

Stakeholder Pressures as Determinants of CSR Strategic Choice: Why do Firms Choose Symbolic Versus Substantive Self-Regulatory Codes of Conduct?

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Abstract To encourage corporations to contribute positively to the environment in which they operate, voluntary self-regulatory codes (SRC) have been enacted and refined over the past 15 years. Two of the most prominent are the United Nations Global Compact and the Global Reporting Initiative. In this paper, we explore the impact of different stakeholders' pressures on the selection of strategic choices to join SRCs. Our results show that corporations react differently to different sets of stakeholder pressures and that the SRC selection depends on the type and intensiveness of the stakeholder pressures as well as the resources at hand to respond to those pressures. Our contribution offers a more specific and finely variegated analysis of firm-stakeholder interactions.

Keywords CSR · Voluntary codes of conduct · Stakeholder pressures · KLD · SD · Pollution-intensive industries · Resource discretion

Introduction

In the past decade, the prominence of sustainable development (SD) issues have moved into the global mainstream of public consciousness. Holt and Barkemeyer (2012) report a significant spike in worldwide coverage of the terms “sustainability” and “SD,” most notably since 2002. Spurred by stakeholder interest and pressure, many large corporations have taken note of this shift in public awareness and taken action. Indeed, many have chosen to go beyond the minimum regulations expressed through laws and regulations and have acceded to stricter environmental and social rules through “self-regulatory institutions” (Berchicci and King 2007). Also referred to as voluntary codes of conduct, part of the broader category of “private” (versus public) regulation, these “self-regulatory codes” (SRCs)¹ have become an important vehicle through which firms demonstrate their commitment to a more sustainable future.

Specific to the SD cause, corporate commitment to voluntary SRCs has served as an alternative or complement to national laws and rules, which are difficult to enforce at the supranational level (Tietenberg 1998; Wang 2002; Doh and Guay 2004; Blackman 2008; Alvarez-Larrauri and Fogel 2008). Some scholars have suggested that these voluntary “self-regulatory” programs may be just as effective as government mandated programs because they “compel” firms toward improved environmental/social behavior through public disclosure (Pérez-Batres et al. 2010; Runhaar and Lafferty 2009; Cetindamar and Husoy

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¹ Berchicci and King (2007) use the term self-regulatory institutions or SRI to identify voluntary codes of conduct regarding social or environmental practices. The SRI nomenclature, however, also refers to “socially responsible investment.” Therefore, we favor the abbreviations SRC/SRCs over that of SRI to avoid confusion.

2007; Kell 2005). Others, however, have been sharply critical of such codes, arguing they are a poor substitute for binding laws and regulations and allow firms to benefit from the positive reputation that is conferred by SRC membership. They envision firms enrolling in such SRCs as “public deceivers” because (they say) the codes do not require firms to undertake real and lasting changes to their policies (Hess 2008; Chatterji and Listokin 2007; Reich 2007).

The implicit disagreement and more interesting argument, however, does not rest in whether large firms have embraced some form of self-regulation in regards to corporate responsibility—they have. Rather, the potentially greater interest rests in understanding their strategic purpose for doing so. For instance, Delmas and Burbano (2012) suggest that a number of firms are in fact engaging in “greenwashing,” that is, in actions designed to mislead consumers (and other stakeholders) about their social and environmental achievements. Nonetheless, they also recognize the existence of firms that “truthfully” communicate their achievements. In the same vein, several authors have used the terms “symbolic” and “substantive” to differentiate possible greenwashers from those who are truly committed, respectively (King and Lenox 2000; Jiang and Bansal 2003). Symbolic management, however, is not a new topic. Several studies within the management field find that symbolic actions can be decoupled from actual implementation while still yielding the desired effect of positively affecting a firm’s legitimacy (Weaver Treviño and Cochran 1999; Westphal and Zajac 2001; Stevens et al. 2005; Zott and Huey 2007; Berrone et al. 2009).

Studies of firms joining different arrays of “self-regulatory” codes have answered important questions and have identified the interesting dichotomy of symbol versus substance. Yet, the literature has not fully addressed the interplay between stakeholder pressures and corporate SRC-adoption choices. To this end, Berchicci and King (2007) conclude that SRCs are “double-edged weapons” which can hide information or reveal it to stakeholders. In this paper, we *explore the impact of different stakeholders’ pressures on the selection of different strategic choices, by corporations, to join SRCs.*

This paper proceeds as follows. We first offer a short review of the basic terminologies related to corporate social responsibility (CSR) and SD. Then, drawing from institutional and transaction cost theory insights, we explore stakeholder pressures on firm decisions to associate with two similar, yet distinct SRCs, both of which are influential codes of conduct within the SD realm—the United Nation Global Compact (UNGC—which we suggest emphasizes a more symbolic management of CSR) and the Global Reporting Initiative (GRI—which we suggest emphasizes substantive adherence to a standard).

Further, we propose that the resulting firm decision to associate with either SRC is influenced by different stakeholder pressures as well as industry considerations. We then describe our data and statistical approach, drawing from a sample of 1,145 large public American corporations (all included in the KLD report). Our results reveal that corporations do react differently to different sets of stakeholder pressures and that the SRC selection does depend on the type or intensiveness of the stakeholder pressures. Specifically, we explore whether a firm’s relative ability to respond to these pressures (i.e., a firm relative resource stock to implement CSR-change) influences its SRC choice, and find that resource availability is determinant in such responses. We conclude our paper by noting our study’s contribution and suggesting avenues for future research.

Stakeholder Pressure and Symbolic Versus Substantive CSR: Theory and Hypotheses

There is an extensive literature on CSR and SD. In addition, related terms such as corporate citizenship are part of the vernacular (Rasche 2009). For our purposes, CSR is limited to those activities that constitute the “actions of the firm.” Following McWilliams and Siegel (2001), we define CSR as actions of the firm that appear to advance some social good, beyond the immediate interests of the firm and its shareholders and beyond that which is required by law. SD, as defined in the Brundtland Report (1987, p. 8), is about “meeting the needs of the present (generation) without compromising the ability of future generations to meet theirs.” More recently, the United Nations World Summit Outcome Document (2005) recognized economic development, social development, and environmental protection as the three pillars of SD, each one of them of equal importance. Jensen (2007) suggests that SD is essential for pursuing and achieving economic development among the world’s nations. Hence, SD is to be interpreted as the broader concept as it represents a more holistic and higher level of analysis than the actions of single organizations. As such, scholars identify SD mainly as a macroconcept (e.g., aggregate country level and aggregate global level).

In short, CSR is a company-level decision issue, whereas SD is a country-level or global commitment or set of initiatives (i.e., the aggregate effect of organizations, on the three pillars, within a country or the world). This viewpoint is consistent with the recently established ISO 26000, which describes corporate responsibility as the actions a firm takes to contribute to the earth’s SD. To this end, we adhere to this distinction and within the remainder of the paper we use the terms “CSR” when referring to “firm action,” and “SD” when acknowledging an

aggregate effect of organizations pursuing (or not pursuing) CSR policies.

