Corporate reputation, stakeholders and the social performance-financial performance relationship

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Abstract

Purpose – To increase understanding of the role of reputation in the corporate social performance (CSP) and financial performance (FP) relationship, including contingencies.

Design/methodology/approach – Stakeholder theory is drawn on to present a model of reputation's role in the contingent CSP-FP relationship.

Findings – CSP is affected by stakeholders' resource allocation to the organisation. This allocation is based on stakeholders' assessment of the organisation's reputation relative to stakeholders' particular expectations, which may be instrumentally and/or normatively framed. Reputation, therefore, plays a key role in the CSP-FP relationship. Additionally, the authors propose that the equivocal results of previous research into the CSP-FP relationship may be partly explained by organisational and market contingencies. Specifically, the authors contend that strategic fit, competitive intensity and reputation management capability moderate the CSP-FP relationship.

Research limitations/implications – Empirical measurement issues and future research directions are discussed.

Originality/value – This paper increases the understanding of the role of reputation in the CSP-FP relationship. Owing to its rich pedigree in research in corporate branding and reputation, marketing is uniquely positioned to contribute toward the better understanding of this issue.

Keywords Corporate image, Stakeholder analysis, Business ethics, Financial performance

Paper type Research paper

Introduction

The recent spate of corporate scandals and collapses has coalesced with social and environmental protests to focus research and managerial attention on corporate power and influence. Scholars have turned to the concept of corporate social performance (CSP) in an effort to justify arguments for why management should, or should not, focus on socially responsible behaviours. CSP and its implications for financial performance have long been of interest to marketers who have made some valuable contributions to the field (e.g. Brown and Dacin, 1997; Maignan and Ferrell, 2004; Markwick and Fill, 1997; Sen and Bhattacharya, 2001, Varadarajan and Menon 1988).

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Despite such contributions, however, managers have been wary of allocating resources to CSP largely due to disagreement over the extent to which it will lead to superior business performance. In addition, socially beneficial initiatives have not traditionally come under the umbrella of strategic decision-making. Indeed, motivating such behaviour has not been helped by equivocal research findings on the relationship between CSP and financial performance (FP) (Griffin and Mahon, 1997; Margolis and Walsh, 2003). If academics are to guide practitioners in their adoption of improved CSP, a detailed understanding of the CSP-FP relationship, including processes and contingencies, is necessary. Specifically, what is the sequence of events or behaviours that relates CSP and FP, and under what conditions are CSP and FP positively and negatively related (Rowley and Berman, 2000)?

To address these questions we turn to the notion of corporate reputation as the vehicle through which socially responsible initiatives affect business performance. Marketing is uniquely positioned in this debate owing to a rich pedigree in research in corporate branding and reputation (e.g. Balmer, 2001; Harris and de Chernatony, 2001; Maignan and Ferrell, 2001). The reputation of corporate brands among stakeholders provides an appropriate analytical framework for considering the impact of CSP on FP. We consider the range of organisational stakeholders who, as the receivers of information embodied within corporate reputation, collectively influence the FP of the organisation via their decisions to provide or withhold resources. Finally, we consider both the manageable and environmental variables that influence the strength of these relationships. In particular, we consider the influence of CSP behaviour-business strategy fit and competitive intensity as external moderators. We then consider the role of reputation management capabilities as a facilitator of the relationships between CSP, corporate reputation and stakeholder perceptions.

Background

Testing of the CSP-FP relationship has been motivated by researchers endeavouring to demonstrate that it is possible for business to “do well while doing good”. However, there has been considerable conjecture over whether the relationship is positive, neutral or negative, although most studies have concluded that it is generally positive depending on which measures of financial performance are used (see Frooman, 1994; Griffin and Mahon, 1997; Orlitzky *et al.*, 2003). Theorists have also considered whether the direction of causality is inverse (Waddock and Graves, 1997). It is plausible, however, that such inconsistent findings have been a result of incomplete specification of the CSP and FP relationship. In line with the views of Rowley and Berman (2000, p. 397), we “recast the research question to investigate the conditions under which stakeholders will take action to influence the focal organisation and when those actions will influence the CSP-FP link”. These researchers argued for a contingency approach (e.g. Greening and Gray, 1994) to identify when CSP and FP will be related, and to identify the conditions and boundaries under which the relationship ceases to exist. In the following sections we discuss the concepts of corporate social performance, stakeholder perceptions, and corporate reputation by way of background for our proposed model.

