

WHO MATTERS TO CEOS? AN INVESTIGATION OF STAKEHOLDER ATTRIBUTES AND SALIENCE, CORPORATE PERFORMANCE, AND CEO VALUES

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Using unique data provided by the CEOs of 80 large U.S. firms, we examined relationships among the stakeholder attributes of power, legitimacy, urgency, and salience; CEO values; and corporate performance. We found strong support for the attribute-salience relationship and some significant relationships among CEO values, salience, and corporate social performance but found no support for a salience-financial performance link. Our findings suggest a need for continued emphasis on the development of normative stakeholder theory.

The still dominant view that the corporation is a voluntary association of shareholders who own the enterprise and are the only members who really count . . . obscures the realities of corporate power and responsibility [and] . . . is in conflict with . . . taking account of relevant stakeholders, attending to long-run interests, and being sensitive to the operative structure of corporate authority. (Selznick, 1996: 271)

In an attempt to improve our collective understanding of what Freeman (1994) called "the principle of who or what really counts," Mitchell, Agle, and Wood (1997) offered a theory of stakeholder identification and salience that suggests that managers' perceptions of three key stakeholder attributes—power, legitimacy, and urgency—affect stakeholder salience—the degree to which managers give priority to competing stakeholder claims. In the study this article reports, we empirically tested Mitchell and colleagues' (1997) model as it applies to specific decisions made by chief executive officers (CEOs). Leaders, especially the CEOs of business organizations, imprint their firms with their own values (Wally & Baum, 1994), which then become

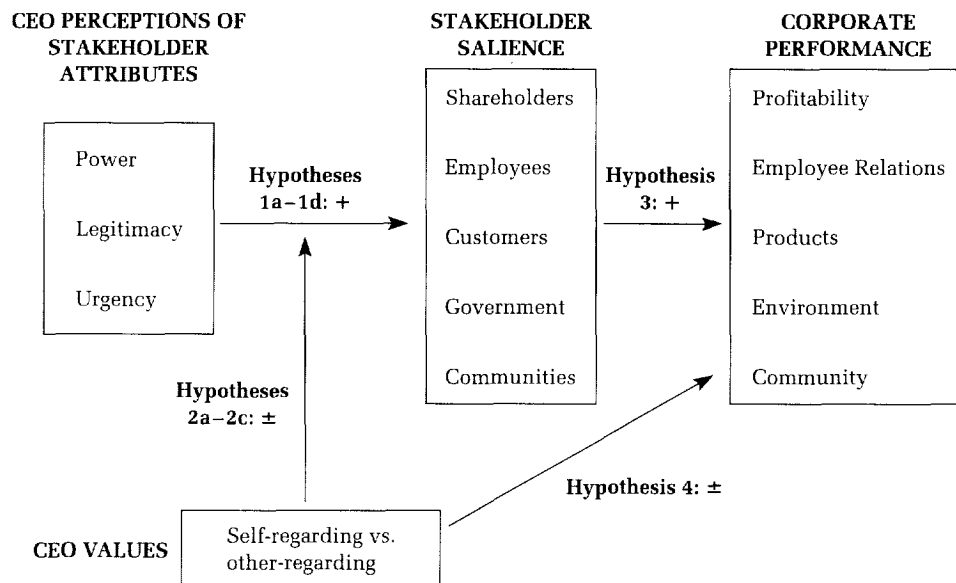
manifest in decision processes (Keeney, 1992; Norburn, 1989) that lead to stakeholder salience and corporate social performance (Carroll, 1979; Waddock & Graves, 1997a; Wood, 1991). We therefore studied CEOs' perceptions as important managerial outcomes described by the theory stated above, taking their values into account as Mitchell and colleagues suggested (1997: 871). Our study followed the "principles, processes, performance" logic suggested by Wood (1991: 693) as a straightforward way to examine the effects of CEOs' perceptions of stakeholder attributes on stakeholder salience and corporate performance.

THEORY AND HYPOTHESES

Our research model (Figure 1) is based upon Mitchell and colleagues' (1997: 873) proposition that stakeholder salience will be positively related to the cumulative number of stakeholder attributes—power, legitimacy, and urgency—perceived by managers to be present. Since these authors also argued that managerial characteristics are likely to moderate the attribute-salience relationship, and because the salience-performance link is implicit in their theory, we included CEO values as a moderating variable in the model and included several performance variables as outcomes. In this section, we explain each variable and the logical and literature-based reasons that we believe support the hypothesized relationships shown in Figure 1.

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FIGURE 1
Research Model



Stakeholder Attributes and Stakeholder Salience

Freeman's definition of a stakeholder as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (1984: 46) is widely cited, but it offers an extremely wide field of possibilities as to who or what really is a stakeholder. Mitchell and his coauthors (1997) suggested that researchers might identify stakeholders by applying sorting criteria to the field of possibilities. They argued that an emphasis on the *legitimacy* of a claim on a firm, based upon, for example, contract, exchange, legal title, legal right, moral right, at-risk status, or moral interest in the harms and benefits generated by company actions, is required in order to narrow the definition of stakeholder. They also argued that a stakeholder's *power* to influence the firm's behavior, whether or not it has a legitimate claim, must also be taken into account to ensure that the definition remains broad. Power and legitimacy are thus defined as core attributes that are expected to affect stakeholder salience and, when combined, to constitute authority (Weber, 1947). The attribute of *urgency* is the degree to which a stakeholder's claim calls for immediate attention. The inclusion of urgency adds a catalytic/dynamic component to the process whereby stakeholders attain salience in the minds of managers (Mitchell & Agle, 1997; Mitchell et al., 1997: 864).

To facilitate a faithful test of the model as proposed, we accept the definitions of these three attributes Mitchell et al. (1997) presented. Thus, we assume (1) that stakeholder power exists where one

social actor, A, can get another social actor, B, to do something that B would not have otherwise done (Dahl, 1957; Pfeffer, 1981; Weber, 1947), (2) that stakeholder legitimacy is 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; Weber, 1947), and (3) that stakeholder urgency is a multidimensional notion that includes both criticality and temporality, with a stakeholder claim considered to be urgent both when it is important and when delay in paying attention to it is unacceptable (Mitchell & Agle, 1997; Mitchell et al., 1997).

We also accept Mitchell and colleagues' (1997: 854) definition of stakeholder salience as the degree to which managers give priority to competing stakeholder claims. However, their model of stakeholder salience was defined in terms of managerial perceptions, which necessitates further discussion. In their first proposition, those authors suggest that stakeholder salience is positively related to the cumulative number of the three variable attributes, power, legitimacy, and urgency, that are "*perceived* by managers to be present" (1997: 873; emphasis added). Further, Freeman (1984) observed that managers' priority perceptions may attach to stakeholder groups as well as to specific stakeholder claims. And, in addition to arguing that stakeholder attributes function as variables—not as steady states—and can change for any particular group or stakeholder-manager relationship, Mitchell et al. (1997: 868) argued that the existence (or the degree

present) of each attribute as a matter of managerial perceptions is a reality constructed over time rather than an objective reality. Unfortunately, although the foregoing points draw attention to the role of perception, they do not constitute sufficient theoretical justification for why salience should be influenced by managerial perceptions. Social cognition theory and organization theory can provide the requisite explanations.

Social Cognition Theory and Stakeholder Salience

Social cognition theory, as an attempt to account for how people understand themselves and others, offers an explanation of how human cognitive processes such as attention, person memory, and social inference affect outcomes of interest (Fiske & Taylor, 1984). Specifically, in its explanation of attention processes, social cognition theory is useful to stakeholder scholars who wish to account for variability in stakeholder salience, because it provides theory to link individual factors (such as perception) to organizational outcomes (such as managers' prioritization decisions about various stakeholder groups) in the manner suggested for cross-level research models (Rousseau, 1985: 29).