SRCs as Providers of Certified Standards of Responsible Conduct: Symbol, Substance, or Both

Jiang and Bansal (2003) distinguished between the actual adoption of technical standards, set by SRCs, and the visibility of the very association to that self-regulating institution. In evaluating self-regulation practices, Berchicci and King (2007) considered several apparent drawbacks of this practice—i.e., “tragedy of the commons,” free riding, information asymmetries, power, and greenwashing (by strategic choice). Undoubtedly, the most poignant aspect attributable to these types of standards is the symbolic versus substantive dichotomy. Thus, borrowing from Berchicci and King’s (2007) review, we further explore firm strategic choice, as a firm’s way to gain legitimacy before relevant stakeholders. In turn, legitimacy is enhanced by decreasing the information asymmetry gap between the firm and its relevant stakeholders.

Assuming that firms cater to the needs of different sets of stakeholders to enhance their legitimacy status, the particular interplay between specific stakeholder pressures and firm reaction to those pressures then becomes a more relevant (yet understudied) phenomenon. Mason et al. (2007) pose the question as to whose legitimacy is at stake. For our line of inquiry, the relevant issue is whether stakeholder pressures influence firms to join *different* SRCs within the same sustainability realm.

Stakeholder Salience and CSR

For Freeman and Reed (1983), stakeholders are groups of individuals (with relatively common goals or agendas) who can have an influence on an organization’s ability to achieve its goals. As a central tenet, stakeholder theory posits that a firm’s obligations are not only with its shareholders but also with multiple groups or individuals (Donaldson and Preston 1995). Hence, stakeholder theory rests on the notion that normative pressures (emanating from firm stakeholders) allow for a more efficient governance structure. This normative pressure acknowledged by Donaldson and Preston (1995) and widely accepted in institutional theory literature is also advocated by Pérez-Batres et al. (2011). Their study concerning Latin American and European firms’ decisions to join the UNGC/GRI sheds light on the influence of significant actors (i.e., stakeholders) to impose normative values, thus determining “exemplary” behavior.

Similarly, others argue that public disclosure mechanisms allow firms to “show” their good behavior.

Tietenberg (1998) suggests that SRC membership encourages and rewards the highest performing firms with added reputation and legitimacy. That is, through moral obligation, SRCs can better guide firms to behave responsibly. In turn, responsible environmental or social behavior is demonstrated in the form of certifications and/or public disclosure, which validates the expected conduct. Moreover, and in contrast to public regulation, which is most often limited by the borders of nation states, some SRCs have become truly supranational entities. In fact, the proliferation of SRCs presents a challenge to the business community. That is, should firms join them? And, if so, what are the potential outcomes derived from this decision?

SRCs can help firms mitigate the negative effects of asymmetric information (Darnall and Carmin 2005; King et al. 2002). In other words, by joining sound SRCs, corporations can communicate to their relevant stakeholders about unobserved attributes of their products and processes. For example, SRC certification might help to validate a firm’s stated commitment to corporate responsibility. Nonetheless, given the realities of resource scarcity, it is highly unlikely that organizations can “appease” all stakeholder groups all of the time. Managing multiple stakeholders presents a unique organizational challenge (Hall and Vredenburg 2005). Thus, it is of paramount importance that organizations accurately determine the relevance of each stakeholder group (Henriques and Sadosky 1999; Pérez-Batres et al. 2010) and the effectiveness of the SRC to do so.

SRCs, in their institutional role, reduce uncertainty by providing reliable and efficient structures for economic/information exchange with their stakeholders (Meyer and Rowan 1977; DiMaggio and Powell 1991). In turn, organizations are more likely to conform to the framework provided by the selected SRC. Scott (1995, 2001) posits that organizational legitimacy (i.e., the degree of social support for the organization by influential others) rests on one or more of three institutional pillars—regulative, normative, and cognitive. In this discussion, we emphasize Scott’s normative pillar, which establishes a moral base for determining organizational legitimacy. This is because the moral base specifies the roles, rights, and responsibilities of individuals and organizations in a society. Thus, in so far as organizations comply with their roles, as determined by the selected SRC, social stability should be enhanced and with it organizational legitimacy (Thomas 2007). To this end, social actors who are able to promote morally governed behavior, and thereby exercise normative pressures, are influential stakeholders. However, who are these influential social actors?

Hart (1995), among others, has acknowledged the importance of identifying influential stakeholders as a key factor for firm success. More specifically, Henriques and

Sadorsky (1999) identified four stakeholder groups that pressure firms to protect the natural environment: regulatory stakeholders, organizational stakeholders, community stakeholders, and the media. Buysse and Verbeke (2003) proposed that regulatory stakeholders, external primary stakeholders, internal primary stakeholders, and secondary stakeholders were the more influential. Nonetheless, the identifying of influential stakeholders remains an empirical question (Murillo-Luna et al. 2008). Some authors explain stakeholder importance in terms of their power, legitimacy, and urgency; what Mitchell et al. (1997) define as stakeholder “salience.” It is this notion of stakeholder salience—the influence different stakeholder groups have on management decisions—within the context of the firm’s desire to achieve normative legitimacy that we believe motivates companies to voluntarily join SRCs.

SRCs as Legitimacy-Conferring Instruments

Corporate decisions to stake out a defined position on CSR depend in part on management values and characteristics (Mitchell et al. 1997; Egri and Herman 2000; Sharma 2000). Nonetheless, stakeholders can also be seen as a means for corporations to realize the effectiveness of their CSR policies. Doh et al. (2010, p. 1466) argue that “consideration as a socially responsible firm constitutes a form of organizational legitimacy that is operationalized in a comparative sense (reputation) through inclusion in (or exclusion from) a social index” and that under conditions of evaluative uncertainty, the capabilities of social actors are assessed by certification contests or endorsements from reputable third parties (Rao 1994; Scott 1995).

Doh et al. (2010) further report on the growing number and impact of third-party CSR and corporate citizenship rankings and ratings undertaken by journals, financial institutions, and other organizations. Accordingly, firms would seek to be considered as socially responsible because such a perception bestows reputational effects, a form of organizational legitimacy that is operationalized in a comparative sense. Indeed, firms with a strong reputation for CSR can generate enhanced support from consumers, employees, and investors (Waddock and Graves 1997). Although Doh’s et al. (2010) focus is on socially responsible investment indices, their insights about firms actively responding to stakeholder pressures for public legitimacy is consistent with our view. In other words, that third-party stakeholders’ assessment of a firm corporate responsibility will influence its decisions to formally accede to codes and certifications that can either codify positive CSR reputation or buffer negative perceptions. In the next section, we introduce our arguments and hypotheses as they relate to these relationships.

