

Corporate Responsibility and Employee Relations: From External Pressure to Action

Group & Organization Management
2015, Vol. 40(3) 378–404
© The Author(s) 2014
Reprints and permissions:
sagepub.com/journalsPermissions.nav
DOI: 10.1177/1059601114560168
gom.sagepub.com



Jennifer J. Griffin¹, Andrew Bryant²,
and Charles P. Koerber¹

Abstract

Research has traditionally portrayed voluntary corporate responsibility (CR) actions toward employees as episodic, discretionary activities that individual firms take in response to marginalized, fringe “gadflies.” In this study, which examines numerous external pressures from a firm’s institutional and task environment, our findings suggest more than simple episodic responses that vary from firm to firm, but rather a conformity of action with respect to a firm’s voluntary activities toward its employees. In the absence of explicit mandates, firms are voluntarily strengthening employee relations, especially if they are increasing employee-relations concerns. Overall, external pressures significantly affect the CR activities that firms direct toward employees.

Keywords

corporate responsibility (CR), employee engagement, legitimacy

Corporate responsibility (CR) is a contested construct with seeming endless connotations (Griffin & Mahon, 1997; Margolis & Walsh, 2001; Orlitzky, Schmidt, & Rynes, 2003). CR is viewed as a firm’s altruistic giving away of

¹The George Washington University, Washington, DC, USA

²Drake University, Des Moines, IA, USA

Corresponding Author:

Andrew Bryant, Drake University, 2847 University Avenue, Aliber Hall 356, Des Moines, IA 50311, USA.

Email: andrew.bryant@drake.edu

the shareholders' money, an episodic discretionary response, an insurance policy, a heuristic, and a portfolio of selective, voluntary activities that reflect the firm's strategic choices (Carroll, 1979; Friedman, 1970; Godfrey, 2005; Griffin & Prakash, 2014; McWilliams & Siegel, 2001; Porter & Kramer, 2011; Rowley & Berman, 2000). With regard to employee relations, research has found that CR increases the attractiveness of the organization to prospective employees (Jones, Willness, & Madey, 2014; Turban & Greening, 1997); it is a competitive advantage in attracting a talented, quality workforce members by signaling to candidates what it is like to work for the firm (Greening & Turban, 2000; Turban & Greening, 1997), and how they can expect the firm to treat them once they are hired (Jones et al., 2014). However, there is a limited understanding of whether voluntary CR activities are likely to vary across different institutional and task environments, and if so, under what circumstances. Given that CR is an important mechanism to attract employees, we examine whether external pressures affect internal CR behavior that a firm directs toward its employees once they enter the workplace.

Earlier research defines CR as a portfolio of a firm's voluntary policies, practices, or processes that extend beyond compliance with extant laws to address external demands or expectations (den Hond, Rehbein, de Bakker, & Kooijmans-van Lankveld, 2014; Griffin & Prakash, 2014; Wood, 1991). In the current study, we are particularly interested in examining how external pressures manifest in voluntary behaviors that a firm uses to strengthen its relationships with employees.

Research on employees is of interest for multiple reasons. First, employees are salient stakeholders in a firm (Mitchell, Agle, & Wood, 1997); they are intrinsically of value as human beings (Berman, Wicks, Kotha, & Jones, 1999) and are also critical contributors to a firm's process of value creation (Bhattacharya, Sen, & Korschun, 2008; Freeman, 1984; Greening & Turban, 2000; Johnson & Greening, 1999). However, research has not sufficiently examined the impact of voluntary CR initiatives that firms direct toward employees (Hillenbrand, Money, & Pavelin, 2012; Money, Hillenbrand, Hunter, & Money, 2012). Second, firms often have direct control of whether to maintain, expand, or diminish voluntary CR activities toward employees, and thus it is relatively easy and potentially more cost effective for a firm to address workplace issues or social issues affecting employee productivity—such as HIV/AIDS—if the firm voluntarily strengthens employee relations rather than being mandated to do so (French & Wokutch, 2005; Greening & Turban, 2000; Griffin & Prakash, 2014; Thauer, 2014).

Examining a firm's voluntary activities is important because, by definition, they are not mandated by regulations; they reflect a firm's purposeful decisions to exceed legal requirements. In doing so, these activities might

meet (or even set new thresholds for) expectations of socially acceptable behaviors or address external pressures on a firm from rivals (Delmas, Hoffman, & Kuss, 2011; Greening & Turban, 2000; Prakash & Potoski, 2013).

With this study, we make two significant contributions. First, we empirically examine whether external pressures manifest in a firm's voluntary actions toward its employees, and we find that firms are voluntarily strengthening employee relations. Second, we find that more employee concerns relate positively to a firm's strength in its employee relations. This could suggest that voluntary actions to strengthen employee relations have an insurance-like quality that masks employee-relations concerns to outside observers. We test the validity of these findings using an out-of-time holdout sample.

Generalized Pressures to Conform

The CR literature frequently views CR activities as a means to obtain organizational legitimacy (Dowling & Pfeffer, 1975) by conforming to institutional pressures. Suchman (1995) defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (p. 574). Legitimacy is viewed broadly as "congruence . . . with social laws, norms, and values" (Deephouse & Suchman, 2008, p. 50) and as a generalized, institutional pressure to conform to social norms (Deephouse & Carter, 2005).

An organization can demonstrate its congruence with acceptable norms by developing activities, procedures, or structures that are consistent with those of other organizations and that meet external expectations to appear legitimate to external parties (DiMaggio & Powell, 1983; Fligstein, 1985). By adopting isomorphic structures or similar activities, an organization conforms to the actions of others (Fligstein, 1985).

When faced with a high degree of environmental variability, for example, organizations tend to mirror the policies and procedures of other, more established and successful organizations (Galaskiewicz & Wasserman, 1989) to gain legitimacy. By conforming to other firms' activities, an organization is likely to meet external expectations and is less likely to be questioned (DiMaggio & Powell, 1983; Tolbert & Zucker, 1983).

An organization gains legitimacy when it conforms to extant expectations, and consequently, it gains access to resources it needs to survive (Meyer & Rowan, 1983). By contrast, the loss of legitimacy can lead to the demise of an organization (Hamilton, 2006). Once the firm establishes conformity to

external pressures through a variety of routines, myths, and behaviors, it tends to persist with those behaviors, even if they are not necessarily efficient (North, 1981).

Pressures for businesses to conform are often regarded in a taken-for-granted nature that might take on a heuristic-like fashion (Rowley & Berman, 2000), and yet specific pressures that are isolated to a small subset of firms might encourage conformity of action. Empirical CR research within single industries, for instance, consistently found a firm's stock price dropped in response to illegal activities such as automobile recalls (Bromiley & Marcus, 1989), commercial airline crashes (Davidson, Chandy, & Cross, 1987), or significant chemical spills (Rockness, Schlachter, & Rockness, 1986).

Carroll (1979) suggested that we should expect heterogeneity of a firm's CR activities since "*issues change and they differ* for different industries" (p. 501). Recent research suggests that a firm filters external pressures through their organizational structures and resources, which in turn affects a firm's responses to those pressures (Rehbein & Schuler, 1999), such as social activists and political pressures (den Hond et al., 2014). Other studies found significant variation in CR activities among firms to address a common issue across an industry group; for example, in the beer industry firms respond differently to external pressures through community and employee engagement programs (Griffin & Weber, 2006). The episodic nature of a firm's voluntary CR response with discretionary resources to external pressures, sometimes called "gadflies," has gained traction (Yaziji, 2004).

Other CR researchers have observed widespread variation in CR activities across industries and called for controlling of industry characteristics in CR studies (Griffin & Mahon, 1997; Waddock & Graves, 1997a) without specifying why pressures from the task environment affect specific CR activities or the conditions under which different CR behaviors would be expected to flourish.

