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When are stakeholder pressures effective? An extension of slack resources theory

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ABSTRACT

There has been an intense debate on when stakeholder pressures are effective in driving firms to contribute to sustainable development. Drawing upon institutional theory and slack resources theory, we theorize that country-level sustainability performance interacts with slack resources in shaping corporate responsiveness to stakeholder pressures. Empirical results based on the data from 6th International Manufacturing Strategy Survey and secondary data of the Human Development Index and the Environmental Performance Index support our hypotheses. As hypothesized, in countries with low level sustainability performance, firms with considerable slack resources are more responsive to stakeholder pressures than their peers with limited slack resources. In contrast, in countries with high levels of sustainability performance, there are no significant differences between firms with and without considerable slack resources in their responsiveness to stakeholder pressures. This study contributes to a better understanding of organizational responses to stakeholder pressures. Moreover, it suggests that stakeholders, depending on country-level sustainability performance, should adopt different strategies to stimulate firms to participate in sustainable development.

1. Introduction

Environmental activists, NGOs, employees, and consumers are all stakeholders that urge firms to contribute to sustainable development (Crilly et al., 2012; Jiang, 2009; Linton et al., 2007). While some firms do not respond to these pressures and do not change their business practices, others do respond positively, for instance, by adopting novel environmental practices and participating in a range of social initiatives (Christmann, 2004; Sarkis et al., 2010; Wu and Pagell, 2011). As such, a core issue in the literature has been to understand when stakeholder pressures are effective in driving firms to become more sustainable (Crilly et al., 2012; Lee, 2011; Dubey et al., 2016, 2017).

Slack resources theory (Waddock and Graves, 1997) has been the primary theoretical grounding for investigating corporate responses to stakeholder pressures. This theory suggests that firms with considerable financial, managerial, and/or technical resources are more responsive to stakeholder pressures than their peers with limited slack resources. Although there is empirical support for this view (Perez-Batres et al., 2012; Seifert et al., 2004), several recent studies (Julian and Ofori-Dankwa, 2013; Xu et al., 2015; Chang et al., 2017) challenge the universal effectiveness of slack resources in contributing to corporate social responsiveness. For instance, Julian and Ofori-Dankwa (2013) did not identify a positive relationship between financial resource availability and corporate social responsibility expenditure. These inconsistent findings indicate that it is premature to claim the universal validity of slack resources theory and it is necessary to specify a boundary condition of this theory, so as to more accurately understand when stakeholder pressures can be effective in compelling firms to contribute to sustainable development.

The literature on firm-society interactions (Lee, 2011; Dubey et al., 2016, 2017; Kanashiro and Rivera, 2017; Rivoli and Waddock, 2011) has pointed out that corporate social behaviors can be influenced by formal institutions (constitutions, laws, and regulations) as well as informal institutions (norms, values, and shared beliefs). Meanwhile, corporate social behaviors are also subject to the influence of stakeholder groups such as shareholders, employees, non-governmental organizations, and customers. More specifically, Lee (2011) had clearly differentiated between the roles of stakeholders and institutions in shaping corporate social behaviors: "While institutions affect firms' social behavior by shaping the macro-level incentive structure and sources of legitimacy, firms' stakeholders can amplify or buffer the institutional forces by acting as mediators. The two dimensions are interdependent in that

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stakeholders draw legitimacy and power from institutions, and institutions are often actualized through stakeholder mechanisms" (p. 281). Several scholars (Campbell, 2007; Matten and Moon, 2008; Doh and Guay, 2006) have developed a consistent set of arguments suggesting that firms in developing and developed countries are very likely to allocate their resources to sustainability issues in different ways, due to the substantial institutional differences between the countries. However, the literature still lacks empirical studies that systematically examine the extent to which national institutional contexts and slack resources jointly shape corporate responses to stakeholder pressures. In this study, we draw upon institutional theory to specify a boundary condition of slack resources theory and explore the following research question:

"How do national institutional context and slack resources jointly shape corporate responses to stakeholder pressures?"

In this paper, we build on studies on *institutional difference hypothesis* (Rivoli and Waddock, 2011; Dubey et al., 2016, 2017; Kanashiro and Rivera, 2017; Ferri and Ferri, 2017) to posit that the extent to which slack resources contribute to corporate social responsiveness can be profoundly influenced by country-level sustainability performance, a measure of the extent to which the tenets, principles and practices of sustainability are institutionalized in a country (Campbell, 2007; Moon, 2014). Specifically, Rivoli and Waddock (2011) argued that the legitimacy of stakeholders' sustainability requests varies with the institutionalization of sustainability. When stakeholders' sustainability requests, e.g., to reduce polluting emissions, have gained sufficient legitimacy from the formal institutions (constitutions, laws, and regulations) and/or informal institutions (norms, values, and shared beliefs) in the socioeconomic context, firms that ignore these requests face the risk of losing their organizational legitimacy and exposing themselves to stakeholder criticism and even coercive sanctions (Lee, 2011; Glover et al., 2014). Therefore, as sustainability becomes institutionalized in a country, sustainability will be given greater priority within the trade-offs that firms have to make among their multiple objectives. Institutionalizing sustainability may not substantially affect the actions of firms that have considerable slack resources in response to stakeholders' sustainability requests, because these firms can always afford to invest in sustainability. In contrast, firms with limited slack resources will feel increasingly obliged to prioritize sustainability and respond positively to stakeholders' sustainability requests, in order to maintain their organizational legitimacy as sustainability becomes institutionalized within their country. Consequently, in countries where sustainability is highly institutionalized firms with and without considerable slack resources will respond similarly to stakeholders' sustainability-related requests. This forms the focal hypothesis of this study.

