



**IE UNIVERSIDAD**

**TESIS DOCTORAL/ DOCTORAL  
DISSERTATION**

Título de la tesis doctoral/ Dissertation Title

**REPUTATIONAL THREATS: EFFECTS ON FIRMS  
AND FIRMS' RESPONSES / AMENAZAS  
REPUTACIONALES: CONSECUENCIAS PARA  
LAS EMPRESAS Y RESPUESTAS POR PARTE DE  
ESTAS**

**MOHAMAD HASAN SADRI KARAMI**

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## ABSTRACT

Stakeholders' negative evaluations can have severe negative reputational and performance consequences for the targeted organization. In this dissertation I try to answer three questions. First, how do firms respond to stakeholders' negative evaluations? Second, what are the consequences of stakeholders' negative evaluations for organizations and their CEOs? Third, how are the stakeholders' negative social evaluations shaped in the first place? In the first chapter paper, we theorize about when and how organizations choose to respond to stakeholders' criticism. Building on the resource-based view and the stakeholder salience literatures, we depart from this prior research by considering the interplay between the criticizing party's salience and the salience of the issue that it raises, together with the organization's resource reconfiguration capabilities, as antecedents of organizational responses. In the second chapter, we examine how CEOs react to the threat of core stigma transfer from their firms. Building on stigma research and upper echelons literature, we propose that the threat of core stigma transfer increases the likelihood that CEOs join the board of other firms as a hedging strategy. In the analysis of the boundary conditions of CEOs joining other firms' boards, we examine those factors that make CEOs vulnerable to the harm of core stigma transfer and those factors that make other firms receptive to appointing tainted CEOs to their boards. In the third chapter, we draw on the categorization, stigma, and upper echelons literatures to predict the amount of disapproval received by firms in stigmatized industries based on characteristics of their CEOs. Results suggest that the relationship between CEO characteristics and audiences' disapproval is moderated by the ambiguity of firms' association with the stigmatized category and by the type of audiences evaluating the firms. We test our hypotheses using a novel, hand-collected dataset of 421 CEOs in 212 firms in the global arms industry, between 1998 and 2017.

## RESUMEN

Las valoraciones negativas de los grupos de interés pueden conllevar consecuencias negativas graves para la reputación y el rendimiento de la organización a la que están dirigidas. En esta tesis, se propone resolver tres cuestiones. En primer lugar, cómo responden las empresas ante una valoración negativa por parte de los grupos de interés. En segundo lugar, cuáles son las consecuencias de estas valoraciones negativas para las organizaciones y sus CEO. En tercer lugar, cómo se configuran originalmente estas valoraciones sociales negativas. El estudio que constituye el primer capítulo versa sobre cómo y cuándo deciden responder las organizaciones a las críticas de los grupos de interés. Partiendo de una perspectiva basada en los recursos y de la literatura sobre la relevancia de los grupos de interés, el presente estudio se distancia de esta investigación previa al considerar la interacción entre la relevancia de la parte que emite la crítica y la relevancia del conflicto que esta genera, junto con las capacidades de reconfiguración de recursos de la organización, como antecedentes de las respuestas de las organizaciones. En el segundo capítulo, se examina la reacción de los CEO ante la amenaza de transferencia del estigma central (*core stigma*) de sus empresas. Con base en la literatura sobre estigmatización y jerarquías superiores, se propone que la amenaza de transferencia del estigma central aumenta la probabilidad de que los CEO se unan a la junta directiva de otras empresas como mecanismo de protección. En el análisis de las condiciones que limitan el acceso de los CEO a las juntas directivas de otras empresas, se evalúan los factores que hacen que los CEO sean vulnerables a los perjuicios de la transferencia del estigma central, así como aquellos factores que llevan a otras empresas a mostrarse receptivas al nombramiento en sus juntas de un CEO desprestigiado. En el tercer capítulo, partimos de la bibliografía sobre categorización, estigmatización y jerarquías superiores para predecir el grado de reprobación al que están sujetas las empresas en sectores estigmatizados debido a las características de sus CEO. Los resultados sugieren que la ambigüedad de la asociación de las empresas con la categoría estigmatizada y el tipo de público que las valora moderan la relación entre las características del CEO y la reprobación por parte del público. La hipótesis de la presente tesis se evalúa mediante un conjunto de datos novedoso y recopilado de forma manual sobre 421 CEO de 212 empresas de la industria armamentística mundial entre 1998 y 2017.

## **To Bahar**

the love of my life  
who was always there for me,  
in happiness and sadness,  
in hope and despair.

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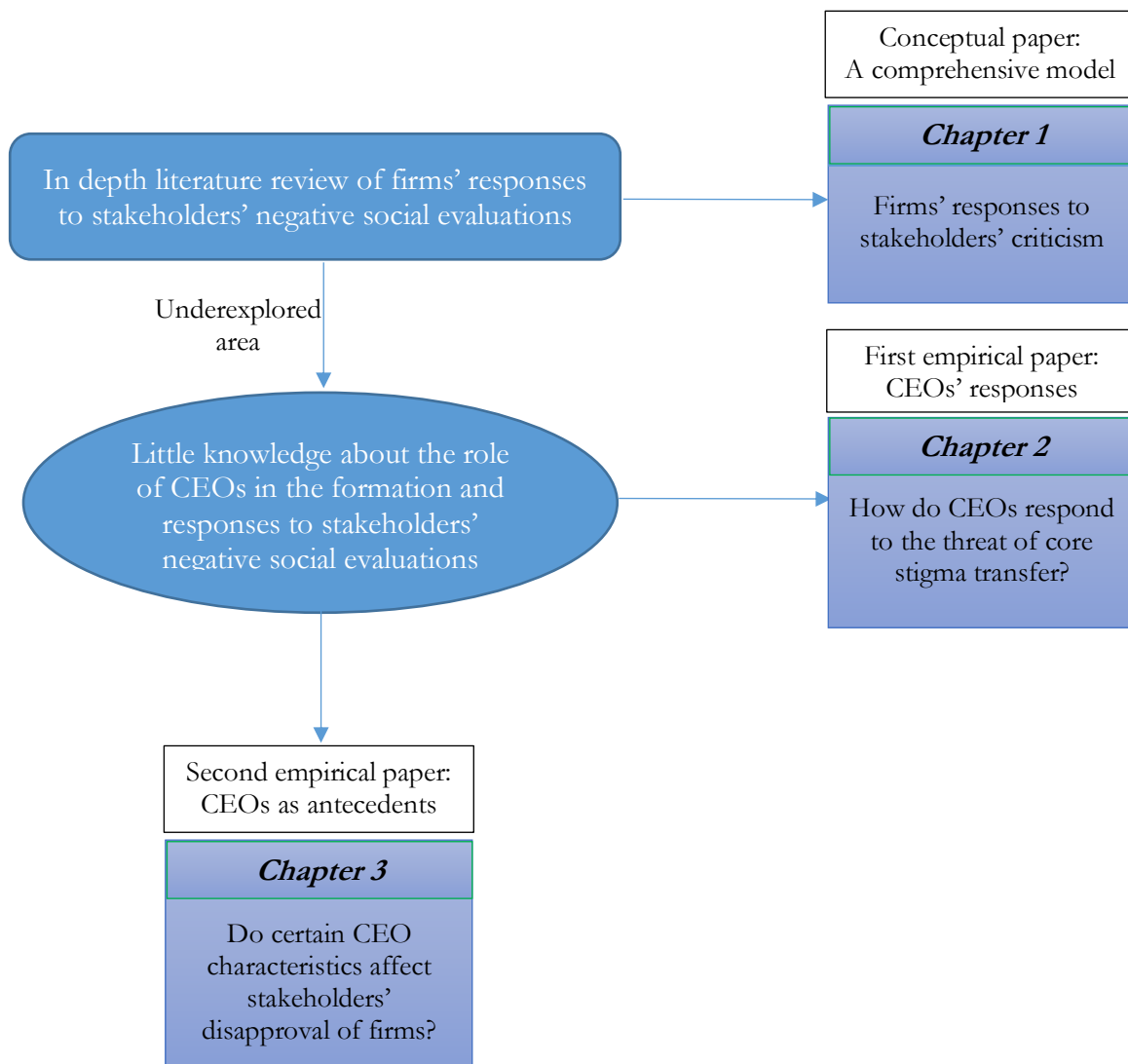
## INTRODUCTION

A central question in the strategy research is how organizations respond to stakeholders' negative evaluations usually expressed as public disapproval of organizations' activities, behavior, and values, how these evaluations are shaped in the first place, and whether and how these evaluations can affect firms' important strategic outcomes such as financial performance. In this dissertation, I have tried to broaden the knowledge about answer to this question. In the first step, I conducted an extensive literature review of studies about firms' responses to stakeholders' negative social evaluations. The direct outcome of this literature review was the first chapter of my dissertation, in which my co-authors and I developed a conceptual model of firms' responses to their stakeholders' criticism. Our model departed from the prior research, which had mainly focused on the salience of the criticizing party or of the issue it has raised, and on the organization's resource protection capabilities as main antecedents of organizational responses, by considering the interplay between the criticizing party's salience and the salience of the issue that it raises, together with the organization's resource reconfiguration capabilities, as antecedents of organizational responses.

The indirect outcome of the literature review was understanding that the research on firms' responses to stakeholders' negative social evaluations, although rich, has paid little attention to how organizational upper echelons, and especially CEOs, cope with or influence such evaluations. Given the important role of CEOs in firms' strategic outcomes, in two empirical papers in the context of the arms industry from 1998-2016, my co-authors and I tried to address this void in the literature. In the second chapter, we explored how CEOs cope with the potential stigma, created by stakeholders' attacks. Our findings advanced current knowledge on organizational stigma, which had mainly focused on firms' lower echelons' responses to core stigma or the consequences of failure stigma for firms' upper echelons.

In the last chapter, we tried to understand the role of CEOs in formation of stakeholders' negative social evaluations. We argued that some CEO characteristics may signal a strong association of firms with the stigmatized category and hence increase stakeholders' negative evaluations. Our primary contribution of this chapter was to shed light on a tension that may arise between predictions of two major theoretical perspectives: categorization and upper echelons.

### Dissertation steps



## INTRODUCCIÓN

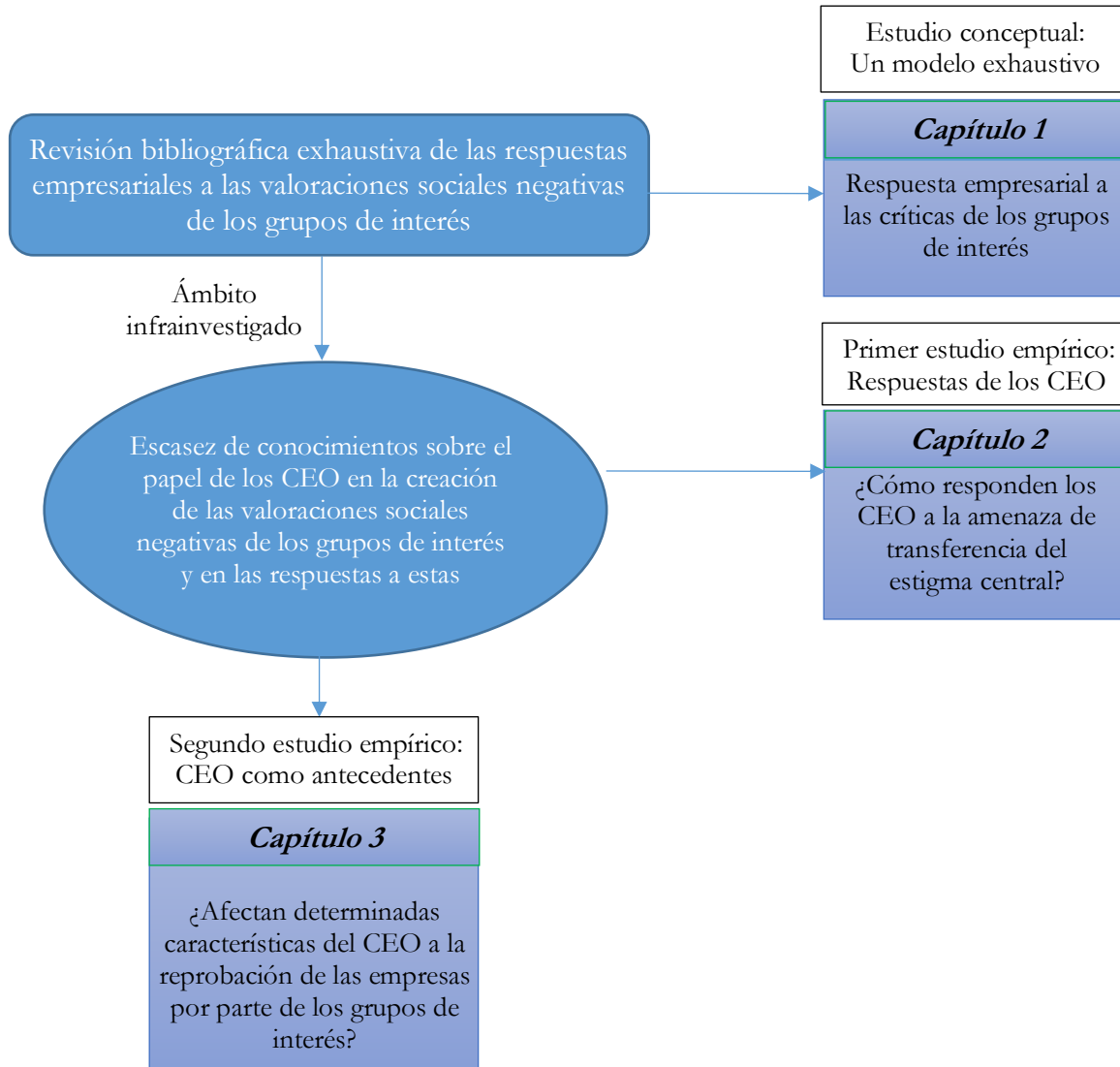
Una cuestión fundamental del ámbito de la investigación sobre estrategia es la forma en que las empresas responden a las valoraciones negativas de los grupos de interés —las cuales suelen manifestarse a modo de reprobación pública de las actividades, la conducta y los valores de las organizaciones—, cuál es el origen de la configuración de estas valoraciones y cómo afectan estas valoraciones, en caso de ejercer algún efecto, a los resultados estratégicos más importantes de la empresa, como su rendimiento financiero. En la presente tesis, se propone ampliar los conocimientos existentes con el fin de responder a esta cuestión. Como primer paso, se llevó a cabo una exhaustiva revisión bibliográfica de estudios relativos a las respuestas de las empresas ante las valoraciones sociales negativas de los grupos de interés. El primer capítulo de la presente tesis constituye el resultado directo de esta revisión bibliográfica, en el cual, en conjunto con los coautores de la tesis, se desarrolló un modelo conceptual de las respuestas de las empresas ante las críticas de los grupos de interés. El modelo en cuestión se distancia de estudios anteriores —centrados fundamentalmente en la relevancia de la parte que emite la crítica o del conflicto generado por esta, así como en la capacidades de protección de recursos de la organización, como principales antecedentes de las respuestas de la organización— al considerar la interacción entre la relevancia de la parte que emite la crítica y la relevancia del conflicto generado por esta, junto con las capacidades de reconfiguración de recursos de la empresa, como antecedentes de las respuestas de la organización.

El resultado indirecto de la revisión bibliográfica fue comprender que, pese a ser abundante, la investigación sobre las respuestas de las empresas a las valoraciones sociales negativas apenas ha prestado atención a cómo las jerarquías superiores de las organizaciones, y especialmente los CEO, lidian con o influyen en dichas valoraciones. Considerando el papel crucial que desempeñan los

CEO en los resultados estratégicos de las empresas, se trató de suplir esta carencia en la literatura mediante dos estudios empíricos de la industria armamentística entre 1998 y 2016 realizados en conjunto con los coautores de la tesis. En el segundo capítulo, se analiza cómo los CEO lidian con los estigmas potenciales a raíz de las críticas de los grupos de interés. Los hallazgos del presente estudio suponen una ampliación de los conocimientos actuales sobre el estigma empresarial, que se habían centrado principalmente en la respuesta al estigma central (*core stigma*) de los niveles inferiores de la jerarquía empresarial o en las consecuencias del estigma del fracaso en la jerarquía superior de las empresas.

En el último capítulo, se trata de comprender el papel de los CEO en la creación de valoraciones sociales negativas por parte de los grupos de interés. Se argumenta que determinadas características del CEO pueden indicar una profunda asociación con la categoría estigmatizada y, como consecuencia, incrementar las valoraciones negativas por parte de los grupos de interés. La principal contribución de este capítulo consiste en esclarecer la tensión que puede surgir entre las predicciones de dos importantes perspectivas teóricas: la categorización y las jerarquías superiores.

## Fases de la tesis



**Chapter 1**  
**(Essay 1)**

# ORGANIZATIONAL RESPONSES TO STAKEHOLDERS' CRITICISM

## Abstract

Stakeholders' criticism can have severe negative reputational and performance consequences for the targeted organization. In this paper, we theorize about when and how organizations choose to respond to stakeholders' criticism. Prior research has mainly focused on the salience of the criticizing party or of the issue it has raised, and on the organization's resource protection capabilities as main antecedents of organizational responses. Building on the resource-based view and the stakeholder salience literatures, we depart from this prior research by considering the interplay between the criticizing party's salience and the salience of the issue that it raises, together with the organization's resource reconfiguration capabilities, as antecedents of organizational responses. Considering these elements jointly, our proposed model advances current knowledge on the heterogeneity of organizational reactions to stakeholders' criticism by offering a holistic picture of responses to such criticism.

**Keywords:** organizational responses, criticizing party's salience, issue salience, stakeholders' criticism, resource reconfiguration capabilities

Criticism from a stakeholder – i.e. “any group or individual who is affected by or can affect the achievement of an organization’s objectives” (Freeman, 1984: 46) – can expose the criticized organization to risks and uncertainties stemming from the possibility of having some of its key resources withdrawn by the criticizing party or by other stakeholders (Frooman, 1999; McDonnell & King, 2013). There is much variance, however, in how organizations respond to stakeholders’ criticism, which affects the severity of the consequences of such criticism (Durand, Hawn, & Ioannou, 2019; Oliver, 1991). Understanding when and how organizations respond to stakeholders’ criticism is particularly important, not only to advance our knowledge of management and organizations but also to offer practical advice to managers on when and how to respond to such criticism and mitigate its negative effects.

Previous studies have mainly focused on three factors affecting whether and how organizations react to stakeholders’ criticism: *perceived salience of the criticizing party*, *perceived salience of the issue that it has raised*, and the organization’s *resource protection capabilities*. *Salience* refers to the degree to which a criticizing party or the issue that it has raised resonates with and is prioritized by the targeted organization (Bundy, Shropshire, & Buchholtz, 2013; Durand et al., 2019). Research has shown that the degree of a criticizing party’s salience depends on the party’s power and legitimacy, and the degree of issue salience depends on the issue’s legitimacy, urgency, and consistency (or conflict) with the organizational strategic frame and identity (Durand et al., 2019; Eesley & Lenox, 2006; Bundy et al., 2013; Mitchell, Agle, & Wood, 1997). *Resource protection capabilities* refer to the organization’s ability to protect its key resources from being withdrawn by the criticizing party or by other stakeholders. This ability is higher when the organization has resources (e.g., slack) that it can use to accommodate the demands of the criticizing party (Delmas & Montes-Sancho, 2010; Durand et al., 2019; Julian, Ofori-Dankwa, & Justis, 2008; Perez-Batres, Doh, Miller, & Pisani, 2012).

These studies have advanced the understanding of an organization's response to stakeholders' criticism, yet they have overlooked two important factors: the interplay between the criticizing party's salience and the issue salience (especially when perceptions of these are divergent) and the organization's resource reconfiguration capabilities. These capabilities refer to an organization's ability to redeploy or recombine internal resources, or to integrate them with external resources (Folta, Helfat, & Karim, 2016; Karim & Mitchell, 2000; Karim & Capron, 2016). These capabilities can lower the costs of replacing those resources that are under threat of being withdrawn by the criticizing party or other stakeholders. Taking these factors into account provides a more updated and comprehensive understanding of the heterogeneity of organizations' responses to stakeholders' criticism.

Linking the stakeholder salience (Bundy et al., 2013; Durand et al., 2019) and resource-based view literatures (Barney, 1991), we develop a conceptual model that explains how the interplay between the salience of a criticizing party, the salience of the issue raised, and the organization's resource reconfiguration capabilities affect the organization's choice among different response alternatives. Extending the salience literature (Bundy et al., 2013; Durand et al., 2019; Mitchell et al., 1997), we argue that this choice is determined by whether the criticizing party's salience and issue salience converge or diverge. Drawing upon and adding to extant work on organizations' responses to stakeholders' criticism (Bundy et al., 2013; Delmas & Montes-Sancho, 2010; Durand et al., 2019; Perez-Batres et al., 2012), we also propose that resource reconfiguration capabilities can explain why organizations choose responses that cannot be explained by resource protection capabilities alone, increasing our understanding of organizational response heterogeneity to stakeholders' criticism.

## Types of Organizational Responses to Stakeholders' Criticism

Organizations confronting stakeholders' criticism may lose legitimacy and reputation (Hudson & Okhuysen, 2009) and face increasing difficulties in acquiring resources (Weber, Rao, & Thomas, 2009) or maintaining relationships with their stakeholders (Jensen, 2006). Hence, understanding how an organization can respond optimally to stakeholders' criticism is vital for its success and survival. Building on past research, which has theorized (Bundy et al., 2013; Durand et al., 2019; Mitchell et al., 1997; Oliver, 1991; Pache & Santos, 2010;) and empirically tested organizational responses to such criticism (Eesley & Lenox, 2006; Perez-Batres et al., 2012), and on previous conceptualizations and models of responses to stakeholders' criticism (e.g., Durand et al., 2019), we categorize responses into six main types (summarized in Figure 1-1 ): minimal action, substantial accommodation, insubstantial accommodation, replacing the resources of the criticizing party, replacing the resources of other stakeholders, and influencing other stakeholders.<sup>1</sup>

-----Insert Figure 1-1 about here-----

### **Minimal response (inaction, denial, verbal retaliation)**

Organizations can choose not to respond to stakeholders' criticism (Argenti, 2004; Bundy et al., 2013; Chen & MacMillan, 1992; Durand et al., 2019). For example, in 2001 and then again in 2011,

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<sup>1</sup> We try to propose a holistic model that encompasses all the potential responses that an organization can deliver to its stakeholders' criticism. However, to remain parsimonious, to avoid overcrowding the model, and to allocate sufficient space to responses that have received less attention by scholars, we only include those responses that are more prevalent in the literature. Hence, our model does not cover responses that are rare, such as organization exit (Oliver, 1991); responses that are used as a long-term strategy and hence are unlikely to be chosen as an immediate response to stakeholders' criticism by organizations, such as co-opting other stakeholders to change the values and beliefs behind the criticism of the organization (Oliver, 1991); and responses that serve as intermediary strategies which help the organization decide about choosing main responses. One example of intermediary responses is negotiation with the criticizing party. In negotiation, through iterated interactions with the criticizing party (Bundy et al., 2013), the organization better understands its demands and may finally decide to accommodate those demands (substantially or insubstantially), retaliate against the criticizing party's claims, or replace the resources of the criticizing party and stakeholders who perceive the criticizing party's demands as salient.

Nike initially ignored the criticism of an NGO about controversial labor practices in its factories in Indonesia (Locke, Qin, & Brause, 2007).

Organizations can also choose to deliver a small response, which is still reactive but requires minimal levels of effort and resources, by verbally attacking the criticizing party and refuting its claims. Attacking the criticizing party is usually characterized by an intense and aggressive verbal retaliation (Oliver, 1991). Derogation of the criticizing party or its claims protects the organization by discrediting the criticizing party's validity, thus neutralizing any potential harm. This response is sometimes called "condemn the condemner" (Petriglieri, 2011: 647). To reduce the likelihood that the criticizing party will adopt a threatening approach in the future, the organization can also use negative impression management techniques such as denying the criticizing party's accusations (Dutton & Dukerich, 1991; Elsbach & Kramer, 1996; Lamin & Zaheer, 2012) or refuting the basis of the criticizing party's claims. However, some studies argue that as organizations are dependent on stakeholders' resources, ignoring their criticism or just delivering a verbally aggressive statement may be risky strategies that may not stop the criticizing party or convince other stakeholders to keep their ties with the organization (e.g., Jawahar and McLaughlin, 2001). Thus, in many circumstances, organizations may decide to deliver an accommodative response to stakeholders' criticism.

### **Substantial accommodation**

Organizations can choose to respond with a substantial level of accommodation to the criticizing party and its demands (e.g., Durand et al., 2019; Stevens, Steensma, Harrison, & Cochran, 2005). Substantial accommodative responses require the implementation of significant changes that involve material costs and are not easily reversible, such as acquiring cleaner production techniques (King & Lenox, 2002), reducing toxic emissions levels (Kassinis & Vafeas, 2006), revamping deep-seated

practices by increasing the participation of minority groups (Durand & Jourdan, 2012), or divesting assets from harmful industries (Durand & Vergne, 2015).

Substantial accommodation may stop the pressure from the criticizing party and other stakeholders supporting that party. However, research has documented that there is great uncertainty about substantial accommodation's positive consequences (e.g., financial performance) for the organization (Barnett & Salomon, 2012; King & Lenox, 2001), making many organizations consider another type of accommodative response, i.e., insubstantial accommodation.

### **Insubstantial accommodation**

Unlike substantial accommodative responses, insubstantial accommodative responses do not entail the implementation of significant, irreversible changes. Rather, they are responses based on future promises and nominal actions to produce impressions of more material change. Insubstantial accommodative responses include symbolic responses (e.g., Perez -Batres et al., 2012) such as decoupling policies from actions (Crilly, Zollo, & Hansen, 2012; Oliver, 1991; Pache & Santos, 2013), rhetorical responses such as apologizing for faulty actions (Kim, Cooper, Ferrin, & Dirks, 2004), or promises to address the criticizing party's demands in the future (Bansal & Clelland, 2004; Suddaby & Greenwood, 2005).

Organizations can also select more active non-accommodative ways – compared to inaction, denial, and verbal retaliation – of reacting to stakeholders' criticism which have not yet been adequately studied in the literature. Because of their importance and prevalence of practice in the real world, we include these responses in our model and discuss conditions under which organizations prefer these types of responses to minimal action or accommodative responses.

### **Replacing the criticizing party's resources**

Organizations that are facing stakeholders' criticism may choose to replace the criticizing party's resources<sup>2</sup> and sever their links with the party. The ability to replace the resources of the criticizing party can protect the organization from the negative consequences of potential resource withdrawal by the criticizing party. Prior research has noted that some organizations can rely on their community for support when they are under pressure by some of their stakeholders. For example, Lee & Lounsbury (2015) showed that in U.S. communities where conservative political establishments were influential, the organization was able to leverage the politically conservative community logic to resist or disregard regulatory requests to improve environmental performance.

The resource replacement strategy can also be used in other contexts. Westphal & Deephouse (2011) showed that when CEOs receive criticism from journalists because of poor performance, they distance themselves from these journalists. One strategy for CEOs in this situation can be substituting the source that covers organization's news by establishing their own news outlet or approaching other journalists to increase coverage of their organization's news. The former action is what Dassault Aviation, a French defense organization, did by buying Le Figaro and trying to buy Le Parisien.<sup>3</sup>

### **Influencing other stakeholders**

An alternative strategy for the organization under criticism is to influence those stakeholders who might be swayed by the criticizing party or its claims. The criticizing party may convince these stakeholders to withdraw their resources from the organization. These stakeholders may also spontaneously decide to sever their ties with the organization based on their perception of the legitimacy of the criticizing party's claims.

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<sup>2</sup> There might be criticizing parties who do not have direct resource relationships with the organization (e.g., activists). However, they can influence the behavior of other stakeholders toward the organization. This effect can be analyzed by considering the replacing of other stakeholders' resources in our conceptual model.

<sup>3</sup> <https://www.ft.com/content/1a70a5fa-c803-11df-ae3a-00144feab49a>. Accessed on October 2019.

To mitigate the threat that these other stakeholders might withdraw their resources from the organization, it can try to influence them and convince them to maintain their support of the organization. An organization can influence its stakeholders through lobbying activities (David, Bloom, & Hillman, 2007; Fremeth, Holburn, & Vanden Bergh, 2016; McDonnell & Werner, 2016a), by promoting its reputation by soliciting the endorsement of external agents such as highly reputable individuals (Doh, Howton, Howton, & Siegel, 2010), or by increasing activities that reflect corporate social responsibility (CSR) (Flammer, 2018) and philanthropic donations (Brammer & Millington, 2005; Wang & Qian, 2011).

Specifically, lobbying politicians or government officials as a response to activists' criticism (McDonnell & Werner, 2016a) can neutralize the influence of activists' negative publicity on organizations. For example, the US Securities and Exchange Commission (SEC) favored those organizations which were more active in lobbying the SEC by allowing them to omit the inclusion of information about their socially oriented shareholders' proposals in their reports to the SEC (Hadani, Doh, & Schneider, 2018). Such omission can not only prevent an issue from consideration by a specific shareholder group, but also put hurdles in front of social activists pursuing change inside organizations.

### **Replacing other stakeholders' resources**

Finally, the organization can replace the resources of those stakeholders who perceive the issues raised by the criticizing party to be salient, thereby reducing the negative consequences of potential resource withdrawal by such stakeholders. For example, previous research has showed that when politicians decide to reject the political donations from an organization targeted by activists' boycotts (McDonnell & Werner, 2016a), the organization can shift its political efforts to other political actors, like government officials, to seek support (McDonnell & Werner, 2016b).

A recent example of replacing stakeholders' resources is the response of Silicon Valley tech companies in 2018 when they were criticized by US media for their military contracts. The workers of these organizations pushed back against those contracts even though "companies may be able to terminate employees who participate in the protests."<sup>4</sup> This example suggests that contrary to the recommendation that organizations hire employees who value CSR (Voegtlin & Greenwood, 2016), tech organizations could decide to hire employees who are *less* sensitive to their military contracts and do not perceive the media criticism of such contracts as salient.

Volkswagen's strategy in the wake of an emissions scandal in 2015 is another example of replacing stakeholders' resources. After the Environmental Protection Agency (EPA) criticized Volkswagen for violating the Clean Air Act, customers who found this issue salient decided to stop buying diesel cars from Volkswagen. Instead of trying to influence and persuade these customers to buy diesel cars, Volkswagen cut investment plans at its diesel division and stepped up development of electric vehicles to find new customers to replace those customers that had decided to boycott Volkswagen.<sup>5</sup>

### **The Antecedents of Organizational Responses to Stakeholders' Criticism**

In Table 1-1, we review the main types of organizational responses in extant literature and show that these studies have essentially focused separately on each type of response and have considered two main antecedents for it: salience of the criticizing party or its raised issue, and the organization's ability to protect resources that are under threat of being withdrawn by the criticizing party or other stakeholders.

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<sup>4</sup> <https://www.fastcompany.com/90178141/how-to-protest-and-not-get-fired>. Accessed on April 2019.

<sup>5</sup> <https://www.cbc.ca/news/business/volkswagen-emissions-electric-cars-1.3268433>. Accessed on May 2019.

Building on this literature, we develop a conceptual model that introduces and revolves around two elements underexplored by the previous literature: (1) the interplay between salience of the criticizing party and of its raised issue, and (2) the organization's resource reconfiguration capabilities that can lower the costs of replacing resources that are under threat of being withdrawn by the criticizing party or other stakeholders. While the theoretical foundation of issue salience is rooted in the stakeholder salience literature (Mitchell et al., 1997), the conceptual background of the reconfiguration capabilities originates in the resource-based view of the organization (Barney, 1991).

-----Insert Table 1-1 about here-----

**Interplay between the salience of the criticizing party and the salience of the issue it is raising**

Previous literature on the antecedents of organizational responses to stakeholders' criticisms has highlighted the importance of two types of salience: salience of the criticizing party for the targeted organizations' managers, and salience of the issue raised by the criticizing party. However, these studies have underemphasized how the interplay between these two types of salience, especially when they are divergent (i.e., one is high and the other one is low), may affect organization responses. In our conceptual model, we account for the divergence or convergence between the criticizing party's salience and issue salience and discuss how organizational responses differ from situations when we do not account for the interplay between these two types of salience.

With regard to the criticizing party's salience, prior research has theorized and empirically found that a stakeholder – the criticizing party in our case – with power and legitimacy is perceived as more salient by the organization's managers (Agle et al., 1999; Eesley and Lenox, 2006; Mitchell et al., 1997). In the context of the criticizing party, "power" refers to its access or ability to access coercive, utilitarian, or normative means to impose its will on the relationship with the targeted

organization (Mitchell et al., 1997). Legitimacy refers to a generalized perception or assumption by the targeted organization's managers that the actions of the criticizing party are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995). Not addressing criticism from a salient (i.e., powerful and legitimate) party may increase the likelihood that it undertakes actions against the organization (Frooman, 1999). For example, it can withdraw or constrain the provision of important resources to the organization (Mitchell et al., 1997; Durand et al., 2019).