Hypothesis Development

Our interest is in a firm's relationship with a specific stakeholder group: employees. We examine whether or not a firm would strengthen their employee relations through CR.

A firm with intense product-market (economic) rivalries is likely to compete in social, political, or legal arenas to gain advantage (Mahon & McGowan, 1996; Porter, 1980; Schuler, Rehbein, & Cramer, 2002). Seeking and attaining legitimacy may be an imperfect substitute for economic competition (Bitektine, 2011; Deephouse & Suchman, 2008; Mahon, 1989).

As two rival firms engage employees, the pressures of conformity encourage one firm to replicate the behaviors of the other. As the competition for top talent becomes more global and intense, it becomes harder for a firm to differentiate itself through its own specific voluntary stakeholder actions (Greening & Turban, 2000; Hull & Rothenberg, 2008; Mahon & McGowan, 1996), and the firm is more likely to behave similarly to its peers. If all other firms have strong employee relations, the odd one out is at a disadvantage in the competition for employees. In tight labor markets, for example, competition for new employees can directly affect the ability to attract, retain, or motivate all employees. Therefore, voluntary actions with respect to employees may set de jure expectations of acceptable firm behavior. This may happen through a complex set of decisions that become mutually self-reinforcing through a feedback loop (Money et al., 2012). Once there is a critical mass of other firms with employee-relations strengths, a cycle of escalating commitments can increase the need for other firms to adopt those strengths. More specifically, we hypothesize as follows:

Hypothesis 1: Others' actions to increase strengths in employee relations are positively related to a firm having a strength in employee relations.

External Sector, Subsector, and Industry Pressures

In addition to the actions of other firms directed toward employees, a variety of external pressures may affect how a firm deals with its employees. The competitive strategy and the political strategy literatures identify and examine external pressures on the industry, sector, and subsector levels: capital intensity, industry growth, industry differentiation, and industry concentration (Berman et al., 1999; Datta, Guthrie, & Wright, 2005; Hambrick & Cannella, 2004; McGahan & Porter, 1997; McWilliams & Siegel, 2001; Miles, Snow, & Sharfman, 1993; Porter, 1985; Sampler, 1998; Schuler et al., 2002; Spanos, Zaralis, & Lioukas, 2004; Vroom & Gimeno, 2007).

Capital intensity. Capital-intensive firms, as opposed to labor-intensive firms, transform materials or substances into new products, often using power-driven machines and material-handling equipment with facilities generally called plants, factories, or mills (U.S. Census Bureau, 2001). Capital-intensive firms have specialized factors of production that incur numerous sunk costs and high exit costs and therefore may remain more committed to the industry through aggressive competition (Hatfield, Liebeskind, & Opler, 1996). Capital intensity often creates strategic rigidity because investments in fixed assets require significant commitments (Ghemawat, 1991; Harrigan,

1981). Deviations from existing production routines may require investments in other fixed assets, which in turn tend to be expensive (Datta & Rajagopalan, 1998; Hambrick & Lei, 1985). Firms in capital-intensive industries tend to focus on leveraging their sunk cost investments, which results in them having a stronger focus on low costs and high efficiency than firms in less capital-intensive industries.

Management concern with low costs and efficient production processes is likely to result in few deviations from the norm (Datta & Rajagopalan, 1998). This focus on overall low costs, combined with the high costs required of investments in fixed assets, increases the risk and costs associated with any failure. Consequently, the more capital-intensive the industry, the less likely are innovations in areas such as employee relations (Datta et al., 2005), resulting in stable, relatively unchanged relations.

Overall, the more capital-intensive a firm, the more unlikely it is that the firm will work to strengthen employee relationships (an inverse relationship), due to a capital-intensive firm's emphasis on specialized equipment, ensuring low costs (including low labor costs), and production efficiency. More formally, we hypothesize as follows:

Hypothesis 2: Capital intensity is inversely related to a firm having a strength in employee relations.

Industry growth. Organizations seek environments that can sustain growth (Dess & Beard, 1984). High-growth industries can increase profit margins when investments have not caught up with demand. Alternatively, high growth can squeeze profit margins when capital commitments outpace consumer demands (Spanos et al., 2004). Over time, as an industry matures, the industry becomes relatively more stable. In a mature, stable industry, it is relatively easy to understand product features, competitive dynamics, and consumer preferences, as compared with when the industry was less mature (Hambrick & Cannella, 2004) and also less stable (Dess & Beard, 1984).

Industry growth and stability can allow organizations to create slack resources (Berman et al., 1999; Dess & Beard, 1984), which in turn help to buffer the firm during downturns or periods of instability and intense uncertainty (Hambrick & Cannella, 2004). During periods of relatively high industry growth and stability, ensuring a flow of resources is important (Dess & Beard, 1984), whereas Staw and Szwajkowski argue that firms facing a less-munificent environment are more likely to commit illegal acts (quoted in Dess & Beard, 1984, p. 55). As a result of a focus on ensuring a sufficient flow of (external) resources during this period of instability, reduced isomorphism is a potential outcome due to dynamism (Yamak, Nielsen, &

Escriba-Esteve, 2014). Thus, a firm may ignore its (internal) resources such as employees, either intentionally or unintentionally. More formally, our specific hypothesis is as follows:

Hypothesis 3: Industry growth is inversely related to a firm having a strength in employee relations.

Industry (product) differentiation. Industry product differentiation, also known as industry differentiation (Dess & Beard, 1984) or industry variety (Miles et al., 1993), examines the homogeneity or heterogeneity of firms within an industry or sector. Heterogeneity may be based on product differentiation or the number and diversity of strategies that firms within the industry pursue. Miles and Snow argue that differentiation over the long term is desirable as “an industry requires a rich mix of competitive strategies in order to grow or to maintain its long-term health” (quoted in Miles et al., 1993). As new technologies and processes are introduced, different types of firms within the same industry group (i.e., those pursuing similar strategies that are distinct from other groups of firms in the industry) are likely to become more numerous and diverse, leading to improved performance across all firms in the group. Firms in an industry with high levels of differentiation can avoid head-to-head competition while learning from diverse experiences of other firms (Miles et al., 1993) and shape normative expectations of what a company is expected to provide and look like and what roles it takes on.

Industry differentiation can produce above-average returns (Porter, 1980) through innovations and investments in research and development (R&D) (Hull & Rothenberg, 2008; Mackey, Mackey, & Barney, 2007; McGahan & Porter, 1997; McWilliams & Siegel, 2000, 2001). Differentiation through product innovation—including socially or politically acceptable changes in products or process innovations, such as using less water, less carbon, or more sustainable sources—can generate profits that more than adequately cover the costs of producing the innovation and contribute to the firm’s bottom line (McWilliams & Siegel, 2000; McWilliams, Siegel, & Wright, 2006).

Innovations that respond to new trends—such as increased preferences for organic foods, low-energy consumption products, and alternative energy automobiles—can create new products and services, such as those that are green, with a low carbon content, are pesticide-free, hormone-free, and organic (Hull & Rothenberg, 2008; McWilliams & Siegel, 2000, 2001). This results in a heightened reliance on employees to adjust rapidly to trends. Industry differentiation through product innovation also increases industry variability (Miles et al., 1993), creating opportunity for more and varied discretionary activities by the firm (Hillman & Keim, 2001; Mauri & Michaels,

1998; McGahan & Porter, 1997) that might be directed toward recruitment of employees, for example, to distinguish a firm from other potential employers (Jones et al., 2014). Overall, we expect firms in industries with high levels of differentiation to strengthen employee relations as an area of differentiation. Our specific hypothesis is as follows:

Hypothesis 4: Industry differentiation is positively related to a firm having a strength in employee relations.

