Enterprise strategy concept, measurement, and validation: Integrating stakeholder engagement into the firm's strategic architecture

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Abstract

A firm’s enterprise strategy is its overarching strategic orientation, addressing questions regarding its general purpose and the specific nature of its relationships with stakeholders along two dimensions: (a) scope, which represents the range of stakeholders the organization attempts to serve, and (b) type, which represents the general motivation behind stakeholder initiatives. The corporate social responsibility literature has played an important role in bringing a concern with stakeholder issues; however, this literature does not provide a systematic means of integrating these concerns into the firm’s strategic architecture. Enterprise strategy offers a unifying construct, grounded in strategic considerations of both the social and economic demands placed on an organization. However, despite its conceptual importance to strategic systems of the corporation in a non-ad hoc fashion. (p. 40)

In contrast to CSR, enterprise strategy (ES) offers a unifying construct, grounded in integrative analyses of both the social and economic demands placed on an organization, to help advance this highly-relevant research stream. ES assesses a firm’s overarching social legitimacy (Schendel & Hofer, 1979) and reason for being (Freeman, 1984). ES also unites the financial and non-financial concerns of a firm by emphasizing value-based judgments as a primary component of decision-making and overall strategic architecture. These deeply-held

1. Introduction

Managers increasingly devote resources to support organizational relationships with stakeholders (Porter & Kramer, 2011) and stakeholder management research continues to grow in importance. Traditional approaches to stakeholder relationships examine corporate social responsibility (CSR) (Freeman, 1984) and the effects of a firm’s voluntary initiatives, such as sustainability and philanthropy, on financial performance. However, because CSR promotes “a split between the profit-making piece of business and the profit-spending or socially-responsible part” (Margolis, Elfenbein, & Walsh, 2007, p. 40), CSR does not provide a strategic perspective of how firms interact with their financial and social stakeholders. To this end, Freeman (1984) suggests:

Isolating social issues as separate from the economic impact which they have, and conversely isolating economic issues as if they had no social effect, misses the mark both managerially and intellectually. While the corporate social responsibility literature has been important in bringing to the foreground in organizational research a concern with social and political issues, it has failed to indicate ways of integrating these concerns into the strategic systems of the corporation in a non-ad hoc fashion. (p. 40)

ES assesses a firm’s overarching social legitimacy (Schendel & Hofer, 1979) and reason for being (Freeman, 1984). ES also unites the financial and non-financial concerns of a firm by emphasizing value-based judgments as a primary component of decision-making and overall strategic architecture. These deeply-held
values are considered simultaneously with primary, external constituents’ interests (Freeman & Gilbert, 1988), and although the concept and its typology were developed over thirty-five years ago, limited empirical studies have followed. Nonetheless, the enduring concepts of values, ethics, negotiations, and motivations are held together by ES, making it more important than originally expected (Freeman, 2004).

ES draws importance from its position at the apex of a hierarchical order of strategies (Hofer & Schendel, 1978), and “as one moves from the enterprise strategy to corporate strategy to business strategy to functional strategy, one not only moves down the organizational hierarchy, one moves downward in terms of constraints” (Schendel & Hofer, 1979, p. 13). Thus, within this hierarchy of strategies, ES sets the parameters within which all lower-level strategies are formulated, and understanding a firm’s ES is crucial to understanding its nested strategies.

Although Schendel and Hofer (1979) argued that ES was central to the field of strategic management, this construct has received limited empirical exploration perhaps because it challenges the prevailing notion that maximizing shareholder value should be the central mission of all for-profit firms (Judge & Krishnan, 1994). Furthermore, due to its normative, value-laden nature, the construct is difficult to operationalize through secondary data (Crilly, 2013). In summary, a measure of ES is absent despite its conceptual elegance and central importance to organizational science. Without such a measure, research on ES and its links to stakeholders, including economic gains (e.g., corporate philanthropy), social gains (e.g., endorsing causes), and reductions in financial or social costs (e.g., responses to dissatisfied stakeholders), like scope. ES type is a continuum that ranges from “narrow” to “broad.” A firm that focuses on only a small subset of stakeholders, such as its owners, has a narrow ES. A firm that attempts to serve a larger variety of stakeholders operates with a broad ES.

The second dimension, ES type, reflects how proactive the firm is in adding value to its various stakeholder demands (Meznar et al., 1991). ES type mirrors the benefits a firm provides to its stakeholders, including economic gains (e.g., corporate philanthropy), social gains (e.g., endorsing causes), and reductions in financial or social costs (e.g., responses to dissatisfied stakeholders). Like scope, ES type is a continuum that ranges from “defensive” to “offensive” orientations. A firm that maximizes tangible, value-generating benefits for its stakeholders has an offensive ES, and one that focuses on minimizing stakeholders’ costs characterizes a defensive ES. The ongoing interactions between MNEs and their multiple stakeholders result in variations in these two dimensions of ES.