Yet, regardless of the criticizing party's salience, the salience of the issue raised by that party can also affect the organization's response. Prior research has focused on perceptions of issue salience by the organization's managers (Bundy et al., 2013; Crilly & Sloan, 2012; Durand et al., 2019; Hahn, Preuss, Pinkse, & Figge, 2014; Waldron, Navis, & Fisher, 2013;) or by stakeholders of the organization such as the general public (e.g., Eesley and Lenox, 2006). This research defines issue salience based on managers' perceptions of conflict (or consistency) of the issue with the targeted organization's identity and strategic frame (Bundy et al., 2013), or on whether the issue is perceived as legitimate and urgent by the targeted organization's non-criticizing stakeholders (Eesley and Lenox, 2006). We follow this latter conceptualization, because the managers' perception of issue salience is likely to be shaped, influenced, and even dictated by how at a broader level non-criticizing stakeholders in the organization's external environment evaluate the salience of the issue (Bitektine & Haack, 2015; Eesley & Lenox, 2006; Neville & Menguc, 2006; Tashman and Raelin, 2013; Weitzner and Deutsch, 2015). For example, to the extent that an organization's stakeholders perceive the issue of climate change, raised by climate activists, as legitimate, urgent, and consistent with the identity and strategic goals of that organization, the organization's managers might also perceive that issue to be salient.

Hence, in our conceptual model, issue salience is high when the issue is judged to be legitimate, urgent, and consistent with the organization's identity and strategic frame from the perspective of the organizations' other stakeholders, and low otherwise. Similar to a salient criticizing party, if the organization's non-criticizing stakeholders perceive an issue to be salient but do not observe the desired response from the organization, they may decide to withdraw their resources from it (Frooman, 1999). For example, McDonnell & Werner (2016a) showed that to reduce the threat of association with organizations targeted by social protests, politicians distance themselves from them, especially when the protest appear to be legitimate.

Previous literature has documented that organizations respond to stakeholders' attacks to avoid the criticizing party's or other stakeholders' withdrawal of critical resources. These organizational responses include symbolic or substantive accommodation (Bundy et al, 2013; Durand et al., 2019; Eesley & Lenox, 2006; Hersel, Helmuth, Zorn, Shropshire, & Ridge, 2019; Perez-Batres et al., 2012), attacking the criticizing party and its claims (Petriglieri, 2011; Bundy et al., 2013),<sup>6</sup> or inaction (Durand et al., 2019).

However, it remains unclear how the interplay between the criticizing party's salience and issue salience can affect organizational responses to stakeholders' criticism. For example, how does an organization respond to a salient criticizing party when it raises an issue which is not perceived to be salient by the organization's stakeholders? How does an organization react to a powerless and illegitimate party that has raised an issue which is perceived as salient by its stakeholders? We try to shed light on these questions and better explain the variation in organizational responses by

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<sup>6</sup> Durand et al., (2017) note that when the costs of mobilizing resources outweigh the benefits, organizations do not address even the high salience issues. In fact, organizations are *willing* to address the issue but are not *able* to. However, not addressing an issue does not mean that organizations do not deliver any response (inaction). Not addressing salient issues may generate huge performance and reputational losses for the organization, putting its survival at risk (Pache & Santos, 2010). Therefore, it is plausible to assume in these situations that even though the organization will not address the issue, they will deliver some form of response to avoid survival threats.

considering the convergence and divergence between the criticizing party's salience and the salience of the issue that it raises.

### **Organizational resource reconfiguration capabilities**

Thus far we have suggested that the concurrence and interplay of the criticizing party's perceived salience by the organization's managers and perceived issue salience by the organization's stakeholders may predict the organization's responses to stakeholders' criticism. We turn now to the organization's resource reconfiguration capabilities as an important factor in determining its responses to criticism.

Any criticism may put some of the organization's key resources at risk of being withdrawn by the criticizing party or other stakeholders. Previous studies have argued that some organizational capabilities (e.g., the capability to adapt an old technology to a new green technology) can help the organization protect the resources that are at risk of being withdrawn by the criticizing party or other stakeholders (Delmas & Montes-Sancho, 2010; Perez-Batres et al., 2012; Stevens et al., 2005). For example, Durand et al., (2019) argued that when the benefits of using a resource exceeds its costs, the organization can mobilize its underutilized resources to substantively accommodate its stakeholders' normative pressures so that the criticizing party does not pull important resources out of the organization.

However, organizations may have developed other types of capabilities that can help them replace at a low cost (Barney, 1991; Barney, 1995) those resources that are at risk of being withdrawn by the criticizing party or other stakeholders. More precisely, we argue that the organization's resource reconfiguration capabilities refer to its abilities to efficiently integrate external resources with internal ones and to redeploy or recombine internal resources (Folta, Helfat, & Karim, 2016; Karim & Mitchell, 2000; Karim & Capron, 2016). Thus, these capabilities can grant

the organization the possibility to resist the demands of the criticizing party or stakeholders who perceive those demands as salient by replacing the resources of that criticizing party or other stakeholders. This argument resonates with recent studies showing that organizations can rely on external resources when they face stakeholders' criticism (Lee & Lounsbury, 2015; Zietsma & Winn, 2008). For example, one study about small Dutch bars showed that those bars under pressure by regulatory agencies to ban smoking relied on the resources provided by their communities to resist the demands of regulatory agencies (Simons, Vermeulen, & Knobens, 2016).

Although organizations can have access to internal or external resources as potential substitutes for the jeopardized resources (Lee & Lounsbury, 2015; Zietsma & Winn, 2008), the actual replacement of resources with new ones may be costly for several reasons. First, the integration of the new external resources with internal resources may be subject to coordination costs arising from complexities in creating effective linkages between existing and new resources (Hashai, 2015; Zhou, 2011). Second, the redeployment of existing internal resources (Anand & Singh, 1997) to replace withdrawn resources can be prone to adjustment costs (Argyres, Mahoney, & Nickerson, 2019) generated by difficulties in transferring resources and disruption to the existing operations that are dependent on the resources that will be redeployed (Helfat & Eisenhardt, 2004). Third, the recombination of the remaining internal resources may also not generate sufficient synergies (Davis & Thomas, 1993) to compensate the losses caused by the criticizing party's or stakeholders' resource withdrawal.

In these situations, according to extant literature on resource reconfiguration (e.g., Folta, Helfat, & Karim, 2016; Karim & Mitchell, 2000; Karim & Capron, 2016), some organizations may have integration capabilities that can reduce coordination costs between external resources and existing resources (McGrath & Singh, 2016), redeployment capabilities that can reduce adjustment

costs of transferring internal resources to the operations that were previously using the withdrawn resources (Sakhartov & Folta, 2014; Sakhartov, 2018), and recombination capabilities that increase synergies from sharing resources with operations that were previously using the withdrawn resources (Karim & Kaul, 2014). Thus, organizations that have such capabilities can, at a low cost, substitute the resources which might be withdrawn by the criticizing party or other stakeholders (Barney, 1991).

Overall, taking into account the possibility that organizations may have capabilities that allow them to substitute the resources that are under threat of being withdrawn by the criticizing party or other stakeholders – instead of needing to protect those resources – renders a more complete picture of how organizations can respond to stakeholders' criticism. For example, previous studies have argued that organizations can use slack or underutilized resources to engage in the activities that are demanded by that party (i.e., accommodation) (Durand et al., 2019; Perez-Batres et al., 2012). In contrast, we argue that in the presence of reconfiguration capabilities (e.g., redeployment capabilities) organizations may be able to, at a low cost, redeploy those slack or underutilized resources as substitutes for those resources that are at risk of withdrawal. In the next section, we discuss how the interplay among these capabilities, the salience of the criticizing party, and the salience of the raised issue can determine organizational responses to stakeholders' criticism.

### **Criticizing Party's Salience, Issue Salience, Resource Reconfiguration Capabilities, and Organizational Responses**

As portrayed in Figure 1-2, we characterize different types of organizational responses to criticism. Prior literature has considered either the salience of the criticizing party or the issue it has raised, along with the organization's resource protection capabilities, as relevant antecedents of

organizational responses to stakeholders' criticism. We complement and extend this prior literature by discussing how the interplay between the criticizing party's salience, issue salience, and the organization's resource reconfiguration capabilities can lead in tandem to different types of organizational responses. We specifically look at six categories of responses, i.e., minimal action (inaction, denial, or verbal retaliation), accommodating substantially, accommodating insubstantially, replacing the criticizing party's resources, replacing other stakeholders' resources, and influencing other stakeholders. As illustrated in Figure 1-2, when the criticizing party raises an issue, the organization evaluates the salience of that party, the salience of the issue raised (based on the feedback from the organization's stakeholders), and its own reconfiguration capabilities. Based on these evaluations, the organization chooses a response to the stakeholders' criticism.

-----Insert Figure 1-2 about here-----

### **Convergence between perceptions of the criticizing party salience and issue salience**

***Low salience of the criticizing party and low issue salience.*** When the criticizing party is perceived to have low salience (i.e., low power and legitimacy) and the evaluation of organizations' stakeholders is that the issue raised has low salience (low issue legitimacy, urgency, and consistency with the organizations' identity and strategic frame), the organization's response will be minimal action (i.e., inaction, denial, or verbal retaliation). A low-salience criticizing party cannot impose significant damages on the organization (Eesley and Lenox, 2006; Mitchell et al., 1997; Pfeffer & Salancik, 1978). Also, from a resource perspective, the criticizing party's low power over the organization means that the party has unimportant resource relations with the organization (Frooman 1999).<sup>7</sup> Hence, whether or not the organization has resource reconfiguration capabilities

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<sup>7</sup> According to Frooman (1999: 195), one actor has power over an organization when it is "supplying another with a resource that is marked by (1) concentration (suppliers are few in number), (2) controllability, (3) non-mobility, (4) non-substitutability, or (5) essentiality." Hence a powerless party can either provide the organization with resources that are *not* marked with these five characteristics or have no resource relationships with the organization. If a party is providing

to replace the criticizing party's resources at a low cost becomes irrelevant for the organization. In addition, the perception of the issue's low salience by the organization's other stakeholders translates into less motivation for them to demand an accommodating response from the organization or to sever ties with it. Hence, an organization does not need to influence these stakeholders and convince them to keep their resources inside the organization. Moreover, because these stakeholders have little motivation to withdraw resources from the organization, it will not need to replace the resources of these stakeholders. Finally, accommodating responses can also create long-term commitment to a low-salience issue raised by a low-salience party and use up a considerable amount of organizational resources (Durand et al., 2019). Put together, the overall negligible potential damage from the criticizing party and organization's other stakeholders make other responses unnecessary.

In this situation, the organization resorts to responses that require a minimum level of action or engagement of resources. These responses can range from totally ignoring the criticism (inaction) to denying the criticizing party's allegations (Dutton & Dukerich, 1991; Elsbach & Kramer, 1996) or verbally retaliating against the criticizing party or its claims (Petriglieri, 2011; Sluss & Ashforth, 2007). While a thorough investigation of the factors that can affect an organization's selection of each of these responses is beyond the scope of this paper, we briefly discuss the role of issue repetition as an exemplary factor that might be relevant for the organization's selection of one response over other different minimal action responses. The criticizing party may repeat its claims in the future (e.g., activists usually run a long-term campaign targeting a limited number of organizations). The repetition of the criticizing party's claims, if not responded to, challenged, and

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resources to the organization which do not have these five characteristics, the likelihood of them criticizing the organization is very low as the organization can easily cut ties and distance itself from this party. Thus, only those powerless criticizing parties that do not have meaningful resource relationships are considered in our paper.

discredited by the organization, may eventually influence the perception of the organization's other stakeholders about the salience of the issue and make them sever ties with the organization. To avoid this problem, the organization may attack the criticizing party to discredit the basis of its claims or deny those claims. However, there is always a trade-off between giving unnecessary voice and publicity to the criticizing party (Berger, Sorensen, & Rasmussen, 2010) and deterring the criticizing party from repeating its claims in the future. Therefore, before attacking the criticizing party, the organization should ensure that the benefits of such aggressive retaliation exceed its costs (i.e., giving unnecessary voice to the criticizing party). We then propose:

*Proposition 1: When the criticizing party's salience is low for the organization and the issue salience is low for the organization's other stakeholders, the organization's response is more likely to be minimal action (inaction, denial, or verbal retaliation) than other types of response.*

**High salience of the criticizing party and high issue salience.** When the criticizing party is perceived to have high salience (i.e., high power and legitimacy) and the organization's stakeholders perceive the issue to be salient (high issue legitimacy, urgency, and consistency with the organization's identity and strategic frame), the organization is likely to choose a response that represents a substantial accommodation. A criticizing party which has high power over the organization and is perceived to be legitimate can seriously sanction the organization by taking important resources out of it (Frooman, 1999; Eesley and Lenox, 2006; Mitchell et al 1997). The organizational loss from resource withdrawal can become even more significant when the organization's stakeholders perceive the issue as salient and do not observe the organization addressing that issue, and thus start severing ties with it (Jensen, 2006). In this situation, minimal action (inaction, denial, or verbal retaliation) does not compensate the potential damages that may be imposed by the criticizing party or other stakeholders and does not deter the criticizing party from pursuing their criticism, as this party has high power over the organization. In addition, from a resource perspective, the salient criticizing party provides or has control over the provision of

resources that are marked by “non-substitutability” (Frooman, 1999: 195) among other factors. Hence, the managers’ perception of a criticizing party’s salience already takes into account that the organization has limited resource reconfiguration capabilities for replacing the resources that such a party provides or has control over. Moreover, when the organization’s other stakeholders perceive the raised issue to be salient, it is unlikely that they will provide resources to the organization that can act as a substitute for the criticizing party’s resources.

As a result of these constraints, the organization does not have the ability to replace the resources of the powerful criticizing party. Even if the organization has reconfiguration capabilities to replace at a low cost the resources of non-criticizing stakeholders, the replacement of these resources does not stop the salient criticizing party’s resource withdrawal from the organization, making replacing other stakeholders’ resources a pointless response. Similarly, when the powerful and legitimate criticizing party can by itself inflict material damage on the organization, trying to influence other stakeholders so that they keep their resources inside the organization is an irrelevant response, as it does not reduce the criticizing party’s motivation to sanction the organization.

Put together, low organizational reconfiguration capabilities to replace the resources of a salient criticizing party and considerable potential damages from the resource withdrawal by that party and/or other stakeholders who evaluate the raised issue as salient can lead the organization to choose an accommodative response to the criticism. Furthermore, we argue that in this situation, the organization is more likely to prefer substantial accommodation to insubstantial accommodation, (i.e., symbolic or rhetorical response) (Crilly et al., 2012) because of three reasons. First, because all the organization’s stakeholders (i.e., the criticizing party and non-criticizing parties) would expect an accommodative response from the organization, if in the future they find out about the concealment of the criticized practice or behavior (e.g., incorrect waste disposal), its decoupling from policy (e.g.,

a zero waste disposal policy), or the lack of an action that was previously promised (e.g., reducing waste disposal by 50 percent in the next year), the potential punishment imposed by them would be greater compared to the situation where the organization's non-criticizing stakeholders do not perceive the issue to be salient and hence are less likely to punish the firm for its fake promises or concealed actions.

Second, the fact that all of the organization's stakeholders monitor an organization's response to the raised issue increases the costs of concealing decoupled practices (Oliver, 1991). For example, if an organization makes fake promises to reduce the level of its waste disposal and all its stakeholders (e.g., media, activists, the public, and suppliers) are sensitive to this issue, then the organization may suffer the consequences of its stakeholders not finding any evidence of its meeting its fake promises and real level of waste disposal.

Third, one can argue that insubstantial accommodation (i.e., symbolic or rhetorical) can provide enough time for the organization to develop reconfiguration capabilities to replace the resources of the criticizing party and other stakeholders considering the issue as salient. However, this possibility is unlikely because developing the capabilities needed to replace all of the stakeholders' resources may require a considerable amount of time and sizeable investments for the organization (Dierickx & Cool, 1989). All together, we propose:

*Proposition 2: When the criticizing party's salience is high for the organization and the issue salience is high for the organization's other stakeholders, the organization's response is more likely to be substantial accommodation than other types of response.*

### **Divergence between perceptions of the criticizing party salience and issue salience**

***High salience of the criticizing party and low issue salience.*** When an organization's managers perceive the criticizing party to have high salience, but the organization's stakeholders

send signals that they perceive the issue not to be salient, the organization typically chooses to respond, and its response depends on its resource reconfiguration capabilities.

Because a salient criticizing party can inflict material damage on the organization by withdrawing important resources from it, minimal action responses (i.e., inaction, denial or verbal retaliation) are insufficient to compensate for such potential damage. Responses such as influencing other stakeholders or replacing other stakeholders' resources are useless, as they do not prevent the criticizing party from sanctioning the organization.

Before the organization receives any signals from other stakeholders about their evaluation of the issue salience, managers are aware of the fact that a powerful criticizing party provides or has control over the provision of non-substitutable resources to the organization (Frooman, 1999) and the capacity to bestow legitimacy on the organization (Eesley & Lenox, 2006). However, based on how the issue is perceived by the organization's other stakeholders, it may access new resources from these stakeholders who can potentially substitute for the criticizing party's resources (Barney, 1991). For example, research has shown that although government is in general a powerful and legitimate stakeholder, when the community perceives governmental requests as illegitimate, it can provide resources to criticized organizations so that they resist the government's "illegitimate" demands (Lee & Lounsbury, 2015; Rowley & Moldoveanu, 2003; Simons et al., 2016). In these situations, the organizations' resource reconfiguration capabilities (and especially integration capabilities with external resources) can help such organizations integrate the resources from stakeholders into the internal resources at a low cost, facilitating the substitution of the salient criticizing party's resources and minimizing the potential damages caused by that party's resource withdrawal.

A key assumption in our argument is that the costs of substantial or insubstantial accommodation are sufficiently high that in the presence of integration capabilities, organizations prefer to replace the resources of the salient criticizing party and avoid the costs of accommodation. While previous literature has documented that substantial accommodation is usually costly because it requires material changes in technologies, operating markets, and possible identity conflicts inside the organization (Ashforth & Mael, 1989; Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010; Berrone, Fosfuri, Gelabert, & Gomez-Mejia, 2013), there are strong theoretical arguments that insubstantial accommodation can be costly as well. Symbolic responses can become costly because they put the organization under the risk that its non-accommodation may eventually be revealed, which can result in punishment by the criticizing party or other stakeholders in the future (Oliver, 1991; Pache & Santos, 2010). Similarly, if an organization delivers a rhetorical response, its stakeholders may expect the implementation of the promised action (Cho, Laine, Roberts, & Rordigue, 2015; Vergne, Wernicke, & Brenner, 2018). For example, Cerberus Capital Management made a public statement that it would sell all investments in Freedom Group, the company that manufactured the XM-15 assault rifle used in the 2012 massacre at Sandy Hook Elementary School. However, the media, families of victims, and politicians started to criticize the investment company after it did not keep its promise: “Cerberus has not sold a single penny of its 94 percent stake in Freedom Group ..., despite making a public commitment to divest in the days immediately following the shooting. ... Rangel, Eaton, and more than 35 advocacy groups will deliver a letter telling Cerberus CEO Stephen Feinberg to keep his promise without further delay.”<sup>8</sup> In sum, we argue that when organizational resource reconfiguration capabilities are high enough to

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<sup>8</sup> <https://globalgrind.cassiuslife.com/3866342/newtown-families-demand-cerberus-capital-management-end-investment-in-freedom-group-gun-manufacturer>, accessed on March 2019.

compensate the damages of the criticizing party's resource withdrawal at low cost, then the organization is likely to favor replacing the criticizing party's resources over accommodative responses.

*Proposition 3: When the criticizing party's salience is high for the organization and the issue salience is low for the organization's other stakeholders, if the organization's resource reconfiguration capabilities are high, its response is more likely to be replacing the criticizing party's resources than other types of response.*

On the contrary, an organization with low resource reconfiguration capabilities may struggle to integrate, in an economic way, its internal resources with the external resources provided by those stakeholders who do not perceive the issue as salient, making the replacement of the criticizing party's resources an unlikely response. Hence, given this lack of capabilities and the fact that the damages of a salient criticizing party can be detrimental to the organization, the organization will choose an accommodative response to the demands of the criticizing party. Nonetheless, we argue that in this situation the organization is more likely to choose insubstantial accommodation (i.e., a symbolic or rhetorical response) (Bansal & Clelland, 2004; Delmas & Montes-Sancho, 2010) instead of substantial accommodation because of three reasons. First, as other stakeholders do not perceive the issue raised by the criticizing party to be salient, it is only the criticizing party that expects to observe an accommodative response from the organization. Hence, compared with the situation where all stakeholders expect an accommodative response, if the criticizing party finds out that the organization's responses have been merely symbolic, the overall damage of potential punishment would be less and limited only to the criticizing party's pulling out of resources. Second, the organization need only hide its decoupled practices from the criticizing party, leading to lower concealment costs. Third, when resources from other stakeholders are available to the organization (because the stakeholders do not evaluate the issue as salient), symbolic or rhetorical accommodation may provide enough time for the organization to develop capabilities to integrate other stakeholders' resources at later stages and ultimately replace the resources of the criticizing

party. In summary, as the potential damages and concealment costs are lower when only the criticizing party (compared with all parties) is expecting an accommodative response from the organization, and as there is opportunity for future distancing from the criticizing party by developing reconfiguration capabilities, the organization will be more likely to choose an insubstantial accommodation response to the stakeholder's criticism.

*Proposition 4: When the criticizing party's salience is high for the organization and the issue salience is low for the organization's other stakeholders, if the organization's resource reconfiguration capabilities are low, its response is more likely to be insubstantial accommodation than other types of response.*

**Low salience of the criticizing party and high issue salience.** When the organization's managers perceive the criticizing party to have low salience, but the organization's stakeholders perceive the issue salience as high, there is a divergence between the organization's perception and that of its stakeholders. Similar to when the salience of criticizing party is high and its issue salience is low, an organization's response depends on its resource reconfiguration capabilities. A criticizing party with low power and legitimacy (Agle et al., 1999) cannot sanction the organization by restricting the provision of its own resources or those provided by other stakeholders (Frooman, 1999). However, if an organization's stakeholders perceive the issue raised by a powerless and illegitimate criticizing party as salient, these stakeholders may expect the organization to address the issue and accommodate the demands of that party, or otherwise there is the potential that they will withdraw their resources. For example, when a group of activists criticize an organization because of its negative impact on the climate, even if the activists' group is small, the organization's stakeholders may demand that it address the activists' concerns because they evaluate the issue of climate change as legitimate and urgent.

The disparity between perceptions of managers and those of stakeholders generates a conundrum for the organization about the way it needs to respond to the criticism. Delivering minimal action (i.e., inaction, denial, or verbal retaliation) does not decrease the salience of the issue

for stakeholders as they have already evaluated the issue as salient. If the criticizing party is powerless and illegitimate, the damages it alone may cause are negligible, but replacing this criticizing party's resources is an irrelevant response for the organization because it is not the criticizing party but other stakeholders who can withdraw significant resources, hence damaging the organization. To resolve the puzzle of divergent perceptions, the organization can choose from among three options: accommodating the criticizing party, influencing other stakeholders and persuading them to keep their resource inside the organization, or replacing the resources of these other stakeholders and distancing from them.

We argue that an accommodative response (substantial or insubstantial) is the least likely in this situation. Apart from the previously discussed costs of substantial or insubstantial accommodation (i.e., investment costs, identity costs, non-conformity revealing costs, and concealment costs), there is an additional important cost specific to this scenario in which the organization's managers do not perceive the criticizing party is salient, but the organization's stakeholders believe the issue is. This cost is associated with the fact that accommodating the demands of a powerless and illegitimate party – because the organization's other stakeholders perceive those demands as salient – may unnecessarily empower the powerless and illegitimate criticizing party or other similar parties by giving them the courage to criticize and pressure the organization on other issues in the future, in hope of reaching the same outcome (i.e., the organization's accommodation). The theoretical rationale behind this argument stems from the “opportunity structure” concept in the social movement literature, which explains that activist groups target those organizations that are likely to respond positively to their demands, leading to more favorable campaign outcomes for those activists (Briscoe, Chin, & Hambrick, 2014; Briscoe & Gupta, 2016). Accordingly, an organization that accommodates (substantially or insubstantially) a

powerless and illegitimate criticizing party can be perceived as an attractive target for the future demands of the same criticizing party or other powerless and illegitimate parties. To avoid this future repetition of demands and the costs associated with accommodations following those demands, the organization may refuse to accommodate the first raised issue, and it may prefer responses that do not lead to the “trap of empowering the powerless party” – i.e., influencing other stakeholders or replacing their resources.

The choice between influencing stakeholders and replacing their resources depends on the organization’s resource reconfiguration capabilities. In the absence of such capabilities, it becomes very costly or simply impossible to redeploy or recombine internal resources, or to integrate external resources with internal resources, in order to compensate for the potential withdrawal of these stakeholders’ resources. Hence, the organization can try to influence its stakeholders so that they maintain their support.

Organizations can utilize several influencing strategies. First, they can lobby other stakeholders and try to justify organizational barriers in addressing the issue, to reach a middle-ground “behind closed doors” solution that will address the issue in a way that does not signal accommodation to the criticizing party (Evans, 1996), or they can provide incentives to convince the stakeholders to maintain ties with the organization. For example, Fremeth et al. (2016) showed that organizations make greater financial campaign contributions to elected politicians when organizations face greater contestation from stakeholders in regulatory agency hearings. Second, the organization can send positive signals about its legitimacy and the legitimacy of its actions which are unrelated to the issue (Du, 2015). For example, it can publicize its charity donations (Brammer & Millington, 2005; Wang & Qian, 2011) to deflect the attention of its stakeholders’ from the salient issue (Barnett, 2014). We then suggest:

*Proposition 5: When the criticizing party's salience is low for the organization and the issue salience is high for the organization's stakeholders, if the organization's resource reconfiguration capabilities are low, its response is more likely to be influencing other stakeholders than other types of response.*

However, the organization's responses may be different if it has high resource reconfiguration capabilities that can help it replace the stakeholders' resources at a low cost. An example is the case of activists who boycott organizations that manufacture harmful products such as lethal weapons. While lobbying politicians to ensure their support can be one strategy (McDonnell & Werner, 2016a, 2016b), those organizations that have higher capabilities in approaching, interacting with, and integrating with new politicians can replace – at a low cost – sensitive-to-weapons-production politicians with those for whom the issue is not salient.

Fundamentally, our argument is that possessing higher reconfiguration capabilities can lower the organization's costs of replacing other stakeholders' resources, and replacing those resources becomes a preferred response compared with influencing those stakeholders. In fact, influencing those stakeholders can be associated with several costs, such as a lengthy process of justifying the constraints in accommodating the demands of the criticizing party (Elangovan, 1995; Ross & Conlon, 2000) or of reaching a middle-ground solution, and wasting the positive publicity deriving from philanthropic organization actions not related to the salient issue (because they may be perceived as hypocritical) (Cho et al., 2015; Vergne et al., 2018).

In addition, the organization's stakeholders who perceive the issue as salient may fear to be associated with the criticized organization and the surrounding stigma (Hudson, 2008). Thus, they may reject all the influencing attempts from the organization and may distance themselves from it to avoid the stigma spillover (Pontikes, Negro, & Rao, 2010). For example, McDonnell & Werner (2016a) found that politicians are likely to refund the political contributions of organizations targeted by social protests because of fear of association with them. Thus, if the organization's resource reconfiguration capabilities are sufficiently high, the

prospect of this distancing behavior of stakeholders can motivate the organization to avoid trying to influence them in the first place. Thus, we propose that:

*Proposition 6: When the criticizing party's salience is low for the organization and the issue salience is high for the organization's stakeholders, if the organization's resource reconfiguration capabilities are high, its response is more likely to be replacing stakeholders' resources than other types of response.*

## **Discussion and Conclusion**

This paper set out to theorize about when and how organizations respond to their stakeholders' criticism. We provide a conceptual model for understanding the factors that influence the organization's choice of different responses to such criticism. Specifically, we argue that the interplay among three factors – i.e., the criticizing party's salience for the organization, the issue salience perceived by the organization's stakeholders, and the organization's resource reconfiguration capabilities – determines the heterogeneity of organizational responses. In our model, we build on the underexplored areas of the salience literature and incorporate the interplay between the criticizing party's salience and the issue salience, and of the literature on the organization's ability to respond to stakeholders' criticism. More precisely, we suggest that when an organization has high internal (i.e., redeployment and recombination) and external (i.e., integration) capabilities, it is able to substitute the resources that are at risk of withdrawal by the criticizing party or other stakeholders instead of protecting those resources.

### **Salience of the criticizing party and of its raised issue**

Previous literature on the organization's responses to criticism has mainly focused on its managers' perception of the criticizing party's salience (Agle et al., 1999; Bundy et al., 2013; Durand et al., 2019; Mitchell et al., 1997). Only a few studies have noted the importance of issue-salience perception by the organization's stakeholders (Eesley and Lenox, 2006; Neville and Menguc, 2006). Building on these studies, in our model we explicitly consider these concepts separately and argue

that the interplay between these two types of salience can affect the choice of organizational response (i.e., minimal action, substantial accommodation, insubstantial accommodation, replacing the criticizing party's resources, replacing other stakeholders' resources, and influencing stakeholders.). We argue that when there is convergence between these perceived saliences, organizational responses are different from when they diverge. Thus, not taking into account the interplay between the criticizing party's salience (Mitchell et al., 1997) and its raised issue salience (Bundy et al., 2013; Durand et al., 2019) can obfuscate the heterogeneity of organizational responses. By considering this interplay, we can explain why contrary to prior theoretical predictions (e.g., Mitchell et al., 1997), organizations sometimes do not respond in accommodative ways to a powerful and legitimate criticizing party (for a low-salience issue) and conversely why they may deliver an accommodative response to a criticizing party deemed powerless and illegitimate (for a high-salience issue).

We also depart from recent work in issue salience (Bundy et al., 2013) by considering the salience of the issue as perceived by the organization's stakeholders and not its managers. We argue that managers' perception of the issue's salience will ultimately be shaped by that of the stakeholders, which will interact with the salience of the party who is raising the issue to determine the organization's response.

Considering the issue salience perceived by the organization's stakeholders also allows a deep understanding of the conditions that make organizational decoupling practices costly. In particular, we argue that decoupling can be costly not only because organizations internally institutionalize misconduct (MacLean & Behnam, 2010), but also because it might encourage a powerless illegitimate criticizing party or other similar parties to repeat different demands in the future and put

pressure on the organization to also address those demands when the organization's stakeholders perceive the criticizing party's current demands to be salient.

In light of these considerations, more scholarly work is needed to understand how different types of salience elements – for example, the criticizing party's legitimacy or its issue legitimacy, whether pragmatic, moral, or cognitive (Suchman, 1995), may influence the organization's choice of responses. More important, such research could examine how the organization can deliver different types of responses depending on the level of evaluation consensus within the nexus of the organization's stakeholders about the legitimacy of the criticizing party or its claims.

### **Resource reconfiguration capabilities**

A central concept in our model is the reconfiguration capabilities that help the organization replace at a low cost those resources which are at risk of withdrawal by the criticizing party or other stakeholders. Prior studies have noted the importance of the organization's capabilities to *protect* the resources that are under threat of being withdrawn by the criticizing party or other stakeholders as an antecedent of the organization's responses to stakeholders' criticism (Delmas & Montes-Sancho, 2010; Durand et al., 2019; Perez-Batres et al., 2012). However, we posit that resource reconfiguration capabilities can also explain organizational responses to stakeholders' criticism. More specifically, organizations with high resource reconfiguration capabilities can distance themselves from a salient criticizing party and those stakeholders who deem the issues raised by it as salient, and can avoid accommodation, which according to past literature is usually the response of an organization with high resource protection capabilities. Furthermore, our model explains why in cases where the organization does not have high reconfiguration capabilities, even a powerless and illegitimate criticizing party might succeed in strong-arming the organization, through other stakeholders, to accommodate its demands.

Our work also assimilates insights from the resource-based view into the literature on resistance to stakeholders' demands (Greenwood et al., 2011; Oliver, 1991; Pache & Santos, 2010; Raaijmakers et al., 2015), and suggests that the organization's high resource reconfiguration capabilities may help the organization resist more successfully the demands of the criticizing party. By building on the concept of reconfiguration capabilities, we also advance the growing literature about the organization's *ability* to respond to stakeholders' criticism (Durand et al., 2019; Julian et al., 2008; Stevens et al., 2005). First, we argue that organizations can also deploy external resources provided by its stakeholders to respond to the criticism. Hence, organizations should consider the costs and benefits of using such resources in addition to internal resources. Second, we explain that beyond the organization's ability to deploy underutilized resources to deliver substantive or symbolic accommodative responses, the organization might be able to deploy similar resources at a low cost to deliver non-accommodative responses such as replacing the criticizing party's or other stakeholders' resources.

In addition, including reconfiguration capabilities in our model can shed light on one empirical inconsistency in the stakeholder salience literature. Prior empirical analyses have reported both a positive (Agle et al., 1999) and a negative association (Easley & Lenox, 2006) between the criticizing party's legitimacy and the organization's accommodative response to the criticism. We propose that this inconsistency might derive from the organization's ability to substitute the resources of a legitimate criticizing party or of those stakeholders who consider the criticizing party's claims as legitimate. If organizations that are under criticism by environmental activists to adopt new policies have in general a great capability in transferring employees between different departments or recombining different departments to make new ones with the same level of efficiency, then instead

of adopting the environmentally friendly policies, those organizations may replace the employees who support the activists and perceive their demands as legitimate.

Finally, future work can explore how different types of resources (e.g., financial versus reputational) provided by the criticizing party can lead to the organization's selection of heterogeneous responses. More research is needed to examine how organizations respond based on different types of criticism (e.g., campaigns, shareholder resolutions), criticizing parties (e.g., consumers), different types of managers (e.g., morally or instrumentally motivated (Weitzner & Deutsch, 2015) and of organizational relationships with stakeholders (e.g., arms-length or reciprocal (Bridoux & Stoelhorst, 2014)).

