Firm Responses to Secondary Stakeholder Action

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In this paper, we explore the conditions under which secondary stakeholder groups are likely to elicit positive firm responses. To this end, we build upon and advance Mitchell, Agle, and Wood’s (1997) stakeholder saliency and identification framework by defining saliency in terms of actions not perceptions and by proposing that power, legitimacy, and urgency arise out of the nature of stakeholder-request-firm triplets. To test this framework, we build a unique dataset of over 600 secondary stakeholder actions within the United States all concerning environmental issues over the period 1971 to 2003.

Keywords: stakeholder theory, environmental management, self-regulation
Stakeholder theory has long advocated that firms ignore the needs of the multitude of stakeholders they face at their own peril (Freeman, 1984). Freeman (1984) defines stakeholders as any group that affects or is affected by firm behavior. While internal stakeholders such as employees, customers, and stockholders have long been emphasized in management and strategy research, stakeholder theory brings particular attention to outside constituencies such as community activists, advocacy groups, religious organizations and other non-governmental organizations. Such stakeholders are often referred to as “secondary” (Clarkson, 1995) since, in general, they do not have a formal contractual bond with the firm (as is the case with employees and customers) or direct legal authority over the firm (as is the case with government regulators).

While firms are not contractually obligated to these secondary stakeholders, anecdotal evidence suggests that these groups can bring pressures to bear to induce firms to respond to stakeholder requests. In particular, outside stakeholder groups can engage in a set of actions such as protests, civil suits, and letter writing campaigns to advance their interests. These actions can provide strong incentives for firms to meet stakeholder demands in one of two ways. First, they may impose direct operational costs in terms of legal fees, public relations expenses, and managerial attention if stakeholder demands are not addressed. Second, these stakeholder actions may have important consequences for a firm’s reputation and its subsequent ability to attract customers and employees and appease regulators and shareholders.

In this paper, we develop and test a theory of the extent to which secondary stakeholder groups may elicit positive responses from firms to their requests. Theoretically, we build upon Mitchell, Agle, and Wood’s (1997) stakeholder identification and salience framework. Mitchell et al (1997) propose that stakeholders who possess power, legitimacy, and urgency are more salient to firms. We advance this model by first defining salience in terms of whether firms are
likely to respond to stakeholder requests for action and by proposing that power, legitimacy, and urgency arise out of the nature of stakeholder-request-firm triplets. We then augment this framework by proposing that 1) the power of the stakeholder is moderated by the power of the firm, 2) in addition to the legitimacy of the stakeholder, the legitimacy of the request being made is important, and 3) the urgency of the request is more vital than the urgency of the stakeholder group. We develop a set of hypotheses consist with these propositions. Empirically, we build a unique dataset of over 600 secondary stakeholder actions within the United States over the period 1971 to 2003 to test our hypotheses.

This paper advances the stakeholder literature both theoretically and empirically. Few works within the stakeholder literature have looked directly at the success of secondary stakeholders in causing firms to respond to stakeholder requests. While frameworks abound for classifying various stakeholders (e.g., by priority, by predominant relationship to the firm, or by voluntary vs. involuntary relationships), less effort has been put forth into theorizing and testing when these classes of stakeholders are likely to bring about responses. As indicated by other scholars in this area, additional research is needed to understand which stakeholder influences matter to managers and to which stakeholders firms are likely to respond (Harrison and Freeman, 1999; Rowley and Moldoveanu, 2003). Empirical studies have been limited mostly to case studies and surveys while large-scale statistical analyses remain few. This paper helps advance the stakeholder literature by developing a model of secondary stakeholder influence and providing a robust, empirical test. Our findings have important implications for managers of both for-profit firms and for not-for-profit stakeholder groups.
THEORY

Since Freeman (1984) introduced stakeholder theory into the management lexicon, a diverse stakeholder literature has developed. Reviews of the literature broadly classify this work into normative, instrumental, and descriptive traditions (Donaldson and Preston, 1995). Research in the normative tradition describes what firms and managers should do based on assorted ethical frameworks. Instrumental studies have attempted to verify whether firms who are responsive to stakeholders are more successful (Jones, 1995; Wood, 1991). In particular, a growing empirical literature has explored whether excess profits accrue to firms who are socially responsible or environmentally conscious (Margolis & Walsh, 2001; Berman, Wicks, Kotha, & Jones, 1999; Waddock & Graves, 1997; McGuire, Sundgren, & Schneeweis, 1988). Finally, the descriptive tradition has focused on characterizing the actual actions of firms and stakeholder groups as they interact.

This latter, descriptive literature is the focus of our study. Studies within this tradition have examined, for example, the beginning stages of stakeholder mobilization; such as when stakeholder groups act and what tactics they choose (Carmin and Balser, 2002; Rowley and Moldoveanu, 2003). Researchers have also examined the relationship between firms and their stakeholders (Rowley, 1997). Fineman and Clarke (1996) find that secondary stakeholders account for firm pro-environmental responses in four different UK industries. Another study suggests that as a firm evolves over time, specific stakeholder groups become more or less salient (Jawahar and McLaughlin, 2001). A number of empirical studies demonstrate that firms with different levels of commitment to environmental issues vary in manager perceptions of which groups of stakeholders are important (Buysse and Verbeke, 2003; Harvey and Schaefer, 2001; Henriques and Sadorsky, 1999; Hoffman, 1996).
For our purposes, we focus on Mitchell, Agle, and Wood’s (1997) stakeholder identification and salience framework. Mitchell et al.’s framework is one of the few theoretical models to provide guidance to the conditions under which firms are likely to positively respond to the requests of secondary stakeholders. According to this framework, three attributes of stakeholders determine their salience to managers -- salience being defined as the degree to which managers give priority to competing stakeholder claims. The three attributes deemed most important by Mitchell and colleagues are stakeholder power, legitimacy, and urgency (each will be defined in detail below). The greater the power, legitimacy, and urgency of the stakeholder group, the greater the stakeholder group’s saliency will be in the eyes of managers.

