JOURNAL OF MANAGERIAL ISSUES
Vol. XXVII Number 1 - 4 2015: 120-140

Creating Firm Value through Stakeholder Management and Regulation

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The unprecedented increase in the pressure on business organizations to help alleviate the concerns about a deteriorating natural environment and social well-being (Wall and Greiling, 2011) have brought to the foreground a heated discussion on the stakeholder approach to management (Freeman, 1984). This approach prompts executives to consider a multitude of stakeholders' interests. It is often said, however, that decisions which account for stakeholders' interests reduces firm value (Allen *et al.*, 2009).

Stakeholders comprise (groups of) individuals who affect and can be affected as organizations pursue their goals (Freeman, 1984). Stakeholder management acknowledges managers must meet their fiduciary obligations to shareholders (Sundaram and Inkpen, 2004); however, it prompts them to meet their commitment to societal interests as well (Freeman *et al.,* 2004). In contrast, non-profit shareholder management pursues a fundamentally "subversive social doctrine" (Friedman, 2002: 133). Stakeholder management explicates the organization's raison d'être (Freeman, 1984). It depicts a firm's stakeholder network, recommends sound organizational attitudes, structures, and practices, and defines how managers' perceptions affect stakeholder management decisions and firm outcomes (Mitchell *et al.,* 1997).

Research signifies that firms' *primary* stakeholders (such as customers, employees, and suppliers) are essential to value creation; the relationships with *secondary* stakeholders (such as the government, consumer advocacy groups, the community, and the media) are either loathed or ignored (Easley and Lenox, 2006a). Two theoretical

frameworks have informed the stakeholder performance-firm value link: (1) the resource-based view (RBV), which purports that stakeholder management encompasses valuable capabilities that increase firm value (Hart, 1995; Judge and Douglas, 1998), and (2) the institutional theory (IT), which prompts firms to seek legitimacy and social approval (Dimaggio and Powell, 1983; Hoffman, 1999; Hoffman and Ventresca, 2002) for access to vital organizational resources. Institutional pressures for isomorphism (e.g., an IT argument) can also foster firm deviance, entrepreneurship, and improvisation by managers to restore some level of heterogeneity (e.g., an RBV argument) among firms (Heugens and Launder, 2009). Therefore, the RBV and IT explanations of the stakeholder management-firm value link are complementary; however, in the context of firm value creation, these perspectives have not been examined together. Gjølberg (2009) uses this approach to explore the adoption of corporate social responsibility, and Bansal (2005), to assess corporate commitment to sustainable development.

Stakeholder management extends beyond regulatory compliance (Delmas and Toffel, 2004; McWilliams and Siegel, 2001), but varies by industry, and Godfrey *et al.* (2010) call for research that can shed more light on the unique industry characteristics that drive it (p. 337). One characteristic is the level of industry regulation which affects a firms day-to-day operations, from pricing and profits to production and marketing efforts.

This study integrates RBV and IT to investigate the stakeholder performance-firm value relationship addressing the following questions: *(1) What is the effect of the primary and secondary stakeholder performance on firm value and (2) what is the impact of the level of industry regulation (i.e., acceptable versus significant) on this relationship?*

Shareholders are a group of stakeholders, however, in this study, the term "stakeholders" means non-shareholder stakeholders. Subsequently, stakeholder performance represents the quality of relationships with constituents other than shareholders (Garsia-Castro *et al.*, 2011). *Primary stakeholder performance* concerns the firm's relationship with primary stakeholders. For example, to assess the relationship with one such group—employees—strong performance indicators (such as cash and profit sharing and employee involvement) can be weighed against poor performance indicators (such as workforce reductions and retirement benefits underfunding). Likewise, *secondary stakeholder performance* incorporates the assessment of the firm's relationship with secondary stakeholders. For example, to assess the communities' stakeholder performance, positive initiatives in the area of the impact on climate change and air pollution can be weighed against hazardous waste release and fines. Stakeholder performance should be distinguished from shareholder performance, which is the shareholder returns of a companies' stock.

