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Why Stakeholders Ignore Firm Misconduct: A Cognitive View

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This article explains inconsistency in stakeholder punishment for firm misconduct. It does so by developing a cognitive view of the process by which stakeholders allocate their limited attention. This cognitive view outlines individual and situational factors that produce variation in a stakeholder's likelihood of noticing that an act of misconduct has occurred, in how the stakeholder will assess misconduct if he or she does notice it, and in the stakeholder's decision to punish a firm if he or she judges it to have engaged in misconduct. In sum, this process suggests that as stakeholder attention varies across each step of this process, misconduct often will not result in punishment. This suggests limits on the ability to deter firm misconduct through social control.

Keywords: *business case; corporate misconduct; social cognition; social control; stakeholder theory*

Firms sometimes do bad things. Stakeholders can punish firms for doing bad things. Customers can stop purchasing firms' outputs, suppliers can stop providing inputs, employees can withhold their labor, and investors can withdraw their capital, for example. Sometimes stakeholders do this, and sometimes they do not. Why this inconsistency?

To explain inconsistency in stakeholder punishment of firm misconduct, this article develops a cognitive view of the process stakeholders undertake in attending to misconduct.

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A cognitive view recognizes that people cannot attend to all the stimuli competing for their limited attention (James, 1890/1983; Simon, 1947). Moreover, a cognitive view recognizes that factors particular to the person and the situation influence how one allocates his or her attention and responds to stimuli (Fiske & Taylor, 1991). Variation in these factors, then, produces variation in a stakeholder's likelihood of punishing any given act of misconduct. A stakeholder may fail to punish a firm because he or she does not notice that it engaged in any misconduct, whereas at other times he or she will be vigilant. Sometimes a stakeholder may notice a firm's misconduct yet give the firm the benefit of the doubt, but under other circumstances he or she will judge the firm harshly. Despite taking a harsh view of the firm and its misconduct, a stakeholder may decide that engaging in punishment is too burdensome, yet at other times he or she will allocate significant effort to punishment.

It is necessary to explain variation in how stakeholders respond to firm misconduct in order to better align the interests of business and society. Drawing from stakeholder theory (Freeman, 1984), scholars have widely advanced a "business case" that argues that stakeholder rewards and punishments condition firms to become good corporate citizens (Fombrun, Gardberg, & Barnett, 2000). However, this literature has largely assumed that stakeholders consistently police firm behavior. If stakeholders sometimes ignore misconduct, the business case may sometimes be ineffective at driving improvements in corporate social responsibility (CSR). Thus, addressing stakeholder cognition, and the inconsistency in punishment for firm misconduct it may bring, helps elicit bounds on the effectiveness of the business case.

This article next reviews the business case literature and highlights assumptions regarding stakeholder attentiveness. Thereafter, it outlines the complex process required of a stakeholder to be attentive to firm misconduct. It then develops a process model that proposes the influence of individual and situational factors on stakeholder attentiveness to misconduct. It concludes with a discussion of the implications of stakeholder cognition for macro- and microlevel research on the business case for CSR and for public policy regarding the balance of formal and informal regulation of business.

Assessing the Business Case

Myriad laws ban specific types of firm misconduct, and criminal and civil courts provide a formal means of punishing violators. However, there are many acts of misconduct[1] that, though they may impose harm on society, are not illegal or are impractical to control through legal proceedings. To fill this void, a few decades ago scholars in the burgeoning field of business and society began to study informal means by which society might control firm behavior. As Jones put it, "The notion of 'social control of business,' defined as the means by which society directs business activity to useful ends . . . is the core of the business and society field" (1982: 560).

Freeman's (1984) stakeholder approach outlined the mechanisms that make business amenable to social control. He highlighted the relationships that exist between a firm and its various stakeholders,[2] beyond just those who own shares of its stock, and argued that the strategic management of these relationships underpins firm performance. If its stakeholder relationships are weak, a firm will have difficulty attracting essential inputs and selling its outputs on favorable terms. Simply, if they are unhappy with a firm, "Customers stop buying products, shareholders sell their stock, employees withhold loyalty and best efforts" (Wood, 1991: 697), and so forth. But if these relationships are strong, the firm can gain competitive advantage (Jones, 1995). For example, firms that have developed strong stakeholder relationships through socially responsible behaviors can better attract quality employees (Turban & Greening, 1997) and may have easier access to foreign markets (Gardberg & Fombrun, 2006). Thus, the benefits to be reaped by courting stakeholder favor and the costs to be suffered by engendering their anger combine to form a profit motive—a "business case"—that logically drives firms to voluntarily seek to behave responsibly and to eschew misconduct (Burke & Logsdon, 1996; Vogel, 2005).

Scholars have widely touted the "win-win" promise of the business case for both business and society (cf. Margolis & Walsh, 2003), and firms have widely proclaimed their support of its clear logic of enlightened self-interest (Hockerts, 2007). For example, Starbucks took out a full-page advertisement in *The New York Times* to proclaim, "High ideals don't have to conflict with the bottom line. . . . When we reached out through community programs, people bought more of our coffee. Values can actually enhance value, as revolutionary as that may sound. . . . Our shareholders think so, too." Walmart, though initially hesitant to engage, in recent years has come around to an appreciation of the business case, noting on its website: "At Walmart, we know that being an efficient and profitable business and being a good steward of the environment are goals that can work together."

Despite its deep entrenchment in business and academia, however, the business case is not consistently effective at deterring misconduct. Though firms now broadly recognize the importance of maintaining favorable stakeholder relations, examples of misconduct continue, and those firms that engage in it may not always have reason to conclude that more misconduct would be detrimental to their self-interest. Consider banks. Irresponsible banking practices recently contributed to a severe downturn and near collapse of the world's economic system. Yet banks seem to have failed to "understand the huge and devastating impact they have had on the economy and society" and within a short amount of time thought it "OK to return to business as usual" (Lord Davies, U.K. Minister for Trade, Investment and Business, as quoted in Armitstead, 2009). Overall, investment bankers may have profited from the state bailout (Aldrick, 2009). Likewise, oil firms have caused great destruction yet profited greatly. Though BP recently suffered severe punishment for its oil leak in the Gulf of Mexico, other oil firms have been leaking oil for decades without punishment. "The Niger Delta . . . has endured the equivalent of the Exxon Valdez spill every year for 50 years by some estimates. The oil pours out nearly every week, and some swamps are long since lifeless" (Nossiter, 2010). Exxon Mobil and Royal Dutch Shell, whose pipes were said to have leaked (Nossiter, 2010), recently set a string of record profits. Thus, the business case may be ineffective at deterring some significant and recurring forms of misconduct.

How can examples of misconduct such as these persist in the face of widespread acceptance of the business case? By its own logic, the business case is a deterrent only to the degree that stakeholders present a credible threat of punishing those firms that engage in misconduct, thereby leading firms to conclude that misconduct would be too costly were it pursued. For example, when a firm decides to lower its costs of production through the socially irresponsible practice of exploiting child labor in its factories, if stakeholders react by boycotting, leaving the employ of the firm, terminating supply or distribution relationships, and so forth, then the firm should conclude that the use of child labor is too costly and, on the basis of self-interest alone, stop engaging in such practices. But if banks, oil firms, or others may sometimes engage in misconduct without engendering costly stakeholder punishment, then these firms may not learn to extinguish their bad behaviors.