***Organizational responses: Replacing resources.*** Advancing existent research on organizational responses to stakeholders' criticism such as accommodative responses (substantial or insubstantial), minimal action (Bundy et al., 2013; Delmas & Montes-Sancho, 2010; Durand et al., 2019; Eesley & Lenox, 2006; Mitchell et al., 1997; Perez-Batres et al., 2012), and influencing other stakeholders (McDonnell & King, 2013), we theorize about other responses underexplored thus far. They include replacing the criticizing party's resources or other stakeholders' resources and contribute to the literature on the organization's management of relationships with stakeholders (Henisz, Dorobantu, & Nartey, 2014) by providing a dynamic picture of the organization's relations with its stakeholders (Rowley, 1997). Departing from the assumption that the link between the organization and its stakeholders is a long-term and static one (Laplume, Sonpar, & Litz, 2008), we propose that organizations can strategically and actively disengage from their stakeholders, replace their resources with internal resources or resources from external actors, and reshape their relationships with their stakeholders (Fassin, 2010; Nartey et al., 2018). In fact, one reason that can explain why many organizations still do not implement CSR practices (Pedersen & Gwozdz, 2014)

could be that they are able to easily replace the resources of stakeholders demanding those practices. Future research can examine whether organizations can benefit from the disengagement from stakeholders and reshuffling of links with them, especially in hostile, uncertain environments (Blake & Moschieri, 2017) or in fast-changing industries (Christensen, Suárez, & Utterback, 1998), where it may be essential to frequently change ties from old stakeholders to new ones.

Although this study highlights some of the boundary conditions for the organizational choice of resource-replacing responses, more explorations are necessary to understand the additional factors that can explain such responses. One potentially interesting antecedent of such responses is the organization's ability to recover from adversity (DesJardine, Bansal, & Yang, 2019).

Organizations with high levels of resilience are able to tolerate performance falls or resource shortages for a longer time relative to organizations with low levels of resilience. Resilience may enable organizations to replace the criticizing party's or other stakeholders' resources with resources which are not perfect substitutes and to improve the efficiency of the new resources over time. Resilient organizations may be able to pass on or distribute to their stakeholders a part of the outcome losses that result from employing imperfect substitutes (Bridoux & Stoelhorst, 2014), for example, by reducing employees' salaries or dividends distributed among shareholders.

### **Managerial implications**

In addition to contributions to the existing literature, our model offers two managerial implications. The first implication relates to the managers' role in shaping the structure of the organization's resources. We argue that organizations can actively resist the demands of their stakeholders if they can replace the resources of those stakeholders. To this end, managers should constantly monitor external (i.e., integration) and internal (i.e., redeployment and recombination) resource reconfiguration capabilities. For example, as much as having an agile manufacturing system

may be important, having the capability of generating and deploying substitute resources can be critical as well.

The second implication pertains to a trade-off that managers may face in the wake of stakeholders' criticism. Managers should carefully assess the present and future benefits and costs of delivering different types of responses. Some responses such as symbolic accommodation may generate instant benefits for the organization because the criticizing party or other stakeholders remove their pressure from the organization after they observe accommodation. Nonetheless, maintaining the relationship with these stakeholders may reveal the fact that the response was merely symbolic, and result in severe sanctions on the organization by its stakeholders. On the contrary, replacing the criticizing party's or other stakeholders' resources may initially put the organization in the fragile situation of resource loss or operating with new and unfamiliar resources. However, over time, as the organization severs ties with the criticizing party and those stakeholders who perceive the criticism as salient, it is freed up to pursue strategic goals that were once objectionable to its stakeholders.



**Chapter 2**  
**(Essay 2)**

## HOW DO CEOs COPE WITH THE THREAT OF CORE STIGMA TRANSFER?

### Abstract

This study examines how CEOs react to the threat of core stigma transfer from their firms. Building on stigma research and upper echelons literature, we propose that the threat of core stigma transfer increases the likelihood that CEOs join the board of other firms as a hedging strategy. We test our hypotheses using a novel, hand-collected dataset of 408 CEOs in 205 firms in the global arms industry, between 1998 and 2017. In the analysis of the boundary conditions of CEOs joining other firms' boards, we examine those factors that make CEOs vulnerable to the harm of core stigma transfer and those factors that make other firms receptive to appointing tainted CEOs to their boards. We respectively find that CEOs' lower levels of reputational and social capital and the attacked firms' status and relative performance, positively moderate the CEOs' joining other firms' boards. Our findings on how firms' upper echelons cope with core stigma advance current research on organizational stigma, which has mainly focused on firms' lower echelons' responses to core stigma or the consequences of failure stigma for firms' upper echelons.

**Keywords:** CEOs, core stigma, reputational capital, social capital, stigma transfer, upper echelons,

Organizational stigma arises from the stakeholders' use of vilifying labels about an organization's possession of "a fundamental, deep-seated flaw that deindividuates and discredits the organization" (Devers, Dewett, Mishina, & Belisto, 2009: 157). This stigma can transfer to individuals working in the targeted firms (Hudson and Okhuysen, 2009; Warren, 2007), causing them economic and social damages (Pozner, 2008; Sutton and Callahan 1987). Reflecting the relevance of this phenomenon, management research is increasingly interested in understanding organizational members' responses to the threat of stigma transfer from their firms (e.g., Ashforth, Kreiner, Clark, & Fugate, 2007). On the one hand, studies on lower echelons have focused on the responses to core stigma, i.e. the stigma attached to working in firms with morally deviant nature of business (Hudson, 2008; Vergne, 2012). On the other hand, studies on upper echelons have analyzed the responses to failure stigma, i.e. the stigma resulting from discrete, anomalous, episodic negative events such as bankruptcy or financial misconducts (Pozner, 2008; Semadeni, Cannella, Fraser, & Lee, 2008; Sutton and Callahan 1987; Wiesenfeld, Wurthmann, & Hambrick, 2008). However, the outcomes of core stigma transfer for CEOs may be different from those of failure stigma transfer, due to the unique nature of core and failure stigma and the unique role of the CEOs in their firms.

Thus, in this study, we explore *whether and how organizations' upper echelons and specifically CEOs react to the threat of the core stigma transfer from their firms*. Beyond the current knowledge on how lower echelons react to core stigma or on how failure stigma affects upper echelons, it is important to render separate attention to how CEOs react to core stigma. First, CEOs, as the face of their firms (Love, Lim, & Bednar, 2017) and as such closely monitored by firms' stakeholders (Staw & Epstein, 2000) may be constrained in applying traditional techniques used by lower echelons to manage the threat of core stigma transfer, e.g. concealing (Hudson and Okhuysen, 2009; Stenger & Roulet, 2018) or distancing from the stigma (Ashforth et al., 2007). For example, CEOs whose firms

produce cluster munitions cannot distance themselves from or conceal their association with the stigma of weapon production as they are the most responsible people for their firms' products. Second, the outcomes of core stigma transfer for CEOs may be different from those of failure stigma transfer. Failure stigma signals CEOs' lack of leadership capability (Haleblian & Rajagopalan, 2006) or professional conduct (Pozner, 2008), leading to fewer board appointments in other firms. In contrast, core stigma stems from the morally deviant nature of a business (Hudson, 2008), e.g. manufacturing of arms, tobacco, or alcohol (Piazza & Perretti, 2015). Hence, CEOs who manage businesses tainted by core stigma, can still show leadership abilities and a successful record of professional conduct (e.g., no history of financial misconduct) and thus be appointed to the board of other firms (Cook & Glass, 2014; Georgakakis, Dauth, & Ruigrok, 2016).

Drawing from the organizational stigma research and upper echelons literature, we argue that facing the threat of core stigma transfer, CEOs may fear that their current and future positions be jeopardized (Wiesenfeld et al., 2008), because of the possible distancing of other executives (Elsbach & Bhattacharya, 2001; McDonnell & Werner, 2016; Westphal & Khanna, 2003), institutions (Jensen, 2006; Sullivan, Haunschild, & Page, 2007), and firms (Cowen & Marcel, 2011; Pozner, 2008) that are sensitive to stigma (Kulik, Bainbridge, & Cregan, 2008; Pontikes, Negro, Rao, 2010). Hence, we propose that CEOs may proactively look for alternative appointments—by joining the board of other firms— to cope with the fear of core stigma transfer and safeguard themselves against the potential loss of ties with those individuals and firms that are sensitive to stigma. CEOs' use of board -joining is a hedging strategy (Nalick, Kuban, Hill, & Ridge, 2019) to offset the potential risks associated with the stigma transfer. Underlying a hedging strategy is the commitment to a new option (in this case, sitting on the board of other firms) that can mitigate the potential

losses from an existing commitment (in this case, being the CEO of a firm in a morally deviant business).

We analyze a novel, hand-collected dataset that covers stakeholders' attacks on firms in the global arms industry and their CEOs between 1998 and 2017. This industry represents an ideal setting to examine CEOs' responses to the threat of core stigma transfer, as firms in this industry are frequently vilified by stakeholders because of their morally deviant behaviors, controversial products, and problematic values (Durand & Vergne, 2015). Hence, the CEOs of these firms are subject to the transfer of stigma. We find that an increase in the number of stakeholders' attacks on a firm's core business positively affects the likelihood that the targeted firm's CEOs join the board of other firms. When we explore the boundary conditions of this effect, we find that this likelihood increases as the CEOs' reputational and social capital decreases. This result suggests that CEOs recur to this hedging strategy especially when they have lower levels of reputational or social capital and are thus more vulnerable to the potential harm of core stigma transfer (i.e., losing current positions). But we find that this hedging strategy is less likely to happen when the attacked firms' status and relative performance decrease. This result indicates that other firms' receptivity to the appointment of a brushed-by-stigma CEO to their board decreases as the potential benefits from such an appointment diminish.

These findings contribute to the growing literature at the intersection of organizational stigma and upper echelons research. While the upper echelons literature argues that failure stigma damages CEOs (e.g., *decreasing* the likelihood that CEOs can join the board of other firms) (Arthaud-Day, Certo, Dalton, & Dalton, 2006; Semadeni et al., 2008), we show that core stigma can trigger a hedging strategy, which can *increase* the likelihood that CEOs join the board of other firms. One plausible explanation for our contrasting results is that while failure stigma signals CEOs' lack of

capability or professional conduct (Haleblian & Rajagopalan, 2006), core stigma stemming from stakeholders' attacks on the morally deviant nature of the firm that the CEO manages does not signal a lack of leadership ability. Hence, although core stigma may lead to a CEO's loss of ties with some executives or firms sensitive to stigma (Pontikes et al., 2010; Pozner, 2008), a CEO can develop alternative ties with the board of other firms that, despite the fear of courtesy stigma, might be interested in associating with the CEO or her firm.

In this respect, we contribute to the research on courtesy stigma. While this prior research focused on firms and individuals distancing themselves from a *person* associated with stigma (Cowen & Marcel, 2011; Goffman, 1963; Pontikes et al., 2010), we examine the boundary conditions of such distancing by other firms. We show that when other firms can benefit from such appointments (e.g., by associating with a high-status or high-performing firm managed by the CEO), they may become less sensitive to the damages of courtesy stigma from these CEOs and accept them as new members of their board of directors. These novel findings matter for studies on the link between stigma and executive boards (e.g., Withers, Hillman, Cannella, 2012), as they reveal the important distinction between types of stigma that a CEO experiences (i.e., failure or core) and the differential impact of each type on the appointment of these CEOs to the boards of other firms.

## **THEORETICAL BACKGROUND AND HYPOTHESES**

### **Stakeholders' attacks and the threat of stigma transfer to CEOs**

Core stigma—i.e., the disapproval of a firm's core attributes—can arise from a firm's stakeholders' use of labels condemning the nature of the firm's business that violates broad social norms (Hudson & Okhuysen, 2009), and is perceived to be morally deviant (Hampel & Tracey, 2017). Individuals working in these firms are subject to the transfer of core stigma (Hudson & Okhuysen, 2009; Pozner, 2007; Warren, 2007) and its negative consequences (Devers et al., 2009; Diestre & Santalo,

2019; Sutton & Callahan, 1987). For example, even after the legalization of cannabis in Canada, those individuals that mentioned working in this industry in their resumes struggled to find a new job in other industries.<sup>9</sup>

Although all individuals struggle to cope with the threat of core stigma transfer (Ashforth & Kreiner, 1999; Ashforth et al., 2007), CEOs may be in a more vulnerable situation when facing the threat of core stigma transfer. CEOs are perceived to be the most prominent figure and the “face” of their firms (Love et al., 2017). They are held accountable for the actions of their firms and over time become closely identified with their firms (Garbett, 1988; Reidenbach & Pitts, 1986). This visibility singles out CEOs in the eyes of stakeholders (Wiesenfeld et al., 2008), making them attractive targets for the transfer of stigma from their firms.

Unlike other organizational members who work in firms’ lower echelons, CEOs face constraints in using traditional ways of coping with core stigma transfer. These traditional ways include using positive (e.g., emphasizing the positive aspect of the firms’ activities) or negative (condemning the audiences) impression management (IM) techniques to change the audiences’ negative perception about the stigma (Ashforth et al., 2007), concealing or diluting the association with stigma (Hudson & Okhuysen, 2009; Jones & King, 2014; Reinmoeller & Ansari, 2016; Stenger & Roulet, 2018; Vergne, 2012), separating oneself from the stigmatized role or clients of the stigmatized job (Ashforth & Kreiner, 1999), or leaving the business (Durand & Vergne, 2015; Piazza & Perretti, 2015).

However, CEOs’ use of IM techniques may be counterproductive as it can further publicize the association with their firms (Durand & Vergne, 2015) and strengthen the core stigma transfer in the eyes of stakeholders. Moreover, the general visibility and prominence of CEOs, compared to

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<sup>9</sup><https://nationalpost.com/news/canada/stigma-worst-barrier-for-sex-workers-leaving-the-industry-study-finds>

other organizational members, restrict the CEOs' use of strategies such as stigma concealment, stigma dilution, or separation from stigma. For example, it would be highly unbelievable for the public audience(s) if Mrs. Hewson, the CEO of Lockheed Martin, announced that she is not responsible for the production of lethal weapons in Lockheed's factories. In fact, the media have repeatedly labeled CEOs' salaries in the arms firms as "blood money"<sup>10</sup>, directing the blame to CEOs.

Finally, leaving the controversial firm (Durand & Vergne, 2015; Piazza & Perretti, 2015) is also another unattractive option for CEOs. Stigma is a sticky concept (Goffman, 1963; Shantz, Fischer, Liu, & Levesque, 2019), lasting even when the CEO leaves the firm. For example, after the 2007 massacre of civilian people by Blackwater, which was a private military contractor in Iraq<sup>11</sup>, Erik Prince, the CEO of Blackwater, became the subject of huge media attacks because of his firm's role in the killing of innocent people. Even after 12 years, he is still the target of journalists' shaming with labels such as "Blackwater's dark prince"<sup>12</sup> or "Disgraced Blackwater founder Erik Prince".<sup>13</sup>

Given the greater visibility of the CEO compared to other organizational members and her constraints in using traditional ways of coping with core stigma, a CEO may seek alternative strategies to deal with the threat that core stigma transfer can pose on her current positions as CEO in the focal firm or board member in other firms.

### **CEOs' board-joining as a hedging response to potential core stigma transfer**

When CEOs are subject to the threat of core stigma transfer, because their firms are under stakeholders' attacks about their morally deviant business, CEOs may fear that their current and

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<sup>10</sup> <https://www.thedailybeast.com/he-made-the-gun-that-slaughtered-parklands-kids>

<sup>11</sup> [www.hrw.org/news/2007/12/14/blackwater-baghdad-it-was-horror-movie](http://www.hrw.org/news/2007/12/14/blackwater-baghdad-it-was-horror-movie)

<sup>12</sup> [www.forbes.com/return-of-erik-prince/#10f393d550aa](http://www.forbes.com/return-of-erik-prince/#10f393d550aa)

<sup>13</sup> [www.dailymail.co.uk/news/article-6992829/Erik-Prince-tried-teach-Project-Veritas-undercover-activists-spy-skills.html](http://www.dailymail.co.uk/news/article-6992829/Erik-Prince-tried-teach-Project-Veritas-undercover-activists-spy-skills.html)

future positions (e.g., board appointments) be jeopardized (Wiesenfeld et al., 2008). The possible transfer of this core stigma from the firm to its CEO can result in the distancing of other executives (Elsbach & Bhattacharya, 2001; Westphal & Khanna, 2003), institutions (e.g., charities) (Jensen, 2006; Sullivan, Haunschild, & Page, 2007), and firms (Cowen & Marcel, 2011; Pozner, 2008) that are sensitive to stigma (Pontikes et al., 2010). We argue that a plausible response that can hedge the risks of the potential core stigma transfer is the CEOs joining the board of other firms, which are not necessarily sensitive to the stigma.

Underlying a hedging strategy is the commitment to a new option (e.g., sitting on the board of a new firm) that can offset the risks (or losses) from an existing commitment (being the CEO of a firm with a morally deviant core business), without the need to abandon the current commitment and its possible gains (Nalick et al., 2019; Van Mieghem, 2003). Holding a CEO position has considerable economic and social benefits (e.g., high compensation and prestige) (Moriarty, 2005). Besides, stigma is a sticky label that CEOs will carry with them, even if they voluntarily exit the targeted firm (Goffman, 1963; Shantz et al., 2019). Hence, we argue that CEOs pursue alternative opportunities in other firms, in the form of board positions, in order to hedge the risks of possible core stigma transfer.

There are mainly two risks associated with core stigma transfer. The first risk refers to the possible dismissal from the current CEO position. A firm facing stakeholders' attacks may dismiss its CEO—even in a symbolic way—as a house cleaning strategy (Marcel & Cowen, 2014) to reduce the pressures of the stakeholders. The second risk pertains to the CEO's possible loss of relational ties (e.g., losing board positions in other firms) with firms sensitive to stigma (Kulik, Bainbridge, & Cregan, 2008). Sensitive firms, as the result of potential adverse consequences of mere association

with stigmatized individuals (Pontikes et al., 2010) may terminate the service of board members, who are tainted by the core stigma of their focal firms.

Joining the board of other firms establishes new social ties that can compensate for the CEO's possible loss of social ties resulting from other executives' distancing (Kulik et al., 2008) and that can keep her in the "inner circle" of elite executives (Burriss, 2005), even if she is ousted by the firm under stakeholders' attacks (Marcel & Cowen, 2014). The use of a hedging response also resonates with the recent evidence that executives try to form new ties with highly moral institutions (e.g., philanthropic organizations) as a strategy to regain social approval for their firms after a financial restatement (Lungeanu, Paruchuri, & Tsai, 2018).

Overall, when CEOs face the threat of core stigma transfer, i.e. when stakeholders attack the morally deviant nature of their business, they may choose to join the board of other firms to hedge the potential harm of such transfer. We then hypothesize:

*H1: The higher the stakeholders' number of attacks on a firm's core business, the higher the likelihood that its CEO joins the board of other firms.*

### **Variation in the CEOs' board-joining**

We theorize that two factors influence the degree to which a CEO may join the board of other firms. These two factors are the *CEO's vulnerability* to the harm of stigma transfer, which is associated with her social and reputational capital, and the *receptivity of other firms*, which is associated with the status and relative performance of the firms under attack. We posit that the CEO's vulnerability to the harm of stigma encourages her to pursue alternative board positions in other firms, while the receptivity of other firms makes them more interested in appointing a tarnished CEO to their boards, despite the risk of reputational damage.

### ***The moderating role of CEOs' social and reputational capital***

Reputational and social endowments may buffer executives against the negative consequences of failure stigma (e.g., financial restatement or bankruptcy) (Scheper & Barker III, 2018; Wurthmann, 2014). Similarly, we argue that CEOs' reputational and social endowments can make them less vulnerable to the threats of core stigma transfer and hence moderate the positive relationship between stakeholders' attacks and the likelihood of CEOs joining the board of other firms.

*CEOs' social capital.* Social capital refers to resources obtained through relationships and ties that individuals can use to enhance their positions (Burt, 1992; Kor & Sundaramurthy, 2009). CEOs can develop social capital through relationships with other corporate elites (Useem, 1984) by sitting on the board of each other's firms and by joining professional associations such as elite policy-making groups and social clubs (Wurthmann, 2014).

Compared to CEOs with lower levels of social capital, CEOs with a rich reservoir of social capital are less concerned about the negative consequences of potential core stigma transfer and hence they are less likely to join the board of other firms. These CEOs can draw on the support of their web of connections with other executives to resist the potential pressures from different stakeholders trying to remove CEOs from their current CEO role or board directorships in other firms (McDonald & Westphal, 2011). CEOs with higher levels of social capital are also less concerned about their future appointments because they can easily rely on the referrals from members of their rich network of connections (Westphal & Stern, 2007). Finally, CEOs with higher social capital levels can call in favors from their peers to receive support about their leadership abilities (Westphal, Park, McDonald, & Hayward, 2012), which may neutralize the negative publicity around CEOs created by stakeholders' attacks on firms. Thus, we hypothesize:

*H2a: The positive relationship between the stakeholders' number of attacks on the firm's core business and the likelihood of its CEO joining the board of other firms becomes weaker as the CEO's social capital increases.*

*CEOs' reputational capital.* CEOs' reputation refers to the "collective judgment of observers regarding the quality or capabilities of those CEOs in leading their firms" (Graffin & Ward, 2010, p. 331). Similar to CEOs with considerable social capital, when facing the threat of core stigma transfer, CEOs with higher levels of reputational capital may worry less about the potential negative consequences of such transfer, relative to CEOs with lower levels of reputational capital.

Reputational capital indicates that an executive possesses valuable capabilities and expertise (Boivie, Graffin, Oliver, & Withers, 2016) and can provide unique information and resources to their firms (Haunschild & Beckman, 1998; Hillman & Dalziel, 2003; Lester, Hillman, Zardkoohi & Cannella, 2008). In the face of stakeholders' attacks on her firm, a CEO with higher levels of reputational capital is less likely to be dismissed from her board positions in other firms, because it is easier to justify keeping a board member that can benefit these firms. For example, in 2002, when Lockheed Martin's shareholders tried to block the re-election of a director who was linked to the Enron scandal, the firm's Chairman and CEO backed the director by stating that: "He is a valued member of the board [...] he gives good guidance". This example illustrates the importance of a director's capabilities and expertise as a buffer against actors' sanctioning attempts (Devers et al., 2009).

Similarly, a firm under stakeholders' attack is also less likely to dismiss a CEO with reputational capital. CEOs with higher levels of reputational capital are a scarce resource (Hambrick & Cannella, 1993). Thus, it would be difficult to find another CEO with an equally high reputational capital. Given the lower likelihood of losing their current CEO role and directorships in other firms,

when facing the threat of core stigma transfer, CEOs with higher levels of reputational capital are less likely to proactively pursue alternative board options in other firms, compared to CEOs with lower levels of reputational capital. Hence, we propose:

*H2b: The positive relationship between the stakeholders' number of attacks on the firm's core business and the likelihood of its CEO joining the board of other firms becomes weaker as the CEO's reputational capital increases.*

### ***The moderating role of the attacked firms' status and relative performance***

Beyond the CEO's vulnerability to the harm of stigma transfer, also the *receptivity of other firms*, which is associated with the status and relative performance of the firms under attack, can influence the degree to which the threat of core stigma transfer affects a CEO's joining the board of other firms.

According to the literature on courtesy stigma (Goffman, 1963), individuals or firms may distance themselves from or avoid an association or interaction with a stigmatized person or firm (Kulik et al., 2008). They would do so because of the potential negative personal damage (Clair, Beatty, & Maclean, 2005; Pontikes et al., 2010) as well as more generally the potential reputational damage to the firms (Barlow, Verhaal, & Hoskins, 2018; Kang, 2008) and their executives (Cowen & Marcel, 2011; Marcel & Cowen, 2014). For example, alliance partners may reconsider their commitments to the alliance with a firm that has been stigmatized (Bruyaka, Philippe, & Castañer, 2018). Similarly, politicians would reject the political donations from firms that are stigmatized by activists' boycotts (McDonnell & Werner, 2016). Hence, other firms may face a risk of reputational damage, if they appoint a tainted CEO to their boards. However, despite the possibility of reputational damage, if other firms can gain benefits from developing ties with firms associated with stigma, they may become more receptive to the appointment of the attacked firms' CEOs onto their boards.

We argue that, regardless of the social and reputational capital of CEOs, the characteristics of the firms that these CEOs manage can signal the benefits that other firms can receive from appointing these CEOs to their boards. Specifically, according to recent studies in upper echelon literature, higher status (Withers, Howard, & Tihanyi, 2020) and higher relative performance (Jenter & Kanaan, 2015) of a firm can send strong signals about the benefits of developing social ties with this firm, even if it is under stakeholders' attacks.

*The attacked firms' status.* Status is defined as “a socially constructed, inter-subjectively agreed-upon and accepted ordering or ranking of individuals, groups, organizations, or activities in a social system.” (Washington & Zajac, 2005: 284). Firms with high status enjoy benefits such as access to valuable resources (Rider & Tan, 2015) and more stakeholders' attention (Graffin, Bundy, Porac, Wade, & Quinn, 2013). Thus, firms can become affiliated with a high-status firm to indirectly benefit from the status spillover by receiving positive social evaluations from stakeholders or receiving valuable resources from the high-status firm (Castellucci & Ertug, 2010; Lin, Yang, & Arya, 2009; Stuart, 2000; Washington & Zajac, 2005). A firm can appoint the CEO of a high-status firm on its board to obtain through this affiliation positive social evaluations to access to valuable resources and more stakeholders' attention.

For example, a recent study showed that firms that have engaged in financial restatements are likely to appoint directors from high-status firms to their board as these directors could help the restating firms address the problems that were the source of the financial restatement (Withers, Howard, & Tihanyi, 2020). Thus, we posit that given the benefits of developing ties with high-status firms, courtesy stigma is a lesser concern for other firms, making other firms interested to appoint to their board those CEOs whose firms are under attack by stakeholders.

*H3a: The positive relationship between the stakeholders' number of attacks on the firm's core business and the likelihood of its CEO joining the board of other firms becomes stronger as the status of the attacked firm increases.*

*The attacked firms' relative performance.* Status is not the only firm-level characteristics that can be evaluated as a signal for the potential benefits that other firms can receive from developing a tie with a firm. High financial performance for a firm is associated with the possession of valuable and rare resources (Barney, 1991), such as high-quality human capital (Huselid, Jackson, & Schuler, 1997), higher resource endowments (Mehra, 1996), slack resources (Vanacker, Collewaert, & Zahra, 2017). High performing firms are also typically characterized by better dynamic capabilities (Barreto, 2010; Makadok, 2001), corporate practices (Zona, Gomez-Mejia, & Withers, 2018), and social embeddedness in organizational networks (Batjargal, 2003).

The literature in strategic alliances has documented that a firm's performance positively affects the likelihood that other firms form alliances with it (Diestre & Rajagopalan, 2012). Firms can form board ties with high performing firms to gain access to the resource pool of these high (Shropshire, 2010) and to learn their beneficial corporate practices (Zona, Gomez-Mejia, & Withers, 2018). Thus, contrary to the prediction of courtesy stigma, whereby firms would distance themselves from a tainted actor (Bruyaka, Philippe, & Castañer, 2018), other firms may be interested to form ties with tainted but high-performing firms to access these benefits. Thus, we suggest:

*H3b: The positive relationship between the stakeholders' number of attacks on the firm's core business and the likelihood of its CEO joining the board of other firms becomes stronger as the performance of the attacked firm increases.*

## **METHODOLOGY**

### **Empirical setting and data**

The empirical setting that we use to investigate how CEOs respond to the threat of core stigma transfer and the boundary conditions of this response is the arms industry. Firms in the arms industry suffer from a perceived deeply discrediting core attribute, i.e. killing people (Vergne, 2012). CEOs of firms in this industry are subject to stigma transfer, because their firms are frequently under attack by different stakeholders, questioning the firms' controversial values and behaviors that are specific to the nature of their business. For example, during our observational period, two major wars in Afghanistan and Iraq and many ongoing conflicts such as the war in Gaza put many arms manufacturers under public scrutiny. Compared to other morally deviant industries (e.g., tobacco, pornography), the number of public firms in the arms industry is substantially higher, providing a better opportunity to empirically investigate our research question.

We collected data about the global arms manufacturers and their CEOs from 1998 to 2017—a sufficiently long period to observe stakeholders' attacks on firms and variations within CEOs' responses. As there is no unique SIC code for the arms industry and in fact many arms manufacturers report SIC codes which are even unrelated to the arms production, we hand-collected the firms in our sample from the two major sources that rank firms by their arms sales: the *Stockholm International Peace Research Institute (SIPRI)* and *Defense News* (Durand & Vergne, 2015). Our sample includes all the firms that were listed at least once in these rankings during our observation period. This data collection process yielded 270 firms.

Then, we collected CEO-level data including demographic data, work experience, and membership in associations and other firms' boards. We used Bloomberg's Executive Profile & Biographies (BEPB) and Boardex, which is the largest available dataset with information on members of boards of directors (Koch-Bayram & Wernicke, 2018).

We used Compustat for firm-level financial data and hand-collected other quantitative firm-level data (e.g., stakeholders' attacks and media coverage) from several sources: SIPRI, Defense News Top 100 ranking, Factiva, corporate annual reports, company websites, and defense publications. When we merged our CEO-level and firm-level data, we obtained a final sample with data about 408 CEOs in 205 firms.<sup>14</sup> Figure 2-1 offers additional details about the geographical distribution of firms in our final sample and of the newspapers selected to extract stakeholders' attacks on these firms.

-----Insert Figure 2-1 about here-----

## **Dependent variable**

### ***CEOs joining the board of other firms***

Our dependent variable measures the board-joining of the CEOs in the arms industry and takes the value of 1 when a CEO joins the board of any other firm (private or public, inside or outside the arms industry) in a given year – and 0 otherwise. We collected this data from Boardex and complemented it with data from BEPB. In less than 6.5 percent of cases (17 out of 275 board-joining cases), a CEO joined the board of more than one firm. Hence, we kept the *CEOs' board-joining* variable as binary.

## **Independent variables**

### ***Stakeholders' attacks***

As stigma exists in the eyes of the beholders (Hudson, 2008), a higher number of stakeholders' attacks using vilifying labels (Devers et al., 2009) on a firm's core business can attract the attention of a wider range of other stakeholders, leading to a possibly stronger transfer of stigma to firms' CEOs. Building on previous studies on stakeholders' attacks (Durand & Vergne, 2015; Piazza &

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<sup>14</sup> Because we used a fixed-effects specification, our observations included 113 firms and 141 CEOs. In the robustness checks, we also used a random-effects model to test our hypotheses with all the 205 firms and 408 CEOs.

Perretti, 2015), we conceptualized attacks in the context of the arms industry based on different audiences' criticism of controversial and problematic firms' behavior and values in their military business. We measured stakeholders' attacks for each year by calculating the total number of stakeholders' attacks on firms. Following previous research (Piazza & Perretti, 2015; Vergne, 2012), we used Factiva to collect data on these attacks by matching the name of each firm with meaningful keywords such as critic\*, attack\*, under pressure\*, condemn\* to identify articles that contain information about attacks. To minimize the possible bias of media coverage of certain attacks or certain types of firms, we selected 76 generic news outlets in North America (e.g., *New York Times*, *Washington Post*), Europe (e.g., *The Guardian*, *Le Figaro*), Middle East and Russia (e.g., *The Moscow Times*, *Turkish Daily News*), Africa (e.g., *All Africa*) and Asia-Pacific (e.g., *The Australian*, *Times of India*), as shown in Figure 2-1. To make sure that the attacks are on a firm's core business (i.e., military), we checked whether the content of each article matches with at least one of the six negative stereotypes that manifest the morally deviant nature of the arms industry (four identified by Durand and Vergne (2015, p. 8) and two newly identified in our sample).<sup>15</sup> We then asked an independent coder to randomly re-code ten percent of all the retrieved articles. The inter-coder agreement level was 91 percent, which is an acceptable level (Hayes and Krippendorff, 2007). Hence, *Stakeholders' attacks* is a continuous variable that ranges from 0 to the total number of stakeholders' attacks that a firm receives in one year.

## **Moderating variables**

### ***CEOs' social capital***

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<sup>15</sup> (1) the arms industry relies on black market transactions, selling arms to repressive regimes and leaking secret military information to foreign countries, (2) the arms industry violates civil liberties and kills civilians, (3) the arms industry endangers world peace, promotes war and profit from global instability, (4) the arms industry exerts illegitimate influence on governments through bribing, controversial political ties and overcharging the contracts, (5) the arms industry is unethical for investment, and (6) the arms industry and defense contractors are in general corrupt, immoral, and nasty.

Hypothesis 2a proposes that CEOs' social capital weakens the relationship between the stakeholders' attacks and the likelihood of CEOs joining the board of other firms. We measured social capital as the affiliations with elite policy-making groups (Wurthmann, 2014). An affiliation with policy-making groups allows CEOs to access a network of corporate elites with valuable contacts and information (Useem & Karabel, 1986). Thus, our measure of *CEOs' social capital* is a count variable that captures the number of elite policy-making groups that a CEO is serving on. We used Boardex to collect data about serving on elite policy-making groups such as Business Council, Business Roundtable, and Committee for Economic Development (Useem & Karabel, 1986; Wurthmann, 2014).

### ***CEOs' reputational capital***

Hypothesis 2b proposes that CEOs' reputational capital weakens the relationship between the stakeholders' attacks and the likelihood of CEOs' board-joining. We measured reputational capital as the count of CEOs' awards in certification contests (Wade, Porac, Pollock, & Graffin, 2006). For CEOs, certifications are allegedly one of the few independent sources of information regarding their capabilities (Wade et al., 2006). We used Boardex and Factiva (with relevant keywords such as award\*) to identify awards such as CEO of the year, Best CEOs/executives, distinguished leadership awards, and leader of the year. Thus, the *CEOs' reputational capital* is a count variable of the number of awards a CEO has won in different certification contests.