According to social cognition theory, social salience depends upon: (1) attentional tasks, such as stimulus "domination" of the visual field, (2) prior knowledge or expectations, which prompt individual notice of "unusual" or "differential" aspects of behavior, and/or (3) the immediate context, through which individuals experience "figural/novel" elements, which contribute to the overall salience notion, "selectivity" (Fiske & Taylor, 1984: 184–187). Further, social cognition theorists hold that the effect of social salience on attention is related to the effects of selectivity as further influenced by the "intensity" of perception, meaning the extent of the "mental effort devoted to the focus of attention selected" (Fiske & Taylor, 1984: 184). Therefore, when we applied the general social cognition model to the stakeholder case, we expected stakeholder salience to be highest when both selectivity and intensity were high—which provides a theoretical reason for the expectations proposed by Mitchell and his coauthors (1997). Thus, as the stakeholder attributes of power, legitimacy, and urgency cumulate in the mind of a manager, selectivity is enhanced, intensity is increased, and higher salience of the stakeholder group is the likely result.

Organization Theory and Stakeholder Salience

Organization theory suggests why the cumulating of stakeholder attributes in the organizational setting might be expected to enhance selectivity and intensity through domination, differentiation, and novelty, which in turn might affect stakeholder salience.

Domination of the visual field. We learn from resource dependence theory that domination of the visual field will likely be associated with access to "critical resources," because power accrues to the group or coalition with access to such resources (Pfeffer & Salancik, 1978: 258). We therefore argue that the attribute of stakeholder power contributes to domination of the visual field by that stakeholder group. This notion is supported by Fiske and Taylor, who stated that "people attend more to others on whom their outcomes are dependent" (1984: 187).

Noticing the unusual/differential. According to organization theory (for example, institutional and population ecology theory), people use legitimacy—based on prior knowledge—in selection processes. Mitchell and colleagues (1997: 863) suggested that legitimate/nonlegitimate status is a core attribute in the construction of a comprehensive stakeholder identification model, and they based their definition of legitimacy upon Suchman (1995), who argued that legitimacy is a function of social context. Fiske and Taylor (1984: 187) asserted that people notice the unusual/differential relative to an immediate or broader context. Thus, because making legitimacy distinctions requires contextualized comparison, individual managers engage in cognitively based selectivity processes: they take notice. Adopting Mitchell and colleagues' (1997) definition of legitimacy, we therefore recognize that legitimacy is bounded by cultural norms and behavior, which is one reason why legitimacy distinctions can be made but are perceptual.

Novelty in the immediate context. In discussing their proposed behavioral theory of the firm, Cyert and March (1963) laid groundwork that aids understanding of how urgency captures the notion of experiencing figural/novel elements in an immediate context. In attempting to resolve the apparent contradiction between the idea of an organizational goal and the conception of an organization as a coalition, these authors observed that most organizational objectives take the form of an aspiration level on the part of coalition-participant stakeholders (Cyert & March, 1963: 27–28). We therefore reason that the actions of "high-aspiration stakeholders" will—in the immediate context—figure prominently in the selectivity and intensity judg-

ments (perceptions) of managers. As noted, Mitchell and colleagues (1997) called this aspiration variable urgency, and we concur.

Thus, according to organization theory, the job of an organization is to “reconcile divergent interests” (Hill & Jones, 1992: 134), to accomplish “interlocking of the behaviors of the various participants that comprise the organization” (Pfeffer & Salancik, 1978: 258), and to facilitate “aspiration-level adjustment” (Cyert & March, 1963: 38). We therefore expected that for CEOs:

Hypothesis 1a. The stakeholder attribute of power will be positively related to the stakeholder salience of shareholders, employees, customers, government, and communities.

Hypothesis 1b. The stakeholder attribute of legitimacy will be positively related to the stakeholder salience of shareholders, employees, customers, government, and communities.

Hypothesis 1c. The stakeholder attribute of urgency will be positively related to the stakeholder salience of shareholders, employees, customers, government, and communities.

And, since Mitchell and his coauthors (1997) suggested that stakeholder salience will be positively related to the cumulative number of stakeholder attributes—power, legitimacy, and urgency—perceived to be present, we also expected that for CEOs:

Hypothesis 1d. The cumulative number of the stakeholder attributes of power, legitimacy, and urgency will be positively related to the stakeholder salience of shareholders, employees, customers, government, and communities.

However, notwithstanding this direct effect, Mitchell and colleagues (1997) argued that the characteristics of managers are likely to moderate stakeholder salience. We therefore turn to the conceptualization of this moderator and suggest, for the reasons next stated, that CEOs' values (Hambrick & Mason, 1984) are a primary characteristic that influence their perceptions of the attributes that lead to stakeholder salience.

CEO Values and Stakeholder Salience

Given that the business principles and moral sentiments of business leaders are complex and that they vary with time, geography, and culture (Sen, 1997), it is likely that the presence or absence of stakeholder attributes shapes and is shaped by CEO values. Because managers vary greatly in their values (Hambrick & Mason, 1984), substantial varia-

tion in stakeholder salience as a function of such variability is to be expected. For this reason, managers' values are thought to act as a moderator influencing stakeholder salience (Mitchell et al., 1997).

One key value dimension is the level of self-interest versus “other-regarding” interest, which has prompted the development of entire streams of organizational theory, such as agency theory (e.g., Jensen & Meckling, 1976; Rubin, 1990), to explain its impacts. Some theorists have suggested that all behavior is ultimately self-interested (Dawkins, 1976; Wilson, 1974), and others have questioned the common assumption of self-interest and have contended that people often act in ways that benefit others, even to their own detriment (Etzioni, 1988; Granovetter, 1985; Perrow, 1986). Thus, the self-interest dimension of CEO values is not only important, but is expected to vary widely, given variation among individuals (Bonsignore, 1989; Logsdon & Yuthas, 1997; Wood, 1991), and therefore to be an important element in moderating the stakeholder-manager relationship manifest in stakeholder salience.

As noted previously, the question of who and what CEOs actually pay attention to is informed by organization theory. For example, according to Pfeffer and Salancik's (1978) resource dependence view of the firm, organizations are coalitions of varying interests and are “other-directed” (Pfeffer & Salancik, 1978: 257), or influenced by those who control critical resources and have the attention of CEO-managers (1978: 259–260). Further, the stakeholder–agency theory viewpoint suggests that a firm is a nexus of contracts between stakeholders and managers, who are at a central node, where it is their responsibility to reconcile divergent interests by making strategic decisions and allocating strategic resources in a manner that is most consistent with the claims of the other stakeholder groups (Hill & Jones, 1992: 134). Thus, the stakeholders that receive priority from management will be those whom managers—especially CEOs—perceive as highly salient.

Regarding the role of managers in the determination of stakeholder salience, Mitchell and colleagues argued the following:

- (1) . . . that the organization is an environmentally dependent coalition of divergent interests, which depends upon gaining the attention of (making claims upon) managers at the center of the nexus to effect reconciliations among stakeholders, [which] suggests that the perspective of managers might be vital; (2) . . . that, although groups can be identified reliably as stakeholders based on their possession of power, legitimacy, and urgency in

relationship to the firm, it is the firm's management [especially the CEO] which determines which stakeholders are *salient* and therefore will receive management attention; and (3) one can identify a firm's stakeholders . . . based on attributes, but managers [the CEO] may or may not perceive the stakeholder field correctly. (1997: 871; enumeration added, emphasis in original)

Drawing on this argument, Mitchell and colleagues again suggested managerial perception is critical to the salience of stakeholders. And critical to perception are values, which shape levels of selectivity and intensity through their influence on what dominates an individual's perceptual field and demands mental focus. In short, we argue that people perceive as important the things that are somehow connected with their values. CEOs are especially sensitive to the link between values and perception, because people are attracted to leaders who are perceived to "walk their talk," or lead by the values they proclaim (Arnold, 1997; Ginsburg & Miller, 1991). Thus, it is likely that CEOs' values influence the decisions they make that are related to stakeholder salience. Accordingly, we expected that, in general:

Hypothesis 2a. CEO values will affect CEO perceptions of power, legitimacy, and urgency and thus will be related to the stakeholder salience of shareholders, employees, customers, government, and communities.

Further, because CEO values are expected to vary on a continuum anchored at one end by profit maximization—firm-centered values and at the other by other-regarding—system-centered values (Wood, 1994), we specifically expected that:

Hypothesis 2b. CEO other-regarding values will affect CEO perceptions of power, legitimacy, and urgency and thus will be positively related to stakeholder salience for nonshareholders (employees, customers, government, and communities).