Hypotheses

Many organizational theorists suggest that environmental² change is mostly responsible for the reshaping of organizations (e.g., Hannan and Freeman 1977, 1984; Aldrich 1979). This deterministic viewpoint assumes environmental selection rather than organizational adaptation (Carroll 1984). By contrast, adaptation models assume that organizational actors are purposeful and able to respond properly to environmental challenges (Allmendinger and Hackman 1996). Sabherwal et al. (2001) recognized a dearth of research on the dynamics of alignment even though Gersick (1994, p. 11) had called to halt the debate between selection and adaptation and rather focus on “when and how organizations steer successfully through changing environments.” Indeed, more than 40 years ago, Thompson (1967, p. 234) acknowledged the issue of organization-environment fit—i.e., environmental alignment—as a “moving target.”

While some studies have found evidence about firms joining SRCs due to stakeholder pressures (Waddock and Graves 1997; Henriques and Sadorsky 1999; Buysse and Verbeke 2003; Doh et al. 2010; Pérez-Batres et al. 2012), we seek to extend this research by exploring a more variegated response to such pressures, focusing on how different pressures may beget different responses. Of relevance to this exploration, Siegel and Vitaliano (2007) used business-level strategy logic (differentiation) to argue that firms producing a “search good,³” are less likely to engage in CSR than those producing an “experience good” (e.g., automobiles, appliances and weight control programs) or a “credence good.⁴” At its crux, their argument is about the dynamics of alignment where firms selling a particular kind of good (experience or credence good) are more likely (in general) to react to stakeholder pressures—i.e., more likely to be socially responsible than firms selling other types of goods (search goods). In other words, firms “correctly” read the external pressures and choose to act/react in a specific, yet different, fashion, and we presume in accordance to their external pressures.

Some studies of SRC-adoption have used an institutional theory or an asymmetric information rationale to explain the decision to adopt or not (Doh et al. 2010). Institutional theory arguments frequently rest within the notion that normative pressures from influential others will elicit firms to do whatever they can to adhere to the new

² Their use of the words “Environment” or “Environmental” imply external pressures and have no relationship to SD or sustainability.

³ A search good is that for which its quality can be observed (e.g., an orange).

⁴ A credence good is that for which the “true” value cannot be evaluated even after consumption (e.g., higher education).

“moral” environmental or social standards (DiMaggio and Powell 1991; Scott 1995, 2001; Pérez-Batres et al. 2010, 2011). The corporate goal is that of legitimacy attainment. Asymmetric information arguments, on the other hand, stem from the realization that informational constraints increase transaction costs by hindering a firm’s ability to allocate its resource efficiently (Spence 1975). More specifically, asymmetric information hinders a firm’s ability to efficiently select buyers or suppliers while enhancing its monitoring costs—to a transaction—as well (Akerlof 1970; O’Rourke 2001; King et al. 2005).

In developing our theoretical arguments, we leverage and integrate these two logics with legitimacy-seeking as the principal objective from either perspective. In our case, legitimacy is bestowed by a particular set of relevant stakeholders. The mitigating of asymmetric information through joining the “right” SRC—whereby corporate-stakeholder communication takes place—we contend is a process by which a firm garners legitimacy status from a targeted stakeholder group. These insights lead us to expect that firm strategic selection—i.e., SRC selection—is related to specific stakeholder groups. Indeed, some authors have argued that differences among stakeholder groups affect how their influences are perceived by the organization (Henriques and Sadorsky 1999; Buysse and Verbeke 2003). Moreover, there have been several studies about the “direction” of the pressure. That is, whether the pressure is positive or negative (see: Berman et al. 1999; Waddock 2003; Deckop et al. 2006).

If we are to accept that corporations follow two main SRCs—strategic choices, symbolic and substantive, then we should also expect these choices catering to specific, yet different, stakeholder groups. The relative salience of a particular stakeholder to a particular firm is the principal contributor to these choices. For instance, Murillo-Luna et al. (2008) considered managers’ perceptions in terms of stakeholder (environmental) pressure; where higher stakeholder pressures, perceived (salience) by managers, resulted in a more proactive firm response. Brammer et al. (2006) also evaluated the salience of some stakeholder groups in relation to firm geographic diversification choice. In short, while the extant literature on CSR/SD suggests a relationship between stakeholder pressure and SRC-adoption, we do not have an understanding about which type of stakeholder group is more supportive of a firm’s strategic choice, between that of symbolic versus substantive.

Positive and Negative Pressures for SRC-adoption

Wisner and Epstein (2005) suggest the existence of a “pull” effect of market pressures, whereby firms are positively pressured (i.e., motivated) to respond to good business opportunities. Indeed, they demonstrate that

export-oriented firms from developing markets tend to show compliance with the higher environmental standards of developed markets. Their results are consistent with those of Christmann and Taylor’s (2001) and Rondinelli and Berry’s (2000), who find that exporting-oriented firms are pressured to self-regulate (i.e., self-imposed stricter regulations) and thereby are more likely to join SRCs.⁵

Wisner and Epstein (2005) also suggest that increased regulatory pressures would “push” companies to improve environmental performance. In contrast, in the absence of strong regulatory pressures, Christmann (2004) suggests that firms would self-regulate, and that the source of these pressures would come from non-governmental stakeholders. In synthesis, the “push” effect, which usually implies a strong regulatory environment, can also present itself in the form of concerned stakeholders who might think that an organization is not fulfilling its stakeholder obligations. In this instance, private stakeholders appear to have taken the role vacated by government regulators.

Gaining CSR-legitimacy before relevant stakeholders might not be an easy task (or might be too easy). This is because the CSR policies and guidelines suggested by some SRCs are unobservable and thereby it would be difficult for the “common” stakeholder to realize whether a corporation is in compliance. Previous studies suggest that less strict “symbolic” SRCs might be the popular choice for some corporations (King and Lenox 2000; Howard et al. 2000) as “the appearance rather than the fact of conformity is often presumed to be sufficient for the attainment of legitimacy” (Oliver 1991, p. 155). On the other hand, the public act of (SRC) “certification” reduces information asymmetries (King et al. 2005). Some corporations might find subscribing to substantive SRCs the right vehicle to both implement and communicate the adoption of certain standards to relevant stakeholders.

In sum, corporations are motivated by two simultaneous polar effects. On the one hand, they are motivated by the “pull” effect of positive stakeholder pressures to join either a symbolic or substantive SRC, relative to their own strategic CSR choice. On the other hand, they are also forced by the “push” effect of negative stakeholder pressures to join either a symbolic or substantive SRC, relative to their own strategic CSR choice. While it is not obvious that positive stakeholder pressure will result in more or less substantive responses, customer demands for CSR provide incentives for firm self-regulation (McWilliams and Siegel 2001). The empirical evidence suggests that environmental and labor standard certifications are primarily driven by customer preferences for products from certified suppliers (Christmann and Taylor 2001).

