

Secondary Stakeholder Actions and the Selection of Firm Targets

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In this paper, we advance the stakeholder theory literature by developing and testing a set of hypotheses concerning which firms are likely to be targeted by secondary stakeholder groups. To test these hypotheses, we draw upon a unique dataset of stakeholder actions within the United States concerning environmental issues over the period 1988 to 2003. We find evidence for two clusters of stakeholder groups, each using different tactics and targeting different populations of firms. In general, we find firms that are more consumer-oriented, financially sound, and heavier polluters are more likely to be targets of environmentally-oriented stakeholder actions.

Keywords: stakeholder theory, environmental management, self-regulation

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Some firms find themselves under constant pressure from external stakeholder groups while others receive little scrutiny. Understanding why stakeholders target one firm versus another is of critical importance to firms. Stakeholder groups resort to a number of tactics in their attempts to persuade firms to respond to their requests including letter-writing campaigns (Smith & Cooper-Martin, 1997), shareholder resolutions (Frooman, 1999), and boycotts (Paul & Lydenberg, 1992). Such tactics have the potential to inflict direct operational costs via public relations expenses, legal fees, and managerial attention. They may attract greater scrutiny from government regulators. Most importantly, perhaps, these tactics may impact a firm's reputation and thus its ability to attract and retain customers, employees, and shareholders.

In this paper, we examine the characteristics of firms that increase their likelihood of being the target of actions by secondary stakeholder groups. We define "secondary" stakeholder groups as groups that affect or are affected by firm behavior (Freeman, 1984) yet do not have a formal contractual or legal bond with the firm (as is the case with employees, customers, and government regulators) (Clarkson, 1995; Eesley & Lenox, 2005). Examples of secondary stakeholder groups include community activists, advocacy groups, religious organizations and other non-governmental organizations. By stakeholder "actions", we refer to discrete requests for changes in firm behavior coupled with tactics to bring about this change. Examples of stakeholder actions include boycotts, protests, lawsuits, and letter-writing campaigns.

The stakeholder literature advances two propositions with regards to the targeting behavior of stakeholder groups. Interest-based models of stakeholder mobilization suggest that stakeholders will target those firms that they are most likely to be able to change so as to advance their agenda. Identity-based models propose that stakeholder groups target those firms that

increase the likelihood of bringing power and resources to the stakeholder group regardless of the prospects for change (Rowley & Moldoveanu, 2003). While these theories are not necessarily mutually exclusive, they do suggest different sets of firm characteristics that may drive selection as a stakeholder target.

In this paper, we propose that group characteristics condition which stakeholder groups are likely to target which types of firms. We develop a set of hypotheses consistent with the prior literature on interest-based and identity-based agendas. We test our hypotheses using a unique dataset of stakeholder actions against firms in the United States from 1988-2003. Included in our dataset are all the firms in sectors in which at least one firm was targeted by a stakeholder action during the period 1988 to 2003. To increase comparability, we limit our analysis to stakeholder actions involving issues dealing with the impact of firm activity on the natural environment.

Our results have important implications for both for-profit firms and non-profit stakeholder groups. In recent years, scholars have suggested that firms can profit by reducing costs from interference by stakeholder groups through greater attention to the impact of their operations on society (Hart, 1995; Jones, 1995; Rowley & Moldoveanu, 2003). However, the extent of stakeholder activities appears to vary widely across industries and firms. Little research has been done on which firms are most likely to be targeted by such stakeholder group tactics. Clearly it would be valuable for a firm's managers to know how likely it is that certain types of stakeholders will target their firm. Further, knowledge of the factors affecting the likelihood of facing particular stakeholder tactics has implications for firm strategy.

THEORY & HYPOTHESES

Since the introduction of stakeholder theory in the mid-eighties (Freeman, 1984), a diverse stakeholder literature has developed along normative, instrumental, and descriptive traditions. Research in the normative tradition describes what firms and managers should do based on assorted ethical frameworks. Instrumental studies have attempted to verify whether excess profits accrue to firms who are socially responsible or environmentally conscious (Berman, Wicks, Kotha, & Jones, 1999; Jones, 1995; McGuire, Sundgren, & Schneeweis, 1988; Wood, 1991). For our purposes, we draw upon the descriptive tradition of the stakeholder literature that has focused on characterizing the actual actions of firms and stakeholder groups as they interact.

Much of the existing stakeholder literature within the descriptive tradition has examined a focal firm and the stakeholders that surround it. In contrast, we take the viewpoint of the secondary stakeholders who look out at many firms across many industries and decide whom to target. We assume that the secondary stakeholders critical to a focal firm are not given but rather arise out of the strategic decisions of individual stakeholder groups given the characteristics of the population of potential firm targets. As such, we focus on a series of studies that have examined what tactics stakeholder groups choose and when stakeholder groups act (Carmin & Balsemer, 2002; McGuire et al., 1988; Rehbein, Waddock, & Graves, 2004; Rowley & Moldoveanu, 2003; Strickland, Wiles, & Zenner, 1996).

Generally, two broad propositions have been advanced to explain stakeholder actions against firms. On one hand, stakeholder groups act in order to advance their agenda by bringing about changes in targeted firm behavior. Rowley & Moldoveanu (2003) refer to this as an interest-based model of stakeholder mobilization. Stakeholder groups use scarce resources to

target firms in such a way that their agenda, whether it is protecting the environment or protecting equality for example, is advanced to the extent targeted firms change their behavior. On the other hand, stakeholders are aware of how seldom they are successful and thus may also act to reaffirm their social identity rather than for the purpose of achieving some narrow external end. Proponents of this theory argue that stakeholder groups target firms in order to advance their broader interests, to differentiate themselves from other stakeholder groups, and to strengthen their membership. Rowley & Moldoveanu (2003) refer to this as an identity-based model of stakeholder mobilization.

Empirical work has found support for both interest-driven and identity-driven rationales for stakeholder behavior (Rehbein et al., 2004). For example, studies of shareholder proxy resolutions have found that large, visible firms are targeted most, suggesting identity-driven stakeholders (Miles, 1987; Rehbein et al., 2004; Strickland et al., 1996). However, shareholders' proxy resolutions have also been found to sometimes target the worst offenders, suggesting interest-driven stakeholders (Miles, 1987; Rehbein et al., 2004). Rehbein, Waddock and Graves (2004) conclude that stakeholders likely pursue both rationales.