Firm value is the market capitalization of a company (obtained by multiplying the stock price per share by the number of outstanding shares). The most refined proxies for firm value are Tobin's Q (Cremers and Ferrell, 2014), market-to-book ratio (Pérez-González and Yun, 2013), and the market value (Blundell *et al.*, 1999). Finally, the Food and Drug Administration (FDA) supplies a list of regulated industries making it easy to determine the level of industry regulation. It supplies a listing of companies in significantly and acceptably regulated industries. The FDA considers a company to be in a significantly-regulated industry if "the sales of FDA-regulated products constitute ten percent or more of annual gross sales in the organization's previous fiscal year. Where an organization does not have a record of sales of FDA-regulated products, it will

be deemed to be significantly regulated if its operations are solely in fields regulated by FDA."[1]

Contributions are offered in three domains. First, previous studies on stakeholder management use either RBV or IT (Bansal, 2005). This study suggests a conjoint explanation of the stakeholder performance-firm value relationship. Second, secondary stakeholder management is an under-investigated area of research (Easley and Lenox, 2006a). The distinction between the effects of the *primary* and *secondary* stakeholder management on firm value have not been clearly made. The primary versus secondary stakeholder approach suggests that performance in each stakeholder dimension has differing effects on the firm's value-creation ability and should be examined individually. Third, the moderating effects of the industry's regulation levels is a contingency of the stakeholder performance-firm value relationship that has not been investigated. In summary, considering industry and firm-level factors, some support for the complementarity of stakeholder performance and firm value is supplied.

THEORETICAL BACKGROUND

A stakeholder is any individual (or group) who affects or is affected by the firm (Freeman, 1984). Stakeholders are classified as direct or indirect (Freeman, 1984), generic or specific (Carroll, 1989), and primary or secondary (Clarkson, 1995). Primary stakeholders (such as financiers, customers, suppliers, and employees) are stakeholders with whom the firm interacts directly (Freeman *et al.*, 2010). They bear risk due to investing human and financial value in a firm (Clarkson, 1995). Secondary stakeholders do not transact directly with the corporation and are not essential for its survival (Clarkson, 1995). They include the government, competitors, consumer advocacy groups, special interest groups, the media, the community, and the natural environment (Donaldson and Preston, 1995; Peng, 2009, Freeman *et al.*, 2010). Stakeholder management reflects the way firms do business (Freeman, 2009). It deals with the identification and selection of organizational goals that reflect the convergent interests of related stakeholders (Freeman, 1984).

The Effects of Primary Stakeholder Performance on Firm Value: An RBV Perspective

The impetus for stakeholder management is the executives' need to cope with pressures from a complex mix of stakeholders (Freeman and McVea, 2001). To be sure, from the middle of the 20th century, "the attack on firms accelerated not only by governments, but also by consumers who became a vociferous and critical advisory" (Ansoff, 1982: 84). Effective stakeholder management was no longer optional.

So far, the literature has focused on relationships with primary stakeholders as they directly transact with the firm (Clarkson, 1995). That is, issues of mistreating employees or suppliers have more extensive repercussions when compared to issues with non-government institutions or activists groups. As a result, managers have sought to turn such relationships into sources of competitive advantage (Heugens and Launder, 2009).

[1] http://www.fda.gov/AboutFDA/WorkingatFDA/Ethics/ucm079482.htm

How and why firms design behavioral templates towards primary stakeholders that are sources of competitive advantage is discussed in RBV (Barney, 1991).

RBV posits that resources (e.g., assets, capabilities, processes, and knowledge) owned and controlled by the firm determine its growth potential (Penrose, 1959) and ability to create competitive advantages (Peteraf, 1993). Distinctive resources that are superior to those of rivals matter if they are matched well against the environment (Andrews, 1971) and when they are valuable, rare, inimitable, and non-substitutable (Barney, 1991; Newbert, 2007). RBV is interested in firm-specific resources because they are difficult to imitate (Teece *et al.*, 1997) and can deliver greater firm value (Porter, 2008).

Socially-complex and causally-ambiguous resources are more valuable because they are difficult to replicate (Barreto, 2010). Research shows that the management of a firm's relationship with suppliers and customers is a complex capability associated with sustained competitive advantages (Leonard, 1995; Hart, 1995; Hart and Dowell, 2011). Stakeholder relationships that are based on trust and cooperation can yield a better competitive position and greater firm value (Prahalad, 1997; Pfeffer, 1998). From an RBV perspective, "stakeholder welfare is a channel for investing in intangibles and would have a positive valuation effect" (Jiao, 2010: 2550).

Of particular interest to scholars have been the firm's relationship with employees (Berman *et al.*, 1999; Wheeler *et al.*, 2010). The building block of strategic HR management is how the organization, integration, and application of HR practices can reduce employee turnover and absenteeism, while increasing productivity and profitability. A firm's specific organizational strategy-HR fit is critical for enhancing firm value (Youndt *et al.*, 1996).

The so-called natural RBV deals with product stewardship (Hart, 1995)—the creation of products which counter environmental pollution and mobilize customers, suppliers, and competitors to identify solutions through product design and production processes (Hart and Dowell, 2011). Creating "eco-friendly" products that customers value can lead to competitive advantages (Shrivastava, 1995). Collaborating with employees is another important source of competitive advantage that can lead to greater profitability and shareholder value (Deniz-Deniz and Saa-Perez, 2003).