Combined, these two dimensions form four ideal ES orientations: (1) narrow defensive, (2) narrow offensive, (3) broad offensive, and (4) broad defensive. The original classification of these four types from Meznar et al. (1991) contains two other ES orientations: accommodative narrow and accommodative broad. An accommodative strategy is an intermediate response to social responsibility demands (Carroll, 1979; Sethi, 1975). Because we seek to establish the reliability and validity of the essence of ES (Meznar et al., 1991), these intermediate orientations are beyond the scope of this study.

Additionally, the ES literature has not explicitly dealt with the issue of the extent to which a firm has a single, identifiable ES. In its original formulation, the ES is conceptualized as “a broad description of claims regarding ‘what do we stand for’” and involves “tradeoffs about the relative importance of stakeholder concerns, values and social issues” (Freeman, 1984, p. 101). Therefore, at this point in its level of empirical development, we have assumed that the ES is a single strategy that drives a firm’s overall decisions, unlike a business-level strategy that can vary across strategic business units within the same firm.

In sum, this study seeks to establish a systematic measure of a firm’s espoused ES, and then proceeds to empirically explore whether these four ES orientations are identifiable in contemporary multinational organizations. Table 1 outlines the primary literature of this domain.

3. Method

We operationalized the firm’s espoused ES orientation using Short, Broberg, Cogliser, and Brigham’s (2010) content-analysis method, which combines conceptual and empirical approaches to ensure proper psychometric properties. Content analysis offers an unobtrusive method of assessing organizational issues (Palmer,
Kabanoff, & Dunford, 1997), and is useful for ES orientations which have not been developed or tested sufficiently (Sonpar & Golden-Biddle, 2008). Because top managers make ES-related decisions (Ansoff, 1977; Steyn & Niemann, 2010), and a central premise of content analysis is that the languages and ideas used reflect the primary decision-makers’ cognitions (Duriau, Reger, & Pfarrer, 2007), their lexical choices demonstrate their perceptions, attentions, choices, and actions (Sapir, 1944; Whorf, 1956). Cognitive maps that assess words show general directions and intensities of managerial attention (Huff, 1990) and assessing the words that individuals use while communicating their position illustrates the mental models that they apply to understand the environment.

The lexical data for this study are drawn from 320 letters to stakeholders provided by firms who are members within the Global Reporting Initiative (GRI). Our sample frame is comprised of the stakeholder letters of all MNEs that have more precision regarding a firm’s reputation (e.g., Janney & Gove, 2011; Wagner, Lutz, & Weitz, 2009). Consequently, there is a movement away from “window dressing” towards more substantial claims. In addition, GRI reports (and hence their letters to stakeholders) are increasingly audited. As such, the reliability of the information in the stakeholder letters is increasingly hard to question.

Finally, letters to stakeholders are likely to represent the executives’ perception and commitment to a wide variety of stakeholder groups as opposed to shareholders only. Specifically, the CEO’s letter to shareholders in annual reports has been commonly used to assess corporate strategy (Short, Broberg, Cogliser, & Brigham, 2010). Therefore, we find it reasonable to use the CEO’s letters to stakeholders in GRI reports to assess the ES as they provide a unique and valuable source of information on a firm’s stakeholder engagement. A discussion of the five major criteria—content validity, external validity, reliability, dimensionality,
and predictive validity—necessary to measure and validate a construct through text analysis (Short et al., 2010)—follows.

3.1. Content validity

Content validity specifies the theoretical basis for the items that comprise a latent construct. Typically, a panel of experts assesses the degree to which measurement of a construct corresponds to the construct’s conceptual definition (Hair, Black, Babin, & Anderson, 2010). During computer-aided text analysis (CATA), for each dimension of a construct, researchers generate a set of unique words to form a dictionary and this dictionary is then applied to text to measure a phenomenon (Neundorf, 2002). Dictionaries can be constructed through deduction or induction (Short et al., 2010). The deductive approach is theory-driven, with a dictionary of definitions and used a four-step process to construct the theoretical dimensions of the construct.

First, we identified a broad range of stakeholders corresponding to Freeman’s (1984) view of ES at a level at which, “the task of setting direction involves understanding the role of a particular firm as a whole, and its relationships to other social institutions” (p. 90). Second, we built on a prior ES classification (Meznar et al., 1991), assessing the dimensionality of the theoretical ES dimensions of scope and type: (1) the environment to which the firm adds value [i.e., the range of stakeholders] and (2), the type of value the firm adds [i.e., the benefits provided to those stakeholders]” (p. 56–58). Third, we developed an extensive word list to capture the theoretical dimensions of the construct.

To ensure a comprehensive word list, we used Rodale’s (1978) Synonym Finder (Short et al., 2010) and Roget’s International Thesaurus (Kipfer, 2011). Finally, two individual raters—one of the authors of this study and a doctoral student not affiliated with this project—examined the words generated deductively and inductively, comparing them with the established definition that ES reflects top managers’ orientations toward a firm’s role in society (Meznar et al., 1991). The raters excluded words that did not correspond to this theory-driven definition of ES, and added words that did. Of the 1237 deductively-generated words, the raters chose 334 word roots for inclusion in the dictionary. Specifically, a word was retained if it (a) explicitly referred to a stakeholder (e.g., community or employee) or was a derivative of a stakeholder (e.g., communities or employees) and (b) indicated something related to expansion, maintenance, or contraction (e.g., development, investment, and divestment). Discrepancies were resolved through discussions.

