement among raters, Cohen's (1960) kappa coefficient is widely considered a better standard measure of the degree of agreement existing beyond chance alone across a wide range of annotation efforts. The general equation for kappa is:

$$K = \frac{\rho_o - \rho_e}{1 - \rho_e}$$

where ρ_o is the observed proportion agreement and ρ_e is the expected proportion agreement by chance. A score of 0.8 or higher is considered a high level of agreement, whereas above 0.6 is considered substantial agreement, and above 0.4 moderate agreement (Rietveld and van Hout 1993). A tool developed by The University of Southern California, Information Sciences Institute, generated reports for each document

showing the quotations that are coded exactly by the two raters and listing those that overlap (vary by a few words) or do not match among the raters. Along with this detailed report, a kappa coefficient and F-measure is generated. The F-measure is an alternate index with a range -1.0-1.0 that regards one set of annotations as the correct answer and the other as the coding system output. A sample of the report for two documents is in Table 4.4.

Table 4.4 Kappa Coefficient for Sample Documents

<u>Document early in coding process</u>						
Code	Coder1	Coder2	Match	Overlap	Kappa	F-measure
employee	24	38	17	0	.47	.55
community	10	16	7	0	.51	.54
Customer	21	45	15	0	.37	.45
regulatory	16	20	10	1	.54	.59
shareholder	9	9	7	0	.77	.78
Supplier	8	7	5	0	.65	.67
<u>Document later in coding process</u>						
Code	Coder1	Coder2	Match	Overlap	Kappa	F-measure
employee	15	20	12	2	.73	.80
community	7	11	7	0	.74	.78
Customer	23	30	22	2	.85	.91
regulatory	3	5	2	1	.73	.75
shareholder	0	1	0	0	Na	Na
Supplier	0	2	0	0	Na	Na

These reports were valuable during the training and the first weeks of coding to revisit coding definitions and examples of mismatch that resulted in solid coding of stakeholder orientation. At least two other coders for resolving differences or finding omissions reviewed all documents before creating a final master data set. The Kappa coefficient for an early document shows moderate to substantial agreement between in

coding orientations towards all stakeholders except customer. Since the terminology used for the customer varied by industry and company, it was necessary to expand the coding guidelines to include additional terms (i.e., subscriber) and discuss better understanding of what is a customer. As document coding progressed, the agreements among the raters increased to more acceptable range. A sample of quotations for each stakeholder orientation is in Appendix C.

The number of pages in the original documents varied greatly, especially due to the use of graphics and larger text size. Even with removing graphics and tables from the coded document, the number of words ranged from 1900 to 33,800. It makes sense, then, that firms with larger documents could result in greater mentions of stakeholder groups. In order to obtain a consistent measure of the size of coded document, a comparable page count was calculated by dividing the Atlas.ti[®] supplied number of words by 750. The 141 documents were on average 13 pages (2.5 – 45). This approach ranks the firm's number of mentions relative to document length without changing the priority of attention to specific stakeholder groups for the firm. For example, while customer orientation remains the highest priority for MacDonald's Corporation, they moved from the bottom five firms (ranked 139) to the top half (ranked 69) in total mentions for all stakeholder groups when adjusting for number of pages. Therefore, two sets of fields are in the data set relating to stakeholder orientation: 1) the raw counts of number of phrases relating to valuing and prioritizing each specific stakeholder, and 2) the number of mentions per page. Table 4.5 illustrates the means, minimum, and maximum of each of the stakeholder orientation fields.

Table 4.5 Summary Statistics for Stakeholder Orientation

	Raw Counts				Per Page			
	Min	Max	Mean	sd.	Min	Max	Mean	sd.
community orientation	0	108	11.78	14.50	0.00	4.13	1.04	1.06
customer orientation	0	78	18.12	12.78	0.00	5.33	1.78	1.33
employee orientation	1	77	16.06	13.31	0.03	6.79	1.56	1.22
regulatory orientation	0	73	10.74	13.66	0.00	5.03	0.76	0.85
shareholder orientation	0	30	6.18	4.90	0.00	3.21	0.65	0.63
supplier orientation	0	39	5.23	6.89	0.00	3.00	0.43	0.51
All stakeholders	8	288	68.13	37.77	0.76	14.70	6.21	3.02
Valid N = 141								

Globalness

Coding of *globalness* involves identifying indicators of international business operations through sales, manufacturing or servicing, and sourcing. Indicators include statements expressing the amount of sales in international markets, the number of countries in which the organization has operations, and dependence on global suppliers. Information from annual reports was supplemented by corporate websites and quantitative data from Mergent Online and Compustat®.

There are three components for globalness: international sales, number of countries, and dependence on offshore suppliers. Compustat®™ and Mergent Online provide sales by geographic segment, allowing for an amount for international sales and exports for years 2004, 2005, and 2006. For this study, the percent of international sales for 2005 is calculated by dividing the sum of international sales and exports by the total sales. Information for 2005 international sales is available for 140 firms. On average, the firms had international sales of \$10,809, which represents 23% of total sales. Thirty-six firms had no international sales and fifty percent of the sample had international sales of

fewer than \$2,232 or 14% of total sales. Only twenty-one firms (15%) have international sales greater than 50% of total sales.

The measure for number of countries the firm services through sales or manufacturing came from the annual reports and was supplemented by material presented on the corporate website. Sixty-one of the manufacturing firms and 47 of the service firms had operations in more than one country. Twenty-four firms (17%) had operations in one hundred or more countries.

The measure for international supply was from analyzing the coded quotation of annual reports and was supplemented by Global Reporting Index or CSR material presented on the corporate website. Each firm received a score for dependence on offshore suppliers using the following criteria:

- 1 = no intl suppliers mentioned
- 2 = intl presence/implied intl supply but none specifically mentioned
- 3 = domestic & foreign supply mentioned (degree not evident)
- 4 = significant (but less than 50% of international suppliers)
- 5 = over 50% of supply is foreign sourced

Of the 46 firms with less than 5% of international sales, eight had some dependence on offshore suppliers including two with over 50% of suppliers from international locations. Thirteen of the 21 firms with more than 50% of international have substantial or greater dependence on offshore suppliers.

Quantitative Secondary Data Collection

Secondary data provides the measurements for stakeholder responsiveness, customer satisfaction, reputation, innovation, and firm performance. Using secondary data is appropriate when the subject examined requires historical perspectives. One example of appropriate use is when Kotabe, Srinivasan and Aulakh (2002) examine the

relationship between the multinationality of a firm and its market performance through a time series cross-sectional analysis of historical information available through the Compustat® database. Secondary data is also efficient when duplicating information on large numbers of subjects would be time-consuming and expensive. There are two main reasons for use of secondary data for this research. First, self-reports of the focal constructs may be biased. Second, two constructs in the study – customer satisfaction and reputation – represent opinions of sources external to the subject company. Therefore, to ensure multiple and appropriate sources, data was collected from six databases including Kinder Lydenburg Domini (KLD), Fortune America's Most Admired Corporations (FAMA), American Customer Satisfaction Index (ACSI), Global RepTrak™ Pulse, Mergent OnLine™ and Standard & Poor's Compustat®. This section will describe each database and define measurements for the variable(s) from that source.

Kinder Lydenburg Domini (KLD)

KLD Research & Analytics, Inc., the social investment research firm founded by Kinder, Lydenburg and Domini, provides a data source to measure stakeholder responsiveness and innovation. KLD conducts research on the social, governance and environmental performance of publicly traded companies for reporting to institutional investors worldwide. Through their commercial database of corporate ratings, SOCRATES, the company provides narrative accounts and ratings on over 90 indicators in seven major areas including Community, Corporate Governance, Diversity, Employee Relations, Environment, Human Rights and Product. In addition to this, KLD also provides exclusionary screening information for involvement in the following Controversial Business Issues: Alcohol, Gambling, Firearms, Military, Nuclear Power,

and Tobacco. An independent research staff specializing in issues including the environment, community relations, diversity, product safety and accessibility, corporate governance, and domestic and international labor relations assembles the data. Ratings derive from five sources: 1) Direct communication with companies, 2) Global research firms, 3) Media, 4) Public documents, and 5) Government and NGO information.

Appropriate for academic empirical research, KLD STATS (Statistical Tool for Analyzing Trends in Social and Environmental Performance) is a data set with annual snap-shots of all company ratings at calendar year end. Data available to researchers include fifteen years of coverage on firms comprising the S&P 500 and four years of historical coverage on over 3100 firms that comprise the Russell 3000® Index (Russell 1000® plus Russell 2000®), the S&P 500® Index and the Domini 400 Social SM Index (DS 400). The KLD STAT data set includes a binary (1/0), yes/no value for each social indicator or controversial issue. The absence of a rating indicates that the company has not qualified for that individual strength or concern rating. The KLD data has been accepted as a good assessment of corporate social responsibility with construct validity established in empirical studies (Sharfman 1996; Szwajkowski and Figlewicz 1999).

A number of different rating systems developed from KLD data are found in published research. One rating is a five-point scale ranging from -2 (major concerns), -1 (concern), 0 (neutral), +1 (strength), to +2 (major strength) developed by counting whether the company had two or more strengths or concerns in a particular issue area (Berman et al. 1999; Hillman and Keim 2001; Waddock and Graves 1997b;, 1997a). For a Data Envelopment Analysis, Bendheim, Waddock, and Graves (1998) used a five-point scale ranging from 1 to 5 for measuring stakeholder relationships. The *Business Ethics*

100 Best Corporate Citizens list uses a formula that creates a standardized net score in each KLD category by adding strengths and subtracting concerns for the category (Raths 2006). An additional category, shareholder-service, is created by taking a three-year average of total return to shareholders (stock price appreciation plus dividends). Each company then receives an overall score based on averaging together the scores from each of those eight areas.

There are some concerns regarding the aggregation of the KLD data for empirical research. Rather than giving all attributes equal importance, some researchers use category weightings to address the view that stakeholders are not given equal priority (Graves and Waddock 1994; Waddock and Graves 1997b,, 1997a). A criticism of the weighting approach, however, is that a generalized determination of weights is not established and may vary by company (Hillman and Keim 2001). Another concern with aggregating KLD data involves adding strengths and subtracting concerns for a net score. This method assumes that that the positive and negative components of the KLD database are measuring the same concept and are reverse of one another. Recent studies find that strengths and weaknesses represent different concepts, and should not be combined in empirical research (Mattingly and Berman 2006; Strike, Gao, and Bansal 2006).

Stakeholder responsiveness

For this study, the KLD indicators will measure stakeholder responsiveness. Stakeholder responsiveness refers to the extent that the organization implements policies and programs to address the needs of stakeholder groups. While much prior empirical research has conceptualized the KLD data to represent social performance outcomes, Berman, Wicks, Kotha and Jones (1999) used the KLD data to operationalize stakeholder

responsiveness. Mattingly and Berman (2006) argue that the data represent social actions rather than outcomes. The proliferation of references to actions, policies and programs in the KLD rating criteria (see Appendix D) further supports the data as representing responsiveness. For example, one indicator for community responsiveness is “The company has consistently given over 1.5% of trailing three year net earnings before taxes (NEBT) to charity, or has otherwise been notably generous in its giving.”

Not all stakeholder groups included in the stakeholder orientation measure are represented explicitly in the KLD database. Suppliers and regulatory agencies do not have a distinct category, while the KLD category referring to product is a common proxy for customer and governance for shareholders. One item relating to diversity, Women & Minority Contracting, includes the record on purchasing or contracting, with women- and/or minority-owned businesses (Hillman and Keim 2001). Likewise, a number of items relate to government and regulatory agencies. For example, the Tax Disputes in the Community category refers to major tax disputes involving federal, state, local or non-US government authorities. Details of the items available in the KDL STATS database and proposed use for this study are in the Appendix D.

There are four options for measuring stakeholder responsiveness in this study. One is an aggregate measure for stakeholder responsiveness as in Berman et al. (1999) that is appropriate given that actions toward a specific stakeholder may be in response to multiple stakeholder groups. A second approach is to treat positive stakeholder responsiveness and negative stakeholder responsiveness as two different constructs (Mattingly and Berman 2006; Strike, Gao, and Bansal 2006). Another approach uses a typology of social action developed by Mattingly and Berman (2006), who argue that the

KLD data may represent two types of stakeholder groups: technical stakeholders (employee, customer, stockholder, supplier) and institutional stakeholders (community, regulatory).

A fourth method is to measure responsiveness for each specific stakeholder (Hillman and Keim 2001). Given that our research question focuses on the relationship that each specific stakeholder has with the overall responsiveness that appeals to many stakeholders, the measurement of stakeholder responsiveness for the study will be an aggregate measure. However, the use of the KLD database allows for analysis of positive and negative responsiveness or specific stakeholder groups.

Therefore, there are three views of stakeholder responsiveness for this study (see Table 4.6). First, overall stakeholder responsiveness (SR AGG) is calculated by adding strengths and subtracting concerns for 2005. The aggregated score for stakeholder responsiveness ranges from a minimum of -9.00 to a maximum of 11, with a mean score of .10. Positive stakeholder responsiveness (Pos SR) is the sum of all of the strengths and ranges from no strengths to a maximum of 18. Negative stakeholder responsiveness (Neg SR) is the sum of all the concerns ranging from no concerns to a maximum of 16. To generate scores for responsiveness to the six stakeholder groups, the 113 items in the 2005 KLD database were allocated to community, customer, employee, regulatory, shareholder and supplier. The allocation to the stakeholder groups is found in Appendix D. Some items represented actions to more than one stakeholder. Strengths were added and concerns subtracted to obtain an overall score for responsiveness to each stakeholder group. As the number of items for each stakeholder varied, the total scores were

centralized. The largest range of responsiveness was for community and shareholder groups.

Table 4.6 Stakeholder Responsiveness Measures

	SR Agg	Pos SR	Neg SR	Com	Cust	Emp	Reg/ Gov	Shldr	Sup
Mean	.10	5.44	5.34	.00	.00	.00	.00	.00	.00
sd	(4.16)	(3.87)	(3.18)	(1.00)	(1.00)	(1.00)	(1.00)	(1.00)	(1.00)
Min	-9.00	.00	.00	-2.36	-2.31	-1.97	-3.35	-2.53	-2.14
Max	11.00	18.00	16.00	3.59	1.75	2.09	1.14	2.98	1.52

Innovation

The measurement for innovation should reflect the implementation of new ideas, products or processes (Hurley and Hult, 1998). While marketing traditionally focuses on product innovation, this study will also include innovative managerial processes indirectly related to products and services (Damanpour 1991). There are three common secondary sources for measuring innovation in business research. One source relates to the quantity and quality of patents, using a Citation Impact Index as a measure of the importance of a firm's innovation relative to other firms (i.e. Herold, Jayaraman, and Narayanaswamy 2006). The use of patents measures primarily product innovation. Corporate social responsibility research often uses the innovation indicator from Fortune's Most Admired database (i.e. Luo and Bhattacharya 2006). The innovativeness measure from FAMA, however, is a component of the multi-dimensional reputation construct (Szwajkowski and Figlewicz 1999) and would not be an appropriate measure for this study. The third source for measuring innovation involves calculating the research and development (R&D) intensity. Expenditure in R&D results in knowledge enhancement leading to product and process innovation (McWilliams and Siegel 2000).

Managerial perceptions of product and process innovations are highly correlated with R&D spending, establishing the measure as reliable and valid (Zahra and Covin 1993). However, R&D intensity is typically a proxy for innovation as an input in empirical studies. Therefore, the measure for innovation in this study is the sum of two items relating to innovation in the KLD database for 2006:

- **R&D/Innovation.** The company is a leader in its industry for research and development (R&D), particularly by bringing notably innovative products to market.
- **Beneficial Products and Services.** The company derives substantial revenues from innovative remediation products, environmental services, or products that promote the efficient use of energy, or it has developed innovative products with environmental benefits.

An innovation measure is available for 139 firms. Although the possible range for innovation is 0 to 2, no firm achieved the maximum score. Only 19 firms are perceived as innovative, nine for strength in R&D/Innovation and ten for strength in developing innovative products or services with environmental benefits. For the 73 firms with data for 2005 R&D Intensity, there is a moderate relationship with the KLD innovation score (.23 $p < .10$).

Fortune America's Most Admired Corporations (FAMA)

A data source for the marketing outcome reputation is the *Fortune* database on corporate reputations (FAMA), published since 1983 in the Most Admired list (Fisher and Demos 2006). Reputation refers to a perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all its key constituents when compared to other leading rivals (Fombrun 1996, p. 72). The FAMA is an annual undertaking to survey 10,000 executives, outside directors and financial analysts to rate companies in their own industry utilizing a scale of 0 (poor) to 10

(excellent). The survey includes eight criteria: (1) quality of management; (2) quality of products/services offered; (3) innovativeness; (4) value as a long term investment; (5) soundness of financial position; (6) ability to attract, develop, and keep talented people; (7) responsibility to the community and environment; and (8) wise use of corporate assets. These attributes reflect a multiple-constituency view of the firm as having many stakeholders, including not only investors but also customers interested in quality, employees interested in rewarding employment, and the global community. The 2006 Most Admired survey included 582 companies across 65 industries. The sample of companies was based on having at least \$1.2 billion on revenue and being one of the ten largest companies in their industry.

Reputation

This study adopts the overall rating from FAMA as a measure for reputation. The FAMA data has been used in prior research to measure such constructs as stakeholder orientation (Chakravarthy 1986; Preston and Sapienza 1990), corporate social responsibility (Luo and Bhattacharya 2006; McGuire, Sundgren, and Schneeweis 1988), management quality (Waddock and Graves 1997a), and corporate reputation (Fombrun and Shanley 1990). Specific attributes of the survey were measures for innovation and product quality in a study of corporate social responsibility by Luo and Bhattacharya (2006). Questions on the use of FAMA as a data source prompted empirical investigations of the validity and reliability of the data (Szwajkowski and Figlewicz 1999), a single factor for reputation (Fombrun and Shanley 1990), a two-factor financially dominant construct (Fryxell and Wing 1994), and a perceived financial “halo effect” (Brown and Perry 1994). The FAMA index has been described as more a

reflection of the image that the company has in the business community (Sharfman 1996) and recommended as a measure of overall business reputation instead of using single components (i.e., corporate social responsibility and innovation) (Szwajkowski and Figlewicz 1999). For this study, a reputation score is available for 139 firms, ranging from 3.9 to 8.6 with a mean of 6.7.