Overall, findings on the effects of stakeholder management on firm outcomes are still inconclusive (Tipuric and Lovrincevic, 2011). Some indicate a positive relationship (Waddock and Graves, 1997; Choi and Wang, 2009), others—a negative or insignificant relationship (Aupperle *et al.*, 1985; Tipuric and Lovrincevic, 2011). The majority of studies, however, confirm a positive association between primary stakeholder management and financial performance. The most recent literature review of this link identified a significant positive relationship in 68% of the studies examined, no significant relationship in 26% of them and a negative relationship 6% of the time (van Beurden and Gössling, 2008). A meta-analysis of studies on the subject spanning 35 years of research also finds a positive relationship (Margolis *et al.*, 2009). Since firm value is a function of growth and profitability (Palepu *et al.*, 1996), greater stakeholder performance should be associated with greater firm value. The major stakeholder group interested in firm value is shareholders (Ruf *et al.*, 2001). If primary stakeholders are essential to the firm's profitability, managers will have an interest in making primary stakeholder investments to increase firm value. In fact, managerial decisions dedicating

corporate resources to social performance very rarely impose a direct cost to shareholders (Margolis and Elfenbein, 2008). Therefore:

Hypothesis 1: There will be a positive association between the firm's primary stakeholder performance and firm value.

The Effects of Secondary Stakeholder Performance on Firm Value: An IT Perspective

Whereas firms intentionally distribute value to primary stakeholders to reach favorable organizational outcomes, their resource allocation decisions to secondary stakeholders have different motivations, because corporate resources are not automatically dependent on secondary stakeholders (Clarkson, 1995). All things equal, the distribution of organizational wealth to secondary stakeholders is not naturally justified and can be harmful to the bottom line (Easley and Lenox, 2006b). Managers are often reluctant to respond to secondary stakeholders, unless those stakeholders are seen as a legitimate and powerful reputational threat (Mitchel *et al.*, 1997); on a strategic level, secondary stakeholders are largely ignored (Easley and Lenox, 2006b) and firms frequently remain neutral to their demands (Easley and Lenox, 2006b). Thus, superior secondary stakeholder performance could reflect institutional pressure in that field rather than the pursuit of a competitive advantage.

The corporate effects of institutional pressures are described in IT. IT focuses on how regulatory, social, and cultural forces in a field restrict firms' structural and strategic autonomy (Delmas and Toffel, 2004). Then, to gain legitimacy, firms in that field will adopt strategic, structural, and performance similarity (Hoffman and Ventresca, 2002). Legitimacy is a condition which reflects alignment with the rules and laws of a particular environment (Scott, 1995) and offers firms access to vital resources (DiMaggio and Powell, 1983; Kostova and Zaheer, 1999). It shows the degree to which the institutional elements within the business environment affect the structure, characteristics, and performance of organizations (Barley and Tolbert, 1997).

Legitimacy itself is an important survival resource for organizations (Meyer and Rowan, 1977). Without it, the access to markets and financial and human resources is difficult, and protection by the law questionable (Aldrich, 1999). Legitimacy is associated with a positive symbolic performance (Barreto and Baden-Fuller, 2006) and greater social acceptance than deviant organizations (DiMaggio and Powell, 1983). According to IT, when firms respond to secondary stakeholder pressures, they will adopt templates of isomorphic behaviors to be accepted by their society, or to avoid negative publicity and minimize financial sanctions (Vanhamme and Grobben, 2009). When the response is driven by unexpected but legitimate and urgent claims, isomorphism occurs despite the firm consideration of timing for the adoption of behaviors in response to those claims (Hillman and Keim, 2001). That is, legitimacy does not presuppose operational efficiency, because on occasion, the pursuit of legitimacy involves monetary commitments that do not translate into superior firm value (Meyer and Rowan, 1977). As a result, isomorphic behaviors will have at best performance-neutral and at worst performance-diminishing outcomes (Meyer and Rowan, 1977).

The above discussion demonstrates that the relationship with secondary stakeholders is not viewed as a source of competitive advantage; rather, it is a path to

legitimacy. Since not all stakeholders share a set of core values, increasing the value of one group of stakeholders often conflicts with the increase of value for another (Freeman, 1984). Ultimately, diverting resources from the primary and essential to the secondary and non-essential stakeholders is aimed at preserving access to important resources. However, it constitutes a diversion of resources from opportunities to create greater firm value, because on a strategic level, the relationships with secondary stakeholders are often ignored by managers (Easley and Lenox, 2006b) as they are not seen as directly linked to the development of competitive advantages (Hillman and Keim, 2001). Therefore:

Hypothesis 2: There will be a negative association between secondary stakeholder performance and firm value.