In sum, the business case is only as effective a means of social control as those agents who underpin it—stakeholders. But how effective are stakeholders? Over the past several decades, the many studies of the business case have primarily sought to discern a correlation between corporate social and financial performance (Margolis & Walsh, 2003). They have largely failed to assess the mechanisms that might drive this relationship. The next section focuses on the critical role of stakeholders and the scope of the challenge they face in serving as agents of social control. The section thereafter proposes factors that cause variation in their likelihood of fulfilling this role.

The Complexity of Stakeholder Punishment

Stakeholders undertake a complex and cognitively demanding task when deciding to punish firms for their misconduct. To determine a punishment, a stakeholder must assess not only the characteristics of the act but also the character of the actor. As Godfrey (2005: 788) noted, firms accrue positive moral capital through philanthropy, and stakeholders account for this positive moral capital when weighing punishment:

> When bad acts occur, it is reasonable to assume that stakeholders invoke the cognitive template suggested by the mens rea doctrine to help determine appropriate sanctions. As stakeholders consider possible punishments and sanctions, positive moral capital acts as character evidence on behalf of the firm. Positive moral capital provides counterfactual evidence to mitigate assessments of a bad mind; it reduces the probability that the firm possessed the evil state of mind that justifies harsh sanctions. Positive moral capital encourages stakeholders to give the firm the benefit of the doubt regarding intentionality, knowledge, negligence, or recklessness.

Thus, when a firm engages in a bad act, the more positive moral capital it has accrued, the better it is protected from stakeholder sanction, as stakeholders account for this capital when imputing a sort of "culpability score" for the bad act (Godfrey, 2005: 788).

Barnett (2007a) argued that stakeholders account not just for a firm's past philanthropy but for its overall corporate social performance—effectively, its historical record of socially responsible and irresponsible acts—when assessing a firm's character and deciding how to respond to its acts. Wood (1991: 693), who provides the most cited definition of corporate social performance, suggests the following means for assessing it:

> Thus, to assess a company's social performance, the researcher would examine the degree to which principles of social responsibility motivate actions taken on behalf of the company, the degree to which the firm makes use of socially responsive processes, the existence and nature of policies and programs designed to manage the firm's societal relationships, and the social impacts (i.e., observable outcomes) of the firm's actions, programs, and policies. In addition, the researcher would examine all these elements—principles, processes, and outcomes—in conjunction with each other to permit identification of analytically crucial but politically

> difficult results such as good outcomes from bad motives, bad outcomes from good motives, good motives but poor translation via processes, good process use but bad motives, and so on.

This is quite a burden to place on a researcher assessing even a single firm at a single point in time and perhaps explains why corporate social performance remains a problematic measure (Margolis & Walsh, 2003). Yet, as the literature acknowledges, stakeholders bear such a burden when deciding how to punish firms for misconduct. In fact, the process stakeholders undertake in punishing firms for misconduct is even more complex than the literature has acknowledged. Before a stakeholder can assess the nature of misconduct and decide an appropriate punishment, that stakeholder must have noticed that the act occurred. That is, events first "must be bracketed from an amorphous stream of experience and be labeled as relevant before ongoing action can be focused on them" (Weick, Sutcliffe, & Obstfeld, 2005: 415).

Is it correct to assume that stakeholders can effectively bear these burdens, and so consistently police firm misconduct? In short, no, it is not. One of the foundational concepts of the modern management literature is that people have limited attention and so are boundedly rational in their decision making (Cyert & March, 1963; March & Simon, 1958; Simon, 1947). Accordingly, stakeholders have limited attention and are boundedly rational. This significantly constrains their ability to notice, assess, and thereafter punish firm misconduct.

A person can focus his or her attention on only a portion of the unbounded environment, creating a limited field of vision (Simon, 1947). Stimuli falling outside this field of vision are unlikely to be noticed (James, 1890/1983; Kahneman, 1973). When a firm engages in an act of misconduct, if a stakeholder is busy attending to other matters, that stakeholder may not notice the misconduct. If noticed, the stakeholder then faces the challenge of making sense of what he or she has noticed (Weick, 1995). For misconduct, this entails judging the act relative to the firm's history of good and bad acts (Barnett, 2007a; Godfrey, 2005) and in consideration of the processes and policies in place (Wood, 1991). It is thus not a certainty but a probability that a stakeholder will even face the decision to punish a firm for its misconduct; the act may go unnoticed, or the firm may be given the benefit of the doubt instead. Yet even if a stakeholder is faced with the decision to punish a firm for an act he or she has deemed to be misconduct, punishment still may not result. The stakeholder may choose to do nothing, not necessarily because the firm has accrued moral capital ample to offset its misconduct, but because he or she perceives that punishment requires too much effort relative to other demands on his or her limited resources.

The literature has relaxed some of its underlying assumptions of unbounded stakeholder rationality. For example, Rowley and Moldoveanu (2003: 205) stated:

> Our model builds on the work of stakeholder researchers dissatisfied with the strict behavioral assumptions underlying economic models of managerial and firm behaviors (Donaldson & Preston, 1995; Jones, 1995; Jones & Wicks, 1999): actors are assumed to have stable preferences based on utility maximization, which guide their behavior.

Instead, they introduced identity as a driver of stakeholder action. But this and other studies still assumed that stakeholders are alert to misconduct and unconstrained in their ability to assess it and take action, whether they decide to act on the basis of economic utility, identity, or something else. The next section relaxes this assumption. Instead, it offers a model of the process required of cognitively constrained stakeholders to attend to misconduct and develops a series of propositions that outline individual and situational influences on each stage of this process.

A Cognitive View of Stakeholder Punishment

Before outlining the process involved in stakeholder punishment of firm misconduct, it is important to first define both stakeholders and misconduct. Given the broad and subjective nature of the term, defining stakeholders tends to be more a matter of clarifying who is not rather than who is. The generally accepted definition, offered by Freeman, is "any group or individual who can affect or is affected by the achievement of the firm's objectives" (1984: 25). Goodpastor (1991) pointed out that the distinction between "can affect" and "affected by" serves as a way of parsing stakeholders into two categories: strategic and moral. The first category is particularly germane to this article, as the focal concern is the stakeholder's decision to punish a firm. Thus, stakeholders herein are confined to strategic stakeholders. Purely moral stakeholders, lacking the ability to affect the firm, are excluded.

For similar reasons, the media are also excluded. The media are intermediaries that do not directly control resource flows to and from firms, as do stakeholders, but instead affect how resource-wielding stakeholders perceive firms (Carroll & Hannan, 2000; Yu, Sengul, & Lester, 2008). This distinction between stakeholders and intermediaries is similar to that between primary and secondary stakeholders (Carroll, 1979). For example, Clarkson defines secondary stakeholders as "those who influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival" (1995: 107). Thus, given their indirect influence on the firm, the media and other intermediaries or secondary stakeholders are excluded,[3] though their influence on stakeholders will be considered.

This article further narrows Freeman's (1984) definition by focusing on individuals. Several studies have explored group decisions to act. For example, Hendry (2006) investigated when nongovernmental organizations (NGOs), defined as stakeholders, choose to target firms. Membership within a group, such as an NGO, shapes identity and influences focus of attention, as later discussed, but members' perspectives are broader than those of the groups to which they belong. One member of a group may closely attend to a particular act of misconduct that another may completely ignore. Defining stakeholders at the group level masks this individual variation, and so herein, a stakeholder is taken to be an individual, though group-level influences on individual stakeholders will be discussed.

In sum, the definition of stakeholder used herein—*those individuals who can directly affect the achievement of a firm's objectives*—is at the finer grained level of the individual, not consolidated at the group level, and excludes intermediaries. Moreover, it is not limited to individuals of certain types, such as only consumers (e.g., Schuler & Cording, 2006), since limited cognitive capacity is common to all individuals (Miller, 1956). Thus, despite excluding aspects of Freeman's (1984) definition, this definition of stakeholder is broader than that used in much of the literature because it encompasses (individual strategic) stakeholders regardless of group, whether passive consumer or active investor, for example.