American Customer Satisfaction Index (ACSI)

A measure for customer satisfaction is the American Customer Satisfaction Index (ACSI) developed and maintained by the National Quality Research Center at the University of Michigan (Fornell et al. 1996). The ACSI is based on econometric modeling of data obtained from polling more than 50,000 customers – the actual users of products and services that make up a substantial part of the gross domestic product (GDP). The measured companies, industries, and sectors are broadly representative of the US economy serving American households. Companies based outside of the United States with major market shares in several industries are also included in the ACSI. Data are collected at the individual customer level, with scores for a company's customers aggregated to produce the company-level scores on a 0 to 100 scale. In 2006, the ACSI included ten economic sectors, 42 industries (including e-commerce and e-business), and more than 200 companies and federal or local government agencies.

Global RepTrak™ Pulse

The Reputation Institute provides a measure of the company's reputation with consumers through the Global RepTrak™ Pulse index (RepTrak™). Over 30,000 consumers in 25 countries were interviewed to measure the esteem, good feeling, trust and admiration felt towards more than 750 firms. Standardized scores on both the country

and global level range from a low of 0 to a high of 100. The RepTrak™ measure correlates with the 2006 ACSI measure for customer satisfaction (.61 $p < .01$), whereas there is a much smaller correlation with the FAMA reputation measure (.28 $p < .05$).

Customer satisfaction

This study will use the ACSI overall ranking to measure customer satisfaction, with the RepTrak™ ranking as a complementary measure. Customer satisfaction is defined as an overall evaluation based on the customer's total purchase and consumption experience with a good or service over time (Fornell 1992). While the new RepTrak™ ranking has not been used in published studies to date, the ACSI has been a reliable source of measuring customer satisfaction in the marketing literature (e.g., Anderson, Fornell, and Mazvancheryl 2004; Fornell et al. 2006; Luo and Bhattacharya 2006; Mithas, Krishnan, and Fornell 2005). Data manipulations were required to generate a customer satisfaction measure for each firm. First, the ACSI database contains more than one satisfaction rating for firms by subsidiary or brand. For example, Time Warner, Inc. appears three times in the ACSI database with a rating for American Online (74), CNN (74), and Time Warner Cable (61). An average rating, therefore for Time Warner, Inc. is 70. Second, all of the sample firms were provided a customer satisfaction rating for 2006 in the ACSI. Therefore, customer satisfaction for each firm in the sample was calculated based on the following rules: 1) 2006 measure ACSI; 2) Three-year average ACSI; 3) RepTrak™ measure for customer perception of reputation; and 4) Average ACSI of previous years. Using this formula, a score for customer satisfaction for the 141 sample firms ranged from 22 to 87, with a mean score of 72.

Standard & Poor's Compustat®

Measures of firm performance, international sales, countries, and control variables are calculated from the Standard & Poor's Compustat® North America database of financial, statistical and market information covering more than 10,000 publicly traded companies in the US and Canada. Compustat® data is standardized, ensuring that comparability exists among similar types of data items, as well as financial results in current and prior periods. More than 2,500 validity checks are performed on each company entered into the database to follow the highest standards of accuracy and timeliness.

Mergent OnLine™

Mergent Online™ is a database provided by Mergent, Inc., a leading provider of global business and financial information on publicly traded companies. The database contains information on more than 15,000 US public companies, 20,000 non-US public companies in 100 countries, and 20,000 US municipal entities.

Market-based Performance

Tobin's Q will measure firm market value, following prior marketing studies (Lee and Grewal 2004; Luo and Bhattacharya 2006; Rao, Agarwal, and Dahlhoff 2004).

Tobin's Q is a ratio devised by James Tobin of Yale University, Nobel laureate in economics, who hypothesized that the combined market value of all the companies on the stock market should be about equal to their replacement costs. The Q ratio is calculated as the market value of a company divided by the replacement value of the firm's assets:

$$Q \text{ Ratio} = \frac{\text{Total Market Value of Firm}}{\text{Total Asset Value}}$$

A low Q (between 0 and 1) means that the cost to replace a firm's assets is greater than the value of its stock and implies that the stock is undervalued. Conversely, a high Q (greater than 1) implies that a firm's stock is more expensive than the replacement cost of its assets, which implies that the stock is overvalued.

Financial-based Performance

This study's financial-based performance measure is Altman's Z, which forecasts the probability of a firm entering bankruptcy within a two-year period (Altman 1968). Chakravarthy (1986) argues that the Z-score is a surrogate index of strategic performance and a "valuable index of the company's overall well-being". Altman's Z-score is a weighted composite of profitability, efficiency, slack, and stock market performance factors, calculated as:

$$Z = 0.012 X1 + 0.014 X2 + 0.033 X3 + 0.006 X4 + 0.999 X5$$

where X1= Working capital/total assets, X2 = Retained earnings/total assets, X3= Earnings before interest and taxes/total assets, X4= Market value of equity/Book value of total debt, X5= Sales/total assets (Chakravarthy 1986). A Z-score less than 1.81 is associated with a high probability of failure, while a Z-score greater than 2.99 is indicative of a financially healthy firm. When a Z-score falls within 1.81 and 2.99, inclusive, misclassifications are likely and is termed the "zone of ignorance" (Altman 1968).

Accounting-based Performance

An accounting-based performance measure is the return on assets (ROA) that represents how efficient management is at using its assets to generate earnings. ROA is measured as the ratio of net income after extraordinary items to book value of total assets.

The assets of the company are comprised of both debt and equity, which are used to fund the operations of the company. The ROA gives investors an idea of how effectively the company is converting the money it has to invest into net income. The higher the ROA number, the better, because the company is earning more money on less investment. For this study, ROA will be derived from variables available in Compustat®.

Measures for firm performance were available for 138 firms, as financial performance was not available for three firms from the sample. Albertson's split and sold portions to Supervalu and CVS, while BellSouth merged with AT&T. Financial information relating to 2006 was not available for Dell. Therefore, the firm performance for the years 2004, 2005, 2006 has been calculated and provided in Table 4.7.

Table 4.7 Firm Performance Measures

	AltmanZ 06	AltmanZ 05	AltmanZ 04	TobinQ 06	TobinQ 05	TobinQ 04	ROA06	ROA 05	ROA 04
N	138	141	141	138	141	141	138	141	141
Mean	2.60	2.60	2.58	.99	.98	.96	.06	.06	.05
Min	-1.82	-1.99	-1.71	.10	.10	.09	-.15	-.19	-.32
Max	10.29	10.20	8.23	1.63	1.62	1.62	.19	.18	.18

Control variables

Three control variables are included in the analysis to ensure that any relationship found between specific stakeholder orientations, stakeholder responsiveness, globalness, marketing outcomes and financial performance are not a result of other confounding variables. Previous literature has indicated a need to control for industry (Hillman and Keim 2001; Waddock and Graves 1997a). Attention to stakeholders and social responsiveness has been shown to be related to industry type, whereas the nature of the industry attracts greater public scrutiny (e.g., forestry, energy or mining) (Banerjee, Iyer,

and Kashyap 2003; Brammer and Millington 2003). Likewise, institutional pressures from competitors promote homogeneous activities with respect to responsiveness to stakeholders (Griffin and Weber 2006). For this study, it is important to control for industry, particularly when the measure of reputation is industry-specific in the sense that respondents are asked to rate firms relative to industry peers (Brammer and Pavelin 2006). The measure for industry will be the first two codes of the Standard Industrial Classification (SIC) from Compustat®.

Size is a relevant control variable for two reasons. First, size may be related to the urgency and salience of stakeholder relations (Hillman and Keim 2001). Larger companies are often the target of activist groups or given greater public scrutiny. Second, size can influence the type and level of stakeholder relation management and responsiveness (Griffin and Weber 2006). Large firms may have more resources for implementing social responses, while smaller firms may be more flexible to respond to changing social issues. There are a number of measures used for firm size in marketing and ethics research, including net sales and net income (Hillman and Keim 2001), the log number of employees (Luo and Bhattacharya 2006), and the log number of assets (Brammer and Millington 2005). For this study, the log number of assets, from total assets found in the Compustat® database, represents the size of the firm.

The third control variable, firm age, is included to address the common notion that age lends to firms' credibility and reputation-building capabilities. Established firms likely have credibility already in place with company stakeholders, as unethical firms are unlikely to survive (Saini and Johnson 2005). Roberts (1992) argues that a firm's "reputation and history of involvement in social responsibility activities can become

entrenched" (p. 605), thus raising stakeholder expectations about sponsorship or corporate community involvement and making it difficult to withdraw. In addition to signaling credibility, age also implies that the firm possesses greater knowledge stocks gained from learning and experience (Sinkula 1994). Research of Spanish firms finds that philanthropic firms are about 10 years older than firms with a predominantly financial focus (Deniz-Deniz and Cabrera Suárez 2005). In this study, firm age will be measured as the number of years the firm has been in operation, by including the years from incorporation as a control variable.

Chapter Summary

Chapter IV discusses the research design and data collection procedures for the study. A sample of 141 firms consists of five different industry types. Content analysis of annual reports provides a valid measure of stakeholder orientation, while secondary data for the remaining variables are from trusted sources. The dataset allows for testing of the hypotheses presented in Chapter III through multiple views of stakeholder orientation, globalness, and stakeholder orientation.

Chapter V

ANALYSIS AND RESULTS

Chapter V presents the analytical technique and results for testing the hypotheses described in Chapter III. The hypothesis tests examine the data collected as detailed in Chapter IV. A correlation matrix for the major variables is provided in Table 5.1. The results described in this chapter provide the basis for interpreting the results in Chapter VI. The analysis shows support for some, but not all of the hypothesized relationships.

Statistical Analysis

Given the complexity of the relationships and the possibility of a relatively small sample size, regression analysis will be the statistical technique to test the hypothesized model. Three types of regression analyses will be required to evaluate the relationships among the constructs, including multiple regression analysis, moderator regression analysis, and mediation analysis. Multiple regression analysis is appropriate for examining hypotheses proposing some form of relationship between one or more factors of interest and an outcome (Cohen et al. 2003). Moderated multiple regression models allow the simple relationship between the dependent variable and an independent variable to depend on the level of another independent variable, and are central to many marketing-related studies (Irwin and McClelland 2001). Mediation analysis allows tests for whether the variable represents the generative mechanism through which the focal independent variable is able to influence the dependent variable of interest (Baron and Kenny 1986). In addition to the following analyses, there will be appropriate tests for alternative explanations. Table 5.2 provides a summary of the research hypotheses.

Table 5.1 Correlations Matrix

	N	Mean	sd	Age	Ind	Size	SO Agg	Com SO	Cust SO	Emp SO	Reg SO	Shldr SO	Sup SO
Age	141	46.83	34.34	1.00									
Industry	141	44.68	15.79	-.33***	1.00								
Size	141	10.26	1.30	.08	.15*	1.00							
SO Agg	141	6.21	3.02	.04	-.04	.22***	1.00						
Com So	141	1.04	1.06	.12	-.10	.38***	.63***	1.00					
Cust SO	141	1.78	1.33	.01	.12	.07	.68***	.20**	1.00				
Emp SO	141	1.56	1.22	.06	-.02	.16*	.76***	.36***	.39***	1.00			
Reg SO	141	.76	.85	-.15*	-.05	-.00	.07	-.05	-.26***	-.10	1.00		
Shldr SO	141	.65	.63	.03	-.04	.17**	.53***	.23***	.30***	.38***	-.11	1.00	
Supp SO	141	.43	.51	.02	-.21**	-.22***	.25***	.09	.16*	.01	-.08	-.04	1.00
SR Agg	141	.10	4.16	-.03	.07	.10	-.12	-.07	.03	-.09	-.20**	-.13	.03
Pos SR	141	5.44	3.87	.20**	-.15*	.51***	-.03	.23***	-.07	-.07	-.11	-.07	-.03
Neg SR	141	5.34	3.18	.28***	-.28***	.49***	.13	.37***	-.12	.04	.13	.08	-.07
Innov	139	.14	.34	.16	-.16*	-.01	-.04	.01	-.02	-.07	-.01	-.06	.05
CustSat	141	71.77	8.87	-.05	-.09	-.27***	.08	-.02	.11	.11	-.18**	.04	.19**
Reputation	139	6.65	1.01	.09	-.01	.15*	.08	.22***	-.01	.14	-.21**	.08	-.04
AltmanZ	138	2.60	1.48	.06	-.08	-.37***	-.06	.04	-.01	-.07	-.24***	-.09	.20**
TobinQ	138	.99	.35	.00	-.31***	-.53***	-.25***	-.20	-.21**	-.25***	-.02	-.12	.21**
ROA	138	.06	.05	.07	-.18**	-.13	-.05	.12	-.05	-.07	-.14*	-.12	.10
Intl Sales %	138	.23	.24	.27***	-.41***	.06	-.13	-.03	-.15*	-.09	-.07	-.15*	.18**
Intl Ctry	138	43.75	56.23	.12	-.35***	.10	-.04	.05	-.02	.00	-.19**	-.02	.06
Intl Supply	140	2.31	1.50	.30***	-.55***	-.11	-.08	.01	-.14*	-.05	-.14	-.11	.38***

*** p<.01 ** p<.05 * p<.10

Table 5.1 (cont'd)

	SR Agg	Pos SR	Neg SR	Innov	CustSat	Reput	AltmanZ	TobinQ	ROA	Intl Sales	Intl Ctry
SR Agg	1.00										
Pos SR	.69***	1.00									
Neg SR	-.47***	.31***	1.00								
Innov	.24***	.32***	.07	1.00							
CustSat	.20**	-.00	-.27***	.01	1.00						
Reputation	.26	.23***	-.06	.18	.11	1.00					
AltmanZ	.06	-.05	-.13	.19**	.12	.30***	1.00				
TobinQ	-.09	-.20**	-.13	.08	.24***	.09	.26***	1.00			
ROA	.14*	.16	.01	.28***	.08	.41***	.59***	.24***	1.00		
Intl Sales %	.27***	.45***	.19**	.44***	.00	.14*	.24***	.15*	.42***	1.00	
Intl Ctry	.22***	.39***	.19**	.28***	.09	.22**	.11	.12	.36***	.62***	1.00
Intl Supply	.08	.28***	.23***	.23***	.08	.10	.27***	.15*	.31***	.47***	.29***

*** p<.01 ** p<.05 * p<.10

Table 5.2 Summary of Research Hypotheses

Stakeholder responsiveness is affected by stakeholder orientation		
Customer orientation	+→ stakeholder responsiveness	H1A
Employee orientation	+→ stakeholder responsiveness.	H1B
Shareholder orientation	+→ stakeholder responsiveness	H1C
Supplier orientation	+→ stakeholder responsiveness	H1D
Regulatory orientation	+→ stakeholder responsiveness	H1E
Community orientation	+→ stakeholder responsiveness	H1F
“Globalness” moderates the effect of stakeholder orientation on stakeholder responsiveness		
Customer orientation	→ stakeholder responsiveness	H2A
Employee orientation	→ stakeholder responsiveness.	H2B
Shareholder orientation	→ stakeholder responsiveness	H2C
Supplier orientation	→ stakeholder responsiveness	H2D
Regulatory orientation	→ stakeholder responsiveness	H2E
Community orientation	→ stakeholder responsiveness	H2F
Stakeholder responsiveness on marketing outcomes		
Stakeholder responsiveness	+→ customer satisfaction	H3A
Stakeholder responsiveness	+→ innovation	H3B
Stakeholder responsiveness	+→ reputation	H3C
Mediating role of marketing outcomes on the impact of stakeholder		
Responsiveness	+→ customer satisfaction +→ market performance	H4A
Responsiveness	+→ innovation +→ market performance	H4B
Responsiveness	+→ reputation +→ market performance	H4C
Responsiveness	+→ customer satisfaction +→ Altmans' Z	H4D
Responsiveness	+→ innovation +→ Altman's Z	H4E
Responsiveness	+→ reputation +→ Altman's Z	H4F
Responsiveness	+→ customer satisfaction +→ ROA	H4G
Responsiveness	+→ innovation +→ ROA	H4H
Responsiveness	+→ reputation +→ ROA	H4I

Hypothesis 1: Stakeholder Responsiveness

Hypothesis 1 relates to a positive relationship between specific stakeholder orientations and stakeholder responsiveness, to address the first hypothesis question: How does attention to specific stakeholders drive implementation of programs and policies responding to stakeholders? Therefore, the hypothesis proposes some form of relationship between one or more factors of interest and an outcome. Following

procedures in Cohen et al. (2003), a series of hierarchical multiple regression equations will be employed with the control variables entered as a block in step 1, followed by the hypothesized variables in step 2.. Analysis will use the least squares technique to estimate the regression coefficients (b_j) for each stakeholder orientation (X_j) on stakeholder responsiveness (Y) in an equation of the form:

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + u$$

where u denotes a random disturbance term. The regression coefficient (b_j) represents the expected change in stakeholder responsiveness associated with a one-unit change in the i th stakeholder orientation.

There are three ways of viewing stakeholder orientation from the data collected. First, the relative attention paid to all stakeholders is calculated from dividing the total counts by number of pages (see models 1a, 2a, 3a). Second, measures for attention for the specific groups are represented by the percent of mentions per page for community, customers, employees, regulatory agencies, shareholders and suppliers (see models 1b, 2b, 3b). The third measure for stakeholder orientation is the prioritization among the stakeholders by the percentage of attention allocated to each stakeholder group, calculated by dividing the stakeholder group raw count by total count of all stakeholders (see models 1c, 2c, 3c).

In order to understand how attention to specific stakeholders drives the implementation of programs and policies responding to stakeholders, three sets of regression models examine the relationship of the different measures for stakeholder orientation with stakeholder responsiveness. The first models analyze the relationship

between stakeholder orientation and aggregated stakeholder responsiveness, measured by subtracting harmful actions from actions seen as positively responding to all stakeholder groups. The second and third sets of regression models consider stakeholder responsiveness to consist of two distinct components – the positive actions towards stakeholders (Positive SR) and the action that harm stakeholders (Negative SR). We would expect that greater attention to stakeholder groups would increase favorable actions, while decreasing harmful actions.

Table 5.3 summarizes the results of nine regression models to answer the first research question. Regression models with aggregated measures of stakeholder responsiveness as a dependent variable provide little support for the hypothesis that stakeholder orientation is related positively to stakeholder responsiveness. The first models analyze the relationship between stakeholder orientation and aggregated stakeholder responsiveness, with the independent variable in Model 1a as the overall stakeholder orientation (SO Total) and the orientation to specific stakeholder groups (Community, Customer, Employee, Regulatory, Shareholder, Supplier) is entered as the independent variables in Model 1b. Neither independent variable(s) explain the variance in overall stakeholder responsiveness.