The Moderating Role of Regulation

The effect of industry characteristics on the level and patterns of stakeholder management has an IT (DiMaggio and Powell, 1983) underpinning and is based on the premise that industries can markedly differ from each other in their economic and social conditions (Scott, 1995). A recent study found that the industry effect explained between 45% and 100% of the variance in firms' social responsibility practices (Godfrey *et al.*, 2010). Those differences affect stakeholder performance—i.e., consumer service industries focus on investment in communities but heavy industries prefer the natural environment and research into the specific industry characteristics that drive the social responsibility of the firm is needed (Godfrey *et al.*, 2010).

In the area of corporate environmental practices, Betts *et al.* (2015) show that stakeholder pressures are perceived differently in different types of industries, which impacts the environmental commitment of firms in those industries. Although firms can render a strategic response to environmental regulation (Buysse and Verbeke, 2003), regulation in itself plays a role in the introduction of better corporate environmental practices (Newton and Harte, 1997).

Some argue that stakeholder relationships do not have a strategic significance to the organization; rather, firms fit their strategy profitably into the environment in which they operate and do not design competitive strategies with an eye on the stakeholder objectives (Berman *et al.*, 1999). Nevertheless, even during times of financial distress, firms can engage in philanthropy to "gain legitimacy in the eye of primary stakeholders" (Moura-Leite *et al.*, 2012: 1214; Giannarakis and Theotokas, 2011). Although there are firm-level factors that affect the social responsibility of an organization, "CSR is a shared strategic asset" (Moura-Leite *et al.*, 2012: 1201) that is partially determined by an industry's characteristics (McWilliams and Siegel, 2001; Porter and Kramer, 2006). However, there is no clarity on what those characteristics are (Godfrey *et al.*, 2010; Moura-Leite *et al.*, 2012).

The most obvious institutional explanation of socially responsible corporate behavior is the state's regulatory sanctions (Campbell, 2007: 954), where "corporations will be more likely to act in socially responsible ways if there are strong and well-enforced state regulations" (Campbell, 2007: 955). Compliance with regulation can help the firm to avoid financial sanctions and improve its reputation; however, compliance signifies only a minimal and easily replicable effort that any business in a given industry is

expected to make (Hillman and Keim, 2001). Therefore, it can reasonably be argued that the more heavily the relationships with primary stakeholders are regulated, the less likely they are to be a source of competitive advantage; firm's will seek to derive competitive advantages and greater firm value from developing unique relationships with secondary stakeholders. Therefore:

Hypothesis 3a: The level of regulation in the industry in which the firm operates moderates the positive relationship between the primary stakeholder performance and firm value in such a way that this relationship is weaker in significantly-regulated industries than in acceptably-regulated industries.

Likewise:

Hypothesis 3b: The level of regulation in the industry in which the firm operates moderates the negative relationship between the secondary stakeholder performance and firm value in such a way that this relationship is weaker in significantly-regulated industries than in acceptably-regulated industries.

METHOD

Data and Sample

Kinder, Lydenberg, Domini (KLD) is the most respected source of stakeholder performance data (Dowling, 2014). Hence, the sample frame comprises all firms with KLD scores (2285 firms) in each of the three years examined (2005, 2006, and 2007). After excluding firms with insufficient COMPUSTAT data, 1993 firms were left, resulting in 5979 firm-year observations. Due to the discrepancy in data availability for each of the dependent variables, the sample size in the full regression varies between 5022 and 5861 firm-year observations. The effects of the level of regulation on the relationship between stakeholder management and firm value is assessed based on a selected sample of firms acceptably- or significantly-regulated by the FDA. Seventy percent of the firms for which there are KLD data (i.e., 204 significantly-regulated and 1411 acceptably-regulated firms) were regulated by the FDA in the period investigated. Thus, the sample with regulation data varies from 3844 to 4463 firm-years. Companies that were not included in the list of significantly- or acceptably-regulated industries were excluded from the analysis. Examples of significantly-regulated industries include food and kindred products (SIC 20), chemicals and allied products (SIC 28), and food stores (SIC 54). Holding and other investment offices (SIC 67), business services (SIC 73), and health care services (SIC 80) are examples of acceptably-regulated industries by the FDA.