Misconduct is yet harder to define. Though statutes define legality, lawyers make careers of arguing what constitutes illegal behavior. What constitutes unethical or socially irresponsible behavior is all the more debatable. Based on an extensive review, Greve, Palmer, and Pozner argue that there is no objective definition of misconduct; rather, those who have the power to impose sanctions on a firm determine what constitutes misconduct: "We define organizational misconduct as behavior in or by an organization that a social-control agent judges to transgress a line separating right from wrong; where such a line can separate legal, ethical, and socially responsible behavior from their antitheses" (2010: 56).

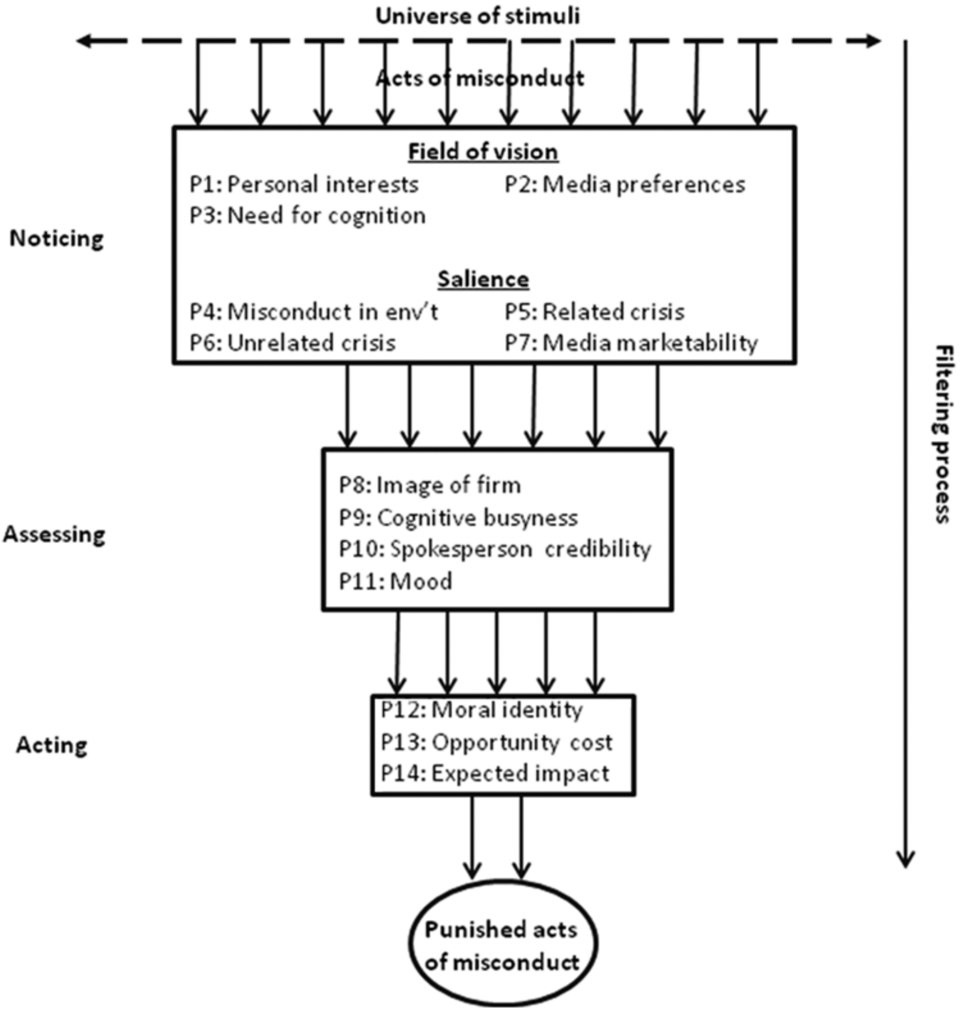
For the purposes of this article, and consistent with Greve et al. (2010), we need not wade into the murky waters of declaring that any given act is, by some objective standard, misconduct. Rather, we need only to assume that, under some set of conditions, a stakeholder *would* notice the act, judge it to be misconduct, and act to punish it. The model developed in this article then assesses the likelihood that this stakeholder *will* do these things as individual and situational factors vary. Thus, we define misconduct here to mean *any publicly disclosed firm action that, under some set of conditions, a stakeholder would deem illegal, unethical, or socially irresponsible and take action to punish*.[4]

Having established the definitions that bound it, Figure 1 illustrates the process by which stakeholders come to punish misconduct. The process is composed of the three stages previously mentioned—noticing, assessing, and acting—with each stage arranged consecutively.[5] As illustrated at the top of Figure 1, it is assumed that among the unbounded environmental stimuli there exists some set of acts of misconduct. The smaller subset at the bottom of the figure denotes that a stakeholder will punish only a portion of these acts. Many instead will be filtered out at the intervening stages along the way.

The primary nature of this filtering process varies across each stage. In the initial noticing stage, it entails recognition, as the stakeholder must discern misconduct amid the broader cacophony of environmental stimuli (Kiesler & Sproull, 1982). In the ensuing assessment stage, the primary cognitive task entails retrospection. To make sense of noticed stimuli, stakeholders compare against preexisting mental maps (Weick, 1995), and to judge the act, stakeholders recall and take into account the firm's history (Barnett, 2007a; Godfrey, 2005; Wood, 1991). In the final stage, calculation comes more to the fore. Here, the stakeholder, having noticed and assessed the misconduct, makes an intendedly rational decision whether or not to allocate his or her limited resources to punishing it. Of course, stakeholders combine elements of recognition, retrospection, and calculation within each stage. For example, a cost–benefit calculation to punish may be swayed by recall of past related situations. As well, recognition may involve calculated decisions about where to allocate one's search efforts.

Figure 1 lists, by stage, individual and situational factors that are proposed to influence the likelihood that a stakeholder will engage in each of these tasks. Individual factors are characteristics particular to a stakeholder, and situational factors are characteristics particular to the context in which the misconduct occurs. As these factors vary, what a stakeholder is likely to attend to and how a stakeholder is likely to behave vary. We next develop the propositions listed in Figure 1, stage by stage.

Figure 1
A Cognitive Process of Stakeholder Punishment for Firm Misconduct



Noticing: The Stakeholder as Selective Observer

Despite its inherent attention-attracting qualities, misconduct can be overlooked. Stakeholders have overlooked even major acts of misconduct (Hoffman, 1997; Hoffman & Ocasio, 2001). Misconduct may fall outside of a stakeholder's limited field of vision or prove indistinctive from the surrounding stimuli and so fail to be noticed (Kiesler & Sproull, 1982; Starbuck & Milliken, 1988). This section first explains how individual characteristics influence the likelihood that a stakeholder's field of vision will encompass areas of the environment where misconduct is likely to be present and, thereafter, how situational factors affect the likelihood that any misconduct that is present will be salient.

Field of vision. Lacking omniscience, we are forced to limit the scope of the unbounded world to which we attend. Much falls outside one's field of vision. So to which limited portion do we pay attention? Often, we look to others for guidance. People are likely to attend to something when directed to do so (Taylor & Fiske, 1975). For example, if someone shouts, "Hey, look over there!" you probably will.