Table 5.3 Relationship of Stakeholder Orientation and Responsiveness

Dependent Variable:	Aggregated Stakeholder Responsiveness			Positive Stakeholder Responsiveness			Negative Stakeholder Responsiveness		
	Stakeholder Mention per Page	Stakeholder Orientation	Stakeholder Prioritization	Stakeholder Mention per Page	Stakeholder Orientation	Stakeholder Prioritization	Stakeholder Mention per Page	Stakeholder Orientation	Stakeholder Prioritization
<i>Variable</i>	<i>Model 1a</i>	<i>Model 1b</i>	<i>Model 1c</i>	<i>Model 2a</i>	<i>Model 2b</i>	<i>Model 2c</i>	<i>Model 3a</i>	<i>Model 3b</i>	<i>Model 3c</i>
SO Total	-.15*			-.17**			-.01		
Customer		.04	.23**		-.04	.13		-.11	-.14*
Employee		-.06	.04		-.13	-.03		-.07	-.08
Shareholder		-.15	-.04		-.15*	-.04		.01	.01
Supplier		.06	.22**		.04	.17**		-.02	-.08
Regulatory ^a		-.22**			-.14**			.11*	
Community		-.10	.04		.06	.14		.21***	.12
<i>Controls</i>									
Age	-.02	-.06	-.04	.08	.06	.08	.13*	.15**	.15**
Industry	.04	.01	.02	-.22***	-.21***	-.19**	-.32***	-.26***	-.26***
Size	.13	.19**	.19*	.57***	.57***	.56***	.53***	.45***	.44***
Assets)									
model F	1.27	1.62	1.73*	18.01***	9.17***	9.86***	21.00***	11.46***	12.35***
R ²	.04	.10	.10	.35	.39	.37	.38	.44	.43
Adj R ²	.01	.04	.04	.33	.34	.34	.36	.40	.39
Δ R ²	.02	.09	.08	.03	.07	.05	.00	.06	.05
F for Δ R ²	3.06*	2.09*	2.34**	5.44**	2.36**	2.27**	.00	2.29**	2.13*

Greater insights on the relationship between stakeholder orientation and stakeholder responsiveness are in results of the regression models with the positive stakeholder responsive actions as a dependent variable. Both models 2a and 2b explain over 30% of the variance, with a significant amount of variance more than the control variables. However, the hypothesis that stakeholder orientations have a positive relationship with stakeholder responsiveness is not supported. Overall stakeholder orientation has a negative relationship with stakeholder orientation ($-.17$ $p < .05$), with shareholder ($-.15$ $p < .10$) and regulatory ($-.14$ $p < .05$) orientations the only significant relationships of the six stakeholder groups.

Likewise, the regression results for negative stakeholder responsiveness (Model 3a and 3b) are not supportive of the hypotheses that greater stakeholder orientation would decrease harmful activities. Model 3a did not explain a significant amount of variance more than the control variables. Results of Model 3b show that orientation on the two secondary stakeholder groups, community ($.21$ $p < .01$) and regulatory ($.11$ $p < .10$) are significant, and both are positively related to negative stakeholder responsiveness.

Regressing the prioritization of each stakeholder group on stakeholder responsiveness explains a significant portion of variance. The amount of attention on customers ($.23$ $p < .05$) and suppliers ($.22$ $p < .05$) has a significant relationship with overall stakeholder responsiveness. Models 2c and 3c indicate how the prioritization of these two groups is related to stakeholder responsiveness. The amount of prioritization that is given to suppliers is related to positive responsiveness ($.17$ $p < .05$), while the prioritization to customers reduces negative responsiveness ($-.14$ $p < .10$).

Overall, the hypotheses for a positive relationship between stakeholder orientation and stakeholder responsive were not supported, with negative relationships evident. The regression results also show that firm size is a strong predictor of both positive and negative stakeholder responses. As the further analysis of subsequent hypotheses illustrates, the ability for a firm to respond favorably to multiple stakeholders and reduce harmful activities is complex.

Hypothesis 2: Moderator effect of globalness

Moderated regression analysis will test for the moderating effect of globalness on the relationship between specific stakeholder orientations and responsiveness in order to address the second research question of how international sales, number of countries and sourcing influence ability to respond to multiple stakeholders. Sharma, Durand, and Gur-Arie (1981) do not recommend splitting a potential moderating by transforming a continuous variable in a qualitative one. Moderated regression analysis maintains the integrity of the sample, while providing a basis for controlling the effects of the moderator variable. As hypothesized that the degree of international operations may vary the relationships to stakeholder orientation by the six stakeholder groups, the analysis will examine the moderating effect of globalness for each of the six stakeholder orientations. When applying moderated regression analysis in terms of one predictor variable, the equality of the regression coefficients of three regression equations is examined. The three equations are:

$$Y = b_0 + b_1X \text{ (Equation 1)}$$

$$Y = b_0 + b_1X + b_2Z \text{ (Equation 2)}$$

$$Y = b_0 + b_1X + b_2Z + b_3XZ \text{ (Equation 3)}$$

with **Y** representing stakeholder responsiveness, **X** representing the specific stakeholder orientation, and **Z** representing globalness. If equations 2 and 3 are not statistically different, globalness is not a moderator variable but simply an independent predictor variable. For globalness to be a pure moderator, equations 1 and 2 should not be different but should be different from equation 3. For globalness to be classified as a quasi-moderator, all three equations should be different from each other. While both a pure moderator variable and a quasi-moderator variable modify the form of the relationship, a pure moderator variable is not related to the predictor and the criterion variables; the quasi-moderator variable is a predictor variable in addition to its role as a moderator (Sharma, Durand, and Gur-Arie 1981).

The first set of regression models examines the specific moderating effects of the three components of globalization – percent of international sales, number of countries, and dependence on foreign suppliers – on specific stakeholder orientations on positive stakeholder responsiveness. Results are specified in Tables 5.4, 5.5 and 5.6. The first model includes only the control variables of age, industry and size (Model 1a). The three subsequent models (Model 1b, 1c, 1d) relate to equations 1, 2, and 3. All are statistically different so each of the components acts as a quasi-moderator variable – as a predictor variable in addition to its role as a moderator. A set of regression models executed with overall stakeholder responsiveness and negative responsiveness indicates that neither the globalness components nor the interaction effects were significant.

Table 5.4 provides insights in the nature of the interaction effect of international sales with stakeholder orientations, explaining 50% of the variance in positive stakeholder responsiveness when including interaction effects. Model 1c shows that the

percent of sales outside the United States has a moderate and positive relationship with stakeholder responsiveness (.37 $p < .01$). Model 1d shows that international sales has a negative coefficient ($p < .01$) for employee and shareholder orientations (-.20, -.26 respectively), indicating that greater attention to those stakeholder groups is more positively related with stakeholder responsiveness when the percent of international sales is lower. In addition, employee (-.15 $p < .10$), shareholder (-.24 $p < .01$), and regulatory (-.16 $p < .05$) orientations had negative relationships with positive stakeholder responsiveness when including percent of international sales as a predictor and moderator.

Table 5.4 Moderator Effect of International Sales

Regression Estimates of Stakeholder Orientation on Positive Stakeholder Responsiveness				
<i>Variable</i>	<i>Model 1a</i>	<i>Model 1b</i>	<i>Model 1c</i>	<i>Model 1d</i>
Customer		-.05	-.01	.03
Employee		-.13	-.12	-.15*
Shareholder		-.15*	-.09	-.24***
Supplier		.02	-.03	-.05
Regulatory		-.15**	-.11*	-.16**
Community		.07	.11	.09
Intl Sales %			.37***	.30***
Cust x IntlSales				.13
Emp x IntlSales				-.20***
Shldr x IntlSales				-.26***
Supp x IntlSales				-.09
Reg x IntlSales				-.04
Comm x IntlSales				.02
<i>Controls</i>				
Age	.09	.07	.02	.07
Industry	-.20***	-.21***	-.78	-.10
Sales (Assets)	.54***	.57***	.49***	.49***
model F stat	21.63**	9.21***	11.95***	9.51***
R ²	.32	.39	.48	.55
Adj R ²	.31	.35	.44	.50
Δ R ²		.07	.09	.07
F for Δ R ²		2.36**	22.69***	3.32***

*** p < .01 ** p < .05 * p < .10

Table 5.5 Moderator Effect of Number of International Countries

Regression Estimates of Stakeholder Orientation on Positive Stakeholder Responsiveness				
<i>Variable</i>	<i>Model 1a</i>	<i>Model 1b</i>	<i>Model 1c</i>	<i>Model 1d</i>
Customer		-.04	-.04	.07
Employee		-.13	-.13	-.14*
Shareholder		-.15*	-.13*	-.27***
Supplier		.04	.04	.00
Regulatory		-.14**	-.08	-.02
Community		.06	.08	.07
Countries			.27***	.35***
Cust x Countries				.30***
Emp x Countries				-.14
Shldr x Countries				-.26**
Supp x Countries				-.03
Reg x Countries				.12
Comm x Countries				-.002
<i>Controls</i>				
Age	.09	.06	.08	.10
Industry	-.20***	-.21***	-.10	-.08
Sales (Assets)	.54***	.57***	.52***	.52***
model F stat	21.51	9.17***	10.33***	7.9***
R ²	.32	.39	.44	.50
Adj R ²	.31	.34	.40	.44
Δ R ²		.07	.06	.06
F for Δ R ²		2.36**	13.18***	2.62**
*** p < .01 ** p < .05 * p < .10				

Table 5.5 provides insights in the nature of the interaction effect of the number of countries with stakeholder orientations, explaining 44% of the variance in positive stakeholder responsiveness when including interaction effects. Model 1c shows that the number of countries operating has a moderate and positive relationship with stakeholder responsiveness (.27 p<.01). Model 1d shows that the number of countries has a positive coefficient for customer orientation (.30 p<.01) indicating that greater attention to customers is more positively related with stakeholder responsiveness when the number of

countries is higher. However, a negative coefficient for shareholder responsiveness (-.26 p<.05) indicates that greater attention to shareholders is more positively related when the number of countries is lower. Regulatory orientation is not significant when including the number of international countries as a predictor and moderator, while employee (-.14 p<.10) and shareholder (-.27 p<.01) orientations maintain negative relationships with positive stakeholder responsiveness.

Table 5.6 Moderator Effect of Dependence on Offshore Suppliers

Regression Estimates of Stakeholder Orientation on Positive Stakeholder Responsiveness				
<i>Variable</i>	<i>Model 1a</i>	<i>Model 1b</i>	<i>Model 1c</i>	<i>Model 1d</i>
Customer		-.04	-.002	-.06
Employee		-.13	-.13*	-.19**
Shareholder		-.15*	-.12	-.11
Supplier		.04	-.04	.02
Regulatory		-.14**	-.10	-.07
Community		.06	.08	.05
Intl Suppliers			.27***	.22**
Cust x Intl Suppliers				.01
Emp x Intl Suppliers				-.26***
Shldr x Intl Suppliers				-.08
Supp x Intl Suppliers				-.10
Reg x Intl Suppliers				.09
Com x Intl Suppliers				.08
<i>Controls</i>				
Age	.09	.06	.03	.06
Industry	-.21***	-.21***	-.09	-.08
Sales (Assets)	.53***	.57***	.55***	.52***
model F stat	21.51**	9.17***	9.59***	7.80***
R ²	.32	.39	.43	.50
Adj R ²	.31	.34	.38	.44
Δ R ²		.07	.04	.08
F for Δ R ²		2.36**	8.64***	3.19***
*** p < .01 ** p < .05 * p < .10				

Table 5.6 provides insights in the nature of the interaction effect of depending on offshore suppliers with stakeholder orientations, explaining 50% of the variance in positive stakeholder responsiveness when including interaction effects. Model 1c shows that dependence on offshore suppliers has a moderate and positive relationship with stakeholder responsiveness (.27 $p < .01$). Model 1d shows that dependence on offshore suppliers has a negative coefficient for employee orientation (-.26 $p < .01$) indicating that greater attention to employees is more positively related with stakeholder responsiveness when dependence on offshore suppliers is lower. Only employee orientation (-.19 $p < .05$) maintains a significant and negative relationship with positive stakeholder responsiveness when including the dependence on offshore suppliers as a predictor and moderator.

Given these results, the second set of hypotheses relating to the moderating effect that international sales, operations, and supply have on the relationship between stakeholder orientation and stakeholder responses are partly supported. Significant interaction effects exist with customer (H2A), employee (H2B), and shareholder (H2C) orientations.

To understand the moderating effect of the overall degree of globalization on the relationship between stakeholder orientation and responsiveness, a fourth set of regressions includes a variable (Globalness) by summing the standardized values of international sales percentage, number of countries and dependence on offshore suppliers. Table 5.7 provides insights in the nature of the interaction effect of globalness with stakeholder orientations, explaining 52% of the variance in positive stakeholder responsiveness when including interaction effects. Model 1c shows that globalness has a strong and positive relationship with stakeholder responsiveness (.45 $p < .01$). Model 1d

shows that globalness has a negative coefficient for employee orientation (-.23 $p < .01$) and shareholder orientation (-.17 $p < .01$) indicating that greater attention to those stakeholders is more positively related with stakeholder responsiveness when the degree of global operations are lower. Regulatory orientation is not significant when including globalness as a predictor and moderator, while employee (-.15 $p < .05$) and shareholder (-.17 $p < .05$) orientations maintain negative relationships with positive stakeholder responsiveness.

Table 5.7 Moderator Effect of Globalness

Regression Estimates of Stakeholder Orientation on Positive Stakeholder Responsiveness				
<i>Variable</i>	<i>Model 1a</i>	<i>Model 1b</i>	<i>Model 1c</i>	<i>Model 1d</i>
Customer		-.05	.01	.01
Employee		-.13	-.13*	-.15**
Shareholder		-.15*	-.09	-.17**
Supplier		.02	-.06	-.07
Regulatory		-.15**	-.06	-.08
Community		.07	.11	.09
Globalness			.45***	.40***
Cust x Globalness				.11
Emp x Globalness				-.23***
Shldr x Globalness				-.17**
Supp x Globalness				-.03
Reg x Globalness				.03
Com x Globalness				.03
<i>Controls</i>				
Age	.09	.07	.03	.05
Industry	-.21***	-.21***	.02	-.002
Sales (Assets)	.54***	.57***	.48***	.46***
model F stat	21.63***	9.21***	13.08***	10.36***
R ²	.32	.39	.50	.57
Adj R ²	.31	.35	.47	.52
Δ R ²		.07	.11	.07
F for Δ R ²		2.36**	29.63***	3.96***
*** p < .01 ** p < .05 * p < .10				

Hypothesis 3: Marketing outcomes

Hypothesis 3 relates to a positive relationship between stakeholder responsiveness and three marketing outcomes to address the third hypothesis question of how does responding to stakeholders influence customer satisfaction, innovation and reputation. Therefore, a similar process as used for examining the first set of hypotheses will examine each marketing outcome. Control variables will be entered in step 1, and then stakeholder responsiveness will be added in step 2 to determine the expected change in the marketing outcome for each change in responsiveness. As in testing for hypothesis 1, alternate models will examine the effects from overall stakeholder responsiveness as an aggregate (Model 1a, 2a, 3a) in addition to effects from positive and negative actions (Model 1b, 2b, 2b). A third model examines the relationship of specific stakeholder responsiveness on marketing outcomes (Model 1c, 2c, 3c).

The results of the regression analysis by marketing outcome are in Table 5.8. Overall stakeholder responsiveness has a moderate and positive relation to customer satisfaction (.24 $p < .01$), innovation (.26 $p < .01$) and reputation (.26 $p < .01$). Thus, the third set of hypotheses H3A, H3B, and H3C are supported. This study also explores how the relationship with proactive stakeholder responsiveness and harmful/negative responses vary by marketing outcome. While positive stakeholder responsiveness is slightly significantly related to customer satisfaction (.17 $p < .10$), harmful responses have a stronger and negative relationship with customer satisfaction (-.24 $p < .05$). Only positive stakeholder responsiveness is related to innovation (.42 $p < .01$), whereas the positive relationship of proactive responsiveness with reputation (.20 $p < .05$) has to consider the stronger negative relationship of harmful activities (-.25 $p < .05$).

Further insights on how stakeholder responsiveness is related to marketing outcomes are found by examining the coefficients in the model that includes the measures of responsiveness to specific stakeholder groups as the independent variable. There were no significant relationships between specific stakeholder groups and customer satisfaction, although customer responsiveness has the largest coefficient for customer satisfaction (.16 $p=.107$). Customer (.29 $p<.01$), community (.43 $p<.01$) and employee (.15 $p<.10$) responsiveness has a positive relationship with innovation, while regulatory responsiveness (-.30 $p<.01$) has a negative relationship. These results support those scholars arguing that increasing regulation can hamper innovation. Shareholder responsiveness has the strongest positive relationship with reputation (.26 $p<.01$) while regulatory responsiveness has a positive and slightly significant relationship with firm reputation (.20 $p<.10$).