A number of studies have sought to verify Mitchell et al.’s stakeholder identification and salience framework. Agle, Mitchell, & Sonnenfeld (1999), using a survey of managers in 80 U.S. firms, found that the reported power, legitimacy, and urgency of aggregate stakeholder groups such as customers, employees, government, shareholders, and the community influenced their reported saliency by firm managers. In the domain of the natural environment, Gago and Antolin (2004) surveyed 277 Spanish manufacturing firms finding once again that self-reported measures of power, legitimacy, urgency, and salience of aggregate stakeholder groups were all correlated (Gago and Antolin, 2004).

Mitchell et al.’s framework is based on the notion that fixed attributes of stakeholder groups determine their saliency to managers. We seek to extend this framework and propose that saliency is dependent on the specific interaction between the stakeholder group and the targeted firm. In particular, stakeholder groups interact with targeted firms by making requests to change their activities consistent with some issue of concern. For example, an environmental advocacy group may request that a firm stops emitting dioxin-laden effluents into a nearby river. The
saliency of this request depends not only on stakeholder attributes but also on the nature of the request and the attributes of the targeted firm as well. If the same stakeholder group had made a different request to the same firm, the firm may view the request as more or less salient. Similarly, the same stakeholder group making the same request of a different firm may be perceived as more or less salient.

We assert that saliency arises out of the stakeholder-request-firm triplet. With such a conceptualization, we can measure saliency by action rather than preference. In other words, saliency is determined by the degree to which a firm positively responds to a specific stakeholder request. By “positively”, we mean that the firm acts in ways consistent with the stakeholder’s request. This definition avoids the problem that manager reported measures of saliency may reflect face-saving responses rather than true beliefs. For example, managers may report that environmental advocacy groups are important stakeholders but rarely, if ever, concede to their demands. We assert that firm actions are a more reliable measure of the saliency of a stakeholder request than stated preference.

In the sections that follow, we discuss each of the three elements of Mitchell et al.’s framework and propose a set of hypotheses that both build off and advance this framework. By adopting the stakeholder-request-firm paradigm outlined above, a number of modifications and additions may be made to the existing theory of stakeholder identification and salience.

Power

Arguably, the saliency of a request (i.e. likelihood that a firm responds to a stakeholder request) will be greater, the greater the power of the stakeholder group. Mitchell et al. (1997) define power as “a relationship among social actors in which one social actor, A, can get another
social actor, B, to do something that B would not have otherwise done (Weber, 1947; Pfeffer, 1981).” This definition is problematic for our purposes, however, as it is defined by the outcome of interest to this study. The fact that a firm responds means the stakeholder group has power by definition.

We adopt an alternative definition of power drawing upon resource dependency theory. Resource dependency theory emphasizes that firms act to gain access to the resources necessary for operation and survival (Pfeffer and Salancik, 1978). As a result, the relative power between organizations is conditioned by links to needed resources (Frooman, 1999). For example, the power of United Way affiliates was found to be proportional to the extent that an affiliate links with parts of the community, which provide resources, that United Way needs (Provan, Beyer, & Kruytbosch, 1980).

We define stakeholder power as the relative access to resources for the stakeholder group with respect to the firm being targeted. By defining power as access to resources, we avoid any potential tautology. This definition also emphasizes that stakeholder power is a two-way street. The power of the stakeholder depends on both the resource base of the stakeholder group and the firm being targeted. This definition suggests that stakeholder power is less a stakeholder attribute than an attribute of a stakeholder-firm pair.

According to our definition, more powerful stakeholders are better able to sustain costly actions against firms due to their access to resources. These actions, in turn, erode the targeted firm’s resources and increase the likelihood that the firm will respond to the stakeholder’s request. The greater the stakeholder group’s resources, the more likely the firm will respond positively. The greater the firm’s resources, the less likely the firm will respond positively.

Resource-rich stakeholder groups should be able to develop the infrastructure to initiate
and sustain actions and requests. Social movement theory supports the contention that well-endowed stakeholder groups are likely to be more successful in bringing about positive firm responses (McCarthy and Zald, 1977). According to the resource mobilization approach to social movement theory, variation in social movement activity levels is largely driven by differences in resource levels. Discontent is always present for certain groups, yet action is limited by the availability of resources (McCarthy and Zald, 1977).

Previous studies provide empirical support for the role of resources. In a study of Amoco Corporation, wealthier stakeholder groups were found to influence the decision by Amoco to respond to activist pressure (Hoffman, 1996). A handful of papers in the environmental justice literature have looked at the effect of local community pressure on firm behavior and have found, in particular, that wealthier constituencies tend to have less polluting firms within their communities (Arora and Cason, 1999).

In the same way that resource-rich stakeholder groups may be able to place greater pressure on firms, resource-rich firms may be better able to resist stakeholder pressure. Resource-rich firms are able to support dedicated legal and public relations staff. They may have the resources to repair reputations potentially damaged by stakeholder actions. For example, firm wealth has been shown to impact the outcome of corporate lawsuits (Bhagat, Bizjak, & Coles, 1998). In the environmental management literature, a number of papers provide support for the idea that resource-weak firms will be more likely to respond to external pressures (Aragon-Correa, 1999; Lefebvre, Lefebvre, & Talbot, 2003).

Hypothesis 1: The greater the resource-base of the stakeholder group relative to the resource-base of the targeted firm (Relative Power), the greater the likelihood that the firm responds to the stakeholder request (Saliency).
**Legitimacy**

Mitchell et al. (1997) propose that more legitimate stakeholders are more likely to elicit positive responses from firms. They 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).” As conceived by Mitchell et al., legitimacy is a characteristic of the stakeholder group. Greater legitimacy allows the stakeholder a more credible threat to influence the firm’s access to critical primary stakeholders such as customers and labor supply (Rowley, 1997). Even if a stakeholder group lacks power, as defined by resources above, the legitimacy of the group may be sufficient to elicit a positive firm response.

Hypothesis 2: The greater the legitimacy of the stakeholder group (Group Legitimacy), the greater the likelihood that the firm responds to the stakeholder request (Saliency).