Industry concentration. Industry concentration influences an industry's ability to effectively mobilize on a public issue (Hillman, 2003; Rehbein & Schuler, 1999). Concentrated industries can help shape normative expectations wherein significant, visible actions (e.g., lobbying and campaign contributions or community and education outreach) relate to only a few firms. As the intensity of the rivalry increases in a concentrated industry (Vroom & Gimeno, 2007), these few firms may be able to cooperate and agree on specific, narrow interests, finance public awareness of these issues, and efficiently develop potential solutions while avoiding direct head-to-head competition.

Firms within concentrated industries often actively keep tabs on their competitors' behavior, which creates an environment of mimicry and can result in the potential for intense competition in multiple arenas (Baumgartner & Leech, 2001; Hersch & McDougall, 2000; Hillman, Keim, & Schuler, 2004). As one of the few providers of a good or service, firms in concentrated industries hold a privileged position. Other firms are likely to match the singular actions of a firm that is going above and beyond expectations, due to the intense rivalry (Vroom & Gimeno, 2007). As firms in concentrated industries mimic one another, they may also imitate managerial incentives inside an organization when implementing administrative systems that affect managerial behavior (Vroom & Gimeno, 2007). Exercising control over internal, voluntary activities is likely to be critical for managers in concentrated industries, to remain distinctive from others. We expect pressures on firms in concentrated industries to strengthen employee relations. More formally, we hypothesize as follows:

Hypothesis 5: Industry concentration is positively related to a firm having a strength in employee relations.

Insurance-like quality. Because potential employees may punish a firm's negative actions even more harshly than they would otherwise due to their perceptions of the firm's intentions (Godfrey, Merrill, & Hansen, 2009; Henisz,

Dorobantu, & Narthey, 2014), a firm may initiate positive action toward employees as risk management. That is, a firm may attempt to offset employee concerns with voluntary activities that promote the firm's commitment to employees, thereby strengthening employee relations with the assumption that enhanced performance in one domain will result in a diminution of focus or attention in another thereby masking negative effects (Griffin & Mahon, 1997; Waddock & Graves, 1997b). Firms may undertake voluntary CR deeds today in response to prior bad deeds (Godfrey, 2005). Alternatively, actions that strengthen employee relations today may create an insurance-like barrier, or a halo effect, which allows employees to have increased tolerance with regard to their poor treatment in the future (Godfrey et al., 2009).

Cynics maintain that CR is an exercise in buffing the image of the firm (Godfrey et al., 2009). However, because individuals can perceive losses more sharply than gains, a firm adopting this strategy may need to overcompensate with strengths that go beyond addressing employee concerns (Kahneman & Tversky, 1979). This is consistent with findings in prior literature that strengths and concerns are separate constructs (Barnett & Salomon, 2006; Godfrey, 2005; Godfrey et al., 2009; Mattingly & Berman, 2006).

Management is frequently in direct control of CR actions directed toward employees, allowing for cost-effective, rapid, and pre-emptive implementation without the loss of organizational autonomy (Thauer, 2014). Such CR actions might be a focal point of image-enhancing exercises such as window-dressing (Weaver, Trevino, & Cochran, 1999). Consequently, these CR actions could play a role in the overall risk management strategy of a firm. As such, the insurance-like properties of CR actions suggest that employee concerns may correspond with employee strengths, or, more formally,

Hypothesis 6: A firm's employee-relations concerns are positively related to a firm having a strength in employee relations.

Method

To test our hypotheses, we compiled financial and industry data on the firms included in the Kinder, Lydenburg, and Domini (KLD) Socrates/MSCI ESG database (KLD Research & Analytics, 2003). The KLD dataset, widely used in previous CR research (Berman et al., 1999; Griffin & Mahon, 1997; Hillman & Keim, 2001), annually compiles information on U.S. firms regarding actions that strengthen, and increase concerns with, employee relations.

We focus our analysis on an 8-year period (2003-2010), to enhance consistency by using a complete set of cohorts. This population includes 1,458 firms in manufacturing sectors, for a total of 7,315 observations that

included firms listed on the Russell 3000, the S&P 500, the Domini 400 Social Index, and the KLD Large Cap Social Index. The manufacturing sector was selected to enhance the internal validity of the study. We matched the KLD information with financial information in the Compustat North American annual database on a year-by-year and company-by-company basis, and also matched concentration data taken from the Census Bureau to each record. We then tested these results against a corresponding 2011 holdout dataset.

Dependent Variables: Employee-Relations Strengths

The KLD dataset is a common measure of employee-relations strengths (Berman et al., 1999; Graves & Waddock, 1994; Johnson & Greening, 1999; Mattingly & Berman, 2006; Turban & Greening, 1997; Waddock & Graves, 1997a). Employee-relations strengths include “cash profit sharing program,” “strong health and safety programs,” and “labor management policies meeting stringent international norms” (MSCI ESG Research, 2013). A list of employee strengths using the MSCI 2013 definitions appears in the appendix.

The count distribution of the dependent variable suggests a positive non-normal heteroskedastic distribution. Therefore, standard analyses, such as ordinary regression, are inappropriate. Upon closer examination of the dependent variable, we see that relatively few firms have more than one activity per dependent variable. Specifically, 93.3% of firm observations have either zero or one employee strength. Consequently, we collapse the dependent variable to a binary distribution and then transform it using the logit link function, to determine the extent to which a predictor variable increases the likelihood of an employee-relations strength (“yes”) versus no employee-relations strengths (“no”).

Independent Variables

We adapt conformity to the actions of others from Schuler et al.’s (2002) study of rivals’ political activities. Others’ actions are calculated separately for employee-relations strengths and employee-relations concerns. We use a two-digit North American Industry Classification System (NAICS) number, to allow for a broad range of firms’ actions, rather than examining at a more finite industry level. Accordingly, others’ actions are calculated as the average number of actions that strengthen employee-relations or increase employee-relations concerns at a two-digit NAICS sector level, excluding the focal firm’s actions.

We measure capital intensity at the industry level, four-digit NAICS, using the weighted average “dollar value of plant, property, and equipment per

employee” (Miles et al., 1993). We measure industry growth at the industry level, four-digit NAICS, as the industry’s average three-year percent change in sales. We measure industry differentiation at the subsector level, three-digit NAICS, by the previous year’s median of the ratio of R&D and advertising expenditures to total sales (Datta et al., 2005; Spanos et al., 2004). We measure industry group concentration at the industry group level, five-digit NAICS, by the top four-firm percent of shipment total value concentration ratio, as published by the U.S. Census Bureau (2007).

We measure firm level concerns using total count of the KLD employee concerns. These include “controversies related to the safety of a firm’s employees” and “child labor controversies in a firm’s supply chain” (MSCI ESG Research, 2013).