Table 5.8 Relationship of stakeholder responsiveness and marketing outcomes

<u>Variable</u>	<u>Customer Satisfaction</u>			<u>Innovation</u>			<u>Reputation</u>		
	<u>Model 1a</u>	<u>Model 1b</u>	<u>Model 1c</u>	<u>Model 2a</u>	<u>Model 2b</u>	<u>Model 2c</u>	<u>Model 3a</u>	<u>Model 3b</u>	<u>Model 3c</u>
SR Total	.24***			.26***			.26***		
Positive SR		.17*			.42***			.20**	
Negative SR		-.24**			.03			-.25**	
Customer			.16			.29***			.11
Employee			.14			.15*			.11
Shareholder			.07			.04			.26***
Supplier			-.07			-.10			-.03
Regulatory			.16			-.30***			.20*
Community			-.04			.34***			-.14
<i>Controls</i>									
Age	-.04	-.03	-.02	.13	.09	.07	.08	.10	.14
Industry	.08	-.11	-.12	-.13	-.02	-.02	-.02	-.05	-.07
Sales (Assets)	-.27***	-.22*	-.13	-.32	-.24**	-.10	.13	.18	.32***
model F stat	5.08***	4.2***	2.76***	4.01***	4.92***	4.35***	3.51***	2.89***	3.01***
R ²	.13	.13	.16	.11	.16	.23	.10	.10	.17
Adj R ²	.10	.10	.10	.08	.12	.18	.07	.06	.12
Δ R ²	.06	.06	.08	.07	.12	.19	.07	.07	.14
F for Δ R ²	8.56***	4.54***	2.19**	10.19***	9.24***	5.43***	9.62***	5.01***	3.74***
*** p < .01 ** p < .05 * p < .10									

Hypothesis 4: Mediating effect of marketing outcomes

The final research question seeks to understand how valuing each stakeholder group affects firm performance through stakeholder responsiveness and marketing outcomes. Understanding how and why stakeholder responsiveness increases performance requires probing the mediating roles of marketing outcomes on performance. Procedures for testing the hypothesis of the mediating effect of marketing outcomes on stakeholder responsiveness will follow that of Baron and Kenny (1986). Three regression models will be estimated for each hypothesized mediation relationships: regressing the mediator on the independent variable, regressing the dependent variable on the independent variable, and regressing the dependent variable on both the independent variable and the mediator. The following conditions establish mediation: First, the stakeholder responsiveness variable must affect the marketing outcome in the first equation; second, the marketing outcome must affect the financial performance outcome in the second equation; and third, stakeholder responsiveness must affect the financial performance outcome. If these conditions all hold in the predicted direction, then the effect of stakeholder responsiveness on the financial performance outcome must be less in the third equation than in the second equation. Perfect mediation holds if stakeholder responsiveness has no effect when the effect of the marketing outcome is controlled for in the third equation.

The first equation is addressed with the regression models used to test the previous hypothesis that examined the relationship between stakeholder responsiveness and the proposed mediator variables of marketing outcomes. For the second equation, three regression analyses examine the relationship between the marketing outcomes and

financial performance and are shown in Table 5.9. The control variable of size is excluded as assets are included in the firm financial performance measures. Since not all of the marketing outcomes have significant relationships with each of the financial performance measures, testing for mediation relationships is appropriate for customer satisfaction with Tobin's Q, reputation with Altman's Z, and innovation and reputation with Return on Assets.

Table 5.9 Results of marketing outcomes on financial performance outcomes

<u>Variable</u>	<u>Tobin's Q</u>	<u>Altman's Z</u>	<u>ROA</u>
Customer Satisfaction	.19**	.07	.01
Innovation	.03	.12	.17**
Reputation	.08	.27***	.38***
<i>Controls</i>			
Age	-.12	.00	-.05
Industry	-.32***	-.04	-.15*
model F stat	4.50***	3.24***	7.35***
R ²	.15	.11	.22
Adj R ²	.12	.08	.19
Δ R ²	.05	.11	.20
F for Δ R ²	2.30*	5.13***	10.89***
*** p < .01 ** p < .05 * p < .10			

To test the third condition that stakeholder responsiveness affects performance outcomes, a series of regression analyses examined the relationship of stakeholder responsiveness on the three financial performance outcomes. Three measures for stakeholder responsiveness include overall stakeholder responsiveness, positive and negative aspects of responsiveness and responsiveness to specific stakeholder groups. Regression coefficients are in Table 5.10

Table 5.10. Relationship of stakeholder responsiveness and firm performance

<i>Variable</i>	<i>Tobin's Q</i>	<i>Altman's Z</i>	<i>ROA</i>
Stakeholder responsiveness	-.06	.06	.16*
<i>Controls</i>			
Age	-.12	.04	.01
Industry	-.34***	-.07	-.19**
Positive SR	-.19**	-.02	.17
Negative SR	-.16*	-.18*	-.09
<i>Controls</i>			
Age	-.05	.08	.00
Industry	-.40***	-.11	-.18*
Customer responsiveness	.12	.20**	.19*
Employee responsiveness	.05	-.15	-.05
Shareholder responsiveness	.12	.27***	.19**
Supplier responsiveness	-.20**	-.27***	-.05
Regulatory responsiveness	-.02	-.12	-.15
Community responsiveness	-.22**	.11	.07
<i>Controls</i>			
Age	-.05	.09	.02
Industry	-.30***	.00	-.10
*** p < .01 ** p < .05 * p < .10			

Eight combinations of responsiveness variables and mediators meet the three conditions. Therefore, eight sets of regressions examined whether the marketing outcome partially or fully mediated the effect of stakeholder responsiveness on financial performance. Table 5.11 summarizes the hypotheses of mediation and findings.

Table 5.11 Summary of Results of Mediation Tests

Mediating role of marketing outcomes on the impact of stakeholder responsiveness on performance	Hyp	Sig
Positive Responsiveness +→ customer satisfaction +→ Tobin's Q	H4A	ns
Negative Responsiveness +→ customer satisfaction +→ Tobin's Q	H4A	partial
Negative Responsiveness +→ reputation +→ Altman's Z	H4F	partial
Shareholder Responsiveness +→ reputation +→ Altman's Z	H4F	partial
Responsiveness +→ innovation +→ ROA	H4H	full
Customer Responsiveness +→ innovation +→ ROA	H4H	full
Responsiveness +→ reputation +→ ROA	H4I	full
Shareholder Responsiveness +→ reputation +→ ROA	H4I	full

Table 5.12 shows the first set of tests for mediation of customer satisfaction on firm performance. Model 1 examines the mediating role of customer satisfaction on Tobin's Q, with positive stakeholder responsiveness as the independent variable. Results show that positive stakeholder responsiveness had a similar effect (-.24 $p < .01$) when customer satisfaction was included, indicating that customer satisfaction is not supported as a mediator. Model 2 examines the mediating role of customer satisfaction on Tobin's Q, with negative stakeholder responsiveness as the independent variable. Results show that negative stakeholder responsiveness had a less negative effect when customer satisfaction was included, indicating that customer satisfaction is a partial mediator.

Table 5.12 Mediating Analysis on Tobin's Q

<u>Variable</u>	<u>Model 1a</u>	<u>Model 1b</u>	<u>Model 2a</u>	<u>Model 2b</u>
Positive SR	-.24***	-.24***		
Negative SR			-.22**	-.17*
Customer Satisfaction		.20**		.16*
<i>Controls</i>				
Age	-.08	-.06	-.08	-.07
Industry	-.37***	-.35***	-.40**	-.37***
model F stat	8.64***	8.49***	7.95***	6.98***
R ²	.16	.20	.15	.17
Adj R ²	.14	.18	.13	.15
ΔR^2	.05	.10	.04	.02
F for ΔR^2	8.59***	7.93**	6.74**	3.60*
*** p < .01 ** p < .05 * p < .10				

Table 5.13 shows the next set of tests for mediation of reputation on Altman's Z Model 3 examines the mediation relationship with negative stakeholder responsiveness as the independent variable. Results show that the coefficient for negative responsiveness is

slightly less negative when reputation is controlled, indicating a partial mediation affect of reputation on the relationship of negative stakeholder responsiveness to Altman's Z. Model 4 examines the mediation relationship with stakeholder responsiveness to shareholders as the independent variable. Results show that the coefficient for stakeholder responsiveness (.22 $p < .05$) is less when reputation is controlled (.15 $p < .10$), indicating a partial mediation affect of reputation on the relationship of shareholder responsiveness to Altman's Z.

Table 5.13 Mediating Analysis on Altman's Z

<u>Variable</u>	<u>Model 3a</u>	<u>Model 3b</u>	<u>Model 4a</u>	<u>Model 4b</u>
Negative SR	-.19**	-.17*		
Shareholder Responsiveness			.22**	.15*
Reputation		.29***		.26***
<i>Controls</i>				
Age	.08	.05	.06	.03
Industry	-.10	-.10	-.05	-.06
model F stat	1.71	4.35***	2.47*	4.23***
R ²	.04	.12	.05	.11
Adj R ²	.02	.09	.03	.09
Δ R ²	.03	.08	.05	.06
F for Δ R ²	4.37**	11.87***	6.65**	9.06***
*** p < .01 ** p < .05 * p < .10				

Table 5.14 shows the tests for mediation of innovation and reputation on the relationship between stakeholder responsiveness and an accounting performance measured by return on assets (ROA). Model 5 examines the mediating role of innovation with overall stakeholder responsiveness as the independent variable. Model 6 has customer responsiveness as the independent variable. The coefficients for both measures

of stakeholder responsiveness is not significant in the models controlling for innovation, indicating full mediation of innovation in the relationship of overall stakeholder responsiveness and customer responsiveness to ROA. Model 7 examines the mediating role of reputation with overall stakeholder responsiveness as the independent variable. Model 6 has shareholder responsiveness as the independent variable. The coefficients for both measures of stakeholder responsiveness are not significant in the models controlling for reputation, indicating full mediation of reputation in the relationship of overall stakeholder responsiveness and customer responsiveness to ROA.

Table 5.14 Mediating Analysis on Return on Assets

<u>Variable</u>	<u>Model 5a</u>	<u>Model 5b</u>	<u>Model 6a</u>	<u>Model 6b</u>	<u>Model 7a</u>	<u>Model 7b</u>	<u>Model 8a</u>	<u>Model 8b</u>
SR Total	.16*	.10			.15*	.04		
Customer SR			.14*	.11			.17**	.07
Shareholder								
Innovation Reputation		.24***		.25***		.40***		.39***
<i>Controls</i>								
Age	.01	-.02	.02	-.01	.00	-.04	.02	-.03
Industry	-.19*	-.15*	-.16*	-.13	-.17*	-.17**	-.15*	-.17**
model F stat	2.65**	3.96***	2.43*	4.05***	2.09	7.95***	2.52*	8.11***
R ²	.06	.11	.05	.11	.05	.20	.05	.20
Adj R ²	.04	.08	.03	.08	.02	.17	.03	.17
Δ R ²	.03	.05	.02	.06	.02	.15	.03	.14
F for Δ R ²	3.52*	7.52***	2.90*	8.51***	2.09	7.95***	4.16**	23.76***
*** p < .01	** p < .05	* p < .10						

Chapter VI

DISCUSSION AND CONCLUSION

“More than ever, I’m convinced that our success depends on our ability to build strong and enduring relationships with everyone we touch: associates, shareholders, consumers, retail customers, business partners, suppliers, governments, community members, educational institutions and organizations working to improve our communities, our environment and our lives.” (PepsiCo Inc. 2004 Annual Report)

As the preceding quotation illustrates, firms recognize the value of establishing relationships with multiple stakeholders. The goal of this research is to examine how the incorporation of stakeholder issues in corporate marketing strategy can explain firm performance. The conceptual framework and four sets of hypotheses in Chapter III are structured to examine the role of multiple stakeholder prioritization and responsiveness, marketing outcomes, and global operations. As presented in Chapter IV, a mixed method of data collection using qualitative content analysis and multiple secondary sources provides a rich database allowing analysis for testing hypotheses. Results from the empirical hypothesis tests are summarized in Table 6.1. Overall, the results of the data analysis supported eleven of the twenty-four sub-hypotheses presented in Chapter III.

This chapter provides an interpretation of the results for theoretical and empirical insights. First, a discussion of the research findings organized around research questions stated in Chapter I provides implications of the research findings for researchers and practitioners. This section will include the relationship of this study to previous research and will focus on how this study builds upon the knowledge base and implications of confirming existing theory or presenting disconfirming evidence. The next section will concentrate on the significance of this study to practitioners to address the challenges of

balancing multiple stakeholders in a global environment. The third section targets future research including further exploration of the database using various techniques and perspectives. Finally, the limitations of the present study are recognized in order to highlight the proper positioning of the research findings.

Table 6.1 Summary of Hypothesis Tests

Stakeholder responsiveness is affected by stakeholder orientation		
Customer orientation +→ stakeholder responsiveness	H1A	S ^b
Employee orientation +→ stakeholder responsiveness.	H1B	NS
Shareholder orientation +→ stakeholder responsiveness	H1C	NS ^a
Supplier orientation +→ stakeholder responsiveness	H1D	S ^b
Regulatory orientation +→ stakeholder responsiveness	H1E	NS ^a
Community orientation +→ stakeholder responsiveness	H1F	NS ^a
“Globalness” moderates the effect of stakeholder orientation on stakeholder responsiveness		
Customer orientation → stakeholder responsiveness	H2A	S
Employee orientation → stakeholder responsiveness.	H2B	S
Shareholder orientation → stakeholder responsiveness	H2C	S
Supplier orientation → stakeholder responsiveness	H2D	NS
Regulatory orientation → stakeholder responsiveness	H2E	NS
Community orientation → stakeholder responsiveness	H2F	NS
Stakeholder responsiveness on marketing outcomes		
Stakeholder responsiveness +→ customer satisfaction	H3A	S
Stakeholder responsiveness +→ innovation	H3B	S
Stakeholder responsiveness +→ reputation	H3C	S
Mediating role of marketing outcomes on the impact of stakeholder responsiveness on performance		
Positive Responsiveness +→ customer satisfaction +→ Tobin’s Q	H4A	NS
Negative Responsiveness +→ customer satisfaction +→ Tobin’s Q	H4A	PS
Negative Responsiveness +→ reputation +→ Altman’s Z	H4F	PS
Shareholder Responsiveness +→ reputation +→ Altman’s Z	H4F	PS
Responsiveness +→ innovation +→ ROA	H4H	S
Customer Responsiveness +→ innovation +→ ROA	H4H	S
Responsiveness +→ reputation +→ ROA	H4I	S
Shareholder Responsiveness +→ reputation +→ ROA	H4I	S

Note: S= Supported, PS=partially supported, NS=not supported

a =opposite sign as expected, b =prioritization as independent variable

Discussion of the Research Questions

This research seeks to understand how valuing each stakeholder group affects firm performance through stakeholder responsiveness and marketing outcomes, as well as the influence of global business operations on stakeholder responsiveness through four specific research questions presented in Chapter I. Each research question is restated in this section, followed by an insightful discussion of results from this study.

How does attention to specific stakeholders drive implementation of programs and policies responding to stakeholders?

As discussed in Chapter I and Chapter II, adoption of a stakeholder orientation to understand and address stakeholder demands provides firms an opportunity anticipate changing societal expectations and use its capacity for innovation to create additional business value from superior social and environmental performance (Laszlo et al. 2005). Questions include how much investment in stakeholder responses is enough, and which stakeholders the firms should address.

References in annual reports highlight the cultural orientations toward multiple stakeholders:

- “Each year, we find new ways to create lasting value for the shareholders, customers and communities we serve.”
- “The Credo provides a common set of values and serves as a constant reminder of the Company’s responsibilities to its customers, employees, communities and shareholders.”
- “Setting the highest standards for honesty, integrity and fairness in dealing with our stakeholders – which includes our Customers, Suppliers, Associates, and Communities – remains the essence of the Wal-Mart culture, and is central to our Company’s long-term success.”
- “By balancing responsibilities to our constituents, we maximize value to all our stakeholders: customers, employees, franchisees, shareholders and suppliers.”

In examining the results of the nine multiple regressions for testing the first hypothesis, positive relationships emerge for customer and supplier orientation when measuring the prioritization that a firm places among the stakeholder groups. This finding is consistent with Greenley and Foxall (1996) where customer orientation emerged as the most important group in studies of stakeholder orientation. The current study provides further insights through treating positive stakeholder responsiveness as distinct from harmful activities. Prioritizing customers over other stakeholder groups reduces the negative responses overall. Results also suggest that greater prioritization of suppliers can improve positive stakeholder responses to all stakeholders. Focusing on suppliers has become increasingly important as firms rely on networks of suppliers, supporting the findings of Neil and Stovall (2005) that the importance of a stakeholder varies over a firm's life cycle and influences the firm's responsiveness. For example, Costco states in their annual report: "Our suppliers are our partners in business, and we believe in establishing alliances with them that enable both of us to prosper."

When measuring the extent that a firm values a stakeholder from the amount of attention given to a stakeholder in the annual report, stakeholder orientation had a negative relationship with responsiveness. Specifically, regulatory and shareholder had the opposite effects on responsiveness than expected. These results suggest that orientation to specific stakeholder groups is a reflection of pressure to pay attention because of inadequate responses. For example, one energy supplier states in their annual report

"Customers and regulators are increasingly measuring our performance against other leading utilities – and even service leaders in other industries – and they're expecting us to stay ahead of the curve." (PG&E Corporation)

Williams and Barrett's (2000) study indicates that charitable giving appears to be a means by which firms may partially restore their good names after being sanctioned for legal violations. Maurer and Sachs (2005) find that stakeholder orientation changes over time in reaction to triggering events, such as natural disasters, negative publicity over business practices, and legislative actions. Companies in controversial business categories such as tobacco, alcohol, and military operations strive to improve relationships with multiple stakeholders. The effects on responsiveness takes time, as indicated by this quotation from Anheuser-Busch:

“Working together with our more than 600 wholesalers nationwide, and our many partners in the areas of education, law enforcement, retailing, and parents and community groups, Anheuser-Busch has made a lasting contribution to helping our nation realize significant declines in drunk driving and underage drinking during the past two decades.”

One explanation may be that orientations vary by industry. By examining the amount of attention placed on a stakeholder, differences in the prioritization among the stakeholders is evident by industry. Results of comparing the means of the percentage allocated to each stakeholder group (calculated by dividing raw count by total count of all stakeholders) by industry type are in Table 6.2. An ANOVA and post hoc Tukey tests provide interesting insights. The percentage allocated to the community, employees, and shareholder did not change significantly among industry. Each industry type spent close to the average of 10% on shareholders, 15% on the community, and 23% on employees.

By examining the significant differences, however, we see that the prioritization of stakeholders varies by industry. Retail operations have the highest focus on customers (37%), significantly greater than durable (27%) and consumer goods (23%), and utilities (23%). Only services focuses greater than 30% of attention on customers, which is not

significantly different than retail. Utilities have the greatest focus on regulatory/government stakeholders (29%), which is significantly different from all other industry types (ranging from 7%-16%). While suppliers are the stakeholder group receiving the least attention overall, durable goods manufacturers place slightly more attention on suppliers than on shareholders. Utilities and services focus the least on suppliers, with a statistically significant difference from both durable and nondurable manufacturers.