Hypothesis 2c. CEO other-regarding values will affect CEO perceptions of power, legitimacy, and urgency and thus will be negatively related to stakeholder salience for shareholders.

Corporate Performance

The outcomes of corporate activity matter. Clarkson (1995) wrote that performance counts because it can be measured and evaluated, whether a corporation and its management are motivated by enlightened self-interest, common sense, or high standards of ethical behavior. However, as noted in

the quotation from Selznick (1996) at the beginning of this article, the only conventional measurement of corporate success has been the satisfaction of and creation of wealth for one stakeholder—the shareholder—although it has been demonstrated that the pursuit of this single measure is self-defeating (Clarkson, 1988). Further, a significant relationship has been found between profitability measures such as return on equity and corporate social performance (CSP) measures such as employee relations, product innovation/safety, environmental stewardship, and community relations (Waddock & Graves, 1997a). Thus, as we attempted to include the construct of corporate performance in our research model (Figure 1), we were led to consider those variables as indicators.

Stakeholder salience and corporate performance. Within the stakeholder literature exists the highly appealing idea that paying attention to stakeholders is also good business (Jones, 1995). Recently, an explicit link has been suggested between stakeholder theory and CSP, on the basis of the argument that CSP is all about the relationships between a firm and its stakeholders—with the quality of these relationships fundamentally defining the quality of a company's corporate social performance (Waddock & Graves, 1997b). Hence, we expected that:

Hypothesis 3. Stakeholder salience as perceived by CEOs will be positively related to corporate performance.

In hypothesizing this relationship, however, we were not unaware of the difficulties associated with its testing. Several variables that could not be included in our study might also affect the results. For example, the influence of CEOs on outcomes might not be as great as expected because of (1) inflated expectations on our part—the so-called romance of leadership phenomenon (Chen & Meindl, 1991; Meindl & Ehrlich, 1987; Meindl, Ehrlich, & Dukerich, 1985), (2) the substantial influence of members of top management teams (Finkelstein, 1988; Hambrick & Mason, 1984; Tushman, Virany, & Romanelli, 1985), whose responses were not captured in this study, and (3) the vast inertia produced by both the external institutions (laws and regulations, for example) and the internal institutions (such as organizational culture) within which CEOs are required to work (Hambrick & Finkelstein, 1988; Schein, 1983). Further, the processes for gathering highly refined performance data on CSP variables are still being developed, suggesting caution in the interpretation of nonsignificant results (relationships may exist but be obscured).

CEO values and corporate performance. Two contrasting points of view explain some of the variations in CEO values as they affect corporate performance. As noted above, one end of the spectrum is anchored by an emphasis on the firm as the center of a stakeholder nexus. This shareholder-profit maximization focus emphasizes managing stakeholder relationships for the firm's and its managers' benefit. As Wood wrote:

A firm-centered stakeholder theory might focus, for example, on learning more about who the stakeholders are, what they want, what sort and amount of power they have, and to what incentives they might respond. Issues management, public affairs management, strategic philanthropy, cause-related marketing, corporate political action, and so on are all within the purview of a firm-centered stakeholder theory that emphasizes *managing* stakeholder relationships. (1994: 103; emphasis in original)

The other end of this values spectrum is anchored by what we have referred to above as an other-regarding-system-centered view of relationships with stakeholders. Again, we quote Wood's summary:

A system-centered normative stakeholder theory is much more compatible with a Rawlsian view of just distribution than with an egocentric or firm-centric view of wants. The underlying assumption might be that stakeholder relationships should be conducted fairly, according to agreed-upon rules, and should result in a distribution of benefits and burdens that is considered fair by all. . . . In a system-centered stakeholder theory, we might ask questions like these: . . . In the broader social network, how are power and autonomy distributed, what are the rules for their acquisition and use, and what does all this tell managers about "managing stakeholder relationships"? The focus would be on the *relationships* among stakeholders and companies and the effects of those relationships on the larger social system, rather than on the management of those relationships by one of the partners. (1994: 103-104; emphasis in original)

Thus, if CEOs emphasize a stakeholder nexus (Hill & Jones, 1992) in which the system is the focus, they will be likely to have a more other-regarding view of stakeholders that may lead them to consider issues of justice and rights in the entire system, which is likely to affect the performance of their firms in meeting their social responsibilities.

A firm's social performance thus depends upon decisions made by individual human actors (Wood, 1991). And the manner in which a CEO interprets the principles set forth in Wood's model is thought to depend upon the level of moral reasoning possessed by the individual. Kolberg (1981) conceptu-

alized moral reasoning as moving from the "pre-conventional" level, at which decisions are only made to benefit the self, to the "post-conventional" level, where moral reasoning goes beyond ego-based, peer-oriented, and legalistic "conventional" moral reasoning to "actively promote the welfare of stakeholders based upon respect for others" (Logsdon & Yuthas, 1997: 1216). Further, since stakeholders experience the results of corporate behavior, they are also expected to influence the standard-setters through their evaluation of how well companies perform according to their expectations (Lamb, 1994; Wood & Jones, 1995). Thus, it was reasonable to expect that:

Hypothesis 4a. CEO values will be related to corporate performance.

Once again, since we expected CEO values to vary on a continuum anchored at one end by profit maximization-firm-centered values and at the other by other-regarding-system-centered values, we expected that:

Hypothesis 4b. CEO other-regarding values will be positively related to corporate social performance variables (employee relations, product innovation/safety, environmental stewardship, and community relations).

Although we expected a clear relationship between CEO other-regarding values and these CSP variables, the relationship between CEO values and corporate financial performance is not as clear. Conventional wisdom (Jensen, 1988) suggests that corporations will perform better to the extent that CEOs concentrate on narrow profit maximization. This notion has been challenged by Clarkson (1988) and Miles (1987), whose research suggests that CEOs with other-regarding-system-centered values lead organizations that outperform their competitors on financial performance measures. Thus, to further test the conventional wisdom that narrow, firm-centered values will lead to greater financial performance, we hypothesized that:

Hypothesis 4c. CEO other-regarding values will be negatively related to the profitability component of corporate performance.

METHODS

We developed a unique data set on the three stakeholder attributes and on salience, CEO values, and performance and used it to test the hypotheses.

Sample

Data gathering. We gathered the primary data for the study in late 1997 and early 1998, using

surveys sent (with two mailed follow-ups and one phone follow-up to nonrespondents) to 650 CEOs in the Kinder, Lydenberg, Domini, and Company (KLD) database. This database includes information for the years 1996 and 1997 on the members of the Standard & Poor's 500 and 150 other large U.S. firms. Of these firms, we deleted 59 from the sample because the individuals listed were no longer the CEOs or the companies had ceased to exist as independent entities, and we eliminated 3 more to avoid retest bias (the CEOs had participated earlier in a pilot study). Of the CEOs of the remaining 588 firms, 80 returned the completed survey, for a 13.6 percent response rate. Response rates for CEOs are notoriously low, and our response rate for the KLD sample was normal for this population (Friedman & Singh, 1989).

We also obtained the most recent data available on the firms' 1996 and 1997 financial and social performance in COMPUSTAT and in the KLD social index, respectively. Our strategy was to obtain secondary data that were as proximate in time to the primary data as was practical. Although the resulting data set permitted only cross-sectional analysis and may not have been perfectly matched by time period, we believe that, with the exception of the financial performance information, most of the data used in our measures were fairly stable over the short term, and—through our use of additional matching and smoothing techniques, which are described below—were reasonably comparable.

The resulting sample had both advantages and limitations. On the positive side, the 80 firms included had an average annual revenue of \$6.2 billion (median \$3 billion), with a range of from \$90 million to \$61 billion. Thus, the CEOs of these firms had a major impact on economic activity, supervising approximately \$500 billion in gross domestic product, or approximately 7 percent of the U.S. economy. Also, we had confidence that as a result of our intensive follow-up efforts, most, if not all, of the surveys were completed by the CEOs themselves (a concern in research of this nature). For example, we enclosed consent forms with the surveys, the majority of which were returned with signatures corresponding to those designated on the firms' annual reports as belonging to their CEOs. However, as previously noted, one potential limitation was that the response rate was somewhat low, which presents two potential problems: response bias and low statistical power. Therefore, we further analyzed each of those issues.