### ***Attacked firms' status***

Hypothesis 3a proposes that the attacked firms' status strengthens the relationship between the stakeholders' attacks and the likelihood of CEOs joining the boards of other firms. Following previous literature that measures firms' status based on their media coverage (Castellucci & Ertug, 2010; Shen, Tang, & Chen, 2014), we measured *Firms' status* as the residual of media coverage about

the military activities of each firm. Specifically, we regressed each firm's media coverage on firm size, performance, reputation, stakeholders' attacks on military business, stakeholders' attacks on non-military business, and scandals, which can all affect the firm's media coverage, and calculated the residuals. We then standardized the residuals to calculate the final measure of firms' status.

### ***Attacked firms' relative performance***

Hypothesis 3b proposes that the attacked firms' relative performance strengthens the relationship between the stakeholders' attacks and the likelihood of CEOs' board-joining. To measure a *Firm's relative performance*, we divided each firm's return on assets (ROA) by the industry's average ROA (focal firm's performance excluded).

### **Control variables**

To control for other factors that may influence our dependent variable, we included several variables at the level of the firm, CEO, and peer firms. At the firm level, we accounted for the possibility that smaller, under-performing, and less powerful firms might depend more on their external environment, motivating their CEOs to join other boards to obtain resources for the firm (Howard, Withers & Tihanyi, 2017). Consequently, we added measures of the *Relative firm performance*, the *Relative firm size* (the logarithm of the firm assets divided by the industry average size), and the logarithm of *Market share* (Hannan and Liang, 1993). As media coverage may affect the CEOs' sensitivity to stakeholders' attacks (Bednar, 2012), we controlled for *Firms' media visibility* by calculating the log plus 1 number of articles that covered each firm's news.

We also controlled for the *Firms' reputation*. Following prior studies' measures of firms' reputation based on their ranks in Fortune lists (e.g., Philippe & Durand, 2011), we measured reputation by categorizing by quartiles, i.e. in four groups, each firm's rank in the SIPRI's ranking of the top 100 arms manufacturers. The highest reputation is for firms with ranks from 1 to 25 and we

assigned to these firms the value of 4. We gave the values of 3, 2, and 1 respectively to firms with ranks from 26 to 50, 51 to 75, and 76 to 100.

We accounted for the fact that firms in our sample may have diluted their association with the arms industry by diversifying into commercial markets (Vergne, 2012). We calculated such *Association dilution* by dividing the media coverage of a firm's commercial activities by the total media coverage of that firm's commercial and defense activities.

To make sure that our measure of core stigma captures attacks on the core business of the firm, we need to control for other types of negative events (Durand & Vergne, 2015). Specifically, we included two control variables, i.e., stakeholders' attacks on the issues that are not specific to firms' military business (*Non-defense attacks*) and *Scandals*. To measure *Non-defense attacks*, we used Factiva and searched for articles that covered any criticism—unrelated to firms' military activities—from firms' stakeholders including activists (e.g., environmental issues), employees (e.g., gender discrimination), suppliers (e.g., contracts' terms), governments and other customers (e.g., contracts' delays), regulatory agencies (e.g., accounting irregularities), and shareholders (e.g., dividends' distribution). We then counted the number of articles to calculate the total amount of firms' non-defense attacks. For *Scandals*, we searched for the keyword scandal\* in Factiva and built a binary variable that takes the value of 1, whenever we found a firm allegedly involved in a scandal, and 0 otherwise.

At the CEO level, we wanted to account for other individual characteristics that could shape the probability that a CEO would join other firms' boards (Johnson, Schnatterly, Bolton, & Tuggle, 2011; Shropshire, 2010). Hence, to control for the total *Tenure of a CEO* in a firm, we calculated the log of 1 plus the number of years that a CEO worked as CEO for the firm. We also included the *CEO working experience outside the focal firm* in defense or non-defense industry, calculated as the log of

1 plus the number of years, in which a CEO worked in each of the industries prior to joining the focal firm. We controlled for the *CEO age* by taking the logarithm of the age of each CEO. Joining associations might be an alternative CEOs' response to the stakeholders' attacks and hence can affect CEOs' board memberships. Thus, we also controlled for the number of *CEOs' memberships in defense and non-defense associations*. Examples of defense associations were *National Defense Industrial Association (NDIA)*, and *Armed Forces Communications and Electronics Association (AFCEA)*, and examples of non-defense associations were *European Automobile Manufacturer's Association (ACEA)*, and *World Steel Association*. We controlled for the current number of boards that a CEO holds (*CEO outside directorships*), because it might affect the CEOs' likelihood of joining an extra board (Westphal & Stern, 2007). Finally, we added CEO fixed effects to control for the unobserved time-invariant characteristics of CEOs that may influence their joining of other firms' boards.

As the attacks on peer firms might shape the decisions of the focal firm's CEOs (e.g., board-joining) (Durand & Vergne, 2015), we controlled for the *Attacks on peers of a focal firm*. Following prior research (Durand & Vergne, 2015), we defined a peer as a firm that overlaps with the focal firm at least in one of the 12 subcategories, which we identified in the arms industry through different sources (i.e., SIPRI, defense journals, and firms' annual reports) and calculated attacks on peers by summing the number of attacks on a firm's peers.

Finally, we included year fixed effects to advocate for any unobserved heterogeneity between different years. We also lagged all independent and control variables by one year relative to the dependent variable.

## ANALYSES

### ESTIMATION MODEL

Because our dependent variable is binary, we tested our hypotheses with a logistic regression model (conditional logit). We used CEO fixed-effects to control for the unobservable characteristics of CEOs. We also clustered standard errors at the CEO level because it is likely that CEOs repeat their board-joining whenever the stakeholders' attacks on their firms increase. As only two CEOs moved from one firm to another firm in our sample, the inclusion of firm fixed-effects—in addition to CEO fixed effects—is redundant. The results of the Hausman test were significant at 0.000 percent showing that a random-effects specification cannot be favored over a fixed-effects model (Certo, Withers & Semadeni, 2017). However, in the robustness tests, we also ran a random-effects model and obtained similar results to those of our main analyses.

### Results

Table 2-1 summarizes the descriptive statistics and the correlation matrix. The correlations between the control and independent variables are low to moderate, with VIF less than 10 for each of the variables in the model and equal to 6.74 for the full model, making multicollinearity a lesser concern (Kennedy, 1993).

-----Insert Table 2-1 about here-----

In Table 2-2, we present the results of our hypotheses. In Model 1, we included all the control variables. As expected, the CEOs' number of current outside directorships negatively affects the likelihood of the CEO's joining other boards. Interestingly, the variable of non-defense attacks negatively affects the CEO's joining other boards. This result suggests that because non-defense attacks are associated with issues (e.g., poor performance) and can be attributed to CEOs' lack of managerial capabilities, they can decrease the likelihood that a CEO can join another firm's board.

This finding is consistent with previous studies on the negative effect of failure stigma on CEOs' board-joining (Semadeni et al., 2008).

Next, we tested the first hypothesis, proposing that stakeholders' attacks increase the likelihood of the attacked firms' CEOs joining the board of other firms. Consistent with our prediction, the coefficient for the stakeholders' attacks is positive and significant ( $p = 0.000$  and  $p = 0.002$  respectively in Models 2 and 7 of Table 2-2). By calculating the odds ratio (Model 7 of Table 2-2), we observe that one standard deviation increase in the number of stakeholders' attacks raises the likelihood of CEOs' board-joining by around 14% ( $odds\ ratio = e^{0.053*2.41} = 1.136$ ).

We report the results for hypotheses H2a and H2b in Models 3, 4, and 7 (Full Model) of Table 2-2. Here, the interaction effect of CEO membership in elite policy-making groups (the proxy for CEO social capital) is negative and significant (Models 3 and 7), and the coefficient for the interaction term between CEO awards (the proxy for CEO reputational capital) and stakeholders' attacks is statistically significant in the full model (Model 7).

However, in regressions with limited dependent variables (e.g., logistic regression), the significance of the interaction term coefficient is not informative about the significance of the interaction effect (Huang and Shields, 2000). Graphing the marginal effects of the independent variable contingent on different levels of the moderating variable provides a more nuanced understanding of the interaction effect (Hoetker, 2007; Wiersema & Bowen, 2009). Thus, we graphed the effect of stakeholders' attacks on CEOs' board-joining for one standard deviation above and below<sup>16</sup> the mean of each moderating variable. As depicted in Figure 2-2 and consistent with hypothesis H2a, the effect of stakeholders' attacks on CEOs' board-joining is only significant when

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<sup>16</sup> In all the cases, as the lowest value for the moderating variable is zero, we graph the effect of stakeholders' attacks when the moderating variable is zero, at its mean and one standard deviation above its mean. For Hypothesis 2a, as the mean of the moderating variable is 0.26, we just graph the effect for situations when the moderating variable is zero and one standard deviation above the mean. The graphs for all values of moderating variables are available upon request.

the CEO is not a member of any elite policy-making groups. Similarly, in Figure 2-3 we observe that the effect of stakeholders' attacks on CEOs' board-joining decreases as the number of CEO awards increase (it becomes non-significant when we move one standard deviation to the right of the mean). This result supports H2b, predicting that the CEOs' reputational capital negatively moderates the relation between stakeholders' attacks and its CEOs' board-joining.

Finally, Models 5, 6, and 7 (Full Model) of Table 2-2 report the results for hypotheses H3a and H3b. Here, the interaction effect of the attacked firms' status is positive but not significant (both in Model 5 and in the full model 7). Also, the coefficient for the attacked' firms' relative performance is not statistically significant (both in Models 6 and 7).

To better understand the interaction effects of these two moderating variables, we graphically depicted the marginal effect of our independent variables (i.e., stakeholders' attacks) contingent on different levels of the moderating variables (two standard deviations below and above mean). As shown in Figure 2-4 and consistent with hypothesis H3a, the effect of stakeholders' attacks on CEOs' board-joining is only significant for the positive values of firms' status (i.e., higher firms' status). Similarly, in Figure 2=5, we observe that the effect of stakeholders' attacks on CEOs' board-joining is only significant when the firms' performance, relative to peers, is positive and above 0.8. These results indicate that, as proposed in our H3b, a CEO joins the boards of other firms only when the status and the relative performance of her firm are greater than those of the target firms, which would then benefit from the CEO's joining their boards.

-----Insert Table 2-2 about here-----

-----Insert Figures 2-2, 2-3, 2-4 and 2-5 about here-----

## **Robustness checks**

It is possible that our results are contingent upon the specificity of our measures and models. Thus, in our robustness tests, reported in Table 2-3, we performed our main analyses employing alternative measures of our independent and moderating variables, and a random-effects model specification.

### ***Alternative measures of independent and moderating variables***

The CEOs' board-joining may be affected by the absolute values of firm size and performance (Howard et al., 2017). Hence, in a third robustness test, we checked whether our results are robust to the inclusion of the non-relative measures of firm size and performance (Model 1 in Table 2-3). These results remain the same as in our main models.

To understand whether CEOs react merely to the occurrence of an attack—regardless of the number of attacks— versus no attack we used a dummy variable for stakeholders' attacks (Model 2 of Table 2-3). Both of these variables positively and significantly affect the CEOs' board-joining. Also, it is possible that our main independent variable, stakeholders' attacks, varies through time and that our original measure fails to capture increases or decreases over a time period greater than one year, and that CEOs may react to the accumulation of stakeholders' attacks beyond one year. Thus, we employed a three-year average measure of stakeholders' attacks (Model 3 of Table 2-3). To calculate the three-year average for the first year of our sample (i.e., 1998), we additionally collected the stakeholders' attacks variable for the years 1996 and 1997. Again, these results are consistent with our main analyses.

Most importantly, we sought to test the robustness of our results to alternative measures of CEO social capital. Unlike the literature on CEO reputational capital where there is consensus to use CEO awards as the proxy for CEO reputational capital (e.g., Wade et al., 2006), studies of CEO social capital have employed various measures to proxy social capital (e.g., Wurthmann, 2014). To address this heterogeneity, we used the number of CEOs' number of outside directorships as an

alternative proxy for CEOs' social capital. The coefficient of the CEOs' number of outside directorships is not statistically significant (Model 4 of Table 2-3).

We further explored this result graphically, to better identify the moderating role of CEOs' social capital alternative proxy on CEOs' board-joining. As depicted in Figure 2-5, the effect of stakeholders' attacks on CEOs' board membership decreases as the number of CEOs' outside directorships increases. Specifically, it is weakly significant when outside directorships are equal to zero ( $p = 0.071$ ), significant when outside directorships are equal to one ( $p = 0.014$ ), and non-significant when we move one standard deviation from its mean to the right. The results of Model 4 and the graphical analysis of Figure 2-6 are consistent with hypothesis H2a and thus confirm that CEOs' social capital negatively affects the positive relationship between stakeholders' attacks and CEOs joining the boards of other firms.

-----Insert Table 2-3 about here-----

-----Insert Figure 2-6 about here-----

### ***Alternative model specification***

Our results may depend on the type of model specification we employed (i.e., fixed-effects logistics regression). Specifically, country characteristics or industry features could be biasing our results. Thus, we ran a random-effects logistic regression with the country and sub-sector dummies.

Our main variable of interest (i.e., *Stakeholders' attacks*) remains significant ( $p = 0.049$  in Model 5 of Table 2-3). When we explored the size effect of stakeholders' attacks in this new model specification, we found that a one standard deviation increase in stakeholders' attacks raises the likelihood of CEOs' board-joining by 7% ( $odds\ ratio = e^{0.028*2.41} = 1.069$ ).

### **Post-hoc analyses**

#### ***Testing the sensitivity of commercial and defense firms to stigma***

Defense firms are predictably less sensitive than commercial firms to the stigma that characterizes the arms industry in general and other firms operating in that industry (Vergne, 2012). Thus, in the face of stakeholders' attacks, one could expect that the CEO of a stigmatized firm is more accepted on the board of another defense firm than on the board of a commercial firm. To tease out this specific effect, we explored whether the likelihood that a CEO joins a defense firm is different from the likelihood that a CEO joins a commercial firm. We split our dependent variable (i.e., *CEOs' board-joining*) into two dummy variables. One dummy variable (i.e., *Joining defense firms*) takes the value of 1 when the CEO joins the board of a defense firm, and 0 otherwise. The other dummy variable (i.e., *Joining commercial firms*) takes the value of 1 when the CEO joins the board of a commercial firm, and 0 otherwise.

The results, reported in Table 2-4 Models 1 and 2, indicate that when the stakeholders' attacks increase, CEOs are only likely to join the board of defense firms. These findings are consistent with our theoretical mechanism that CEOs, facing the threat of core stigma transfer, are more accepted in those firms that are less sensitive to stigma.

Following the same argument that commercial firms are more sensitive to stigma than defense firms, we explored whether CEOs are more likely to leave the board of commercial firms when stakeholders' attacks increase on CEOs' firms. Thus, we checked the effect of stakeholders' attacks on the likelihood of CEOs' leaving a currently held board position (if a CEO has any) in other firms. Our dependent variable is a dummy variable that takes the value of 1 when a CEO leaves a board position she currently holds and 0 when she stays. We created another dummy variable (i.e., *Left board status*) that captures the value of 1 if the current board position is in a commercial firm and 0 otherwise. We interacted this variable with *Stakeholders' attacks* to check whether CEOs are more likely to leave commercial firms' boards, versus defense firms' boards,

when facing the threats of core stigma transfer. The coefficient of the interaction term between the *Left board status* and *Stakeholders' attacks* in Model 3 of Table 2-4 is positive and significant. This means that when stakeholders' attacks increase around their focal firms, CEOs' are more likely to lose board seats in commercial firms, which are apparently sensitive to stigma, compared to defense firms. Figure 2-7 graphically depicts the results of the interaction between the *Left board status* and *Stakeholders' attacks*. The effect of stakeholders' attacks on the likelihood of CEOs' board-leaving is positive and significant only when the CEO's board seat is in a commercial firm.

-----Insert Table 2-4 about here-----

-----Insert Figure 2-7 about here-----

***An alternative measure of the dependent variable: Testing the overall effect of stakeholders' attacks on the net change in CEOs' board-seats***

It is possible that in the face of potential core stigma transfer, CEOs would, in fact, lose their current board-seats or even their current CEO positions. Although CEOs may obtain a new seat on a firm's board, the fact that they are also losing board seats may lead to an overall negative effect on the number of board seats occupied. We created an alternative dependent variable (i.e., the net change in CEOs' positions) that captures the difference between the number of new boards a CEO joins and the number of boards or CEO positions lost.

As the new dependent variable is no more a count variable, we run an OLS regression. We found that the coefficient of *stakeholders' attacks* on the *net change in CEOs' positions* is positive and significant ( $p = 0.039$ ), indicating an overall positive effect of the core stigma on CEOs' board appointments. These results, reported in Model 4 of Table 2-4, show that, even though CEOs working in a stigmatized firm may lose some board seats, they can find more seats than what they lose, essentially offsetting the negative consequences of core stigma.

### *Comparing the attacked firms with the firms that appoint CEOs*

In Hypothesis 3b, we argued that the higher is the relative performance of the attacked firm, the higher is the likelihood that its CEO joins other firms. The argument is that other firms are more receptive to the appointment of a CEO from a high performing firm because of the potential benefits that it can yield to other firms that associate with it through board ties. However, these benefits may vary depending on whether there is a significant difference between the performance of other firms and the performance of the attacked firm – and on the relative revenue and size of the two firms.

Thus, we ran our analyses with alternative measures of revenue, performance (ROA), and size to examine whether one firm has a higher standing than —and thus can be of material benefit to— the other (Howard et al., 2017).<sup>17</sup> We compared the revenue, performance (ROA), and size of attacked firms and firms whose boards these CEOs join. Higher levels of revenue, performance, and size for attacked firms, relative to other firms, may indicate that these other firms may benefit from interacting with attacked firms. The results of a *t*-test between attacked firms and firms that appoint CEOs to their boards indicate that the latter has significantly lower size, revenue, and performance compared to the attacked firms (see Table 2-5). These results support our theoretical assumption about other firms’ appointing of tarnished CEOs to their boards when these firms can expect to benefit from such appointments.

-----Insert Table 2-5 about here-----

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<sup>17</sup> Ideally, we could create a sample of all potential firms that CEOs could join and run our analyses with this sample to understand what type of firms are more likely to accept a CEO tarnished with stigma. However, as CEOs in our data join the boards of both public and private firms, as well as inside-arms and outside-arms firms, the construction of such a sample is nearly impossible due to data unavailability and unclear boundaries of inclusion of firms in the sample. Instead, in Table 5, we compare the data of those firms that have accepted tarnished CEOs in their boards with the data of the attacked firms. While this solution may be an imperfect way of dealing with this methodological concern, it can at least assure that firms with higher size, revenue, and performance—compared to the attacked firms— are not receptive to the appointment of tarnished CEOs to their boards.

## DISCUSSION AND CONCLUSION

This study set out to explore how organizations' upper echelons and specifically CEOs react to the threat of core stigma transfer from their firms. Using a novel, hand-collected dataset that covers stakeholders' attacks on firms in the global arms industry and their CEOs between 1998 and 2017, we found that more stakeholders' attacks on firms' core business increase the likelihood that the attacked firms' CEOs join the board of other firms. When we explore the boundary conditions of this effect, we find that this likelihood increases as the CEO's reputational and social capital decreases, making the CEO vulnerable to the threat of core stigma transfer. But we find that this hedging strategy is less likely to happen, when the attacked firm's status and relative performance decrease, making the tie to this firm less attractive to other firms.

This study contributes to the organizational stigma literature by responding to the recent call to study the cross-level stigma and especially the stigma that affects or is transferred across organizational members and upper echelons (Hudson & Okhuysen, 2009; Pozner, 2008; Warren, 2007; Wiesenfeld et al., 2008). Previous research has essentially focused either on upper echelons' responses to the failure stigma resulting from discrete, anomalous, episodic negative events—related to their general capabilities such as financial misconduct (e.g., Semadeni et al., 2008; Sutton and Callahan 1987)—or on lower echelons' responses to the core stigma, which instead refers to the firm's deviant nature (e.g., Hudson, 2008). In contrast, we explore how firms' upper echelons and specifically CEOs react to the threat of core stigma transfer.

To understand CEOs' responses to the threat of core stigma transfer, we examine a specific and so far, relatively under-analyzed response, i.e., CEOs' board-joining strategy. We propose that CEOs of firms associated with core stigma can join the board of other firms to hedge the risks of core stigma transfer by pursuing positions in the boards of firms. We posit that when other firms

can benefit from such appointments e.g., by associating with a high-status or high-performing firm managed by the CEO, they may become more receptive to accepting these CEOs as new members of their board of directors. This theoretical argument and the empirical findings allow us to push the boundary conditions of the literature on courtesy stigma (Goffman, 1963; Pontikes et al., 2010). While prior research focused on firms and individuals distancing themselves from a stigmatized person (Cowen & Marcel, 2011; Goffman, 1963; Pontikes et al., 2010), we propose and find that firm do not necessarily distance themselves from CEOs of firms whose core business is stigmatized, when the association with these firms may bring status-related and performance-related benefits for these other firms.

At a broader level, our finding that core stigma positively affects the CEOs joining other firms' boards contributes to the research on the cross-level effect of organizational stigma on the organization's members (Hudson & Okhuysen, 2009) at the intersection of stigma and upper echelons theory (e.g., Marcel & Cowen, 2014; Semadeni et al., 2008). This literature has mainly focused on the consequences of failure stigma for the upper echelons (Wiesenfeld et al., 2008; Wurthmann, 2014), as a result of CEOs' lack of capability, which makes those CEOs marked by failure struggle to find subsequent jobs (Pozner, 2008; Schepker & Barker III, 2018). Our study suggests that, contrary to failure stigma, core stigma, which results from some discrediting attributes of a firm's core business, not only does not signal any lack of capability in CEOs but it may also make the CEO look for opportunities in other firms. We interpreted this situation as a strategy to hedge the potential loss of current positions due to the threat of stigma contagion.

Relatedly, our study shifts the attention from how *lower echelons* manage the core stigma transfer from their organizations (Ashforth et al., 2007) to *CEOs'* reaction to the threat of organizational core stigma transfer. While lower echelons in organizations usually do not receive a

high level of public visibility, CEOs are the “face of their firms” (Love et al., 2017) and hold a unique role in firms’ actions (Lange, Boivie, & Westphal, 2015). Thus, they may be especially susceptible to the harm of stigma transfer from their firms and hence react differently to core stigma, compared to other organizational members. This is an important observation because CEOs’ actions, including the response to stigma, can have a significant impact on firms’ outcomes. For example, when a CEO is trying to join the board of other firms in response to core stigma—as our results suggest—she may select firms based on her interests (i.e., to hedge her position) and on the other firms’ willingness to appoint her, regardless of the consequences that the appointment on these boards may have for her firm. Therefore, while joining the board of another firm might be beneficial for the CEO, it may have negative consequences for her firm. Exploring this intuition, future research can investigate the performance consequences of CEOs’ board-joining—as response to core stigma transfer—for the focal firm.

Although beyond the main scope of this study, we further explored this idea in a series of post-hoc analyses. The results of these additional analyses revealed an interesting pattern of how stigma affects the board-joining and board-leaving behavior of CEOs. We observed that CEOs lose board-seats in commercial firms and gain new seats in defense firms. This migration of CEOs from sensitive-to-stigma firms to firms that are not sensitive to stigma is an intriguing notion that deserves future scholarly attention. These additional results set the ground for future research to compare the social network of CEOs before and after the stakeholders’ attacks or to compare the social network of CEOs in stigmatized and non-stigmatized industries to understand the similarities and differences.

Finally, our study joins the recent conversation about the positive or “enabling” effects of stigma (Tracey & Phillips, 2016). For example, Helms and Patterson (2014) found that firms

coopted stigmatizing labels to gain more support and broad social acceptance. In another study, Hampel and Tracy (2017) showed that several strategies including allying with stigmatizers can finally lead to higher social approval for the stigmatized firms. We bring an upper echelons' perspective to this literature and advance that the threat of stigma transfer can motivate CEOs to look for proactive strategies (e.g., board-joining) to offset the potential harm of core stigma transfer. However, we could not directly observe CEOs' *efforts* to find a board-seat in other firms. Because this is a common shortcoming in the board selection research (see e.g., Boivie et al., 2016), future research could test whether those CEOs that did not join the board of other firms, actually actively sought to do so but were not eventually accepted by other firms. Relatedly, future studies can also examine the characteristics of those firms that rejected CEOs' attempts in approaching their boards and shed light on when CEOs' attempts to overcome stigma can lead to successful or failed outcomes.

Future studies can create a sample of all potential firms that CEOs could join and test what type of firms are more likely to accept a CEO tarnished with stigma. In this study, the construction of such a sample was nearly impossible due to data unavailability of private firms that CEOs joined and unclear sample inclusion criteria as CEOs in our data joined the boards of firms inside and outside the arms industry. Although an imperfect solution, we tried to tackle this problem by comparing the data of those firms that have accepted tarnished CEOs in their boards with the data of the attacked firms, to make sure that less needy firms (i.e., firms with higher size, revenue, and performance—compared to the attacked firms—) did not appoint tarnished CEOs to their boards.

In conclusion, this study develops a novel understanding of whether and when CEOs respond to the threat of core stigma transfer. We theoretically proposed and empirically found that the threat of core stigma transfer increases the likelihood that CEOs join the board of other firms as

a hedging strategy. In the analysis of the boundary conditions of this mechanism, we examined those factors that make CEOs vulnerable to the harm of core stigma transfer, i.e. reputational and social capital, and those factors that make other firms receptive to the appointment of tainted CEOs to their boards, i.e. the attacked firms' status and relative performance. Our study advances the current knowledge and opens new avenues for research on organizational stigma, which has mainly considered the effect of core stigma on firms' lower echelons or the effect of failure stigma on upper echelons, by focusing on the effect of core stigma on upper echelons.



**Chapter 3**  
**(Essay 3)**

# CEOs' CHARACTERISTICS AND DISAPPROVAL OF FIRMS IN STIGMATIZED INDUSTRIES

## **Abstract.**

Using data of CEOs in the arms industry between 1998-2016, we draw on the categorization, stigma, and upper echelons literatures to predict the amount of disapproval received by firms in stigmatized industries based on characteristics of their CEOs. We argue that certain CEO characteristics may be interpreted as signals of firms' association with the stigmatized category and increase the amount of audience disapproval of the firms. Results suggest that the relationship between CEO characteristics and audiences' disapproval is moderated by the ambiguity of firms' association with the stigmatized category and by the type of audiences evaluating the firms. While previous research has underexplored the role of CEOs in audiences' social evaluations of firms' categorical associations, we argue that CEO characteristics are important to consider especially when other cues tend to confuse audiences about firms' categorical associations. We also challenge the idea that CEO fit with the needs of firms' categories is primarily beneficial for firms. Practical implications and additional theoretical implications are discussed.

**Keywords:** Categorical associations, CEO characteristics, stigmatized category, organizational disapproval

In the mid 90's, Halliburton appointed Dick Cheney—who had previously served as a member of the U.S. House of Representatives and the United States Secretary of Defense—as its CEO. This appointment, while leading to financial benefits for Halliburton from government contracts, generated negative reactions by media and activists. Media and activists associated Halliburton with the unfavorable category of “politically connected”<sup>18</sup> firms. This example highlights the important role of CEO characteristics in influencing audiences’ social evaluations of firms based on the categories to which firms are associated. Categories are socio-cognitively constructed classifications that allow audiences to make sense of firms and their behaviors (Khaire & Wadhvani, 2010; Rosa, Porac, Runser-Spanjol, & Saxon, 1999; Rosch & Lloyd, 1978). Categories can involve classifications of firms that are in the same industry (Porac, Thomas, Wilson, Paton, & Kanfer, 1995), offering similar products (Lounsbury & Rao, 2004), or engaging in similar activities (Alexy & George 2013). Firms can belong to, or straddle, multiple categories when they engage in a variety of activities. A central quest in the categorization literature, for a long time, has been understanding the factors explaining the valence (positive or negative) of social evaluations of firms’ categorical associations (Durand & Paoletta, 2013; Kovács & Hannan, 2010; Vergne & Wry, 2014).

To date, scholars have advanced knowledge about these factors by considering the characteristics at the firm-level (such as identity; Alexy & George, 2013), category-level (such as category salience; Negro, Hannan, & Rao, 2010; Ruef & Patterson, 2009), environment-level (such as the firm peers’ entrance into certain categories; Durand, Rao, & Monin, 2007; Rao, Monin, & Durand, 2005), and audience-level (such as the type of audience; Paoletta & Durand, 2016; Pontikes, 2012; Negro & Leung, 2013). However, with a few exceptions (Boone & Özcan, 2016; Wry,

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<sup>18</sup> <https://www.nytimes.com/2003/03/23/business/who-will-put-iraq-back-together.html>

Lounsbury, & Jennings, 2014), there has been little attention paid to the role of organizational members, and specifically CEOs, in audiences' social evaluations.

From our perspective, there are two reasons to merit special attention to the role of CEOs in audiences' social evaluations of firms' categorical associations. First, CEOs are highly visible (Harrison, Thurgood, Boivie, & Pfarrer, 2019; Love, Kim, & Bednar, 2017) and provide a strong signal of firms' identity and strategic focus (Ang, Jong, & Poel, 2014; Garbett, 1988). Audiences' social evaluations can thus be heavily influenced by cues emanating from CEO characteristics above and beyond other cues. This is particularly be the case for firms active in stigmatized categories, which are defined as morally deviant groups of firms (Hudson, 2008) such as arms producers or firms linked to apartheid (Durand & Vergne, 2015). Audiences are likely to publicly express disapproval toward firms associated with stigmatized categories (Vergne, 2012). Previous research suggests that one way firms associated with stigmatized categories can try to contain the disapproval (Hudson & Okhuysen, 2009; Stenger & Roulet, 2018) is by straddling into non-stigmatized categories so as to *deflect* the audiences' attention and conceal association with the stigmatized category (Reinmoeller & Ansari, 2016; Vergne, 2012; Zuckerman, 1999). In cases when firms straddle, however, we expect CEO characteristics to be important for understanding how audiences evaluate firms' categorical associations. Certain CEO characteristics may *focus* the attention of audiences to the firms' association with the stigmatized category and inadvertently increase audiences' disapproval of firms. Thus, by not accounting for CEO characteristics, previous research may have underspecified factors affecting the audiences' social evaluations of firms' categorical associations.

Second, based on the insights from upper echelons literature, the *fit* between CEO characteristics and the needs of firms' categories is advantageous for firms, especially from a

financial perspective (Colbert, Kristof-Brown, & Barrick, 2008; Henderson, Miller, & Hambrick, 2006; Wry et al, 2014). We challenge this assumption. We argue that, in certain situations, the benefits of having CEOs with characteristics that fit with firms' category associations may be eroded by the costs imposed by audiences' negative social evaluations based on those very same CEO characteristics. With that in mind, in this paper, we ask the following question: *How, and under what conditions, do characteristics of CEOs influence audiences' social evaluations of firms' categorical associations?*

To answer this question, we draw on insights from the categorization, stigma, and upper echelons literatures. We argue that certain CEO characteristics—in our empirical context, military background (Koch-Bayram, Wernicke, 2018), length of tenure in the arms industry (McDonald, Westphal, & Graebner, 2008), and seats on boards of arms industry associations (Kirby, 1988)—can provide cues (Fiske & Neuberg, 1990; Rule, Ambady, Adams Jr., & Macrae, 2008) to audiences about the firms' association with the stigmatized category and focus the attention of audiences to the presence of firms in this category. This, in turn, will lead to the public expression of disapproval of firms by those audiences. We further posit that the relationship between CEO characteristics and audiences' disapproval of firms will be moderated a) by firms' association ambiguity with the stigmatized category; and b) by the type of the audience (i.e., journalists, activists, financial actors, and government actors). We test our predictions using a novel dataset of 421 CEOs in 212 firms in the global arms industry between 1998 and 2016. The results of random-effects negative binomial and difference-in-difference analyses support most of our hypotheses.

We aim to contribute to research in several ways. First, we contribute to research at the intersection of categorization and social evaluations (Durand et al, 2007; Hsu 2006a). Previous research has mainly focused on characteristics of the firm, environment, category, and audiences in influencing audiences' social evaluations of firms' categorical associations (Alexy & George, 2013;

Pontikes, 2012; Ruef & Patterson, 2009). However, this may depict an incomplete picture of how audiences evaluate the association of firms with categories. We stress the role of CEOs as an important contributor to audiences' social evaluations. Given the visibility of CEOs to audiences, CEO-related cues can play an important role—above and beyond previously studied cues at the level of firm, category, audience, and the environment—in shaping audiences' evaluations. Further, by considering CEO characteristics we add novel insights to a lively debate in the categorization literature about how category straddling influences social evaluations by external audiences (Paolella & Durand, 2013; Vergne & Wry, 2014). While we corroborate findings of previous research suggesting that straddling into non-stigmatized categories can make the audiences' social evaluations *less* negative (Vergne, 2012), interestingly in our paper we observe that straddling makes the effect of CEO characteristics on audiences' social evaluations *more* negative. This is possibly because straddling increases the ambiguity about firms' association with the stigmatized category (Zuckerman, 1999), making audiences more likely to look for other visible cues such as CEO characteristics to reduce ambiguity in their judgments about firms' categorical associations (Rule et al., 2008). This reveals an interesting feature of category straddling: Straddling can both reduce disapproval (by deflecting audiences' attention from firms' association with stigma) *and* increase disapproval (by refocusing audiences' attention to other cues that signal firms' association with stigma, hence strengthening the effect of those cues on disapproval).