Table 6.2 Stakeholder Orientation Priority by Industry

Industry	N	Commty	Cust**	Emp	Reg/Gov**	Shldr	Supp**
Durable	30	.17 (.13)	.27 (.15)	.23 (.11)	.15 (.13)	.09 (.08)	.10 (.08)
Nondurable	34	.19 (.17)	.23 (.16)	.23 (.13)	.14 (.19)	.11 (.09)	.10 (.10)
Services	31	.11 (.12)	.31 (.12)	.27 (.18)	.16 (.18)	.10 (.07)	.05 (.06)
Retail	26	.15 (.14)	.37 (.15)	.24 (.10)	.07 (.12)	.10 (.08)	.07 (.07)
Utilities	20	.12 (.10)	.23 (.14)	.20 (.11)	.29 (.24)	.12 (.09)	.03 (.03)
Total	141	.15 (.14)	.28 (.15)	.23 (.13)	.16 (.18)	.10 (.08)	.07 (.08)
	Min	.00	.00	.01	.00	.00	.00
	Max	.58	.75	.79	.90	.41	.43
** p < .01		table shows means (sd)					

A similar examination of stakeholder responsiveness by industry provides interesting insights as well. Results of comparing the means by industry type of overall stakeholder responsiveness (SR Agg), positive (Pos SR) and negative (Neg SR) responsiveness, and responsiveness to the six stakeholder groups are in Table 6.3. Inconsistencies are evident in comparing the stakeholder prioritization by industry with

the stakeholder responsiveness scores. For example, retail places the highest priority on customers, which has the strongest relationship to overall stakeholder responsiveness, yet retail has one of the lowest averages for stakeholder responsiveness. Services, however, has the greatest score for responding to employees as well as the highest prioritization given employees compared to other industries.

These findings could be an indication that what the firm conveys through public documents does not guarantee action or effective responses. For example, Allstate indicates in its annual report that "... we know how to respond when customers and communities need us most." Allstate's scores for community (2.11, mean=1.04) and customer (3.90, mean=1.78) orientation are well above the average, confirming the value that top management places on those stakeholder groups. However, when examining the scores for stakeholder responsiveness, the pattern does not hold. Allstate is above average only for community responsiveness (.28, median=-.38) and below average in responsiveness to customer (-1.29, median=-.28). The findings also could indicate that the ability to respond to a valued stakeholder depends on other factors. Factors relating to globalization are examined in the next research question.

Table 6.3 Stakeholder Responsiveness by Industry

Industry	N	SR Agg**	Pos SR**	Neg SR**	Community**	Customer	Employee**	Reg/Gov**	Shareholder	Supplier**
Durable	30	.93 (5.51)	7.57 (4.49)	6.63 (3.78)	.26 (1.13)	.36 (.94)	-.28 (1.05)	-.37 (1.15)	.08 (1.06)	.24 (.85)
Nondurable	34	.26 (3.83)	6.29 (4.20)	6.03 (3.17)	.01 (1.08)	-.07 (1.05)	.46 (1.03)	-.26 (1.18)	-.10 (1.01)	-.15 (1.22)
Services	31	1.94 (2.84)	5.48 (3.09)	3.55 (2.36)	.32 (.92)	-.05 (1.16)	.35 (.72)	.73 (.56)	-.15 (1.10)	.16 (.81)
Retail	26	-1.38 (3.51)	3.23 (2.41)	4.62 (2.82)	-.13 (.62)	-.24 (.88)	-.46 (.94)	.00 (.74)	.26 (.95)	-.59 (.85)
Utilities	20	-2.35 (3.33)	3.60 (2.72)	5.95 (2.44)	-.74 (.82)	-.03 (.80)	-.31 (.89)	-.12 (.70)	-.05 (.79)	.42 (.92)
Total	141	.10 (4.16)	5.44 (3.87)	5.34 (3.18)	.00 (1.00)	.00 (1.00)	.00 (1.00)	.00 (1.00)	.00 (1.00)	.00 (1.00)
Min		-9.00	.00	.00	-2.36	-2.31	-1.97	-3.35	-2.53	-2.14
Max		11.00	18.00	16.00	3.59	1.75	2.09	1.14	2.98	1.52
** p < .01 table shows means (sd) significant differences from other groups are bold										

What is the influence of international sales, number of countries, and sourcing on a firm's responsiveness to stakeholders?

The second research question seeks to determine if it is more difficult for companies with greater international sales, number of countries, and sourcing to pay attention and respond to stakeholders. As discussed in Chapter II, firms operating in multiple countries experience cultural and institutional differences in expectation and returns of social responsiveness (Doh and Guay 2006). The hypotheses stated only that a moderating effect exists, not whether stakeholder orientation had a stronger or weaker relationship to stakeholder responsiveness when globalness indicators were high.

The results of the moderated regression find negative interaction effects for employee and shareholder orientations, indicating that greater attention to those groups has a stronger relationship to responsiveness when the degree of globalness is lower. Specifically, as the degree of international sales and the dependence on international suppliers increase, attention to employees has an increasingly negative relationship with responsiveness. The findings related to employee orientation support the conclusion of Mackey (2005) that the location and the extent of international operations tended to have positive associations in terms of community and diversity CSR ratings, but negative associations with product and human rights CSR ratings. The findings related to shareholder orientation reflect how shareholders can influence multinational corporation decisions (Birkinshaw et al. 2006) and that the growth of social and ethical investment criteria among shareholders, mutual funds, and pension asset managers demonstrate increased demands for good global citizenship (Henderson 2000).

The only positive interaction effect relates to the number of countries and customer orientation. The results indicate that greater attention to customers is more

positively related with stakeholder responsiveness when the number of countries is higher. This finding is inconsistent with studies showing that varying cultural values and ethical beliefs of consumers between various national groupings make attending to consumers more complex (Ford 2005; Rawwas 2001). One reason for these results is that learning as a firm becomes experienced in international business creates greater capabilities to respond to different conditions. Annual reports of two companies with operations in a large number of countries reflect how they use their knowledge and resources to meet customer needs.

Being global means creating value for customers by combining industry expertise and deep knowledge of local markets with a responsive, world-class supply chain. (Emerson Electric Co.)

We have the ability to reap the benefits of a \$50 billion global company while understanding and responding to needs in individual local markets. (Proctor & Gamble)

Since each of the moderated regression analyses indicated a quasi moderator relationship with the globalness components and stakeholder orientation, the nature of the predicting relationship of globalness on stakeholder responsiveness requires further regression models. According to the internationalization theories of Johanson and Vahlne (1977), a firm becomes more efficient as experience in international operations provide opportunities for learning. Therefore, while lower levels of international operations create complexity and could result in a reduced capability to respond to multiple stakeholders, results of polynomial regressions show a curvilinear relationship with increased responsiveness as globalness increases (Table 6.4). These findings are consistent with the cubic effects of international diversification on overall corporate social performance (Strike, Gao, and Bansal 2006).

Table 6.4 Relationship of Globalness and Stakeholder Responsiveness

Dependent: Positive Stakeholder Responsiveness							
Independent: International Sales							
	<u>R²</u>	<u>d.f.</u>	<u>F</u>	<u>b₀</u>	<u>b₁</u>	<u>b₂</u>	<u>b₃</u>
LIN	.20	138	35.00***	3.78	7.38		
QUA	.23	137	20.20***	3.33	14.54	-10.95	
CUB	.25	136	14.93***	3.67	1.76	34.82	-38.66
Independent: Number of International Countries							
	<u>R²</u>	<u>d.f.</u>	<u>F</u>	<u>b₀</u>	<u>b₁</u>	<u>b₂</u>	<u>b₃</u>
LIN	.15	138	24.32***	4.28	.03		
QUA	.20	138	17.15***	3.65	.07	-.000	
CUB	.21	137	12.35***	3.41	.11	-.001	-.000
Independent: Dependence on International Suppliers							
	<u>R²</u>	<u>d.f.</u>	<u>F</u>	<u>b₀</u>	<u>b₁</u>	<u>b₂</u>	<u>b₃</u>
LIN	.08	139	11.91***	3.77	.72		
QUA	.08	138	6.14***	3.08	1.44	-.13	
CUB	.10	137	5.09***	9.47	-8.18	2.63	-.42
Independent: Globalness							
	<u>R²</u>	<u>d.f.</u>	<u>F</u>	<u>b₀</u>	<u>b₁</u>	<u>b₂</u>	<u>b₃</u>
LIN	.22	138	38.78***	5.46	.76		
QUA	.22	137	19.30***	5.38	.74	.01	
CUB	.23	136	13.60***	5.03	.96	.12	-.03
*** p < .01							

A curvilinear relationship exists between the percent of sales outside the US and stakeholder responsiveness, explaining 25% of the variance. As international sales increase up to 60%, the positive stakeholder responsiveness increases, from which positive stakeholder responsiveness declines for most of the firms with a greater percentage of international sales (Figure 6.1). The number of countries in which a firm is operating also has a cubic relationship with overall stakeholder responsiveness, explaining 21% of the variance. As the number of countries increase, the overall

stakeholder responsiveness improves up to around 50 countries where the responsiveness decreases. There seems to be a slight improvement in responsiveness as the number of countries approaches 150 (Figure 6.2).

There is a cubic relationship of dependence of international suppliers and stakeholder relationship, explaining 10% of the variance. Firms using few suppliers overseas see a slight dip in overall stakeholder responsiveness, with better stakeholder responsiveness for firms that use suppliers on a typical basis, up to 50% of their suppliers (Figure 6.3). Firms dependent on the majority of supply from outside the United States experience lower overall stakeholder responsiveness

Figure 6.1 Curvilinear relationships of International Sales

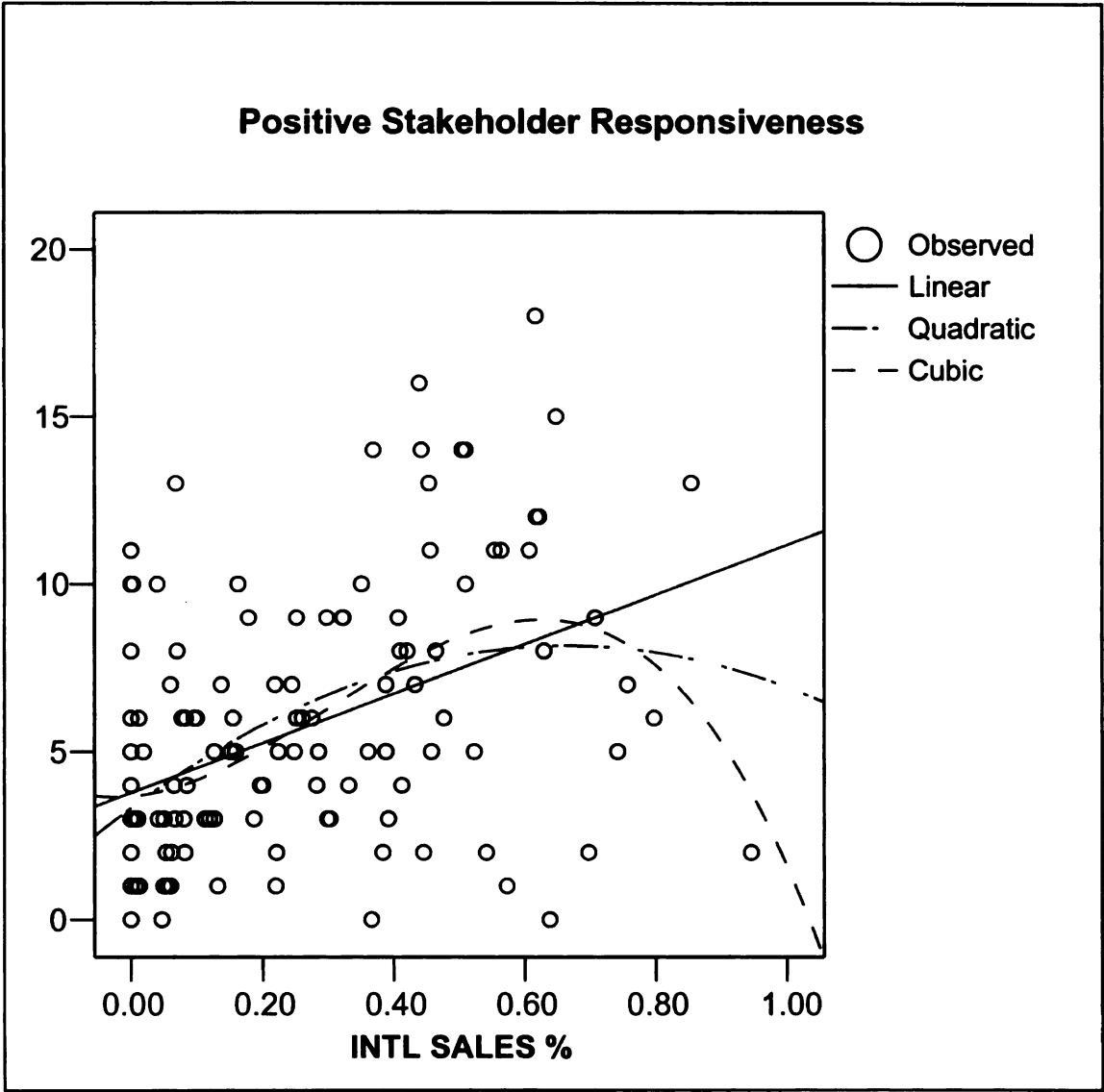


Figure 6.2 Curvilinear Relationships of Number of Countries

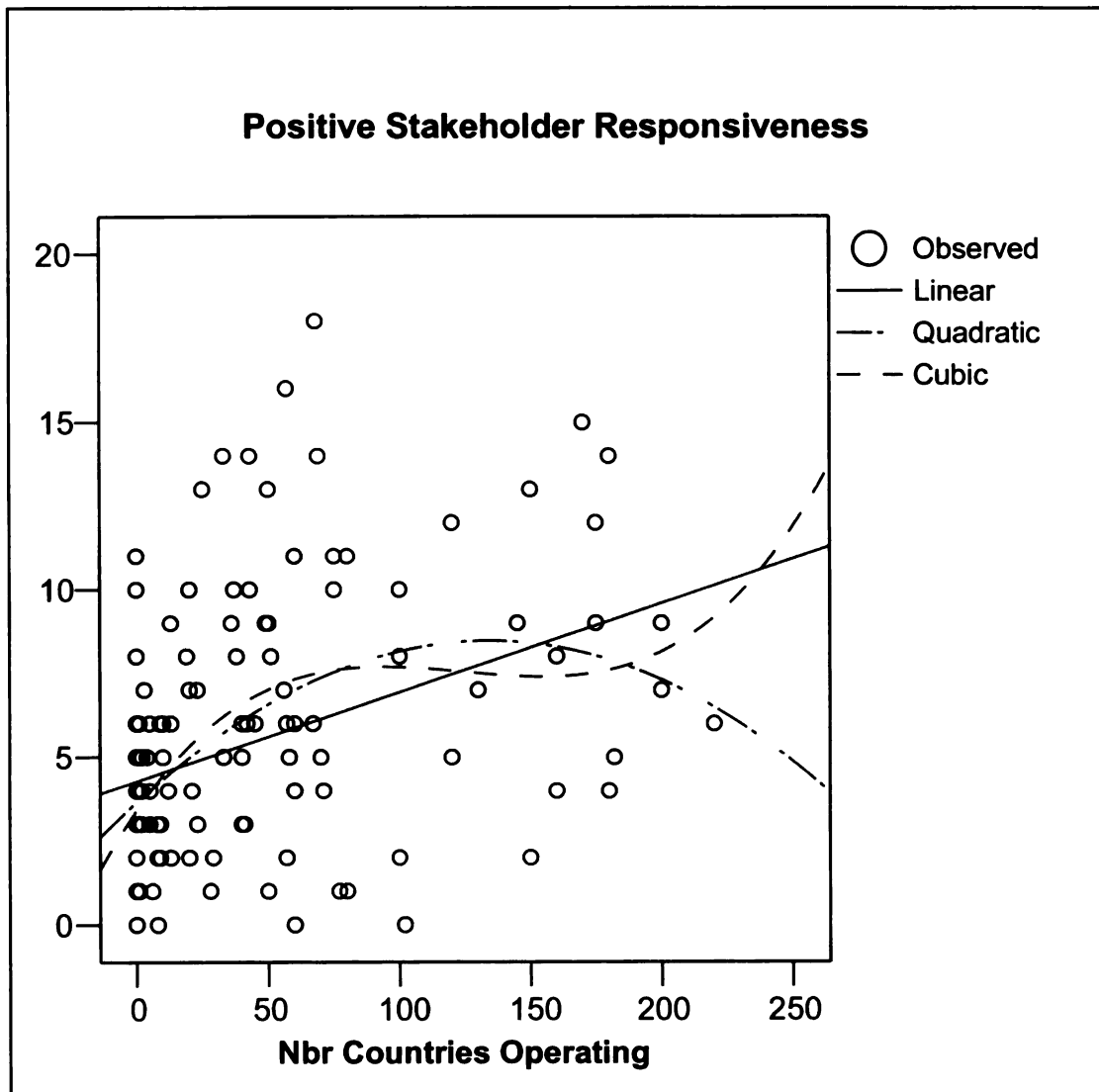
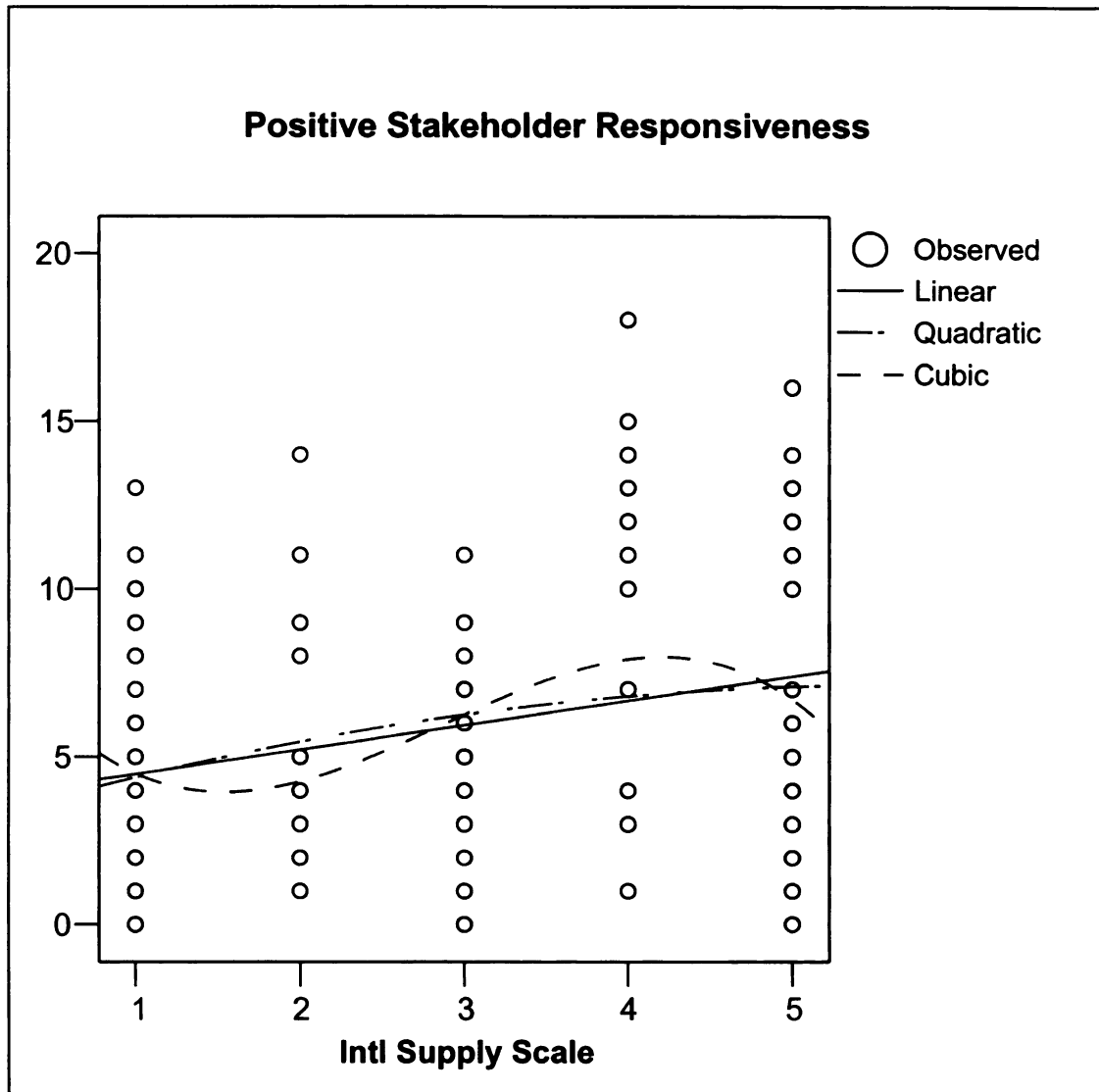


Figure 6.3 Curvilinear relationships of International Supply



Do actions (responding to stakeholders) influence customer satisfaction, innovation, and reputation?