Controls. This article seeks to examine industry effects on the firm, and it is important to control for firm-level characteristics, to rule out potentially spurious relationships. Consistent with prior CR research, we include controls for risk, profitability, and size (cf. Barnett & Salomon, 2006; Berman et al., 1999; Griffin & Mahon, 1997; Johnson & Greening, 1999; McWilliams & Siegel, 2000, 2001; Waddock & Graves, 1997a, 1997b), as well as for other potentially influential variables at the firm level. Waddock and Graves (1997b) have shown risk tolerance to be a significant variable in models involving CR with respect to employee relations. Risk tolerance may relate to a firm’s overall risk-management strategy, potentially influencing the need for the insurance-like qualities of employee strengths. Consistent with other researchers, we used each firm’s long-term debt to total assets ratio to measure risk (Waddock & Graves, 1997a, 1997b). Profitability may increase financial flexibility from slack resources or above-average returns, and thus it may influence the ability of firms to improve their employee relations. We measured profitability as return on assets and as diluted earnings per share, excluding extraordinary income. In terms of size, large firms are more visible and garner more attention from governments, the media, professional groups, and the general public (Luoma & Goodstein, 1999). Because they attract more attention from external constituencies, larger firms need to respond in a visible, transparent way (Deephouse, 2000; Deephouse & Carter, 2005; Rindova, Williamson, Petkova, & Sever, 2005; Waddock & Graves, 1997a), whereas smaller firms may not need to overtly express the details of their employee relations (Waddock & Graves, 1997a). Similar to other researchers (e.g., Johnson & Greening, 1999; Waddock & Graves, 1997a), we use total number of employees adjusted by the natural logarithm function as a measure of firm size. We control for individual firm-level advertising intensity and R&D intensity (McWilliams & Siegel, 2000, 2001) by using each firm’s ratio

of spending on advertising to sales and spending on R&D to sales. By controlling for these individual firm-level variations, we seek to examine how external pressures affect firm behavior, above and beyond internal factors.

We use dummy variables to control for the three cohorts of firms included in different KLD Groups (the 1991-2000 cohort and the 2001-2002 cohort) and compare them to the 2003-2010 cohort, to allow for significant differences across cohorts at the time of measurement. Prior to 2003, the database did not include the Russell 3000. From 1991 through 2000, the KLD dataset included only companies (approximately 650) listed on the S&P 500 or Domini 400 Social Index. From 2001 to 2002, the KLD dataset included firms (approximately 1,100) on the Russell 1000 or the KLD Large Cap Social Index. We control for the different KLD groups. We also include dummy variables for each year, to control for other external influences that could vary over time. We selected 2008 as the baseline reference year, due to the global financial crisis and reduced labor market.

Random effects. In the dataset, firms across 8 years are measured multiple times (at different years), it is possibly untenable that each observation is an independent event. To control for the potentially clustered nature of the data, we use a multilevel model for binary outcomes. This multilevel model allows within-firm measurements to be correlated. Without accounting for these repeated measurements of the same firm, it is possible we would introduce a bias in the parameter estimates (Guo & Zhao, 2000; Singer, 1998). Accordingly, we estimate a two-stage model using the GLIMMIX procedure in SAS. We modeled the covariance structure using R-side effects, also known as “residual” effects, which are “equivalent to a repeated effect in the mixed procedure” (SAS Institute Inc., 2008). Although the year of measurement enters the model through fixed effects, we allow the residual observations within firms to correlate across years through the error variance–covariance matrix (Singer, 1998). Specifically, we use a heterogeneous autoregressive, ARH(1), variance–covariance matrix, such that we allow variances to differ each year and relate covariances through a first-order autoregressive structure.

Results

The lower triangle of Table 1 provides the bivariate correlations between the variables for the years 2003-2011. The upper triangle of Table 1 shows the associated p values of each correlation. Table 2 reports the overall results of our analyses, adjusted for repeated firm measurements over time. Table 2 displays all of the variables, parameter estimates, and other results from the GLIMMIX procedure.

Table 1. Correlation Matrix (Lower Triangle) and *p* Values (Upper Triangle).

(<i>n</i> = 8,299)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
(1) Firm strength		.00	.00	.00	.00	.17	.24	.00	.52	.28	.00	.00	.00	.00	.00	.00	.00	.41
(2) Firm concerns	.18		.00	.00	.00	.25	.00	.00	.18	.43	.00	.00	.01	.00	.00	.00	.00	.00
(3) Others' strength	.11	.15		.00	.00	.00	.00	.87	.06	.00	.00	.00	.00	.00	.16	.21	.03	.00
(4) Others' concerns	.09	.22	.67		.06	.00	.21	.00	.00	.23	.76	.00	.85	.00	.21	.00	.00	.00
(5) Capital intensity	.12	.09	.16	.02		.03	.01	.00	.11	.63	.00	.00	.52	.08	.82	.00	.02	.00
(6) Industry growth	-.01	-.01	-.04	.03	-.02		.00	.95	.88	.82	.00	.06	.22	.00	.42	.03	.02	.00
(7) Industry differentiation	-.01	-.12	.18	-.01	.03	-.06		.22	.00	.00	.00	.03	.00	.00	.00	.31	.00	.00
(8) Industry concentration	.17	.14	.00	.08	.15	.00	-.01		.00	.66	.00	.00	.02	.00	.00	.00	.00	.35
(9) Advertisement expense/sales ratio	.01	-.01	.02	.05	-.02	.00	.06	.04		.86	.19	.03	.03	.04	.85	.44	.46	.08
(10) R&D/sales ratio	.01	.01	.04	.01	.01	.00	.04	.00	.00		.10	.07	.02	.04	.28	.41	.13	.84
(11) Earnings per share	.04	.05	-.04	.00	.05	.03	-.12	.03	-.01	-.02		.00	.00	.00	.00	.07	.00	.56
(12) Risk tolerance	.04	.11	.09	.06	.08	.02	-.02	.06	.02	.02	-.03		.01	.00	.00	.00	.00	.12
(13) Return on assets	.05	.03	-.03	.00	-.01	.01	-.11	.03	-.02	-.03	.11	-.03		.00	.00	.00	.00	.63
(14) Size	.34	.31	-.04	.05	.02	.05	-.39	.14	-.02	-.02	.19	.22	.16		.00	.00	.00	.06
(15) KLD 1991-2000	.39	.25	-.02	.01	.00	.01	-.10	.13	.00	-.01	.09	.07	.06	.53		.00	.00	.00
(16) KLD 2001-2002	.04	.06	-.01	.04	.03	.02	.01	.04	-.01	-.01	.02	.05	.05	.17	-.21		.00	.00
(17) KLD 2003-2011	-.35	-.25	.02	-.04	-.03	-.02	.07	-.14	.01	.02	-.09	-.10	-.09	-.58	-.69	-.56		.00
(18) Data year	.01	-.06	.09	-.28	.06	-.17	-.04	-.01	-.02	.00	.01	-.02	-.01	-.02	-.06	-.07	-.10	

Note. KLD = Kinder, Lydenburg, and Domini.

Table 2. Results for Model—Employee Strengths (“Yes”).

Fixed effects	Estimate and p level	Exp(estimate)
Intercept	-4.0527***	0.0174
Firm: Number of employee concerns	0.1862***	1.2047
Others' actions: Employee strengths	3.6590***	38.8225
Others' actions: Employee concerns	-0.4184	0.6581
Capital intensity	0.0009***	1.0009
Industry growth	-0.0121**	0.9880
Industry differentiation	2.3413***	10.3947
Industry concentration	0.0154***	1.0155
Firm: Advertising expense/sales	-0.3226	0.7243
Firm: R&D/sales	0.0001***	1.0001
Firm: Earnings per share	-0.0105	0.9896
Firm: Return on assets	0.0249	1.0252
Firm: Risk tolerance	-0.0358	0.9648
Firm Size: Ln(number of employees)	0.2464***	1.2794
KLD group: 1991-2000 (vs. 2003-2010)	1.7000***	5.4739
KLD group: 2001-2002 (vs. 2003-2010)	0.8486***	2.3364
KLD group: 2003-2010	0.0000	1.0000
Year: 2003 (vs. 2008)	-0.3889**	0.6778
Year: 2004 (vs. 2008)	-0.0895	0.9144
Year: 2005 (vs. 2008)	-0.0407	0.9601
Year: 2006 (vs. 2008)	-0.0069	0.9931
Year: 2007 (vs. 2008)	-0.0208	0.9794
Year: 2008	0.0000	1.0000
Year: 2009 (vs. 2008)	0.1092***	1.1154
Year: 2010 (vs. 2008)	-0.3815**	0.6828
Random effects: Subject = Firm (R-side)		
	Estimate	SE
Var(2003)	0.8138	0.0289
Var(2004)	0.9582	0.0350
Var(2005)	0.9479	0.0362
Var(2006)	0.9592	0.0382

(continued)

Table 2. (continued)

Random effects: Subject = Firm (R-side)		
	Estimate	SE
Var(2007)	0.9930	0.0416
Var(2008)	0.9501	0.0401
Var(2009)	1.3378	0.0622
Var(2010)	1.6268	0.0916
ARH(1)	0.7225	0.0075
Model Information		
Chi-square/df ratio	1.00	
Observations ("Yes" observations)	7,314 (1,6070)	
Link function	Logit	
Estimation technique	Residual Pseudo-Likelihood	
Degrees of freedom method	Between-within	
Fixed effects SE adjustment	Sandwich-classical	

Note. KLD = Kinder, Lydenburg, and Domini; ARH = heterogeneous autoregressive.
 * $p < .10$, ** $p < .05$, *** $p < .01$, two-tailed tests.