We propose that attributes of the stakeholder group condition whether it is likely to pursue an identity or interest-driven agenda and thus influence the types of firms that individual stakeholder groups are likely to target. In the sections below, we develop a set of hypotheses consistent with identity and interest-based agendas concerning the types of firms who are likely to be targeted by types of secondary stakeholders.

Targets of Interest-Driven Stakeholders

Interest-driven stakeholders are motivated by a desire to bring about changes in a targeted firm's behavior along some dimension of concern to the group. Thus, we propose that

stakeholder groups are most likely to be interest-driven when they have a greater ability to bring about change in firm behavior. Previous empirical work has found that more powerful, legitimate stakeholders have a greater likelihood of bringing about change in firm behavior (Eesley & Lenox, 2005). Eesley & Lenox (2005) define power as access to resources that allow stakeholder groups to sustain costly actions against firms that, in turn, erode the targeted firm's resources. They follow Mitchell, Agle, & Wood (1997) and define legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995)."

Given the findings of Eesley & Lenox (2005), we propose that more powerful, legitimate stakeholders will favor an interest-based agenda.¹ Powerful, legitimate stakeholder groups have the ability to affect change in firms that they target and can be presumed to use that leverage. Furthermore, powerful, legitimate stakeholders will likely have less need to establish their identity and may not need to attract greater attention to their causes. In many respects, powerful, legitimate stakeholder groups have the luxury of being able to bring change to specific firms and thus are more likely to assume an interest-driven agenda.

Following an interest-driven agenda, powerful, legitimate stakeholders will target firms that they can most likely change. We propose that two criteria drive this decision calculus. First, interest-driven stakeholders target firms who are most in violation of the stakeholder group's interests. For example, an interest-driven environmental advocacy group would likely target a firm with poor environmental performance because that firm can most improve the environment if driven to change its behavior. Second, interest-driven stakeholders target firms who they have

¹ Eesley & Lenox (2005) emphasize that when considering whether firms acquiesce to stakeholder demands, one needs to consider the power of the stakeholder group *relative* to the power of the firm. We do not refute this assertion, but propose for our purposes, all else being equal, more powerful stakeholder groups will favor an interest-based agenda.

a greater ability to change. For example, the same interest-driven environmental advocacy group would likely target a cash-constrained firm who has fewer resources to fight stakeholder pressure through public relations or lobbying.

With regards to the first criteria, interest-driven stakeholders will likely target firms who are most in violation of the stakeholder group's interests. Thus, powerful, legitimate stakeholder groups pursuing an interest-based agenda will target firms that are the worst offenders against that group's issue of interest. For instance, in the realm of environmental issues, scholars have suggested that stakeholders target firms with the worst corporate environmental performance (Rehbein et al., 2004). Past performance can serve as a valuable signal of the underlying attributes of the firm. Not surprisingly, Union Carbide after the Bhopal disaster of 1984 and Exxon after the Exxon Valdez spill of 1989 were the targets of numerous environmental stakeholder actions.

Hypothesis 1a: The worse performing a firm on the dimension of concern, the more likely it will be the target of actions by powerful, legitimate stakeholder groups.

In the end, interest-driven stakeholders must balance between the desire to change a firm *and* the ability to change that firm. Resource dependency theory emphasizes that power between organizations depends on the access those organizations have to resources for operation and survival (Frooman, 1999; Hendry, 2003). Whereas large firms can operate more independently, smaller firms may depend more on external organizations for access to resources and thus are more easily swayed by requests from secondary stakeholders (Eesley & Lenox, 2005). Small firms often lack the resources of larger firms to fight stakeholders and therefore are more likely to acquiesce. Previous empirical work supports the proposition that small firms are more likely to positively respond to a stakeholder request for change (Eesley & Lenox, 2005).

Hypothesis 1b: The smaller a firm, the more likely it will be the target of actions by powerful, legitimate stakeholder groups.

Financially sound firms often have slack resources that can be deployed to satisfy stakeholder demands -- slack being defined as the supply of uncommitted resources (Pfeffer & Salancik, 1978). Scholars have theorized that change is more likely when firms possess organizational slack (Cyert & March, 1963). Alternatively, firms may be forced to resist costly changes when they are operating on thin margins. Thus, we expect financially sound firms will be more likely to respond to stakeholder requests since they have the slack resources to placate angered stakeholders. As a result, we propose that financially sound firms would make attractive targets for interest-driven stakeholder groups. Previous empirical work supports the proposition that financially sound firms are more likely to acquiesce to stakeholder demands. Cyert and March (1963) cite evidence that profitable firms are more likely to lower emissions. Eesley and Lenox (2005) provide evidence that financially sound firms (in terms of cash flow) are more likely to positively respond to a stakeholder request for change.²

Hypothesis 1c: The more financially-sound a firm, the more likely it will be the target of actions by powerful, legitimate stakeholder groups.

Targets of Identity-Driven Stakeholders

Unlike interest-driven stakeholders, identity-driven stakeholder groups are motivated by a desire to bring attention to their organizations and causes while not necessarily bringing about change in the firms they target (Rowley & Moldoveanu, 2003). By “fighting the good fight”, stakeholder groups may be able to differentiate themselves from other stakeholder groups and strengthen their membership. Individual actions, while not narrowly effective, may serve the

² An alternative argument could be made that organizational slack provides greater resources for firms to fight the demands of secondary stakeholder groups and therefore decrease their attractiveness as a target. We leave resolution of this contrary hypothesis to our empirical analysis.

broader agenda of the stakeholder group, attracting attention to the issues of interest of the stakeholder group and piquing the interest of more powerful stakeholders such as government regulators or the media. Thus, identity-driven stakeholder groups are less interested in targeting firms who may acquiesce to demands or who are most in violation of the group's issue of interest than in targeting firms who attract the greatest public attention.

We propose that weaker, less legitimate stakeholder groups will favor an identity-based agenda. Resource-poor, less legitimate stakeholder groups will be more likely to choose an identity-based approach for two reasons. First, they are less likely to be able to effectively demand change in firm behavior. Second, they have a greater need to draw attention to their group and distinguish themselves from other stakeholder groups so as to attract resources to continue their survival. Their weaker standing may leave them with no choice but to assume an identity-based agenda rather than an interest-based agenda.

The likelihood of attracting public attention will likely be greater, the larger the size of a targeted firm. Large firms are more likely to have geographically dispersed operations and to serve broad product markets. Targeting large firms, allows weaker, identity-driven stakeholder groups to portray themselves as underdogs, fighting against entrenched corporate interests. As a result, we propose that larger firms are more likely to be targeted by less powerful, less legitimate stakeholder groups. While these stakeholder groups are less likely to force concessions from large firms given the firms' resource bases (see Hypothesis 1b), they make attractive targets as a way to attract public attention.