Corporate social performance

The concept of CSP evolved from the concepts of corporate social responsibility and corporate social responsiveness, which responded to questions regarding organisations' social responsibilities and how these should be enacted. While important considerations, it was recognised that considering the outcomes, or the effects, of organisational behaviour was crucial. Drawing particularly on Carroll (1979) and Wartick and Cochran (1985), Wood (1991) proposed a principles, processes and outcomes framework for CSP. CSP was thus defined as:

> . . . a business organisation's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs and observable outcomes as they relate to the firm's societal relationships (Wood, 1991, p. 693).

First, to assess an organisation's motivations, the principle of CSR incorporates the principle of legitimacy, based on Davis' (1973) Iron Law of Responsibility, whereby society has the right to define an organisation's legitimate functions; the principle of public responsibility, where an organisation must take responsibility for social problems that they have caused or that are related to their business operations (Preston and Post, 1975); and the principle of managerial discretion, which recognized that business decisions are made by moral human actors (Carroll, 1979). Second, Wood (1991) outlined the processes needed to respond to these responsibilities. This requires scanning and analyzing the social, legal, political, economic and technological environments; an understanding of which stakeholders matter (e.g. Mitchell *et al.*, 1997); and identification of social issues and response management. Finally, Wood distinguished three types of outcomes: the social and environmental outcomes, as measured by the various available indicators, for example, the triple bottom line (Elkington, 1997) and social responsibility audits (Waddock and Smith, 2000); the corporate programs organisations put in place to achieve responsibility and/or responsiveness; and the corporate policies organisations put in place to manage social issues and stakeholder concerns.

However, this definition of CSP continues to suffer from a lack of parsimony and tangibility. Indeed, Wood critiqued the operationalisation of this definition in a later paper (Wood and Jones, 1995). Scholars have since argued that it is stakeholder theory that holds the potential for providing the CSP-FP relationship with the theoretical support necessary for its further understanding and development (e.g. Clarkson, 1995; Mitchell *et al.*, 1997; Rowley and Berman, 2000). That is, it is within the context of an organisation's relationships with its stakeholders that the extent of its responsibilities is framed and that its performance is assessed. We now outline the stakeholder perspective of the CSP-FP relationship.

Organisational stakeholders

Stakeholders have been defined as "any group or individual who can affect or is affected by the achievement of the organisation's objectives" (Freeman, 1984, p. 46). The stakeholder perspective views the organisation at the centre of a network of relationships with various stakeholders. These individuals or groups usually incorporate shareholders, consumers, employees, business partners, governments, media, local communities and the natural environment.

The individual, dyadic relationships between organisations and their stakeholders are reciprocal "in terms of harms and benefits as well as rights and duties" (Freeman, 1997, p. 69). Most recently, resource dependence theory (Pfeffer and Salancik, 1978) has been utilised to explain the relationship (e.g. Frooman, 1999; Jawahar and McLaughlin, 2001). From this perspective, an organisation is viewed as being dependent on various stakeholders for the critical resources that enable it to operate. For example, consumers provide the organisation with financial returns while governments provide infrastructure and other services. As Clarkson (1995, p. 112) described, "[i]f any primary group perceives, over time, that it is not being treated fairly or adequately. . .it will seek alternatives and may ultimately withdraw from that firm's stakeholder system". Similarly, Rowley and Berman (2000, p. 409) argued that, "stakeholders take actions to sanction – reward or punish – a firm's action in an attempt to change or reinforce that behaviour". This action will be taken when the organisation's actions do not meet stakeholders' expectations (Polonsky, 1996; Post *et al.*, 2002). The role of stakeholders in relation to the organisation is to:

(1) set expectations;
(2) experience effects;
(3) evaluate outcomes; and
(4) act on these evaluations (Wood and Jones, 1995).

Stakeholders changing of the level of resources that the corporation is dependent on – customers for revenue, employees for labour, and so on – then directly impacts financial performance. This may be done through withholding resources from the organisation or through placing conditions on the usage of the required resources (Frooman, 1999). Limiting the provision of resources will negatively impact the organisation's performance and may place its survival in jeopardy. The issue of stakeholders' impact on the organisation was comprehensively addressed by Mitchell *et al.* (1997), who theorised that the stakeholders to which managers pay attention may be identified by their possession of one or more of three attributes: their power to affect the firm; the legitimacy of their claim; and the urgency of their claim.