Things that direct our attent need not be surprising or fleeting, though. Organizations formally and informally direct the limited attention of their members through concrete and contextual structures that channel attention to those areas of the environment that support organizational goals (Ocasio, 1997). Thus, if a stakeholder is a member of an organization that seeks to address misconduct, such as a regulatory body or an NGO, then that stakeholder is more likely to be attentive to such misconduct. The more a stakeholder identifies with the organization's goals, the more attentive to such misconduct the stakeholder is likely to be (cf. Rowley & Moldoveanu, 2003). For those in its employ, organizations can formally direct their fields of vision for substantial periods of time through work duties that entail scanning particular areas of the environment.

More generally, through both intentional and unconscious processes, people seek to use their limited attention to maximum benefit by selectively attending to those things that most fit with their goals and consequently ignoring those things that do not (Fiske & Taylor, 1991). Unsurprisingly, for example, people are more likely to direct their attention to others upon whom their success depends, such as their superiors in the workplace (Porter & Roberts, 1976), crowding out attention to those of lesser instrumental value (Berscheid, Graziano, Monson, & Dermer, 1976). Likewise, rivals pay closer attention to each other than to nonrivals (Ruscher & Fiske, 1990). Accordingly, if one's personal or professional interests are likely to be furthered by uncovering particular acts of misconduct, then one is more likely to look for them.

A stakeholder's self-interest need not be conceptualized merely as the opportunity for personal and professional gain, however. It can include protecting oneself and one's community from harm. For example, a stakeholder who lives beside an oil pipeline is more likely to notice that the pipe is leaking oil than is a stakeholder who lives in another country (cf. Nossiter, 2010). In fact, since risk of loss tends to be more salient than opportunity for gain (Tversky & Kahneman, 1974), a stakeholder may be more likely to notice misconduct that threatens his or her self-interest, to include the interests of others he or she wishes to safeguard, than misconduct that might advance these interests. This leads to the following proposition[6]:

Proposition 1: The likelihood that a stakeholder will notice a particular act of firm misconduct varies with his or her personal interests.

Proposition 1 does not imply that stakeholders will ignore all misconduct that does not promise to help or threaten to hinder their interests. In fact, studies have demonstrated that people sometimes behave in self-sacrificial ways (e.g., Fiske, 1991; Kahneman, Knetsch & Thaler, 1986; Turillo, Folger, Lavelle, Emphress, & Gee, 2002). Nonetheless, even self-sacrificial stakeholders have limited fields of vision and so can notice only a portion of the environment wherein those events that they might deem to warrant their sacrifices occur. Proposition 1 argues that the likelihood of a stakeholder's limited field of vision encompassing an act that may draw him or her to action, whether that action is then self-sacrificial, self-interested, or some combination thereof, increases with his or her stake in attending to that portion of the environment that contains it. For example, though a stakeholder may be willing to punish any firm that pollutes a river, even if such actions require self-sacrifice, all else equal, that stakeholder is more likely to notice river pollution occurring in his or her community than that occurring outside of it.

Simply, as one's personal interests change, due to a change in location or employment, for example, one's field of vision changes. But regardless of one's personal interests, or tendencies toward self-sacrifice, most stakeholders do not actively police most firms most of the time. It is impossible for a stakeholder to directly observe all firm actions at all points in time, even were all firms completely transparent. Except for those issues in which they have particularly strong self-interest (or strong desire for self-sacrifice) and are able and willing to take on the burdensome duties of directly monitoring firm activities, most stakeholders become aware of most firm actions through an intermediary, typically the media (Deephouse, 2000).

The media make it easier for stakeholders to notice a firm's activities without having to directly monitor the firm, but the media cannot resolve the problem of stakeholder limited field of vision. There are numerous media outlets pushing numerous stories from myriad perspectives, all vying for an audience. A stakeholder cannot attend to all media. So which media outlets are likely to fall within a stakeholder's field of vision?

People tend to seek out information that confirms their prior beliefs and to ignore disconfirming information (Wason, 1960). This confirmation bias influences which media outlets are likely to fall within a stakeholder's field of vision. Media outlets vary, for example, in their political leanings (Groseclose & Milyo, 2005), and people prefer those media outlets that match their own political leanings (Mullainathan & Shleifer, 2005). Those with conservative political leanings often attend to different news sources than do those with liberal political leanings (Bernhardt, Krasa, & Polborn, 2008; Virag, 2008). For example, former U.S. Vice President Dick Cheney, a political conservative, required that televisions in his hotel rooms be preset to Fox News, a media source with conservative political leanings (Groseclose & Milyo, 2005).

The news stories that one is likely to be exposed to vary with the media outlets to which one attends, as differing media outlets feature differing stories. Coverage choices have been shown to vary, for example, with the political leanings of the media outlet (Baron, 2006; Patterson & Donsbach, 1996). Of particular relevance, Benediktsson (2010) found that the political ideology of newspapers significantly influenced their coverage of corporate scandals. Those with conservative political leanings, as evidenced by their political endorsements, were much less likely to cover incidents of high-profile accounting scandals than were those with liberal political leanings. Corporate ownership can also influence scandal reporting. Studies suggest that media owned by large corporations are prone to less negative coverage of business activity (Bagdikian, 2000). Overall, studies have uncovered a variety of persistent biases in media reporting about firm behavior and beyond (Baron, 2006).

Given the presence of more and more media outlets, the likelihood that any given act of misconduct will be covered by a media source has likely increased. Yet, despite increased access to information in general, the likelihood that any given stakeholder will encounter information that challenges his or her beliefs may have decreased. Stakeholders now have access to so much belief-consistent information that media sources offering contrary evidence have difficulty crowding into a stakeholder's limited field of vision (Sunstein, 2001). With more media outlets customizing their content to compete for a niche in a crowded space, audience polarization and selective exposure to information continues to increase (Bernhardt et al., 2008; Virag, 2008). Thus, the following relationship is expected:

Proposition 2: The likelihood that a stakeholder will notice a particular act of firm misconduct varies with the media sources he or she favors.

Stakeholders vary not only in where they tend to look for news but also in *whether* they tend to look for news. Increased media choices have brought increased access to entertainment as well as to news (Prior, 2005). Whether one seeks out news or entertainment depends upon one's motivations (Rubin, 1981). The personality trait "need for cognition" captures one's motivational tendency toward engaging in effortful cognitive endeavors such as information gathering (Cacioppo & Petty, 1982). People who are high in need for cognition are more likely to take on the burden of searching media sources for information and search more broadly than are people who are low in need for cognition (Cacioppo, Petty, Feinstein, & Jarvis, 1996). Those high in need for cognition also rely more on newspapers and magazines than on television for news (Ferguson, Chung, & Weigold, 1985), but when watching local television news, they favor news items over sports or entertainment, in contrast to those who are low in need for cognition (Perse, 1992). The following is thus expected:

Proposition 3: The likelihood that a stakeholder will notice a particular act of firm misconduct varies with his or her need for cognition.

In sum, the limited portion of the unlimited environment to which a stakeholder attends will vary as his or her personal interests change (Proposition 1), as he or she looks to differing outlets for news (Proposition 2), and as he or she becomes more or less interested in attending to news at all (Proposition 3). As these factors vary, the likelihood that any particular act of misconduct will fall within that stakeholder's field of vision varies. If misconduct falls within a stakeholder's field of vision, however, it still may go unnoticed. People selectively perceive only a subset of the stimuli that fall within their fields of vision (Hambrick & Mason, 1984). The next propositions address influences on the saliency of misconduct.