Measures

Independent variables. The independent variables are based on KLD which assesses the governance, environmental, and social performance of firms on the Russell 3000

and Standard & Poor's 500 indices. Seven relationships with stakeholders are rated—community, corporate governance, diversity, employees, environment, human rights, and product. The evaluations are developed by a specialized, independent staff. They are based on various company, government, NGO, and media outlets, and are widely used in management research (Reid and Toffel, 2009). Positive and negative firm performance is evaluated. Each firm receives a score of 0, 10, 20, or 30 for positive and 0, -10, -20, and -30 for negative indicators. A brief description of the KLD dimensions is provided in the Appendix.

The stakeholder performance scores are based on Clarkson's (1995) classification of primary and secondary stakeholders. The *primary stakeholder performance* is the difference between the negative and positive scores (Jiao, 2010) in employee relationships, diversity, product, governance, and the labor concerns dimension of human rights. The *secondary stakeholder performance* is the difference between the positive and negative scores in environment, community, and human rights (other than labor rights). Gestalt measures (the sum of KLD scores) are widely used in stakeholder research (e.g., Hillman and Keim, 2001; Madsen and Ulhoi, 2001; Jiao, 2010).

Level of regulation was measured using a dummy variable — 1 for significantly-regulated industries and 0 for acceptably-regulated industries.

The study controls for firm size, firm risk, year, and industry (Waddock and Graves, 1997). The logarithm of the number of employees represents *firm size* (Moeller *et al.*, 2004). The *betas*, as reported in COMPUSTAT, are a proxy for firm risk. The fixed effects regression automatically controls for *industry*. A dummy variable for the *year* was also used as a control. All independent variables cover 2005-2007.

Dependent variables. Three common measures of firm value were used—the logarithm of (1) Tobin's q (Tobin and Brainard, 1968), (2) Market-to-Book ratio (Villalonga and Amit, 2006), and (3) Market Value (Blundell *et al.*, 1999). Tobin's q is the market value of the firm per dollar of replacement costs of the tangible assets (Dowell *et al.*, 2000). It is the book value of assets minus the book value of equity plus the market value of equity, divided by the book value of assets (Moeller *et al.*, 2005). The Market-to-Book ratio is the market value of the firm divided by its book value, each measured in millions of dollars (Pérez-González and Yun, 2013). The Market Value is the sum of the total values of all issue-level shares outstanding (Blundell *et al.*, 1999). The Market-to-Book ratio and the Market Value were available in COMPUSTAT; Tobin's q was calculated using the above equation while also drawing from COMPUSTAT data. The dependent variables are lead variables ($t + 1$), because stakeholder performance has a delayed effect on firm value (Herbig *et al.*, 1994). They cover 2006-2008. Table 1 presents the descriptive statistics.

Table 1
Descriptive Statistics and Correlations[a]

Variable	Mean	s.d.	1	2	3	4	5	6
1. Tobin's Q[b]	1.02	1.01						
2. M/B[b]	0.86	0.76	0.76**					
3. Market Value[b]	21.12	1.49	0.31**	0.30**				
4. Primary	1.00	44.77	0.07**	0.05**	0.14**			
5. Secondary	1.21	26.45	0.09**	0.08**	0.11**	0.33**		
6. Employees[c]	7.95	1.93	0.08**	0.01	0.60**	0.02	0.11**	
7. Beta	1.30	2.27	0.02	0.02	-0.03*	-0.07**	0.00	-0.02

[a] n = 5979
[b] Dependent Variables (Tobin's Q, Market/Book ratio, and Market Value) are represented by their t+1 log values
[c] Employees is represented by the log value
* $p < 0.05$; ** $p < 0.01$

Table 2
KLD Fixed Effects Results: Main Effects

Variables	Model 1			Model 2		
	Tobin's Q[a]	Market/Book[a]	Market Value[a]	Tobin's Q[a]	Market/Book[a]	Market Value[a]
Primary				-0.0004	0.0005	0.0009*
Secondary				0.0034**	0.0022***	0.0016*
Employees (log)	-0.2064***	-0.1600	0.063	-0.2049***	-0.1587***	0.0631
Beta	-0.0437	-0.0479	-0.0665	-0.0434	-0.0478*	-0.0664
Year '06	-0.1899***	-0.1559	-0.1243	-0.1937***	-0.1561***	-0.1223***
Year '07	-0.6753***	-0.6212	-0.7334	-0.6789***	-0.6245***	-0.7356***
Constant	2.8740***	2.3568	20.9838	2.8615***	2.3438***	20.9793***
Firm Fixed Effects	Included	Included	Included	Included	Included	Included
Year Dummies	Included	Included	Included	Included	Included	Included
N Firm Years	5022	5671	5861	5022	5671	5861
N Firms	1974	2094	2129	1974	2094	2129
F-stat	215.48***	435.48***	439.75***	146.46***	291.51***	294.44***
Adjusted R-squared	0.2784	0.417	0.4234	0.2799	0.4184	0.4245

[a] Dependent Variables (Tobin's Q, Market/Book ratio, and Market Value) are represented by their t+1 log values
* $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$

Results

To control for firm-level unobserved heterogeneity (Kang, 2013) a fixed effects regression examines the association among the variables of interest. The Hausman test suggested that the approach is preferable (χ = 146.08, p = 0.0000). Additional diagnostics revealed no concerns for multicollinearity. Table 2 presents the results of the direct effects.