Stakeholders' expectations have generally been framed in terms of protecting their interests (Frooman, 1999; Rowley and Moldoveanu, 2003; Savage *et al.*, 1991). Rowley and Moldoveanu (2003) argue that stakeholders may also be motivated by personal, identity-based outcomes achieved by participating in the stakeholder group's activities. Notwithstanding the importance of the protection of interests and intra-group identification, authors within the marketing discipline have proposed that organisational identity theory (Ashforth and Mael, 1989; Dutton *et al.*, 1994; Gioia *et al.*, 2000) is appropriate to understand stakeholders' resource allocations (Drumwright, 1994; Maignan and Ferrell, 2001, 2004; Sen and Bhattacharya, 2001). Stakeholders will identify with an organisation where they perceive that the characteristics of the organisation correspond with their self-identity. Identification with the organisation will result in the stakeholder aligning their resources with the organisation.

For example, employees identifying with their employing organisation will be more likely to socially interact within the organisation, cooperate with other employees, exhibit organisational citizenship behaviours, and be competitive towards those outside of the organisation (Dutton *et al.*, 1994). By contrast, employees may "disidentify" with an organisation when its behaviours "violate the norms embraced by a stakeholder community" (Maignan and Ferrell, 2004, p. 14). Employees are more likely to withhold effort (e.g. through shirking, social loafing, or free riding) as a consequence (Kidwell and Bennett, 1993).

Stakeholders' resource allocation decisions are complex and include myriad considerations. Indeed, the extraordinary variety of issues that may potentially concern stakeholders is such that a framework of the specific motivations for stakeholder decision-making across all the stakeholder groups is unfeasible. Donaldson and Preston (1995), however, provide a more general framework of organisational responses to stakeholders based on instrumental and/or normative motivations. We may similarly frame stakeholders' responses to organisations as being instrumentally and/or normatively motivated.

Instrumental responses will be motivated by the achievement of one's own ends, while on the other hand, normative responses will be motivated by an understanding that the interests of all stakeholders are of intrinsic value, that is, "each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some other group" (Donaldson and Preston, 1995, p. 67). For example, consumers may cease purchasing the organisation's products or services due to a lowering of quality or increase in prices (i.e. instrumental motivation), or due to becoming aware of the negative experience of the organisation's employees, as in the case of sweatshop labour (i.e. normative motivation). In the latter case, consumers have based their resource allocation on the intrinsic value they place on other stakeholder groups.

While some stakeholder groups will be more normatively motivated than others, almost without exception organisations will need to integrate both instrumental and normative concerns in responding collectively to their stakeholders. For example, Maignan *et al.* (2002) explain how organisations may conduct socially responsible buying behaviour through the incorporation of non-economic criteria within the traditional decision making model. Alternatively, Mahon (2002) referred to a marketplace of goods and services (i.e. instrumental) and a marketplace for ideas (i.e. normative), where stakeholder assessments within one market may be transferred and thus considered within the other market.

Given the myriad issues requiring consideration by stakeholders (e.g. instrumental and normative concerns), it is likely that their resource allocation decision will be based on a holistic processing of information. Accordingly, we turn to the notion of corporate reputation (Fombrun and Shanley, 1990) as a means by which stakeholders evaluate the motivations, processes and outcomes of focal organisations. Reputation is thus considered a key mediator of the relationship between the firm's CSP and its FP. In the next section, we define reputation and argue why it is the appropriate metric to consider within the CSP-FP relationship.

Corporate reputation

Recently, Orlitzky *et al.* (2003) found that measures of CSP reputation were more highly correlated with FP than other measures. Indeed, the role of reputation has recently been identified as an important theoretical construct for the study of CSP (e.g. Business and Society, vol. 41 no.4, Dec. 2002, special issue). It still remains, however, for academics to investigate and understand the role that reputation plays within the sequence of events or behaviours that contribute towards the CSP-FP relationship (e.g. Mahon, 2002).

Weiss *et al.* (1999, p. 75) defined corporate reputation as "a global perception of the extent to which an organisation is held in high esteem or regard". Fombrun and Shanley (1990, p. 234) suggest that a reputation is the aggregation of information "into collective judgments that crystallize into reputational orderings of firms in organisational fields". The definition incorporates, first, the 'global perception' or unidimensional aspect of reputation. Although an organisation will have different sub-reputations for different aspects of its activities (e.g. for its profitability, or for the quality of its products or services), observers will tend to give a net assessment of the organisation's reputation (Fombrun, 1996). The net assessment may incorporate both instrumental and normative concerns. Thus, while different stakeholders may hold varying views on an organisation's reputation, they are nevertheless "an overall, affective impression" (Hutton *et al.*, 2001, p. 257).