Second, we contribute to research in the nexus of categorization and upper echelons by challenging the notion that fit between CEO characteristics and firms' categories is beneficial (Colbert et al., 2008; Henderson et al., 2006). We suggest that if the category is stigmatized, CEOs that fit with the category can refocus the attention of audiences to the presence of firms in the

stigmatized category leading to more expressions of disapproval by those audiences. Hence, the benefits of having fit CEOs can be offset by the costs of disapproval.

Third, we hope to further knowledge about how firms in stigmatized industries can contain disapproval by their audiences (Hudson & Okhuysen, 2009; Vergne, 2012). We contribute to this research by focusing on the role of CEO characteristics on how firms can influence audiences' judgments about firms' associations with stigmatized categories. More specifically, by avoiding a "wrong CEO" firms can reduce negative audience social evaluations. This strategy can be an *alternative* way for firms to mitigate disapproval from those strategies identified in previous research, such as shielding the firm from interactions with stigmatizers (Hudson & Okhuysen, 2009), straddling stigmatized and non-stigmatized categories to dilute the identity (Reinmoeller & Ansari, 2016; Vergne, 2012), and co-opting the stigma to gain support from new audiences (Helms & Patterson, 2014). Not all firms are able to diversify into non-stigmatized categories (Piazza & Perretti, 2015) or to gain support from new audiences (Rowley & Moldoveanu, 2003). Thus, CEO selection may be an alternative disapproval reduction strategy when the efficacy of other such strategies is constrained. In the Discussion section at the end of this paper, we provide arguments for the potential generalizability of our insights to broader empirical settings.

## **THEORETICAL BACKGROUND**

### **CEOs and audiences' evaluations of firms' categorical associations**

Firms' external audiences use categorization processes to make sense of what firms do and what categories they fit into (Hsu & Hannan, 2005; Vergne & Wry, 2014; Zuckerman, 1999). The categorization literature has identified three main ways in which audiences can use different *cues* (or features) to reduce the ambiguity around an entity's (e.g., firm's) categorical associations and assign the entity to a specific category. From a *similarity perspective*, audiences categorize an entity based on

its similarity with abstract prototypes of a specific category (Durand & Paoletta, 2013). For example, if an animal has a beak, feathers, and wings, it is a bird. Relevant cues are used to help audiences perceive the similarity between the entity and category prototype (Vergne & Swain, 2017). From a *goal-based perspective*, audience members define a specific goal and the entities that support the achievement of this goal will be seen as members of the category (Durand & Paoletta, 2013). In the example of birds, from the viewpoint of hunters, birds are edible, so chickens are better birds than robins. From a *causal perspective*, audiences cognitively represent categories through cause-effect associations. The relevance of a cue in determining an entity's membership to a category is contingent on its causal power to account for a function which is a recognizable characteristic of the category (Diestre & Rajagopalan, 2014; Durand & Paoletta, 2013; Rehder & Hastie, 2001). For example, having wings provides a strong causal account for the ability of birds to fly, as a function that is a recognizable characteristic of birds.

Firms can simultaneously be associated with multiple categories (e.g., stigmatized versus non-stigmatized, luxury versus low-cost; Alexy & George, 2013; Negro & Leung, 2013; Zuckerman, 1999). Taking the causal categorization perspective, one of the main determinants of firms' association with a specific category can be signals about firms' provision of more products or services specific to that category, compared to products or services specific to other categories. Audiences evaluate the tendency of firms to produce more products from a specific category as higher relative commitment to that category. Consistent with this logic, previous studies have shown that audiences' association of firms with the stigmatized category is stronger when those firms' share of sales from stigmatized products, relative to non-stigmatized products, increases (Vergne, 2012).

Based on the causal categorization perspective, a cue can become relevant in associating firms with a category based on the cue's causal power to account for the category's function

(Durand & Paoletta, 2013). CEOs, as “faces of firms” (Love et al., 2017), directly signal their firms’ identity (Boone & Özcan, 2016; Lange, Boivie, & Westphal, 2015; Wry et al., 2014) and may provide a link to other key markers such as relative commitment to a specific category. Based on the tenets of the upper echelons’ theory, firms’ strategic commitments and goals to a category can be influenced by the characteristics and expertise of their CEOs (Colbert, Kristof-Brown, & Barrick, 2008; Henderson, Miller, & Hambrick, 2006; Reed & Reed, 1989). Audiences can thus draw inferences about firms’ categorical associations based on CEOs’ characteristics. For example, when a firm hires a CEO with a strong political background, audiences may interpret this appointment as a signal for firms’ future commitments to political activities. In sum, we argue that CEOs’ characteristics act as cues for audiences and help them infer information about firms’ categorical associations.

### **CEOs’ characteristics, stigmatized categories, and audiences’ disapproval**

Stigmatized categories face targeted scrutiny and disapproval by their audiences (Durand & Vergne, 2015; Galvin, Ventresca, & Hudson, 2004) due to the entities’ routine engagement in contentious practices (Hudson, 2008) and violation of social norms (Devers et al., 2009). Previous research has pointed to examples of stigmatized categories such as arms producers (Vergne, 2012), men’s bathhouses (Hudson & Okhuysen, 2009), tobacco companies (Grougiou, Dedoulis, & Leventis, 2016), nuclear power plants (Piazza & Perretti, 2015), and the finance industry after the 2008 crisis (Roulet, 2015). Mitigating disapproval is of particular interest to firms in stigmatized categories (Galvin et al., 2004) as disapproval can erode firms’ performance and customer loyalty (Hudson & Okhuysen, 2009). To mitigate audience disapproval, firms can resort to a handful of strategies including straddling into non-stigmatized categories (Vergne, 2012), reducing engagement with the stigmatized category (Durand & Vergne, 2015; Piazza & Perretti, 2015; Reinmoeller &

Ansari, 2016), and concealing the boundaries of the firm (Hudson & Okhuysen, 2009). These strategies are thought to confuse audiences about the firms' association with the stigmatized category (Zuckerman, 1999; Vergne, 2012). Given that audiences can allocate a limited amount of attention for categorizing each firm (Barnett, 2014; Hansen & Haas, 2001), they may look to cues about firms to infer their categorical associations.

CEO characteristics can act as cues for audiences' perception of firms' categorical associations. Audiences can evaluate certain CEO characteristics as cues for firms' association with a stigmatized category because those characteristics can refocus audiences' attention to firms' morally deviant and socially harmful values and activities. Association to a stigmatized category would lead to stronger expressions of audiences' disapproval (Vergne, 2012). Assuming that this argument holds, it raises the next key question: *Which CEOs' characteristics can be evaluated as relevant cues of firms' association with a stigmatized category?*

We argue that in the context of the arms industry, CEO military background, tenure in the arms industry, and board-sitting in defense industry associations send relevant signals to audiences about firms' association with the arms industry, which is a stigmatized category. Our argument is informed by the upper echelons' literature which suggests that certain CEO characteristics such as background or experience in a context can lead to more commitment of firms to that context (Hambrick & Mason, 1984; Wang & Yin, 2018). For example, the higher experience of CEOs in an industry is likely to make that industry the core business of their firm (Ang et al., 2014). Given these arguments, audiences may perceive a higher commitment of firms to a specific category when CEO characteristics are indicative of such commitment. Thus, instead of relying on generic CEO characteristics such as age, gender, psychological traits (e.g., narcissism), and other characteristics

(e.g., CEO celebrity<sup>19</sup>), audiences are likely to draw on CEO characteristics related to the arms industry in order to evaluate firms' association with the arms industry. For example, it follows from this logic that between two similar firms, audiences are likely to draw a stronger association with the arms category for firms with CEOs with military background compared to firms with CEOs with no military background. This is because the military background will be interpreted as a cue that establishes a connection between the firm and the arms category in audiences' minds. We now elaborate on CEO characteristics.

***CEO military background.*** Ex-military CEOs have spent a significant length of their lives in the army and served in multiple war-zones and battlefields, possibly leading to familiarity with the demands of military missions and customers' needs in foreign markets (Koch-Bayram & Wernicke, 2018). Moreover, as the result of close contact with defense contractors—through the department of defense and mainly for training purposes<sup>20</sup> and joint programs—military officers may have developed a fairly comprehensive knowledge of the industry, its main players, and recent trends. For example, many retired army officers relied on their military expertise and understanding of the market and founded their own security companies during Iraq's war<sup>21</sup>. Given the insights from organization-CEO fit research (Hambrick, Finkelstein, & Mooney, 2005) it is plausible that audiences perceive firms with military CEOs as a signal of firms' strong commitment to pursue military-related activities, investments and strategies. Audiences may thus draw a stronger association with the stigmatized category for firms with military CEOs compared to those with non-military CEOs.

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<sup>19</sup> In our empirical tests, we control for other potential CEO characteristics that may signal firms' association with the stigmatized industry as well as those that can signal the association with non-stigmatized category.

<sup>20</sup> <https://www.defensenews.com/industry/2018/11/06/new-watchdog-report-decries-revolving-door-between-the-pentagon-and-defense-contractors/>

<sup>21</sup> <https://www.securitygreehub.com/most-powerful-private-security-companies-in-the-world/>

***CEO tenure in the arms industry.*** CEOs with longer tenure in a particular industry have developed more expertise in that industry. Research has shown that firms' level of strategic commitment (e.g., more acquisitions and diversifications) to a particular industry is partially influenced by their top managers' experience in that industry (Custodio & Metzger, 2013; Kroll, Walters, & Wright, 2008; Read & Read, 1989). CEOs with higher experience in a specific industry are more likely to make that industry the core business of their firms (Ang et al., 2014). Thus, given the fit between CEOs' experience in a specific domain and the strategic commitments of their firms to that domain, audiences are more likely to perceive firms under the leadership of CEOs with longer tenure in a stigmatized industry to have more commitment to that industry compared to firms led by CEOs with less tenure in the same industry.

***CEO board-seats in defense associations.*** CEOs sitting on the board of industry associations can be another cue for audiences to infer a higher relative commitment of firms to that industry. According to the literature on industry associations, firms can join industry associations (usually through nominating their CEOs; Yen, Chen, Shen, & Lin, 2014) to defend the reputation of their field (Barnett & King, 2008; King & Lenox, 2000), improve within-industry regulations (Lenox, 2006), and enjoy the benefits of collective acts (e.g., lobbying with the government; Delmas & Montes-Sancho, 2010; Marques, 2017). Indeed, King and Lenox (2000) showed that firms with more production (compared to other firms or other products in their product portfolio) in a specific industry are more likely to join associations of that industry. The arguments above point to the idea that, overall, firms that have more commitment to an industry are more likely to ask their CEOs to join industry associations. Based on the logic of CEO-organization fit, audiences will view CEOs' membership in the board of industry associations as a signal of firms' attention to that industry

(King & Lenox, 2000), or firms' attempts to increase influence over industry constituents (Tucker, 2008), and in general of acting as industry advocates (Marques, 2017).

Altogether, we expect that CEO characteristics of military background, tenure in the industry, and board-sitting in the industry will be interpreted by audiences as relevant cues that firms have more relative commitment to the stigmatized category. In turn, the audience will perceive firms to have a stronger association with the stigmatized category and increase their disapproval of the firms. We hypothesize:

*Hypothesis 1: CEOs' characteristics that signal firms' association with a stigmatized category (i.e., military background, longer tenure in the industry, and board-sitting in the industry's associations) lead to more disapproval of firms by their audiences.*

### ***The moderating role of association ambiguity and audience type***

The degree to which audiences rely on CEO characteristics to evaluate firms' association with the stigmatized category, and express disapproval of the firms, is likely to be influenced by two factors. One factor we consider is the ambiguity of firms' association with the stigmatized category which can affect whether audiences are likely to look for CEO-related cues. Ambiguity is higher when firms straddle into non-stigmatized categories (Vergne, 2012). The second factor is the type of audience evaluating firms, which affects whether certain audiences pay more or less attention to CEO characteristics (Paoletta & Durand, 2016; Pontikes, 2012).

Category straddling increases the ambiguity for audiences to which categories firms belong. There is evidence that the wines made by wineries spanning styles receive lower ratings by experts compared to wines made by wineries with a focused style because the former fails to provide a coherent identity as a high-quality producer (Negro & Leung, 2013). Compared to firms that are focused on a specific stigmatized category and for whom the stigmatized category is a "central, enduring and distinctive" part of their identity (Piazza & Perretti, 2015; Whetten, 2006), firms with additional memberships in non-stigmatized categories can send mixed signals to audiences about

their category associations, dividing audiences' attention between stigmatized and non-stigmatized categories (Reinmoeller & Ansari, 2016; Vergne, 2012; Zuckerman, 1999). Given audiences' scarce attentional resources and puzzling signals emanated from firms who straddle, audiences are likely to rely even more on visible cues in the environment to reduce ambiguity and infer information about firms' categorical associations. Thus, on top of cues such as firms' identity (Alexy & George, 2013; Hsu & Elsbach, 2013) or status (Jensen & Roy, 2008; Zhao & Zhou, 2011), when ambiguity is high relevant CEO characteristics can play a more important role in shaping audiences' evaluation of firms' categorical association compared to when ambiguity is low. For example, when an audience is doubtful about firms' strength of association with the arms industry, observing military CEOs leading those firms can reduce the audience's association ambiguity and divert the audiences' attention to the contentious military activities of firms. We thus hypothesize:

*Hypothesis 2a: The effect of CEOs' characteristics on the disapproval of firms by audiences becomes stronger when the ambiguity about firms' association with the stigmatized category increases.*

Further, audiences differ based on the level of attention they devote to CEO characteristics in formulating their categorization judgments. Categorization is "in the eye of the beholder" (Hsu & Hannan, 2005) and the cognitive link between a cue and a category is particular to each audience and their worldviews (Durand & Paoella, 2013; Murphy & Medin, 1985; Rehder & Hastie, 2001; Rehder, 2003a). Different audiences will focus on different cues when evaluating categorical associations (Diestre & Rajagopalan, 2013). According to some audiences' worldviews, CEOs may be salient, and it is plausible that these audiences will draw more on CEO characteristics as relevant cues for their perceptions of firms' associations with the stigmatized category, compared to other audiences for whom CEOs' characteristics are a less salient element of their worldviews.

Specifically, we expect that for audiences in the arms industry (i.e., journalists, activists, financial actors, and government actors), CEOs are highly salient from the perspective of journalists

and activists. In their roles as expert monitors (Pollock & Rindova, 2003), and providers of consolidated, brief, simple, and appealing narratives about firms' actions and performance (Deephouse, 2000; Hayward, Rindova, & Pollock, 2004; Rindova, Pollock, & Hayward, 2006), journalists distill, simplify, and dramatize complex information about firms (Ashforth & Humphrey, 1997). They do so by attributing substantial weight to CEOs' influence in firms' actions (Sinha, Inkson, & Barker, 2012) and romanticizing CEOs' roles (Chen and Meindl, 1991). As such, these arguments suggest that CEOs are a prominent element in the process of journalists' evaluation of firms.

Similar arguments also apply to activists. Activists pay a considerable amount of attention to CEOs. The salience of CEOs for activists can be explained by the concept of "opportunity structure" which has recently been studied in the social movement literature (Briscoe & Gupta, 2016). Opportunity structure suggests that some firms are more attractive targets for activists because targeting such firms increases the likelihood of activists' success (King & Pearce, 2010; Schneiberg & Lounsbury, 2008). In the process of finding attractive targets, activists devote particular attention to the characteristics of CEOs because CEOs are seen as firms' primary decision-makers. CEOs are seen as being able to conform to or resist activists' demands (Gupta et al., 2018). For example, empirical evidence shows that employee activists target firms with liberal CEOs to achieve better outcomes for their pro-LGBT campaigns (Briscoe, Chin, & Hambrick, 2014). In another case, Campaign Against Arms Trade (CAAT), a prominent global anti-war activist group, publicly shamed firms on its webpage whose CEOs have frequently met the UK's Secretary of State for Defence<sup>22</sup>. CEOs are thus, in general, salient in activists' worldviews.

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<sup>22</sup> <https://www.caat.org.uk/resources/influence/revolvers>

Compared to activists and journalists, government and financial actors have a richer understanding of what firms actually do. This knowledge can be used as basis of their evaluation about firms' association with the stigmatized industry, hence reducing the importance and salience of CEOs as additional cues for evaluating firms' categorical associations. Through repetitive interactions with firms (through lobbyists and legislative meetings), government actors acquire extensive knowledge about firms' contracts and domains of activities (Kerwin & Furlong, 2018). In the context of the arms industry, as government is the final producer of many defense products, this familiarity with firms' activities is even stronger compared to other settings. Similarly, when evaluating firms, the main focus of financial actors' attention is on events that convey concrete information about the future performance of the firm such as firms' annual meetings, conference calls, quarterly reports, and recommendations by other financial actors (e.g., analysts) (Giorgi & Weber, 2015). Based on these arguments, in evaluating firms' association with the stigmatized category, government and financial actors are likely to draw on concrete cues (i.e., firms' contracts, products, and investments) —which happen to be easily available to these actors through close interactions with firms— rather than relying on signals from CEO characteristics which provide less accurate information about firms' categorical associations.

Hence, we hypothesize that journalists and activists are more likely to rely on CEO characteristics as relevant cues for the perceived association of firms with the stigmatized category and hence express disapproval, than other audiences such as financial and government actors.

*Hypothesis 2b: The effect of CEOs' characteristics on the disapproval of firms by audiences is moderated by the audience type. That is the disapproval will be higher for journalists and activists compared to financial and government actors.*

## **METHODS**

### **Empirical setting and data collection**

The arms industry is an ideal context for investigating our research question, about whether CEO characteristics increase the audiences' disapproval of firms in a stigmatized industry. First, the arms industry is perceived to be stigmatized because of the questionable nature of its products and their harmful consequences on peoples' lives (Durand & Vergne, 2015), leading to persistent expression of public disapproval by various groups of audiences (e.g., journalists, activists, investors). Second, compared to other stigmatized industries, such as gambling or tobacco, the higher number of public firms in the arms industry leads to more availability of firm-level, individual-level, and segment-level data. Third, a considerable proportion of firms in the arms industry have also diversified into commercial markets. For example, Boeing as a high-status defense firm is also a key player in the commercial aircraft market. This is helpful for testing our arguments about firms' straddling. Finally, although the arms industry represents an important economic share of total global trade, with few exceptions (e.g., Baum & McGahan, 2013; Durand & Vergne, 2015; Kim, 2019), management scholars have done little research to understand the role of CEOs on audiences' social evaluation of firms in this industry.

We collected data about global arms manufacturers and their CEOs from 1998 to 2016. During this period, three major—and still ongoing—wars in Afghanistan, Iraq, and Syria and several minor conflicts such as the war in Gaza have subjected the industry to ample audience attention. It is also a sufficiently long period—20 years—to observe audience disapproval of firms' actions and values. There is no unique Standard Industrial Classification (SIC) code associated with the arms industry in public databases (e.g., WRDS). Many firms report SIC codes which are unrelated to the arms production. As such, we hand-collected data about firms in our sample from the two major sources that rank firms based on their arms sales: the Stockholm International Peace Research Institute (*SIPRI*) and Defense News (Durand & Vergne, 2015). *SIPRI* defines 'arms sales' fairly

broadly as including all military-specific goods and services sold to military customers (by private or state-owned corporations). Our sample includes all firms that were at least once listed in these rankings from 2001 (the first year that the rankings were generated) to 2016 (270 firms). Next, we collected CEO-level data about demographics, work experience, and membership in associations through Bloomberg's Executive Profile & Biographies, and BoardEx, which is the largest available dataset with information on members of boards (Koch-Bayram & Wernicke, 2018). We collected other firm-level data (e.g., financial, media coverage, audiences' disapproval of arms-related and arms-unrelated issues) from sources such as Compustat, Orbis, Factiva, corporate annual reports, company websites, and defense outlets. Merging CEO-level and firm-level data, we constructed the final sample with 421 CEOs in 212 firms. Previous studies using a similar sampling of firms have indicated that this list of firms includes more than 90 percent of all producers of final weapon systems (as opposed to producers of sub-parts) (Durand & Vergne, 2015).

### **Dependent variable**

*Audiences' negative social evaluation (disapproval).* The dependent variable in our hypotheses captures public disapproval of firms by their audiences. Following previous research on firms' disapproval (Piazza & Perretti, 2015), we measured disapproval by counting the number of audiences' criticism of firms' military business. Following a method from previous research (Vergne, 2012), we conducted a rich content analysis of news articles that reflected any negative social evaluation by a firms' stakeholder. Specifically, we searched for the names of the firms together with meaningful keywords such as critic\*, attack\*, under pressure\*, condemn\* along with military-specific terms such as military, defense, weapon\* to extract the relevant articles. We selected those articles that matched the content of the articles with six negative stereotypes that manifest the questionable nature of the arms industry (four identified by Durand & Vergne (2015: 8) and two newly identified

in our sample<sup>23</sup>). A comprehensive list of keywords and examples of stakeholders' disapproval associated with the arms industry negative are provided in Tables 1-A and 2-A of Appendix A.

To minimize the media bias in coverage of some types of criticism or firms, we selected 68 highly circulated and non-governmental global news outlets in North America (e.g., *New York Times*, *Washington Post*, *The Globe and Mail*), Europe (e.g., *The Guardian*, *The Independent*, *Le Figaro*, *El País*), Middle East (e.g., *The Moscow Times*, *Turkish Daily News*, *Jerusalem Post*), Africa (e.g., *All Africa*, *Business Day*) and Asia-Pacific (e.g., *The Australian*, *The Korea Herald*, *Times of India*, *China Daily*) along with 20 professional defense outlets, (e.g., *Defense Daily*, *Jane's Defence Weekly*) to code for each audiences' criticism. We asked an independent coder to randomly re-code ten percent of all the retrieved articles. The agreement level was 91 percent, which is an acceptable level.

### **Independent variables**

***CEOs' military background.*** For each CEO, we collected biographical information for CEOs' military background mainly from BoardEx and Bloomberg's Executive Profile & Biographies (Koch-Bayram & Wernicke, 2018). Further information on the military background was collected from firms' annual reports, press releases, interviews with CEOs, and LinkedIn pages. Our final constructed variable took the value of 1 if CEOs served in any of the branches of a country's military forces (i.e., *Army*, *Air force*, *Navy and Coast guard*, *Marine corps*, and *Ground forces*) and 0 otherwise.

***CEOs' tenure in the stigmatized industry.*** The CEO tenure in the arms industry was measured by the number of years CEOs served in defense firms in various positions. Data about

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<sup>23</sup> (1) the arms industry relies on black market transactions, selling arms to repressive regimes and leaking secret military information to foreign countries, (2) the arms industry violates civil liberties and human rights, (3) the arms industry endangers world peace, promotes war and profit from global instability, (4) the arms industry exerts illegitimate influence on governments through bribing, controversial political ties and overcharging the contracts, (5) the arms industry is unethical for investment and sponsorship ties, and (6) arms industry and defense contractors are in general corrupt, immoral, shameful and nasty.

CEOs' current and previous occupations were collected from BoardEx, Bloomberg's Executive Profile & Biographies, Execucomp, and extensive search of CEOs' LinkedIn profiles.

***CEOs' board-seats in defense associations.*** We calculated CEO board-seats in defense associations by counting the total number of seats that CEOs hold on the board of any major defense associations such as *National Defense Industrial Association (NDIA)*, *AeroSpace and Defence Industries Association of Europe (ASD)*, and *Armed Forces Communications and Electronics Association (AFCEA)*, searching through Boardex and Factiva. A complete list of defense associations is presented in Table 3-A of Appendix A.

### **Moderating variables**

***Ambiguity in firms' association with the stigmatized category.*** Previous research argues that firms that dilute the association with the stigmatized category by diversifying into non-stigmatized categories create more ambiguity about their association with the former category (Vergne, 2012; Zuckerman, 1999). Following these studies, we proxied the ambiguity of firms' association with the stigmatized category by calculating a media-based coverage—from the Factiva universe—of firms' commercial activities divided by the total coverage of that firms' commercial and defense activities. There is evidence that the reports offered by the media—as a powerful intermediary—influence the audiences' evaluations of firms (Deephouse, 2000). Hence, from the audiences' perspective, additional coverage of defense firms' commercial activities may create confusion about those firms' association with the stigmatized category.

$$\text{Association ambiguity} = \frac{\text{Coverage of firms' commercial activities}}{(\text{Coverage of firms' commercial activities} + \text{Coverage of firms' military activities})}$$

***Audience types.*** To test the moderating effect of different audiences, we broke down the overall disapproval (our dependent variable) into disapproval by different types of audiences. The typical composition of firms' audiences—informed by studies in stakeholder theory—are customers,

employees, investors, suppliers, community, media, and the government. We excluded employees because it is very unlikely that firms' employees face ambiguity in the categorical associations of their firms. We also excluded customers and suppliers because there were very few cases that these types of audiences made negative social evaluations about firms' military business. We also excluded the content disapproving of firms in relation to judicial systems (e.g., courts). Usually, such legal cases are not settled until years after the alleged violation, so audiences might be inclined to simply suspend their judgment about firms' categorical associations until the judiciary has had the chance to conclude the case. Finally, we used activists as advocates of the community in our empirical setting (Gallagher, 2017).

Following previous research that has studied different audiences' social evaluations of firms' categorical associations (Pontikes, 2012), we created four distinct categories of audiences. Journalists, and whether they tried to convey disapproval in a published article. Activists, whenever an activist group (e.g., Amnesty International), religious organizations (churches), or individual activists with any background (e.g., writer, artist, victims' advocates, or even a solo protestor) were criticizing a firm. Financial actors, if any current or potential investor(s) (e.g., investment funds) and analysts condemned firms' activities, behavior, or values. Government actors as a broad group consisting of members of Parliament, Senate, House of Representatives, Congress, government officials (e.g., prime minister), military veterans, and government departments (e.g., Department of Defense). To test hypothesis 2b, we first grouped the journalists and activists in one category—because of a high CEO salience for these audiences—and financial and government actors in another category. Next, we ran two separate models—similar independent variables—with two different dependent variables: disapproval by journalists/activists (number of criticism of firms' military business by

journalists/activists) and the disapproval by financial/government actors (number of criticism of firms' military business by financial/government actors).

### **Control variables**

To control for the other factors that may influence our dependent variable, we accounted for several firm-level, peer-level, and CEO-level controls. At the firm-level, we added measures of the firm size (log of total assets) and the firm performance (ROA). We controlled for firm media visibility (logged number of Factiva's universe of articles in which firms' names appear in the title or the first paragraph) because higher media visibility can provide more disapproval opportunities for audiences (Vergne, 2012). Because reputation may increase the firms' visibility and attention of audiences, we also controlled for the firms' reputation by categorizing firms into four groups based on their rank in the *SIPRP's* top 100 Global arms Manufacturers' ranking. If firms ranked between 1 to 25, it had the highest reputation and received a value of 4 in our model, firms with ranks from 26 to 50, 51 to 75 and 76 to 100 respectively received the values of 3, 2 and 1. We controlled for firms' scandals by including a binary variable that takes the value of 1 whenever we found a firm was touched by a scandal. We searched for the keyword scandal\* in the 93 newspapers mentioned previously to identify scandalized firms. We controlled whether firms are diversified by counting the number of industries in the firms' annual reports. We also added a control variable for audiences' non-military disapproval by counting the number of articles that cover any criticism by firms' audiences including activists (e.g., environmental issues), employees (e.g., gender discrimination), suppliers (e.g., contracts' terms), governments and other customers (e.g., contracts' delays), governmental agencies (e.g., accounting irregularities), shareholders (e.g., dividends' distribution) and other audiences about issues that are not specific to firms' military business. We also included the

firms' association ambiguity variable—one of our moderating variables—to control for its direct effect as it might decrease the audiences' disapproval.

At the peer level, we controlled for the audiences' criticism of firms' peers because it might affect how those audiences disapprove of the focal firm (Durand & Vergne, 2015). Based on our assessment of different sources such as *SIPRI*, defense journals, and firms' annual reports, we first identified 12 subcategories of the arms industry<sup>24</sup>. Following prior research, we defined a peer as a firm that has at least one subcategory overlap with the focal firms (Durand & Vergne, 2015). We then calculated the audiences' criticism of peers by adding up the articles that cover the respective audiences' criticism separately on all the peers.

At the CEO-level, we controlled for the CEO age by logging the age of CEOs at the beginning of the respective year. We added a control variable that captures the CEOs' current number of boards that CEOs hold as a factor that can dilute the attention of audiences similar to the firms' identity dilution. We added a dummy variable to capture whether CEOs have worked for the government in the past. Further, we controlled for CEO tenure and CEO commercial experience by logging the number of years CEOs have served in firms as leaders, and the number of years CEOs have worked in firms outside the defense industry. We used Boardex to count the number of military awards CEOs have received in the past as they also might signal firms' stronger association with the arms industry. Finally, we controlled for CEOs' membership in policy-making groups (e.g., Business roundtable) and membership in charity organizations by including a count number of CEOs' membership in these organizations.

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<sup>24</sup> (1) electronic warfare and defense electronics, (2) artillery, missiles, cluster munitions, and nuclear weapons, (3) military aircraft and helicopters, (4) military aircraft engines, parts, repair and overhaul, (5) military ships and submarines, (6) military space, (7) military ground vehicles, (8) combat training, personal protection service and private military contractors (PMCs), (9) small arms and ammunition, (10) logistics, engineering support and military facilities' management, (11) OEM and industrial metal products for military uses, and (12) military consulting, IT solutions and cyber defense services.

Additionally, we included year fixed effects to account for any unobserved heterogeneity between different years and added country and subsector dummies to control for differences in geographical locations and industry segments. For the dependent variable at a given year, we used the independent and control variables of one year before.

## RESULTS

### Analyses

Our dependent variable in this study (audiences' disapproval) is a count variable that takes non-negative integer values. Count data with the presence of over-dispersion are commonly analyzed using negative binomial regression (e.g., Stuart, 2000). We used a random-effects negative binomial regression model to explain between-firms variance in disapproval based on the characteristics of their CEOs. The results of Hausman tests were not significant ( $p = 0.66$ ), showing no advantage in using a fixed-effects specification over a random-effects model (Certo, Withers & Semadeni, 2017).

Table 3-1 summarizes the descriptive statistics and the correlation matrix. The correlations between the control and independent variables are in general low to moderate, suggesting that multicollinearity is not problematic. We also calculated the variance inflation factor and it was always below 10, the commonly accepted threshold values for multicollinearity (Hair et al., 1998).

----- Insert Table 3-1 about here -----

### Hypotheses testing

In Table 3-2, we present the results for the first hypothesis. In Model 1, we include only the control variables. Consistent with previous research, the dilution of association with the stigmatized category is significantly ( $p < .01$ ) and negatively associated with the audiences' disapproval (Vergne, 2012). Also, larger firms receive more disapproval compared to smaller counterparts, possibly owing

to more visibility for audiences. We test hypothesis 1, predicting that CEOs' military background, industry tenure, and board-seats in industry associations increase the audiences' disapproval of firms, in Models 2-5. Consistent with our predictions, the coefficients are positive and significant for the military background ( $p < .05$  and  $p < .001$  in Models 2 and 5), industry tenure ( $p < .01$  and  $p < .01$  in Models 3 and 5), and board-seats in industry associations ( $p < .001$  and  $p < .001$  in Models 4 and 5). By calculating the incidence rate ratio for each coefficient in Model 5, we observe that keeping all the other explanatory variables at their means, compared to non-military CEOs, military CEOs increase the rate of audiences' disapprovals by a factor of 1.96, that is 96% ( $e^{0.676}=1.96$ ). Also, one standard deviation increase in CEOs' tenure in the industry elevates audiences' disapproval rates by 33% ( $e^{(0.028*10.3)}=1.33$ ). Finally, one standard deviation increase in the CEOs' number of board-seats in industry associations leads to 15% ( $e^{(0.294*0.47)}=1.15$ ) more disapproval rates by firms' audiences. Thus, Hypothesis 1 was supported.

----- Insert Table 3-2 about here -----

In Table 3-3, we test Hypothesis 2a about the moderating effect of firms' association ambiguity. As we use a non-linear model, the coefficients of the interaction terms alone do not reflect the true interaction effects (Hoetker, 2007). Hence, as recommended by previous research (Wiersema & Bowen, 2009), in Table 3-4 we calculate the marginal effect of each CEO characteristics on firms' disapproval when association ambiguity takes different values (mean and  $\pm 1$  S.D.). The results indicate that the relationship between CEO military background and firm disapproval is nearly 57% stronger when the association ambiguity is higher (i.e., 1 S.D. above the mean) than when it is lower (i.e., 1 S.D. below the mean). Also, the relationship between CEO industry tenure and firm disapproval increases by about 12.5% when the association ambiguity moves from 1 S.D. below the mean to 1 S.D. above the mean (it becomes insignificant at +1 S.D.).

Finally, the relationship between CEO board-seats in industry associations increases by 285% when the association ambiguity is higher (i.e., 1 S.D. above the mean) than when it is lower (i.e., 1 S.D. below the mean). Graphical depictions of the marginal effects of each CEO characteristic on the firm disapproval contingent on different levels of association ambiguity are provided in Figure 3-1 (a, b, c). Hypothesis 2a was supported.