The influence of corporate social responsiveness on marketing outcomes has been examined in prior research, with positive relationships with corporate reputation (Brammer and Millington 2005), customer satisfaction (Luo and Bhattacharya 2006), and innovation (McWilliams and Siegel 2001). The results of regressions of overall stakeholder responsiveness on marketing outcomes are consistent with these studies. For example, the standardized coefficient for stakeholder responsiveness to customer satisfaction of .24 is close to the significant coefficient for corporate social responsibility to customer satisfaction (.21) in a similar study in Luo and Bhattacharya (2006).

By disaggregating responsiveness by positive and negative actions, this research provides insights in the relationship between stakeholder responsiveness on customer satisfaction, innovation, and reputation beyond that of prior studies. Specifically, the results provide a better understanding of the tentative relationship between “doing good” and customer satisfaction. While overall stakeholder responsiveness with aggregated strengths and concerns has a significantly positive relationship with customer satisfaction (.24 $p < .01$), the proactive actions reflected in positive stakeholder responsiveness is only slightly significant and much weaker (.17 $p < .10$). Negative responses have a stronger and negative relationship with customer satisfaction (-.24 $p < .05$), which is consistent with findings that unethical marketing that exploits or harms another party reduces the customer’s satisfaction (Ingram, Skinner, and Taylor 2005). The positive relationship between corporate social responsiveness and customer satisfaction may be more complex. For instance, Luo and Bhattacharya (2006) find that firms need to ensure that they are perceived as innovative and as makers of high-quality products before they

undertake major corporate social responsibility initiatives since a low innovativeness capacity reduces customer satisfaction levels. The strong relationship between positive stakeholder responsiveness and innovation suggests that improvement in customer satisfaction from corporate social responsibility is through innovation. Aetna recognizes the link between innovation and customer satisfaction when stating that they “regained the confidence of customers through product and service innovation.”

Likewise, the relationship of positive and negative responsiveness to reputation is complex with a stronger negative relationship with harmful activities ($-.25 p < .05$) than the positive relationship with “doing good” ($.20 p < .05$). There are two implications of understanding how stakeholder responses can influence reputation. First, is the recognition that corporate reputation may be slow to change through positive stakeholder responsiveness due to the lingering effects of past corporate reputation. Pulling from attribution theory, studies find that a poor reputation for corporate social responsibility discredits charitable activities (Dean 2003; Kuzma et al. 2003). Some firms recognize this in their annual reports as Altria Group states:

“We know that this is an evolving process and continually strive to improve our efforts to earn public trust and strengthen our reputation through a commitment to responsible marketing, quality assurance, ethical business practices and by giving back to our communities.”

Second, is the suggestion that social responsiveness helps to mitigate the negative reputational actions as argued by Brammer and Millington (2005). They found that the negative impact of operating in a socially damaging industry (more than 10% of the mean reputational score) significantly influenced by the level of corporate philanthropic expenditures.

This research provides further insights in the relationship between stakeholder responsiveness and marketing outcomes by examining responsiveness to each stakeholder group. It is interesting that none of the stakeholder groups had a significant relationship with customer satisfaction, although customer responsiveness was closest with a p value of .10. Many of the mentions in annual reports relating to customer responsiveness were associated with customer satisfaction. For example, the annual report for Kroger states:

“Whether it’s speeding up the checkout process, making sure our stores have the right products always in stock, or rewarding our best customers with special savings, we’re committed to making sure that everything we do, every decision we make, positively influences the way our customers feel about Kroger.”

Reputation had two moderately positive relationships that were significant. Shareholder responsiveness has the strongest positive relationship with reputation, consistent with views that reputation is a financially dominant construct (Fryxell and Wing 1994). The positive relationship of reputation with paying attention to regulatory and governmental agencies further supports the mitigating effect of proactive responses on a negative reputation. Especially for industries that are highly regulated, such as utilities and pharmaceutical, firms that have a strong relationship with the regulatory agencies experience a greater reputation.

The findings highlight the two views of how balancing multiple stakeholders influences firm innovation. Customer, community and employee responsiveness has a positive relationship with innovation, while regulatory responsiveness has a negative relationship. These results are consistent with Han, Kim and Srivastava’s (1998) finding of a positive relationship between customer orientation and innovation. The innovative

company, 3M, acknowledges the role of customer orientation with innovation when stating: “A culture of customer-inspired innovation is at the core of this business model.” Community orientation supports a social network perspective of stakeholder management that results in a particular need to consider a broad base of stakeholders (Bunn, Savage, and Holloway 2002; Rowley 1997). The negative relationship of regulatory responsiveness provides support for scholars arguing that increasing regulation can hamper innovation.

In conclusion, the relationship between a firm’s ability to respond to multiple stakeholders has differing positive and negative effects on customer satisfaction, innovation, and reputation. Firms recognize that the attention given to various stakeholder orientations affects marketing outcomes, illustrated from a quotation from the annual report of Microsoft, a firm that relies on innovation to compete yet experiences regulatory scrutiny.

“We believe that over the last few years we have laid a foundation for long-term growth, delivering innovative new products, creating opportunity for partners, improving customer satisfaction with key audiences, putting some of our most significant legal challenges behind us, and solidifying internal processes.” (Microsoft 2004 Annual Report)

How does a stakeholder orientation affect firm performance?

The final research question seeks to understand how valuing each stakeholder group affects firm performance through marketing outcomes. Prior research shows that marketing outcomes, such as customer satisfaction, innovation, and reputation, are key determinants of firm performance. The role that the marketing outcomes play in full or partial mediation between stakeholder responsiveness on performance is understood through interpretation of the mediation analysis results.

Results from the study on the relationship of customer satisfaction, innovation, and reputation with financial outcomes are consistent with prior studies. For instance, Anderson, Fornell, and Mazvancheryl (2004) also find a strong relationship between customer satisfaction and Tobin's Q. However, customer satisfaction does not have a significant relationship with accounting performance as found in previous studies. Only reputation has a significant relationship with the financial base measure of Altman's Z, while both innovation and reputation have a significant relationship with return on assets.

Providing a great deal of insight beyond prior studies is the analysis of the direct effects of responsiveness to stakeholders on firm performance. As discussed in previous chapters, results of empirical studies show that the relationship of a proactive strategy for stakeholder management and performance is complex. The measure for overall stakeholder responsiveness allows positive actions to counteract harmful actions. The only significant relationship for overall stakeholder responsiveness is with the accounting based measure of return on assets and is consistent with the Orlitzky, Schmidt, and Rynes (2003) finding that accounting measures were more highly correlated with corporate social performance. Positive responsiveness has a negative relationship with market-based performance (Tobin's Q) that may be explained by what Frederick (1987) refers to as a "trade-off problem" that exists when costs of compliance with social pressures and accepting positive duty to society conflict with corporate economic goals of profitability. However, harmful actions also have a negative relationship with market-based and financial-based performance, highlighting the stakeholder theoretical perspective that managers must satisfy various constituents that would withdraw support for the firm if important social responsibilities were unmet (Freeman 1984).

This study further corroborates the stakeholder mismatching thesis of Wood and Jones (1995) by showing that effects of corporate social responsive actions vary by stakeholder groups. Consistent with Berman et al. (1999), customer responsiveness has a positive relationship with all performance outcomes, with a significant relationship with Altman's Z and ROA. However, contrary to the earlier study, employee responsiveness does not directly affect performance. With employee responsiveness having a positive relationship with innovation and an insignificant effect on financial performance, the current study's results are comparable with those of Greenley and Faxall's (1998) findings that paying attention to employees affects new product success rather than financial performance. They also find similar results relating to the positive relationship with shareholder responsiveness and performance outcomes. Although earlier hypothesis tests show a supplier orientation as positively influencing the overall stakeholder responsiveness of the firm, this analysis finds that attention to suppliers lowers market and financial performance. A negative relationship of community responsiveness to Tobin's Q is consistent with findings of Seifert, Morris, and Bartkus (2004) that community philanthropy is not related to financial performance.

Results from this study suggest that customer satisfaction does not mediate stakeholder responsiveness and market-based firm performance when considering the extent of positive actions by the firm. This would appear contrary to findings in Luo and Bhattacharya (2006) of a fully mediated relationship of customer satisfaction on corporate social responsibility and Tobin's Q. However, this study examined both positive and negative stakeholder responses, finding a partial mediation effect of

customer satisfaction on corporate irresponsibility and Tobin's Q. It appears that for customers, social responsiveness does not mitigate negative actions.

Reputation is a full mediator of stakeholder responsiveness on accounting-based performance measure and a partial mediator on financial performance. Findings suggest that overall stakeholder responsiveness and shareholder responsiveness influences ROA through the enhanced reputation of the firm. However, reputation only partially mediates the negative relationship of harmful responses and Altman's Z, providing further support that social responsiveness helps to mitigate negative actions. The partial mediation of reputation on shareholder responsiveness and financial performance reflects the focus on profits typically associated with a shareholder orientation.

Innovation fully mediates the relationship between stakeholder responsiveness and firm performance. Results of tests for innovation as a mediator on accounting performance are consistent with the McWilliams and Siegel (2000) study showing that when innovation is included among the independent variable the significance of CSR on firm performance disappears. This consistency is telling as the measurement for CSR used the KLD data to generate a binary dummy variable (1 for socially responsible) and R&D intensity was the proxy for innovation. Although the measurements differed from the current study, the relationships uncovered are strikingly similar in direction and size of coefficients. Prior to introducing innovation in the model, the corporate social variable has a significantly positive effect of .158 in the current study and .141 in the 2000 study. Likewise, when innovation was added to the model, the coefficient of the CSR variable was diminished to .10 and no longer significant, and the coefficient on innovation was .24 and .26 respectively. This study further examines role of innovation in the

responsiveness-performance relationship by finding a full mediation effect of innovation on customer responsiveness and firm performance, consistent with market orientation studies linking customer orientation, innovation, and performance.

Recommendations for Managers

“Executives around the world overwhelmingly embrace the idea that the role of corporations in society goes far beyond simply meeting obligations to shareholders. But executives also say that, for most companies, sociopolitical issues--such as environmental concerns and the effects of offshoring--present real risks.” (“Global Survey of Business Executives” 2006)

As illustrated in the quotation, managers accept that the firm responsibility to society requires focus on more than a single stakeholder. The results of this research provide insights to managers seeking to balance multiple stakeholders in the current global environment. There seems to be a discrepancy between top management views and how incorporation of stakeholder issues in corporate marketing strategy affects firm performance through marketing outcomes. This study corroborates the above quotation by finding that valuing stakeholders does not always translate into effective responsiveness. Global operations increase the complexity of meeting obligations to more than to shareholders.

Responding to multiple stakeholders over a single stakeholder group.

“Cisco’s key stakeholders-customers, partners, employees, and shareholders-remain at the center of our strategy.” (Cisco)

The idea is prevalent that focusing on multiple stakeholders over a single stakeholder group provides better responsiveness and firm performance. The results of this study show that firms focusing attention on more than two stakeholder groups exhibit greater corporate social responsibly behaviors and marketing outcomes. However, there

is a slight decrease in outcomes as firms spread attention among five or more stakeholder groups, indicating the need to prioritize stakeholder groups.

“Our future depends on maintaining strong, healthy relationships with a number of stakeholders - first among them, our customers.” (Entergy Corporation)

Managers embraced the idea of focusing on customers in adopting a market orientation, potentially ignoring other critical stakeholders (e.g. employees, suppliers, shareholders, regulators, and local communities). As a result, firms experienced increased customer satisfaction and market performance. It is not surprising then that a customer orientation remains as the most important group of the stakeholders for most firms. While a market orientation may be considered inconsistent with a stakeholder orientation, firms focusing on customers are less likely to behave irresponsibly towards the community and other stakeholder groups. Therefore, firms should continue to include customers as a primary stakeholder.

“We proactively engage with other stakeholders, including socially responsible investors, policy-setting bodies and non-governmental organizations, to communicate Intel’s views and understand their priorities.” (Intel)

Managers should avoid adopting a “cookie cutter” approach to incorporating multiple stakeholders in their marketing strategy. The prioritization of stakeholders varies by industry as well as the level of scrutiny that a firm receives from the media, regulatory agencies, and activist groups. For instance, suppliers are a stakeholder group that is not receiving much attention, yet companies focusing on suppliers tend to have greater corporate social responsiveness scores. There is also a tendency to acknowledge and value a stakeholder defensively, in response to scrutiny. Companies adopting orientation

to a stakeholder group in response to negative publicity or legislative actions recognize that improving relationships with stakeholders takes time and resources.

How the incorporation of stakeholder issues in corporate marketing strategy affects firm performance through marketing outcomes.

Understanding how a firm's stakeholder orientation influences customer satisfaction, innovation, and reputation can help managers determine which stakeholder groups to incorporate in marketing strategy. This research shows that the manner of the effect varies by stakeholder group and marketing outcome. Findings provide insight on how each stakeholder group affects firm performance through enhanced innovation and reputation. For instance, while customer responsiveness is positively related to firm performance, employee responsiveness affects financial performance through innovation.

“Community outreach translates into increased customer loyalty” (Walgreen)

Marketers strive to increase customer satisfaction with their products and services through cause marketing and philanthropic sponsorships. While studies showing the social responsiveness can increase customer satisfaction, this has not necessarily translated into customer loyalty or purchasing. This study shows that harmful activities have a greater effect of lowering customer satisfaction than social responsiveness has on increasing customer satisfaction. Results from this study also suggest that market-based performance is affected by lower customer satisfaction from negative responsiveness.

“Changes in customer preferences, regulation, industry structure and technology - to name just a few areas where transformation is occurring - call for innovative strategies, teamwork and sound execution.” (FPL Group)

Firms able to respond to multiple stakeholders through socially responsive actions experience greater innovation. Results show that responsiveness to customers, employees, and the community can increase innovation. A customer orientation includes listening to customers and responding to their needs through innovative solutions. Best Buy embraces an employee orientation by creating a culture where “employees are energized because they have both the responsibility and the accountability to make decisions and drive innovation based on their knowledge of the customer.” An example of how a community orientation enhances innovation is an initiative by Bristol-Meyers Squibb. “Through support by SECURE THE FUTURE of a wide range of innovative community-based initiatives, we aim to help develop sustainable health care capacity that is greatly needed in the fight against AIDS.” IBM seeks innovation through “the company’s efforts to advance open technology standards and to engage with governments, academia, think tanks and nongovernmental organizations on emerging trends in technology, society and culture.”

‘We also face increasing complexity in our product design and procurement as we adjust to new and upcoming requirements relating to the composition of our products, including restrictions on the use of lead and other substances in electronics that will apply to products sold in the European Union after July 1, 2006.’ (Gateway)

Findings suggest that attention to regulatory agencies can decrease innovation, through increased costs and restrictions. One recommendation is for firms to collaborate with industry-wide efforts or governmental/regulatory agencies. Rather than attract governmental intervention, Abbott participates in industry-wide efforts to help low-income, uninsured or underinsured patients access free or discounted medications.

Another recommendation is to seek regulatory changes or work with standards bodies and trade associations.

“This legacy of honesty, quality, and integrity is fundamental to our ability to attract and retain the best people, gain and keep the trust of our customers, create shareowner value, support the communities in which we operate, and protect our reputation.” (UPS)

A firm’s reputation is slow to change, and attention to multiple stakeholders can help protect a positive reputation, but may not be able to repair a negative reputation.

Harmful activities have a greater negative effect on reputation than social responsiveness activities. Therefore, paying attention to regulatory and governmental agencies to avoid legal sanctions is the best method of protecting reputation. This research shows that positive social responsiveness increases firm performance through enhanced reputation, but negative reputational activities without positive actions reduce both reputation and financial performance. This would suggest increasing programs focusing on multiple stakeholders. However, a poor reputation for corporate social responsibility discredits charitable activities, and limits the effectiveness of community-oriented responses. As most reputation scores published are from an investors view, paying attention to shareholders has the greatest affect on reputation.