Organisations will be likely to have different reputations with different stakeholder groups (Bromley, 2000). The evaluation criteria stakeholders use to judge an organisation's reputation will differ depending on the particular stakeholder's expectations of the organisation's role. For example, consumers may expect the firm to provide a quality offering, investors may expect high returns on their investment, while environmental groups may expect sustainable environmental practices. Thus, the organisation will have a different reputation with each of the stakeholder groups, and may have different reputations with individual stakeholder group members as expectations vary from one member to the next. Furthermore, stakeholders' expectations of an organisation's actions are dynamic, and thus likely to change over time (Hanson and Stuart, 2001). Additionally, as an organisation's reputation increases, so do stakeholders' expectations (Mahon, 2002). Thus, salient organisations are likely to attract more scrutiny than less salient organisations.

Conceptual model

Having provided a background to the key concepts of CSP, stakeholders' decision-making and corporate reputation, we outline a conceptual model that proposes a series of mediating and moderating relationships that help inform the CSP-FP nexus (see Figure 1).

Stakeholders and the firm's financial performance

It has previously been suggested by scholars that stakeholder theory holds the potential for understanding the CSP-FP relationship (e.g. Clarkson, 1995; Mitchell *et al.*, 1997; Rowley and Berman, 2000; Wood and Jones, 1995). Stakeholder theorists argue that the organisation's FP is determined by their stakeholders' provision of resources in response to the organisation's actions (e.g. Frooman, 1999). We argue that this decision may be instrumentally and/or normatively motivated. A stakeholder's decision to either provide or cease to provide resources to the organisation is the culmination of complex considerations that coalesce within an overall evaluation of the organisation's reputation. Stakeholders are uniquely positioned to affect the FP of the organisation whether through withholding or providing effort (e.g. employees), infrastructure (e.g. government), or cash flow (e.g. customers), among other things.