----- Insert Figure 3-1 about here -----

----- Insert Tables 3-3 and 3-4 about here -----

To test Hypothesis 2b about the moderating role of audiences, we broke the dependent variable (i.e., disapproval by all audiences) to two groups: disapproval by journalists/activists, and by financial/government actors. In Table 3-5, we present the results of these two analyses. Consistent with our prediction about the stronger effect of CEO characteristics on firms' disapproval for journalists/activists compared to financial/government actors, we observe that the coefficients for all three CEO characteristics are significant (i.e.  $p < .01$  for military background,  $p < .01$  for industry tenure, and  $p < .01$  for CEO associations board-seats) for journalists and activists, while the coefficients of these characteristics for the financial/government actors group are statistically insignificant and significantly different from those for journalists/activists ( $p < .01$  for difference in military background coefficient,  $p < .001$  for difference in industry tenure coefficient, and  $p < .01$  for difference in CEO associations board-seats coefficient). Therefore, Hypothesis 2b was supported. Compared to firms without military CEOs, firms with military CEOs have 96% ( $e^{0.675}=1.96$ ) more disapproval rates from journalists/activists. In addition, one standard deviation increase in CEOs' industry tenure elevates journalists/activists' disapproval rates by 48% ( $e^{(0.038*10.3)}=1.48$ ). Similarly, a one standard deviation increase in the number of associations' board-seats leads to 18% ( $e^{(0.359*0.47)}=1.18$ ) more journalists/activists' disapproval rates. While

statistically insignificant, these rates for government/financial actors are respectively 14% ( $e^{0.131}=1.14$ ), -60% ( $e^{-0.09*10.3}=0.39$ ), and 6% ( $e^{(0.135*0.47)}=1.06$ ).

----- Insert Table 3-5 about here -----

## Supplementary analyses

### *Endogeneity concern 1: CEOs' selection into firms with higher levels of disapproval.*

The first endogeneity concern arises because CEOs with a military background, high industry tenure, or seats in industry associations' boards may join those firms that in general receive more disapproval compared to other firms (e.g., because of higher media visibility). We try to address this issue in part through including relevant controls (e.g., firm reputation) in our main analysis. To better address this concern and to strengthen the causality of our predictions we ran a difference-in-difference analysis. If our argument about the effect of CEO characteristics on audiences' disapproval has merit, we should expect that in similar firms, the turnover of CEOs with non-military background, low industry tenure, or without associations' board-seats to the ones with military background, with high industry tenure or with seats in associations' boards can be an exogenous event that affects the audiences' association of firms with the stigmatized category and increase their disapproval expression.

We use a difference-in-difference analysis to investigate the effect of such turnovers on firms' disapproval by audiences. Specifically, to test the effect of military background, we consider the treatment groups to be instances where CEOs without a military background are replaced with CEOs with a military background and vice versa<sup>25</sup>. The control group for this test is composed of instances where CEOs with a military background are replaced with CEOs with a military

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<sup>25</sup> Based on our theoretical explanations, for the firms that military CEOs leave, and non-military CEOs are appointed we should expect to see less disapproval. We reverse coded the data for this type of turnovers so that we can add them to cases in which non-military CEOs are replaced by military CEOs. That is the data after non-military CEOs are appointed would be coded as pre-treatment and the date for the ex-CEOs who were military would be post-treatment.

background or CEOs with no military background are replaced with CEOs with no military background. To test the effect of CEO industry tenure, we considered the treatment groups to be instances where newly appointed CEOs have considerably higher industry tenure (15 years) compared to the leaving CEOs. The control group for this test consists of instances where the difference between new and old industry tenures are less than 15 years. To test the effect of associations' board-seats, we considered the treatment groups to be instances where CEOs without any seats in industry associations' boards are replaced with CEOs with at least one seat in such boards. The control group for this test is comprised of turnovers where old and new CEOs both hold or do not hold a board-seat in industry associations.

In the next step, we used coarsened exact matching method (Blackwell, Iacus, King, & Porro, 2009) to find the best matches between the treated and the control group based on four characteristics: firm size, firm performance, firm reputation and most importantly the disapproval of the firm before the CEO turnover, all computed as average in the three years preceding the CEO turnover. This matching procedure ensures that control firms are as similar as possible to the treated firms, ex-ante. In particular, using the previous disapproval of the firm as a matching characteristic ensures that treated and control firms have similar levels of audiences' disapproval before the treatment. To illustrate the similarity between treated and control groups, Table 3-6 reports descriptive statistics for the four matching characteristics (*p*-value of the difference-in-means test (*t*-test)). As shown in this Table 3-6, the treated and control groups are very similar in all the matching characteristics. In particular, the null of equal means cannot be rejected (with *p*-values ranging from 0.21 to 0.98).

----- Insert Table 3-6 about here -----

For each treated CEO turnover and its matched control turnover, we compute the firms' average audiences' disapproval in the three years following the turnover. We can measure the effect of CEO turnover from non-military to military, low to high industry tenure, and with no seats to with at least one seat in associations' boards using a negative binomial model (our dependent variable is a count variable with over-dispersion) to estimate the following regression:

$$Disapproval_{it} = \alpha + \beta (\text{Post} * \text{Treated})_{it} + \gamma X_{it} + \epsilon_{it}$$

The coefficient of interest is  $\beta$ , which measures the difference in disapproval between treated and matched control cases (i.e., the difference-in-differences).  $\alpha$  is the constant, X is the vector of control variables that consist of those variables that were included in our main analysis (Table 3-2 -Model 5) but were not used for matching the treatment and control groups, and  $\epsilon$  is the error term. The results in Table 3-7—in 3 different panels for each CEO characteristic—support our predictions in general. In panel A, which is for CEO turnovers from non-military to military,  $\beta$  is positive and significant ( $p < .001$ , Model 1), confirming our predictions for Hypothesis 1. In Model 2, we investigate how the effect of CEO turnover on disapproval is contingent on different levels of firms' association ambiguity. As we are using non-linear regression (Hoetker, 2007), instead of running a three-way interaction between post, treated and association ambiguity, we graphically depict the marginal effect of CEO turnover (post\*treated) based on different levels of association ambiguity in Figure 3-2a (Alonso & Andrews, 2019). Similar to our predictions in Hypothesis 2a, we observe that the marginal effects of CEO turnover get stronger as association ambiguity increases. In Models 3 and 4 we test the effect of turnover on disapproval by journalists/activists versus financial/government actors.  $\beta$  is positive and significant ( $p < .001$ ) for both groups with coefficient for the former group being statistically different—marginally— from the coefficient for the latter group ( $p < .1$ ), supporting H2b.

In panel B, which is for CEO turnovers from low to high industry tenure, we find similar results to our main analysis.  $\beta$  is positive and significant ( $p < .01$ , Model 1), lending support to Hypothesis 1. In line with Hypothesis 2a, the marginal effects of CEO turnover (post\*treated) based on different levels of association ambiguity increase—with a gentle slope—as demonstrated in Figure 3-2b. In Models 3 and 4,  $\beta$  is only significant ( $p < .001$ ) for journalists/activists and statistically different from the coefficient for government/financial actors ( $p < .001$ ), confirming Hypothesis 2b.

Finally, in panel C, which is for turnovers of CEOs without memberships in associations' boards to CEOs with such memberships, we observe that consistent with our first hypothesis,  $\beta$  is positive and significant ( $p < .01$ , Model 1). The graphical depiction of marginal effects in Figure 3-3b gives weak support to Hypothesis 2a predictions about CEOs' board-seats in associations (marginal effects become insignificant for association ambiguity over .75). In Models 3 and 4,  $\beta$  is only significant ( $p < .001$ ) and statistically different from the coefficient for government/financial actors ( $p < .001$ ) for journalists/activists lending support to Hypothesis 2b.

----- Insert Figure 3-2 about here -----

----- Insert Table 3-7 about here -----

***Endogeneity concern 2: CEOs' characteristics affecting the behavior of their firms.***

The second endogeneity concern may be related to the fact that CEOs with a military background, longer industry tenure, and board-seats in industry associations may choose strategies that lead to more disapproval by audiences. For example, military CEOs' use of bribery to get military contracts may be more than that of non-military CEOs. Hence, audiences' disapproval is not affected by CEOs' characteristics but by the strategies and behavior they dictate to their firms. To address this concern, we first refer to the findings of recent literature on military CEOs, indicating that these

CEOs are less likely to engage in fraudulent activities (Koch-Bayram & Wernicke, 2018; Law & Mills, 2017) possibly because of the honesty, loyalty and integrity taught in their service (Franke, 2001; Hiatt, Carlos, & Sine, 2018). Thus, it is plausible to assume similar outcomes for military CEOs in the arms industry.

To empirically address this concern, we test whether the three CEO characteristics of our interest have an impact on firms' non-military disapproval by audiences and firms' allegations by judicial actors (e.g., Courts, Department of Justice, SEC). The rationale behind running these tests is that if being military, having high industry tenure, or sitting on the board of associations lead to more problematic behavior in firms' military activities, firms' non-military activities should also be affected by such characteristics. The results of these tests are reported in Table 3-8. According to Models 1-3, CEOs' military background, industry tenure, and associations' board-seats do not have a significant impact on allegations by judiciary actors with a one, two, and three-year lagged dependent variable. Similarly, we do not observe any significant effect of these characteristics on non-military disapproval by audiences. Consistent with the findings of previous studies about military CEOs' less engagement in fraudulent activities, in Models 4-5, we observe a marginally significant and negative effect ( $p < .1$ ) of military background on non-military disapproval. This effect is also significant ( $p < .05$ ) and negative for CEO industry tenure in Model 5, alleviating the concern that CEOs with a military background, high industry tenure, and board-seats in associations are likely to engage in controversial firms' activities.

----- Insert Table 3-8 about here -----

***The effect of CEOs' characteristics and audiences' disapproval on firm performance.***

One of our main theoretical arguments was that CEO characteristics such as military background, higher industry tenure, and more board seats in industry associations are primarily beneficial for

firms' performance. However, in the context of the arms industry, as they increase stakeholders' disapproval, the performance benefits of such characteristics may be eroded. We use structural equation modeling (SEM) to examine the direct, indirect, and total effect of CEO characteristics on firm performance. This is the recommended approach for testing relationships where there are multiple paths to the same dependent variable (i.e., performance in our case) (Ou et al., 2014). The results of the SEM analysis are presented in Table 3-9. As shown in Model 1, there is a negative direct effect of disapproval<sup>26</sup> on firm performance ( $p < .05$ ) and positive direct effects of CEO military background ( $p < .05$ ), industry tenure ( $p < .05$ ), and board-seats in association ( $p < .1$ ) on firm performance. These results corroborate the upper echelons' predictions about the beneficial nature of CEO characteristics that fit the needs of firms' categories on firm performance. However, in Model 3, we test the indirect effect of these characteristics on firm performance through the disapproval path and find an overall negative effect of CEO military background ( $p < .1$ ), industry tenure ( $p < .05$ ), and board-seats in association ( $p < .05$ ) on firm performance. The analysis of indirect effects is important because once we include these effects in the final model (i.e., Model 4), the direct positive effects of industry tenure and board-seats in associations on firm performance become insignificant and the direct positive effect of CEO military background on firm performance becomes statistically weaker ( $p = .003$  in Model 4 compared to  $p = .001$  in Model 1). These results confirm the double-sword nature of CEO characteristics on firm performance in the context of stigmatized categories (i.e., positive direct and negative indirect influence).

----- Insert Table 3-9 about here -----

## DISCUSSION

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<sup>26</sup> In our SEM analysis, disapproval variable is log-transformed for better interpretation of paths' coefficients.

This paper set out to understand whether and how CEO characteristics can lead to negative audience social evaluations of firms in stigmatized industries. Our empirical investigation in the context of the global arms industry showed that CEO characteristics (i.e., military background, tenure in the industry, and board-seats in professional associations), that can signal firms' association with the stigmatized category, increased the audiences' disapproval of firms. The amount of disapproval became stronger when a) the ambiguity around firms' association with the stigmatized category increases; and b) CEOs play an important role in the worldviews of the audiences evaluating firms. We build on the underexplored areas of the categorization, stigmatization, and upper echelons literatures to advance knowledge about the role of CEOs in audiences' in social evaluations of firms. With that in mind, our study has theoretical implications for several literatures.

### **Contributions to Theory**

The primary contribution is to research at the intersection of categorization and social evaluations. While the role of CEO characteristics in how audiences perceive firms' categorical associations and formulate social evaluations is underexplored, we tried to highlight the importance of accounting for CEO characteristics in audiences' social evaluations of firms' categorical associations. We argued that given the visibility of CEOs, CEO characteristics can play a more important role—above and beyond previously studied cues at the level of firm, category, audience, and the environment—in shaping audiences' evaluations. Previous literature has documented that firms' straddling into non-stigmatized categories can increase audiences' approval—or reduce audiences' disapproval—of firms in stigmatized categories (Durand & Paoletta, 2013; Vergne, 2012). *In contrast*, we showed that this advantage when interacted with other cues, such as CEO characteristics, can increase audiences' disapproval. More specifically, we showed that straddlers may receive more disapproval when their CEOs' characteristics can be interpreted as a sign of association

to the stigmatized category. This is an important observation as it indicates that the link between straddling and social (dis)approval is more complex than previously thought.

The second important contribution of our study is shedding light on the tension that arises between the predictions of two major theoretical perspectives: categorization and upper echelons. Contrary to insights from upper echelons' literature that motivate firms to hire CEOs with characteristics that can fit the demands of their categories (e.g., relevant experience in that category, certain backgrounds and ties with professional associations inside that category; Chen & Hambrick, 2012; Finkelstein et al., 2009), predictions of categorization research may demotivate the hiring of such CEOs. In certain situations (such as stigmatized industries), audiences may use the very same beneficial CEO characteristics as cues to stronger associate with stigmatized categories and condemn the firms because of such associations. Hence, the costs of the “seemingly advantageous” CEO characteristics may exceed the benefits of those characteristics, highlighting the interdependencies between firms' governance decisions (e.g., CEO selection) and firms' market decisions (e.g., selection of categories).

Our study is among the first, with the exception of Wry and colleagues (2014), that document the effect of CEO characteristics on audiences' evaluation of firms' categorical associations. Wry and colleagues showed that biotech firms that hybridize their top management team with more members with technology background, compared to science background, can secure more funding from venture capitalists. We depart from their work in two main ways. First, while in their study, the reason for better funding by venture capitalists was the capability signaled by the top management team having a technology background compared to the science background, in our setting we found that seemingly advantageous CEO characteristics—that signal CEOs' capabilities and improve firms' financial performance—can lead to negative social evaluations by audiences.

Second, while their study focused only on the direct effect of the top management team characteristics on the audiences' *economic* evaluations, we examined how CEO characteristics interact with other audience level and categorical level factors to jointly determine the audiences' *social* evaluations.

Third, our paper also joins the conversation about firms' responses to organizational stigma (Durand & Vergne, 2015; Piazza & Perretti, 2015) by focusing on the role of CEO characteristics on firms' ability to reduce the negative consequences of stigma. More specifically, firms that face constraints in using the main strategies of coping with stigma can reduce the negative consequences of stigma by appointing those CEOs that confuse audiences about the association of firms with the stigmatized industry. This substitutive strategy can be crucial because shielding the firm from stigma (Hudson & Okhuysen, 2009), diluting stigma (Reinmoeller & Ansari, 2016; Vergne, 2012), and co-opting the stigma (Helms & Patterson, 2014) can become costly for firms in certain situations.

Finally, our work contributes to social movement research. A central question in this literature is "which firms get targeted by activists?" Earlier studies investigated different activist-level, firm-level, and environment-level factors (Brisco & Gupta, 2016). Research has also looked into the role of CEOs' values (e.g., ideology) on the activists' targeting behavior (Briscoe, Chin, & Hambrick, 2014). Our work extends this literature by introducing novel CEO characteristics (i.e., military background, industry tenure and positions in industry associations) that can provide "whom to target" cues to actors that engage in social activism, with the caveat that each type of actor may attend to a different characteristic in targeting firms.

The findings of this study are likely to generalize to other industries, including those not typically labeled as "stigmatized." Many industries experience periods of negative social evaluations by their audiences. As a recent example, the pharmaceutical industry came under public criticism for

lobbying against the potential bills that facilitate the trial of different vaccines for the Covid-19 virus<sup>27</sup>. In this situation, pharma firms' CEOs with a governmental background may send signals to audiences that their firms were more engaged in the contentious lobbying efforts and hence receive more disapproval by audiences. Hence, different CEOs' characteristics can couple with different situations to send relevant signals to audiences that can ultimately shape positive or negative social evaluations by those audiences.

### **Future Research and Limitations**

For future inquiries, researchers can explore other contexts where other CEO characteristics (e.g., CEO gender) can lead to positive (or negative) outcomes for firms and whether the interaction between these characteristics and firms' straddling is beneficial or harmful for firms. Alternatively, exploring the CEO characteristics that can decrease firms' disapproval in the stigmatized contexts is another fruitful avenue for future research. CEOs' memberships in charitable organizations can be one candidate for such characteristics.

The "double-edged-sword" nature of certain CEO characteristics can create a dilemma for firms about whom to appoint as CEO. This dilemma can inspire future research to investigate the conditions under which the positive outcomes outweigh the negative outcomes whether the overall outcome can affect the dismissal of CEOs. Upper echelons' researchers can also examine whether other CEO characteristics such as narcissism, which has recently received ample attention from researchers (e.g., Gerstner, Konig, Enders, & Hambrick, 2013), or status (Graffin, Wade, Porac, & McNamee, 2008) can also have conflicting outcomes for firms.

Although in our study CEO characteristics were examined as antecedents of audiences' stigmatizing attacks, as a direction for future research, scholars can look into how certain CEO

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<sup>27</sup> <https://www.politico.com/news/2020/03/05/coronavirus-drug-industry-prices-122412>

characteristics can lead to firms' selection of responses to the stigma. Some CEOs may, in general, prefer concealing the stigma (Hudson & Okhuysen, 2009), while one may opt for responses such as disassociation with the stigma (Durand & Vergne, 2015; Piazza & Perretti, 2015).

Regarding the future research in social movement literature, comparing the effectiveness of those campaigns that target firms based on the CEOs' characteristics and those that target firms based on the firm-level or environment-level characteristics can be an interesting avenue.

Additionally, our study has noteworthy limitations that are also avenues for future research. First, in our paper we did not explicitly measure audience attention, but rather inferred it from public displays of disapproval. The explicit measurement of audiences' attention could give more merit to our arguments about the audiences' attention mechanisms. Future studies, especially with experimental approaches where attention can be accurately manipulated, can address this shortcoming of our study.

Second, due to space constraints, we only tested the interactive effect of CEO characteristics with firms' straddling and type of audience evaluating firms. Other scholars could complement our work by testing the interactive effect of CEO characteristics with other factors (e.g., environment-level cues), and explore the reinforcing or neutralizing effect of CEO characteristics *vis-à-vis* those factors.

### **Practical Implications**

In addition to theoretical contributions and implications for future research, our research also offers practical implications for firms' board of directors, CEOs, and social activists. First, as one of the main responsibilities of the boards of directors is to hire CEOs to improve firms' outcomes, they should be aware of potential categorical associations that newly appointed CEOs can signal to audiences and minimize those appointments with negative outcomes. Second, CEOs

should also be cautious about the firm or the industry they intend to join. The resonance between the CEOs' characteristics and that of the firm or industry may lead to negative evaluations of firms by audiences that can be harmful for the CEOs' reputation and future career (Pozner, 2008; Sutton & Callahan, 1987; Warren, 2007). Lastly, activists can take advantage of the CEO-based categorization to improve the success of their campaigns. Activists can strategically publicize certain CEOs' characteristics that can lead to negative evaluations by other audiences to increase the external pressure on a firm to conform to the campaigns' demands.

### **CONCLUSION**

CEOs, as “the face” of their firms, send important signals to audiences about firms' categorical associations, influencing the audiences' social evaluations of firms, beyond and above other signals previously studied such as category straddling. Our results suggest that the negative evaluations of audiences based on CEO characteristics may erode the benefits of a fit CEO for firms, questioning the assumption about hiring fit CEOs in the first place. Overall, future research at the intersection of social evaluations and upper echelons, as well as the actors in charge of selecting CEOs for corporations, should take into account the complex role of CEO characteristics, in tandem with other factors, on firms' strategic outcomes such as (dis)approval.

## CONCLUSIONS

This dissertation is a conceptual and empirical attempt to understand a critical question in strategy research: How stakeholders' social evaluations of organizations are shaped, responded to by organizations, affective at organizations' strategic outcomes? In three chapters, I try to answer the posed question by looking at the antecedents and outcomes of stakeholders' negative social evaluations for organizations and also their CEOs. In this section, I will summarize the main theoretical contributions and practical implications of the studies in my dissertation.

### **Theoretical contributions**

The main contribution of the first chapter is to the stakeholder salience literature. Previous literature has focused either on the stakeholder salience or the issue salience as main determinants of organizations' responses to criticism (Agle et al., 1999; Bundy et al., 2013; Durand et al., 2019; Mitchell et al., 1997). We build on these studies and explicitly consider these two types of salience separately to argue that the interplay between them can affect the choice of organizational response. Especially when there is convergence between these perceived saliences, organizational responses are likely to be different from when they diverge. Thus, not taking into account the interplay between the criticizing party's salience (Mitchell et al., 1997) and its raised issue salience (Bundy et al., 2013; Durand et al., 2019) can obfuscate the heterogeneity of organizational responses. By considering this interplay, we can explain why contrary to prior theoretical predictions (e.g., Mitchell et al., 1997), organizations sometimes do accommodate to a salient criticizing party and conversely why they may deliver an accommodative response to a non-salient criticizing party.

In the second chapter, we provide two major contributions. First, we contribute to the research the intersection of stigma and upper echelons theory (e.g., Marcel & Cowen, 2014; Semadeni et al., 2008). The main finding of this literature is that CEOs marked by failure struggle to

find subsequent jobs (Pozner, 2008; Schepker & Barker III, 2018). Our study suggests that, contrary to failure stigma, core stigma, may actually be a signal of CEOs' capability which may, in turn, increase their job prospects in other firms but only within the stigmatized industry. Second, we push the boundary conditions of the literature on courtesy stigma (Goffman, 1963; Pontikes et al., 2010) by proposing and finding that firms do not distance themselves from CEOs whose firms' core business is stigmatized when associating with these firms may bring status-related and performance-related benefits.

In the third chapter, we render two main contributions. The first contribution concerns the role of straddling on negative social evaluations in stigmatized contexts. Previous literature has documented that firms' straddling into non-stigmatized categories can reduce audiences' disapproval of firms in stigmatized categories (Durand & Paoletta, 2013; Vergne, 2012). *In contrast*, we show that straddling when interacted with other cues, such as CEO characteristics, can increase audiences' disapproval. This reveals an interesting feature of category straddling: Straddling can both reduce disapproval (by deflecting audiences' attention from firms' association with stigma) *and* increase disapproval (by refocusing audiences' attention to other cues that signal firms' association with stigma, hence strengthening the effect of those cues on disapproval), indicating that the link between straddling and social (dis)approval is more complex than previously thought. The second contribution is highlighting a tension that arises between the predictions of two major theoretical perspectives: categorization and upper echelons. Contrary to insights from upper echelons' literature that motivate firms to hire CEOs with characteristics that are suitable for their categories (e.g., relevant experience in that category), predictions of categorization research may demotivate the hiring of such CEOs in stigmatized contexts. Same beneficial CEO characteristics can act as relevant

cues for the association of organizations with the stigmatized category, increasing the disapproval around the organizations.

### **Practical implications**

One common thread among all three chapters of this dissertation is the role of social actors in governing the socially irresponsible behavior of organizations. Our conceptual model and the findings of empirical studies highlight three main implications for how social activists can hold more effective campaigns against socially irresponsible organizations. First, activists can increase the likelihood of their campaigns' success by targeting organizations with low levels of reconfiguration capabilities or by weakening the reconfiguration capabilities of organizations, especially those capabilities which depend on external constituents. Second, activists may be cautious when they publicly disapprove of deviant organizations. In fact, in the second chapter, we show that disapproval can have positive consequences for the deviant organizations' CEOs, at least within the stigmatized context. Hence, activists need to consider novel ways to diminish the motivation of other firms in the stigmatized industries to hire the CEO of a disapproved company. One strategy can be targeting the firms that hire those tainted CEOs. Lastly, activists can take advantage of the CEO-based categorization to improve the success of their campaigns. Activists can strategically publicize certain CEOs' characteristics that can lead to negative evaluations by other audiences to increase the external pressure on a firm to conform to the campaigns' demands.

## CONCLUSIONES

La presente tesis representa una propuesta conceptual y empírica para comprender una cuestión fundamental en la investigación sobre estrategia: cómo se configuran las valoraciones sociales negativas de los grupos de interés, cómo responden a ellas las empresas y si estas afectan a los resultados estratégicos de las empresas. A lo largo de tres capítulos, se trata de responder a la cuestión planteada mediante el análisis de los antecedentes y las consecuencias para las empresas y para sus CEO de las valoraciones sociales negativas de los grupos de interés. En esta sección, se resumen las principales contribuciones teóricas e implicaciones prácticas de la presente tesis.

### Contribuciones teóricas

La principal contribución del primer capítulo se enmarca en la bibliografía sobre la relevancia de los grupos de interés. La literatura previa se había centrado o bien en la relevancia de los grupos de interés, o bien en la relevancia del conflicto generado como principales aspectos determinantes de las respuestas empresariales a las críticas (Agle *et al.*, 1999; Bundy *et al.*, 2013; Durand *et al.*, 2019; Mitchell *et al.*, 1997). Tomando estos estudios como referencia y considerando de forma explícita estos dos tipos de relevancia por separado, se argumenta que la interacción entre ambos puede afectar a la elección de la respuesta empresarial. Especialmente cuando existe una convergencia entre ambos tipos de relevancia, es probable que la respuesta empresarial difiera de cuando existe una discrepancia entre ellas. Por tanto, si no se tiene en cuenta la interacción entre la relevancia de la parte que emite la crítica (Mitchell *et al.*, 1997) y el conflicto generado por esta (Bundy *et al.*, 2013; Durand *et al.*, 2019) puede ofuscarse la heterogeneidad de las respuestas empresariales. Considerar esta interacción, permite explicar por qué, al contrario de las predicciones teóricas previas (p. ej. Mitchell *et al.*, 1997), las empresas a veces complacen a la parte que emite la crítica cuando esta es

relevante y por qué, en el caso opuesto, también pueden ofrecer una respuesta complaciente cuando la parte que emite la crítica no es relevante.

En el segundo capítulo, se ofrecen dos contribuciones notables. En primer lugar, se contribuye a la investigación de la correlación entre las teorías de la estigmatización y de las jerarquías superiores (p. ej., Marcel y Cowen, 2014; Semadeni *et al.*, 2008). El principal hallazgo de la literatura de este ámbito es la dificultad que experimentan los CEO a los que se atribuye un fracaso para encontrar otros trabajos (Pozner, 2008; Schepker y Barker III, 2018). El presente estudio sugiere que, a diferencia de la estigmatización por fracaso, el estigma central puede constituir un indicio real de la aptitud del CEO, lo cual puede, a su vez, incrementar sus oportunidades laborales en otras empresas, aunque únicamente dentro del sector estigmatizado. En segundo lugar, se amplían las condiciones que limitan la bibliografía sobre el estigma de cortesía (Goffman, 1963; Pontikes *et al.*, 2010) al proponer y comprobar que las empresas no se distancian de los CEO de empresas cuya actividad principal se encuentra estigmatizada en aquellos casos en los que una asociación con estas empresas puede suponer beneficios relativos a su estatus y rendimiento.

El tercer capítulo aporta otras dos contribuciones esenciales. La primera de ellas se refiere al papel de la diversificación (*straddling*) con relación a las valoraciones sociales negativas en contextos estigmatizados. La bibliografía previa ha documentado cómo la diversificación de las empresas hacia categorías no estigmatizadas puede reducir la reprobación por parte del público de las empresas en categorías estigmatizadas (Durand y Paoletta, 2013; Vergne, 2012). *Por el contrario*, el presente estudio demuestra que, al interactuar con otros indicadores como las características del CEO, la diversificación puede aumentar la reprobación por parte del público. Este hecho revela una cualidad interesante de la diversificación de categorías: la diversificación puede tanto reducir la reprobación (al desviar la atención del público de la asociación de la empresa con un estigma) *como aumentarla* (al

volver a enfocar la atención del público en otros indicadores que muestran la asociación de las empresas con el estigma, reforzando así el efecto de dichos indicadores con respecto a la reprobación), lo cual denota que el nexo existente entre la diversificación y la aprobación (o reprobación) social es más complejo de lo que inicialmente se pensaba. La segunda contribución consiste en enfatizar la tensión que surge entre las predicciones de dos grandes perspectivas teóricas: la categorización y las jerarquías superiores. A diferencia de lo que defienden los hallazgos de la bibliografía sobre las jerarquías superiores, en las que se fomenta la contratación de CEO con características apropiadas para sus categorías (p. ej. experiencia relevante en dicha categoría), las predicciones de la investigación sobre categorización pueden desincentivar la contratación de dichos CEO en contextos estigmatizados. Esas mismas características beneficiosas de los CEO pueden constituir indicadores relevantes de cara a la asociación de las organizaciones con la categoría estigmatizada, aumentando la reprobación de esas empresas.

### **Implicaciones prácticas**

Uno de los denominadores comunes a lo largo de los tres capítulos de esta tesis es el papel de los agentes sociales en la regulación del comportamiento socialmente irresponsable de las organizaciones. El modelo conceptual y los hallazgos de los presentes estudios empíricos subrayan tres grandes implicaciones sobre cómo los activistas sociales pueden llevar a cabo campañas más eficaces contra las organizaciones socialmente irresponsables. En primer lugar, los activistas pueden aumentar la probabilidad de éxito de sus campañas al orientarlas a empresas con niveles bajos de capacidad de reconfiguración o al deteriorar las capacidades de reconfiguración de las organizaciones, especialmente aquellas capacidades que dependen de elementos externos. En segundo lugar, los activistas deberían mostrar cautela al reprobar públicamente a las empresas disidentes. De hecho, en el segundo capítulo, se demuestra que esta reprobación puede ejercer un

efecto positivo sobre los CEO de las empresas disidentes, al menos dentro del contexto estigmatizado. Por ende, los activistas deben valorar nuevas ideas para desincentivar la contratación por parte de otras empresas del sector estigmatizado de los CEO de las empresas reprobadas. Una posible estrategia sería dirigir la campaña contra las empresas que contratan a estos CEO desprestigiados. Por último, los activistas pueden beneficiarse de una categorización basada en los CEO para aumentar el éxito de sus campañas. Los activistas pueden promover estratégicamente determinadas características de los CEO que puedan dar lugar a valoraciones negativas de otros sectores del público a fin de aumentar la presión externa sobre una empresa para que cumpla con las exigencias de la campaña.