⁵ They use the different acronym EMS (not SRI/SRC), which stands for Environmental Management System.

In light of these arguments, it is feasible to assume that a “pull” effect (i.e., stakeholder positive pressures) should be associated with a firm’s desire to retain its existing legitimacy and reputation. Under this scenario, the commitment to an appearance of compliance rather than the fact of conformity to new pressures should be enough to maintain its legitimacy status. In contrast, we expect a “push” effect (i.e., stakeholder negative pressures) to be associated with a firm’s move to establish a more deeply embedded, internalized, and sustainable certification effect, whereby it may be able to restore legitimacy that has been challenged or threatened. Accordingly, we posit the following:

Hypothesis 1a A firm’s membership in a symbolic SRC is associated with positive stakeholder pressure.

Hypothesis 1b A firm’s membership in a substantive SRC is associated with negative stakeholder pressure.

Stakeholder Appraisals (and Potential Downside Risk)

An accepted rationale for firms engaging in CSR activity is that of risk mitigation. For instance, Austin and Weiskillern (2004) argue that Starbucks’ alliance with Conservation International provided Starbucks with a risk mitigation effect as the company appeared to be environmentally and socially responsible for doing so. This rationale is also mentioned as a characteristic of certification standards (e.g., SRCs) which include the standards’ code and the system to communicate the “good” being done (King et al. 2005). Furthermore, we have already commented that SRCs help firms mitigate the negative effects of asymmetric information in so far as they (the SRCs) validate a firm’s engaging in CSR activity.

Berchicci and King (2007) have warned that SRCs can serve the dual purpose of either concealing information (i.e., misinforming) or revealing it. The problem is that of informational asymmetries, which hinder a firm’s ability to adequately communicate its level of CSR compliance. For Potoski and Prakash (2005a, b) substantive certification standards, such as ISO 14000, demonstrate (to stakeholders) that participating firms engage in superior efforts to achieve CSR compliance. The question remains, however, when/why would a firm chose a symbolic SRC over a substantive SRC, and vice versa. Assuming the substantive SRC-choice is the more expensive and risky one, as it entails a higher degree of expenditures and greater potential exposure to coming up short in terms of meeting the specific obligations, firms would then be naturally drawn to the symbolic choice—assuming a low downside risk. However, as downside risk increases, firms are subject to increasingly greater cumulative pressure (and associated challenges to their legitimacy). Thus, we believe firms

would be more willing to favor a SRC-substantive choice (over the symbolic one) as they try to assure CSR compliance to their stakeholders.

Doh et al. (2010) acknowledge the growing number and impact of third-party CSR and corporate citizenship rankings and ratings undertaken by journals, financial institutions, and other organizations. For better or for worse these rankings bestow reputational effects. The “worse” component comes to light when/if firms were to have no recourse to communicate with their relevant stakeholders directly. According to this logic, firms that are exposed to a higher number of stakeholder rankings (or appraisals) incur a higher downside risk, as they are subject to a much higher degree of scrutiny and external pressure. In light of these arguments, we posit

Hypothesis 2a The number of stakeholder appraisals (rankings) is positively associated with a firm’s substantive SRC-strategic choice.

Hypothesis 2b The association between stakeholder appraisals and SRC-substantive strategic choice is stronger than that between stakeholder appraisals and symbolic SRC-strategic choice.

Pollution-Intensive Industries

Although not associated with a particular set of stakeholder pressures, there is empirical evidence⁶ demonstrating that multinational firms belonging to pollution-intensive industries are more likely to adhere to SRCs than firms from less pollution-intensive industries (Pérez-Batres et al. 2012).

Certainly, firms from pollution-intensive industries may be responding to normative pressures from influential stakeholders and decide to do whatever they can to adhere to the new “moral” sustainability standards. Likewise, these firms might be responding to the actions of their peers. According to the cognitive pillar of institutional theory, organizations operate under a shared social reality. In turn, this reality is implemented through mimetic isomorphism (DiMaggio and Powell 1991; Scott 1995). Under conditions of uncertainty, organizations seek to imitate behaviors and routines of their “legitimate” peers, as doing so would increase their own legitimacy (Haunschild and Miner 1997).

From an informational asymmetric (transaction costs perspective), organizations would calculate the possible enhancement of its overall cost, over their SRC-choice. According to Minor and Morgan (2011), CSR efforts (and

⁶ Pérez-Batres et al. (2012) show there is such an effect for large public international firms but not for large public local firms operating in Mexico.

their corresponding expenditures) should be treated as the premium paid for “reputation insurance.” As with a “normal” insurance policy, the premium paid only reflects costs until (and if) an adverse event occurs. For these authors, “CSR done correctly produces considerable returns following adverse effects.” But which firms are more likely to pay for CSR insurance? In investigating “common sanctions” as drivers for self-regulatory institutions, Berchicci and King (2007) referred to several studies demonstrating that the misfortune of a firm (within an industry) could quickly affect other firms. For instance, Barnett (2006) reports that after Bhopal, firms similar to those where accidents had happened promptly lost value. In other words, the “common sanctions” argument resembles that of the popular adage “guilty by association.” According to Blacconiere and Patten (1994), the common sanctions effect is positively related to firm homogeneity.

Clearly, firms from pollution-intensive industries face a higher degree of scrutiny as they need to comply with higher expectations than firms from less pollution-intensive industries. In light of this reality, these firms (the former) are likely to buy “CSR-insurance,” and pay higher premiums for it. In turn, both mimetic isomorphism and the avoidance of a “guilty by association” effect shall further emphasize the high CSR-insurance rationale. As mentioned before (continuing with the analogy), it is clear that higher CSR insurance premium can be thought as substantive CSR codes, and vice versa. Hence, we hypothesize

Hypothesis 3a Pollution-intensiveness is positively associated with a firm’s substantive SRC-strategic choice.

Hypothesis 3b The association between pollution intensiveness and a firm’s substantive SRC-strategic choice is stronger than that between pollution intensiveness and a firm’s symbolic SRC-strategic choice.