3.1.2. Inductively-generated word list

We supplemented the deductively-generated word list with text-specific words (Short et al., 2010) that appeared in the GRI stakeholder letters. We randomly selected 100 letters to stakeholders from a pool of 320 GRI reports. All letters were merged into a single text file and subjected to a basic word count to better identify the common content across this sub-sample of letters. Yoshikoder, a publicly available, multilingual, content analysis program, performed the word count analysis and returned text-extracted passages surrounding focal words. The procedure returned 7912 words. Some words appeared only once (e.g., the non-English term cegria) and the most frequently used word, business, appeared 417 times. Stop words (e.g., are, with, and this) were removed from this list.

We conducted a thorough review of the words in the GRI stakeholder letters and highlighted words for further examination and retention in the dictionary using the above approach of inclusion of words in the dictionary. Initially, 667 words were generated. Of those, 577 overlapped with words and their derivatives generated deductively. Ninety unique words were retained for further analysis.

This CATA approach to ES was exploratory, with the goal of understanding the tone and content of the GRI stakeholder letters as they relate to the espoused ES. CATA software does not automatically assess co-occurrences of words, so to offset this deficiency, we manually examined the context in which words considered for inclusion in the dictionary were used. We analyzed concordances (i.e., words surrounding focal words) to identify patterns of word co-occurrences. For example, the word natural often preceded the word environment. The concordance analysis suggested that for the dictionary words regarding ES scope (i.e., broad versus narrow), we should focus on nouns that explicitly refer to a stakeholder group (e.g., customers, employees, and environment) and disregard the adjectives that describe those nouns. This inclusion criterion helped to avoid double counting words, which could overstate the importance of a particular stakeholder theme.

To develop the set of words that identify ES type (i.e., offensive versus defensive), we focused on verbs (and their derivatives), and omitted other parts of speech. Some exceptions included words such as productivity, initiative, donations, conservation, and development, which according to concordance analysis, contribute...
uniquely to ES scope. Table 3 presents a truncated example of the ES dictionary. The complete ES dictionary contains 385 entries (334 deductively and 51 inductively generated), and is available from the authors on request.

3.2. External validity

The second major criterion for the development of a measure, external validity, describes the generalizability of relationships across time, people, and settings (Mitchell & Jolley, 2001). Due to the variety of stakeholder narratives (Freeman, 2004), multiple combinations of stakeholder attention can belong to the same ES orientation. For example, a firm’s limited focus on investors and owners is just as indicative of a narrow ES scope as a firm’s limited focus on the natural environment and employees. This presents challenges to the development of generalizable findings, but the proximal similarity method (Campbell, 1986) contributed to this investigation by identifying generalizability contexts to develop a theory about contexts that are or are not similar to the present study.

Each coder independently searched for contextual similarities between a sample of stakeholder letters from U.S. MNEs (i.e., a subsample of the 320 MNEs) and independent, U.S. domestic firms that also filed a GRI report in 2011. This decision was based on the institutional embeddedness literature, which suggests that MNEs remain deeply-rooted in their home country’s institutional environment (Rugman & Hodgetts, 2001), and although we expected disparities between these two groups of firms, their ES language should remain similar.

3.2.1. Testing for linguistic evidence of an organization’s ES

We used a one-sample t-test to identify the presence of ES language in the GRI stakeholder letters. Short et al. (2010) suggest comparing the presence of language in text using a value of zero, representing that the text does not contain language that defines the construct. A non-zero comparison indicates that the text can be used to measure the construct. A one-sample t-test of the 320 stakeholder letters identified that all ES components were significant, suggesting the letters communicate language consistent with ES. We also assessed the number of letters that mentioned a given ES component at least once as a robustness check of the true presence of ES language. Results for the global MNE and domestic U.S. samples are shown in Table 4.

These two different sub-samples were chosen to ensure that the letters to stakeholders in GRI are not simply a blank that all companies, regardless of their origin and product, fill out. We used an institutional underpinning for our choice expecting that U.S. domestic companies and MNEs will respond to different institutional pressures and, therefore, will attend to different stakeholders.

3.2.2. Evidence and results of ES language

Table 4 presents differences between MNE (including U.S. MNEs) and U.S. executives regarding words related to certifications, competitors, employees, and financiers. Although this table illustrates some overlap, this was expected, as disparities between country-level business cultures and institutional environments both influence the ways firms attend to stakeholders (Hall & Soskice, 2001; Whitley, 2007). To establish external validity, we performed a one-way ANOVA test which compared the mean values of the ES components for the U.S. MNE and U.S. domestic firm. Table 5 presents these results.