Model 1 is the null model and contains the control variables only. Model 2 shows the main effects on the dependent variables. This model yields support for *H1* only in the case of market value ($\beta = 0.0009$, $p < 0.1$). There is a significant association between secondary stakeholder performance and all dependent variables ($\beta = 0.0034$, $p < 0.05$ for Tobin's q; $\beta = 0.0022$, $p < 0.01$ for Market-to-Book ratio; $\beta = 0.0016$ $p < 0.1$ for Market Value); however, the association is in the opposite direction of *H2*; secondary stakeholder performance is positively (and not negatively) and significantly associated with firm value. Table 3 presents the moderating effects of the level of regulation.

Table 3
KLD Fixed Effects Results: Moderating Effects of Regulation

Variables	Model 3		
	Tobin's Q[a]	Market/Book[a]	Market Value[a]
Primary	-0.0004	0.0002	0.0005
Secondary	0.0015	0.0006	0.0003
Primary X Regulation	-0.0037	-0.0002	0.0008
Secondary X Regulation	0.0093**	0.0054**	0.0027
Employees (log)	-0.1718**	-0.1325**	0.0346
Beta	-0.1254***	-0.1285***	-0.1730***
Year '06	-0.1754***	-0.1331***	-0.0902***
Year '07	-0.6538***	-0.6020***	-0.6913***
Constant	2.6897***	2.2215***	21.3407***
Firm Fixed Effects	Included	Included	Included
Year Dummies	Included	Included	Included
N Firm Years	3844	4337	4463
N Firms	1476	1571	1593
F-stat	81.75***	178.78***	190.33***
Adjusted R-squared	0.2805	0.4374	0.4521

[a] Dependent Variables (Tobin's Q, Market/Book, and Market Value) are represented by their t+1 log values
* p < 0.10; ** p < 0.05; *** p < 0.01

According to Model 3 *H3a* is rejected; there is no evidence of a moderating effect of industry regulation levels on the primary stakeholder performance-firm value relationship. However, the level of industry regulation positively moderates the secondary stakeholder performance-firm value relationship yielding support for *H3b* in the case of Tobin's Q ($\beta = 0.0093$, $p < 0.05$) and Market-to-Book value ($\beta = 0.054$, $p < 0.05$).

The hypotheses and findings are summarized in Table 4.

Table 4
Summary of Hypotheses

Hypothesis	Independent Variable	Prediction	Tobin's Q	Market/ Book	Market Value
H1	Primary Stakeholders	+	Not Significant	Not Significant	+
H2	Secondary Stakeholders	-	+	+	+
H3a	Primary X Regulation	-	Not Significant	Not Significant	Not Significant
H3b	Secondary X Regulation	+	+	+	Not Significant

DISCUSSION AND CONCLUSIONS

Discussion

Contrary to what is hypothesized, the primary stakeholder performance has no effect on firm value. Much of the literature finds a positive stakeholder performance-firm outcomes link (van Beurden and Gössling, 2008). In the past decade, however, there has been an unprecedented increase in many forms of stakeholder engagement, from corporate philanthropy to support of particular causes (Chernev and Blair, 2015). The present study indicates that effective primary stakeholder management has become a basic expectation that any surviving organization must meet and offers hardly any point of differentiation or firm value creation. Although the firms in the sample for Model 3 belong to a multitude of industries and face varying levels of regulatory pressure, they are all regulated to some degree by the FDA, which can increase similarities in their primary stakeholder performance and firm value creation. Furthermore, the sample in Model 3 includes 70% of the firms for which KLD data are available.

In all meta-analysis so far the positive stakeholder management-firm financial outcomes are very weak (e.g., Margolis and Walsh, 2003; Orlitzky *et al.,* 2003; Margolis *et al.,* 2009). Since investments in stakeholders constitute diverting resources from shareholders, some have suggested that a major impact on financial performance should not be assumed (Orlitzky *et al.*, 2003). Alternatively, the financial benefits of stakeholder management may be less obvious than anticipated (Margolis *et al.*, 2009) and the link is mediated by factors like reputation and customer satisfaction (Saeidi *et al.,* 2015).