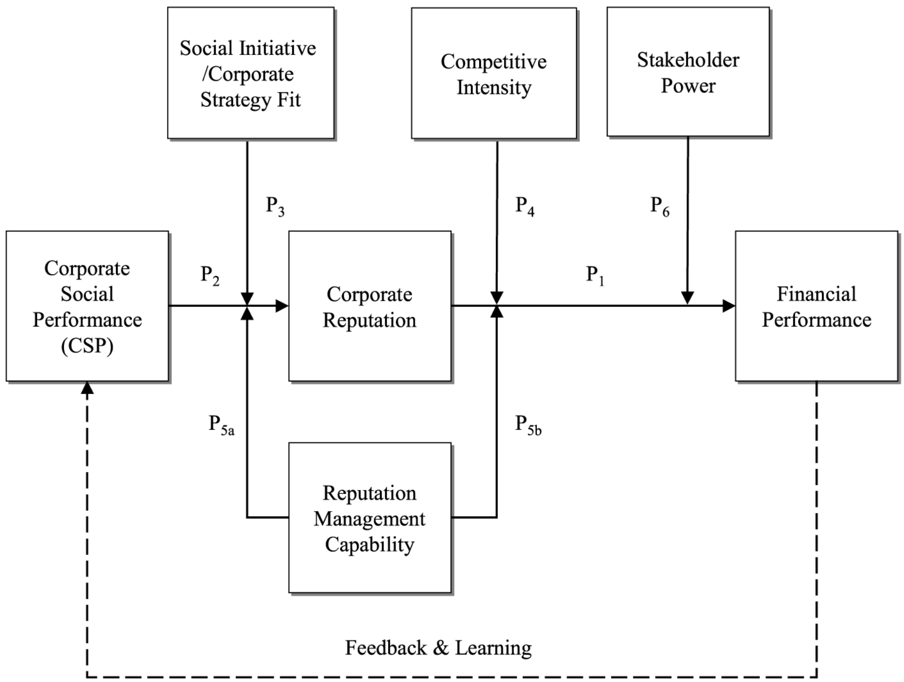

Figure 1.
Reputation, stakeholders and the CSP-FP relationship

Further, Fombrun (1996) argued that a positive reputation can imbue an organisation with a competitive advantage, similar to brand equity. This enables the firm to charge premium prices and economise on promotional costs (Fombrun, 1996). Black *et al.* (2000) found that organisations devote resources to the intangible asset of reputation, with the expectation that these efforts will improve the performance of the firm. For example, a positive reputation has been shown to affect customers' buying intentions (Yoon *et al.*, 1993), supplier choice (Weiss *et al.*, 1999), and to support superior profit outcomes over time (Roberts and Dowling, 2002). Specifically relevant to this study, Little and Little (2000) found that companies with stronger reputations for social responsibility have marginally higher price-earnings ratios.

The key role of reputation within the CSP-FP relationship is further underscored by the role of indirectly affected stakeholders. Many stakeholders will have had no direct experience of the organisation's actions regarding an issue key to their decision to allocate resources to the organisation. For example, a consumer's instrumentally motivated purchasing decision may be based not on their own direct experience, but on a recommendation from an associate who has direct experience of the organisation's products or services. Alternatively, a consumer's normatively motivated purchasing decision may be based on a media report regarding the organisation's treatment of its employees. In both cases, the stakeholders have based their resource allocation on vicarious experience (Mahon, 2002). Based on the preceding arguments it is apparent that reputation will have an impact on a firm's FP. Accordingly we propose:

P1. A firm's financial performance will be directly and significantly related to corporate reputation.

CSP and corporate reputation

Reputation has recently received increased attention by scholars as an important theoretical construct for the study of CSP (e.g. *Business and Society*, Vol. 41 No. 4, December 2002, special issue). This has resulted from the recognition that stakeholders' resource allocation decisions are based on an overall evaluation of the organisation's behaviour. Recent work on reputation has focused on understanding its similarities and differences with corporate identity or corporate image (e.g. Bromley, 2000; Lewellyn, 2002; Wartick, 2002; Whetten and Mackey, 2002). Corporate identity relates to the shared understanding of those within the organisation regarding what the organisation stands for, and is thus only relevant to internal stakeholders (Whetten and Mackey, 2002). Distinguishing corporate image and reputation, however, has proved more contentious. To clarify this issue, we adopt the definitions utilised by Whetten and Mackey (2002), whereby corporate image is the projection – intentional and unintentional – of the organisation's self-definition to external stakeholders. In contrast, reputation is stakeholders' assessment of the credibility of the organisation's projection. Reputation, therefore, comprises a holistic evaluation of the organisation's image, framed by the stakeholder's personal values. More specifically, corporate reputation comprises a global perception, or net assessment, of the organisation's behaviour based on stakeholders' instrumental and/or normative expectations. It is within the context of an organisation's relationships with its stakeholders that its CSP is framed and assessed. That is, stakeholders evaluate organisations' motivations, processes and outcomes holistically and relative to their particular expectations. Consequently we propose that:

P2. Corporate reputation will be directly and significantly related to CSP.

Strategic fit, competitive intensity and the CSP-FP relationship

Equivocal results from empirical studies into the CSP-FP relationship point to the need for a contingent perspective to determine the conditions that affect the nature of the CSP-FP relationship (Rowley and Berman, 2000). Husted (2000), for instance, proposed that the CSP-FP relationship is a function of the fit between the nature of relevant social issues and the organisation's corresponding strategies and structures. Further, McWilliams and Siegel (2001) proposed that the impact of socially responsible actions on financial performance would be contingent on the economies garnered from the organisation's size and level of diversification, product mix, advertising, consumer income, government contracts and competitors' prices.

The products, markets and activities that define organisational strategy also define the organisation's stakeholder set. Consequently, a firm pursuing socially responsible initiatives that lack consistency with its corporate strategy is not likely to meet the particular expectations of its stakeholders. Due to the stakeholder context of CSP, an organisation's socially responsible initiatives will be assessed relative to standards important to its stakeholders (Wartick, 2002). Therefore we suggest that:

P3. The positive relationship between CSP and corporate reputation will strengthen as the fit between social initiatives and corporate strategy increases.