One of the open questions with Mitchell et al.’s definition of legitimacy is what exactly is being conferred legitimacy: the “entity” or the “action”. Secondary stakeholders make requests of firms that pertain to particular stakeholder issues. We propose that legitimacy is granted to not only the stakeholder group, but to the specific issues championed by the stakeholder. For example, the science surrounding many environmental issues is complex and often disputed. A request for the firm to do something about pollution immediately affecting local residents may have more legitimacy amongst the general public than a request dealing with global warming that seems more distant. Conservation groups have tended to receive greater public support than broader environmental movements perhaps due to their more certain and thus legitimate concerns (Mertig and Dunlap, 2001).

Hypothesis 3: The greater the legitimacy of the stakeholder request (Request Legitimacy), the greater the likelihood that the firm responds to the stakeholder request (Saliency).
Urgency

The final element of Mitchell et al.’s stakeholder identification and salience framework is urgency. Urgency is defined as “the degree to which stakeholder claims call for immediate attention.” Urgency includes both time sensitivity (the degree to which managerial delay is unacceptable to the stakeholder) and criticality (the importance of the claim to the stakeholder). Mitchell, Agle, and Wood (1997) propose that the urgency of a stakeholder group will positively influence outcomes. Subsequent empirical work provides support (Agle, Mitchell, & Sonnenfeld, 1999; Andersson and Bateman, 2000; Harvey and Schaefer, 2001).

Urgency as defined by Mitchell et al. (1997) is a characteristic of the group and would change if the members of a specific stakeholder group changed. However, this definition of urgency seems to relate more directly to the likelihood of a stakeholder taking action, rather than to how salient the stakeholder is to the firm’s management. Just because a stakeholder group cares deeply about an issue and wants immediate action, does not necessarily move a targeted firm to respond positively. While it may be correlated with the persistence of stakeholder groups, ultimately the power of the stakeholder group seems more relevant (as hypothesized above).

To address this concern, we revert to their original definition: “the degree to which stakeholder claims call for immediate attention” (emphasis added). We propose that it is the urgency of the claim or request rather than the urgency of the stakeholder group that matters. A much more effective approach is to cast urgency more broadly and universally in terms of whether an individual stakeholder claim or request is intended to stop or alter present, ongoing actions of the firm versus altering future, planned actions. A stakeholder who is targeting a part of a firm’s current revenue stream is likely to be more salient than one that is targeting a
potential revenue stream. A firm may be more likely to respond to a request to halt or change present actions versus requests to stop future actions that may be more easily ignored. The psychology literature provides some evidence that the urgency of a request will influence the likelihood of response. In particular, time pressure has been shown to make decision makers more prone to take action (Dror, Busemeyer & Basola, 1999).

Hypothesis 4: The greater the urgency of the stakeholder request (Request Urgency), the greater the likelihood that the firm responds to the stakeholder request (Saliency).

DATA & MEASURES

To analyze our hypotheses, we built a database of actions by secondary stakeholder groups. For comparison purposes, we limited our database to actions taken in the United States that centered on requests dealing with the natural environmental. In particular, data on protests, boycotts, and letter writing campaigns were collected from the LexisNexis Academic database of U.S. newspaper articles ranging from February 10, 1971 to November 25, 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). 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. This database contains federal and

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1 Proxy votes are included because they are often initiated by secondary (outside) 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. Nonetheless, exclusion of proxy votes does not significantly change our results.
state case law on environment-related civil suits, including U.S. Supreme Court, U.S. Courts of Appeals, Federal District Courts and state courts. Additional data were collected from stakeholder groups’ annual reports and websites and by contacting officials from the group when necessary. Firm level data were gathered from Standard & Poor’s Compustat annual dataset.

The resulting database includes 331 firms and 307 stakeholder groups taking part in 602 separate actions during the period 1971 to 2003. The data include 333 proxy votes, 144 civil suits, 78 protests, 38 boycotts, and 9 letter-writing campaigns. We discuss the robustness of our findings given the nature of the sample in detail in the discussion.

Saliency

The dependent variable for our analysis is the saliency of the stakeholder request. As discussed earlier, we propose that saliency as revealed by whether or not the firm yielded to the demands of a stakeholder group who makes a request. Salience is coded as a one if the targeted firm positively responded to stakeholder demands within five-years of initiation and zero otherwise. If there were multiple actions within this window, they were all coded as a one if the firm responded. Data for coding the saliency variable was gathered from a search, by company and stakeholder group names, of articles referencing the stakeholder action using the LexisNexis Academic database of newspaper articles. In the case of civil suits, the LexisNexis Federal and State Civil Suit database was searched and Salience was coded according to the final disposition.

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2 A timeframe of this length was chosen in order to give time for the action to take effect (since the date recorded was when the action started or was announced) and then to give time for the firm to respond. If the firm made a change beyond this time frame we concluded that it is too tenuous to attribute that change to the initial stakeholder action. On average, firms responded within 11 months of a stakeholder action. Only in three instances did we find firms acting in congruence with stakeholder requests in a timeframe greater than 5 years. Including these three instances does not have a significant impact on our results. As a robustness check, we also estimated models using time to action as the dependent variable and found similar results.

3 We leave to further analysis of the effects of different orders of multiple and combination stakeholder actions to future work. We do attempt to control for these situations in our analysis.
of the suit (e.g., the nature of the settlement).

There were a small number of outcomes that could not be found in LexisNexis. In these cases, a search was performed to find a record of the outcome of the action on the firm’s or stakeholder groups’ websites and annual reports. Only if one of these sources directly addressed the outcome of the exact concern raised by the stakeholder action was the outcome coded positively. *Saliency* was not coded if these searches yielded nothing. The one exception to this rule was for proxy votes. If a proxy vote was resubmitted the following year, then we felt confident that the company had not made the requested change. In order to verify the coding of this variable, we had two research assistants independently code *Saliency* following the same protocol. The coding from these efforts was correlated at 95.21%.