We tested this hypothesis in a large-scale empirical setting by drawing on the data from the 6th International Manufacturing Strategy Survey (IMSS VI). We supplemented survey data with secondary data from the Human Development Index and the Environmental Performance Index. Hierarchical linear modelling was applied to test our hypotheses, because of the hierarchical structure of the data. As hypothesized, in countries with low levels of sustainability performance such as China and India, firms with considerable slack resources are more responsive to stakeholder pressures than their peers with limited slack resources. In contrast, in countries with high levels of sustainability performance such as Switzerland and Germany, there are no significant differences between firms with and without considerable slack resources in their responsiveness to stakeholder pressures.

Conventional wisdom as reported in the literature suggests that firms with considerable slack resources will be more responsive towards stakeholder pressures than their peers with limited slack resources. Our study challenges this conventional wisdom through developing theoretical arguments and combining three sources of data to empirically test our hypotheses. As such, the main contribution of this paper is to have identified a boundary condition of slack resources theory, which has been the primary theoretical grounding for understanding corporate responses to stakeholder pressures. Moreover, this study lends empirical support to the *institutional difference hypothesis*, which proposes that institutional differences between countries can affect the nature, generation and consequences of corporate sustainability management.

The rest of this paper is organized as follows. The next section introduces the main concepts used in this study, including stakeholder pressures, slack resources, country-level sustainability performance, and corporate sustainability management, and then develops three hypotheses. The characteristics of the datasets and the details of the statistical methods applied are introduced in the third section. The fourth section reports the results of hypothesis testing and simple slope analysis. The fifth section discusses the theoretical and practical implications of the findings, and the sixth final section summarizes this study, points outs the limitations of this study, and suggests several research avenues that are worthy of further exploration.

2. Theoretical foundations and hypotheses

This section consists of three subsections. The first introduces stakeholder pressures and explains why these pressures can drive firms to put effort into corporate sustainability management. The second subsection introduces the slack resources theory and discusses how slack resources may enable firms to respond positively to stakeholder pressures. The third subsection introduces country-level sustainability performance and discusses how this contextual factor can profoundly affect the way firms allocate slack resources to sustainability issues.

2.1. Stakeholder pressures and corporate sustainability management

Firms are embedded in a nexus of relationships with internal and external stakeholders, which can be defined as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Jones, 1995). Firms rely on their stakeholders, such as customers, suppliers, employees, and local communities, for crucial resources, competitive advantage and their very survival (Donaldson and Preston, 1995; Clarkson, 1995). Conversely, stakeholders can, by drawing on their power and legitimacy, exert pressures on firms in pursuance of their own and/or societal interests (Lee, 2011; Mitchell et al., 1997). Firms need to respond to and address stakeholders' legitimate requests to ensure the enduring support of these stakeholders. Stakeholders have varying levels of power over firms, and the legitimacy of stakeholder requests varies depending on specific issues and contexts (Mitchell et al., 1997; Rivoli and Waddock, 2011; Power et al., 2015).

In the specific context of corporate sustainability, stakeholders can make a wide range of requests to firms (Kassinis and Vafeas, 2006; Dubey et al., 2015; Wilhelm et al., 2016b; Kannan, 2018; Khor et al., 2016; Seles et al., 2016). Employees ask for equality of treatment, transparency in compensation and career policies, flexible job designs to sustain a healthy work-life balance, and healthy and safe working conditions (Perrini et al., 2011). There are increasing demands from consumers for environmentally friendly products/processes and for socially responsible business practices. Local communities can demand firms to improve their production processes to decrease energy and resource consumption, waste, and pollution emissions. Government labor and environmental agencies push firms to comply with and even go beyond the laws on environmental integrity and social equity. Beyond these primary stakeholders who can exert direct pressures on firms, secondary stakeholders such as NGOs and environmental/social activists can push firms to participate in diverse social and environmental initiatives that are not directly related to the firms' production activities and can also lend support to primary stakeholders' requests (Darnall et al., 2010; González-Benito and González-Benito, 2006). We posit that, in general, stakeholder pressures can drive firms to engage in sustainable development (Perez-Batres et al., 2012). This posited relationship forms the baseline hypothesis of this study, one that has been empirically supported in previous studies