Response bias. Such bias could arise from any of the variables in the research model: stakeholder attributes, stakeholder salience, CEO values, corporate social performance, or corporate financial per-

formance (CFP). Where we tested CSP and CFP utilizing secondary sources, we examined responses for bias by performing *t*-tests between responding and nonresponding firms. We tested for response bias on each of the CSP measures of employee relations, products, community relations, and environment as well as on the CFP measures of return on assets (ROA) and return on equity (ROE). The results of these tests were not significant, suggesting that our sample of firms was representative.

Statistical power. The power of a statistical test (the probability of detecting an effect when that effect should in fact be detected) is a function of the alpha level set to test hypotheses (the statistical level at which null hypotheses will be rejected), the strength of the association between variables (the adjusted R^2), the number of independent variables, and the size of the sample (Hair, Anderson, Tatham, & Black, 1995). Thus, a low response rate and a correspondingly small sample could conceivably limit the interpretability of findings because of the increased probability of not detecting a relationship between variables where one actually exists.

Given various missing responses in our CEO database, most statistical analyses in this study were performed with an *n* slightly greater than 70. A commonly accepted power level in the social sciences is .80 (Cohen, 1988). At this power level, and at an alpha level set at the conventional .05, a sample of 70 with from one to five independent variables would require that the independent variables explain approximately 15–19 percent of the variance in the dependent variable to be statistically significant. This power level allows researchers to detect major and moderate effects, but not slight effects. Thus, if an effect were slight, we would incur a type II error—finding no relationship when one actually exists. Cohen (1988) suggested that relaxing the alpha level to .10 will make the detection of minor effects more likely. Therefore, in our tables, we note relationships found to be significant at the .10 level, fully realizing the type I error trade-off.

Measures

Stakeholder power, legitimacy, urgency, and salience. The early steps in the development of items measuring stakeholder attributes and stakeholder salience were reported by Mitchell and Agle (1997). In this prior study, two of the present authors developed multiple items for measuring each of the aforementioned constructs. To refine those measures, we extended this analysis through discussions with colleagues, conference presentations

and discussions, and consultation with several CEOs. To examine construct validity, we also surveyed a different sample, 80 CEOs who had participated in other research with us and from whom we received 25 responses (a 31 percent response rate). As is explained in the Appendix, factor and reliability analyses demonstrated construct validity.

Because it was necessary to make the CEO questionnaire brief to increase the response rate, for each construct we used the item with the highest interitem correlation (please see the Appendix). Since stakeholder salience changes over time, and because survey research is cross-sectional, the CEOs were given a specific time period for which they were to evaluate the stakeholder attributes and stakeholder salience. The following statement preceded the items measuring those constructs: "For each of the stakeholder groups, rate the following statements based on your interactions with this group *during the past month*." The actual items used on the survey are those highlighted in bold in the Appendix. CEOs were given a seven-point Likert scale (1, strongly disagree, to 7, strongly agree) with this instruction: "Using the following descriptions, please circle the number in the boxes following each statement, that corresponds most closely to your observations." Thus, for example, the item used to measure stakeholder salience, "This stakeholder group was highly **salient** to our organization (definition: received high priority from our management team)," linked high salience to "strongly agree" and provided for measurement of a range of salience levels as defined. CEOs were asked to evaluate each item for each of Freeman's (1984) generic stakeholder groups: shareholders, employees, customers, government bodies, and community/charitable groups.

CEO values. As noted earlier in the article, our research tested the effects of CEOs' values on the relationships among stakeholder attributes, stakeholder salience, and corporate performance and, in particular, compared the effects of self-interested and other-regarding values. Because of varying opinions on the validity and usefulness of various values instruments, we chose to use two well-accepted measures: the Rokeach (1972) values instrument and the Aupperle (1984) measure of attitudes toward corporate social responsibility (CSR). To focus on our interest in particular kinds of values (self-interested versus other-regarding) and to keep the length of the survey reasonable, we shortened both instruments.

From the Rokeach (1972) instrument, we selected seven items that relate to self- versus other-regarding values, some of which have been identified as such in earlier work (Weber, 1990). The seven

items included (1) "a comfortable life (a prosperous life)," (2) "helpful (working for the welfare of others)," (3) "compassion (feeling empathy for others)," (4) "wealth (making money for myself and family)," (5) "equality (brotherhood, equal opportunity for all)," (6) "loving (being affectionate, tender)," and (7) "pleasure (an enjoyable life)." Items 1, 4, and 7 were considered to represent self-interested values, and items 2, 3, 5, and 6 to represent other-regarding values. Respondents rated each item on a seven-point Likert scale (1, least important, to 7, most important).

Factor and reliability analyses were performed on the data three times, once with the full data set and twice with the data set split in two. We split the sample to cross-validate the findings and to check for distortion, such as alpha inflation due to chance (DeVellis, 1991). In all three cases, the factor analysis produced three factors. In the analyses using either all or the second half of the data, items 1 and 4 (comfortable life and wealth) formed a self-interested factor, and items 2 and 3 (helpful and compassion) formed an other-regarding factor. In the analysis using the first half of the data, the items comfortable life, helpful, compassion, and wealth loaded together, with comfortable life and wealth loading negatively on the factor. Reliability analysis demonstrated satisfactory reliabilities (alphas above .70) for a scale with items 1 and 4 and a scale with items 2 and 3. Scale analysis on all four items showed reliabilities of .70 for the full sample and of .79 and .64 for the two halves, respectively. We performed subsequent analysis utilizing items 1 and 4 together, items 2 and 3 together, and items 1, 2, 3, and 4 together. Because the findings of these trials were similar, the scale using all four items was utilized in the study. Thus, the actual measure used in the analysis, which we refer to as "CEO values, Rokeach," was computed as the sum of the four items, with the Likert scale reversed for the comfortable life and wealth items.

Because of its extensive use in the past (e.g., Smith & Blackburn, 1988; Sharfman & Pinkston, 1997) and its high reliability (e.g., Ibrahim & Angelidis, 1995), we also used the Aupperle (1984) CSR instrument. This instrument, which is based on Carroll's (1979) model of corporate social responsibility, requires managers to allocate ten points among four areas of responsibility—economic, legal, ethical, and discretionary—with allocation depending on how much they value each area. Although Aupperle's original instrument contained 20 four-item groupings, we shortened it to a manageable set of 3 four-item groupings, or 12 items. Factor and reliability analysis on these scales revealed a four-factor model with all items

loading as anticipated and with Cronbach's alphas as high as those found in earlier studies using the longer instrument: .86 for economic, .85 for legal, .76 for ethical, and .88 for discretionary.

For purposes of brevity, a single scale combining the items from the economics and ethics scales was employed. In this scale, the ethics items represented an other-regarding posture, and the economics items represented a self-interested posture. For computational purposes, we reversed the economics items by subtracting their ratings from zero and then adding them to the ethics items to form the values (Aupperle) scale. Cronbach's alpha for this scale was .86.

Corporate social performance. Corporate social performance is notoriously difficult to quantify (Aupperle, 1984; Waddock & Graves, 1994). Waddock and Graves (1997a) provided a succinct history of these measurement problems, including those associated with the multidimensionality of the construct, the lack of agreement on terms and normative bases, and a variety of issues across industries and levels of analysis (Wood, 1991). However, in the past few years, broader measures taken across a wide variety of stakeholders have been generated. The most prominent and comprehensive of these has been developed by the investment firm Kinder, Lydenberg, Domini, and Company. Researchers have used the KLD social index extensively in the past few years to measure corporate social performance (e.g., Bass, Simerly, & Li, 1997; Turban & Greening, 1996; Waddock & Graves, 1997a, 1997b).