**Power**

We proposed that stakeholder power is determined by the relative resource position of the stakeholder group relative to the firm (Hypotheses 1). To capture the relative resource-base of different stakeholder groups, we first measure the total financial assets of a stakeholder group at the time an action was initiated.⁴ We assert 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. To capture the resource-base of the targeted firm, we measure the firm’s total assets at the time an action was initiated against the firm. Firms with larger asset bases are more likely to have dedicated legal and public relations staff to fend off requests by secondary stakeholders. To create our measure of relative stakeholder power, we simply divide stakeholder group assets by the targeted firm assets (*Relative Power*). One of the advantages of using financial assets as a proxy for resources

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⁴ In the case of asset managers such as pension funds or individuals, we measure the total amount of investments that they control.
is that we can construct a ratio where the numerator and denominator are in the same units.

**Legitimacy**

We proposed that legitimacy is assessed for both the stakeholder group and the request being made. However, this opens the question of who confers legitimacy on the stakeholder group and the request? Previous empirical studies have operationalized legitimacy through surveys of firm managers (Agle, Mitchell, & Sonnenfeld, 1999; Gago and Antolin, 2004). This opens up the possibility for ex post justification – stakeholder groups that managers respond to are deemed more legitimate. We propose that legitimacy is best measured by perceptions of the general public. To the extent that legitimacy is cast in terms of societal norms and values, public opinion is arguably a more accurate gauge. Also, in as much as managers take their customer’s preferences into account when making decisions, public opinion on legitimacy is the more accurate measure.

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 (Fineman and Clarke, 1996; Harvey and Schaefer, 2001). Public opinion surveys have ranked, for example, the degree to which stakeholder groups are viewed as legitimate arbitrators of environmental issues. These surveys appear to be fairly stable over time, and clearly rank environmental and non-environmental groups among the most legitimate and religious groups among the least. Based on these surveys, we code the relative degree to which a group is

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5 In the case of environmental issues, some might argue that it is the scientific community that grants legitimacy. However, public opinion does not always follow scientific opinion. As managers are drawn from the general public, it is likely that managers themselves will hold views similar to public opinion (all else being equal).
legitimate by coding Stakeholder Legitimacy such that one equals holding institutions, two equals religiously affiliated groups, three equals activist individuals, four equals non-environmental NGOs, and five equals environmental NGOs. We are well aware that alternative orderings are possible and address this in our statistical analysis.

With respect to request legitimacy, we focus on the legitimacy of the environmental issue at the center of a stakeholder request. Our database includes five major categories of environmental issues: pollution, recycling, habitat destruction, global warming, and genetically modified organisms (GMOs). The stakeholder requests within our database each raise one or more of these environmental issues. Arguably, the soundness of the science and the individual risk assessment of each of these issues vary significantly. While the environmental consequences of habitat destruction and pollution are often well understood, there has been less agreement about the global warming consequences of emitting greenhouse gases or the health effects of consuming genetically modified organisms. Based on public opinion studies covering 1996 to 2004 (Major, 2000; Saad, 2004), we coded the degree to which the environmental issue raised by a stakeholder group request is well accepted and well defined (Request Legitimacy) such that one equals global warming, two equals GMOs, three equals habitat destruction, four equals pollution, and five equals recycling. All of our categories are not included in every public opinion poll and phrasing often differs making an aggregate ordering across time difficult.\(^6\) Nonetheless, the rankings do appear to be relatively stable over time in their ordering. Once again, this is a relatively subjective ordering and open to debate. We explore the validity of this ordering in our statistical analysis.

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\(^6\) The question has typically been phrased in terms such as, “In your opinion, what are the most important environmental problems facing the country?”
Urgency

The immediacy of the request made by a stakeholder group was coded as a binary variable, *Request Urgency*, where demands for cessation or changes in current action are coded as one and demands for pledges to future action (or inaction) are coded as zero. For example, in 2000, a coalition of four environmental NGOs led a boycott of British Petroleum (BP) requesting that BP pledge not to drill for oil in the Artic National Wildlife Refuge of Alaska if given the opportunity in the future (LexisNexis® Academic, 2003). This request was coded as zero.

Power Controls

Our measure of power creates a ratio between the financial assets of the stakeholder group and the financial assets of the targeted firm. This ratio, however, may mask first order effects associated with the size of the stakeholder group and the size of the firm. For example, the likelihood of response may differ when large stakeholder groups target large firms versus small stakeholder groups targeting small firms. In a number of our specifications, we include the numerator and the denominator of Relative Power as controls. *Group Assets* is the total financial assets of a stakeholder group at the time an action was initiated. *Firm Assets* is the firm’s total assets at the time an action was initiated against the firm. We use the natural logarithm of both measures to account for skew.

Financial resources may not be the only relevant resources to stakeholder groups and firms. For example, in some cases, stakeholders band together and undertake actions collaboratively. Network theories of stakeholder influences indicate that the ability of a stakeholder to affect a firm’s actions increases with the density of the network of stakeholders (Rowley, 1997). The greater the number of stakeholder groups participating in an action against a firm, the greater the likelihood of the success of that action. On the other hand, greater
resources available from multiple firms involved in a stakeholder action should also provide more resources to resist change (McCarthy and Zald, 1977). Further, there is less pressure for one firm to respond if other similar firms targeted by the stakeholder group are not making the change requested. To capture the pooling of resources between both stakeholders and targeted firms, we measure both the sum of the number of stakeholder groups involved in any one action (**Group Plaintiffs**) and the sum of the number of firms involved in any one action (**Firm Defendants**).

We include two additional controls that capture other potential sources of resources for stakeholder groups and firms. First, stakeholder groups with international reach may have greater access to resources (e.g., financial or political) than national or more regional groups. A broad geographic scope may give groups access to more far reaching political capital and raise the potential cost to a targeted firm by increasing the number of markets and potential customers that a stakeholder group can influence to the firm’s detriment or to its advantage. We code the geographic reach of a stakeholder group (**Group Scope**) as one for stakeholder groups that have international operations and zero for those that are national or regional in focus. Second, we measure the firm’s cash flow, a common measure of the availability of funds, to account for the fact that even firms with a large asset base may be constrained if they do not have access to liquid capital. 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.