Unlike what is hypothesized, secondary stakeholder performance positively affects firm value. Within the institutional forces debate, the master theory (Hoffman and Ventresca, 2002) posits that the institutional pressure in a given field limits the strategic and structural autonomy of firms and makes firms similar. Isomorphic pressures, however, foster resistance in the form of entrepreneurship, innovation, and firm heterogeneity (Washington and Ventresca, 2004; Heugens and Launder, 2009). According to the present findings, this argument applies to secondary stakeholders only. Secondary stakeholder involvement has lagged behind the widespread concerns related to primary stakeholders, and appears to provide opportunities for unexplored competitive advantages.

What can explain that? Building a diverse secondary stakeholder relationship network can provide firms with legitimacy and reciprocal secondary stakeholder support (Barnett, 2007), weaving a safety net that protects firms from financial fluctuations (Godfrey *et al.*, 2009). As firms continuously diversify, developing such relationships can supply professional knowledge in uncharted sociopolitical environments and positively influence the firm's financial performance (Su and Tsang, 2015). Most importantly, fostering links with secondary stakeholders is increasingly influencing the firm's relationship with primary stakeholders (Wang and Qian, 2011) through social movements that can deteriorate the relationship between the firm and its customers and employees and hurt its financial performance (King and Soule, 2007).

Additionally, Table 1 shows that firms in significantly-regulated industries have better overall secondary stakeholder performance than those in acceptably-regulated industries. Perhaps, the extra regulatory burden forces firms in significantly-regulated industries to attend to their secondary stakeholders in more creative ways than firms in acceptably-regulated industries. An important finding here is that heavier federal regulation cultivates an environment in which a disproportionately smaller number of firms (204) operate in significantly-regulated industries; however, they are better at doing good while doing better for their secondary stakeholders than (approximately 1000) firms functioning in acceptably-regulated industries. This is consistent with a growing body of literature that examines the ways in which firms develop competitive advantages as a result of their proactive management of relationships with their *non-essential* secondary stakeholders, such as the government. For example, Baines and Viney (2010) developed a five-stage model (from highly-proactive to purely reactive) to show how some organizations approach strategically their political environment as they try to develop competitive advantages. Furthermore, a government can deter firms from certain actions, but it can also incentivize them to reward shareholders through proactive use of CSR (Gond *et al.*, 2011). The findings on the effects of secondary stakeholder management on firm value demonstrate that the actions of the regulator can present opportunities and not only constraints.

Limitations and Future Research

The primary limitations of the present study can be summarized as follows: (1) only archival data are used, (2) only US firms are examined, (3) the effects of firm-specific characteristics, and (4) other industry characteristics on the examined relationships beyond the control variables are not tested. For each of those limitations, some future research directions are suggested.

Based on the present findings, a future study can investigate what exactly makes firms in industries that are significantly-regulated successful in creating more firm value than those in acceptably-regulated. A combination of archival and primary data sources can be used to assess the effects of the perceptions, personality, and cognition of the members of the top management team (TMT) and the board of directors (BOD) on these differences. Perhaps, the characteristics of the dominant coalition such as propensity for risk-taking, experience, personality, female representation, and TMT and BOD compositions, interlocks, and dual leadership influence those differences. Additionally, other organizational and industry characteristics such as organizational slack, international experience, level of diversification, age, and environmental munificence and turbulence are also of interest.

As the interest in gender differences grows, an investigation of the question of whether the presence of more women in the dominant coalition partially explains the stakeholder performance-firm value relationship can be undertaken and cross-cultural differences explored. Many studies argue that men and women differ in their attitudes and actions—men have been found to be more assertive and risk-taking; women score higher on anxiety and tender-mindedness (Brody and Hall, 2000). For example, a 55 nation cross-cultural report confirmed that gender differences in personality traits (such as neuroticism, extraversion, agreeableness, and conscientiousness) are larger in developed countries where men and women are less constrained from divergence (Schmitt *et al.,* 2008). Also, evolutionary theories predict that gender selection pressure causes men to be more risk prone and women more nurturing (Buss, 1997). These differences as measured by female representation on TMT and BOD can be associated with the nature of primary and secondary stakeholder relationships.

The moderating role of more industry characteristics should be tested. For example, the current study identified no significant link between some of the variables. Perhaps, many of the industries represented in this sample are advanced in the area of primary stakeholder management; therefore, they have achieved some level of isomorphism in their primary stakeholder performance. If such industries can be identified, an IT perspective can be used to reason about the relationship between primary stakeholder performance and firm value. Two interesting questions to examine are: (1) what is the effect of isomorphic pressures on primary stakeholders and firm value and (2) does firm value diminish in the case of non-compliance?