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## TABLES

**Table 1-1: Literature review of extant theoretical models and main empirical works on different responses and their antecedents**

Authors	Research approach	Salience of the criticizing party for the organization, issue salience perceived by the organization's stakeholders, and the interplay between the two types of salience	The organization's resource protection and resource reconfiguration capabilities	Contribution	Type of response	What do we add to?
e.g., Mitchell et al., 1997	<b>Conceptual</b>	<p><b>Criticizing party's salience:</b> The degree that a stakeholder is perceived as powerful, legitimate, with urgent demands.</p> <p><b>Issue salience:</b> n.a.</p> <p><b>Interplay between two types of salience:</b> n.a.</p>	<p><b>Resource protection capabilities:</b> n.a.</p> <p><b>Resource reconfiguration capabilities:</b> n.a.</p>	Who managers perceive as stakeholder	Substantive accommodation, inaction	<ul style="list-style-type: none"> <li>- Interplay between criticizing party's salience and issue salience</li> <li>- Resource-replacing responses</li> </ul>
e.g., Bundy et al., 2013	<b>Conceptual</b>	<p><b>Criticizing party's salience:</b> n.a.</p> <p><b>Issue salience:</b> Perceived by managers and not stakeholders. A strategic cognition view of salience as the degree to which an issue resonates with and is prioritized by management.</p> <p><b>Interplay between two types of salience:</b> n.a.</p>	<p><b>Resource protection capabilities:</b> n.a.</p> <p><b>Resource reconfiguration capabilities:</b> n.a.</p>	Issue salience from a managerial cognition perspective	Substantive and symbolic accommodation, verbal retaliation, denial, inaction	<ul style="list-style-type: none"> <li>- Interplay between criticizing party's salience and issue salience</li> <li>- Resource-replacing responses</li> </ul>
e.g., Durand et al., 2019	<b>Conceptual</b>	<p><b>Criticizing party's salience:</b> Power, legitimacy, and urgency of a criticizing party as antecedents of issue salience.</p> <p><b>Issue salience:</b> Perceived by managers and not stakeholders.</p> <p><b>Interplay between two types of salience:</b> n.a.</p>	<p><b>Resource protection capabilities:</b> By mobilizing limited resources.</p> <p><b>Resource reconfiguration capabilities:</b> n.a.</p>	Benefits and costs of internal resource mobilization	Substantive and symbolic accommodation, inaction	<ul style="list-style-type: none"> <li>- Interplay between criticizing party's salience and issue salience</li> <li>- Resource-replacing responses</li> <li>- Resource reconfiguration capabilities</li> </ul>
e.g., Neville & Menguc, 2006; Easley & Lenox, 2006	<p><b>Conceptual</b></p> <p><b>Empirical:</b> US firms compliance with 602 demands of 307 stakeholder groups, 1971-2003</p>	<p><b>Criticizing party's salience:</b> Power and legitimacy of the criticizing party's salience</p> <p><b>Issue salience:</b> Stakeholders' sensitivity to environmental issues. The other stakeholders' evaluation of that issue leads to organizations' positive responses to those issues.</p> <p><b>Interplay between two types of salience:</b> n.a.</p>	<p><b>Resource protection capabilities:</b> n.a.</p> <p><b>Resource reconfiguration capabilities:</b> n.a.</p>	Issue salience for other stakeholders influences the issue salience perceived by the organization's managers	Substantive accommodation, inaction	<ul style="list-style-type: none"> <li>- Explicitly discussing the effect of divergence or convergence between two types of salience on organizational responses</li> <li>- Resource-replacing responses</li> </ul>

e.g., Delmas- & Montes-Sancho 2010, Perez-Batres, 2012	<b>Empirical:</b> Environmental performance of US firms in energy sector, 1995-2000; voluntary disclosure of code of conduct by US firms, 2001-2005	<b>Criticizing party's salience:</b> Similar to Mitchell et al., 1997 <b>Issue salience:</b> n.a. <b>Interplay between two types of salience:</b> n.a.	<b>Resource protection capabilities:</b> Through slack and internal resources. <b>Resource reconfiguration capabilities:</b> n.a.	-Symbolic versus substantive response - Collective action in response to stakeholder pressure -Positive and negative stakeholder criticism	Substantive and symbolic accommodation, inaction	- Interplay between criticizing party's salience and issue salience - Resource-replacing responses - Resource reconfiguration capabilities
e.g., McDonnell and Werner, 2016, a, b; McDonnell and King, 2013	<b>Empirical:</b> Organizational political activities and prosocial behaviors in response to activists' boycotts in US, 1990-2005	<b>Criticizing party's salience:</b> n.a. <b>Issue salience:</b> The legitimacy of activists' claims for politicians <b>Interplay between two types of salience:</b> n.a.	<b>Resource protection capabilities:</b> Protecting reputation by prosocial behavior and political support. <b>Resource reconfiguration capabilities:</b> n.a.	Influencing other stakeholders and other stakeholders' reaction to criticism	Inaction, influencing other stakeholders	- Interplay between criticizing party's salience and issue salience - Resource-replacing responses
e.g., Lee and Lounsbury, 2015; Simons et al., 2016	<b>Empirical:</b> Organizational environmental practices, US, Texas and Louisiana 19991-2003; small bars' resistance to smoking regulations Netherlands, 2007-2008	<b>Criticizing party's salience:</b> Power and legitimacy <b>Issue salience:</b> The importance of an issue in different institutional logics, the issue raised by the criticizing party was a threat (illegitimate) to communities <b>Interplay between two types of salience:</b> n.a.	<b>Resource protection capabilities:</b> n.a. <b>Resource reconfiguration capabilities:</b> Communities provide resources to organizations, but it is unclear whether the organization has the capability to integrate them into its existing resources	Resource provision by the communities helps organizations resist a powerful and legitimate criticizing party	Inaction, limited replacement of the criticizing party's resources	- Interplay between criticizing party's salience and issue salience - Resource-replacing of non-criticizing stakeholders - Resource reconfiguration capabilities

**Table 2-1 – Descriptive Statistics and Correlations Matrix**

Variables	Mean	S.D.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
(1) CEO Board-joining	.18	.38	0	1	1.00																				
(2) Stakeholders' attacks	.92	2.41	0	36	-0.01	1.00																			
(3) Firm relative performance	1.09	1.09	-18.38	17.34	0.02	-0.04	1.00																		
(4) Firm relative size	1.1	.31	0.14	2.08	0.04	0.18	0.09	1.00																	
(5) Scandal	.01	.1	0	1	0.03	0.12	-0.04	0.13	1.00																
(6) Non-defense attacks	.62	1.89	0	25.5	-0.01	0.15	-0.03	0.39	0.17	1.00															
(7) Firm reputation	1.92	1.15	1	4	0.01	0.23	-0.03	0.33	0.14	0.37	1.00														
(8) Firm media visibility	5.88	1.85	0	11.24	0.04	0.19	0.05	0.71	0.18	0.40	0.37	1.00													
(9) Firm status	.00	1.00	-3.58	3.78	0.04	0.08	-0.02	0.13	0.13	0.13	0.52	0.29	1.00												
(10) Association dilution	.00	1.00	-4.55	3.47	0.00	-0.11	-0.03	-0.19	-0.01	0.01	-0.37	-0.19	-0.23	1.00											
(11) Market share	-6.79	2.17	-17.78	-1.78	0.00	0.17	0.15	0.91	0.12	0.36	0.59	0.72	0.13	0.09	1.00										
(12) Attacks on peers	84.45	60.24	0	377	-0.02	0.03	-0.01	-0.01	-0.01	0.02	0.04	0.13	0.15	-0.00	0.08	1.00									
(13) CEO outside directorships	0.97	1.16	0	8	0.14	0.02	-0.12	0.07	0.02	0.03	0.01	0.09	-0.04	0.12	0.04	0.09	1.00								
(14) CEO age	4.1	.16	3.64	4.48	0.08	0.08	-0.02	0.38	0.08	0.14	0.25	0.21	0.09	-0.16	0.29	-0.02	0.31	1.00							
(15) CEO tenure	1.66	.81	0	3.4	-0.01	-0.03	0.02	-0.15	-0.08	-0.09	-0.09	-0.04	-0.05	-0.07	-0.10	-0.00	0.08	0.23	1.00						
(16) CEO outside defense experience	1.16	1.3	0	3.74	0.00	0.08	0.04	0.14	0.06	-0.01	0.18	0.21	0.20	0.07	0.25	0.12	0.08	0.10	-0.11	1.00					
(17) CEO outside non-defense experience	2.35	1.14	0	4.13	-0.00	0.02	0.00	0.13	0.03	0.07	0.11	0.21	0.03	0.14	0.18	0.13	0.15	0.19	0.04	0.41	1.00				
(18) CEO defense associations	.2	.52	0	4	-0.02	0.18	-0.01	0.09	0.03	0.10	0.18	0.15	0.26	-0.13	0.13	0.09	-0.05	0.10	0.13	0.11	-0.06	1.00			
(19) CEO reputational capital (awards)	.42	1.01	0	6	-0.01	0.05	0.01	0.24	0.04	0.15	0.16	0.29	0.17	0.21	0.26	0.03	0.01	0.10	0.19	-0.01	-0.05	0.12	1.00		
(20) CEO non-defense associations	.08	.34	0	4	-0.01	-0.02	-0.01	-0.00	-0.02	-0.03	-0.10	0.06	-0.10	-0.02	0.03	0.04	0.09	0.05	0.16	-0.00	0.09	-0.04	0.05	1.00	
(21) CEO social capital (policy-making groups)	.26	.62	0	4	-0.01	0.00	-0.01	0.19	-0.03	0.02	0.17	0.19	0.12	0.03	0.26	0.06	0.02	0.10	0.18	-0.07	-0.03	0.27	0.20	0.01	1.00

**Table 2-2 – Conditional Fixed-effects Logistic Regression: The Effect of Stakeholders’ Attacks on the Likelihood of CEOs’ Board-joining**

	(1) Controls	(2) Stakeholders’ attacks (H1)	(3) CEO social capital as moderator (H2a)	(4) CEO reputational capital as moderator (H2b)	(5) Firm status as moderator (H3a)	(6) Firm relative performance as moderator (H3b)	(7) Full model
Firm relative performance	0.299+ (0.168)	0.299+ (0.174)	0.303+ (0.175)	0.298+ (0.174)	0.299+ (0.173)	0.300+ (0.174)	0.301+ (0.173)
Firm relative size	2.864 (3.257)	3.351 (3.316)	3.094 (3.317)	3.363 (3.322)	3.233 (3.307)	3.506 (3.334)	3.058 (3.341)
Scandal	-0.042 (0.771)	-0.100 (0.805)	0.024 (0.802)	-0.014 (0.796)	-0.197 (0.858)	-0.145 (0.808)	-0.171 (0.806)
Non-defense attacks	-0.273* (0.138)	-0.251+ (0.131)	-0.249+ (0.130)	-0.253+ (0.131)	-0.251+ (0.134)	-0.257* (0.126)	-0.258* (0.131)
Firm reputation	1.025* (0.507)	1.064* (0.514)	1.052* (0.518)	1.064* (0.516)	1.060* (0.510)	1.063* (0.516)	1.043* (0.522)
Firm media visibility	-0.043 (0.175)	-0.066 (0.174)	-0.059 (0.178)	-0.069 (0.174)	-0.068 (0.173)	-0.067 (0.175)	-0.064 (0.180)
Firm status	0.436* (0.206)	0.486* (0.212)	0.462* (0.212)	0.492* (0.213)	0.468* (0.214)	0.469* (0.213)	0.440* (0.215)
Market share	-1.313* (0.632)	-1.394* (0.645)	-1.363* (0.646)	-1.396* (0.647)	-1.373* (0.644)	-1.426* (0.650)	-1.365* (0.651)
Association dilution	0.827 (1.004)	1.072 (1.010)	1.100 (1.013)	1.068 (1.008)	1.054 (1.017)	1.048 (1.017)	1.080 (1.025)
Attacks on peers	-0.001 (0.004)	0.001 (0.004)	0.001 (0.004)	0.001 (0.004)	0.001 (0.004)	0.001 (0.004)	0.001 (0.004)
CEO outside directorships	-2.601*** (0.410)	-2.614*** (0.420)	-2.640*** (0.427)	-2.620*** (0.421)	-2.599*** (0.420)	-2.612*** (0.419)	-2.646*** (0.432)
CEO age	-36.249 (26.152)	-35.200 (26.092)	-37.256 (26.586)	-35.153 (26.119)	-34.845 (25.916)	-34.993 (26.080)	-37.217 (26.453)
CEO tenure	1.385** (0.499)	1.383** (0.498)	1.419** (0.501)	1.388** (0.497)	1.373** (0.496)	1.370** (0.499)	1.415** (0.502)
CEO outside defense experience	1.391** (0.540)	1.415** (0.538)	1.453** (0.531)	1.414** (0.536)	1.414** (0.534)	1.417** (0.539)	1.463** (0.524)
CEO outside non-defense experience	-1.172* (0.469)	-1.146* (0.460)	-1.207* (0.472)	-1.133* (0.456)	-1.147* (0.460)	-1.155* (0.462)	-1.203* (0.469)
CEO defense associations	0.148 (0.330)	0.080 (0.340)	0.093 (0.338)	0.083 (0.335)	0.100 (0.341)	0.082 (0.340)	0.127 (0.327)
CEO non-defense associations	-0.436 (0.623)	-0.414 (0.589)	-0.424 (0.599)	-0.406 (0.583)	-0.424 (0.599)	-0.404 (0.588)	-0.408 (0.595)
CEO reputational capital	-0.186 (0.306)	-0.181 (0.304)	-0.098 (0.307)	-0.192 (0.304)	-0.174 (0.302)	-0.162 (0.303)	-0.074 (0.303)
CEO social capital	-0.090	-0.072	-0.060	-0.046	-0.079	-0.085	-0.020

<b>Stakeholders' attacks</b>	(0.262)	(0.258)	(0.250)	(0.262)	(0.258)	(0.262)	(0.253)
		<b>0.053***</b>	<b>0.060**</b>	<b>0.090*</b>	<b>0.055***</b>	<b>0.073+</b>	<b>0.139**</b>
		<b>(0.013)</b>	<b>(0.014)</b>	<b>(0.043)</b>	<b>(0.013)</b>	<b>(0.038)</b>	<b>(0.044)</b>
<b>Stakeholders' attacks × CEO social capital</b>			<b>-0.150*</b>				<b>-0.219*</b>
			<b>(0.075)</b>				<b>(0.090)</b>
<b>Stakeholders' attacks × CEO reputational capital</b>				<b>-0.041</b>			<b>-0.082*</b>
				<b>(0.040)</b>			<b>(0.040)</b>
<b>Stakeholders' attacks × Attacked firm status</b>					<b>0.030</b>		<b>0.041</b>
					<b>(0.026)</b>		<b>(0.029)</b>
<b>Stakeholders' attacks × Attacked firm relative performance</b>						<b>0.128</b>	<b>0.110</b>
						<b>(0.083)</b>	<b>(0.090)</b>
Observations	1,134	1,134	1,134	1,134	1,134	1,134	1,134
Number of firms	113	113	113	113	113	113	113
Number of CEOs	141	141	141	141	141	141	141
Year fixed effects	YES	YES	YES	YES	YES	YES	YES
CEO fixed effects	YES	YES	YES	YES	YES	YES	YES
Robust standard errors at the CEO level	YES	YES	YES	YES	YES	YES	YES
Pseudo R <sup>2</sup>	0.379	0.387	0.389	0.387	0.387	0.388	0.393

Standard errors in parentheses

+  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

**Table 2-3 – Robustness Checks: Testing for Alternative Measures of Independent/Moderating Variables (Models 1 to 4), and Alternative Model Specification (Model 5)**

	(1) Absolute performance and size	(2) Stakeholders' attacks three-year average	(3) Stakeholders' attacks as a dummy variable	(4) CEO social capital based on outside directorships	(5) Random effects with subsector and country dummies
Firm relative performance		0.275 (0.175)	0.391+ (0.227)	0.272 (0.173)	0.134 (0.090)
Firm relative size		4.486 (3.418)	5.088 (3.707)	4.393 (3.406)	2.186 (1.414)
Scandal	-0.050 (0.791)	-0.024 (0.777)	0.139 (0.837)	-0.070 (0.798)	0.090 (0.680)
Non-defense attacks	-0.237+ (0.130)	-0.227+ (0.127)	-0.335+ (0.193)	-0.236+ (0.131)	-0.163* (0.069)
Firm reputation	0.679 (0.470)	0.677 (0.472)	1.044 (0.676)	0.674 (0.470)	-0.121 (0.113)
Firm media visibility	-0.145 (0.175)	-0.157 (0.177)	-0.032 (0.203)	-0.159 (0.178)	-0.045 (0.057)
Firm status	0.492* (0.205)	0.493* (0.201)	0.411 (0.263)	0.503* (0.205)	0.316*** (0.090)
Market share	-1.273+ (0.658)	-1.364* (0.646)	-1.868** (0.713)	-1.346* (0.644)	-0.056 (0.218)
Association dilution	0.746 (0.983)	0.894 (1.004)	0.862 (1.016)	0.702 (0.795)	-0.450 (0.422)
Attacks on peers	0.001 (0.004)	0.001 (0.004)	-0.002 (0.005)	0.001 (0.004)	-0.001 (0.002)
CEO outside directorships	-2.616*** (0.421)	-2.622*** (0.422)	-3.870*** (0.541)	-2.620*** (0.422)	0.111** (0.040)
CEO age	-32.384 (25.981)	-34.969 (26.125)	-53.231 (34.769)	-35.152 (26.029)	-0.895 (0.596)
CEO tenure	1.355** (0.498)	1.370** (0.493)	1.866** (0.614)	1.390** (0.496)	-0.042 (0.107)
CEO outside defense experience	1.441** (0.551)	1.417** (0.545)	1.811** (0.624)	1.427** (0.540)	-0.209** (0.069)
CEO outside non-defense experience	-1.150* (0.466)	-1.143* (0.460)	-1.032+ (0.588)	-1.148* (0.461)	0.181* (0.081)
CEO defense associations	0.069 (0.347)	0.077 (0.346)	0.101 (0.385)	0.075 (0.344)	0.021 (0.182)
CEO non-defense associations	-0.389 (0.565)	-0.395 (0.565)	-0.503 (1.052)	-0.392 (0.561)	-0.329 (0.310)
CEO reputational capital	-0.077 (0.257)	-0.052 (0.260)	-0.404 (0.362)	-0.054 (0.258)	-0.109 (0.094)
CEO social capital	-0.191 (0.304)	-0.182 (0.302)	-0.131 (0.299)		0.109 (0.150)

Firm performance	3.062				
	(2.048)				
Firm size	0.551				
	(0.570)				
<b>Stakeholders' attacks</b>	<b>0.067***</b>			<b>0.102+</b>	<b>0.028*</b>
	<b>(0.020)</b>			<b>(0.055)</b>	<b>(0.014)</b>
<b>Stakeholders' attacks three-year average</b>		<b>0.076**</b>			
		<b>(0.025)</b>			
<b>Stakeholders' attacks-dummy</b>			<b>0.849*</b>		
			<b>(0.369)</b>		
<b>Stakeholders' attacks × CEO outside directorships</b>				<b>-0.036</b>	
				<b>(0.031)</b>	
Observations	1,134	1,134	1,134	1,134	2,431
Number of firms	113	113	113	113	205
Number of CEOs	141	141	141	141	408
Year fixed effects	YES	YES	YES	YES	YES
CEO fixed effects	YES	YES	YES	YES	NO
Firm fixed effects	NO#	NO#	NO#	NO#	NO
Sub-sector fixed effects	NO#	NO#	NO#	NO#	YES
Country fixed effects	NO#	NO#	NO#	NO#	YES
Robust standard errors at the CEO level	YES	YES	YES	YES	NO
Constant					-12.813 (16.982)
Pseudo R <sup>2</sup>	0.386	0.389	0.383	0.386	

Standard errors in parentheses, +  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

# absorbed by CEO fixed effects

**Table 2-4 – Post-hoc Analyses (Models 1-3), Including an Alternative Measure of the Dependent Variable (Model 4)**

	(1) Joining defense firms	(2) Joining commercial firms	(3) Leaving commercial/ defense firms	(4) Net change in CEOs' positions
Firm relative performance	-0.008 (0.157)	0.182 (0.125)	0.033 (0.289)	-0.003 (0.028)
Firm relative size	14.863* (7.350)	-2.610 (3.018)	0.140 (9.467)	-0.063 (0.434)
Scandal	-0.827 (0.990)	0.150 (0.810)	1.673 (1.797)	-0.180 (0.154)
Non-defense attacks	-1.546* (0.750)	-0.145 (0.130)	-1.003+ (0.526)	-0.025* (0.011)
Firm reputation	1.507 (1.056)	0.718 (0.740)	-1.647 (1.278)	0.004 (0.057)
Firm media visibility	0.025 (0.616)	-0.000 (0.211)	0.491 (0.584)	-0.004 (0.017)
Firm status	1.248* (0.518)	0.477+ (0.256)	-0.225 (0.487)	-0.002 (0.026)
Market share	0.162 (0.543)	0.174 (0.174)	-3.621** (1.393)	-0.042 (0.089)
Association dilution	0.793 (2.275)	0.129 (0.969)	0.591 (3.483)	-0.089 (0.081)
Attacks on peers	0.005 (0.004)	0.003+ (0.002)	-0.002 (0.010)	0.000 (0.000)
CEO outside directorships	-6.775** (2.484)	-2.621*** (0.512)	-1.378* (0.674)	-0.317*** (0.037)
CEO age	15.672 (22.149)	9.535 (6.225)	-31.481 (43.101)	4.574** (1.643)
CEO tenure	5.127*** (1.345)	2.267*** (0.454)	0.672 (1.187)	-0.087** (0.033)
CEO outside defense experience	-5.869** (1.991)	4.657* (1.885)	1.617 (1.631)	0.111 (0.092)
CEO outside non-defense experience	5.532+ (3.034)	-1.568** (0.486)	13.046** (4.137)	0.024 (0.055)
CEO defense associations	-1.248 (0.796)	0.290 (0.389)	-0.412 (0.922)	-0.027 (0.044)
CEO non-defense associations	5.546** (2.029)	-0.338 (1.033)	-0.258 (1.439)	-0.048 (0.098)
CEO social capital	0.137 (0.916)	-0.105 (0.297)	-1.592 (0.972)	0.036 (0.041)
CEO reputational capital	-8.724* (4.325)	0.117 (0.194)	-3.008* (1.234)	-0.029 (0.027)
<b>Stakeholders' attacks</b>	<b>0.136**</b> <b>(0.045)</b>	<b>0.017</b> <b>(0.018)</b>	-0.149 (0.203)	<b>0.008*</b> <b>(0.004)</b>
Left firm performance			-6.624 (5.249)	
Left firm size			15.231 (10.374)	
Left board status			1.490*** (0.237)	
<b>Stakeholders' attacks × Left board status</b>			<b>1.616*</b> <b>(0.737)</b>	
Constant				-19.316** (6.784)
Specification	Logit	Logit	Logit	OLS
Observations	316	953	1591	2225
Number of firms	76	92	111	205
Number of CEOs	91	114	127	408
Year fixed effects	YES	YES	YES	YES
CEO fixed effects	YES	YES	YES	YES
Robust standard errors at the CEO level	YES	YES	YES	YES
Pseudo R <sup>2</sup>	0.650	0.282	0.495	
R <sup>2</sup> (Adjusted R <sup>2</sup> )				0.157 (0.143)

Standard errors in parentheses, +  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

**Table 2-5 - Post-hoc Analyses: Comparing the Performance, Revenues, and Size of the Attacked Firms with Firms that Appoint CEOs to their Boards**

		Observations	Mean	[95% CI]	<i>p</i> -value ( <i>t</i> -test)
Performance	<i>Attacked firms</i>	210	.160	[.127, .193]	
	<i>Appointing firms</i>	210	.114	[.091, .136]	
	<i>Difference</i>	210	.046	[.006, .085]	0.0228*
Revenue	<i>Attacked firms</i>	259	7.790	[7.514, 8.064]	
	<i>Appointing firms</i>	259	7.083	[6.730, 7.437]	
	<i>Difference</i>		.706	[.431, .982]	0.000***
Size	<i>Attacked firms</i>	235	2.588	[2.359, 2.818]	
	<i>Appointing firms</i>	235	2.205	[2.003, 2.408]	
	<i>Difference</i>		.383	[.172, .593]	0.000***

+ *p* < 0.10, \* *p* < 0.05, \*\* *p* < 0.01, \*\*\* *p* < 0.001

**Table 3-1- Descriptive statistics and correlation matrix**

Variables	Mean	S.D.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
(1) Disapproval	.24	1.05	0	26	1.00															
(2) # journalists/activists	.13	.65	0	11	0.91	1.00														
(3) # financial/government actors	.11	.55	0	15	0.87	0.58	1.00													
(4) Judicial allegations	.09	.38	0	9	0.51	0.38	0.55	1.00												
(5) CEO military background	.12	.32	0	1	0.05	0.05	0.05	-0.02	1.00											
(6) CEO industry tenure	.17	10.3	0	61	0.02	0.03	0.01	0.02	-0.04	1.00										
(7) CEO board-seats associations	.16	.47	0	4	0.23	0.22	0.17	0.07	0.03	0.08	1.00									
(8) Firm performance	.1	.14	-3.99	1.85	0.01	0.01	0.01	-0.03	0.04	0.04	0.04	1.00								
(9) Firm size	6.83	2.29	1.81	12.37	0.22	0.18	0.21	0.28	-0.06	0.18	0.20	0.14	1.00							
(10) Diversified firm	3.76	2.18	0	13	0.28	0.24	0.26	0.30	0.00	0.07	0.20	-0.03	0.61	1.00						
(11) Scandal	.01	.1	0	1	0.19	0.18	0.15	0.20	-0.03	-0.01	0.01	-0.02	0.12	0.09	1.00					
(12) Non-military disapproval	.55	1.9	0	31.8	0.36	0.38	0.24	0.42	-0.01	0.02	0.16	0.00	0.34	0.31	0.27	1.00				
(13) Firm reputation	1.68	1.05	1	4	0.32	0.28	0.29	0.28	0.02	0.11	0.25	0.03	0.60	0.63	0.11	0.31	1.00			
(14) Firm media visibility	5.48	2.08	0	12.01	0.21	0.18	0.20	0.27	0.03	0.03	0.15	0.02	0.57	0.43	0.12	0.32	0.44	1.00		
(15) Firm association ambiguity	.41	.39	0	1	-0.18	-0.16	-0.15	-0.03	-0.14	-0.04	-0.26	-0.07	-0.17	-0.26	0.03	-0.01	-0.36	-0.12	1.00	
(16) Peer disapproval	28.06	18.59	0	112	0.10	0.09	0.09	0.03	0.03	0.00	0.12	-0.02	0.04	0.19	-0.01	0.02	0.10	0.11	-0.12	1.00
(17) CEO government background	.11	.31	0	1	0.08	0.08	0.05	0.09	0.08	-0.04	0.07	-0.03	0.19	0.20	0.02	0.14	0.23	0.19	-0.15	0.01
(18) CEO age	4.12	.17	3.37	4.56	0.02	0.01	0.04	0.04	0.12	0.32	0.06	0.01	0.16	0.10	0.01	0.05	0.18	0.05	-0.16	0.05
(19) CEO outside directorships	.63	1.04	0	8	0.04	0.04	0.03	0.09	0.03	0.05	0.03	-0.02	0.24	0.14	0.02	0.09	0.11	0.17	-0.00	0.01
(20) CEO charity memberships	.2	.64	0	6	0.05	0.06	0.03	0.07	-0.02	0.16	0.20	0.01	0.24	0.22	0.04	0.13	0.21	0.21	-0.07	0.07
(21) CEO policymaking groups	.17	.53	0	5	0.02	0.00	0.03	0.06	-0.00	0.10	0.22	0.01	0.23	0.16	0.02	0.07	0.17	0.18	-0.06	0.04
(22) CEO military awards	.25	1.32	0	22	0.05	0.04	0.05	0.06	0.15	-0.00	0.05	-0.01	0.09	0.07	0.02	0.07	0.09	0.11	-0.04	0.04
(23) CEO tenure	1.68	.88	0	4.13	-0.05	-0.03	-0.06	-0.05	-0.05	0.43	0.08	0.06	-0.07	-0.09	-0.04	-0.07	-0.07	-0.12	0.02	0.03
(24) CEO commercial experience	2.04	1.32	0	4.34	0.02	-0.00	0.04	0.08	-0.10	-0.33	0.02	-0.01	0.20	0.18	0.04	0.10	0.12	0.20	-0.01	0.12

Variables	Mean	S.D.	Min	Max	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
(17) Government background	.11	.31	0	1	1.00							
(18) CEO age	4.12	.17	3.37	4.56	0.07	1.00						
(19) CEO outside directorships	.63	1.04	0	8	0.11	0.17	1.00					
(20) CEO charity memberships	.2	.64	0	6	0.07	0.04	0.07	1.00				
(21) CEO policymaking groups	.17	.53	0	5	0.02	-0.02	0.07	0.26	1.00			
(22) CEO military awards	.25	1.32	0	22	0.11	0.16	0.08	0.02	0.02	1.00		
(23) CEO tenure	1.68	.88	0	4.13	-0.01	0.27	0.04	0.14	0.10	-0.02	1.00	
(24) CEO no-military experience	2.04	1.32	0	4.34	0.02	0.05	0.36	0.05	0.05	-0.03	-0.12	1.00



**Table 3-2 – Random-effects Negative Binomial Regression: The effect of CEO characteristics on the firms' disapproval by audiences**

	<b>Model 1 Controls</b>	<b>Model 2 H1 Military background</b>	<b>Model 3 H1 Industry tenure</b>	<b>Model 4 H1 Board-seats in associations</b>	<b>Model 5 H1 All three CEO characteristics</b>
Firm performance	-0.153 (0.372)	-0.217 (0.349)	-0.147 (0.375)	-0.140 (0.369)	-0.232 (0.340)
Firm size	0.367*** (0.085)	0.396*** (0.086)	0.360*** (0.087)	0.357*** (0.084)	0.407*** (0.088)
Diversified firm	0.052 (0.068)	0.050 (0.068)	0.063 (0.072)	0.054 (0.067)	0.058 (0.072)
Scandal	0.377 (0.253)	0.433+ (0.252)	0.397 (0.248)	0.385 (0.250)	0.505* (0.241)
Non-military disapproval	0.049* (0.019)	0.051** (0.019)	0.042* (0.019)	0.051** (0.019)	0.048** (0.018)
Firm reputation	0.676*** (0.113)	0.670*** (0.113)	0.679*** (0.115)	0.675*** (0.112)	0.669*** (0.116)
Firm media visibility	0.068 (0.061)	0.059 (0.061)	0.086 (0.064)	0.078 (0.060)	0.085 (0.063)
Firm association ambiguity	-1.036** (0.317)	-1.008** (0.318)	-0.998** (0.324)	-0.984** (0.315)	-0.917** (0.325)
Peer disapproval	-0.006 (0.006)	-0.007 (0.006)	-0.006 (0.006)	-0.006 (0.006)	-0.006 (0.006)
CEO government background	-0.107 (0.166)	-0.142 (0.168)	0.007 (0.173)	-0.072 (0.164)	0.038 (0.173)
CEO age	0.419 (0.541)	0.412 (0.544)	-0.018 (0.578)	0.326 (0.539)	-0.292 (0.588)
CEO outside directorships	-0.094 (0.081)	-0.105 (0.081)	-0.107 (0.081)	-0.109 (0.081)	-0.149+ (0.081)
CEO charity memberships	-0.075 (0.066)	-0.044 (0.066)	-0.113 (0.070)	-0.105 (0.067)	-0.098 (0.069)
CEO policymaking groups	-0.038 (0.114)	-0.031 (0.114)	-0.051 (0.115)	-0.086 (0.116)	-0.087 (0.116)
CEO military awards	0.022 (0.051)	0.018 (0.050)	0.003 (0.055)	0.006 (0.054)	-0.030 (0.058)
CEO tenure	-0.190* (0.082)	-0.177* (0.083)	-0.201* (0.082)	-0.213** (0.083)	-0.218** (0.083)
CEO commercial experience	-0.081 (0.055)	-0.060 (0.056)	-0.032 (0.059)	-0.080 (0.055)	0.026 (0.062)
<b>CEO military background</b>		<b>0.423*</b> <b>(0.183)</b>			<b>0.676***</b> <b>(0.190)</b>
<b>CEO industry tenure</b>			<b>0.022**</b> <b>(0.008)</b>		<b>0.028**</b> <b>(0.009)</b>
<b>CEO board-seats associations</b>				<b>0.307***</b> <b>(0.079)</b>	<b>0.294***</b> <b>(0.078)</b>
Observations	2828	2828	2828	2828	2828
Number of CEOs	421	421	421	421	421
Number of firms	212	212	212	212	212
Year fixed-effects	Yes	Yes	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes	Yes	Yes
Sector dummies	Yes	Yes	Yes	Yes	Yes
Log likelihood	-1016.743	-1014.127	-1014.005	-1014.193	-1006.101
Chi-squared	337.317	341.728	322.725	348.197	327.942

Standard errors in parentheses +  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

**Table 3-3 – Random-effects Negative Binomial Regression: The moderating effect of firm ambiguity of association with the stigmatized category on the relationship between CEO characteristics and firm disapproval by audiences**

	<i>The interaction of association ambiguity with x ...</i>			
	<b>Model 6</b>	<b>Model 7</b>	<b>Model 8</b>	<b>Model 9</b>
	<b>H2a</b>	<b>H2a</b>	<b>H2a</b>	<b>H2a</b>
	<b>... Military background</b>	<b>... Industry tenure</b>	<b>... Board-seats in associations</b>	<b>... All three CEO characteristics</b>
Firm performance	-0.335 (0.310)	-0.220 (0.338)	-0.260 (0.341)	-0.250 (0.346)
Firm size	0.406*** (0.071)	0.385*** (0.087)	0.409*** (0.082)	0.412*** (0.082)
Diversified firm	0.061 (0.070)	0.058 (0.070)	0.055 (0.070)	0.050 (0.070)
Scandal	0.493* (0.211)	0.489* (0.244)	0.408 (0.283)	0.387 (0.283)
Non-military disapproval	0.050*** (0.013)	0.049** (0.018)	0.060*** (0.017)	0.060*** (0.017)
Firm reputation	0.481*** (0.087)	0.665*** (0.116)	0.610*** (0.106)	0.608*** (0.106)
Firm media visibility	0.013 (0.059)	0.086 (0.062)	0.012 (0.060)	0.013 (0.060)
Firm association ambiguity	-1.103*** (0.268)	-0.965* (0.465)	-1.327*** (0.314)	-1.036* (0.465)
Peer disapproval	-0.010* (0.005)	-0.007 (0.006)	-0.006 (0.006)	-0.006 (0.006)
CEO government background	0.025 (0.137)	0.010 (0.175)	0.055 (0.172)	0.059 (0.173)
CEO age	-0.543 (0.516)	-0.159 (0.599)	-0.290 (0.589)	-0.295 (0.588)
CEO outside directorships	-0.050 (0.063)	-0.115 (0.081)	-0.102 (0.082)	-0.104 (0.081)
CEO charity memberships	-0.114* (0.051)	-0.099 (0.070)	-0.138* (0.068)	-0.152* (0.069)
CEO policymaking groups	-0.056 (0.091)	-0.065 (0.116)	-0.098 (0.115)	-0.095 (0.115)
CEO military awards	-0.027 (0.043)	0.000 (0.056)	-0.008 (0.054)	-0.011 (0.053)
CEO tenure	-0.171* (0.068)	-0.195* (0.084)	-0.291*** (0.082)	-0.279*** (0.082)
CEO commercial experience	0.042 (0.051)	0.032 (0.066)	0.013 (0.064)	0.014 (0.064)
CEO military background	0.584** (0.183)	0.633** (0.199)	0.689*** (0.190)	0.690** (0.231)
CEO industry tenure	0.032*** (0.007)	0.024* (0.011)	0.028** (0.009)	0.034** (0.011)
CEO board-seats associations	0.235*** (0.063)	0.148+ (0.079)	0.214* (0.089)	0.200* (0.090)
<b>CEO military background × Firm association ambiguity</b>	<b>0.435</b> <b>(0.486)</b>			<b>0.430</b> <b>(0.562)</b>
<b>CEO industry tenure × Firm association ambiguity</b>		<b>0.007</b> <b>(0.020)</b>		<b>0.006</b> <b>(0.020)</b>
<b>CEO board-seats associations × Firm association ambiguity</b>			<b>0.797*</b> <b>(0.377)</b>	<b>0.831*</b> <b>(0.378)</b>
Observations	2828	2828	2828	2828