**Request Tactic Controls**

Secondary stakeholder groups have a number of tactics available to them to affect change. They may engage in more benign modes of civil unrest such as letter writing...
campaigns to company officials to more confrontational activities such as protests and civil lawsuits. It seems likely that the nature of the stakeholder action itself has some bearing on the likelihood of organizational change by firms. While the stakeholder literature has been rather silent on this issue, the social movement literature in sociology provides a valuable base to draw upon and has important overlaps with the stakeholder literature (Davis and Thompson, 1994; Rowley and Moldoveanu, 2003). In general, the social movement literature has found that the greater degree to which actions alter incentives of relevant decision makers, the more likely the action is to effect social and political change (Giugni, 1998).

We may surmise that civil suits, for example, will have an increased chance of the firm yielding to a requested change because of the direct risk of financial losses imposed by a credible third party (the judiciary). In fact, environmental suits by secondary stakeholder groups result in greater wealth loss for firm defendants than any other kind of lawsuits (Bhagat, et al., 1998). Boycotts, on the other hand, are likely to be less effective unless they are of sufficient size that they can make a significant impact on the sales of the targeted firm. Receiving even several thousand letters during a successful letter writing campaign appears less likely to impose an economic burden to a firm than a protest or boycott. However, absent any strong theoretical justification for a particular ordering, we simply include dummy variables that represent each request tactic in our sample. Our sample includes letter writing campaigns, proxy votes, boycotts, protests, and civil suits (represented by Letter Writing, Proxy Vote, Boycott, Protest, and Civil Suit respectively).

**Requested Action Controls**

Stakeholder groups may request a number of different actions from firms. In some
instances, they may request that firms adopt principles or sign pledges. For example, the Coalition for Responsible Economies (CERES) has requested a number of firms to adopt a set of principles outlining a commitment to the environmental sustainability of their business operations. In other instances, stakeholder groups request that firms provide information about their operations often in the form of either product labels or detailed reports. Health concerns about food made from genetically modified organisms have led a number of stakeholder groups to request that grocery stores and food processing companies label their products. Stakeholders may request a whole host of operational changes from firms from switching to recycled paper to the reduction of toxic effluents.

Some types of requests may be more successful than others because requests vary in the uncertainty surrounding the costs and benefits of complying. The requested actions within our database fall into one of four categories: adopt principles or pledges, label products or processes, report on operations, and make operation changes. A firm may find it easier to calculate and predict the effects of operational changes, but more difficult to quantify the effect of labeling or reporting sensitive information. Managers may be more likely to respond to requests that are easier to calculate the costs and benefits of complying. Once again, absent any theoretical justification for a particular ordering, we simply include dummy variables that represent each of these request actions (Adopt Principles, Labeling, Reporting, and Operational Changes, respectively).

Controls for Unobserved Heterogeneity

Finally, we capitalize on the unique structure of our sample and include a number of controls for potential sources of unobserved heterogeneity in our sample. Arguable the responsiveness of firms is going to depend on the industry and the time period that a request
takes place. To this end, we include industry sector dummy variables and year dummy variables in all of our models. One of the advantages of our dataset is that a number of stakeholder groups and firms target or are targeted by, respectively, more than one stakeholder action. In all but the first specification, we include dummy variables for firms and stakeholder groups that are involved in more than one stakeholder action. This provides a rather strong test that it is not some unobserved attribute of the stakeholder group or firm that is driving our results.

**ANALYSIS AND RESULTS**

Descriptive statistics and pairwise correlations are provided for each of our variables in Table 1. We see that slightly over half the time, firms responded to the stakeholder requests in a positive manner. A vast majority of the requests concerned immediate action (93%). Approximately 20% of the stakeholder groups in our sample are international in scope. At the extreme, 11 stakeholder groups collaborate on a single action though over 30% of the actions were taken by a single stakeholder group. Similarly, at the extreme, 13 firms were targeted by the same stakeholder action, though 80% of the actions were taken against a single firm.

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Insert Table 1 about here

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Given the dichotomous nature of our dependent variable, we adopt a probit specification for our statistical models. The specification of the probit model is as follows:

$$\text{Prob } (\text{Outcome} = 1) = \Phi(\beta'x)$$

where the vector $x$ includes our request, stakeholder, and firm level variables. Thus, each of our

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7 Including firm and stakeholder dummies for organizations involved in only one action would effectively remove those observations for our estimation since they would be collinear with the dummy variables.
models predicts the likelihood that a firm will positively respond to a stakeholder request. The sample is constructed such that each observation represents a unique stakeholder-request-firm pairing. Thus, we will have multiple observations of the same action if more than one stakeholder undertakes the action or more than one firm is targeted by the action. Thus, our observations are independent across actions but not necessarily within actions. This will have a tendency to misstate standard errors. To address this potential source of heteroskedasticity, in every model presented we cluster around the action using the White/Sandwich estimator of variance (Greene, 2003).

In Table 2, we present a series of models predicting our dependent variable, Saliency, i.e. the likelihood that a firm responds positively to a stakeholder request. In Model 1, we present our coefficient estimates for a model using only our primary independent variables of interest (Relative Power, Group Legitimacy, Request Legitimacy, and Request Urgency) and year and sector controls. This base model explains approximately 28% of the variance in responses. We find positive, significant coefficients for three of our independent variables. Stakeholder actions taken by groups with greater power relative to the targeted firm (H1: Relative Power) and greater legitimacy (H2: Group Legitimacy) and whose requests are more legitimate (H3: Request Legitimate) are more likely to elicit positive responses from the target firm. Though we estimate a positive coefficient, we are not confident that the coefficient for Request Urgency (H4) is different than zero.