Hypothesis 2a: The larger a firm, the more likely it will be the target of actions by weak, less legitimate stakeholder groups.

Reviews of empirical studies on environmental responsiveness indicate that visibility may be more important than firm size in attracting attention (Bowen, 2002; Rowley & Berman,

2000). For example, Getz (1995) argues that stakeholders are more likely to target firms with recognizable names. King & Lenox (2000) find that more visible firms were more likely to seek membership in industry self-regulatory programs as a way to protect their reputation. By targeting visible firms, identity-based stakeholder groups are more likely to gain greater media attention. We define visibility as the degree to which the general public recognizes a firm or its brands. While correlated with firm size, visibility is also driven by proximity to consumers and advertising.

Hypothesis 2b: The more visible a firm, the more likely it will be the target of actions by weak, less legitimate stakeholder groups.

DATA & MEASURES

To analyze our hypotheses, we built a database of actions by secondary stakeholder groups taken against firms in the United States that centered on requests dealing with the natural environment during the period 1988-2003. We limited our analysis to environmental issues to increase comparability across actions and to allow us to create reasonable and consistent measures of firm performance relative to the action taken. We limited ourselves to the 15-year window between 1988-2003 to increase our confidence that we were able to identify the population of major stakeholder actions in any given year.³ Data on stakeholder actions was gathered through an exhaustive search of LexisNexis records and using data from the Investor Responsibility Research Center (see below for more detail). Firm level data were gathered from Standard & Poor's Compustat Annual Dataset. Additional data were collected from stakeholder groups' annual reports and websites and by contacting officials from the group when necessary.

³ We found that as we searched back further than twenty years, we could identify significantly fewer stakeholder actions. While this may reflect some general time trend, we were concerned that we were beginning to miss important stakeholder actions.

Our database includes all public firms in the United States in sectors where at least one firm was the target of a stakeholder action between 1988-2003. Firms were culled from the Compustat Annual Dataset using the 4-digit Standard Industrial Classification scheme to distinguish sectors. The resulting database includes 32,764 observations of 3227 firms of which 219 firms (6.7%) were targeted by stakeholder groups during the period of the study.

Dependent Variables

The primary dependent variable for our analysis is a count of the number of stakeholder actions taken against a firm in a given year (*Stakeholder Actions*). We summed across six types of stakeholder actions: lawsuits, protests, boycotts, letter writing campaigns, proxy votes, and formal collaborations. Data on protests, boycotts, letter writing campaigns, and collaborations were collected from the LexisNexis Academic database of U.S. newspaper articles ranging from February 10, 1971 to November 25, 2003 (LexisNexis, 2003). We searched using keywords including: stakeholder, environmental group, NGO, firm, environment, and company. Proxy vote data were collected from the Investor Responsibility Research Center (IRRC).⁴ Data on civil lawsuits were collected through the LexisNexis Legal Research database of Federal and State civil law suits pertaining to environmental issues. We searched using keywords including: stakeholder, environmental group, NGO, firm, and company. Records were retained when we could identify the stakeholder group, the firm, and the request. This information was available in virtually all records identified. The database contains federal and state case law on environment-related civil suits, including U.S. Supreme Court, U.S. Courts of Appeals, Federal District Courts

⁴ Proxy votes are included because they are often initiated by secondary groups who specifically buy enough shares to initiate a proxy vote. This was reinforced by comments via email from a nun in one of the religious groups who wished to remain anonymous yet noted that the Sisters usually try to purchase a few more shares than the minimum required to file a proxy vote. Exclusion of proxy votes does not significantly change our results.

and state courts.

Our hypotheses are based on a proposition that more powerful, legitimate stakeholder groups are more likely to pursue interest-based agendas versus identity-based agendas. To test our hypotheses, we created a series of dependent variables by counting the number of stakeholder actions taken against a firm by stakeholders *of a particular type*.

Eesley & Lenox (2005) defined power by the resource position of the stakeholder group. To capture the resource-base of different stakeholder groups, we measure the total financial assets of a stakeholder group at the time an action was initiated.⁵ We classified actions as being undertaken by “powerful” groups if their financial assets were greater than the median of all stakeholder groups within our sample and by “weak” groups if the financial assets were less than the median. We then tallied the number of actions taken against a firm by powerful stakeholder groups and the number of actions taken against a firm by weak stakeholder groups. If a firm had no stakeholder actions taken against it, the firm was coded for zero actions by powerful groups and zero actions by weak groups.

With respect to stakeholder legitimacy, there are many different types of stakeholder groups represented in our sample including individuals, religious groups, holding institutions (such as pension funds), and non-governmental organizations (such as advocacy groups). These types of groups differ in the degree to which they are, at least perceived, to be legitimate on average as reflected in public opinion surveys that have ranked the degree to which stakeholder groups are viewed as legitimate arbitrators of environmental issues (Fineman & Clarke, 1996; Harvey & Schaefer, 2001). These surveys appear to be fairly stable over time, and clearly rank

⁵ Previous work has found that the financial assets of the stakeholder group is a good proxy for the resource base of the stakeholder group and is highly correlated with alternative measures such as group membership and group expenditures (Eesley & Lenox, 2005). In the case of asset managers such as pension funds or individuals, we measure the total amount of investments that they control.

environmental advocacy groups among the most legitimate and religious groups among the least. Based on these surveys, we classify actions as being undertaken by “more legitimate” groups if initiated by advocacy groups or activist individuals and by “less legitimate” groups if initiated by religious groups or holding institutions. As before, we then tallied the number of actions taken against a firm by legitimate stakeholder groups and the number of actions taken against a firm by less legitimate stakeholder groups.

Independent Variables

Hypothesis 1a proposes that firms who are low performers relative to some dimension of merit related to the stakeholder groups’ concerns are more likely to be targeted by powerful, legitimate stakeholders. For our sample, we use the environmental performance of the firm relative to other firms within their industry (*Firm Relative Emissions*) as our dimension of merit. To construct our measure, we use data on facility emissions of toxic chemicals as collected in the Toxic Release Inventory (TRI) by the U.S. Environmental Protection Agency. Since 1987, the EPA has required all manufacturing facilities with greater than 10 employees to report emissions of over 250 toxic chemicals.⁶

To construct our measure, we first calculate a firm’s total annual emissions by calculating the toxicity-weighted sum of all core chemicals released into the environment, treated onsite, and transferred offsite for each manufacturing facility of each firm in our sample. To calculate relative performance, we estimate a quadratic function between facility size and total emissions for each 4-digit Standard Industry Classification (SIC) code within each year using standard OLS regression.