How global operations influence the ability for a firm to respond to multiple stakeholders

“We deal with many factories in many countries, each with legal systems and cultures far different from those of the United States.” (Jones New York)

Firms with a larger percentage of their sales or supply from outside of the United States should pay particular attention to address employee and shareholder concerns. A need to focus on employees is a reflection of the various legal and regulatory issues with

labor in international markets, as well as the difficulty in managing and controlling supplier labor practices. The findings related to shareholder orientation reflect how shareholders can influence multinational corporation decisions and that the growth of social and ethical investment criteria among shareholders, mutual funds, and pension asset managers demonstrate increased demands for good global citizenship. Shareholder resolutions have become increasingly successful at promoting corporate change in global social responsiveness. For instance, Pepsico, Inc. developed a worldwide policy on HIV/AIDS in response to a shareholder proposal.

“These achievements demonstrate the strategic advantage of being a global company, learning from the insights of consumers on every continent and taking advantage of our market presence all around the world.” (Coca-Cola Company)

Firms operating in more countries implement stakeholder responsive programs from focusing on customers. The attention to customers has a stronger affect on stakeholder responsiveness when the number of countries is higher. As a firm becomes experienced in international business and creates greater capabilities to respond to different conditions. Investments in market research are required in order to understand customers in international markets. Caterpillar builds long-term relationships with customers around the world through a global network of independent dealers. General Electric states:

“As a truly global company, with employees in many countries around the globe, we can talk to our customers in their own language and with a full understanding of local needs.” (General Electric)

Limitations and future research

The proposed research design is the result of an extensive review of empirical research on corporate social responsibility and strategic orientations, and adheres to rigorous research standards. However, the design has some limitations that should be addressed or considered for future research.

The unit of analysis and sample frame establishes the context of the study to a segment of firms. The selection of publicly traded companies as the focus of the study includes subjects with multiple subsidiaries, aggregating the culture, actions, and performance of individual strategic business units. It also excludes many large privately owned companies, such as Levi Strauss and Dole, and many global companies, such as Sony and Toyota. Recent mergers or companies no longer trading on the US exchange further reduce the sample available for the study. The use of qualitative and quantitative secondary sources limits the sample size available for analysis. Document analysis is time and labor intensive, limiting the number of companies that may be examined (Swenson-Lepper 2005). The sample is restricted further by the use of multiple secondary data sources, with only 141 companies that have data in all four databases.

The database of quotations reflecting orientation to stakeholders provides a rich source of future research. Interpretive analysis of quotations could highlight motivation, temporal focus, and strategy. It may be possible to uncover further relationships among the stakeholder orientations through examining the dataset in other ways. For example, using a technique similar to than in Yadav, Prabhu, and Chandy (2007) by running regressions with raw counts of mentions and taking into consideration document length

as a control variable finds different results with a greater number of hypotheses supported.

This study confirms the complexity of the relationship between social responsiveness and performance. Additional research needs to include other known or potential predictors or moderators such as R&D intensity and Advertising intensity. Significant control variables in this study suggest that further analysis could explore the differences among industries and the influence of firm size.

While the sources for reputation and customer satisfaction are the best available, there are some known concerns. The source for the reputation construct, FAMA, relates primarily to the business and financial image of the company and does not directly include the customer or public's opinion. In addition, the FAMA relies on ratings from experts primarily in the United States. The measure for customer satisfaction, ACSI, is also restricted to American opinion. Alternative sources, such as Reputation Quotient from Harris for reputation, or RepTrak™ Pulse for customer satisfaction, have very small sample sizes ($n=60$; $n=75$), although they provides ratings for a company in multiple countries. As the objective of this research is to examine the effect of globalness on stakeholder responsiveness, it would be interesting to include the customer satisfaction in other countries where companies operate. To understand the global aspects of corporate social responsibility and stakeholder orientation, this study could be replicated with comparable sources from Europe and Asia

Codebook for Stakeholder Orientation and Globalness Content Analysis

Code: community

"Phrases that demonstrate attention to the community, including the importance of the community, partnering with the community, desire to meet their needs.

Community refers to the surrounding environment of business operations - including the neighborhood or country where a facility, supplier, or sales are located. Advocacy groups/organizations and NGO's (Non governmental organizations like the UN, World Bank) represent the community interests.

For example: Partnering with NGO's or nonprofits to improve the quality of life in the community/country, paying attention to the interests of the local citizens, contributing to the development of family, arts, and education programs, volunteering to help with disaster relief."

Code: customer

"Phrases that demonstrate attention to the customer, including the importance of the customer(s), listening to customers, desire to meet their needs.

This code will refer to the end-user (consumer) AND customers that are B2B channel. Search criteria will include both end-user/consumer terms and channel (retailers, distributors, dealers) terms.

For example: sending cross-functional teams into the market to meet with customers, channels, and influencers, valuing a shared understanding of the market, commitment to consumers, focus on exceeding customer's expectations, gain consumer confidence."

Code: Employee

"Phrases that demonstrate attention to the employee(s), including the importance of the employee(s), listening to employees, desire to meet their needs.

Examples: Expressing appreciation or recognition of the employees, seeking employees' opinions and input to planning, establishing relationship with employees - improving job satisfaction and motivation, conducting research on job safety, establishing goals for diversity (minority representation in workforce), importance of training.

Phrases referring to actions demonstrating attention to the employees of the organization, including:

- employee health & safety programs - receiving a safety award, establishing a safety department/committee/policy, providing low cost health care for employees, reducing or eliminating pollutants or hazards in the work environment.
- employment of minorities or women - disclosing % of minorities or women in workforce or at management level, apprenticeship programs
- employee training - in-house programs, financial assistance for continuing

- education, establishment of trainee centers
- employee assistance/benefits - guidance for employees retiring or severed, providing staff accommodations/housing, providing scholarships for employees' children, providing recreational activities/facilities, day-care, maternity and paternity leave.
- Employee communication: programs for providing information to employees."

Code: regulatory

"Phrases that demonstrate attention to regulatory and governmental agencies, including the importance of the complying with legal regulations, partnering with the local government to address concerns, desire to meet their requirements.

Regulatory refers to agencies in the local, country, and world level - such as FDA, FTC, SEC, and other applicable regulatory agencies in the US and international markets (EU requirements/regulations for product registration, safety).

For example: Partnering with regulatory agencies to develop guidelines or meet requirements, recognizing the role of agencies and the influence on business operations, paying attention to the agency/government attitudes - anticipating changes in tactics or goals."

Code: shareholder

"Phrases that demonstrate attention to shareholders, including the importance of providing a return on investment, addressing their concerns, willingness to share information/transparency.

Shareholder refers to owners, investors, stockholders - any person or group of persons that have a financial interest in the company.

For example: Producing long-term results for shareholders, improving shareholder value, responsibility to shareholders, communicating with/to and listening to shareholders."

Code: supplier

"Phrases that demonstrate attention to the suppliers to the company, including the importance of the suppliers, listening to suppliers, desire to meet their needs.

Suppliers refer to individuals, firms, or industries that provide materials, services, and/or assembly/manufacturing to the company. Suppliers may also be referenced as the supply chain, farmers/growers, manufacturing partners (be careful - many stakeholder groups can be called "partners"), sources.

Examples: Expressing appreciation or recognition of the suppliers, seeking supplier opinions and input to planning, establishing relationship with suppliers, working with improving quality of supply, providing assistance to suppliers - financially or knowledge, training suppliers, addressing supplier concerns."

Globalness

Code: intlcountry

"passages identifying countries or areas of operations – must be used in conjunction with other "globalness" indicator"

Code: intlmfgr

"passages indicating manufacturing in countries other than US, owned facilities outside of the US"

Code: intlsales

"passages indicating sales in countries other than US"

Code: intlstaff

"passages indicating number of employees outside of the US"

Code: intlsupply %1

"mentions suppliers outside of US but not as main focus of passage"

Code: intlsupply %2

"suppliers outside of US are referenced specifically with no value statement"

Code: intlsupply %3

"suppliers outside of US are typical for business"

Code: intlsupply %4

"suppliers outside of US are important to business"

Code: intlsupply %5

"suppliers outside of US are critical to business"

Miscellaneous codes

Code: QUOTE

"For use to flag quotations that you think are particularly interesting and relevant to the study - for possible inclusion in the write-up of the results. This code should only be used in conjunction with a specific stakeholder code."

Code: DISCUSS

"Use this code if you want to discuss this quote with the team. Enter a comment with the reasons for coding the quotation as Discuss for remembering. To enter a comment on a quotation, highlight the quotation and "right click" to edit comment."

Code: SOCIETY

"For use when there is a general statement about corporate social responsibility or corporate citizenship, including responsibility to society in general."

Will not be used in dissertation, but can be a code for those quotations that are "all inclusive" but do not specify a specific stakeholder group. Should not be used if a specific stakeholder group is coded."

Appendix B: List of Companies in Sample

Ticker Symbol	Company Name	Word Count	Pages
AA	Alcoa, Inc.	8761	11.7
AAPL	Apple Computer, Inc.	33800	45.1
ABS	Albertson's, Inc.	9599	12.8
ABT	Abbott Laboratories	10960	14.6
ADM	Archer-Daniels-Midland Company	4401	5.9
AEP	American Electric Power Company, Inc.	8958	11.9
AET	Aetna, Inc.	19599	26.1
ALL	Allstate Corporation (The)	4615	6.2
AMR	AMR Corporation	9375	12.5
AMZN	Amazon.com, Inc.	13587	18.1
AN	AutoNation, Inc.	10679	14.2
AXP	American Express Company	7079	9.4
BA	Boeing Company	9153	12.2
BAC	Bank of America Corporation	8537	11.4
BBY	Best Buy Company, Inc.	18810	25.1
BLS	BellSouth Corporation	10878	14.5
BMJ	Bristol-Myers Squibb Company	22771	30.4
BUD	Anheuser-Busch Companies, Inc.	10091	13.5
C	Citigroup Inc.	10783	14.4
CAG	ConAgra Foods, Inc.	11473	15.3
CAL	Continental Airlines, Inc.	3647	4.9
CAT	Caterpillar Inc.	14279	19.0
CBS	CBS Corporation	15771	21.0
CC	Circuit City Stores, Inc.	5039	6.7
CI	CIGNA Corporation	4574	6.1
CL	Colgate-Palmolive Company	6987	9.3
CLX	Clorox Company (The)	4499	6.0
CNP	CenterPoint Energy, Inc.	7757	10.3
COP	ConocoPhillips	12088	16.1
COST	Costco Wholesale Corporation	3637	4.8
CSCO	Cisco Systems, Inc.	4073	5.4
CVS	CVS Corporation	3425	4.6
CVX	Chevron Corporation (& Texaco)	5916	7.9
D	Dominion Resources, Inc.	5012	6.7
DD	DuPont Company	11079	14.8
DDS	Dillard's, Inc.	7936	10.6
DE	Deere & Company	3338	4.5
DELL	Dell Inc.	10825	14.4
DIS	Disney, Walt Company (The)	21329	28.4
DJ	Dow Jones & Company	9702	12.9
DOW	Dow Chemical Company	9991	13.3
DTV	DIRECTV Group, Inc (The)	13047	17.4
DUK	Duke Energy Corporation	7325	9.8
EBAY	eBay, Inc.	18352	24.5
EDS	Electronic Data Systems Corporation	8282	11.0

Ticker Symbol	Company Name	Word Count	Pages
EIX	Edison International	6004	8.0
EMR	Emerson Electric Co.	3236	4.3
ET	E*Trade Financial Corporation	8680	11.6
ETR	Entergy Corporation	7243	9.7
EXC	Exelon Corporation	4650	6.2
F	Ford Motor Company	7031	9.4
FD	Federated Department Stores, Inc.	6292	8.4
FDX	FedEx Corporation	4531	6.0
FE	FirstEnergy Corporation	2538	3.4
FPL	FPL Group, Inc.	25536	34.0
GCI	Gannett Co., Inc.	9184	12.2
GE	General Electric Company	11058	14.7
GM	General Motors Corporation	6020	8.0
GOOG	Google, Inc.	12424	16.6
GS	Goldman Sachs Group, Inc. (The)	12781	17.0
GT	Goodyear Tire & Rubber Company	2346	3.1
GTW	Gateway, Inc.	13174	17.6
HAL	Halliburton Company	6445	8.6
HD	Home Depot, Inc. (The)	7514	10.0
HLT	Hilton Hotels Corporation	12104	16.1
HNZ	Heinz (H.J.) Company	5123	6.8
HON	Honeywell International, Inc.	6598	8.8
HOT	Starwood Hotels and Resorts Worldwide, Inc.	11144	14.9
HPQ	Hewlett-Packard Company	18312	24.4
IACI	IAC/InterActiveCorp	22292	29.7
IBM	International Business Machines Corporation	11603	15.5
INTC	Intel Corporation	17377	23.2
IP	International Paper Company	13454	17.9
JCP	Penney (J.C.) Company, Inc.	2820	3.8
JNJ	Johnson & Johnson	10681	14.2
JNY	Jones Apparel Group, Inc.	9742	13.0
JWN	Nordstrom, Inc.	4861	6.5
K	Kellogg Company	9425	12.6
KEY	KeyCorp	4781	6.4
KO	Coca-Cola Company	19044	25.4
KR	Kroger Co.	3642	4.9
KSS	Kohl's Corporation	5496	7.3
LIZ	Liz Claiborne, Inc.	11066	14.8
LMT	Lockheed Martin Corporation	6205	8.3
LOW	Lowe's Companies, Inc.	7108	9.5
LUV	Southwest Airlines Co.	8196	10.9
MAR	Marriott International, Inc.	10895	14.5
MCD	McDonald's Corporation	1908	2.5
MER	Merrill Lynch & Co., Inc.	6444	8.6
MET	Metlife, Inc.	2488	3.3
MMM	3M Company	10709	14.3
MO	Altria Group, Inc.	6769	9.0
MOT	Motorola, Inc.	17554	23.4

Ticker Symbol	Company Name	Word Count	Pages
MRK	Merck & Co., Inc.	7938	10.6
MSFT	Microsoft Corporation	10565	14.1
NKE	NIKE, Inc.	7802	10.4
NOC	Northrop Grumman Corporation	3529	4.7
NYT	New York Times Company	3112	4.1
PCG	PG&E Corporation	5549	7.4
PEG	Public Service Enterprise Group, Incorporated	17273	23.0
PEP	PepsiCo, Inc.	20550	27.4
PFE	Pfizer, Inc.	10469	14.0
PG	Procter & Gamble Company	11457	15.3
PGR	Progressive Corporation (The)	5498	7.3
PNC	PNC Financial Services Group	4935	6.6
Q	Qwest Communications International, Inc.	13727	18.3
RAD	Rite Aid Corporation	6234	8.3
RAI	Reynolds American, Inc.	27269	36.4
RRI	Reliant Energy, Inc.	7767	10.4
RTN	Raytheon Company	13129	17.5
S	Sprint Nextel Corporation	4801	6.4
SBUX	Starbucks Corporation	5230	7.0
SHLD	Sears Holdings Corporation	5363	7.2
SLE	Sara Lee Corporation	4981	6.6
SO	Southern Company	4542	6.1
STA	St. Paul Travelers Companies, Inc. (The)	25825	34.4
SUN	Sunoco, Inc.	16653	22.2
SVU	SUPERVALU Inc.	8600	11.5
SWY	Safeway Inc.	5956	7.9
T	AT&T Inc.	2316	3.1
TAP	Molson Coors Brewing Company	5496	7.3
TGT	Target Corporation	5821	7.8
TRB	Tribune Company	11543	15.4
TSG	Sabre Holdings Corporation	9682	12.9
TSN	Tyson Foods, Inc.	8070	10.8
TWX	Time Warner, Inc.	13968	18.6
TXU	TXU Corporation	9739	13.0
UNH	UnitedHealth Group, Inc.	8562	11.4
UPS	United Parcel Service, Inc.	4614	6.2
VFC	VF Corporation	8429	11.2
VLO	Valero Energy Corporation	6077	8.1
VZ	Verizon Communications	5570	7.4
WAG	Walgreen Company	5206	6.9
WB	Wachovia Corporation	7595	10.1
WEN	Wendy's International, Inc.	8474	11.3
WFC	Wells Fargo & Company	10178	13.6
WHR	Whirlpool Corporation	8431	11.2
WMT	Wal-Mart Stores, Inc.	8073	10.8
XOM	Exxon Mobil Corporation	13139	17.5
YHOO	Yahoo! Inc.	17774	23.7
YUM	Yum! Brands, Inc.	6722	9.0

Appendix C: Sample of Quotations from Coding

Code: community

We provide sponsorships, grants and assistance for education, economic development and family programs.

In 2004, we also introduced a new program giving employees a paid day off to volunteer at an eligible nonprofit organization of their choice.

We helped build critical community-based health care infrastructure as part of the company's larger initiative to address the HIV/AIDS pandemic in southern and West Africa.

We also scored the highest ranking in the U.S. and second globally in a World Wildlife Fund report that analyzed 72 of the world's leading power companies on current use of available technologies to reduce carbon dioxide emissions, as well as clear commitments made for future improvements.

We partner with organizations to make the community a better place.

Counseling and HIV testing services and facilities have been introduced at 77 urban and rural locations throughout Tanzania.

In 2004, the Citigroup Foundation provided \$21.6 million in grants in 42 countries and territories to prepare the next generation for personal and professional success.

We are partnering with a nonprofit pediatric hospital in Venezuela to provide health and dental care to youngsters, such as Alicia Fernandez, who live in Zulia State. Our \$12 million investment strengthens the educational programming of participating museums and helps expose families to new forms of art and culture.

Victims of the Asian tsunami in Thailand find a glimmer of hope and happiness in receiving toys and care from Ford volunteers, organized through Ford's disaster relief initiative.

The company believes in giving back to the communities from which it draws strength and sustenance.

Marriott's "spirit to serve" philosophy extends to critical environmental issues.

Spreading magic through charitable activities has also been an integral part of the Company's heritage from its earliest days, when Walt Disney and his employees donated toys and funds to hospitalized children and designed the first Toys for Tots train logo.

Code: customer

We're connecting with customers by proactively soliciting their opinions, carefully analyzing the feedback, then taking appropriate action.

We simply deliver what our customers want.

We concentrate on businesses that enable us to build relationships with our clients.

Sales associates regularly contact our top customers personally to announce new merchandise of interest, invite them to store events and follow-up to ensure satisfaction with purchases

Kroger's plan starts with the customer.