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Insert Table 2 about here

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In Model 2, we add our dummy variables for each firm and stakeholder group who are involved with more than one stakeholder action. Once again, this allows us to control for
unobserved heterogeneity at the organizational level that may otherwise be correlated with our independent variables and driving our results. Despite the restrictive nature of this approach, we continue to find positive, significant coefficients for Relative Power, Group Legitimacy, and Request Legitimacy. Adding firm and stakeholder group fixed-effects dummies to our base model explains an addition 10% of the variance in responses (38% vs. 28%).

In Model 3, we add our set of controls for alternative measures of stakeholder group and firm power. Adding these controls raises our pseudo $R^2$ to 43.4%. Once again, we continue to find positive, significant coefficients for Relative Power, Group Legitimacy, and Request Legitimacy. Including these controls gives us greater confidence that Relative Power is not reflecting a baseline (just stakeholder or just firm) resource effect. As for the controls, we generally find results consistent with our suppositions. Stakeholder groups with greater financial assets (Group Assets) are more likely to elicit positive firm responses. Furthermore, consistent with our suppositions, we find that firms with greater financial assets (Firm Assets) are less likely to positively respond to requests. We do not find any evidence that stakeholder scope (Group Scope) and the number of stakeholder groups undertaken an action together (Group Plaintiffs) effects Saliency.

Surprisingly, we find that the more firms targeted by a single action (Firm Defendants), the greater the likelihood of a positive response. We may be observing a collective action problem. If one firm in a target group acquiesces to stakeholder demands, the other firms may feel increasing pressure to do so themselves. Singly targeted firms may feel more confident resisting change since they do not have to fear desertion by compatriots. We also find a positive, significant coefficient for our Firm Cashflow control. While we speculated that firms with greater cash flow could resist changes more easily, it may be that such firms have more
organizational slack, i.e. a greater supply of uncommitted resources (Cyert and March, 1963). Firms with high organizational slack may be more likely to respond to stakeholder requests because they have the financial leeway to avoid the risks of failing to appease outsider stakeholders (Bowen, 2002; Sharma, 2000). For example, empirical evidence on environmental responsiveness finds that profitable firms are more likely to lower emissions (Henriques and Sadorsky, 1999).

In Model 4, we add our two sets of controls for 1) the type of request tactic adopted by the stakeholder group and 2) the specific action being requested of the targeted firm. We observe that the addition of these two variables explains an additional 7.2% of variance (50.6% vs. 43.4%). Since these controls represent a finite set of discrete categories, one tactic and action are removed from our estimation (otherwise they would be collinear with the constant, year and sector controls). These two variables (Proxy Vote and Adopt Principles) provide a baseline for comparing the coefficients of other request tactics and requested actions, respectively. In other words, the coefficients of each of the remaining categorical variables represent the degree to which the tactic or action is more or less likely to elicit positive responses relative to the baseline. This allows us to provide an ordering of the effectiveness of various request tactics and requested actions in eliciting positive firm responses. With respect to request tactics, we find that civil suits are the most effective tactic followed by protests, boycotts, letter writing, and finally proxy votes. With respect to requested actions, firms are most likely to agree to labeling initiatives followed by reporting requirements, operational changes, and adopting principles. We will discuss possible reasons for these orderings in the discussion.

With respect to our primary independent variables we continue to find that Relative Power and Request Legitimacy have a positive and significant effect on Saliency. We continue to
find a positive coefficient for Request Urgency though we continue not to be confident that this coefficient is different from zero. Finally, we find a significant, negative coefficient on Group Legitimacy. This surprising finding can be explained by the high correlation between group type (environmental advocacy group, religious group, etc.) and request tactic. Groups tend to favor particular tactics. Environmental advocacy groups tend to use more confrontational tactics such as civil suits and protests, while religious groups tend to use more benign forms of intervention such as proxy votes and letter writing (see Table 3). Once we control for request tactic, we find that stakeholder groups deemed more legitimate to pursue environmental goals are less likely to bring about change. This is reinforced in Model 5 where we break up Group Legitimacy into its constituent parts. Using religious groups as a baseline, we see that environmental groups and activist individuals are least likely to be salient once we control for request tactic. We speculate on why this may be in the discussion section that follows.

As for our power controls in Models 4 and 5, we continue to find a negative, significant coefficient for Firm Assets and positive, significant coefficients for Firm Defendants and Firm Cashflow. We continue to lack confidence that our stakeholder group measures, Group Plaintiffs and Group Scope, are different than zero. We find mixed evidence with regards to Group Assets. In Model 4, we lack confidence in the coefficient estimate, however, Group Assets is significant at the $p<0.01$ level, when we control for group type explicitly (see Model 5).

**DISCUSSION**

In summary, we find strong consistent support for our hypotheses that a stakeholder with
greater power relative to the target firm in terms of resources (Hypotheses 1) and whose request is more legitimate in the eyes of the general public (Hypothesis 3) is more likely to elicit a positive response from a firm. We do not find compelling evidence that more urgent requests are more likely to elicit a positive response (Hypothesis 4). Finally, we find conflicting evidence with regards to the legitimacy of the stakeholder group (Hypothesis 2). We present a number of models where we find a significant, positive effect for group legitimacy consistent with Hypothesis 2. However, when we control for the request tactic adopted by the stakeholder group (e.g., a boycott, a lawsuit, etc.), we find a significant, negative effect of group legitimacy on saliency.

**Group Legitimacy Drivers**

What may be driving this result with respect to group legitimacy? We present evidence that different types of stakeholder groups tend to favor specific tactics. Groups deemed more legitimate to pursue environmental issues such as environmental advocacy groups and other non-governmental organizations tend to pursue more confrontational actions such as boycotts, protests, and lawsuits. We present evidence that these very same tactics are more likely to effect firm change than actions such as letter writing campaigns or proxy votes. While the stakeholder literature has been rather silent on this issue, the social movement literature in sociology provides a valuable base to draw upon (Davis and Thompson, 1994; Rowley and Moldoveanu, 2003). In general, the social movement literature has found that the greater degree to which actions impose costs on targeted groups, the more likely the action is to effect change (Giugni, 1998). We surmise that civil suits, for example, will have an increased chance of the firm yielding to a requested change either through settlement or court order because of the direct risk of financial losses imposed by a credible third party (the judiciary). A protest is less likely to
appear threatening to a large firm than the severe monetary loss a lawsuit could entail. Further, boycotts are likely to be less effective unless they are of sufficient size that they can make a significant impact on the sales of the targeted firm. With that said, receiving even several thousand letters during a successful letter writing campaign appears less likely to impose an economic burden to a firm than a protest or boycott.