⁶ The list of reportable chemicals has been amended a number of times over the last fifteen years. To ensure comparability, we focus on the 246 “core” chemicals that have consistently been required to be reported. Facilities only need to report emissions of chemicals if they emit more the 25,000 lbs or use 10,000 lbs. of that chemical.

$$W_{it} = e^{\alpha_{jt}} s_{it}^{\beta_{1jt}} s_{it}^{\ln(s) \cdot \beta_{2jt}} e^{\varepsilon_{jt}} \quad (1)$$

$$\ln W_{it} = \alpha_{jt} + \beta_{1jt} (\ln s_{it}) + \beta_{2jt} (\ln s_{it})^2 + \varepsilon_{jt} \quad (2)$$

where W_{it} is aggregate emissions for facility i in year t , s_{it} is facility size, α_{jt} , β_{1jt} , and β_{2jt} are the estimated coefficients for sector j in year t , and ε_{jt} is the residual. We use the estimated function to predict the emissions of each facility given its size, industry, and year. Then we use the residual to measure the relative emissions of each facility.

$$W_{it}^* = e^{\alpha_{jt}} s_{it}^{\beta_{1jt}} s_{it}^{\ln(s) \cdot \beta_{2jt}} \quad (3)$$

$$RW_{it} = e^{\varepsilon_{jt} / \sigma_{\varepsilon_{jt}}} \quad (4)$$

where W_{it}^* is predicted emissions for facility i in year t , RW_{it} is the standardized relative emissions for facility i in year t , and $\sigma_{\varepsilon_{jt}}$ is the standard error of the residual for the SIC and year pair.

Finally, we create a firm level measure of environmental performance (*Firm Relative Emissions*) by calculating the mean relative performance of each of the firm's facilities for each year. This measure has been used by a number of papers in the literature as a measure of environmental performance and is highly correlated with other indicators such as spills, accidents, and hazardous waste sites (King & Lenox, 2002). As a baseline for comparison, we include the total sum of firm emissions (*Firm Absolute Emissions*) as a control.

Hypothesis 1b proposes that small firms are more likely the targets of more powerful, legitimate stakeholder group actions while Hypothesis 2a proposes that large firms are more likely the targets of weak, less legitimate stakeholder group actions. We operationalize firm size using the firm's total assets during the time an action was initiated against the firm (*Firm Assets*). Firm assets best capture the underlying reasoning behind our firm size hypotheses – that larger firms have greater reserves of capital to fight stakeholder actions. We explored alternative measures such as firm sales and firm employees. Each of these measures is highly correlated

with firm assets and had minimal effects on our estimates when used in place of *Firm Assets*. The Compustat Annual Dataset was used to provide firm asset data. We take the natural logarithm of *Firm Assets* to account for skew.

Hypothesis 1c proposes that more financially sound firms are more likely the target of more powerful, legitimate stakeholder group actions. We measure the firm's cash flow, a common measure of the availability of funds, to capture the financial health of the firm. Alternative measures of accounting profits, such as Return of Assets (ROA), are subject to accounting conventions that may distort the underlying financial strength of the firm. We define *Firm Cashflow* as income before extraordinary items (i.e. income after interest and taxes) plus depreciation and amortization. We take the natural logarithm to address the skew in the distribution of this variable.

Hypothesis 2b proposes that more visible firms are more likely targeted by weaker, less legitimate stakeholders. Visibility is in part determined by the degree to which the firm is consumer-oriented and produces product widely recognized by the general public. Previous studies have relied on the advertising intensity of firms to reflect the degree to which they sell to the general consumer market (Arora & Cason, 1995). To this end, we measure *Firm Advertising Intensity* as the logarithm of firm advertising expenditures over firm assets. We divide by firm assets to reflect the fact that large firms tend to engage in more advertising on an absolute dollar basis than small firms irrespective of their consumer-orientation.

Controls

In addition to controlling for absolute performance on the dimension of concern to stakeholders (*Firm Absolute Emissions*), we also control for firm innovativeness. Scholars have found that, in general, stakeholders are less likely to target firms perceived as innovative

(Strickland et al., 1996). To control for this possibility, we capture the innovativeness of a firm by calculating the firm's research and development intensity as the logarithm of firm R&D expenditures over firm assets (*R&D Intensity*). While simply because a firm invests heavily in R&D does not guarantee that a firm generates innovative outcomes, R&D expenditures are a good proxy for whether the firm is innovative in its outlook.

Finally, we include a number of controls for potential sources of unobserved heterogeneity in our sample. In particular, we include industry sector dummy variables. When using our full panel we also adopt year dummy variables and utilize firm random effects.

ANALYSIS & RESULTS

Table 1 presents summary statistics and correlations for each of our variables. Industrial sectors most targeted include petroleum refining (SIC 2911) where 29% (10/35) of firms were targeted, plastic manufacturers (SIC 2821) where 19% (3/16) were targeted, paper mills (SIC 2621) where 19% (4/21) were targeted, and electric utilities (SIC 4911) where 11% (15/137) were targeted.

Insert Table 1 about here

Table 2 presents the estimates from a series of models examining the number of stakeholder actions targeted at a given firm. In Model 1, we collapsed our panel and examine whether or not a firm had a stakeholder action taken against them during the time period of our study, 1988-2003. Due to the dichotomous nature of our dependent variable, we adopt a logit specification to capture the likelihood that a firm has an action taken against them. For each of

our independent variables, we calculated their mean value across the 1988-2003 timeframe. To control for cross-industry heterogeneity, we include dummy variables for each industry sector using firms' primary two-digit SIC classification.

Insert Table 2 about here

As we see in Model 1, we estimate significant, positive coefficients for *Firm Cashflow*, *Firm Advertising Intensity*, *Firm Relative Emissions*, and *Firm Absolute Emissions*. In other words, we find evidence that stakeholder groups are more likely to target financially sound, consumer-oriented firms who pollute more absolutely and relative to others within their industry controlling for firm size. In this specification, we are not confident in our coefficient estimates for *Firm Assets* and *Firm R&D Intensity* though the signs of the estimated coefficients are as predicted.