Others' Actions

The findings support Hypothesis 1. The employee-relations strengths of other firms are positively related to whether a firm has employee-relations strengths, $\exp(\beta_{\text{Others' Str}}) = 38.8225$, $t = 4.57$, $p < .01$, one-tailed. A virtuous cycle is more likely to ensue due to an increased likelihood of even more actions to strengthen employee relations.

Capital Intensity

Hypothesis 2 proposes that capital intensity is inversely related to a firm's employee-relations strengths. The results for Hypothesis 2 are significant, yet in the opposite direction of that we hypothesized. Instead of a negative coefficient, the model results showed that firms with higher capital intensity have more employee-relations strengths, $\exp(\beta_{\text{CapInt}}) = 1.0009$, $t = 3.38$, $p < .01$, two-tail.

Industry Growth

The results support Hypothesis 3. Firms in industries with high growth show a decreased likelihood of having employee-relations strengths, $\exp(\beta_{\text{IndGrow}}) = 0.9880$, $t = -2.44$, $p < .01$, one-tailed.

Industry Differentiation

The results support Hypothesis 4. Firms in industries with higher rates of differentiation are more likely to have employee-relations strengths, $\exp(\beta_{\text{IndDiff}}) = 10.3947$, $t = 2.80$, $p < .01$, one-tailed.

Industry Concentration

The results support Hypothesis 5. Firms in industries with higher concentrations are more likely to have employee-relations strengths, $\exp(\beta_{\text{IndConc}}) = 1.0155$, $t = 4.30$, $p < .01$, one-tailed.

Insurance-Like Qualities

The results support Hypothesis 6. A higher degree of employee-relations concerns positively relates to the presence of a firm's employee-relations strengths, $\exp(\beta_{\text{FirmCon}}) = 1.2047$, $t = 3.03$, $p < .01$, one-tail.

Random Effects

All individual random-effect variance estimates are significant at the $\alpha = .05$ level (Table 2). To formally test the usefulness of the covariance parameters, we examine the residual pseudo-likelihood for each model against null models. "The test statistic is formed as twice the difference of the . . . log (pseudo-) likelihoods of the full and the reduced models" (SAS Institute Inc., 2008). We find the covariance tests to be significant, $\chi^2 = 4365.26$, $df = 1$, $p < .0001$, compared with null models that assume complete independence. Consequently, there is evidence to support the appropriateness of a model with random effects, because models without the autoregressive structure are a worse fit than our specified model.

Overall Model Fit

Overall, the model does not show signs of overdispersion or underdispersion with a chi-square/ df ratio of 1.00 (Table 2). However, to validate the model, we tested its predictive strength against an out-of-time holdout sample of 2011 KLD data ($N = 985$). Because this model allowed for a nonlinear structure for time, we do not assume any incremental change between years. Thus, we score these observations as if they occurred in 2010, the most recent year we use in the model construction. The predictive ability of identifying firms with employee-relations strengths was good: 87% accuracy for strengths. We

calculate accuracy using the predicted probability for each observation. If the estimated probability of employee-relations strengths is greater than .5, then we classify the observation as if a “yes” is predicted. Otherwise, we classify the observation as if a “no” is predicted. Using this classification system, we use the ratio of correctly classified observations to total observations to derive the above accuracy percentages.

We use additional measures of predictive ability to validate the model using the out-of-time (2011) holdout sample. First, we compute the expected distribution of actions (“yes”) to total observations by summing the probabilities of the scored holdout sample. When we compare this prediction percentage (14.7% “yes”) with the actual observed distribution (14.9% “yes”), it shows a close fit.

An additional test is run to examine the robustness of the model. Each independent variable is removed individually, and a model is created using the remaining 15 fixed variables. These models are then applied to the 2011 holdout sample. The scored accuracy of these models, using the classification system described above, is never below 85.5%. Furthermore, regardless of the variable excluded from the model, the expected distribution of action (“yes”) falls in the range 13.8%–15.0% for the 2011 holdout sample. These robust results help confirm the model reliability.

Finally, we examine the ability of the models to discriminate actions of firms in the holdout sample using a cumulative gains chart, a technique commonly used to visually evaluate models with binary outcomes. To do this, we rank and sort the scored probabilities of the holdout sample from most to least likely to have employee strengths (“yes”). The gains chart shows the cumulative percentage of all observations (x -axis) compared with the cumulative percentage of firms with employee-relations strengths using the probability rank-ordered model scores (y -axis), represented by the solid black line in Figure 1.

We compare the model with two theoretical models. The first we use to compare is a random selection model, which one would expect to segment an equal proportion of firms that have employee-relations strengths compared with the percentage selected. For example, in a random draw of 10% of all firms, one would expect to find 10% of all the firms with employee-relations strengths. The dashed gray line in Figure 1 represents this model. At the other end of the spectrum is a perfect model, which would correctly classify all observations. The solid gray line in Figure 1 represents this model. The gains chart shows large improvements over the random selection model.

To decrease the subjectivity of interpreting the model fit graphically, we calculate a numeric measure of incremental fit. In this process, we use the area between these modeled curves and a random draw to assess the overall

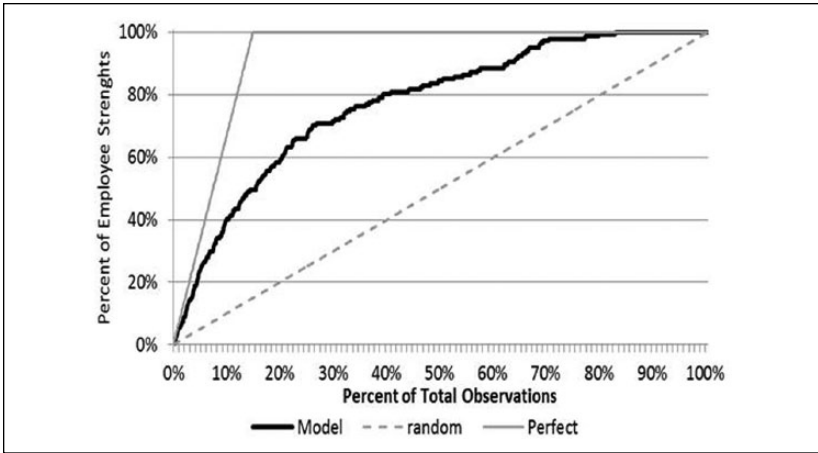


Figure 1. Cumulative rank-ordered model prediction for 2011 scored data: employee strengths (“Yes”).

model fit. Consequently, an area of zero would indicate a fit equal to random selection. Scaling this measure by the differential of the two theoretical models (perfect fit and random model) creates a common upper bound of one for the fit measure across models. Therefore, we can express this measure as follows:

$$\frac{\int_0^1 Model - \int_0^1 Random}{\int_0^1 Perfect - \int_0^1 Random}$$

Thus, a fit measure of 0 would indicate no added ability to distinguish firms with employee-relations strengths from those with no employee-relations strengths, whereas a fit measure value of 1 would indicate a model with a perfect rank-ordering split between those firms with employee-relations strengths and those without. The fit measure derived from the gains charts is 0.643 for the employee strengths model. Consequently, the model shows an increased ability to select firms that had employee-relations strengths.