Returning back to our consideration of group legitimacy, to the extent that groups favor certain tactics, it may very well be the tactic and not the group legitimacy that is driving saliency in which case we would expect group legitimacy to become non-significant once request tactic controls are included. However, we find a significant, negative coefficient for group legitimacy when including these controls. We believe this raises some important questions about our operationalization of group legitimacy. We measure group legitimacy using public opinion polls of the degree to which individuals view the type of stakeholder group to be a legitimate arbiter of environmental issues. However, there may be higher order issues of legitimacy that may decide social standing. While religious groups did not score well in the public opinion polls referenced, these groups may in fact be more legitimate in the eyes of the public across a wider range of activities.

Complicating matters is the likelihood that request tactics are endogenous. Environmental groups may resort to confrontational tactics because that is the only way to bring change. Religious groups may resort to more benign tactics such as proxy votes because they are less costly and relatively effective for them (though not as effective, all else being equal, as protests). This would suggest that group legitimacy does have an effect on saliency. Some groups due to their standing in society (e.g. religious groups) may be able to elicit positive firm responses despite using relative benign tactics (e.g. letter writing campaigns), while other more
contentious stakeholder groups (e.g. environmental activists) may need to rely on confrontational tactics (e.g. protests) to bring about change.

Robustness and Limitations

Our results are robust to a number of controls and model specifications. Year, sector, firm, and stakeholder group dummy variables help alleviate concerns that various sources of unobserved heterogeneity are driving our findings. One might be tempted to assert that the firm responses recorded in this analysis are the result of private firm decisions independent of pressure placed by activist stakeholders. However, while this is likely the case on occasion, we would not expect our stakeholder specific and action specific measures to have any explanatory power if this was often the case. On the contrary, we would expect to observe our firm specific effects to be driving our results. This is not the case. While our firm specific variables provide some explanatory power, our primary independent variables provide much greater traction.

Another potential concern is that our results are skewed by a single stakeholder request tactic, civil suits. Civil-suits differ from the other tactics in our sample in that they are backed by the authority of the courts. However, most lawsuits are settled outside of the courtroom. Thus, in most cases, firms are choosing to concede to requests rather than being forced to by the courts. While most settlements are sealed making it difficult for us to observe the specifics of the agreement, we can reasonable assume that a settlement signals capitulation on the firm’s part. To give us confidence that our results are not skewed by the inclusion of lawsuits in the sample, we re-estimated our models removing lawsuits from the sample and found consistent results.

With regards to our lack of confidence that the urgency of a request affects saliency, we should be cognizant of the way we code Request Urgency. Recall, requests are coded as urgent if they demand cessation or changes in current activities as opposed to pledges to future action or
inaction. However, to the extent that future actions require changes to current strategies, both types of requests may have real and urgent implications for the firm. This in part may explain both the lack of variance in our measure and the lack of a statistically significant finding.

We should also be cognizant that the external validity of our findings may be limited by our sample. We choose only to include stakeholder requests concerning issues surrounding the natural environment. This was done to increase comparability across our observations and to facilitate reasonable coding of many of our independent variables. Though we have no theoretical reason to believe so, it may very well be that in other domains our findings do not hold. Similarly, our sample is limited to requests against U.S. firms. We may very well see different response rates for firms in different countries with different attitudes towards stakeholder groups. Once again, however, it is unclear why the marginal effects associated with our independent variables would vary across different contexts.

This study opens up many possible avenues for future work. One of which is to look in greater detail at the impact of firm characteristics both in terms of which firms are targeted and in terms of other possible firm drivers of response. Another avenue for further work is to explore the ordering of stakeholder actions taken and whether targeting certain firms in an industry first is more effective. Finally, we would like to extend our analysis to other settings and other stakeholder issues. We leave this for future research.

**CONCLUSION**

In conclusion, our findings generally support Mitchell, Agle, & Wood’s (1997) stakeholder identification and salience framework that power, legitimacy, and urgency are important drivers of salience. We advance their framework by defining saliency in terms of
actions not perceptions and by proposing that power, legitimacy, and urgency arise out of the nature of stakeholder-request-firm triplets. We propose that 1) the power of the stakeholder is moderated by the power of the firm, 2) in addition to the legitimacy of the stakeholder, the legitimacy of the request being made is important, and 3) the urgency of the request is more vital than the urgency of the stakeholder group. Consistent with our hypotheses, we find evidence that secondary stakeholder requests are likely to be met by targeted firms when stakeholder actions are taken by groups with greater power relative to the targeted firm and whose requests are more legitimate. We further present evidence that group legitimacy and the tactics adopted by stakeholder groups may be tightly coupled.

Our analysis is a significant improvement over the existing empirical literature. Previous studies have used surveys of managers to correlate saliency with the perceived attributes of aggregate stakeholder groups such as customers, stockholders, environmental groups, and government. To avoid potential self-report biases, we build a unique dataset that allows us to measure attributes of the stakeholder group, request, and targeted firm separately. We adopt specifications that allow us to control for a number of potential sources of heterogeneity that one might fear were driving our results.