Davidson (1990) considered that stakeholders might be forced to allocate resources to an organisation despite the organisation's reputation. For example, a consumer may purchase a product from an organisation, ignoring its reputation for polluting the natural environment, despite its importance to the consumer, due to the superior product quality or perhaps a lack of available alternatives. This issue was considered by Mahon (2002) who explained that organisations have many reputations, and one reputation may be traded off for another. Thus, reputation's role in the resource allocation decisions of these stakeholders is contingent on the existence of competitive alternatives. As competitive intensity increases, parity products (e.g. for consumers) and job opportunities (e.g. for potential employees) are likely to emerge. Thus, a firm's reputation is more likely to play a more significant role in these stakeholders' resource allocation decisions. Accordingly we suggest that:

P4. The positive relationship between corporate reputation and a firm's financial performance will strengthen as competitive intensity increases.

Reputation management and the CSP-FP relationship

The CSP-FP relationship is also contingent on organisation's efforts to manipulate reputation's role in the relationship. Indeed, the role of reputation in the relationship implies that reputation can and should be managed (Bromley, 1993; Weiss *et al.*, 1999). The deliberate attempt at influencing reputation requires organisations to both monitor and manage their reputations, as an organisation must first be aware of its reputation before being able to influence it. While it is clear that firms that are not satisfied with their current reputation will attempt to enhance it, firms that are satisfied may nevertheless attempt to sustain or even further enhance their reputation. Accordingly, we propose that reputation management capability can be both proactive and defensive (Greening and Gray, 1994; Shimp, 1997). Proactive reputation management is the provision of information to stakeholders about organisational actions that enhance perceptions of performance. Defensive reputation management is the use of communications with stakeholders to mitigate the effects of negative information about the organisation.

In addition to proactive and defensive approaches, information provision can be further considered in terms of two objectives. First, information can be designed to affect the expectations of stakeholders; and second, information can be designed to affect stakeholders' perceptions of how successfully the firm's actions or behaviour met these expectations (Bromley, 1993, 2000). For example, organisations may attempt to influence stakeholders' expectations regarding the necessity for environmentally sustainable products and production methods. This has been evidenced by the US coal industry financing research and media aimed at questioning the negative impact of the greenhouse effect. Second, organisations may influence stakeholders' perceptions of how successfully the organisation has met their expectations through reputation-building activities, such as advertising and other communications, effectively ensuring that the organisation's behaviour has been transmitted to its reputation (Roberts and Dowling, 2002). While some of these efforts may be viewed sceptically by stakeholder groups (e.g. some of the recent repositioning efforts made by global petroleum companies), clearly the capability to manage a reputation (whether well-meant or elaborate impression management) has an impact on the extent to which CSP translates into reputation and the degree to which reputation influences stakeholders' resource allocation decisions. Accordingly, we suggest that:

P5a. The positive relationship between CSP and corporate reputation will strengthen as reputation management capability increases.

P5b. The positive relationship between corporate reputation and a firm's financial performance will strengthen as reputation management capability increases.

Stakeholder power and the CSP-FP relationship

A final yet critical issue to consider is the relative importance to the organisation of particular stakeholders. That is, some stakeholders have the capacity to affect FP more than others. Mitchell *et al.* (1997) proposed that the ability to affect the organisation should be framed in terms of stakeholder power. Stakeholders possessing power have the ability to exercise their own will despite resistance (Weber, 1947). From a resource dependence viewpoint (Pfeffer and Salancik, 1978), an organisation's reliance on a stakeholder for critical resources puts the organisation in a relatively weaker or dependent position. And it is a firm's reputation that provides the impetus for stakeholders to make such resource allocation decisions. A poor (better) reputation, therefore, will lead to worse (stronger) FP if a firm is dependent on a group of stakeholders who have critical resources and sufficient autonomy to sanction (reward) the organisation as a result of its reputation. Accordingly, we suggest that:

P6. The positive relationship between corporate reputation and a firm's financial performance will strengthen as stakeholder power increases.

Finally, previous theorists have also found that the direction of the CSP-FP relationship may be reversed (Waddock and Graves, 1997). These authors argued that slack financial resources create the opportunity for future corporate social initiatives. Additionally, it may be expected that the feedback and learning from previous corporate social initiatives will inform future corporate social initiatives. While it is beyond the scope of this paper to explore the intricacies of an iterative relationship, we include feedback and learning to reflect the potential for this eventuality.

Conclusions and directions for future research

We propose that organisational reputation plays a key role in the CSP-FP relationship. Drawing on stakeholder theory, we propose that CSP is assessed by stakeholders in a complex, holistic evaluation relative to their expectations, which is represented by reputation. Stakeholders then utilise their evaluation of the organisation's reputation to determine their resource allocation toward the organisation, impacting financial performance. Stakeholders' utilisation of reputation may be based on either direct or indirect encounters with the organisation. More specifically, we propose that stakeholder's resource allocation decisions are instrumentally and/or normatively framed.