Salience. Confronted with unbounded stimuli, people act as "cognitive misers" (Taylor, 1981) who tune out common and expected stimuli while conserving their attention for stimuli that differ from expectations (Kiesler & Sproull, 1982). Even misconduct can fade into the background if commonplace. For example, bribery is more common yet less likely to attract attention in countries that are high in corruption (Lee, Oh, & Eden, 2010; Mauro, 1998).

As the severity of misconduct to which a stakeholder has become accustomed increases, the stakeholder's sensitivity to misconduct should decrease. One's ability to detect contrasting stimuli depends upon the base rate of the stimuli; the higher is the base rate, the greater must be the change to be detectible (i.e., Weber-Fechner's law; see Luce & Galanter, 1963). Thus, a stakeholder situated in a country, community, or corporation where corruption is rampant might be well aware that corruption exists but fail to register any particular minor breach. Therefore:

Proposition 4: The likelihood that a stakeholder will notice a particular act of firm misconduct varies with the overall level of misconduct in his or her surroundings.

If an act of misconduct does manage to cross a stakeholder's perceptual threshold, it can cast a wide attentional net. Lacking the cognitive capacity to independently assess all actions, people place actors into broad categories and assume similarity of attributes within these categories (Bruner, 1957). This conserves attention but produces stereotyping (Allport, 1954).

When applied to firm misconduct, King, Lenox, and Barnett (2002) termed this a "reputation commons problem." Unable to observe all the practices of all firms, people presume that similar firms behave similarly. As a result, when a firm engages in misconduct, its entire industry may be "tarred by the same brush" (Barnett, 2007b; Yu et al., 2008). With suspicions raised, stakeholders direct their attention toward the entire industry, and so any new acts of misconduct therein become highly salient. Barnett and King (2008) found this to hold in the chemical industry, for example, where in the aftermath of Union Carbide's disaster in Bhopal, India, a sort of "chemophobia" (Gunningham, 1995: 72) arose in which stakeholders attended more closely to reports of chemical spills that might have received very limited attention previously. Similar patterns of heightened salience of previously ignored practices following crises can be seen in response to nuclear disasters, accounting scandals, and financial institution bankruptcies, for example. Thus, the following relationship is expected:

Proposition 5: The likelihood that a stakeholder will notice a particular act of firm misconduct varies with the recency of a crisis in the same or related industry as that of the misconduct.

Though one firm's misconduct can bring unwelcome attention to the previously overlooked misconduct of similar firms, it may benefit dissimilar firms. If a stakeholder's limited attention is directed toward the activity of one group, that attention is unavailable to focus elsewhere (Kahneman, 1973). As a result, a firm may benefit from a crisis in an unrelated area because stakeholder attention is less available to notice its misconduct.

In the media, where stakeholders tend to garner news of misconduct, there is evidence of the crowding out of rather significant events when more newsworthy events coincide. Eisensee and Stromberg (2007) found that media coverage of the Olympic Games could crowd out coverage of deadly natural disasters. Given limited capacity, even events as extreme as terrorism go uncovered at times (Delli Carpini & Williams, 1987: 60). Thus, the following is expected:

Proposition 6: The likelihood that a stakeholder will notice a particular act of firm misconduct varies with the recency of a crisis that is unrelated to the misconduct.

However, even on a slow news day, some acts of misconduct can receive scant media coverage. The media choose which misconduct to cover not only by comparison to other events that might be covered but also based on the circumstances in which the misconduct occurs. As a result, though two acts of misconduct might be of similar magnitude and cause similar amounts of social, environmental, and economic harm, they may receive different amounts and intensity of media coverage.

King and Baerwald (1998) argue that there are three biases in the type of misconduct that the media choose to cover. The media are more likely to pursue the misconduct of celebrity firms, to overlook misconduct without a clear cause or culprit, and to cover events with a "villain" and straightforward plot. Thus, stakeholder attention is channeled toward stories "with a villain, a hero, and exciting action sequences" and away from stories that are "difficult to measure, difficult to link to a single action, and difficult to communicate" (King & Baerwald, 1998: 310-11). Rindova, Pollock, and Hayward (2006) similarly argue that the media focus their attention on those firm events that can be dramatized and made entertaining to the reader (Bryant & Miron, 2002) and in the process create celebrity firms that draw increased public attention. This suggests the following:

Proposition 7: The likelihood that a stakeholder will notice a particular act of firm misconduct varies with the media's perceived marketability of the circumstances in which it occurs.

In sum, any given act of misconduct can lose salience amid a backdrop of corruption (Proposition 4), yet a recent crisis in a particular area can shine a harsh light on similar types of misconduct (Proposition 5) while drawing the spotlight away from other types of misconduct (Proposition 6). Furthermore, the firm in which it occurs and the stories that can be told about it affect whether misconduct will be highlighted by the media (Proposition 7).

As illustrated in Figure 1, when misconduct does make its way into a stakeholder's field of vision and is salient, the stakeholder next faces the task of assessing it. For example, if a stakeholder notices that a firm has closed its call center in Kansas and outsourced its customer service function to a firm in India, that stakeholder could interpret this as a sensible response to an economic downturn or as an indicator of the firm's lack of concern for its employees. Or, if a stakeholder notices that a firm has suffered a chemical spill that led to an evacuation of the neighborhood surrounding one of its facilities, that stakeholder could interpret this as a minor and well-managed consequence of a complex production process or as a symptom of the firm's underlying disregard for public safety. The next four propositions identify causes of variation in how a stakeholder assesses the misconduct he or she has noticed.

Assessing: The Stakeholder as Biased Judge

People tend to interpret the stimuli that they notice in ways that confirm their prior beliefs (Einhorn & Hogarth, 1986; Fazio & Williams, 1986; Pettigrew, 1979). This confirmation bias creates stickiness and path dependence in a stakeholder's assessment of misconduct; how one assesses it depends upon what one already thinks of the firm. Some scholars have addressed this when theorizing about how stakeholders infer firms' social actions. Barnett (2007a) argued that stakeholders view a firm's actions relative to its history. A firm with a good reputation can improve its stakeholder relations through CSR because its stakeholders believe the act to be genuine, but a firm with a poor reputation may be unable to obtain the same benefits from the same act of CSR because its stakeholders discount or disbelieve the action. Barnett and Salomon (in press) found empirical support that, indeed, firms with different histories of social performance earn different financial returns from CSR. Fombrun et al. (2000) and Godfrey (2005) argued that because of their different histories, firms vary not only in the financial returns they might accrue from CSR but also in the harm they might suffer from misconduct. Fombrun et al. (2000) theorized that by engaging in corporate citizenship activities, firms build reputational capital that improves stakeholder relations in good times and buffers them from stakeholder attacks during crises. Godfrey (2005) framed reputational capital as chits that accrue to a firm from its good deeds and that are cashed in to offset damage during crises. That is, stakeholders interpret misconduct relative to the goodwill the firm has built up and, as Godfrey, Merrill, and Hansen (2009) found empirical support for, this can create a sort of insurance that provides firms that have more socially favorable histories with more protection from stakeholder punishment.

Though this burgeoning literature demonstrates that, indeed, history matters in matters of misconduct, the argument is made at too high a level to adequately explain the influence of the confirmation bias on variation in stakeholder assessment of misconduct. Though a firm may accrue a favorable reputation overall, individual stakeholders may hold negative views of the firm, and vice versa. Thus, to explain how a firm's history affects how a stakeholder makes sense of its misconduct, the firm's overall reputation must be parsed into the views held by individual stakeholders. In parsing the reputation construct, Barnett, Jermier, and Lafferty (2006) term the view of a firm held by a particular stakeholder as "image." As with overall reputation, a stakeholder's image of a firm is based on the firm's history, and so the more favorable this record, the more favorable should be the stakeholder's image of the firm, and vice versa. However, as a stakeholder attends to different aspects of a firm over time, his or her image of the firm will vary. As a result, stakeholders vary in the image of a firm they seek to confirm as they assess an act of misconduct.