These results have important implications for managers of both for-profit commercial enterprises and not-for-profit activist stakeholder groups. For stakeholder groups, our results provide evidence of what activities are more likely to be successful in eliciting positive firm responses. Furthermore, it provides guidance on the sources of power and legitimacy that the may tap into. For firms, our results suggest which stakeholders and which actions that they may wish to be most cognizant. With this knowledge, firms may be able to develop better strategies for proactively addressing the concerns of activist secondary stakeholders.
These results also have important implications for public policy. Policy makers have suggested that secondary stakeholders may provide incentives for firms to self-regulate the impact their activities have on society. By self-regulate, we mean the voluntary reduction in firm societal impacts beyond that mandated by the state (King and Lenox, 2000). Academics have been divided on the issue. Economists have traditionally been skeptical that self-interested firms would provide for the public good (Friedman, 1970). Government regulation has been viewed as necessary to provide incentives for firms to minimize social impacts. A growing chorus of business scholars, however, has proposed that there are opportunities for firms to profit from the reduction of their impacts by minimizing disruptions by secondary stakeholder groups (Hart, 1995; Jones, 1995; Porter and van der Linde, 1995; Russo and Fouts, 1997). Our results reinforce this argument and advance it by providing conditions under which secondary stakeholder groups may be effective.

We believe this paper greatly advances the stakeholder literature. We build upon the existing stakeholder saliency and identification model to develop a more robust model of the conditions under which secondary stakeholder actions elicit positive firm responses. One of the criticisms of the stakeholder literature is that it does not provide much guidance on how firm decision makers should balance between the competing demands of stakeholders. We believe this research makes significant strides in addressing this concern and provides guidance both to stakeholder groups and firms on the relevancy of various groups and actions.
REFERENCES


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Management Journal*, 20: 571-610


691-719.
TABLE 1
Descriptive statistics & pair-wise correlations

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<tr>
<th>Variable</th>
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<th>8</th>
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<th>11</th>
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<td>6 Group Assets</td>
<td>11.671</td>
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<td>15.202</td>
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<td>7 Firm Assets</td>
<td>9.213</td>
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<td>8 Group Plaintiffs</td>
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<td>5</td>
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<td>10 Group Scope</td>
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<td>3</td>
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<td>-0.19</td>
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<td>11 Firm Cashflow</td>
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n = 1202, * p < 0.01
## TABLE 2
Predicting Salience -- the likelihood that a firm responds positively to a stakeholder request

<table>
<thead>
<tr>
<th>Model</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 3</th>
<th>Column 4</th>
<th>Column 5</th>
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<td>Relative Power</td>
<td>0.002 ** (0.001)</td>
<td>0.002 ** (0.001)</td>
<td>0.002 ** (0.001)</td>
<td>0.002 ** (0.001)</td>
<td>0.002 ** (0.001)</td>
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<tr>
<td>Group Legitimacy</td>
<td>0.220 *** (0.046)</td>
<td>0.199 ** (0.063)</td>
<td>0.121 * (0.037)</td>
<td>-0.462 *** (0.101)</td>
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</tr>
<tr>
<td>Religious Group</td>
<td>baseline</td>
<td>Holding Institution</td>
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<td>Activist Individual</td>
<td>-1.564 ***</td>
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<td></td>
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<tr>
<td>Non-environment NGO</td>
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<td>Environmental NGO</td>
<td>-1.794 ***</td>
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<tr>
<td>Request Legitimacy</td>
<td>0.192 *** (0.056)</td>
<td>0.300 *** (0.059)</td>
<td>0.261 *** (0.052)</td>
<td>0.139 * (0.069)</td>
<td>0.149 * (0.071)</td>
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<td>Request Urgency</td>
<td>0.379 (0.239)</td>
<td>0.463 (0.309)</td>
<td>0.250 (0.297)</td>
<td>0.289 (0.328)</td>
<td>0.228 (0.325)</td>
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<td>Power Controls</td>
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<td>Group Assets</td>
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<td>0.043 (0.036)</td>
<td>0.100 ** (0.038)</td>
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<td>Firm Assets</td>
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<td>-0.039 (0.075)</td>
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<td>0.198 ** (0.080)</td>
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<td>Group Scope</td>
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<td>-0.190 (0.165)</td>
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<tr>
<td>Firm Cashflow</td>
<td>0.130 * (0.062)</td>
<td>0.173 ** (0.063)</td>
<td>0.172 ** (0.063)</td>
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<td>Request Tactic Controls</td>
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<td>Proxy Vote</td>
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<tr>
<td>Letter Writing</td>
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<td>1.576 *</td>
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<td>included</td>
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<td>Constant</td>
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<td>-3.913 *** (0.646)</td>
<td>-4.138 *** (1.118)</td>
<td>-4.171 *** (1.123)</td>
<td>-5.216 *** (1.095)</td>
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<td>1202</td>
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<td>Wald $\chi^2$</td>
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<td>299.53 ***</td>
<td>324.69</td>
<td>469.78 ***</td>
<td>457.65 ***</td>
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<td>Pseudo $R^2$</td>
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<td>0.376</td>
<td>0.434</td>
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</table>

Probit specification with robust standard errors in all models.
Robust standard errors are in parentheses. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

* We do not report standard errors for these variables to save space.
### TABLE 3
Request tactics by stakeholder group type

<table>
<thead>
<tr>
<th>Stakeholder Group Type</th>
<th>Proxy Votes</th>
<th>Letter Writing</th>
<th>Boycotts</th>
<th>Protests</th>
<th>Civil Suits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>total (requests)</td>
<td>333</td>
<td>9</td>
<td>38</td>
<td>78</td>
<td>144</td>
<td>602</td>
</tr>
<tr>
<td>activist individual</td>
<td>50</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>58</td>
<td>109</td>
</tr>
<tr>
<td>holding institutions</td>
<td>233</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>235</td>
</tr>
<tr>
<td>environmental NGO</td>
<td>33</td>
<td>11</td>
<td>57</td>
<td>103</td>
<td>365</td>
<td>569</td>
</tr>
<tr>
<td>non-environmental NGO</td>
<td>8</td>
<td>2</td>
<td>19</td>
<td>12</td>
<td>24</td>
<td>65</td>
</tr>
<tr>
<td>religious group</td>
<td>225</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>6</td>
<td>231</td>
</tr>
<tr>
<td>total (firm-stakeholder-requests)</td>
<td>549</td>
<td>13</td>
<td>77</td>
<td>117</td>
<td>453</td>
<td>1209</td>
</tr>
</tbody>
</table>

* Note that multiple stakeholders may collaborate on a single action against multiple firms.