Conclusions

The present study explores the effects of stakeholder performance on firm value. In addition, the moderating effects of an important contingency variable—the level of industry regulation—on that relationship are examined. The findings in a sample of 1614 US firms demonstrate that the secondary, but not primary, stakeholder performance has a positive impact on firm value. Additionally, this relationship is strengthened in industries that are significantly-regulated by the FDA relative to those that are acceptably-regulated. Thus, firms in regulated industries are better able to translate their secondary stakeholder performance into firm value. This confirms neither the purely institutional theory argument that in pursuit of legitimacy, firms in a field become more homogeneous (DiMaggio and Powell, 1983) nor the purely resource-based view argument that to achieve competitive advantages, firms try to be more

heterogeneous (Barney, 1991). By and large, when the industry pressures organizations to conform to specific primary stakeholder standards, firms seek to derive competitive advantages elsewhere—from their relationship with secondary stakeholders.

APPENDIX: KLD Indicators (an abridged version)

Community:

Positive indicators: charitable giving, non-US charitable giving, support for housing and education, strong volunteer program, in-kind giving program, or engagement in positive community activities.

Negative indicators: investment controversies (in relation to the Community Reinvestment Act), negative economic impact (on the quality of life, tax base, property value), mobilization of community opposition.

Corporate governance:

Positive indicators: limited compensation for the executives (less than $500,000), ownership of 20-50% of the firm, innovative compensation plan for board of directors and executives.

Negative indicators: high compensation, tax disputes, ownership concerns related to investment in firms that are rated by the KLD as having areas of social and other concerns.

Diversity:

Positive indicators: female CEO, promotion of women, including at the executive level, provision of work/life benefits, and employment of disabled, gay and lesbian policies.

Negative indicators: substantial fines or civil penalties as a result of affirmative action, non-representation of women at the executive level, involvement in diversity controversies.

Employee relations:

Positive indicators: cash and profit sharing, employee involvement, a strong health safety program, a strong retirement benefits program, a history of strong union relations.

Negative indicators: poor union relations, substantial fines/civil penalties for willful violation of employee health and safety standards, workforce reductions, retirement benefits underfunding.

Environment:

Positive indicators: beneficial products and services, reduction in the impact on climate change and air pollution, the company is signatory to the CERES Principles, pollution prevention, recycling.

Negative indicators: hazardous waste, regulatory problems (fines/civil penalties in violation of air, water, and other environmental regulation), ozone depletion

chemicals, substantial emissions, agricultural chemicals, substantial sales of coal or oil and its derivatives.

Human rights:

Positive indicators: strength in relations with indigenous people, labor rights strengths, undertaken human rights initiatives, outstanding transparency and disclosure on human rights.

Negative indicators: Burma concerns, labor rights concerns, involvement in serious controversies with indigenous people, operations outside of the US have been the subject of major recent human rights.

Product:

Positive indicators: quality, R&D and innovation in products, provision of benefits to the economically disadvantaged is part of the company's mission, products provide social benefits.

Negative indicators: fines/civil penalties related to product safety, involvement in major marketing contracting issues, fines/civil penalties for anti-trust violations as price fixing, collusion, or predatory pricing, problems with franchises, nuclear safety problems, defective product issue.

Source: KLD ESG Scores File Description, 1990-2007 KLD Research and Analytics, Inc.

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Motivated by understanding the growing pressure on business organizations to help alleviate the natural environments and social well-being concerns in a profitable manner, this work investigates the degree to which the firm's *primary* and *secondary* stakeholder performance translates into a greater firm value. In a longitudinal study of 1614 United States firms regulated by the Food and Drug Administration, the resource-based view of the firm and institutional theory are integrated to assess a firm's value outcomes of stakeholder management. The findings indicate that stakeholder performance and firm value creation are complementary. However, the level of the industry regulation and a firm's commitment to secondary stakeholder interests must be factored into the quest for greater firm value. Directions for future research are suggested.

A universal problem facing leaders is little knowledge about how generational cohorts react uniquely to organizational change. This lack of knowledge may cause change initiatives to fail. Although studies portray cultural character of generations, few studies describe generational differences in their response to organizational change. This article presents results of a phenomenological study that explored generational response to organizational change. *Five core themes emerge*: (a) communication, (b) employee involvement, (c) understanding how change impacts employees, (d) perceptions of change, and (e) generational perceptions. Leaders can benefit from the current study by being able to customize change strategies based on predictive generational behavior, thereby improving their own success as leaders.