Proposition 8: A stakeholder's assessment of a particular act of firm misconduct varies with his or her image of the firm in which it occurs.

Misconduct is itself multidimensional and varying in description as it unfolds over time. As with the firm's activities in general, stakeholders will selectively attend to different aspects of this unfolding process (cf. Olson & Zanna, 1979), causing variation in interpretation. If a firm outsources its call center, a stakeholder may focus on the jobs lost by current employees or on the jobs saved by keeping the firm viable—the gains to shareholders or the jobs created in India. If a firm suffers a chemical spill, a stakeholder may focus on the disruption to the community or on the fact that no one was seriously injured. Stakeholders may also attend to or ignore the process involved; did the firm give timely notice, provide severance pay, or apologize to those affected? As details of an event unfold, depending upon which aspects he or she attends to, a stakeholder may conclude that an act is a minor error or a major catastrophe.

Cognitive busyness affects how one attends to unfolding events (Gilbert, Pelham, & Krull, 1988) and so is likely to shape interpretation of misconduct. People tend to quickly and automatically form an initial impression, which they may later correct through more effortful analysis as new information arises (Quattrone, 1982). However, the initial impression is sticky. When making sense of uncertain situations, information first encountered can create an anchor point from which one makes incremental adjustments as new information arises (Tversky & Kahneman, 1974). Cognitive busyness decreases the likelihood that one will allocate effort to correcting this initial anchor point, and so initial impressions weigh heavily (Gilbert et al., 1988).

As previously noted, misconduct must stand out against a noisy background of other stimuli competing for stakeholder attention and media space if it is to be noticed. Thus, acts of misconduct that capture attention and so become subject to interpretation are likely to appear initially in relatively negative ways (Kiesler & Sproull, 1982). However, follow-up reports can correct the initial story or add context that explains or mitigates the initial negative impression. For example, Thevenot (2005) described how gruesome stories of gunfights, murders, and rapes filled the media in the aftermath of Hurricane Katrina but were later recanted. Further, firms are likely to pursue a communications strategy to deny or deflect blame or explain contextual factors that lessen the perceived severity of the misconduct (Benoit, 1997). As firms attempt to engage in "sensegiving" (Gioia & Chittipeddi, 1991), people who are occupied with other mental tasks—those who are cognitively busy—are less likely to attend to these additional details and correct their initial impressions (Gilbert et al., 1988).[7] Thus:

Proposition 9: A stakeholder's assessment of a particular act of firm misconduct varies with his or her cognitive busyness.

Should a stakeholder attend to a firm's efforts at sensegiving in the aftermath of misconduct, his or her interpretation of the event may be influenced by the communicator. Some communicators are more credible than others, and so their arguments are more persuasive (Eagly, Chaiken, & Wood, 1981). For example, the former CEO of BP, Tony Hayward, was widely perceived to lack credibility with American audiences and so was not effective at mitigating negative perceptions of the severity of the BP oil spill in the Gulf of Mexico. Studies have uncovered a variety of factors that shape perceived credibility, such as the attractiveness of the communicator (Eagly & Chaiken, 1975), the similarity between the communicator and the message recipient (Goethals, 1976), and the perceived self-interest of the communicator (Eagly et al., 1981). The following is thus expected:

Proposition 10: A stakeholder's assessment of a particular act of firm misconduct varies with his or her perception of the credibility of the focal firm's spokesperson.

Finally, permeating all aspects of sensemaking and assessment is mood (Mayer, 1986). Those who are in a good mood prefer to maintain this state and so attend to and interpret information in a way that prolongs the good mood (Isen, 1987). People in a good mood are more likely to recall positive events from memory (Teasdale & Russell, 1983). When making sense of a firm's potential act of misconduct, a stakeholder in a good mood is thus more likely to recall a favorable image of the firm and so less likely to interpret it as misconduct, as contrasted with a stakeholder in a bad mood. People in a good mood also tend to be more considerate of contextual information in decision making (Estrada, Isen, & Young, 1997) and more likely to respond positively to corporate communications (Milberg & Clark, 1988). As a result, they may take mitigating factors into account when assessing potential misconduct. Thus, the following is expected:

Proposition 11: A stakeholder's assessment of a particular act of misconduct varies with his or her mood.

In sum, the image a stakeholder holds of a firm shapes what he or she expects of the firm and so determines the frame applied to make sense of the new information (Proposition 8), and cognitive busyness affects the stakeholder's willingness to attend to additional information that might alter his or her framing (Proposition 9). Further, the success of a firm in altering a stakeholder's perceptions of an act of misconduct depend upon his or her perception of the credibility of the firm's spokesperson (Proposition 10) and his or her mood (Proposition 11).

Acting: The Stakeholder as Inconsistent Punisher

A stakeholder may remain relatively passive, though cognitively engaged, while noticing and assessing a firm's actions. Punishing a firm, however, can require significant action. As a result, though people may recognize the right thing to do, sometimes they do not take on the burden of doing the right thing (Weber & Gillespie, 1998). This section outlines factors that cause variation in stakeholder ability and willingness to punish a firm for its misconduct.

People vary in their sense of obligation and commitment to taking action to ensure moral outcomes (Eisenberg, 1986; Rest, Narvaez, Bebeau, & Thoma,1999). This variation in what may be termed moral motivation helps explain the loose link between cognition and action when faced with ethical dilemmas (Trevino, Weaver, & Reynolds, 2006). Some describe moral motivation as an unconscious urge or need to act to uphold one's moral standards (Blasi, 2005; Oliner & Oliner, 1988), and others describe it as the result of a deliberative process of moral reasoning (Rest, 1979). The stronger is one's moral motivation, the more one feels emotional discomfort for failing to act (Blasi, 1999). To avoid this discomfort, those with strong moral motivation are driven to take action to resolve ethical dilemmas despite the personal cost.

Whether realized through unconscious or deliberative processing, moral motivation may stem from one's moral identity. Moral identity is "a self-conception organized around a set of moral traits" (Aquino & Reed, 2002: 1424). People vary in the strength and centrality of morality in their self-conceptualizations (Blasi, 1984). People with strong and central moral identities are committed "to lines of action that promote or protect the welfare of others" (Hart, Atkins, & Ford, 1998: 515). But one's moral identity is not fixed. Over time, through exposure to differing life experiences, one's moral maturity (Rest, 1979) and the content of one's moral identity may change (Hart et al., 1998). Further, the centrality of moral identity to one's overall sense of self can vary across contexts (Forehand, Deshpande, & Reed, 2002). Accordingly, a stakeholder's drive to punish a particular act of misconduct will vary with his or her moral identity.

Proposition 12: The likelihood that a stakeholder will act to punish a firm for a particular act of misconduct varies with his or her moral identity.

At any point in time a stakeholder may be aware of a range of acts of misconduct as well as a range of other stimuli that he or she might be motivated to act upon. All stakeholders, even those with the strongest of moral identities, face limits on their abilities to pursue punishment of misconduct. How does a stakeholder ration his or her resources across a set of acts of misconduct that he or she may be motivated to punish, in light of other demands on these resources as well?