In Model 2, we make better use of the information available to us and use the total number of stakeholder actions in a given year as our dependent variable. Since our dependent variable is a count, we adopt a Poisson regression model and use a maximum likelihood estimator. The Poisson model has been widely used to estimate count data (Greene, 2000). Tests for overdispersion confirmed that the Poisson assumptions were appropriate for our data. The results in Model 2 are consistent with Model 1. Consumer-oriented firms with greater financial resources are more often targeted by stakeholder groups. Furthermore, firms that emit more toxic pollutants both absolutely and relatively within their industry given their size are more often targeted. Our confidence in each of our significance estimates is increased and we explain a greater proportion of the variance relative to Model 1 (47% vs. 34%).

To this point, we cannot differentiate between identity-based and interest-based stakeholder agendas. Following the logic of our hypotheses, we find evidence of both. Poor environmentally performing (H1c), cash-rich (H1b) firms are more likely to be targeted consistent with a powerful stakeholder group, interest-based agenda. However, more visible, advertising intensive firms (H2b) are more likely targeted as suggested by a weak stakeholder group, identity-based agenda. Perhaps not surprisingly, we do not find support for a firm size effect (H1b and H2a) since we hypothesize opposite effects depending on the nature of the stakeholder group.

As advanced since the outset of the paper, we expect that stakeholder groups differ in their attributes and that these attributes may affect the likelihood that a particular firm is targeted. We propose that smaller (H1a), financially-sound (H1b), poor-performing (H1c) firms are more attractive targets of powerful stakeholder groups. We further propose that larger (H2a), visible (H2b) firms are more attractive targets of weaker stakeholder groups. In the following models, we re-estimate our specification in Model 2 except will limit our dependent variable to counts of actions by particular stakeholder group types.

As a first test of our hypotheses, we use the resource-base of the stakeholder group as our proxy for their power. We re-estimate our Poisson specification from Model 2 using the number of actions by powerful groups and the number of actions by weak groups as dependent variables in two separate models (see Models 3 and 4, respectively).⁷ In Model 3, we see that large, financially sound firms who have large absolute emissions are more likely to be targeted by powerful stakeholder groups. We also find evidence that more innovation-focused firms (*Firm R&D Intensity*) are less likely to be targeted by powerful stakeholder groups. In Model 4, we

⁷ Please note that the sum of our dependent variables in Models 3 and 4 is equal to our dependent variable in Model 2.

continue to find that financially sound firms who have large absolute emissions are likely to be targeted by stakeholder groups (weak groups in this case). However, we find no evidence that weak stakeholder groups are likely to target larger firms. Furthermore, we find strong evidence that weak stakeholder groups target firms who are more consumer-oriented and whose environmental performance is worse (i.e., they emit more pollutants) than firms within their industry. Consistent with Model 3, we find that weak stakeholder groups are less likely to target innovation-focused firms.

Stakeholder groups vary not only in terms of their power but also their legitimacy. Recall, we counted the number of actions taken by environmental advocacy groups and activist individuals on one hand (*More Legitimate Groups*) and the number of actions by religious organizations and asset management groups on the other hand (*Less Legitimate Groups*). While obviously other divisions are possible, the results are illuminative. We find that environmental advocacy groups and activist individuals mirror powerful stakeholder groups: they are more likely to act against large, financially sound firms who pollute more on an absolute basis. The more docile stakeholder groups resemble our resource-poor stakeholder groups; they are more likely to act against financially sound, consumer-oriented firms who pollute more on a relative basis with no evidence that they seek out larger firms.

To this point, our results provide somewhat contradictory evidence for Hypotheses 1a and 1b. While powerful, legitimate stakeholder groups are targeting financially sound firms (consistent with an interest-driven agenda), they also target larger firms (consistent with an identity-based agenda). Weaker, less legitimate stakeholder groups target consumer-oriented firms (consistent with an identity-driven agenda), but also target the worst performers with the industry (consistent with an interest-driven agenda).

Previous work has found that stakeholder group type is often highly correlated with the actions that they adopt (Eesley & Lenox, 2005). Recall that our sample includes letter writing campaigns, proxy votes, boycotts, protests, lawsuits, and collaborations. Casual observation of our data suggests that advocacy groups and activist individuals favor confrontational actions such as boycotts, protests, and lawsuits while religious groups and asset holders favor relatively benign actions such as letter writing campaigns, proxy votes, and collaborations.

To help tease out possible confounding effects, we counted the number of times a firm was the target of boycotts, protests, and lawsuits on one hand (*Confrontational Actions*) and the number of letter writing campaigns, proxy votes, and collaborations on the other hand (*More Benign Actions*). Using these as our dependent variables, we observe estimates that are consistent with Models 3 & 4 and Model 5 & 6 respectively. In Model 7, we find evidence that financially sound firms are more likely the targets of confrontational stakeholder actions. Unlike the case with resource-rich groups (Model 3) and legitimate groups (Model 5), we find no evidence that larger firms or firms who pollute more on an absolute basis are more likely to be targeted by these actions. In Model 8, we find that consumer-oriented, financially sound firms who pollute heavily both absolutely and relatively are more likely to be the target of benign stakeholder actions (similar to Models 4 and 6).

The similarities between Models 3, 5, & 7 on one hand and Models 4, 6, & 8 on the other hand provide further evidence that there are likely strong correlations between the size and type of stakeholder group and the type of actions stakeholder groups are likely to take. As a more systematic treatment of these correlations, we conducted a factor analysis of group size and type and the types of actions taken. Our analysis suggests that powerful, legitimate, confrontational groups represent the same underlying construct. Scoring coefficients were estimated as 0.395,

0.396, and 0.314, respectively. The Cronbach's alpha for each component using standardized item scores were 0.73, 0.72, and 0.98, respectively, with an overall scale reliability coefficient of 0.875.

Since we are interested in differentiating sets of stakeholders, we next conducted a k-means cluster analysis to split the sample into two clusters. With k-means cluster analysis, stakeholder actions are assigned iteratively to one of the two clusters based on the action and cluster characteristics until no actions change clusters.⁸ Using the stakeholder group size, type, and action type as descriptors, we generate two clusters that we *ex post* labeled "aggressive" and "passive". Actions within the aggressive cluster are dominated by environmental advocacy groups (74% of actions within the cluster) and activist individuals (12%) who utilize lawsuits (43%), protests (13%), and boycotts (7%). Actions within the passive cluster are dominated by religious groups (35%) and asset managers (46%) who utilize proxy votes (83%). Furthermore, the mean stakeholder group size in terms of assets (i.e., power) within the aggressive cluster was ten times the mean passive stakeholder group.