With some exceptions for individual ES components (e.g., activitists, competitors, financiers, and the natural environment), there were no differences between the overall means for the ES dimensions between U.S. MNEs and U.S. domestic firms. In contrast, there were differences between global MNEs and U.S. firms, the most significant in the areas of executives’ attention intensity toward the community, competitors, employees, governments, and the natural environment. The drivers of statistical significance were mean differences for the ES scope components rather than the ES type components, suggesting that although U.S. domestic firms and U.S. MNEs are similar in the intensity to which they attend to...
The correlation between ES scope (the score of the number of stakeholders attended to) and ES type (the score of the defensive/ offensive components) in the MNE sample was .279 (p < .01). The correlation between the ES dimensions for the U.S. sample, including domestic firms and U.S. MNEs, was .342 (p < .01), suggesting ES is multidimensional.

4. Predictive validity: Testing the ES typology

Predictive validity requires that correlations among constructs make sense by identifying whether they are in the expected, theoretically-driven direction (Hair et al., 2010). Short et al. (2010) demonstrate predictive validity by testing whether a construct links with others in a way extant theory suggests. These tests favor constructs that can be measured through established sources of archival data. To observe the distribution of the sample along the ES dimensions, and thus test Meznar et al.’s (1991) ES typology, we used a median split along the two ES dimensions, and quantitatively and qualitatively validated the typology.

To establish the ES scope dimension, we dichotomized each firm’s strategic architecture, European Management Journal (2015), http://dx.doi.org/10.1016/j.emj.2015.12.005

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**Table 4**

Evidence of ES language in the GRI letters to stakeholders.

<table>
<thead>
<tr>
<th>ES component</th>
<th>Overall MNE sample</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>U.S. domestic sample</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N Mean SD</td>
<td>t test</td>
<td>Non-zero</td>
<td>%</td>
<td></td>
<td>N Mean SD</td>
<td>t test</td>
<td>Non-zero</td>
<td>%</td>
</tr>
<tr>
<td>Activists</td>
<td>320 .0004 .0008 7.97 71</td>
<td>22.19</td>
<td>119 .0002 .0006 4.63 22</td>
<td>18.49</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certification</td>
<td>320 .0012 .0020 10.50 134</td>
<td>41.88</td>
<td>119 .0011 .0037 3.35 34</td>
<td>28.57</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community</td>
<td>320 .0095 .0064 26.55 308</td>
<td>96.25</td>
<td>119 .0105 .0076 15.04 114</td>
<td>95.80</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitors</td>
<td>320 .0003 .0007 7.06 60</td>
<td>18.75</td>
<td>119 .0002 .0008 3.22 12</td>
<td>10.08</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers</td>
<td>320 .0061 .0053 20.68 278</td>
<td>85.88</td>
<td>119 .0063 .0047 14.67 108</td>
<td>90.76</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Distributors</td>
<td>320 .0003 .0008 7.66 69</td>
<td>21.56</td>
<td>119 .0004 .0010 4.02 22</td>
<td>18.49</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td>320 .0063 .0053 21.30 289</td>
<td>90.31</td>
<td>119 .0064 .0052 13.39 101</td>
<td>84.87</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>320 .0009 .0016 10.33 125</td>
<td>39.06</td>
<td>119 .0009 .0016 5.88 42</td>
<td>35.29</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managers</td>
<td>320 .0060 .0044 24.71 310</td>
<td>96.88</td>
<td>119 .0055 .0044 13.66 118</td>
<td>99.16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environment</td>
<td>320 .0142 .0111 22.90 310</td>
<td>96.88</td>
<td>119 .0203 .0140 15.75 116</td>
<td>97.48</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financiers</td>
<td>320 .0009 .0013 11.95 138</td>
<td>43.13</td>
<td>119 .0013 .0018 8.03 59</td>
<td>49.58</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers</td>
<td>320 .0009 .0015 10.91 130</td>
<td>40.63</td>
<td>119 .0007 .0012 6.38 43</td>
<td>36.13</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unions</td>
<td>320 .0002 .0007 5.27 38</td>
<td>11.88</td>
<td>119 .0002 .0013 1.99 11</td>
<td>9.24</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defensive</td>
<td>320 .0143 .0076 33.71 320</td>
<td>100.00</td>
<td>119 .0136 .0065 22.71 119</td>
<td>100.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Offensive</td>
<td>320 .0226 .0088 45.77 320</td>
<td>100.00</td>
<td>119 .0246 .0092 1.06 119</td>
<td>100.00</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

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2 PA = 2A/[N1 + N2], where PA is the percentage of agreements, A the number of agreements between coders, and N1 and N2 the number of words rated by each coder.
Table 6
Sample concordances for the ES type analysis: Offensive and defensive components.

<table>
<thead>
<tr>
<th>Type</th>
<th>Concordances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental</td>
<td>We are deeply committed to safe and efficient operations and to conducting our business in an environmentally sound manner overall emissions.</td>
</tr>
<tr>
<td>Economic</td>
<td>In 2011 we lowered our overall emissions by introducing avoidance and consolidating the handling of export transactions.</td>
</tr>
<tr>
<td>Social</td>
<td>We significantly reduced accident figures in our breweries and logistics operations and increased training initiatives to continue integration of the principles of the United Nations Global Compact into our business operations.</td>
</tr>
</tbody>
</table>

To establish the ES type dimension, we calculated the median of the difference between the value of language reflecting offensive and defensive ES. The median amount of text from the GRI stakeholder letters that discussed stakeholder initiatives had a defensive ES. The median splits along these two dimensions yielded four clusters of MNEs with nearly equal distributions, suggesting preliminary support for the proposed 2 dimensions. Differences between these clusters using an ANOVA test and a post-hoc Tukey test.