Slack Resources

Throughout our discussion, we have explicitly and implicitly argued for the relevance of stakeholder pressures in a variety of contexts. We have suggested that these pressures have the power to motivate or force firms into committing to the CSR/SD cause. To our knowledge, few (if any) studies account for the role of managerial discretion when considering stakeholder influences on firm CSR performance or compliance (Phillips et al. 2010). For instance, Donaldson and Preston’s (1995) study assumes a great deal of discretion, or lack of operational constraints. To this end, scholars have found (as is often the case) that discretion is not a stable condition and does not have the same value for all stakeholder groups. In turn, the problem

becomes one of resource allocation, in exchange for enhanced value (Harrison et al. 2010). In a similar vein, an unavoidable condition providing organizations with the ability (the discretion) to carry their desired objectives is that of having slack resources. For example, slack resources allow organizations to engage in new ventures or processes such as those suggested by serious SRCs. In studying the effect of slack resources on organization-environmental fit, Voss and colleagues (2008) used several measures of slack resources while considering organizational adaptation to different environmental conditions (e.g., environmental threat). To this end, they found support for the argument that as an environment becomes more threatening, the association between financial slack and product exploration would become more positive. We believe financial resources are an indispensable requisite to engage in new ventures or routines, such as that of joining a SRC. Thereby, it should follow that firms with a higher level of slack resources should be more likely to engage in new activities, than otherwise, given they have the discretion to do so; and more so if higher downside risks were to be perceived. Consistent with our previous statements and arguments, there should be a positive association between slack resources and firm SRC compliance, especially toward substantive ones, as nowadays non-compliance may enhance a firm’s downside risks (Austin and Wei-Skillern 2004).

As per the exploration component, it is not easy to peg this characteristic to either symbolic or substantive SRCs. Some might argue that because of their rigidity, substantive SRCs might not fully qualify as exploratory CSR endeavors. On the contrary, some might argue that symbolic (more flexible) SRCs should qualify as exploratory CSR endeavors. For instance, Slaughter (2004) has mentioned that the UNGC (identified here as the symbolic choice) provides firms with the ability to form partnerships and “explore” the best way to go about fulfilling their CSR/SD commitment.

In light of these arguments, slack resources should be clearly associated to a firm decision to join a SRC. Furthermore, assuming firms join SRCs to avoid possible downside risks rather than seeking exploration benefits, we anticipate a stronger association between slack resources and substantive choices, than to symbolic ones. Thus, we hypothesize

Hypothesis 4a Slack resources are positively associated with a firm’s substantive SCR-strategic choice.

Hypothesis 4b The association between slack resources and a firm’s substantive SCR-strategic choice is stronger than that between slack resources and a firm’s symbolic SCR-strategic choice.

Data and Methods

Data and Sample

Our panel data research sample consists of 1,145 large publicly traded American firms with at least one KLD-score attained between the years of 2001–2005, for a total of 3,683 firm-years. We chose a selection period that corresponded with the emergence and growth of SRCs, generally, and the UNGC and GRI in particular. KLD scores have been widely used to examine CSR (Margolis and Walsh 2003, 2007; Bagnoli and Watts 2003; Waddock 2003; Deckop et al. 2006; Chatterji et al. 2009) and are among the most comprehensive corporate social and environmental ratings available for North American publicly traded companies (see Waddock 2003 for an in-depth explanation on the reliability and validity of the KLD rating system). The KLD dataset covers firms from the S&P 500 Index, the Domini 400 Social Index, the Large Cap Social Index, and the Broad Market Social Index. The Appendix presents a more detailed explanation on the KLD data.

Table 1 presents the corresponding descriptive statistics. Because our dependent variable is dichotomous and our data is longitudinal, we used longitudinal logistic regression equations, specifically the xtlogit parameter in STATA, to test our hypotheses (Zeger, and Liang 1986; Frees 2006; Rabe-Hesketh and Skrondal 2008). The actual models are presented in Table 2 and are further explained in the results section.

Dependent Variables

In general terms, certification standards/programs include two main characteristics: (1) specific “off-the shelf” code of standard practices and (2) a certification system to communicate the use of specific type of practices (King et al. 2005; Ansari 2010). For CSR/sustainability standards, it is not different. Firms might join a particular SRC with the purpose of (1) implementing a specific set of standards, (2) communicating the use of certain type of appropriate standards, or (3) both implementing and communicating the adoption of certain standards. Several studies demonstrate that a number of organizations have joined SRCs due to external pressures (Rivera et al. 2006; Doh et al. 2010; Pérez-Batres et al. 2012).

We used the UNGC⁷ and the GRI as proxies for symbolic and substantive SRCs, respectively. Sponsored by the United Nations, the UNGC can be understood as a SRC that “certifies” organizations’ willingness to commit to 10 principles within the four categories—the environment,

human rights, labor, and transparency. The UNGC does not ask its members to adhere to particularly strict sets of rules (at least not initially). The UNGC has generally been considered a broad, consensus-driven initiative that sets general, aspirational standards with relatively little oversight or enforcement. As such, we considered the UNGC to be more reflective of a “symbolic” demonstration of firms’ commitment to sustainability.

The GRI, on the other hand, is “a multi-stakeholder governed institution collaborating to provide the global standards in sustainability reporting” (GRI 2009B). It is considered by many authors as the leading authority on sustainability, after its widely accepted framework for sustainability reporting (White 2006; Lopez et al. 2007; Hess 2008; Dilling 2010). The GRI provides thoroughly specific guidelines on how to prepare sustainability reports. These reports are organized into the following categories⁸: Economic, Environmental, and Social. In turn, the social category is broken down into the following subcategories: Labor, Human Rights, Society, and Product Responsibility. Organizations adhering to the GRI guidelines should report according to their level of choice/commitment (between A + through C), which corresponds to the degree of rigor and third-party party statement acknowledging the firm’s compliance with the guidelines. Therefore, we considered the GRI more reflective of a substantive demonstration of firms’ commitment to sustainability.

We identified the UNGC and GRI as ordinal dichotomous variables with the following outcomes: firms joining the UNGC or the GRI between the years of 2002–2006 = 1 and 0 otherwise. We recorded these variables each year to accommodate for a longitudinal analysis. It is worth noting that not all GRI signatories maintained uninterrupted membership status after their initial incorporation into the GRI program—thus the 0/1 outcome could vary from year to year. This was not true for UNGC signatories, which maintained their membership during the studied period.

Independent Variables

We used yearly KLD scores attained over the period of (2001–2005) as a proxy for stakeholder (positive/negative) pressures. The KLD score measures how (positively or negatively) a firm is seen by influential stakeholders. They cover approximately 80 indicators in seven major CSR dimensions: Community (charity programs), Corporate Governance (transparency), Diversity (minority’s representation), Employee Relations (union relations, health and retirement benefits), Environment (pollution, waste management), Human Rights (global reach), and Product

⁷ See Kell 2005; Vormedal 2005; Cetindamar and Husoy 2007; and specially Runhaar and Lafferty 2009 for an explanation on the UNGC.

⁸ See the GRI website at <https://www.globalreporting.org/reporting/latest-guidelines/g3-guidelines/Pages/default.aspx>.