The understanding of reputation's role in the CSP-FP relationship then allowed for the exploration of some of the contingencies affecting the relationship, an issue of concern to CSP researchers. Specifically, social initiative-corporate strategy fit will have a positive moderating effect along with the competitive intensity of the market in which the firm competes. Finally, an organisation's reputation management capability will also positively moderate the relationships between CSP and reputation and reputation and stakeholder perceptions. The obvious question is now, where to from here?

Clearly a next step to take would be to examine the research propositions empirically. This, however, may prove problematic due to the fine-grained distinctions between CSP, reputation and stakeholders' resource allocation decisions, and other methodological considerations. To begin with, the construct of stakeholders' resource allocation decisions would need to be assessed. This would entail surveying stakeholders from across the stakeholder spectrum (i.e. shareholders, consumers, employees, business partners, governments, media, local communities and environmental groups).

Also at issue is the fact that the two most prominent tools for measuring reputation have often been used to operationalise the construct of CSP. First, the *Fortune* magazine reputation survey (Harrison and Freeman, 1999) ranks organisations based on the opinions of senior executives, directors and analysts, who are asked to rate companies on eight different aspects of reputation, including CSP (Harrison and Freeman, 1999). The weaknesses of this measurement tool are the single measure of CSP and the sample of respondents being selected from within the business field. Second, the Kinder, Lydenberg, Domini and Company (KLD) index is based on extensive research of independent analysts employed by KLD to evaluate firms' CSP for an ethical investment fund (Berman *et al.*, 1999). Although its focus is the organisations' CSP, the external evaluative nature of the measure is effectively a reputation measure. This index has proved particularly popular with researchers, however it has also been criticised for its evaluation method and for not using distinguishable stakeholder groups as evaluators (Wartick, 2002). The popularity of these measures, however, underscores the necessity for future studies to develop measures of CSP that are distinct from measures of corporate reputation.

Importantly, it takes time for reputations to be established and to then change, such that stakeholders may be motivated to alter their resource allocation to the organisation. Thus, we may expect to more readily observe the proposed relationships between CSP, reputation and financial performance over time, in a longitudinal study. This will allow testing of Fombrun's (1996, p. 38) assertion that, "the long-term viability of a company requires fulfilling the expectations of all stakeholder groups".

Another key research direction would be to consider the conditions under which stakeholders will alter their resource allocation towards the organisation, and thus increase or decrease FP. To date, stakeholder theorists have focused almost exclusively on the role of managers and how they should deal with an environment constructed of multiple stakeholders with multiple objectives (for an exception, see Rowley and Moldoveanu, 2003). In generalising across stakeholder decision-making motivations, we specified that stakeholders have instrumental and normative motivations. Future studies should explore how instrumental and normative motivations are constructed, and when instrumental considerations are likely to dominate normative considerations and vice versa. For example, Mahon (2002) argued that stakeholders will "trade-off" one reputation for another. What is the context under which this trade-off will occur?

We accounted for stakeholders' ability to affect the organisation via stakeholder power. However, different stakeholders have different expectations, and thus evaluate the organisation differently (Wood and Jones, 1995). A future research direction could be to ascertain the relative impact of the instrumental and normative concerns and the relative emphasis on CSP dimensions (e.g. natural environment, HRM practice, legal/fiduciary prudence) on the resource allocation decisions of key stakeholders.

Stakeholder theorists should perhaps consider models of consumer behaviour to help understand such complex decision-making. Sen and Bhattacharya (2001), for example, suggested that the impact of CSP on consumers' purchasing decisions will be related to their interest in, and support for, the relevant CSP issues. Meanwhile, Maignan *et al.* (2002) provided a prescription for socially responsible buying behaviour through the incorporation of non-economic criteria. The insights from the marketing literature, however, would need to be extrapolated to address the entire set of organisational stakeholders.

Addressing these issues will begin to further develop the understanding of reputation's role in the CSP-FP relationship beyond what is presented here. In this era of increased stakeholder mobilization and economic globalization, a detailed understanding of the CSP-FP relationship, including the processes and contingencies, is necessary if academics are to guide practitioners in their CSP.

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