Cluster 1 represents firms with scores above the median for ES scope and below the median for ES type (i.e., broad defensive). Cluster 2 represents firms with scores below the median for ES scope and above the median for ES type (i.e., narrow offensive). Cluster 3 represents firms with ES scope and type scores that were both below the median (i.e., narrow defensive), and Cluster 4 represents firms with ES scope and type scores that were both above the median (i.e., broad offensive). Table 7 presents additional differences between these clusters using an ANOVA test and a post-hoc Tukey test.

Although the four ES categories share some stakeholder similarities (e.g., certification, community, employee, manager, supplier, and union stakeholder intensity attention), they also show differences in two areas: (a) focus on stakeholders such as activists, competitors, customers, and governments, and (b) level of intensity. This robustness analysis demonstrates that the four clusters represent distinct ES configurations, and exposes the composition of these configurations. Following identification of the four ES clusters, we conducted a quantitative validation of ES. In the CSR literature, the question of whether it is economically viable for firms to pay attention to social demands is ongoing (van Beurden & Gossling, 2008). This, however, is not at the core of ES. For example, Meznar et al. (1991) concluded that the social responsibility of the firm should focus on the appropriateness of the ES relative to a
firm’s stakeholders and capabilities and not on its economic outcomes.

Drawing on this sentiment, and the fact that this study relies on public announcements in the form of stakeholder letters to develop an ES measure, we utilize voluntary disclosure theory to suggest that the ways that firms represent themselves in their GRI stakeholder letters is an accurate depiction of their actions. Voluntary disclosure theory posits that a firm reveals information voluntarily about its social and environmental stance to ensure stakeholders understand the appropriateness of the firm’s position on important social and environmental issues (Brammer & Pavelin, 2004; Clarkson, Richardson, & Vavasori, 2008) and “good” firms reveal themselves more to their stakeholders than “bad” firms (Mahoney, Thorne, Cecil, & LaGore, 2013, p. 351). Within the ES terminology, MNEs with a more stakeholder-friendly ES (i.e., broad offensive) will be more transparent to their stakeholders than MNEs with a less stakeholder-friendly ES (i.e., narrow defensive). To measure the degree of transparency that firms offer to their stakeholders, and to relate this to the content of a firm’s stakeholder letter, we used the Bloomberg environmental, social, and governance (ESG) disclosure score, which is defined and measured as:

a proprietary Bloomberg score based on the extent of a company’s Environmental, Social, and Governance (ESG) disclosure. The score ranges from 1 for companies that disclose a minimum amount of ESG data to 100 for those that disclose every data point collected by Bloomberg (Clark & Master, 2012, p. 33).

Organizational transparency means that an organization shares important information about its stakeholders in an intelligible manner so affected stakeholders can understand relevant issues (Dubink, Graafland, & van Liedekerke, 2008). Bloomberg’s ESG scores offer a third-party assessment of a firm’s level of stakeholder transparency and either validates or rejects this voluntarily-disclosed information as window dressing. Due to the tenets of voluntary disclosure theory, we hypothesize that a broader and offensive ES associates with a higher ESG score because organizational leaders are eager to share their firms’ favorable stance on social and environmental actions, projects, and plans.

To examine whether organizational transparency relates to stakeholder relationships, we analyzed the relationship between ES and ESG scores. We also controlled for sector (i.e., pollution-intensive or not as defined by Mani and Wheeler [1997]), firm profitability (i.e., net income), firm size (i.e., log of employees), and female representation on the board of directors (i.e., number of female directors on the board) because the presence of women on a board links to greater concern for stakeholders (Marquis & Lee, 2013). Table 8 presents the means, standard deviations, and Pearson correlation coefficients for these variables.

This multi-faceted approach follows the establishment of a nomological network to assess the predictive validity of a content analysis-derived measure (Abrahamson & Hambrick, 1997). To test the suggested relationship, we use hierarchical regression analysis and Table 9 presents the results of this test.

We found support for the relationship suggested by voluntary disclosure theory, and demonstrate a positive relationship between a firm’s broad and offensive ES and its degree of transparency. Beyond this demonstration of predictive validity, the findings strengthen the case that stakeholder letters are a reliable source of data for a dictionary-based measure of ES.

To explore discrepancies across the various ES outcomes further, we qualitatively examined the four ES clusters. An organization manifests its ES through attributes such as mission and vision statements, codes of conduct, ethical conduct, social audit committees, and corporate philanthropy (Steyn & Niemann, 2010). We are interested in identifying criteria that not only speak to the ES orientation a firm adopts, but also allow systems analysis and comparison of four cases. We selected a company from each ES cluster and qualitatively assessed its ES using a case-based approach. During selection, we controlled for country- and industry-level influences on ES by using two criteria: (a) the MNEs must be headquartered in the same country, and (b) the MNEs must be in same industries.