Table 1 Means, standard deviations, and correlations

Variable	Mean	S.D.	1	2	3	4	5	6	7
1 UNGC	0.01	0.11	1						
2 GRI	0.03	0.17	0.28*	1					
3 UNGC-lagged	0.01	0.08	0.67*	0.24*	1				
4 GRI-lagged	0.02	0.15	0.21*	0.63*	0.27*	1			
5 Size	14.6	47.7	0.16*	0.27*	0.13*	0.27*	1		
6 Profitability	1.26	15.7	0.05*	0.06*	0.03	0.05*	0.07*	1	
7 Cumulative stakeholder strengths	0.21	0.28	0.08*	0.10*	0.07*	0.09*	0.08*	0.01	1
8 Cumulative stakeholder concerns	0.40	0.38	0.02	0.02	0.02	0.03	0.03	0.00	0.31*
9 Community strengths	0.03	0.09	0.28*	0.32*	0.25*	0.27*	0.35*	0.09*	0.29*
10 Community concerns	0.03	0.08	0.09*	0.11*	0.08*	0.09*	0.15*	0.06*	0.08*
11 Corporate governance strengths	0.04	0.09	-0.02	-0.01	-0.02	-0.01	-0.02	-0.03	0.41*
12 Corporate governance concerns	0.08	0.13	0.01	0.00	0.02	0.01	-0.02	-0.02	0.24*
13 Diversity strengths	0.07	0.12	0.00	0.01	0.00	0.00	-0.02	0.00	0.70*
14 Diversity concerns	0.12	0.16	0.00	0.01	-0.02	0.01	0.03	-0.02	-0.10*
15 Product strengths	0.01	0.05	0.02	0.02	0.00	0.03	-0.01	-0.01	0.45*
16 Product concerns	0.05	0.13	0.01	0.00	0.01	0.00	-0.02	0.01	0.29*
17 Pollution-intensiveness	1.63	0.74	0.06*	0.15*	0.07*	0.14*	-0.03	-0.09*	0.05*
18 Slack resources	12.90	243	0.00	0.02	0.00	0.02	0.00	0.03	0.00
19 Stakeholder appraisal	4.02	1.06	0.10*	0.15*	0.06*	0.13*	0.22*	0.20*	0.05*

Variable	8	9	10	11	12	13	14	15	16	17	18
8 Cumulative stakeholder concerns	1										
9 Community strengths	0.04	1									
10 Community concerns	0.22*	0.22*	1								
11 Corporate governance strengths	-0.01	-0.02	-0.02	1							
12 Corporate governance concerns	0.57*	0.00	0.00	-0.12*	1						
13 Diversity strengths	0.27*	-0.01	0.00	0.06*	0.33*	1					
14 Diversity concerns	0.45*	0.00	0.00	0.04*	0.01	-0.18*	1				
15 Product strengths	0.15*	0.00	0.00	0.04*	0.14*	0.24*	-0.03	1			
16 Product concerns	0.59*	0.00	0.00	-0.01	0.31*	0.34*	-0.01	0.12*	1		
17 Pollution-intensiveness	0.00	0.04*	0.06*	0.04*	0.01	0.02	-0.02	0.03	0.01	1	
18 Slack resources	0.01	0.00	0.00	-0.03	0.00	-0.01	0.01	0.00	0.01	-0.04	1
19 Stakeholder appraisal	0.02	0.22*	0.16*	-0.02	0.01	0.00	-0.02	0.00	-0.01	0.03	0.00

N = 3,683 year observations, * p = <0.01

(quality). Further, these dimensions include both positive and negative ratings (strengths and concerns). However, KLD does not provide an index or cumulative score. That is why several researchers have created their own way to test for the impact of the seven dimensions on firms. For instance, Hillman and Keim (2001, p. 131) created the following system: “The KLD categories are rated on a scale ranging from -2 (major concerns), -1 (concern), 0 (neutral), +1 (strength), to +2 (major strength).” More recently, Godfrey et al. (2009) suggested to separate (rather than net) the strengths and concern ratings (we further noted this shortcoming in the Appendix).

In light of this conflict, between netting positive versus negative (strengths vs. concerns), we follow Strike et al. (2006) recommendation to treat positive and negative (strength and concerns) as separate dimensions. Furthermore, we created an index for six⁹ of the seven KLD categories (both positive and negative). This calculation yielded an *all-strengths* and *all-concerns* cumulative score, respectively. Expecting to find a more nuanced set of insights, and using a similar index score logic, we “dig

⁹ We did not include the Human Rights category due to its lack of variability.

Table 2 Longitudinal logistic regression

Variables-dependent	Symbolic Model 1	Model 2	Model 3	Substantive Model 4	Model 5	Model 6
Variables-control/independent	Coeff	Coeff	Coeff	Coeff	Coeff	Coeff
Control						
Size	0.01***	0.01 [†]	0.00	0.01***	0.01**	0.01***
Firm profitability	0.07**	0.08*	0.09*	0.05**	0.04 [†]	0.03 [†]
UNGC-lagged	8.57***	9.81***	9.65***			
GRI-lagged				3.84***	1.33**	1.44**
Independent						
Cumulative stakeholder concerns						
All-strengths		1.09			0.46*	
All-concerns		-0.35			-0.14	
Specific stakeholder pressures						
Community strengths			5.24**			2.79***
Community concerns			4.45*			0.21
Corporate governance strengths			2.87			-0.03
Corporate governance concerns			-0.41			-0.86
Diversity strengths			-1.72			1.28 [†]
Diversity concerns			0.52			0.73
Product strengths			6.34*			0.10
Product concerns			-0.51			-0.38
Other						
Stakeholder appraisals		1.73**	1.58**		2.42***	2.10***
Pollution-intensity ranking		-0.03	-0.23		0.94***	0.91***
Slack resources		0.00	0.00		0.05***	0.05***
<i>N</i> (observations/firms) = 3,683/1,145						
Wald χ^2	55.88***	59.43***	66.38***	193.29**	238.46***	432.63***

[†] $P = <0.1$, * $P = <0.05$, ** $P = <0.01$, *** $P = <0.001$

deeper” into four specific KLD strengths and weaknesses. We labeled the resulting eight variables: *Community strengths*, *Corporate Governance strengths*, *Diversity strengths*, *Product strengths*, *Community concerns*, *Corporate Governance concerns*, *Diversity concerns*, and *Product concerns*.

As another way to measure the aggregate effect of stakeholder pressures (and its corresponding downside risk effect), regardless of the source of the pressure—i.e., whether positive or negative—we adopted a scrutiny effect. We consider the number of CSR appraisals by ranking agencies as a proxy for measuring this effect. More specifically, we use the number of KLD reports produced on a specific firm within the period of 2002–2006 (considering a one-year lag). We labeled this variable *Stakeholder Appraisals*.

We also developed a *pollution-intensity ranking* to determine an industry of origin effect (McMullen 2006). We classified these firms according to their standard industrial classification and the degree of pollution

intensiveness as constructed by Perez-Batres et al. (2012¹⁰). The range varies from 1 to 3, where 3 indicates the higher pollution intensiveness. According to Gamper-Rabindran (2006), petroleum refineries and iron and steel mills would merit a number 3 ranking as they classified these industries as “the most polluting industries.” Finally, we used firm cash flow as a proxy for measuring the effect of firm-*slack resources* (Voss et al. 2008). In so doing, and to better assess the relevance of the cash flow (for each firm), we considered the cash flow, in proportion to its stock price (all expressed in percentage terms).