Discussion

We found that external pressures positively relate to the presence of voluntary actions that strengthen a firm’s employee relations. Specifically, we found

employee strengths positively relate to firms with higher capital intensity, within concentrated industries, and with greater industry differentiation. Contrary to our expectations, the lack of industry growth correlates to strengthening employee relations. In addition, we find that others' strengths in employee relations positively relate to a firm with strengths in employee relations. Overall, our results suggest that external pressures significantly affect a firm's treatment of important (internal) stakeholders—employees—even after one controls for firm-level effects. We elaborate below on two findings from our research.

First, external pressures to conform positively relate to employee-relations strengths. Pressures from industry, subsector, and sector levels all influence responses to employees, while controlling for firm-level effects. Capital intensity shows a relationship in the opposite direction than we had hypothesized. That is, the more capital-intensive the industry, the more likely a firm would be to have an employee-relations strength. Subsector level differentiation also shows a positive relationship with the presence of an employee-relations strength in a firm. Relatedly, how others in a sector treat their employees—a concept adapted from the political strategy literatures (Schuler et al., 2002)—is important in predicting how a firm will treat its own employees.

Interestingly, fast-growing industries tend to have fewer employee-relations strengths. These entrepreneurial firms may focus on growth and experience rapid changes in employment and maturation of the firm with what are perhaps nascent human resources policies (Datta et al., 2005).

Second, employee concerns relate to the presence of employee strengths. Such a relationship could be the result of managerial decisions, as Godfrey et al. (2009) hypothesize in their discussion of the “insurance-like” properties of positive actions that can generate moral capital and diminish the consequences of negative actions. If these behaviors are not, however, the result of purposeful managerial choices, this could suggest that a proliferation of CR programs and initiatives—without careful consideration of how these activities integrate into core processes—may create unintended consequences that simultaneously strengthen employee relations and increase employee-relations concerns. This warrants additional research into the type, nature, and causal relationship between employee-relations strengths and concerns.

The model describing these relationships is 83% accurate in predicting which firms of a holdout sample have employee-relations strengths. Although the chart of cumulative gains shows the benefit of the model in segmenting firms that would have employee-relations strengths (Figure 1), the model and holdout sample includes a limited set of firms and uses only one definition of CR actions. As a result, one should use caution when trying to generalize these findings.

The existence and *persistence* of voluntary CR activities suggests a usefulness beyond mere ceremonial mimicry (Meyer & Rowan, 1983) that

involves longstanding behaviors that endure over time (DiMaggio & Powell, 1983). As such, voluntary behaviors that persist over time might be a necessary means by which a firm survives (Meyer & Rowan, 1983) and/or remains competitive (Godfrey, 2005). We leave it to future research to ascribe these voluntary CR actions to specific motivations such as survival, legitimacy enhancement, or competitiveness.

We also suggest that future research focus on expanding insights into (a) additional industry sectors as well as (b) a variety of stakeholders extending beyond employees. Expanding beyond manufacturing sectors to include service sectors, for example, would help researchers and managers to understand more clearly the CR mechanisms that enhance employee relations and also mitigate employee concerns. We would expect that the volume and intensity of voluntary employee activities would differ among firms in service industries to recruit and remain distinctive as they compete for top talent (Jones et al., 2014). We would also expect the risks associated with poor treatment of employees and contract workers to vary by service sector.

Expanding the focus to other (external or contractual) stakeholder relations such as consumer, supplier, or investor relations might provide insights into the complementarity or substitution effects that exist when managing multiple stakeholders simultaneously (Harrison & Freeman, 1999). We would expect that similar external pressures would manifest in different ways as a firm responds to consumer relations, for example, rather than to employee relations. We would also expect that the rate of growth (i.e., momentum) of voluntary CR activities for employee-related concerns, for example, to be different than for suppliers. As employees' demands are generally more public than suppliers' demands, perhaps firms need a minimal threshold of external awareness of relevant social issues related to suppliers to warrant voluntary actions.

In conclusion, we found external pressures significantly influence voluntary CR actions that firms direct at employees. One important conclusion is that managers need to attune themselves to the generalized pressures affecting employee relations that occur beyond factors at the firm level. Managers voluntarily exercise discretion beyond explicit mandates to strengthen employee relations. Interestingly, a one-size-fits-all approach to strengthening employee relations is likely to be too blunt, and more nuanced voluntary actions are warranted, in part because as concerns increase, so, too, may strengths. Our findings suggest that re-examining firm-employee research that carefully parses the conditions under which specific relations flourish (or do not flourish) is just as important now it was more than a decade ago, when Rowley and Berman (2000) suggested examining the conditions under which CR initiatives exist and persist.

Appendix

KLD Employee-Relations Strengths Components.

Component	Definition
Union relations	This indicator captures companies with high union density.
Cash profit sharing	This indicator captures companies that have a cash profit-sharing program through which it has recently made distributions to a significant proportion of its workforce.
Employee involvement	This indicator captures companies that encourage worker involvement via generous ESOPs or ESPPs.
Employee health & safety	This indicator captures companies that have strong employee health and safety programs. Initiatives include efforts to reduce exposure through comprehensive H&S policies and implementation mechanisms across the supply chain, identification and elimination of sources of H&S risk, training, operations and contractors performance auditing, certification under OHSAS (Occupational Health & Safety Advisory Services) 18001, setting up improvement targets, and assessment of historical performance tracking and reporting.
Supply chain labor standards	This indicator evaluates how well companies manage risks of production disruptions and brand value damage due to sub-standard treatment of workers in the company's supply chain. Companies that establish labor management policies meeting stringent international norms, implement programs to verify compliance with the policies, and introduce incentives for compliance among suppliers score higher.
Compensation & benefits	This indicator captures companies that provide noteworthy employee compensation and benefit programs.
Employee relations ^a	This indicator captures companies that provide employee engagement opportunities through collective bargaining or other employee involvement programs and actively measure employee satisfaction.
Professional development	This indicator captures companies that provide excellent employee training and development programs.
Human capital management	This indicator evaluates companies' ability to attract, retain, and develop human capital based on their provision of benefits, training and development programs, and employee engagement; and avoid labor unrest or reduced productivity due to poor job satisfaction. Companies that proactively manage human capital development through offering competitive benefit packages and performance incentives, implementing formalized training programs, offer employee engagement and professional development programs, and actively measuring employee satisfaction score highest.

Source. These measure definitions were taken directly from MSCI ESG Research (2013, pp. 10-11).

Note. ESOP = employee stock ownership plan; ESPP = employee stock purchase plan; OHSAS = Occupational Health & Safety Advisory Services.

^aIn the United States, collective bargaining can be imposed upon the employer if the employees elect to have a bargaining agent by majority vote.

Declaration of Conflicting Interests

The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

Funding

The author(s) received no financial support for the research, authorship, and/or publication of this article.