Due to the amount of English-language information available, we selected four U.S. MNEs: McDonald’s for narrow defensive, Target for narrow offensive, Walmart for broad defensive, and Staples for broad offensive. Although selection was constrained by limitations of the sample, the Securities and Exchange Commission identifies all four firms as belonging to the retail industry. Target

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Table 7: Characteristics of MNEs ES by cluster.

<table>
<thead>
<tr>
<th>ES components</th>
<th>Broad defensive (N = 89)</th>
<th>Narrow offensive (N = 61)</th>
<th>Broad offensive (N = 70)</th>
<th>ANOVA F</th>
<th>Difference b/n clusters (Tukey)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>SD</td>
<td>Mean</td>
<td>SD</td>
<td>Mean</td>
<td>SD</td>
</tr>
<tr>
<td>Activists</td>
<td>.001</td>
<td>.001</td>
<td>.000</td>
<td>.000</td>
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<td>.001</td>
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<td>.016</td>
<td>.007</td>
<td>.009</td>
<td>.006</td>
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<td>.000</td>
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<td>.006</td>
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<td>.005</td>
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<td>.007</td>
<td>.006</td>
<td>.005</td>
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<tr>
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<td>.002</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
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<td>.006</td>
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<tr>
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<td>.002</td>
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<td>Unions</td>
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<td>.001</td>
<td>.000</td>
<td>.001</td>
<td>.000</td>
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<td>ES type³</td>
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<td>.007</td>
<td>.019</td>
<td>.009</td>
<td>.008</td>
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</table>

³ Each datum is weighted in terms of importance, with data such as greenhouse gas emissions carrying greater weight than other disclosures. The score is tailored to industries according to their sources of emissions, and each firm is evaluated only on data relevant to its industry.

To examine whether organizational transparency relates to stakeholder relationships, we analyzed the relationship between ES and ESG scores. We also controlled for sector (i.e., pollution-intensive or not as defined by Mani and Wheeler [1997]), firm profitability (i.e., net income), firm size (i.e., log of employees), and female representation on the board of directors (i.e., number of female directors on the board) because the presence of women on a board links to greater concern for stakeholders (Marquis & Lee, 2013). Table 8 presents the means, standard deviations, and Pearson correlation coefficients for these variables.

This multi-faceted approach follows the establishment of a nomological network to assess the predictive validity of a content analysis-derived measure (Abrahamson & Hambrick, 1997). To test the suggested relationship, we use hierarchical regression analysis and Table 9 presents the results of this test.

We found support for the relationship suggested by voluntary disclosure theory, and demonstrate a positive relationship between a firm’s broad and offensive ES and its degree of transparency. Beyond this demonstration of predictive validity, the findings strengthen the case that stakeholder letters are a reliable source of data for a dictionary-based measure of ES.

To explore discrepancies across the various ES outcomes further, we qualitatively examined the four ES clusters. An organization manifests its ES through attributes such as mission and vision statements, codes of conduct, ethical conduct, social audit committees, and corporate philanthropy (Steyn & Niemann, 2010). We are interested in identifying criteria that not only speak to the ES orientation a firm adopts, but also allow systems analysis and comparison of four cases. We selected a company from each ES cluster and qualitatively assessed its ES using a case-based approach. During selection, we controlled for country- and industry-level influences on ES by using two criteria: (a) the MNEs must be headquartered in the same country, and (b) the MNEs must be in same industries.

Due to the amount of English-language information available, we selected four U.S. MNEs: McDonald’s for narrow defensive, Target for narrow offensive, Walmart for broad defensive, and Staples for broad offensive. Although selection was constrained by limitations of the sample, the Securities and Exchange Commission identifies all four firms as belonging to the retail industry. Target
Table 8
Means, standard deviations, and pearson correlation coefficients of variables used in the predictive validity analysis.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>S.D</th>
<th>N</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
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<tbody>
<tr>
<td>1. Net income</td>
<td>2071.08</td>
<td>4758.63</td>
<td>217</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Sector</td>
<td>.52</td>
<td>.50</td>
<td>221</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.10</td>
</tr>
<tr>
<td>3. ESG disclosure Score</td>
<td>42.71</td>
<td>13.81</td>
<td>220</td>
<td>.28**</td>
<td>.15*</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>4. Employees (Log)</td>
<td>4.29</td>
<td>.69</td>
<td>211</td>
<td>.40**</td>
<td>-.09</td>
<td>.29**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Enterprise strategy</td>
<td>3.11</td>
<td>.73</td>
<td>221</td>
<td>.09</td>
<td>-.05</td>
<td>.09</td>
<td>.02</td>
<td></td>
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<tr>
<td>6. Women on board</td>
<td>1.47</td>
<td>1.19</td>
<td>217</td>
<td>.10</td>
<td>-.23**</td>
<td>.18**</td>
<td>.27**</td>
<td>-.02</td>
</tr>
</tbody>
</table>

*p < .05; **p < .01.

Table 9
Hierarchical regression analysis for the ES as a predictor of ESG disclosure scores.