Control Variables

Firm size can have an effect on firm commitment to follow the SD cause. For instance, Garz and Volk (2007) suggest

¹⁰ The study by Pérez-Batres et al. (2012) in turn constructed this ranking by following Gamper-Rabindran (2006) and Mani and Wheeler (1999) insights.

that firm size positively relates to GRI registrations (one of the two standards used in our dependent variable). Thus, consistent with the standard academic business research, we used number of employees to control for the possible positive effect of firm size (Contractor et al. 2003; Bontis et al. 2002). Firm *profitability* can have an impact on the resources the organization has available to devote to sustainability and CSR initiatives. Indeed, there is considerable debate in the literature on the relationships between CSR and profitability; whether the latter should be viewed as the antecedent (e.g., higher financial performance generates the conditions for better social performance) as opposed to the other way around. A meta-analysis (Margolis 2007) appeared to confirm this suspicion by finding that the strongest direction of causality goes from profitability to CSR, which is consistent with the possibility that observer perceptions are biased by a company's recent financial performance (Brown and Perry 1994). Hence, we controlled for firm profitability using return on assets as a proxy measure. Also consistent with previous research, we used lagged values of the dependent variables (GRI/UNGC previous year values) to insure that we were measuring the net effect of our independent variables on the decision to belong to an SRC, not conflating these effects with those from those derived from prior participation in the corresponding SRCs. We labeled these variables *GRI-lagged* and *UNGC-lagged* (Mosakowski 1993).

Results

All results are presented in Table 2—Models 1–3 show the symbolic (UNGC) choice as its dependent variable and Models 4–6 present the substantive (GRI) choice as its dependent variable. Models 1 and 4 illustrate the relationship between the dependent variables and the control variables. Models 2 and 5 present the aggregate positive/negative stakeholder pressures, respectively. The main models, however, are Models 3 and 6, which present the results in a much more nuanced fashion as they disaggregate the stakeholder groups. The results are as follows:

Set 1, hypotheses 1a and 1b suggested that symbolic choices will be associated with positive stakeholder pressures and substantive choices with negative ones. The results show this is not the case. While it is true that there are two stakeholder groups showing a positive statistical significance to a firm's decision to pursue a SRC-symbolic choice (Community, Product), the same is true for a firm's decision to pursue a SRC-substantive choice (Community and Diversity). Moreover, the only negative stakeholder pressure (Community) is statistically associated with the SCR-symbolic choice. Therefore, *hypotheses 1a & 1b* are not supported.

Hypothesis set 2 suggested a positive association between heightened stakeholder scrutiny—i.e., # of stakeholder appraisals (rankings)—and a firm's decision to join a substantive SRC, more so than to symbolic SRCs. Table 2 shows that indeed a higher degree of stakeholder scrutiny is strongly and statistically associated to a firm's decision to join a substantive SRC ($p < 0.001$), and more so than to a symbolic SRC ($p < 0.01$). Hence, these results strongly support *hypotheses 2a and 2b*.

Hypothesis set 3 suggested that “pollution intensiveness” has a positive relationship to substantive SRC-strategic choices (and more so than to symbolic SRC-strategic choices); Table 2 confirms this prediction. Pollution intensiveness is highly positively statistically associated to a firm SCR substantive choice ($p < 0.001$) and it is not statistically associated with a symbolic SCR choices. These results strongly support hypothesis 3a and 3b.

Hypothesis set 4 predicted that firm slack resources will be positively associated to substantive SRC-strategic choices (and more so than to SRC-symbolic choices). Table 2 confirms that firm slack resources are positively (and highly statistically) associated to substantive SRC-strategic choices ($p < 0.001$). Moreover, the results also show that firm slack resources are not associated to symbolic SRC-strategic choices. In light of these results, hypothesis 4a and 4b are strongly supported.

In sum, the results illustrate that stakeholder pressures are taken seriously by large public American corporations. In so doing, these corporations react to stakeholders' pressures to comply with the dynamics of environmental alignment, an ever “moving target” (Thompson 1967).

In our findings, stakeholders with high salience in relations to firm decisions to join a symbolic SRC include the community (KLD's Community dimensions) and the consumer (KLD's Product-strength dimension). In contrast, stakeholders with high salience in relations to firm decisions to join a substantive SRC only include the community (KLD's Community-strength dimension) and civil right groups (KLD's Diversity-strength dimension).

Also, high scrutiny was demonstrated to have a high effect on firm decision to join both substantive and symbolic SRCs. Likewise, these results suggest that firms are aware of a negative backlash (“guilty by association effect”) or *common sanctions* associated with their “industry of origin.” Indeed, firms from pollution-intensive industries were very much likely to join the substantive SCR; whereas, there was no association toward joining a symbolic SRC. Finally, as correctly pointed out by Phillips et al. (2010), some firms might not be able to do as much for the CSR/SD cause given their unique (restrictive) conditions. Thereby, we included a “discretion” effect where firms with higher levels of slack resources (less

resource restrictions) would be expected to do more for the CSR/SD cause. Our results show that firm-slack resources (cash flow levels) are highly associated with a firm's decision to join a substantive SRC. A summarized description of our results suggests the following:

1. *Not all stakeholder pressures are relevant* While there is an association effect between aggregate (positive) stakeholder pressures and firm choice of substantive SRCs, Table 2 demonstrates that the effect is much more complex. By disaggregating the KLD dimension, we were able to recognize the salience of individual stakeholder groups. Indeed, three of the eight dimensions are associated to the symbolic choice, while its aggregate number is not associated to that choice. In contrast, there is only one stakeholder group strongly associated to the substantive choice.
2. *Persistent scrutiny over time is associated with both symbolic and substantive SRC-choices* Nonetheless there is a slight statistical preference for the substantive strategic SRC-choice.
3. *Pollution-intensive industries and "common sanctions" effects are relevant* Firms from perceived "dirtier" industries are more likely to join substantive SRCs than firm from perceived "cleaner" industries. This finding favors the argument about treating CSR as reputation insurance.
4. *Discretion/slack resources matter* There is a positive association between resource discretion and a firm's willingness to follow the substantive SRC-choice.