Using our cluster results, we counted the number of aggressive (cluster 1) and passive (cluster 2) actions taken against firms in our sample. Models 9 and 10 of Table 3 present our estimates using the specification from Model 2 with each of these as our dependent variable. Our results for Models 9 and 10 are consistent with Models 3, 5, & 7 and Models 4, 6, & 8 respectively. Large firms who emitted a large amount of toxic chemicals (in absolute terms) were more likely to be the target of aggressive stakeholder actions (Model 9), while firms who were relatively high polluters within their industry were more likely the target of passive stakeholder actions (Model 10). In both cases, consumer-oriented, financially sound firms were

⁸ Technically, we relied on a set of dummy variables describing the nature of the action and stakeholder group to conduct the cluster analysis.

more likely targeted by stakeholders. Furthermore, both clusters of stakeholders were less likely to target innovation-focused firms.

Insert Table 3 about here

It seems unlikely that passive stakeholder groups are ambivalent to firm size. To test whether there is a curvilinear relationship between firm size and the number of actions taken against a firm, we re-estimated Models 9 and 10 including a squared term for *Firm Assets*. Interestingly, for aggressive stakeholder actions (Model 11), we find a positive significant coefficient for only *Firm Assets*². For passive stakeholder actions (Model 12), we find a positive significant coefficient for *Firm Assets* and a negative, significant coefficient for *Firm Assets*². The estimates suggest a concave relationship between firm size and the actions taken by passive stakeholders. Figure 1 graphically depicts the estimated effect of firm size (log of firm assets) on the number of actions taken for each stakeholder type. We observe that the larger the firm the greater the number of aggressive stakeholder actions targeted at that firm. However, larger firms are less likely the target of passive stakeholder actions that appear to target firms in the middle range of size.

Insert Figure 1 about here

As a robustness test and to make full use of our data, we ran one final series of models in which our dependent variable was the number of actions by action type (aggressive or passive) taken against a firm *in a given year*. In using the full panel, we allowed for the independent

variables to vary over time. To help control for unobserved heterogeneity, we include year fixed-effects and firm random-effects. We do not adopt firm fixed-effects due to the fact that a majority of the firms in our sample never have an action taken against them and subsequently would be removed from our sample.⁹

In Model 13, we find evidence consistent with Model 11 that aggressive stakeholder groups target the largest firms who are financially sound. We are no longer confident that the coefficients on *Firm Absolute Emissions* and *Firm Advertising Intensity* are different than zero. In Model 14, while we are not as confident in some of our estimates, we once again find positive significant coefficients for *Firm Relative Emissions*, *Firm Cashflow*, *Firm Advertising Intensity*, and *Firm Absolute Emissions*. We also continue to find a negative coefficient for *Firm R&D Intensity*.

DISCUSSION

In summary, we find evidence consistent with a number of our baseline hypotheses: poor performers on the dimension of merit of concern to stakeholders (H1a) who are financially-sound (H1c) and visible (H2b) are more likely to be targets of secondary stakeholder actions. More importantly, consistence with the main thesis of this paper, we find evidence that different stakeholder types target different populations of firms. In particular, more powerful, legitimate stakeholder groups tend to favor different types of firms than weaker, less legitimate stakeholder groups.

⁹ There are some tradeoffs in using the full panel for our analysis. The full panel potentially masks the contribution of relatively stable firm attributes. For example, if firm emissions are indicative of the general reputation of a firm in the eyes of stakeholders and reputations are rather sticky (unlikely to change), then we may fail to estimate a significant coefficient in a model controlling for stable firm-effects. In addition, our panel may be subject to serial correlation between years. For example, past actions taken against a firm may beget future actions. Hence, we treat these models as robustness tests rather than the definitive models for our analysis.

However, the evidence suggests the *opposite* relationship between stakeholder group type and firm type than hypothesized (H1a, H1b, H1c, H2a and H2b). It appears that powerful, legitimate stakeholder groups are pursuing what can be characterized as an identity-driven agenda, while weaker, less legitimate stakeholder groups are pursuing an interest-driven agenda. In particular, we find that those stakeholders we classify as aggressive (e.g., large environmental advocacy groups who adopt confrontational tactics such as lawsuits and protests) tend to target the largest of firms (H2a) irrespective of their environmental performance (not H1a). On the flip side, we find that more passive stakeholder groups (e.g., smaller religious organizations) tend to target firms who they wish to change and are more likely to change, i.e., relatively smaller firms (H1b) with substantial cash flow (H1c) who are poor environmental performers (H1a).

Interestingly, these results are in line with anecdotes from some firm managers who have lamented that environmental advocacy groups tend to target firms regardless of their environmental performance relative to the industry. For example, large, visible firms such as chemical giant DuPont find themselves the target of powerful stakeholder actions even though they are relatively good environmental performers given their size and industry. Our results suggest that the decision by stakeholder groups to pursue an identity-driven versus an interest-driven agenda may be influenced less by the ability (or lack of ability) of groups to change firm behavior as we hypothesize than the broader strategic goals of the stakeholder group.

For example, on one hand, large environmental advocacy groups, though powerful enough to bring about narrow change, may be more interested in getting regulators and legislators involved by drawing media attention and making examples out of certain industry leaders than in changing those industry leaders directly. At first brush, one may believe that such groups are acting only for self-serving purposes, e.g., increasing group exposure and expanding

membership. However, such behavior may not be entirely self-serving on the part of powerful stakeholders. In the end, these groups may be acting to serve broader goals of industry or societal transformation.

On the other hand, small religious groups like nunneries may have much narrower goals when it comes to environmental issues. Perhaps, they are interested in reducing pollution in a particular community or forcing firms to report their environmental impacts. These groups may be much more interested in transforming individual companies than driving a broader political agenda. This may also reflect stakeholder evolutionary dynamics as well. Stakeholder groups with few resources may wish to establish themselves by demonstrating that they can force capitulation in specific circumstances before pursuing broader agendas.

Issues Raised

Our results raise a number of unresolved issues. First, why do passive stakeholder groups seek out mid-size firms rather than small firms (i.e., why do we observe a concave relationship between size and the frequency of being targeted by passive stakeholder groups)? Arguably, the reason passive stakeholder groups seek out mid-size firms is that while they may have a greater likelihood of bringing about change in smaller firms (due to resource advantages), change in larger firms is perhaps more desirable in terms of reducing total impact. In other words, passive stakeholder groups may be striking a balance between who they wish to change (larger firms) and who they can change (smaller firms).