Though they may not explicitly calculate it, people may be considered to undertake a sort of cost–reward analysis when deciding which activities to undertake (Dovidio, 1995). That is, people are motivated to minimize costs[8] and maximize rewards (Piliavin, Dovidio, Gaertner, & Clark, 1981), though these costs and rewards may be subjective. Dovidio, Piliavin, Gaertner, Schroeder, and Clark (1991) found, for example, that situations that decreased the net costs of taking action increased prosocial behavior. In a similar vein, but with a less optimistic twist, Vogel (2005) found that the presence of any significant cost could deter action from the vast majority of consumers. After reviewing surveys across multiple countries wherein the majority of respondents reported a willingness to alter purchase behaviors in response to firms' social and environmental actions, yet only a small minority did so (Capron & Quairel-Lanoizelee, 2004; O'Rourke, 2004), Vogel (2005: 49) concluded that customers typically are not willing to bear much of a burden to pursue their ethical concerns:

> Consumers will only buy a greener product [if] it doesn't cost more, comes from a brand they know and trust, can be purchased at stores where they already shop, doesn't require a significant change in habits to use, and has at least the same level of quality, performance, and endurance as the less-green alternative.

Because personal convenience appears to trump ethical concerns in many purchase decisions, some go so far as to describe the ethical consumer as a myth (Carrigan & Attala, 2001; Devinney, Auger, & Eckhardt, 2010). Though it is overreaching to dismiss the ethical consumer as fantasy—certainly some and perhaps many exist (for a review, see Newholm & Shaw, 2007)—it is clear that the willingness of consumers and other stakeholders to take action in concert with their moral identity can be dampened by the burden of doing so.

The action-dampening burden of punishing any particular act of misconduct varies with the stakeholder. A stakeholder wishing to punish BP for its oil spill by boycotting BP gasoline could take action relatively easily if a rival supplier is located nearby, for example. However, a stakeholder located in an area where BP is the only supplier may find it too burdensome to drive to another town to purchase gasoline or to stop driving and so may decide to not punish BP. Likewise, an investor searching for a franchise could punish BP relatively easily by purchasing a different franchise, while a current BP franchisee would face a more significant burden to break an existing contract and reorganize to operate a different franchise.

Moreover, this burden is not an absolute cost but varies with the possible alternative uses of a particular stakeholder's limited resources. A busy senior executive may willingly punish BP by purchasing gasoline from a rival supplier even if it costs several cents more per gallon. However, he or she may feel that driving 10 minutes out of the way to punish BP is a poor use of limited time. A retired senior citizen, by contrast, may be unwilling to punish a firm by financial expenditure but willing to punish by time expenditure. This notion of opportunity cost shaping one's actions is validated by many studies that have found that people's tendencies to engage in a variety of prosocial behaviors, such as volunteering in the community (Schneider, 1975; Strober & Weinberg, 1980) and giving blood (Oborne & Bradley, 1975), are moderated by their level of income and available time (Unger, 1991). It is thus expected:

Proposition 13: The likelihood that a stakeholder will act to punish a firm for a particular act of misconduct varies with his or her perceived opportunity cost.

Though cost can deter action, reward can motivate it. The reward to a stakeholder from undertaking the burden of punishing a firm is that he or she effects some desired change in the target firm. An activist investor may, for example, initiate a proxy fight in hopes of garnering change in a firm's governance practices, or a citizen may attempt to mobilize his or her community in hopes of closing a polluting plant. But the stakeholder cannot be certain his or her punishment will have any effect on the target firm. As the uncertainty of effecting change rises, the stakeholder's likelihood of action is dampened. Lacking belief that their actions will be noticed, some stakeholders will not punish firms for even the most egregious acts of misconduct. This logic is implicit, for example, in the strategic location of industrial plants. Plants tend to be located such that those neighborhoods least inclined to act on their concerns suffer a disproportionate share of industrial pollution (Brooks & Sethi, 1997).

Faced with uncertainty about which issues to pursue, "people gravitate toward issues more easily when they perceive the issues as having a high probability of resolution" (Dutton & Webster, 1988: 671). Accordingly, though some are willing to serve as "gadflys" with no realistic hope of success (Ross, 1983), a stakeholder is more likely to expend his or her limited resources in those pursuits that promise success than in those that he or she believes will fail. Some people have a stronger generalized belief than others that their actions will produce change in the world, measured through traits such as locus of control (Rotter, 1966) and sense of self-efficacy (Bandura, 1986). As well, some people are more confident than others that misconduct begets fair punishment, measured as one's belief in a just world (Rubin & Peplau, 1973). These traits have been positively associated with one's willingness to engage in prosocial behavior (Ball, Trevino, & Sims, 1994; Spector, 1982) and to take on burdensome and risky punishments such as whistle-blowing (Dozier & Miceli, 1985). All else equal, the stronger are such personality traits, the more likely is a stakeholder to act.

Whatever one's set of personality traits, however, the presence of others can affect one's likelihood of taking action to punish a firm. A firm may easily ignore the demands of an individual protestor or a single customer's boycott. But as a protest or boycott grows in size, the target firm becomes increasingly likely to respond. Recognizing the strength in numbers, and the potential futility of solo action, a stakeholder should thus be more likely to act alongside others than to stand alone. Simply, the likelihood of successful influence on the target firm—and so reward ensuing from action—grows with the size of the group taking action. As well, the cost to the individual decreases once a movement infrastructure is in place.

Once success is perceived as likely though, what would stop all stakeholders from piling onto the rolling bandwagon? Interestingly, the expectation of reward provides a theoretical braking mechanism as well. As a group targeting a firm grows in size, the likelihood of success increases, thus increasing any given stakeholder's motivation to act. But as success appears certain, the marginal difference that any given stakeholder could expect to make by participating approaches zero. A well-established literature on the bystander effect supports this notion by demonstrating that large groups deter individual action (Latane & Darley, 1968). Instead, individuals tend to remain passive as they presume that others will resolve the problem, no matter how drastic the scenario. This then suggests a curvilinear relationship between the size of a movement and individual willingness to contribute: as group size increases, the likelihood of success increases but the marginal contribution of any individual decreases. More generally:

Proposition 14: The likelihood that a stakeholder will act to punish a firm for a particular act of misconduct varies with the impact he or she expects to have on the firm.

Discussion

By consistently rewarding firms for good acts and, conversely, punishing them for bad acts, stakeholders can push firms toward greater social responsibility (and so lesser misconduct). But do stakeholders have the ability to do so? After considering the underlying cognitive processes, the picture that emerges is one not of consistent stakeholder action and resulting widespread social control. Rather, stakeholders' attention is directed in certain ways that bound where they look, limit what they notice, bias their assessment, and constrain their willingness to act. As a result, firms' bad behaviors may not be consistently extinguished through social control. Thus, firms may continue to "supply" bad behavior because the market does not effectively signal its "demand" for good behavior (cf. McWilliams & Siegel, 2001). Stated differently, there appear to be failures in what Vogel (2005) characterized as "the market for virtue" due to stakeholders' limited ability to patrol, perceive, and punish firm misconduct.

Cognitive constraints do not simply leave stakeholders unable to see past firms' "smokescreens" or "greenwashing" efforts (Howard, Nash, & Ehrenfeld, 2000), as is often the focus of management studies on firm misconduct. Even in the presence of perfect and costless information about all aspects of firm performance, cognitive constraints pose a problem. In fact, with more information comes more problems. As firms increase transparency, stakeholders have no greater prospects for processing this flood of information. Apart from those stakeholders whose livelihoods and identities depend upon their relationships, or antagonisms, with specific firms, more information may not lead to more stakeholder action. Perversely, as more information abounds, the likelihood that any given stakeholder will notice any particular act of misconduct decreases.