A critical review of the KLD data set appears in the work of Waddock and Graves (1997a, 1997b), and we summarize important points here. Through company surveys and secondary sources (such as the business press, academic journals, company documents, and environmental and community reports), KLD obtains information on over a thousand companies. Firms are rated on eight dimensions: employee relations, products, community relations, environmental stewardship, treatment of women and minorities, nuclear power, military contracts, and South Africa. We selected the five dimensions that (1) reflected the emerging stakeholder orientation toward corporate social performance (Waddock & Graves, 1997a), (2) were judged to be most important by ratings panels (Ruf, Muralidhar, & Paul, 1993; Waddock & Graves, 1994; Waddock & Graves, 1997a, 1997b), and (3) were consistent with comparative assessments of the validity of the KLD rankings and other possible CSP measures (Sharfman, 1993).

Like Waddock and Graves (1997b), we then

trimmed the five dimensions selected using the above criteria (employee relations, products, community relations, environmental stewardship, and treatment of women and minorities) down to four by combining employee relations and treatment of women and minorities into one employee category. Thus, we used four measures of corporate social performance: employee relations, community relations, environment, and products. Each of these was measured on a five-point scale ranging from -2 to +2. We also included one overall measure of CSP, which was the aggregate of the four measures. Waddock and Graves (1997b) noted that there are significant industry effects in the KLD data. We thus controlled for industry by subtracting or adding (depending on its sign) the industry mean for each measure.

In this study, we used the KLD data from 1996 and 1997. To smooth the data, we averaged ratings over the two years, unless data were not available for 1996 or a CEO had assumed his or her position during 1996, in which case we only used 1997. KLD expanded their scale for the 1997 data, but following advice from KLD personnel and to maintain consistency, we converted all ratings above +2 to the original scale.

Corporate financial performance. A great deal of debate surrounds the use of financial measures to assess performance. We chose to use the two most common accounting-based measures in the literature: ROA and ROE. Through COMPUSTAT, we obtained ROA and ROE for the firms in 1996 and 1997 and averaged the two years for both measures, unless a CEO had assumed his or her position in 1996, in which case we used only 1997. To control for industry influences, we subtracted the average industry (based on a firm's dominant four-digit Standard Industrial Classification code) ROA and ROE from each firm's ROA and ROE. This method of controlling for industry effects has been used frequently (Fowler & Schmidt, 1988; Harrison, Hall, & Nargundkar, 1993; Rumelt, 1982).

Data Analysis

Various statistical tests were performed on the data. Table 1 provides the means, standard deviations, and correlations for the variables used to test Hypothesis 1a-1c and 2a-2c, and Table 2 provides these statistics for the variables used to test Hypotheses 3 and 4a-4c. To test Hypotheses 1a-1c, we performed analyses for each of the five stakeholder groups, regressing the three stakeholder attributes—power, legitimacy, and urgency—against stakeholder salience. To comply with

TABLE 1
Means, Standard Deviations, and Correlations of Stakeholder Attributes, Stakeholder Salience, and CEO Values

| Variable | Mean s.d. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 |
|---------------------------|-----------|------------------|--------|------------------|------------------|------------------|-------|------------------|------------------|-------|-------|-------|------|------------------|------------------|-------|-------|------------------|-------|-------------------|------------------|--------|-------|--------|--------|----|
| 1. Shareholder power | 6.1 0.9 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2. Shareholder legitimacy | 6.2 1.1 | .13 | | | | | | | | | | | | | | | | | | | | | | | | |
| 3. Shareholder urgency | 5.2 1.8 | .37** | .39** | | | | | | | | | | | | | | | | | | | | | | | |
| 4. Shareholder salience | 6.3 0.8 | .29* | .31** | .45** | | | | | | | | | | | | | | | | | | | | | | |
| 5. Employee power | 5.6 1.0 | .33** | .26* | .19 | .08 | | | | | | | | | | | | | | | | | | | | | |
| 6. Employee legitimacy | 6.1 0.9 | .60 | .38** | .19 [†] | .21 [†] | .21 [†] | | | | | | | | | | | | | | | | | | | | |
| 7. Employee urgency | 5.1 1.4 | .27* | .06 | .53** | .15 | .20 [†] | .12 | | | | | | | | | | | | | | | | | | | |
| 8. Employee salience | 6.4 0.6 | .20 [†] | .05 | -.04 | -.08 | .36** | .36** | .13 | | | | | | | | | | | | | | | | | | |
| 9. Customer power | 6.3 0.9 | .22 [†] | .05 | -.04 | -.08 | .33** | .19 | -.06 | .23* | | | | | | | | | | | | | | | | | |
| 10. Customer legitimacy | 6.3 1.1 | .19 | .47** | .20 [†] | .07 | .20 [†] | .33** | .07 | .23* | .44** | | | | | | | | | | | | | | | | |
| 11. Customer urgency | 5.5 1.5 | .10 | .27* | .37** | .10 | .01 | .15 | .29* | .10 | .30** | .33** | | | | | | | | | | | | | | | |
| 12. Customer salience | 6.6 0.5 | .01 | .10 | -.04 | .03 | .15 | .18 | -.07 | .34** | .60** | .57** | .35** | | | | | | | | | | | | | | |
| 13. Government power | 5.9 1.1 | .14 | .00 | -.17 | .14 | .08 | .05 | .02 | -.01 | .22 | .17 | -.13 | .11 | | | | | | | | | | | | | |
| 14. Government legitimacy | 4.1 1.7 | .03 | .07 | .04 | .00 | .13 | .34** | .16 | -.04 | .07 | .00 | .15 | -.01 | .03 | | | | | | | | | | | | |
| 15. Government urgency | 3.9 1.8 | .20 [†] | -.03 | .01 | .00 | .18 | .16 | .27* | .03 | .12 | .04 | .35** | .11 | .19 [†] | .21 [†] | | | | | | | | | | | |
| 16. Government salience | 5.1 1.6 | .04 | -.06 | -.11 | .17 | .00 | .05 | .18 | .00 | .01 | .00 | -.04 | .04 | .29* | .13 | .44** | | | | | | | | | | |
| 17. Community power | 3.0 1.6 | .19 [†] | .00 | .00 | -.04 | .11 | .13 | .09 | -.03 | .14 | .01 | .18 | .06 | .08 | .25* | .39** | .23* | | | | | | | | | |
| 18. Community legitimacy | 4.4 1.4 | .17 | .09 | .18 | -.02 | .18 | .29* | .12 | .02 | .23 | .07 | .23 | .16 | .05 | .45** | .30** | .31** | .49** | | | | | | | | |
| 19. Community urgency | 4.1 1.7 | .13 | -.03 | .15 | .14 | -.06 | .17 | .39** | .03 | .09 | .00 | .36** | .04 | .01 | .28* | .36** | .36** | .49** | .32** | | | | | | | |
| 20. Community salience | 4.0 1.6 | .18 | .10 | .11 | .12 | .04 | .20 | .16 | .09 | .13 | .00 | .29** | .11 | .05 | .23* | .35** | .42** | .52** | .63** | .47** | | | | | | |
| 21. Values, Rokeach | 4.2 0.9 | -.04 | -.17 | .00 | .08 | .03 | .17 | .03 | .19 [†] | -.24* | .15 | -.02 | -.14 | .08 | .20 [†] | .16 | .28* | .21 | .34** | .18 | .30** | | | | | |
| 22. Values, Appleth | -1.0 2.3 | -.16 | -.30** | -.29** | -.15 | -.14 | .02 | .20 [†] | .06 | -.08 | -.11 | .18 | .01 | .13 | .00 | .05 | .10 | -.02 | .03 | .07 | .03 | .38** | | | | |
| 23. CSR, economic | 3.3 1.0 | .08 | .27* | .26* | .02 | .04 | -.04 | .18 | -.18 | .11 | .04 | -.18 | .01 | -.17 | .01 | .03 | .13 | .00 | -.02 | .03 | -.06 | -.37** | .87 | | | |
| 24. CSR, legal | 2.7 0.7 | .00 | .04 | -.27* | .10 | .01 | -.06 | -.25* | .19 | .10 | .11 | -.02 | .25* | .20 [†] | -.13 | -.07 | .02 | -.14 | -.06 | -.19 [†] | .15 | -.02 | .16 | .38** | | |
| 25. CSR, ethical | 2.6 0.8 | -.19 | -.23* | .24* | -.24* | -.20 | .00 | -.17 | -.07 | -.03 | .15 | -.13 | .03 | .05 | .02 | -.06 | .03 | .03 | -.08 | .09 | -.01 | .27* | .84** | -.48** | .12 | |
| 26. CSR, discretionary | 1.1 0.7 | .09 | -.05 | .15 | .16 | .09 | .07 | .15 | .17 | -.14 | .04 | .00 | -.10 | -.02 | .03 | .08 | .18 | .22 [†] | .13 | .36** | .20 [†] | -.11 | -.15 | -.32** | -.37** | |