Our technological capabilities, coupled with modern business models and an evolving supply chain, enable us to partner with our customers to quickly identify and replenish those items that are trending well with consumers.

As a result, we are seeing increases in important measures, such as the number of new clients we attract, and our ability to retain clients and to build deeper relationships with them.

Being local allows us to respond to our agents and brokers quickly and enables our field leadership to develop meaningful relationships with them.

We proactively reach out to members to educate them on their conditions, and enroll them in case and disease management programs that help ensure they get the care they need.

Code: Employee

It is imperative that we do all we can to nurture the career of each of our employees.

As always, I want to thank our extraordinary employees for their ongoing commitment to our customers, for striving always to do the right things, for their outstanding performance and for continually looking for ways to improve.

We believe the people of Goldman Sachs are second to none in the industry.

Presently we're training over 750 active apprentices, almost half of whom are training to become electrical line workers.

We work hard to provide an environment where these talented people can have fulfilling jobs and produce technological innovations that have a positive effect on the world through daily use by millions of people.

Developing Colgate people is an important part of providing stimulating career paths and a motivating environment that will attract and retain the best employees for Colgate's continued success.

Our history is filled with families who have, generation after generation, found Ford to be a great place to work.

Our associates received 21 million hours of training through delivery vehicles such as e-learning and learning forums

We believe that our new training initiatives provide every employee with opportunity for advancement and to learn skills that help them do their job better, which in turn improves our customer service and the shopping experience for our customers.

Deere people are united in their pursuit of our goals - and a new compensation system that became fully effective in 2004 further aligns employee, customer, and investor interests.

Code: regulatory

We are participating in the proceeding and encouraging the adoption of a methodology that allows appropriate recovery of the costs of operating an actual network.

The Company and several other companies have asked the FCC to reconsider this rule.

The elimination of quota will change our supply chain practices.

The National Do Not Call Registry had a profound impact on the way newspapers sell home-delivery circulation, particularly for the larger newspapers which historically have relied heavily on telemarketing.

The Company is engaged in enforcement and other activities to protect its intellectual property and is an active participant in various industry-wide litigations, education and public relations programs and legislative activity on a worldwide basis.

In addition, the company made strides on its major gas pipeline projects in 2004, filing applications for regulatory approval on a proposed Canadian pipeline and securing federal enabling legislation on an Alaskan pipeline.

Each is an advocate for meaningful and effective government regulation of all tobacco products and is focused on reducing the harm caused by cigarettes through the development of new processes and technologies.

The company's goal is to ensure its facilities comply with federal, state, local and foreign environmental laws and to incorporate appropriate environmental practices and standards in its operations.

Code: shareholder

By executing a keen investment strategy, we're leveraging our experience and expertise to offer investors superior results.

In 2002, shareholders asked PepsiCo to include 10% recycled content in our carbonated soft drink bottles

Through an appropriate mix of both common stock repurchases and debt retirements, we will seek to deliver value to our shareholders and support our long-term objective of improving our bond credit ratings.

We believe this strategy of prioritizing top-line growth with eBay's cost leverage will translate into higher cash flows and value for our stockholders.

We have generated long-term financial value for shareholders by managing and investing our capital responsibly.

Our 2004 financial results were outstanding by every measure and allowed us to invest for the future, strengthen our balance sheet and return more cash to shareholders.

Our goal is to improve our financial performance, which we expect will translate into stock price improvement and greater value for shareholders.

Instead, we invest to build financial security, meet our long-term aspiration of five to six percent average annual earnings growth, and deliver top-quartile total shareholder return.

We begin with that simply because being the leader in generating consistent shareholder returns is one of our overarching long-term aspirations.

Our priority, and our commitment, is to carefully evaluate and then act on opportunities for using our excess cash to bring maximum benefit to you, our shareholders.

Code: supplier

As we gain insight into the challenges our external suppliers face, we learn how to work toward our common benefit

We owe our suppliers the same type of respect that we show to our customers.

Our suppliers and distributors must have an opportunity to make a fair profit.

In China, we funded a mobile training van program run by an independent monitoring firm, in which approximately 20 factories were visited several times during the year, providing worker training in the following topics: nutrition, reproductive health for female workers, psychology and interpersonal relationships, social skills, our Factory Standards, prevention and cure of SARS, calculation of wage and working hours entitlements, and occupational health and safety.

In 2003, we funded remediation training for approximately ten factories in Guatemala to address previously unfavorable audit results, specifically verbal harassment of workers.

We set expectations for supplier performance and reinforce those expectations with periodic assessments.

It takes a company that is actively pursuing partnerships and applying its own intellectual property to make the whole system come together with elegance and simplicity—a system that relies on a network of players and partners, from service providers, to media companies, to content creators, to online services and more.

We also support the use and development of minority and women-owned business enterprises, and in 2004, spending with these diverse suppliers was nearly 12 percent of our total qualified procurement dollars, excluding fuel and certain other expenses.

We also continued to develop a more disciplined business planning process that utilizes stronger collaborations with key vendors to execute national promotions that capture the full power of consistent execution at our more than 2,500 stores.

Appendix D: KLD Ratings

Qualitative Social Issue Areas	Stakeholder
<i>COMMUNITY STRENGTHS</i>	
Charitable Giving (COM-str-A). The company has consistently given over 1.5% of trailing three-year net earnings before taxes (NEBT) to charity, or has otherwise been notably generous in its giving.	Community
Innovative Giving (COM-str-B). The company has a notably innovative giving program that supports nonprofit organizations, particularly those promoting self-sufficiency among the economically disadvantaged. Companies that permit nontraditional federated charitable giving drives in the workplace are often noted in this section as well.	Community
Non-US Charitable Giving (COM-str-F). The company has made a substantial effort to make charitable contributions abroad, as well as in the U.S. To qualify, a company must make at least 20% of its giving, or have taken notably innovative initiatives in its giving program, outside the U.S.	Community
Support for Housing (COM-str-C). The company is a prominent participant in public/private partnerships that support housing initiatives for the economically disadvantaged, e.g., the National Equity Fund or the Enterprise Foundation.	Community
Support for Education (COM-str-D). The company has either been notably innovative in its support for primary or secondary school education, particularly for those programs that benefit the economically disadvantaged, or the company has prominently supported job-training programs for youth.	Community
Volunteer Programs (COM-str-G). The company has an exceptionally strong volunteer program.	Community
Other Strength (COM-str-X). The company either has an exceptionally strong in-kind giving program or engages in other notably positive community activities.	Community
<i>COMMUNITY CONCERNS</i>	
Investment Controversies (COM-con-A). The company is a financial institution whose lending or investment practices have led to controversies, particularly ones related to the Community Reinvestment Act.	Community
Negative Economic Impact (COM-con-B). The company's actions have resulted in major controversies concerning its economic impact on the community. These controversies can include issues related to environmental contamination, water rights disputes, plant closings, "put-or-pay" contracts with trash incinerators, or other company actions that adversely affect the quality of life, tax base, or property values in the community.	Community
Tax Disputes (COM-con-D). The company has recently been involved in major tax disputes involving Federal, state, local or non-U.S. government authorities, or is involved in controversies over its tax obligations to the community.	Regulatory Community
Other Concern (COM-con-X). The company is involved with a controversy that has mobilized community opposition, or is engaged in other noteworthy community controversies.	Community

Qualitative Social Issue Areas	Stakeholder
<i>CORPORATE GOVERNANCE STRENGTHS</i>	
Limited Compensation (CGOV-str-A). The company has recently awarded notably low levels of compensation to its top management or its board members. The limit for a rating is total compensation of less than \$500,000 per year for a CEO or \$30,000 per year for outside directors.	Shareholder
Ownership Strength (CGOV-str-C). The company owns between 20% and 50% of another company KLD has cited as having an area of social strength, or is more than 20% owned by a firm that KLD has rated as having social strengths. When a company owns more than 50% of another firm, it has a controlling interest, and KLD treats the second firm as if it is a division of the first.	Shareholder
Transparency Strength (CGOV-str-D). The company is particularly effective in reporting on a wide range of social and environmental performance measures, or is exceptional in reporting on one particular measure.	Shareholder
Political Accountability Strength (CGOV-str-E). The company has shown markedly responsible leadership on public policy issues and/or has an exceptional record of transparency and accountability concerning its political involvement in state or federal-level U.S. politics, or in non-U.S. politics.	Regulatory
Other Strength (CGOV-str-X). The company has a unique and positive corporate culture, or has undertaken a noteworthy initiative not covered by KLD's other corporate governance ratings.	Shareholder
<i>CORPORATE GOVERNANCE CONCERNS</i>	
High Compensation (CGOV-con-B). The company has recently awarded notably high levels of compensation to its top management or its board members. The limit for a rating is total compensation of more than \$10 million per year for a CEO or \$100,000 per year for outside directors.	Shareholder
Ownership Concern (CGOV-con-F). The company owns between 20% and 50% of a company KLD has cited as having an area of social concern, or is more than 20% owned by a firm KLD has rated as having areas of concern. When a company owns more than 50% of another firm, it has a controlling interest, and KLD treats the second firm as if it is a division of the first.	Shareholder
Accounting Concern (CGOV-con-G). The company is involved in significant accounting-related controversies.	Shareholder
Transparency Concern (CGOV-con-H). The company is distinctly weak in reporting on a wide range of social and environmental performance measures.	Shareholder
Political Accountability Concern (CGOV-con-I). The company has been involved in noteworthy controversies on public policy issues and/or has a very poor record of transparency and accountability concerning its political involvement in state or federal-level U.S. politics, or in non-U.S. politics.	Regulatory Shareholder
Other Concern (CGOV-con-X). The company is involved with a controversy not covered by KLD's other corporate governance ratings.	

Qualitative Social Issue Areas	Stakeholder
<i>DIVERSITY STRENGTHS</i>	
CEO (DIV-str-A). The company's chief executive officer is a woman or a member of a minority group.	Employee
Promotion (DIV-str-B). The company has made notable progress in the promotion of women and minorities, particularly to line positions with profit-and-loss responsibilities in the corporation.	Employee
Board of Directors (DIV-str-C). Women, minorities, and/or the disabled hold four seats or more (with no double counting) on the board of directors, or one-third or more of the board seats if the board numbers less than 12.	Employee
Work/Life Benefits (DIV-str-D). The company has outstanding employee benefits or other programs addressing work/life concerns, e.g., childcare, elder care, or flextime.	Employee
Women & Minority Contracting (DIV-str-E). The company does at least 5% of its subcontracting, or otherwise has a demonstrably strong record on purchasing or contracting, with women-and/or minority-owned businesses.	Supplier
Employment of the Disabled (DIV-str-F). The company has implemented innovative hiring programs; other innovative human resource programs for the disabled, or otherwise has a superior reputation as an employer of the disabled.	Employee
Gay & Lesbian Policies (DIV-str-G). The company has implemented notably progressive policies toward its gay and lesbian employees. In particular, it provides benefits to the domestic partners of its employees.	Employee
Other Strength (DIV-str-X). The company has made a notable commitment to diversity that is not covered by other KLD ratings.	
<i>DIVERSITY CONCERNS</i>	
Controversies (DIV-con-A). The company has either paid substantial fines or civil penalties as a result of affirmative action controversies, or has otherwise been involved in major controversies related to affirmative action issues.	Regulatory Employee
Non-Representation (DIV-con-B). The company has no women on its board of directors or among its senior line managers.	Employee
Other Concern (DIV-con-X). The company is involved in diversity controversies not covered by other KLD ratings.	
<i>EMPLOYEE RELATIONS STRENGTHS</i>	
Union Relations (EMP-str-A). The company has taken exceptional steps to treat its unionized workforce fairly. KLD renamed this strength from Strong Union Relations.	Employee
Cash Profit Sharing (EMP-str-C). The company has a cash profit-sharing program through which it has recently made distributions to a majority of its workforce.	Employee
Employee Involvement (EMP-str-D). The company strongly encourages worker involvement and/or ownership through stock options available to a majority of its employees; gain sharing, stock ownership, sharing of financial information, or participation in management decision-making.	Employee

Qualitative Social Issue Areas	Stakeholder
Retirement Benefits Strength (EMP-str-F). The company has a notably strong retirement benefits program. KLD renamed this strength from Strong Retirement Benefits.	Employee
Health and Safety Strength (EMP-str-G). The company has strong health and safety programs.	Employee
Other Strength (EMP-str-X). The company has strong employee relations initiatives not covered by other KLD ratings.	Employee
<i>EMPLOYEE RELATIONS CONCERNS</i>	
Union Relations (EMP-con-A). The company has a history of notably poor union relations. KLD renamed this concern from Poor Union Relations.	Employee
Health and Safety Concern (EMP-con-B). The company recently has either paid substantial fines or civil penalties for willful violations of employee health and safety standards, or has been otherwise involved in major health and safety controversies.	Regulatory Employee
Workforce Reductions (EMP-con-C). The company has made significant reductions in its workforce in recent years.	Employee
Retirement Benefits Concern (EMP-con-D). The company has either a substantially under funded defined benefit pension plan, or an inadequate retirement benefits program.	Employee
Other Concern (EMP-con-X). The company is involved in an employee relations controversy that is not covered by other KLD ratings.	Employee
<i>ENVIRONMENT STRENGTHS</i>	
Beneficial Products and Services (ENV-str-A). The company derives substantial revenues from innovative remediation products, environmental services, or products that promote the efficient use of energy, or it has developed innovative products with environmental benefits. (The term “environmental service” does not include services with questionable environmental effects, such as landfills, incinerators, waste-to-energy plants, and deep injection wells.)	Community Customer
Pollution Prevention (ENV-str-B). The company has notably strong pollution prevention programs including both emissions reductions and toxic-use reduction programs.	Community
Recycling (ENV-str-C). The company either is a substantial user of recycled materials as raw materials in its manufacturing processes, or a major factor in the recycling industry.	Community
Clean Energy (ENV-str-D). The company has taken significant measures to reduce its impact on climate change and air pollution through use of renewable energy and clean fuels or through energy efficiency. The company has demonstrated a commitment to promoting climate-friendly policies and practices outside its own operations.	Community
Other Strength (ENV-str-X). The company has demonstrated a superior commitment to management systems, voluntary programs, or other environmentally proactive activities.	

Qualitative Social Issue Areas	Stakeholder
<i>ENVIRONMENT CONCERNS</i>	
Hazardous Waste (ENV-con-A). The company's liabilities for hazardous waste sites exceed \$50 million, or the company has recently paid substantial fines or civil penalties for waste management violations.	Regulatory
Regulatory Problems (ENV-con-B). The company has recently paid substantial fines or civil penalties for violations of air, water, or other environmental regulations, or it has a pattern of regulatory controversies under the Clean Air Act, Clean Water Act or other major environmental regulations.	Regulatory
Ozone Depleting Chemicals (ENV-con-C). The company is among the top manufacturers of ozone depleting chemicals such as HCFCs, methyl chloroform, methylene chloride, or bromines.	Community
Substantial Emissions (ENV-con-D). The company's legal emissions of toxic chemicals (as defined by and reported to the EPA) from individual plants into the air and water are among the highest of the companies followed by KLD.	Community
Agricultural Chemicals (ENV-con-E). The company is a substantial producer of agricultural chemicals, i.e., pesticides or chemical fertilizers.	
Climate Change (ENV-con-F). The company derives substantial revenues from the sale of coal or oil and its derivative fuel products, or the company derives substantial revenues indirectly from the combustion of coal or oil and its derivative fuel products. Such companies include electric utilities, transportation companies with fleets of vehicles, auto and truck manufacturers, and other transportation equipment companies.	
Other Concern (ENV-con-X). The company has been involved in an environmental controversy that is not covered by other KLD ratings.	
<i>HUMAN RIGHTS STRENGTHS</i>	
Indigenous Peoples Relations Strength (HUM-str-D). The company has established relations with indigenous peoples near its proposed or current operations (either in or outside the U.S.) that respect the sovereignty, land, culture, human rights, and intellectual property of indigenous peoples.	Community
Labor Rights Strength (HUM-str-G). The company has outstanding transparency on overseas sourcing disclosure and monitoring, or has particularly good union relations outside the U.S., or has undertaken labor rights-related initiatives that KLD considers outstanding or innovative.	Employee Supplier
Other Strength (HUM-str-X). The company has undertaken exceptional human rights initiatives, including outstanding transparency or disclosure on human rights issues, or has otherwise shown industry leadership on human rights issues not covered by other KLD human rights ratings.	

Qualitative Social Issue Areas	Stakeholder
<i>HUMAN RIGHTS CONCERNS</i>	
Labor Rights Concern (HUM-con-F). The company's operations have had major recent controversies primarily related to labor standards in its supply chain.	Supplier
Indigenous Peoples Relations Concern (HUM-con-G). The company has been involved in serious controversies with indigenous peoples (either in or outside the U.S.) that indicate the company has not respected the sovereignty, land, culture, human rights, and intellectual property of indigenous peoples.	Community
Other Concern (HUM-con-X). The company's operations have been the subject of major recent human rights controversies not covered by other KLD ratings.	
<i>PRODUCT STRENGTHS</i>	
Quality (PRO-str-A). The company has a long-term, well-developed, company-wide quality program, or it has a quality program recognized as exceptional in U.S. industry.	Customer
R&D/Innovation (PRO-str-B). The company is a leader in its industry for research and development (R&D), particularly by bringing notably innovative products to market.	Customer
Benefits to Economically Disadvantaged (PRO-str-C). The company has as part of its basic mission the provision of products or services for the economically disadvantaged.	Customer
Other Strength (PRO-str-X). The company's products have notable social benefits that are highly unusual or unique for its industry.	Customer
<i>PRODUCT CONCERNS</i>	
Product Safety (PRO-con-A). The company has recently paid substantial fines or civil penalties, or is involved in major recent controversies or regulatory actions, relating to the safety of its products and services.	Customer Regulatory
Marketing/Contracting Concern (PRO-con-D). The company has recently been involved in major marketing or contracting controversies, or has paid substantial fines or civil penalties relating to advertising practices, consumer fraud, or government contracting.	Customer Regulatory
Antitrust (PRO-con-E). The company has recently paid substantial fines or civil penalties for antitrust violations such as price fixing, collusion, or predatory pricing, or is involved in recent major controversies or regulatory actions relating to antitrust allegations.	Regulatory
Other Concern (PRO-con-X). The company has major controversies with its franchises, is an electric utility with nuclear safety problems, defective product issues, or is involved in other product-related controversies not covered by other KLD ratings.	

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