A second issue is why do passive stakeholders tend to target visible firms while aggressive stakeholders do not (in Model 13 at least)? Recall, we hypothesize that identity-driven not interest-driven stakeholders would be more interested in targeting visible firms. One possibility is that more visible firms (i.e., those who do relatively more advertising) are simply

more likely to respond to demands placed on them by stakeholders due to their sensitivity to consumer markets. Interest-driven stakeholders may recognize this and leverage the firm's willingness to avoid negative publicity to drive changes in firm behavior. Identity-driven stakeholders on the other hand may simply be indifferent to targeting firms who advertising heavily.¹⁰ Another possibility is that there is a dynamic process that stakeholder groups follow. In their early stages after formation, when they are weak and the need for new members and resources is high, these groups target more visible firms as a way of creating an identity and differentiating themselves from other competing stakeholder groups. Once these groups grow older, powerful, and larger, they can then switch tactics as they become the aggressive stakeholder groups. However, it appears that this is perhaps not the case since the powerful stakeholders are different types of groups (i.e., religious groups vs. advocacy groups) than the weak stakeholders.

A third issue is why do aggressive stakeholders target firms who have greater cash flow (though relatively less than passive stakeholders)? We hypothesized that interest-driven stakeholders would seek out financially sound firms since they are more likely to respond to stakeholder requests. We were agnostic to identity-driven stakeholders like our aggressive stakeholders, however. One possibility is that this result reflects posturing in part by aggressive stakeholders. Similar to our logic for targeting large firms, they may target cash-rich firms to portray themselves as underdogs, fighting against rich corporate interests.

¹⁰ We should avoid overanalyzing a lack of significance on *Firm Advertising Intensity* in Model 13. In previous models, we did find a significant positive effect. The lack of significance in Model 13 may in part be driven by a failure of *Firm Advertising Intensity* to fully capture firm visibility.

Robustness & Limitations

Our results are robust to a number of specifications. We present models using various specifications of our dependent variable and using various estimators. Across all our models, we include sector dummies to control for across-industry heterogeneity. Finally, in a number of models, we were able to control for stable sources of unobserved heterogeneity between firms by making full use of our panel and including fixed-year effects and firm random-effects.

One potential concern with our analysis is that our database might not include all stakeholder actions. If these unobserved actions are randomly distributed across the population, the failure to include them will not bias our results and their exclusion would simply make it harder to find significant coefficients. There is reason for concern, however, if our database missed actions in a systematic way related to our variables of interests. This seems unlikely though. If there is a bias, most likely it is that more major or important actions are more likely to appear in our dataset. Nonetheless, while actions that were minor enough to have not been reported in even local newspapers could have been missed, our database does contain some very small actions limited to one local area. Even if our dataset is biased towards publicized stakeholder actions, since these have the biggest impact on firms, they should be the ones we are most concerned about.

CONCLUSION

In this paper, we advance the stakeholder literature by developing hypotheses and empirically testing a model of which firms are most likely to be targeted by secondary stakeholder groups. Secondary stakeholder groups such as community activists, religious organizations, and advocacy groups are important to study as they have been growing in number and power (Bhagat, Bizjak, & Coles, 1998). Our study differs from prior work by examining a

wide range of stakeholder actions initiated by different types of stakeholders to give a more complete picture of targeting behavior that allows ex ante identification of stakeholder grouping.

We advance the thesis that different types of stakeholder groups will favor different types of firms. We provide evidence that powerful stakeholder groups such as large environmental advocacy organizations tend to pursue an identity-based agenda targeting large, visible firms regardless of their environmental performance so as to attract attention to their cause. We further find that weaker stakeholder groups such as religious organizations tend to pursue an interest-based agenda targeting mid-sized, financially sound firms who are poor environmental performers relative to others within the industry in the hopes of being able to elicit changes in those firms' behavior.

Our findings have important implications for firm managers. They suggest that even if you are a smaller, less visible firm you may find yourself the target of stakeholder actions if you perform poorly on some dimension of concern to secondary stakeholder groups. On the other hand, if you are a large, visible firm you may find yourself a target of powerful stakeholder groups even if you perform relatively well within your industry. While large, visible firms are unlikely to change those characteristics that make them attractive targets, knowledge of what drives those secondary stakeholder groups who target them may make them better prepared to respond when confronted.

Our findings also have important implications for public policy. A number of scholars have proposed that firms have strong incentives to self-regulate their behavior, i.e. provide public goods beyond that required by law, due to the potential costs imposed by secondary stakeholder groups. For example, firms may be motivated to reduce their environmental emissions beyond that required by law (i.e., go beyond compliance) due to the substantial pressure brought by

environmental activists. Our research helps tease out the conditions under which secondary stakeholders such as activists are likely to target firms and thus the likelihood that specific firms may self-regulate.

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FIGURE 1
Marginal impact of firm size on stakeholder actions by stakeholder type