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
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<th>Model 2</th>
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<td>Sector</td>
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<td>.21**</td>
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<td></td>
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<tr>
<td>Employees (Log)</td>
<td>.19**</td>
<td>.19**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>.16*</td>
<td>.15*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Women on board</td>
<td>.14*</td>
<td>.15*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enterprise strategy</td>
<td>.14*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adj. R²</td>
<td>.13</td>
<td>.15</td>
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</tr>
<tr>
<td>F value</td>
<td>8.87**</td>
<td>8.20**</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*p < .05; **p < .01.

and Walmart (variety stores; SIC: 5331), Staples (miscellaneous shopping goods; SIC: 5940), and McDonald’s (eating places; SIC: 5892).

Table 10 presents a summary of general company information and differences among the four cases. Because ES integrates the economic and social performance of a firm (Freeman, 1984), comprehensive ratings that evaluate firms across all three dimensions (i.e., economic, social, and the natural environment) are warranted. We drew on data from corporate websites, publicly available documents, and financial statements contained in annual reports. Social and environmental performance measures were drawn from Corporate Responsibility (CR) Magazine rankings, glassdoor.com employee surveys, Newsweek’s green ranking, and Bloomberg’s ESG scores. The following section describes four different U.S. retail firms as well as their ES.

4.1. McDonald’s - narrow defensive ES exemplar

McDonald’s was founded in 1940 with the mission of being a customer’s “favorite place and way to eat and drink” (McDonald’s, 2013). In addition to customers, McDonald’s claims to value its employees, ethical conduct of business, and giving back to the community. It perceives these values as a path to continually improving and growing profitably (McDonald’s, 2013). McDonald’s is financially prosperous. However, in the area of non-financial performance, it lags behind the other three firms. McDonald’s was not included in the 2011 and 2012 CR Magazine rankings of the most responsible companies, and has the lowest 2011 and 2012 BusinessWeek green score of the four firms. Philanthropy does not associate with firm-specific capital outlays. In 2011, the company’s self-reported philanthropic contributions were $24 million. However, this philanthropic total was collected through Ronald McDonald House Charities, consisting of customer money with the corporate name attached.

According to its ESG score, McDonald’s is the least transparent...
firm in the sub-sample. Comparative, qualitative analysis was consistent with the quantitative predictive validity, demonstrating strong economic performance (i.e., 20.4% net profit, the highest of the four) at the expense of its social and environmental position, which supports a narrow defensive ES and emphasizes short-term value creation for the firm’s financial stakeholders.

4.2. Staples – broad offensive ES exemplar

Staples was founded in 1986 to serve the consumer retail market for office supplies. The company’s mission is “finding the soul in the selling of office supplies” (Staples, 2013). Its corporate values focus on four pillars—ethics, community, environment, and diversity—and although Staples is the smallest of the four companies, it had the second-highest and highest CR Magazine ranking for the most responsible companies in 2011 and 2012, respectively. Staples also obtained the highest green score in BusinessWeek rankings for 2011 and 2012, and became an Environmental Protection Agency (EPA) Power Partner as early as 2002.

Based on its ESG score, Staples is the most transparent and committed corporation of this group in terms of social and environmental performance. However, according to Goodness 500, its philanthropy as a percentage of profit was only 4%, lower than Target and Walmart, but higher than McDonald’s. Staples generated the lowest profits as a percentage of sales, yet the company had the highest third-party rankings and the best non-financial performance in comparison to the other three. This trade-off among economic, environmental, and social performance accords with a broad offensive ES, which emphasizes long-term value creation for all of a firm’s stakeholders.

4.3. Target - narrow offensive ES exemplar

Target was founded in 1902, and its mission is to be the “preferred shopping destination in all channels by delivering outstanding value, continuous innovation and exceptional guest experiences” (Target, 2013). The company values design, great service, customer value-added, provision of a good work environment, diversity, and giving back (Target, 2013). Target is the third-largest company we examined. In comparison to the other three cases, it had the highest and second-highest CR Magazine ranking for the most responsible companies in 2011 and 2012, respectively, but lagged in environmental performance, with the third-highest green score for the BusinessWeek ranking in both 2011 and 2012. Unlike the other three cases, Target is not an EPA Power Partner, though it has a goal to reduce waste by 15% by the end of the 2015 fiscal year. Target is the most philanthropic case, with contributions of 5.5% of profits.

Based on its ESG score, Target is the second most transparent corporation in social and environmental performance. The comparative, qualitative analysis was mixed but consistent with quantitative predictive validity, categorizing Target’s ES as narrow offensive, which emphasizes long-term value creation for a narrow range of stakeholder groups.

4.4. Walmart - broad defensive ES exemplar

Walmart was founded in 1962, and its mission is to “help people save money so they can live better” (Walmart, 2012). Walmart is the largest of the four firms, but had the second lowest ranking in the 2011 CR Magazine assessment for the most responsible companies. From an environmental viewpoint, Walmart earned the second-highest green score in the BusinessWeek ranking in both 2011 and 2012. Walmart’s philanthropy constitutes 1.7% of profits. Based on its ESG score, Walmart is not highly transparent. Like Target, it reflects a mixed picture, performing better in some non-financial areas and worse in others. The comparative, qualitative analysis supports placing Walmart in the broad defensive ES category, which emphasizes short-term value creation for financial stakeholders while reacting to other stakeholders when they pose a legitimate, sizeable threat.