[†] $p < .10$

* $p < .05$

** $p < .01$

TABLE 2
Means, Standard Deviations, and Correlations of Stakeholder Salience, CEO Values, and Corporate Performance

| Variable | Mean | s.d. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |
|----------------------------------|------|------|-------|-------------------|-------------------|-------------------|-------------------|-------|-------|------|-------|------------------|------|------------------|------------------|--------|--------|--------|--------|
| 1. Salience, shareholder | 6.3 | 0.8 | | | | | | | | | | | | | | | | | |
| 2. Salience, employee | 6.4 | 0.6 | .31** | | | | | | | | | | | | | | | | |
| 3. Salience, customer | 6.6 | 0.5 | .08 | .31** | | | | | | | | | | | | | | | |
| 4. Salience, government | 5.1 | 1.6 | .23* | .06 | .01 | | | | | | | | | | | | | | |
| 5. Salience, community | 4.0 | 1.6 | .21* | .20* | .09 | .48** | | | | | | | | | | | | | |
| 6. Corporate performance | 0.1 | 0.4 | -.10 | .03 | -.15 | -.23* | -.12 | | | | | | | | | | | | |
| 7. Performance, shareholder: ROA | 0.0 | 0.0 | -.15 | .08 | -.10 | .15 | .03 | -.04 | | | | | | | | | | | |
| 8. Performance, shareholder: ROE | 0.0 | 0.2 | -.10 | .09 | -.04 | .04 | .07 | .11 | .35** | | | | | | | | | | |
| 9. Performance, employee | 0.4 | 1.4 | -.03 | .01 | -.20 [†] | -.19 [†] | -.21 [†] | .45** | -.07 | .08 | | | | | | | | | |
| 10. Performance, product | 0.0 | 1.2 | -.06 | .00 | -.05 | -.15 | -.10 | .41** | -.05 | .14 | .17 | | | | | | | | |
| 11. Performance, environment | -.02 | 1.5 | -.01 | .06 | .03 | -.20 [†] | -.08 | .43** | .03 | .16 | .35** | .21 [†] | | | | | | | |
| 12. Performance, community | 0.5 | 1.1 | .00 | .01 | -.04 | .07 | .24* | .26* | .04 | -.07 | -.03 | -.28* | -.13 | | | | | | |
| 13. Values, Rokeach | 4.2 | 0.9 | .08 | .19 [†] | -.14 | .28* | .30** | .14 | .08 | -.05 | .11 | .04 | .12 | .21 [†] | | | | | |
| 14. Values, Auppertele | -1.0 | 2.3 | -.15 | .06 | .01 | .10 | .03 | .07 | .05 | .13 | .09 | -.05 | .08 | -.12 | .38** | | | | |
| 15. CSR, economic | 3.3 | 1.0 | .02 | -.18 [†] | .01 | -.13 | -.06 | -.04 | -.07 | .15 | -.11 | .14 | -.03 | .05 | -.37** | -.87** | | | |
| 16. CSR, legal | 2.7 | 0.7 | .10 | .19 [†] | .25* | .02 | -.15 | -.13 | .03 | .06 | -.01 | -.24* | -.03 | -.10 | -.02 | .16 | .38** | | |
| 17. CSR, ethical | 2.6 | 0.8 | -.24* | -.07 | .03 | .03 | -.01 | .08 | .01 | .06 | .04 | .07 | .12 | -.16 | .27* | .84** | -.48** | -.12 | |
| 18. CSR, discretionary | 1.1 | 0.7 | .16 | .17 | -.10 | .18 | .36** | .02 | -.03 | .03 | -.04 | -.09 | -.18 | .29** | .20 [†] | -.11 | -.15 | -.32** | -.37** |

[†] $p < .10$

* $p < .05$

** $p < .01$

the assumptions of regression analysis, we transformed the dependent variable, salience, for normalcy in the data for three groups, shareholders, employees, and customers. We used the reflective inverse transformation suggested by Tabachnick and Fidell (1996) for a J-shaped distribution skewed to the left.

To test Hypothesis 1d, we used a mathematical decision structure Mitchell and Agle (1997: 368) devised to help researchers quantify the absence or presence of variables. However, this analytical approach requires a more extensive data set than we had available. Consequently, we used a simplified version of the technique. As Mitchell and Agle suggested (1997: 370), we quantified the absence/presence of the stakeholder attributes as follows: 0, 1, 2, 3 to correspond to the absence/presence conditions existing in each case, which form a basic interval scale (Nunnally, 1978: 16). We then established a threshold value for each attribute, using—in the absence of any data in the literature—the mean value on that attribute in our sample. The cumulative number of stakeholder attributes above the threshold level for each stakeholder was then regressed against the salience of that stakeholder.

To test Hypothesis 2a, 2b, and 2c, we performed a moderated regression analysis on each stakeholder group using CEO assessments of the three attributes, power, legitimacy, and urgency; our two measures of CEO values; and the interaction of CEO attributes and CEO values on stakeholder salience. Hypothesis 3 was tested in two different ways: First, we examined simple Pearson correlations to determine if significant relationships existed between the salience of each particular stakeholder group and performance. Second, we combined the data and regressed each stakeholder group salience rating against the matching performance rating (Wood & Jones, 1995). Thus, employee salience was matched with the KLD employee relations score, shareholder salience was matched with ROE (both ROA and ROE in the first analysis), community salience was matched with the KLD community relations measure, customer salience was matched with the KLD products measure, and government salience was matched with the KLD environment measure. The first four matches are very straightforward, but the reasons for matching government salience with environment require explanation. The reasons were as follows: With the aggressiveness of the government on the environmental front in recent years, corporate officers interviewed in our pilot test often suggested that the Environmental Protection Agency was their most important governmental link. Since this was clearly not true

for all companies,¹ we performed the analysis both on the full data set and on the data without this particular stakeholder group. The results were similar, and we therefore report the results of the analysis using the full data set. Finally, Hypotheses 4a–4c were tested through a correlational analysis, with simple Pearson correlations showing the relationships between the various measures of CEO values, CSP variables, and financial performance variables.

RESULTS

Statistical results of the hypothesis tests are found in Tables 1 through 4. The results presented in Tables 1 and 3 show strong support for Hypotheses 1a–1d, suggesting that the stakeholder attributes of power, legitimacy, and urgency are indeed related to stakeholder salience. In Table 1, we see that shareholder salience is significantly related to shareholder power, legitimacy, and urgency ($p < .05$, $.01$, and $.01$, respectively); employee salience to employee power and legitimacy (both $p < .01$); customer salience to customer power, legitimacy, and urgency (all $p < .01$); government salience to government power and urgency ($p < .05$ and $.01$, respectively); and community salience to community power, legitimacy, and urgency (all $p < .01$). Table 3 presents the results of the regression analyses for individual attributes in its top half and results for cumulative attributes in its lower half. Effect sizes range from an adjusted R^2 value of $.17$ for employee salience to a value of $.52$ for customer salience in the individual attributes models, and from an adjusted R^2 value of $.14$ for employee salience to a value of $.47$ for shareholder salience in the cumulative attributes models.

Table 4 shows the results of moderated regression analyses testing Hypotheses 2a–2c. The top half of the table shows a significant effect ($p < .05$) on employee salience for the interaction between CEOs' other-regarding values, as measured by the Rokeach instrument, and stakeholder attributes. The lower half shows a significant effect ($p < .05$) on customer salience for the interaction between other-regarding values, as measured by the Aupperle instrument, and stakeholder attributes. How-

¹ Because government salience might also be linked to other CSP outcomes, correlations between government salience and other measures are also reported, in Table 2. This table reveals that government salience is also significantly related to performance concerned with employees. Nevertheless, as shown, our matching government salience and the CSP outcome measure did not significantly affect the analyses noted.