References

- Barnett, M. L., & Salomon, R. M. (2006). Beyond dichotomy: The curvilinear relationship between corporate social performance and corporate financial performance. *Strategic Management Journal, 21*, 1101-1122.
- Baumgartner, F., & Leech, B. (2001). Interest niches and policy bandwagons: Patterns of interest group involvement in national politics. *Journal of Politics, 63*, 1191-1213.
- Berman, S. L., Wicks, A. C., Kotha, S., & Jones, T. M. (1999). Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance. *Academy of Management Journal, 42*, 488-506.
- Bhattacharya, C. B., Sen, S., & Korschun, D. (2008). Using corporate social responsibility to win the war for talent. *MIT Sloan Management Review, 49*, 37-44.
- Bitektine, A. (2011). Toward a theory of social judgments of organizations: The case of legitimacy, reputation, and status. *Academy of Management Review, 36*, 151-179.
- Bromiley, P., & Marcus, A. (1989). The deterrent to dubious corporate behavior: Profitability, probability, and safety recalls. *Strategic Management Journal, 10*, 233-250.
- Carroll, A. B. (1979). A three-dimensional conceptual model of corporate performance. *Academy of Management Review, 4*, 497-505.
- Datta, D. K., Guthrie, J. P., & Wright, P. M. (2005). Human resource management and labor productivity: Does industry matter? *Academy of Management Journal, 48*, 135-145.
- Datta, D. K., & Rajagopalan, N. (1998). Industry structure and CEO characteristics: An empirical study of succession events. *Strategic Management Journal, 19*, 833-852.
- Davidson, W. N., Chandy, P. R., & Cross, M. (1987). Large losses, risk management, and stock returns in the airline industry. *Journal of Risk and Insurance, 55*, 162-172.
- Deephouse, D. L. (2000). Media reputation as a strategic resource: An integration of mass communication and resource-based theories. *Journal of Management, 26*, 1091-1112.
- Deephouse, D. L., & Carter, S. M. (2005). An examination of differences between organizational legitimacy and organizational reputation. *Journal of Management Studies, 42*, 329-360.

- Deephouse, D., & Suchman, M. (2008). Legitimacy in organizational institutionalism. In R. Greenwood, C. Oliver, R. Suddaby, & K. Sahlin (Eds.), *The SAGE handbook of organizational institutionalism* (pp. 49-78). London, England: SAGE.
- Delmas, M., Hoffman, V. H., & Kuss, M. (2011). Under the tip of the iceberg: Absorptive capacity, environmental strategy and competitive advantage. *Business & Society, 50*, 116-154.
- den Hond, F., Rehbein, K. A., de Bakker, F. G. A., & Kooijmans-van Lankveld, H. (2014). Playing on two chessboards: Reputation effects between corporate social responsibility and corporate political activity. *Journal of Management Studies, 51*, 790-813.
- Dess, G. G., & Beard, D. W. (1984). Dimensions of organizational task environments. *Administrative Science Quarterly, 29*, 52-74.
- DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review, 48*, 147-160.
- Dowling, J., & Pfeffer, J. (1975). Organizational legitimacy: Social values and organizational behavior. *Pacific Sociological Review, 18*, 122-136.
- Fligstein, N. (1985). The spread of the multidivisional form among large firms, 1919-1979. *American Sociological Review, 50*, 377-391.
- Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Boston, MA: Pittman.
- French, J. L., & Wokutch, R. (2005). Child workers, globalization, and intellectual business ethics. *Business Ethics Quarterly, 15*, 615-640.
- Friedman, M. (1970, September 13). The social responsibility of business is to increase its profits. *The New York Times*, pp. 32-33, 122, 126.
- Galaskiewicz, J., & Wasserman, S. (1989). Mimetic processes within an inter-organizational field: An empirical test. *Administrative Science Quarterly, 34*, 454-479.
- Ghemawat, P. (1991). *Commitment: The dynamics of strategy*. New York, NY: Free Press.
- Godfrey, P. C. (2005). The relationship between corporate philanthropy and shareholder wealth: A risk management perspective. *Academy of Management Review, 30*, 777-798.
- Godfrey, P. C., Merrill, C. B., & Hansen, J. M. (2009). The relationship between corporate social responsibility and shareholder value: An empirical test of the risk management hypothesis. *Strategic Management Journal, 30*, 425-445.
- Graves, S. B., & Waddock, S. A. (1994). Institutional owners and corporate social performance. *Academy of Management Journal, 37*, 1034-1046.
- Greening, D. W., & Turban, D. B. (2000). Corporate social performance as a competitive advantage in attracting a quality workforce. *Business & Society, 39*, 254-280.
- Griffin, J. J., & Mahon, J. F. (1997). The corporate social performance and corporate financial performance debate: Twenty-five years of incomparable research. *Business & Society, 36*, 5-31.
- Griffin, J. J., & Prakash, A. (2014). Corporate responsibility: Initiatives and mechanisms. *Business & Society, 53*, 465-482.

- Griffin, J. J., & Weber, J. (2006). Industry social standings: A social audit of the beer industry. *Business & Society, 45*, 413-440.
- Guo, G., & Zhao, H. (2000). Multilevel modeling for binary data. *Annual Review of Sociology, 26*, 441-462.
- Hambrick, D. C., & Cannella, A. A., Jr. (2004). CEOs who have COOs: Contingency analysis of an unexplored structural form. *Strategic Management Journal, 25*, 959-979.
- Hambrick, D. C., & Lei, D. (1985). Toward an empirical prioritization of contingency variables for business strategy. *Academy of Management Journal, 28*, 763-789.
- Hamilton, E. A. (2006). An exploration of the relationship between loss of legitimacy and the sudden death of organizations. *Group & Organization Management, 31*, 327-358.
- Harrigan, K. R. (1981). Barriers to entry and competitive strategies. *Strategic Management Journal, 2*, 395-412.
- Harrison, J. S., & Freeman, R. E. (1999). Stakeholders, social responsibility, and performance: Empirical evidence and theoretical perspectives. *Academy of Management Journal, 42*, 479-485.
- Hatfield, D. E., Liebeskind, J. P., & Opler, T. (1996). The effects of corporate restructuring on aggregate industry specialization. *Strategic Management Journal, 17*, 55-73.
- Henisz, W. J., Dorobantu, S., & Narthey, L. (2014). Spinning gold: The financial returns to stakeholder engagement. *Strategic Management Journal, 35*, 1727-1748. doi:10.1002/smj.2180
- Hersch, P., & McDougall, G. (2000). Determinants of automobile PAC contributions to House incumbents: Own versus rival effects. *Public Choice, 104*, 329-343.
- Hillenbrand, C., Money, K., & Pavelin, S. (2012). Stakeholder-defined corporate responsibility for a pre-credit crunch financial service company. *Journal of Business Ethics, 105*, 337-356.
- Hillman, A. J. (2003). Determinants of political strategies in U.S. multinationals. *Business & Society, 42*, 455-484.
- Hillman, A. J., & Keim, G. D. (2001). Shareholder value, stakeholder management, and social issues: What's the bottom line? *Strategic Management Journal, 22*, 125-139.
- Hillman, A. J., Keim, G. D., & Schuler, D. (2004). Corporate political activity: A review and research agenda. *Journal of Management, 30*, 837-857.
- Hull, C. E., & Rothenberg, S. (2008). Firm performance: The interactions of corporate social performance with innovation and industry differentiation. *Strategic Management Journal, 29*, 781-789.
- Johnson, R. A., & Greening, D. W. (1999). The effects of corporate governance and institutional ownership types on corporate social performance. *Academy of Management Journal, 42*, 564-576.
- Jones, D. A., Willness, C. R., & Madey, S. (2014). Why are job seekers attracted by corporate social performance? Experimental and field tests of three signal-based mechanisms. *Academy of Management Journal, 57*, 383-404.

- Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica*, 47, 263-291.
- KLD Research & Analytics. (2003). *KLD ratings data: Inclusive social rating criteria*. Boston, MA: Author.
- Luoma, P., & Goodstein, J. (1999). Stakeholders and corporate boards: Institutional influences on board composition and structure. *Academy of Management Journal*, 42, 553-563.
- Mackey, A., Mackey, T. B., & Barney, J. B. (2007). Corporate social responsibility and firm performance: Investor preferences and corporate strategies. *Academy of Management Review*, 32, 817-835.
- Mahon, J.F. (1989). Corporate political strategy. *Business in the Contemporary World*, 2, 50-62.
- Mahon, J. F., & McGowan, R. A. (1996). *Industry as a player in the political and social arena: Defining the competitive environment*. Greenwich, CT: Quorum.
- Margolis, J. D., & Walsh, J. P. (2001). *People and profits? The search for a link between a company's social and financial performance*. Mahwah, NJ: Lawrence Erlbaum.
- Mattingly, J. E., & Berman, S. L. (2006). Measurement of corporate social action: Discovering taxonomy in KLD ratings data. *Business & Society*, 45, 20-46.
- Mauri, A. J., & Michaels, M. P. (1998). Firm and industry effects within strategic management: An empirical examination. *Strategic Management Journal*, 19, 211-219.
- McGahan, A. M., & Porter, M. E. (1997). How much does industry matter, really? [Special issue]. *Strategic Management Journal*, 18, 15-30.
- McWilliams, A., & Siegel, D. (2000). Corporate social responsibility and financial performance: Correlation or misspecification? *Strategic Management Journal*, 21, 603-609.
- McWilliams, A., & Siegel, D. (2001). Corporate social responsibility: A theory of the firm perspective. *Academy of Management Review*, 26, 117-127.
- McWilliams, A., Siegel, D. S., & Wright, P. M. (2006). Corporate social responsibility: Strategic implications. *Journal of Management Studies*, 43, 1-18.
- Meyer, J., & Rowan, B. (1983). Institutionalized organizations: Formal structure as myth and ceremony. In W. W. DiMaggio & P. J. Powell (Eds.), *The new institutionalism in organizational analysis* (pp. 41-62). Chicago, IL: University of Chicago Press.
- Miles, J. G., Snow, C. C., & Sharfman, M. P. (1993). Industry variety and performance. *Strategic Management Journal*, 14, 153-177.
- Mitchell, R., Agle, B., & Wood, D. J. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of Management Review*, 22, 853-886.
- Money, K., Hillenbrand, C., Hunter, I., & Money, A. G. (2012). Modeling bi-directional research: A new approach to stakeholder theory. *Journal of Strategy and Management*, 5, 5-24.
- MSCI ESG Research. (2013). *User guide & ESG ratings definition*. New York, NY: Author.

- North, D. C. (1981). *Structure and change in economic history*. New York, NY: W.W. Norton.
- Orlitzky, M., Schmidt, F. L., & Rynes, S. L. (2003). Corporate social and financial performance: A meta-analysis. *Organization Studies*, 24, 403-441.
- Porter, M. E. (1980). *Competitive strategy*. New York, NY: Free Press.
- Porter, M. E. (1985). *Competitive advantage: Creating and sustaining superior performance*. New York, NY: Free Press.
- Porter, M., & Kramer, M. (2011). Creating shared value. *Harvard Business Review*, 89, 62-77.
- Prakash, A., & Potoski, M. (2013). Global private regimes, domestic public law: ISO 14001 and pollution reduction. *Comparative Political Studies*. Advance online publication. doi:10.1177/0010414013509573
- Rehbein, K. A., & Schuler, D. A. (1999). Testing the firm as a filter of corporate political action. *Business & Society*, 38, 144-166.
- Rindova, V. P., Williamson, I. O., Petkova, A., & Sever, J. M. (2005). Being good or being known: An empirical examination of the dimensions, antecedents, and consequences of organizational reputation. *Academy of Management Journal*, 48, 1033-1049.
- Rockness, J., Schlachter, P., & Rockness, H. O. (1986). Hazardous waste disposal, corporate disclosure, and financial performance in the chemical industry. *Advances in Public Interest Accounting*, 1, 167-191.
- Rowley, T., & Berman, S. (2000). A brand new brand of corporate social performance. *Business & Society*, 39, 397-418.
- Sampler, J. L. (1998). Redefining industry structure for the information age. *Strategic Management Journal*, 19, 343-355.
- SAS Institute Inc. (2008). *SAS/STAT® 9.2 user's guide: The GLIMMIX procedure*. Cary, NC: Author.
- Schuler, D. A., Rehbein, K., & Cramer, R. D. (2002). Pursuing strategic advantage through political means: A multivariate approach. *Academy of Management Journal*, 45, 659-672.
- Singer, J. D. (1998). Using SAS PROC MIXED to fit multilevel models, hierarchical models, and individual growth models. *Journal of Educational and Behavioral Statistics*, 24, 323-355.
- Spanos, Y. E., Zaralis, G., & Lioukas, S. (2004). Strategy and industry effects on profitability: Evidence from Greece. *Strategic Management Journal*, 25, 139-165.
- Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review*, 20, 571-610.
- Thauer, C. R. (2014). Goodness comes from within: Intra-organizational dynamics of corporate social responsibility. *Business & Society*, 53, 483-516.
- Tolbert, P. S., & Zucker, L. G. (1983). Institutional sources of change in the formal structure of organizations: The diffusion of civil service reform, 1880-1935. *Administrative Science Quarterly*, 28, 22-39.
- Turban, D. B., & Greening, D. W. (1997). Corporate social performance and organizational attractiveness to prospective employees. *Academy of Management Journal*, 40, 658-672.

- U.S. Census Bureau. (2001). *Concentration ratios in manufacturing (EC97M31S-CR)*. Washington, DC: Author.
- U.S. Census Bureau. (2007). *American fact finder table EC0731SR12* [Data file]. Available from <http://www.censusbureau.com>
- Vroom, G., & Gimeno, J. (2007). Ownership form, managerial incentives and the intensity of rivalry. *Academy of Management Journal*, 50, 901-922.
- Waddock, S. A., & Graves, S. B. (1997a). The corporate social performance-financial performance link. *Strategic Management Journal*, 18, 303-319.
- Waddock, S. A., & Graves, S. B. (1997b). Quality of management and quality of stakeholder relations. *Business & Society*, 36, 250-279.
- Weaver, G. R., Trevino, L. K., & Cochran, P. L. (1999). Integrated and decoupled corporate social performance: Management commitments, external pressures, and corporate ethics practices. *Academy of Management Journal*, 42, 539-552.
- Wood, D. J. (1991). Corporate social performance revisited. *Academy of Management Review*, 16, 691-718.
- Yamak, S., Nielsen, S., & Escriba-Esteve, A. (2014). The role of external environment in upper echelons theory: A review of existing literature and future research directions. *Group & Organization Management*, 39, 69-109.
- Yaziji, M. (2004). Turning gadflies into allies. *Harvard Business Review*, 82, 110-115.

Author Biographies

Jennifer J. Griffin is a Professor of Strategic Management & Public Policy and a Director of the Institute for Corporate Responsibility at The George Washington University in Washington, DC. As past Division Chair of the Social Issues in Management (SIM) Division of the Academy of Management, her research interests include corporate responsibility, corporate impacts, and stakeholder strategies.

Andrew Bryant is an Assistant Professor of Marketing at Drake University in the College of Business & Public Administration. His research interests include corporate responsibility and the intersection of marketing and public policy.

Charles P. Koerber received his PhD in Strategic Management and Public Policy from the George Washington University in Washington, DC. His research interests include business strategy and public policy, stakeholder management, and corporate responsibility.