Discussion and Contribution

Stakeholders undoubtedly choose to exert CSR pressures upon organizations. In turn, these pressures can trigger organizational commitment toward SD goals (Cetindamar and Husoy 2007). However, that commitment may be more substantive or symbolic. In this paper, we sought to investigate the influence of stakeholders on firm decisions to choose between symbolic or substantive SRCs. To answer our research question, we used insights from institutional and transaction cost theories. Our findings suggest that firms are indeed influenced by (institutional) normative/cognitive pressures and the uncertainty generated by informational asymmetries. To this end, we find that not all stakeholders apply equal pressure and not all firms respond in the same fashion to these pressures. Firms appear to target specific, yet distinct, stakeholder group by strategically selecting between symbolic or substantive SRCs. While there might be several studies about the

relationship between aggregate stakeholder pressures and firm reaction, using the KLD report, ours is perhaps the first one to find a relationship between individual stakeholder groups and a firm's decision to join symbolic and substantive SRCs. Hence, our focus on KLD's *separate dimensions* and their relationship to the SRC-strategic choice does constitute a novel contribution in so far as it illustrates a firm's effort to comply with the ever moving dynamics of organizational-environmental fit.

Further, we examined another dimension of the totality of stakeholder pressure by analyzing the number of stakeholder appraisals, reflecting the potential impact of persistent, repeated scrutiny over time. As predicted, heightened stakeholder scrutiny is an impactful factor in that it reflects a cumulative, temporal, persistent aspect of external stakeholder pressure. In other words, the more a firm is subject to this kind of scrutiny, the more likely it is to respond to it; and to do so substantively (after all, these third-party analysis would eventually see through a mere symbolic act). To our knowledge, ours is one the few studies, if not the only one, that has tested the relationship between this type of stakeholder pressure (vis-a-vis scrutiny) and firm SRC-strategic choice. This finding also constitutes a worthy contribution to the outstanding literature on CSR/SD.

While prior research has connected slack resources to overall CSR activity/performance, we are the first (to our knowledge) to connect this variable to a specific kind of CSR activity, namely joining a SRC. Moreover, our findings illustrate that discretion does not predict a firm's strategic choice between that of symbolic and substantive SRCs (both are positively associated to firm cash flow). Upon reflection, we believe this might be the correct outcome given our stated arguments (on H4). However, there can be other reasons. That is, having the discretion to deploy resources should not imply a strategic choice among SRCs. Firms might have other, more pressing needs, than those pertaining to the CSR/SD agenda. Nonetheless, this finding conveys the relevant implication that firms with resource discretion still see the symbolic option as an investment of time and effort (i.e., resources); otherwise, there would not be a positive association between resource discretion and the symbolic SRC-choice.

Lastly, our study might add to the nascent *empirical* studies on greenwash. Firms from pollution-intensive industries are likely to suffer a "common sanctions" or "guilty by association" effect. To that end, they are more likely to seek a certification vehicle (a SRC) that suggests their compliance to the CSR/SD cause. Our study suggest that "common sanctions" effects are associated to substantive SRCs, but not to symbolic SRCs.

Future Research and Conclusion

An interesting avenue for future research derives from the role of size related variables. To that end, we included a related “size” variable as an independent (slack resources) and found interesting results. We found that having the discretion to spend money on CSR/SD activities does relate to a strategic outcome between symbolic/substantive choices. This result implies that firms (with discretionary power) find substantive CSR/SD activities to be worthy avenues to deploy their resources. Moreover, there is a need to further examine the greenwashing concept. In light of our results, firms see participating in symbolic SRCs as a positive investment (otherwise, we assumed, they would not spend their discretionary resources there). Some authors quickly dismiss this as greenwash and consider it as a firm’s attempt to deceive stakeholders. However, we would like to see a more rigorous approach to scholarship from those engaged in the greenwash topic. For instance, there is a need to study if firms see symbolic SRCs as “learning” or “try-out” protocols before engaging in substantive SRCs. If this is the case, and upon doing so, are firms following symbolic SRCs better equipped to subsequently deal with the more rigorous substantive SRCs?

Moreover, are all stakeholders responsible to push or pull firms into meaningful CSR/SD activities? How could we learn about this process? Lastly, if stakeholders are responsible for meaningful CSR-change, are we (stakeholder) also responsible for hindering that meaningful change? In other words, there is a need to further understand the responsibility and limitations of stakeholder duties and corresponding company outcomes. Indeed, there is a need to keep exploring the validity and the meaning of relevant stakeholder ratings; they deserve greater attention. For instance, despite being extensively used within the past two decades, our isolation of the KLD dimensions yielded interesting results. Thus, we believe there is much to be learned about potentially meaningful relationships, which are still hidden in the legitimate social ratings.

In conclusion, this paper sought to explore the potential influence of stakeholder assessments—positive/negative pressures and heightened scrutiny, industry profile, and resource discretion on company decisions to adopt leading SRCs designed to advance CSR and sustainability. Our findings suggest that many of these external and internal influences do relate to some form of firm CSR compliance (symbolic/substantive). We believe our insights also provide a context for understanding how stakeholder groups influence organizations into improving their CSR commitment, how those organizations respond to those pressures, and through our deeper understanding of these mechanisms, will provide greater information on the environmental and social contributions of firms to SD.

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Appendix: The KLD Ratings

The KLD¹¹ Corporation provides a dataset (of the same name) that reports on the CSP of approximately 3,000 large American firms, selected on the basis of market capitalization. KLD is generally recognized as the most authoritative tool for measuring CSP (Berman et al. 1999; Deckop et al. 2006; Hillman and Keim 2001; Waddock and Graves 1997). Although KLD includes multiple rating tools, the element most often used to measure CSP includes ratings on environmental, social, and governance performance. According to KLD, 80 indicators are utilized to report on seven major Qualitative Issue Areas (within the CSP context): Community, Corporate Governance, Diversity, Employee Relations, Environment, Human Rights, and Product. Relying on a proprietary research process, KLD annually scores or rates each corporation on multiple indicators, which are aggregated in an annual data set (presented in a spreadsheet format) and made available for purchase.

For Waddock and Graves (1997), KLD analysts rely initially on responses to an annual survey completed by each company’s investor relations office. KLD’s independent assessments and ratings are also shaped by analysts’ readings/interpretations of corporate documents and by communications from the corporations themselves. In addition, the analysts draw relevant information from numerous other sources—trade publications, EPA newsletters, academic journals, published surveys, and legal or regulatory notices of penalties and fines.

The KLD data has been criticized on a number of criterion. Of relevance to our paper, Strike et al. (2006) proposed that many firms simultaneously engage in socially responsible and socially irresponsible behavior, making a net assessment of firm-level CSR especially difficult to gauge. Moreover, Chatterji et al. (2009) consider the matter in their discussion of the common practice whereby Qualitative Issue concern ratings are subtracted from Qualitative Issue strength ratings, yielding a single Qualitative Issue score. To avoid this practice, we treat strengths and concerns separately in our framework and analyses (Sharfman 1996; Strike et al. 2006).

¹¹ Within the KLD research literature, the ratings are treated and referred to interchangeably as a proxy for Corporate Social Performance or stakeholder pressures. In this study, we conceptualize them as stakeholder pressures.

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