TABLE 3
Results of Regression Analyses^a

| Variable | Shareholder Salience | Employee Salience | Customer Salience | Government Salience | Community Salience |
|--|----------------------|-------------------|-------------------|---------------------|--------------------|
| Individual attributes | | | | | |
| Stakeholder power | .16 | .25* | .34** | .30** | .23* |
| Stakeholder legitimacy | .18 [†] | .30** | .46** | .07 | .47** |
| Stakeholder urgency | .40** | .06 | .11 | .34** | .17 [†] |
| Adjusted R ² | .30** | .17** | .52** | .23** | .48** |
| F | 11.15 | 5.83 | 26.39 | 8.23 | 22.72 |
| n | 73 | 73 | 72 | 72 | 71 |
| Cumulative attributes | | | | | |
| Number of stakeholder attributes exceeding threshold | .69** | .38** | .65** | .41** | .56** |
| Adjusted R ² | .47** | .14** | .42** | .15** | .30** |
| F | 65.48 | 12.24 | 51.58 | 13.91 | 31.48 |
| n | 73 | 73 | 72 | 72 | 71 |

^a Standardized coefficients are reported.

[†] $p < .10$

* $p < .05$

** $p < .01$

TABLE 4
Interaction Effects^a

| | Shareholders | | Employees | | Customers | | Government | | Community | |
|--|-------------------------|-----------------|-------------------------|-----------------|-------------------------|-----------------|-------------------------|-----------------|-------------------------|-----------------|
| | Adjusted R ² | ΔR ² | Adjusted R ² | ΔR ² | Adjusted R ² | ΔR ² | Adjusted R ² | ΔR ² | Adjusted R ² | ΔR ² |
| CEO values, Rokeach | | | | | | | | | | |
| Stakeholder power, legitimacy, and urgency | .29** | | .18** | | .52** | | .23** | | .46** | |
| CEO values, Rokeach | .27 | -.02 | .25 | .07* | .51 | -.01 | .24 | .01 | .45 | -.01 |
| n | 71 | | 71 | | 70 | | 70 | | 69 | |
| CEO values, Aupperle | | | | | | | | | | |
| Stakeholder power, legitimacy, and urgency | .30** | | .19** | | .52** | | .24** | | .48** | |
| CEO values, Aupperle | .28 | -.01 | .20 | .01 | .57 | .04* | .23 | -.01 | .46 | -.02 |
| n | 72 | | 72 | | 71 | | 71 | | 70 | |

^a Because of missing data, a slight variation in *n* results in minor variations between Tables 3 and 4 in values of adjusted R².

[†] $p < .10$

* $p < .05$

** $p < .01$

ever, except for these findings the overall pattern of results is one of nonsignificance. Thus, although two significant interaction effects were found, it appears that the majority of the evidence does not allow us to reject the null hypothesis, that values have no moderating effect.

Table 2 presents the results of the analysis used

to test Hypotheses 3 and 4a–4c. Hypothesis 3 states that stakeholder salience will be related to corporate performance. An overall regression analysis (not shown) using all ratings ($n = 374$) between a stakeholder group's salience and corporate outcome matched for that stakeholder group yielded no significant relationship. Table 2 reports a signif-

ificant ($p < .05$) correlation between community salience and community performance. Nevertheless, the general pattern of results does not allow us to reject the null hypothesis and, once again, this hypothesis—that there is no relationship between stakeholder salience and corporate performance—is retained.

Results in Table 2 show slight support for Hypotheses 4a–4c, suggesting a relationship between CEO values and corporate performance. There is a correlation approaching significance ($p < .10$) between CEO values, as measured by the Rokeach instrument, and community performance. A significant correlation ($p < .01$) is also seen between CSP discretion, as measured on the Aupperle scale, and community performance. However, the overall pattern of findings does not justify rejecting the null assumption for Hypotheses 4a–4c, and therefore it is once again retained. Thus, no significant relationship was found between CEO values and corporate performance.

DISCUSSION AND CONCLUSION

The primary objective of this study was to test the theoretical model of stakeholder salience proposed by Mitchell and his colleagues (1997). Our results confirmed this model. We found that in the minds of CEOs, the stakeholder attributes of power, legitimacy, and urgency are individually (with only two exceptions) and cumulatively (with no exception) related to stakeholder salience across all groups. This finding suggests that these stakeholder attributes do affect the degree to which top managers give priority to competing stakeholders.

A secondary objective of the study was to test other relationships: the potentially moderating effect of CEO values on the attribute-salience and salience-performance links, and the effects of salience on performance. With a few minor exceptions, these tests showed few relationships among the variables as operationally defined. These findings suggest that much more work will be necessary before researchers will be able to fully understand these phenomena. In the remainder of this article, we attempt to summarize our reading of the story that emerges from the research results and to place these findings within the normative context of stakeholder theory (Donaldson & Preston, 1995).

Traditional Structures

If we accept Ansoff's (1984) notion, which is implied in Mitchell and colleagues' (1997) model, that the CEO at the nexus (Hill & Jones, 1992) is more a juggler of constituencies than a pilot at the

helm of a great corporate ship, with the job of prioritizing the expectations of (salient) stakeholders and of responding in ways that affect their priorities and the circumstances of the firm, we at least tacitly accept the idea that the salience judgments of CEOs form a de facto theory of the firm (explaining why it exists and what it does). According to the emergent CEO salience theory of the firm that is revealed in our data (please see Table 1), the salience of stakeholders that are part of the traditional production function view of the firm—shareholders, employees, and customers ($\bar{x} = 6.3, 6.4,$ and 6.6 , respectively)—is higher than that of stakeholders that are part of the expanded stakeholder view of the firm: governments and communities ($\bar{x} = 5.1$ and 4.0). Also, in our data the variance in the ratings of salience for shareholders, employees, and customers was lower (s.d. = $0.8, 0.6,$ and 0.5) than the variance in those ratings for government and community (s.d. = 1.6 for both). The traditional production view appears to remain dominant in the minds of large corporations' CEOs.

Implications from primary tests. Although overall patterns in the data show very clearly that stakeholder power, legitimacy, and urgency have a significant relationship to stakeholder salience, variations in R^2 by stakeholder type provide further support for an interpretation cast in traditional terms. For example, although shareholder power, legitimacy, and urgency are all correlated with shareholder salience, we note that for this sample of large public firms, urgency is the best predictor of shareholder salience (Table 3). This finding confirms anecdotal evidence presented by Mitchell and colleagues (1997) suggesting that although shareholders are dominant stakeholders and are thus at least moderately salient to CEOs, it is the extra push of shareholder urgency that really gets CEO attention.

Implications from secondary tests. We found in our secondary tests that a traditional reading of the interactions surrounding manager-stakeholder relationships explained the few significant relationships among salience, CEO values, and performance that we did find. In the next three paragraphs, we summarize these findings and show how they explain the current status quo.

We found significant values-salience relationships that were both moderating and interactive and direct and antecedent. For example, as shown in Table 4, and consistent with an internally focused notion of employee stakeholder management, other-regarding CEO values significantly moderated the attribute-salience relationship for employee stakeholders. As shown in Table 2, however, CSR, ethical; CSR, legal; and values measured

by the Rokeach scale were directly and significantly related to shareholder, customer, and government/community salience, respectively, suggesting that accountability to stockholders, customers, and communities prompts values that give rise to salience. Admittedly, this is a post hoc interpretation, but it is one that strongly indicates the influence of traditionally structured relationships. This relationship can also be observed by reviewing the correlations in Table 2 to ascertain those that might be significant in a larger sample;² notable are the correlations with *p* at the .10 level. Values, as measured on the Rokeach scale, and CSR, economic, and CSR, legal, likely explain additional variance in employee salience.

We also found traditional structures to be evident in the few significant values-performance relationships. For example, we wonder if the positive relationship of CSR, discretionary, to community salience seen in Table 2 might be interpreted as a confirmation of a traditionally paternalistic attitude of corporations toward community. We view the negative relationship between CSR, legal, and product performance as also indicative of traditionally structured product-liability issues.