In combination, these four contrasting examples provide rich and tangible cases of MNEs operating in the same retail sector but due to variations in ES, engage with stakeholders differently regarding type and scope. Having established that use of language in managerial statements is a reliable and valid measure of a firm’s ES, many other opportunities emerge to integrate ES with other phenomena in strategic management.

5. Discussion and future research

This study offers a valid and reliable measure of the espoused ES that should open the door to many other fruitful avenues of future ES research, but also required a number of tradeoffs to accomplish this contribution. Utilizing the stakeholder letters from GRI reports presented two noteworthy limitations. First, the sampling frame consisted of MNEs that issue GRI reports, and although many other MNEs publish sustainability reports, they are not in line with uniform GRI guidelines, and were excluded from further analysis. This inclusion criterion allowed us to use consistent reporting standards as a way to examine ES differences systemically. Due to these sample limitations, we compared the ES language of MNEs based in the United States (N = 90) with those of U.S. domestic firms (N = 119). A larger and more diverse sample would be preferable to generalize these findings.

A second consideration is that in order to remain consistent with studies that use letters to shareholders from annual reports, we used only letters to stakeholders from GRI reports; however, using the entire GRI report would provide a richer source of information regarding a company’s approach to its stakeholder. We believe that this study serves as a foundation for the advancement of an ES measure based on a combination of primary data sources and the entire GRI report.

An important consideration in future studies is that the ES literature does not specify if a firm has a single overarching ES. We can infer, however, from the few empirical investigations on a related concept, the organizational identity orientation (Brickson, 2005), which reflects the organization’s values and addresses the question of “who are we as an organization vis-à-vis our stakeholders”, some possibilities regarding the extent to which a firm adopts a single overarching ES. The organizational identity orientation describes the nature of the stakeholder relationship patterns with various stakeholders, including customers, employees, and non-government organizations in three aspects: (1) some organizations view themselves as separate from others and, as a result, develop individualistic identity orientations; (2) others view themselves as deeply connected to a narrow set of stakeholders and develop relational identity orientations; (3) a third group of firms, impersonally connected to a larger collective, adopts collectivistic identity orientations (Brickson, 2007). Therefore, the ES represents this overarching strategic orientation to all its stakeholder groups, and similar to identity orientation, is assumed to take a single orientation.

In a field study of 88 US companies across three industries, Brickson (2005) identified the existence of organizations with hybrid organizational identity orientations incorporating two or more of the identity orientations, arguing that they are “relatively common” (p. 576) among a variety of US firms. In as much as organizations can develop multiple identity orientations, one can argue that multiple ES strategies within a single firm are possible.
but the organizational identity orientation addresses only the value aspect of the ES and does not consider relevant social issues and important stakeholder concerns. Expressing the ES in broad terms can support the case for the existence of a single, identifiable ES, including in the case of MNEs. For example, if communities and consumers are primary stakeholders in the UK, while customers and regulators are more important in France and the Netherlands (Maaign & Ralston, 2002), a narrow defensive or offensive ES will subsume all salient stakeholders for companies that are present in all three countries. The identification of whether firms have a single ES, however, remains a matter of empirical investigation and the present study provides a platform to explore that in the future.

Beyond exploring the limitations inherent in this study, we suggest that research on the long-term effects of ES on functional and business performance, and organizational effectiveness (Venkatraman & Ramanujam, 1986), will be critical to the advancement of ES as a foundational aspect of strategic management research. For example, the antecedents and outcomes of ES remain unknown, but through the use of this measure of ES, future research could begin to focus on the contextual factors that influence a firm’s ES choice.

Because institutions determine what is legitimate within a society, any reflection on how society may guide or constrain the selection of ES orientations. For example, in the varieties of capitalism (VoC) approach, Hall and Soskice (2001) suggest that countries with coordinated market economies (e.g., Germany) focus on long-term care for employees and the establishment of a strong reputation within powerful business associations. Conversely, liberal market economies (e.g., the United States) characterize relatively short-term employment and weakly-organized labor unions, suggesting that firms in this context have little incentive to invest in employees’ firm-specific skills. Based on these disparities, we recommend further investigation into the effects of these types of contextual and institutional drivers of a firm’s ES.

A second productive area to better understand the differences between firms in their approach to ES would be to examine the composition of the board of directors and top management teams. These individuals influence a firm’s ES directly because this level of strategy is devised among members of a firm’s upper echelon. ES represents an organization’s position on a continuum between having a very narrow focus on and investing very little in stakeholders to having a broad interest in and being very generous toward stakeholders. For example, unlike their U.S. counterparts, German firms have strong stakeholder representation by including major customers, employees, and suppliers on their boards of directors. As a result, CEOs are constrained from making unilateral decisions (Amable, 2003). Taken together, this measure of ES could be applied in a variety of different ways as scholars re-discover this wide-reaching and important construct in strategic management research.

References