As more and more information is disclosed about firm practices and consequences, the uncertainty stakeholders face in deciding what to attend to has only increased. Regarding stakeholder decisions about supporting “green businesses,” for example, Williams (2008) describes the problem of “green noise” whereby a torrent of information by myriad agencies serves only to confuse well-intentioned activists who want to make purchases that further a green agenda. Some blame this information overload for survey results that indicate a substantial decline from 2006 to 2007 in the number of consumers who intended to buy green products (Williams, 2008). Thus, attentional constraints appear to be increasingly at play in consumer behavior and stakeholder action in general.

In light of information overload, attentiveness may be a better way to classify stakeholders. Scholars have long debated which stakeholders “really count” for firms (Mitchell, Agle, & Wood, 1997). Rather than continuing to refine stakeholder classification systems based upon stakeholders’ “salience to managers of the firm” (Mitchell et al., 1997: 853), we should consider the salience of the firm to stakeholders. If a stakeholder is not observing a firm’s actions or is otherwise occupied and so does not have the desire or ability to respond, then even if powerful and legitimate, the stakeholder has no instrumental relevance to the firm (though ethics may dictate otherwise). Whether primary or secondary, legitimate or illegitimate, powerful or weak, a stakeholder is constrained by limited attention. It is important for firms, themselves with limited resources, to make distinctions regarding the relative importance of stakeholders. Further clarification of the conditions that shape what firm actions stakeholders attend to will help firms in making decisions about where they should focus their attention and how they should behave. That said, business and society scholars should bear in mind that the dark side of developing such insights is increasing firms’ abilities to strategically target distribution of negative externalities toward those stakeholders least likely to notice, infer, or act on misconduct. In the pursuit of profits, firms may be prone to, for example, strategic placement of polluting plants (Brooks & Sethi, 1997), and so as the business case becomes more explicit, the ethical concerns do not fade away but may become more pronounced.

More broadly, this suggests a need for reconsideration of the notion of social control of business through stakeholder action. Waddock (2008: 105) recently lamented that even though CSR initiatives are garnering more attention, participation is still limited:

> Admittedly, the proportion of companies actively engaged with this infrastructure is still rather small compared to the total population; many leaders are companies with brand reputations to protect or are otherwise highly visible and subject to pressure tactics. . . . Most of the attention to date has been on large companies, largely ignoring the millions of small and medium-sized enterprises.

The cognitive view proffered in this article suggests that social control mechanisms are unlikely to change this dynamic. For large and highly visible firms, social control may work. Analysts and the media cover such firms with consistency, and so stakeholder attention may be drawn toward the actions of large firms. But the vast majority of firms are not large and highly visible. Without consistent visibility, do the mechanisms of social control hold for small and medium-sized enterprises? The literature on social control has been based on the study of large firms; case examples of Nike, Walmart, and Starbucks abound. A cognitive view suggests that these findings may not be generalizable. Since stakeholders lack the capacity to attend to the actions of all firms, small and medium-sized firms may be playing by different rules than are highly visible large firms. Future research on social control needs to look beyond the domain of large firms and investigate whether other firms receive stakeholder attention.

In addition to investigating small and medium-sized firms, future research needs to better investigate the process of stakeholder attention to misconduct. The literature's core question is not simply when do stakeholders choose to act, but preceding that, when do stakeholders even get to the point of facing a decision to act. This article presented noticing as primarily a reactive process, based upon reflexively discerning stimuli from background noise; assessment primarily as a retrospective process, based upon a stakeholder's prior expectations; and finally, acting to punish as primarily a rational process, based upon a cost–benefit calculation of opportunity cost and efficacy. However, reactive, retrospective, and rational factors may be present in all three parts of this process, the extent to which may be better identified in deeper empirical treatment of this topic.

Moreover, the characteristics of the acts of misconduct remained unspecified in this model. Certainly these characteristics are not irrelevant to stakeholder punishment decisions. On the contrary, the most obvious reason why a stakeholder would attend to one act of misconduct and not another is the nature of the act. Simply, a major catastrophe is more likely to be salient than is a minor mess. Nonetheless, given the aims of the model, it is problematic to specify misconduct. Rather, to focus on differences in the individual and the situation, misconduct itself was effectively held constant. Future studies could sort out how variations in misconduct—for example, whether it be an act of omission or commission, internal or externally driven, or the fault of the firm or a single employee—affect stakeholder noticing, assessment, and action.

It is hoped that this article will spur research on both the macro- and microconditions that shape how stakeholders attend to—or ignore—firm misconduct. The individual and situational characteristics brought forth herein are neither exhaustive nor definitive. Rather, empirical testing is needed to test these propositions, as the evidence motivating them largely has not been applied to this particular setting. As more is known about how this diverse group of people responds to a diverse set of firm actions under a litany of conditions, the more we will be able to understand when social control can and cannot work and how it might be better balanced with formal regulation.

Conclusion

Business and society scholars have set up a research paradigm that assumes that business makes decisions that account for the concerns of society because society makes decisions about business based on business's concerns for society. Research in this paradigm of social control has focused on outcomes and found mixed results—business still does things that harm society, and society still allows harmful businesses to survive and even prosper. This article looked at the underlying decision-making processes inherent in social control to advance understanding of how society attends to business activity. Stakeholders are the agents of social control. They face cognitive constraints that bound their rationality and so bound their ability to consistently reward and punish firms for their actions. This article provides a theoretical basis for future empirical work that may better define the limits to social control.

Notes

1. This article defines misconduct as any publicly disclosed firm action that, under some set of conditions, a stakeholder would deem illegal, unethical, or socially irresponsible and take action to punish. For further explanation, please refer to the section headed "A Cognitive View of Stakeholder Punishment."

2. This article defines stakeholders as those individuals who can directly affect the achievement of a firm's objectives. For further explanation, please refer to the section headed "A Cognitive View of Stakeholder Punishment."

3. The exclusion of moral and secondary stakeholders from the definition of stakeholder used in this article does not imply their exclusion from any protection that may come from social control. Strategic stakeholders may represent moral and secondary stakeholders' interests and seek to influence firms on their behalf.

4. This definition is admittedly rather broad. But it is beyond the scope of this article and perhaps implausible to place tighter bounds on something so subjective. Further, this article is interested in inconsistency in stakeholder attention to misconduct as caused by differing conditions, not in determining whether or not a stakeholder is "correct" in his or her assessment that an act is misconduct. Thus, though broad, the definition used herein is suited to its purpose.

5. Portraying the process as linear and multistage forces somewhat artificial breaks. For example, noticing and assessing can occur simultaneously or iteratively (Weick, 1995). Nonetheless, each stage represents a meaningful and distinct cognitive action (Kiesler & Sproull, 1982; Starbuck & Milliken, 1988), and the linear flow is common to models of the "filtering process" by which unbounded environmental stimuli are honed down to a set of individual responses (e.g., Barnett, 2008; Hambrick & Mason, 1984).

6. All propositions in this article assume that all other conditions are held equal (i.e., ceteris paribus).

7. This helps distinguish noticing from sensemaking. These interdependent concepts are difficult to untangle (Weick, 1995). The above logic suggests that noticing refers to awareness that a firm has engaged in a particular act, whereas sensemaking occurs as some aspects of the noticed act are attended to and others ignored. Thus, noticing occurs at the level of the event—a stakeholder notices the firm's act or does not—and sensemaking occurs at the intraevent level, as a stakeholder selectively attends to aspects of a given act, leading to the event's enactment as an act of a particular nature and magnitude in that stakeholder's mind.

8. Perception of the cost of punishment can include expected retaliation, such as a whistle-blower may suffer.

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