Finally, we see traditional influences emerging in the significant, potentially significant, and non-significant salience-performance relationships as well. In this case, by traditional influences we mean impacts upon relationships that might be summarized under the rubric "the squeaky wheel gets the grease." For example, government salience was found to be negatively related to corporate performance. We see a traditionally reactive posture toward government confirmed in this negative relationship; CEOs would appear to be saying "If we're doing poorly with diversity, environmental performance, product liability, and so forth, government is all over us." More indicative, however, is the nonsignificance of any of the salience-financial performance relationships. Traditionally, those espousing a nonstakeholder perspective have asserted that care for stakeholders is unconnected to financial results, unless and until the wheels start to squeak.

Although other significant and potentially significant (limited by statistical power) relationships existed, we believe that our analysis was sufficient to demonstrate our point, that a traditional stakeholder-manager structure persists. Thus, we cannot yet report that the elusive "Northwest passage" from stakeholder attributes, through stakeholder

salience, to corporate social performance has been charted. One of the most appealing suggestions to be developed in the stakeholder research stream is the idea that CSP really defines relationships between a corporation and its stakeholders and, especially, that the quality of these relationships fundamentally defines the quality of a company's CSP (Waddock & Graves, 1997b) and that a "virtuous circle" exists between CSP and financial performance (Waddock & Graves, 1997a). Yet when we examined a "full" model that ostensibly mapped the virtuous circle through the eyes of a CEO, we saw a stakeholder class system—in which shareholders, employees, and customers were privileged, and government and communities were less so—that a CEO would be bound to respect. Where tradition permitted CEO discretion (in the salience-community performance link, for example), we saw CEOs using that discretion. Where there was no discretion, we found none exercised.

Nevertheless, to qualify this conclusion, we must recognize the weakness in our tests. For example, our findings raise the strong possibility that there are other variables—that new theory must identify and relate—that operate in the values-salience and salience-performance settings, some of which may have been suppressed as a result of insufficient statistical power in our study. In addition, as deliberate as we were in attempting to minimize error arising from our timing assumptions (in that we carefully chose which data were matched to measure the values- and salience-performance links, for instance), these assumptions could certainly be cross-checked and data matched in other ways or subjected to a time series or other longitudinal analysis. For example, although the direction of causality we expected was from stakeholder salience to stakeholder performance, our test required using performance data that preceded our measure of stakeholder salience. So, actually, the lack of significant findings outside of the link between community salience and performance could be explained by the fact that CEOs may very well be dealing with urgency from stakeholders whom the company has not served well in the past. Further, our measures did not necessarily allow tests of simultaneously occurring stakeholder relationships. Thus, better data, longitudinal study, and the inclusion of some variables measuring competing explanations are called for.

But this call does not alleviate the grip of the vise that presently holds captive the virtuous circle. In observing the mean salience levels of production function stakeholders and the salience-performance link, which suggests considerable CEO discretion, we cannot help but wonder whether

² The size of the current sample limits the statistical power of this analysis.

broader social norms hold the key to a general model of the firm. As long as society wants high investment returns, job security and higher wages, and lower prices, CEOs are bound to respect these norms. We thus return to the principles, processes, and performance logic (Wood, 1991) that motivated our research model and suggest that we begin our next steps with a closer look at principles.

Conclusion

The capability of normative declarations to alter outcomes is well accepted. "We hold these truths to be self-evident . . .," "inalienable rights, . . . life, liberty, . . . pursuit of happiness . . ." and similar statements contain within them social energy that inspires the mind, justifies new modes of thought, and enables change. In our study, we observed that the terms "stakeholder" and "really counting" are not yet synonymous. We suggest that without the persistent and persuasive linking of these terms in the normative discourse of our society, and without careful construction upon this foundation of a truly viable, rigorous alternative to the dominant view (Clarkson, 1995), the future of the corporation is uncertain.

We reason as follows: In our study, we saw that, at present, society does grant authority (legitimacy and power) to business leaders, shareholders, employees, and customers. And we are reminded of Davis's "iron law," which states that "in the long run, those who do not use power in a manner which society considers responsible will tend to lose it" (Davis, 1973: 314). It appears to us that after over 30 years of attention to the stakeholder concept, it is unlikely that either descriptive discourse (describing a corporation as a constellation of cooperative and competitive interests possessing intrinsic value) or instrumental discourse (establishing a framework for examining the connections between the practice of stakeholder management and the achievement of various corporate performance goals; Donaldson & Preston, 1995), as helpful as these aspects of stakeholder theory are in explaining "what is," will generate the social energy necessary to forge an actual link between stakeholder salience and corporate social performance. Normative discourse, we therefore believe, must continue to be endemic to stakeholder theory and research if scholars want this theory to flourish and fulfill its aims as a theory of the firm—not the least of which is attending to the long-run interests of both the business corporation and the society that gives it life.

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APPENDIX

Special Analysis of Construct Validity for Variables Used to Measure Mitchell, Agle, and Wood's (1997) Constructs

This appendix reports our analysis of the construct validity of the variables we used to measure Mitchell and colleagues' constructs. This analysis was conducted using a different sample, 80 CEOs who had participated in other research with us and from whom we received 25 responses (31 percent response rate; average responding firm revenues, \$1.5B).

The survey included three items for each of the stakeholder attributes: power, legitimacy, urgency, and salience. Each item was rated on a seven-point Likert scale ranging from strongly disagree (1) to strongly agree (7). Table A presents results of a factor analysis, using “varimax” rotation, of the items for the independent variables, power, legitimacy, and urgency. Each item was evaluated for each of Freeman's (1984) generic stakeholder groups—shareholders, employees, customers, government bodies, and community/charitable groups. Thus, each respondent evaluated each of the four constructs five times, each time with a different stakeholder group. As can be seen in Table A, the items load clearly on each of the three predicted factors. The analysis presented was based on combining ratings from the stakeholder groups, allowing, with missing data, for an n of 105. Scale reliabilities (alphas) were all around .90. Doing the analysis on each group independently for each attribute (given missing data, an approximate n of 21 for each analysis) demonstrated reliabilities largely between .70 and .90, with the exception of employee legitimacy (.61). A further analysis in which the full data set of 115 observations (including those for salience, as is explained next) was split into two halves for separate factor and reliability analyses had results almost identical to those for the full data set.

TABLE A
Factor Loadings and Reliabilities for Stakeholder Attributes

| Item | Power | Urgency | Legitimacy |
|---|-------|---------|------------|
| This stakeholder group had power , whether used or not (definition: the ability to apply a high level of direct economic reward or punishment [money, goods, services, etc.] and/or coercive or physical force [gun, lock, sabotage, etc., including access to legal processes that can invoke the use of physical force] and/or positive or negative social influence [on reputation, prestige, etc., through media, etc.] to obtain its will). | .92 | | |
| This stakeholder group had access to, influence on, or the ability to impact our firm, whether used or not. | .91 | | |
| This stakeholder group had the power to enforce its claims. | .89 | | |
| α | .93 | | |
| This stakeholder group exhibited urgency in its relationship with our firm (definition: active in pursuing claims—demands or desires—which it felt were important). | | .91 | |
| This stakeholder group actively sought the attention of our management team. | | .89 | |
| This stakeholder group urgently communicated its claims to our firm. | | .85 | |
| α | | .88 | |
| The claims of this particular stakeholder group were viewed by our management team as legitimate (definition: proper or appropriate). | | | .82 |
| Our management team believes that the claims of this stakeholder group were <i>not</i> proper or appropriate. ^a | | | .90 |
| The claims of this group were legitimate in the eyes of our management team. | | | .88 |
| α | | | .91 |

^a Reverse-coded.

The dependent variable, salience, also had three items measuring it: (1) "This stakeholder group was highly **salient** to our organization (definition: received high priority from our management team)," (2) "This group received a high degree of time and attention from our management team," and (3) "Satisfying the claims of this group was important to our management team." Combining these items across stakeholders, we obtained a reliability of .90. Performing the analysis on each group independently demonstrated reliabilities all at or above .70.

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