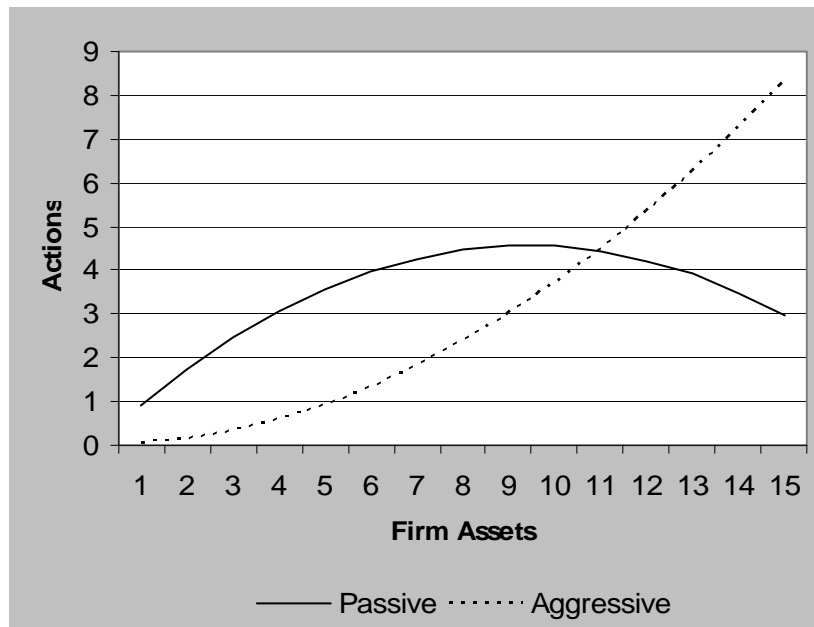


TABLE 1
Descriptive statistics and pair-wise correlations

	Mean	Std	Max	Min	1	2	3	4	5	6	7
1. Stakeholder Actions	0.013	0.210	0	10.000	1.00						
2. Firm Assets	5.568	2.693	0.500	14.050	0.09 *	1.00					
3. Firm Cashflow	2.890	2.640	0	10.988	0.10 *	0.86 *	1.00				
4. Firm Absolute Emissions	0.048	0.692	0	17.086	0.01	0.06 *	0.07 *	1.00			
5. Firm Relative Emissions	0.003	0.130	-2.257	3.052	0.00	-0.01	-0.01	-0.07 *	1.00		
6. Firm R&D Intensity	0.040	0.113	0	1.931	-0.02 *	-0.28 *	-0.26 *	-0.01	0.00	1.00	
7. Firm Advertising Intensity	0.012	0.043	0	1.159	0.01	-0.08 *	-0.05 *	0.00	-0.01	0.00	1.00

* $p < 0.05$

TABLE 2
Estimating *Stakeholder Actions* by stakeholder and action type

Model	1	2	3	4	5	6	7	8
Dependent Variable	Actions (yes or no?)	Total Actions	Actions by Powerful Groups	Actions by Weak Groups	Actions by More Legitimate Groups	Actions by Less Legitimate Groups	Confront- ational Actions	More Benign Actions
Specification	Logit	Poisson	Poisson	Poisson	Poisson	Poisson	Poisson	Poisson
Firm Relative Emissions	1.174 * (0.591)	1.307 *** (0.268)	0.179 (0.338)	1.130 *** (0.274)	0.255 (0.326)	1.120 *** (0.282)	0.459 (0.738)	1.386 *** (0.299)
Firm Assets	0.242 (0.155)	0.037 (0.106)	0.281 * (0.133)	0.112 (0.128)	0.249 * (0.131)	0.121 (0.130)	-0.011 (0.216)	0.115 (0.122)
Firm Cashflow	0.418 ** (0.150)	0.717 *** (0.105)	0.566 *** (0.128)	0.799 *** (0.125)	0.566 *** (0.127)	0.817 *** (0.127)	0.547 * (0.222)	0.715 *** (0.118)
Firm Advertising Intensity	4.253 * (2.129)	4.039 *** (1.223)	2.941 (2.359)	5.387 *** (1.300)	3.003 (2.043)	5.639 *** (1.402)	0.804 (4.059)	4.795 *** (1.358)
Firm R&D Intensity	-5.551 (4.905)	-5.360 (3.381)	-10.637 * (4.723)	-14.872 *** (4.456)	-11.873 * (4.820)	-13.737 ** (4.357)	-13.288 + (5.433)	-3.183 (3.820)
Firm Absolute Emissions	2.550 *** (0.508)	1.554 *** (0.217)	1.198 *** (0.245)	2.238 *** (0.224)	1.528 *** (0.244)	1.941 *** (0.224)	0.841 (0.531)	1.720 *** (0.250)
Constant	-7.095 *** (1.122)	-5.601 *** (0.554)	-6.772 *** (0.664)	-25.193 (36.463)	-6.576 *** (0.657)	-9.017 *** (1.146)	-4.292 *** (0.758)	-29.804 *** (1.119)
Sector Effects Controls	included	included	included	included	included	included	included	included
Observations	3227	3227	3227	3227	3227	3227	3227	3227
Firms	3227	3227	3227	3227	3227	3227	3227	3227
χ^2 statistic	389.90 ***	1608.75 ***	1392.14 ***	2141.22 ***	1441.04 ***	2045.77	234.02 ***	1522.67 ***
Pseudo R ²	0.348	0.471	0.503	0.579	0.505	0.573	0.312	0.507

Poisson specification adopted for each of the models.

Standard errors are in parentheses.

+ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

TABLE 3
Estimating *Stakeholder Actions* by clusters

Model	9	10	11	12	13	14
Dependent Variable	Actions by Cluster 1 (Aggressive)	Actions by Cluster 2 (Passive)	Actions by Cluster 1 (Aggressive)	Actions by Cluster 2 (Passive)	Actions by Cluster 1 (Aggressive)	Actions by Cluster 2 (Passive)
Specification	Poisson	Poisson	Poisson	Poisson	RE Poisson	RE Poisson
Firm Relative Emissions	0.082 (0.382)	1.445 *** (0.370)	0.087 (0.388)	1.409 *** (0.368)	0.235 (0.847)	1.414 * (0.691)
Firm Assets	0.310 * (0.151)	0.070 (0.171)	-0.268 (0.238)	0.970 * (0.439)	-0.398 (0.256)	0.273 *** (0.758)
Firm Assets ²			0.037 ** (0.013)	-0.052 * (0.022)	0.079 *** (0.017)	-0.101 ** (0.039)
Firm Cashflow	0.494 *** (0.165)	0.729 *** (0.165)	0.469 *** (0.144)	0.718 *** (0.167)	0.185 * (0.079)	0.314 ** (0.114)
Firm Advertising Intensity	4.402 * (1.942)	3.610 + (1.942)	3.200 + (1.897)	4.222 + (2.255)	0.435 (1.607)	2.946 * (1.216)
Firm R&D Intensity	-10.426 * (5.433)	-8.560 + (5.264)	-10.452 * (5.394)	-9.280 + (5.261)	-13.325 * (6.947)	-13.479 + (6.977)
Firm Absolute Emissions	1.632 *** (0.298)	2.069 *** (0.318)	1.615 *** (0.305)	2.098 *** (0.312)	0.047 (0.060)	0.143 + (0.087)
Constant	-7.261 *** (0.811)	-24.101 (32.544)	-5.306 *** (0.966)	-29.485 (32.544)	-7.457 *** (1.150)	-23.137 (31.011)
Sector Effects Controls	included	included	included	included	included	included
Year Effects Controls					included	included
Firm Effects Controls ^a					included	included
Observations	3227	3227	3227	3227	32764	32764
Firms	3227	3227	3227	3227	3227	3227
χ^2 statistic	920.42 ***	892.45 ***	927.49 ***	898.70 ***	446.93 ***	241.05 ***
Pseudo R ²	0.473	0.499	0.477	0.503		

Poisson specification adopted for each of the models.

Standard errors are in parentheses.

+ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

^a We do not include firm dummies, but rather adopt a firm random effects specification. Hence, we continue to include sector dummies.