Number of CEOs	421	421	421	421
Number of firms	212	212	212	212
Year fixed-effects	Yes	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes	Yes
Sector dummies	Yes	Yes	Yes	Yes
Log likelihood	-1006.419	-1006.961	-1004.740	-1004.434
Chi-squared	341.706	340.559	344.092	344.302

Standard errors in parentheses +  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

**Table 3-4 - Moderating effect analysis of firm association ambiguity on the CEO characteristics on the audiences' disapproval of firms**

Level of moderator	Marginal effect of ...	Marginal effect	Standard error	<i>p</i> -value
1 SD below mean		0.58	0.18	0.001**
Mean	CEO military background	0.74	0.17	0.000***
1 SD above mean		0.91	0.30	0.003**
1 SD below mean		0.024	0.011	0.035*
Mean	CEO industry tenure	0.025	0.009	0.006**
1 SD above mean		0.027	0.013	0.034
1 SD below mean		0.21	0.09	0.016*
Mean	CEO board-seats in associations	0.49	0.12	0.000***
1 SD above mean		0.81	0.25	0.001**

+  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

**Table 3-5 – Random-effects Negative Binomial Regression: The effect of CEO characteristics on the firms' disapproval by two groups of audiences: (1) Journalists/activists, (2) Financial/government actors**

	<b>Model 10</b>	<b>Model 11</b>
	<b>Journalists /activists</b>	<b>Financial/government actors</b>
Firm performance	-0.489 (0.341)	2.404* (1.016)
Firm size	0.394*** (0.096)	0.279* (0.116)
Diversified firm	0.072 (0.066)	-0.198+ (0.107)
Scandal	0.411 (0.312)	0.517 (0.404)
Non-military disapproval	0.061** (0.019)	0.117*** (0.024)
Firm reputation	0.528*** (0.128)	0.974*** (0.157)
Firm media visibility	0.076 (0.070)	0.000 (0.082)
Firm association ambiguity	-1.447*** (0.370)	-1.479*** (0.417)
Peer disapproval	-0.004 (0.008)	-0.001 (0.009)
CEO government background	-0.135 (0.207)	-0.186 (0.270)
CEO age	-1.038 (0.699)	0.796 (0.807)
CEO outside directorships	0.063 (0.099)	-0.144 (0.129)
CEO charity memberships	-0.192* (0.076)	-0.123 (0.124)
CEO policymaking groups	-0.072 (0.133)	0.051 (0.204)
CEO military awards	0.020 (0.069)	0.016 (0.080)
CEO tenure	-0.157 (0.108)	-0.166 (0.120)
CEO commercial experience	-0.037 (0.085)	-0.053 (0.094)
<b>CEO military background</b>	<b>0.831**</b> <b>(0.258)</b>	<b>0.131</b> <b>(0.304)</b>
<b>CEO industry tenure</b>	<b>0.038**</b> <b>(0.012)</b>	<b>-0.009</b> <b>(0.014)</b>
<b>CEO board-seats associations</b>	<b>0.359***</b> <b>(0.095)</b>	<b>0.135</b> <b>(0.128)</b>
Observations	2828	2828
Number of CEOs	421	421
Number of firms	212	212
Year fixed-effects	Yes	Yes
Country dummies	Yes	Yes
Sector dummies	Yes	Yes
Log likelihood	-642.580	-588.874
Chi-squared	228.343	267.762

Standard errors in parentheses +  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

**Table 3-6 - Summary statistics for treated and matched control firms in Difference-in-Difference analysis**

		Observations	Mean	<i>p</i> -value ( <i>t</i> -test)
<i>Panel A- CEO turnover: non-military to military</i>				
Disapproval pre-CEO turnover	<i>Treated</i>	72	0.30	0.255
	<i>Control</i>	72	0.59	
Firm performance	<i>Treated</i>	72	0.102	0.638
	<i>Control</i>	72	0.110	
Firm size	<i>Treated</i>	72	7.04	0.940
	<i>Control</i>	72	7.03	
Firm reputation	<i>Treated</i>	72	1.80	0.986
	<i>Control</i>	72	1.82	
<i>Panel B- CEO turnover: low to high industry tenure</i>				
Disapproval pre-CEO turnover	<i>Treated</i>	81	0.42	0.9893
	<i>Control</i>	81	0.42	
Firm performance	<i>Treated</i>	81	0.089	0.5758
	<i>Control</i>	81	0.099	
Firm size	<i>Treated</i>	81	7.66	0.8376
	<i>Control</i>	81	7.58	
Firm reputation	<i>Treated</i>	81	1.91	0.8268
	<i>Control</i>	81	1.87	
<i>Panel C- CEO turnover: non-member to member of associations' boards</i>				
Disapproval pre-CEO turnover	<i>Treated</i>	40	0.92	0.2132
	<i>Control</i>	40	0.39	
Firm performance	<i>Treated</i>	40	0.110	0.5372
	<i>Control</i>	40	0.119	
Firm size	<i>Treated</i>	40	8.38	0.7233
	<i>Control</i>	40	8.53	
Firm reputation	<i>Treated</i>	40	2.42	0.8121
	<i>Control</i>	40	2.49	

**Table 3-7 – Difference-in-Difference analysis of the effect of CEO characteristics on the firms’ disapproval by audiences**

	<b>Model 1 Disapproval total</b>	<b>Model 2 Disapproval total: association ambiguity as moderator</b>	<b>Model 3 Disapproval Journalists / activists</b>	<b>Model 4 Disapproval Financial/ government actors</b>
<i>Panel A- CEO turnover: non-military to military</i>				
Post × treated (D)	2.822*** (0.429)	1.384+ (0.752)	3.382*** (0.436)	2.479*** (0.581)
D × association ambiguity		5.805* (2.880)		
Controls	Yes	Yes	Yes	Yes
Observations	144	144	144	144
Pseudo R <sup>2</sup>	0.536	0.542	0.546	0.541
<i>Panel B- CEO turnover: low to high industry tenure</i>				
Post × treated (D)	2.064** (0.666)	1.343+ (0.760)	4.464*** (1.169)	0.069 (0.663)
D × association ambiguity		0.407 (1.397)		
Controls	Yes	Yes	Yes	Yes
Observations	162	162	162	162
Pseudo R <sup>2</sup>	0.523	0.519	0.570	0.539
<i>Panel C- CEO turnover: non-member to member of associations’ boards</i>				
Post × treated (D)	1.158** (0.360)	0.477 (0.545)	5.912*** (0.786)	0.393 (0.408)
D × association ambiguity		3.466 (3.040)		
Controls	Yes	Yes	Yes	Yes
Observations	80	80	80	80
Pseudo R <sup>2</sup>	0.511	0.518	0.623	0.560

Standard errors in parentheses +  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

**Table 3-8 – Negative Binomial Regression: The effect of CEO characteristics on the firms’ judicial allegations (Models 1-3) and non-military disapproval (Models 4-6)**

	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>	<b>Model 4</b>	<b>Model 5</b>	<b>Model 6</b>
	Judicial allegations in +1 year	Judicial allegations in +2 years	Judicial allegations in +3 years	Non-military disapproval in +1 year	Non-military disapproval in +2 years	Non-military disapproval in +3 years
<b>CEO military background</b>	<b>-0.157</b> <b>(0.298)</b>	<b>-0.266</b> <b>(0.334)</b>	<b>-0.123</b> <b>(0.327)</b>	<b>-0.378<sup>+</sup></b> <b>(0.213)</b>	<b>-0.387<sup>+</sup></b> <b>(0.217)</b>	<b>-0.172</b> <b>(0.224)</b>
<b>CEO industry tenure</b>	<b>-0.002</b> <b>(0.011)</b>	<b>-0.004</b> <b>(0.011)</b>	<b>-0.003</b> <b>(0.012)</b>	<b>-0.012</b> <b>(0.008)</b>	<b>-0.020<sup>*</sup></b> <b>(0.008)</b>	<b>-0.000</b> <b>(0.008)</b>
<b>CEO board-seats associations</b>	<b>-0.035</b> <b>(0.145)</b>	<b>-0.179</b> <b>(0.163)</b>	<b>-0.130</b> <b>(0.170)</b>	<b>-0.012</b> <b>(0.091)</b>	<b>0.064</b> <b>(0.090)</b>	<b>0.119</b> <b>(0.090)</b>
Firm performance	0.339 (1.324)	0.768 (1.392)	-1.144 <sup>***</sup> (0.314)	-0.899 <sup>*</sup> (0.426)	-0.840 <sup>*</sup> (0.410)	-0.775 (0.483)
Firm size	0.351 <sup>***</sup> (0.085)	0.371 <sup>***</sup> (0.090)	0.406 <sup>***</sup> (0.086)	0.596 <sup>***</sup> (0.072)	0.635 <sup>***</sup> (0.073)	0.604 <sup>***</sup> (0.074)
Diversified firm	0.062 (0.064)	0.023 (0.068)	0.013 (0.065)	0.040 (0.064)	0.034 (0.064)	0.027 (0.064)
Scandal	0.071 (0.318)	0.491 (0.319)	0.380 (0.327)	0.314 <sup>+</sup> (0.183)	0.252 (0.199)	0.277 (0.192)
Non-military disapproval	0.115 <sup>***</sup> (0.024)	0.054 <sup>+</sup> (0.028)	0.060 <sup>+</sup> (0.032)			
Firm reputation	0.248 <sup>*</sup> (0.118)	0.335 <sup>**</sup> (0.125)	0.254 <sup>*</sup> (0.125)	0.193 <sup>*</sup> (0.092)	0.131 (0.094)	0.137 (0.099)
Firm media visibility	0.214 <sup>**</sup> (0.067)	0.195 <sup>**</sup> (0.068)	0.173 <sup>**</sup> (0.065)	0.202 <sup>***</sup> (0.053)	0.165 <sup>**</sup> (0.051)	0.105 <sup>*</sup> (0.051)
Firm association ambiguity	-0.090 (0.325)	0.036 (0.341)	-0.026 (0.333)	-0.076 (0.271)	-0.000 (0.270)	-0.047 (0.276)
Peer disapproval	-0.022 <sup>**</sup> (0.008)	-0.014 <sup>+</sup> (0.008)	-0.007 (0.008)	-0.025 <sup>***</sup> (0.006)	-0.018 <sup>***</sup> (0.006)	-0.015 <sup>*</sup> (0.006)
CEO government background	-0.053 (0.212)	-0.022 (0.222)	0.087 (0.225)	0.261 <sup>+</sup> (0.136)	0.298 <sup>*</sup> (0.140)	0.435 <sup>**</sup> (0.147)
CEO age	0.356 (0.716)	0.033 (0.734)	-0.640 (0.695)	-0.129 (0.516)	0.134 (0.517)	-0.612 (0.512)
CEO outside directorships	0.137 <sup>+</sup> (0.082)	0.078 (0.087)	0.058 (0.086)	0.016 (0.059)	0.010 (0.062)	-0.056 (0.067)
CEO charity memberships	-0.008 (0.086)	0.012 (0.091)	-0.012 (0.102)	0.034 (0.053)	0.069 (0.056)	0.063 (0.063)
CEO policymaking groups	0.013 (0.134)	0.107 (0.138)	0.228 (0.140)	-0.086 (0.091)	-0.013 (0.097)	0.113 (0.108)
CEO military awards	-0.057 (0.074)	-0.064 (0.083)	-0.119 (0.093)	0.020 (0.048)	-0.014 (0.054)	-0.076 (0.063)
CEO tenure	-0.116 (0.113)	0.031 (0.122)	0.099 (0.124)	0.069 (0.083)	0.040 (0.084)	-0.016 (0.087)
CEO commercial experience	-0.094 (0.092)	-0.043 (0.097)	0.034 (0.098)	-0.075 (0.071)	-0.122 <sup>+</sup> (0.072)	-0.021 (0.075)
Observations	2828	2622	2418	2828	2622	2418
Number of CEOs	421	398	379	421	398	379
Number of firms	212	212	210	212	212	210
Year fixed-effects	Yes	Yes	Yes	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes	Yes	Yes	Yes
Sector dummies	Yes	Yes	Yes	Yes	Yes	Yes
Log likelihood	-616.679	-588.936	-569.767	-1251.184	-1195.082	-1131.508
Chi-squared	229.596	186.760	198.206	281.151	264.061	241.854

**Table 3-9 – Structural Equation Analysis: Total, direct, and indirect effects of CEO characteristics on firm performance**

	<b>Model 1</b> Direct effect on firm performance	<b>Model 2</b> Direct effect on disapproval	<b>Model 3</b> Indirect effect on performance through disapproval	<b>Model 4</b> Total effect on firm performance
<b>Disapproval</b>	-0.021* (0.008)			-0.021* (0.008)
<b>CEO military background</b>	0.025* (0.008)	0.050* (0.019)	-0.0011+ (0.00058)	0.024* (0.008)
<b>CEO industry tenure</b>	0.0005* (0.0002)	0.0023** (0.0007)	-0.00005* (0.00002)	0.0004 (0.0003)
<b>CEO board-seats associations</b>	0.009+ (0.005)	0.078*** (0.013)	-0.0017* (0.007)	0.007 (0.005)
<i>Controls</i>	Yes	Yes	Yes	Yes
Observations	2663	2663	2663	2663
Number of CEOs	421	421	421	421
Number of firms	212	212	212	212
Year fixed-effects	Yes	Yes	Yes	Yes

Standard errors in parentheses +  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

## FIGURES

Figure 1-1: Types of organizational responses to stakeholders' criticism.

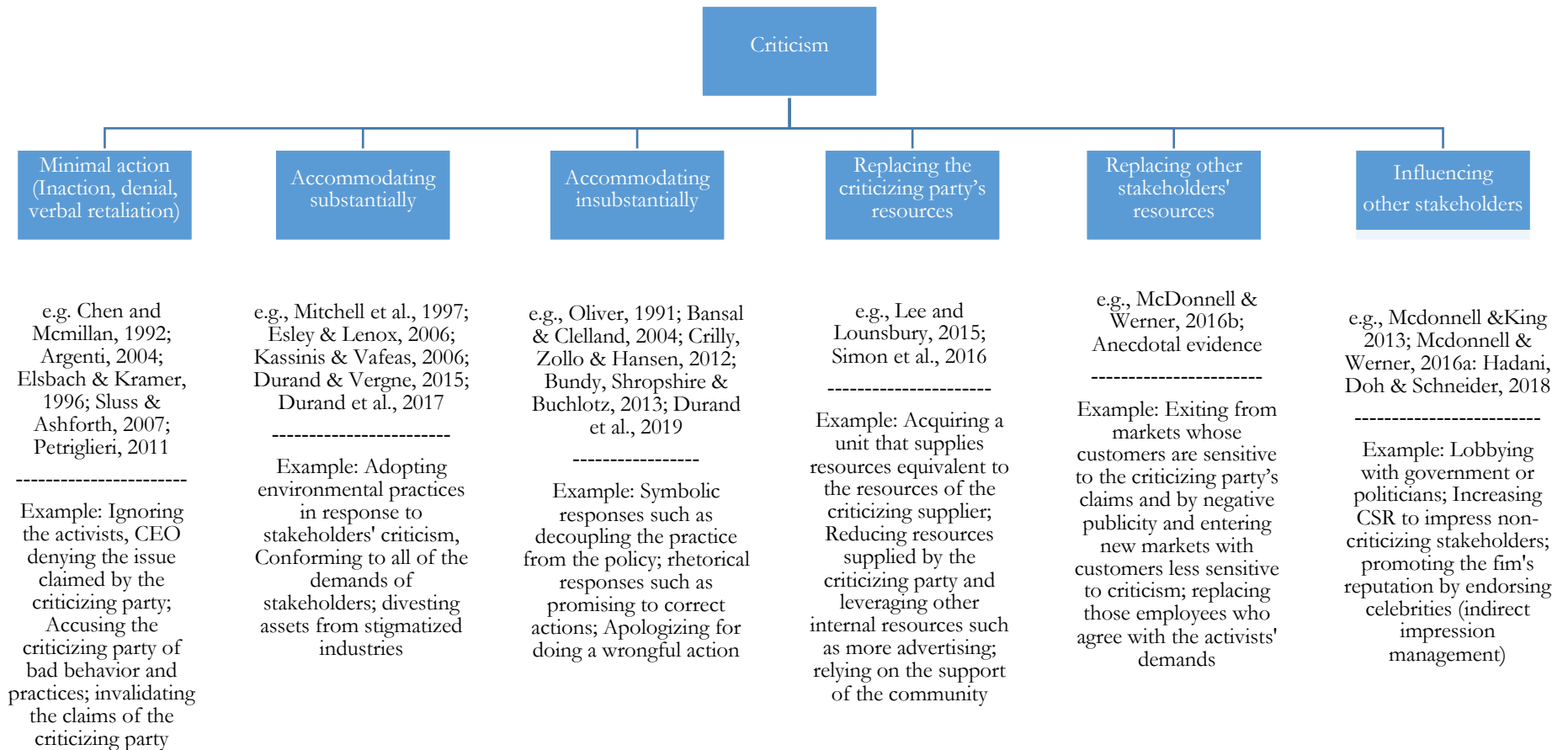
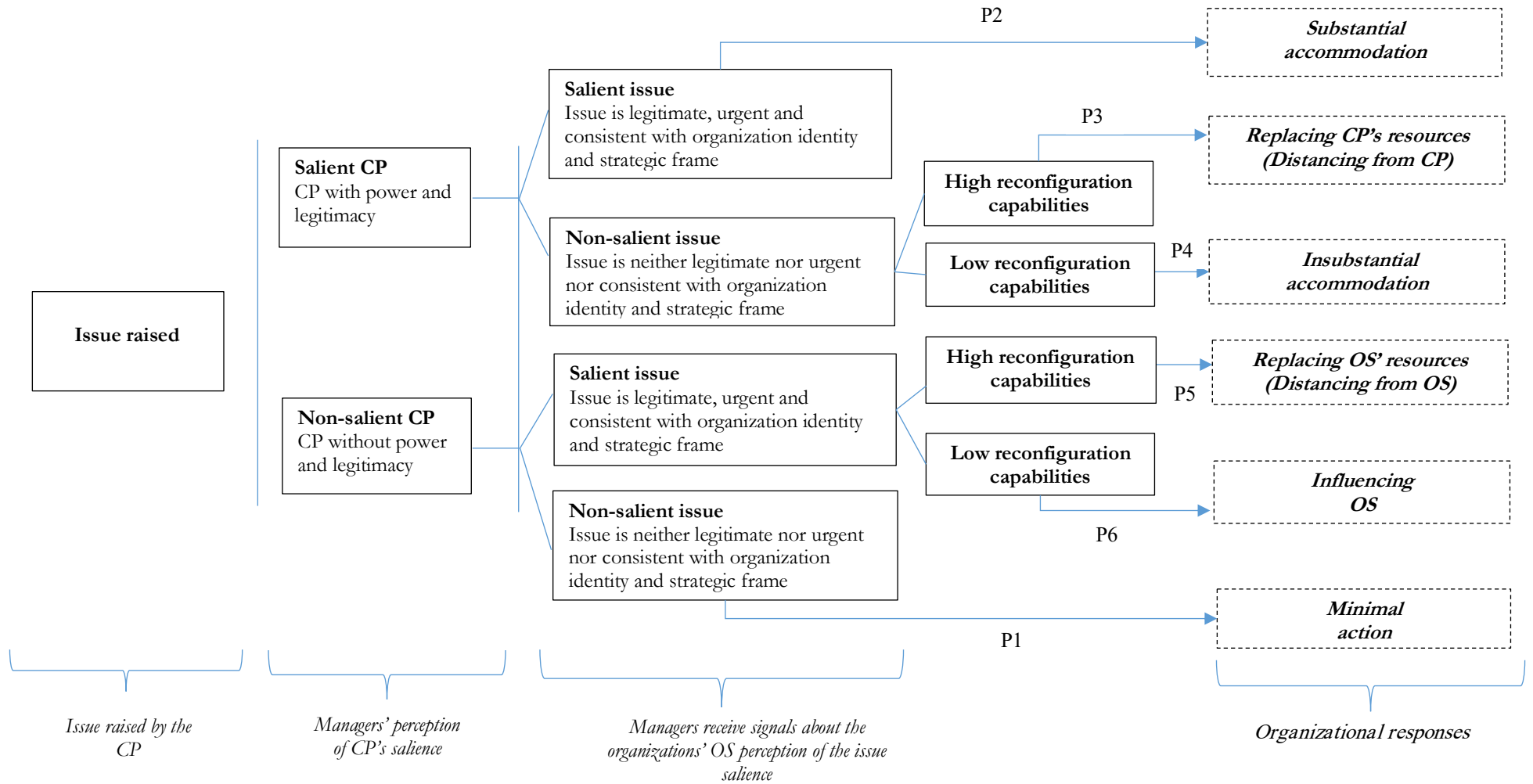
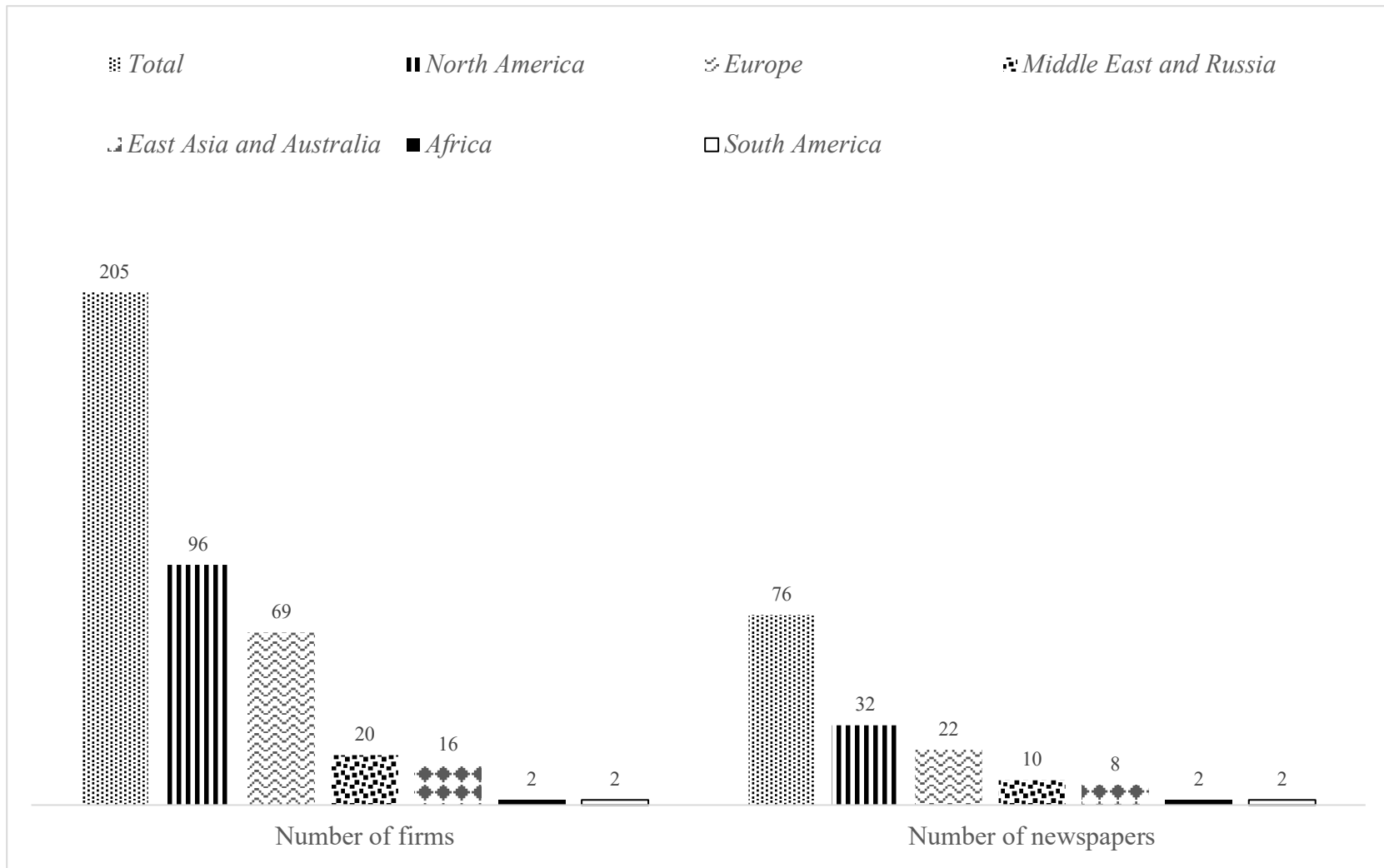


Figure 1-2: A typology of organizational responses to stakeholders' criticism.

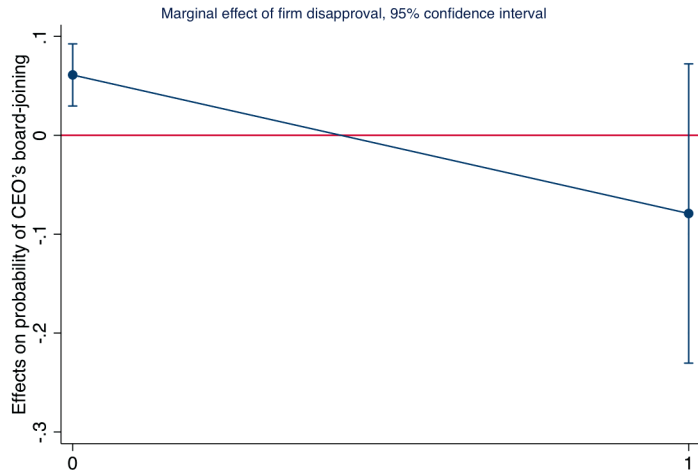


Notes: CP = criticizing party, OS = other stakeholders

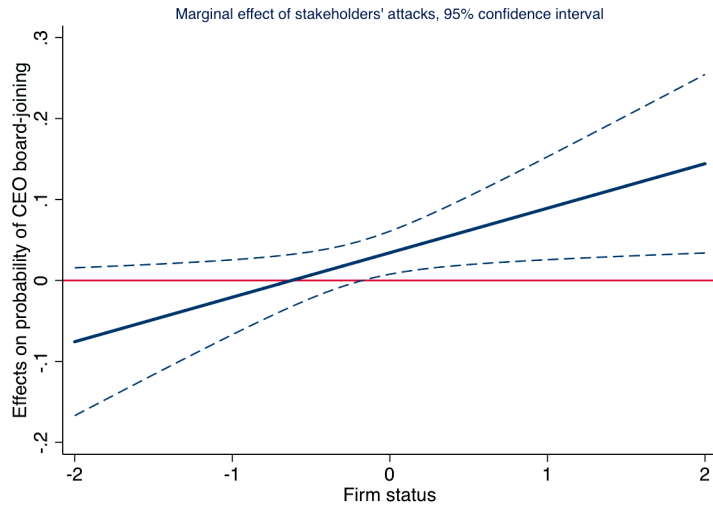
Figure 2-1: Geographical distribution of firms in our sample and the newspapers covering the stakeholders' attacks on these firms



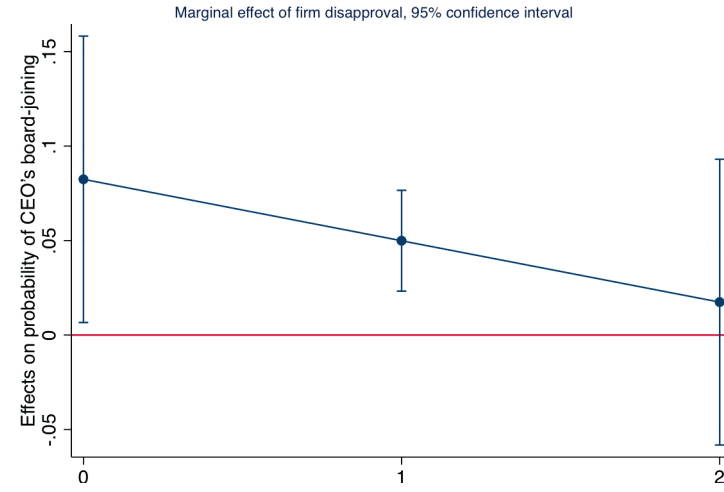
**Figure 2-2: Interaction Effect Between Stakeholders' Attacks and CEOs' Social Capital**



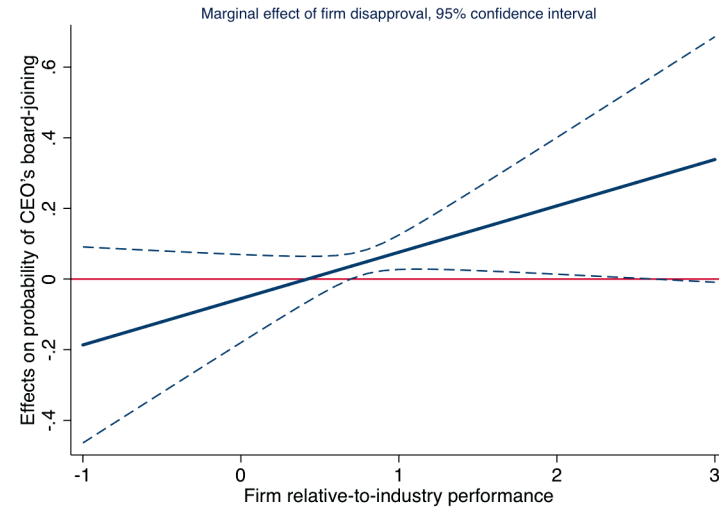
**Figure 2-4: Interaction Effect Between Stakeholders' Attacks and the Attacked Firms' Status**



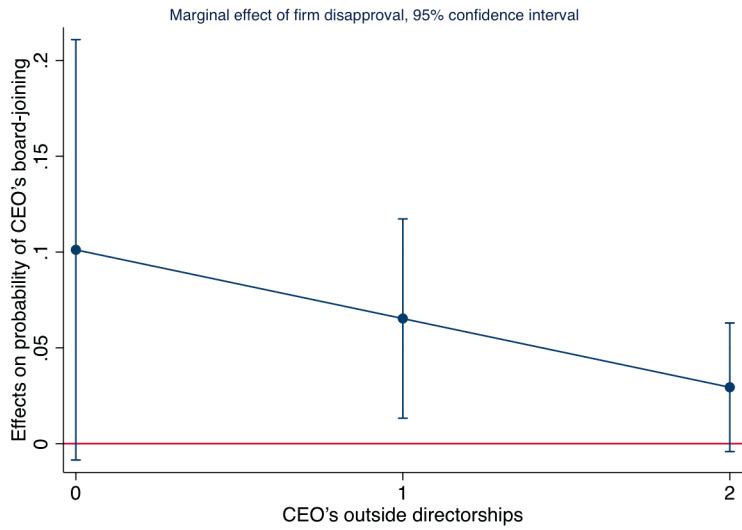
**Figure 2-3: Interaction Effect Between Stakeholders' Attacks and CEOs' Reputational**



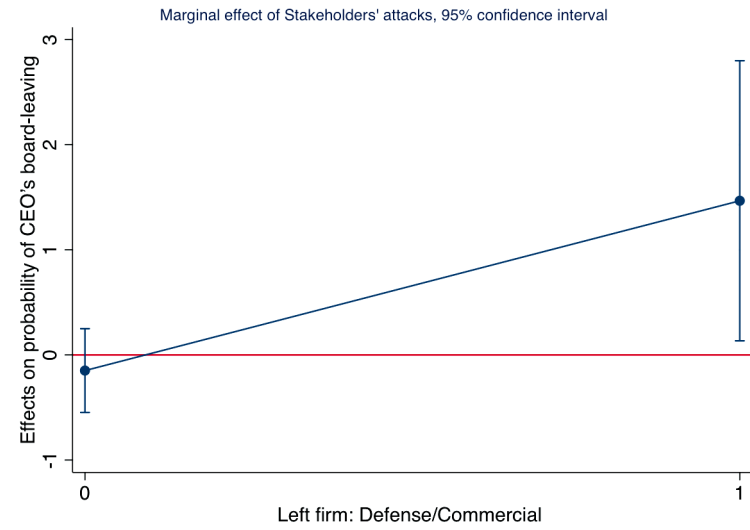
**Figure 2-5: Interaction Effect Between Stakeholders' Attacks and the Attacked Firms' Relative Performance**



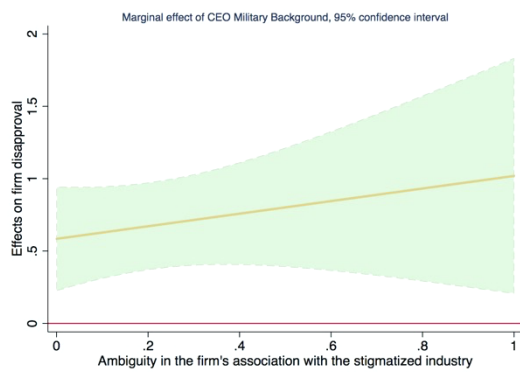
**Figure 2-6: Interaction Effect Between Stakeholders' Attacks and CEO's Outside Directorships**



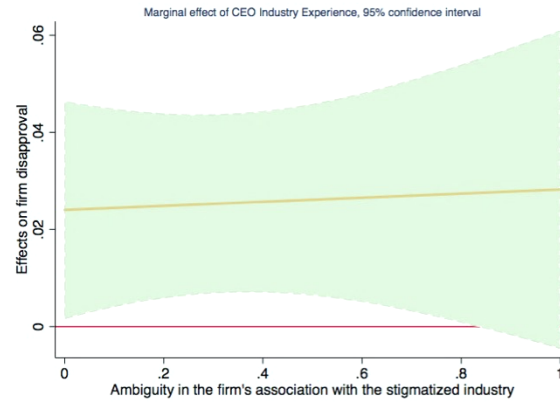
**Figure 2-7: Interaction Effect Between Stakeholders' Attacks and the Left Firm (defense/commercial) status**



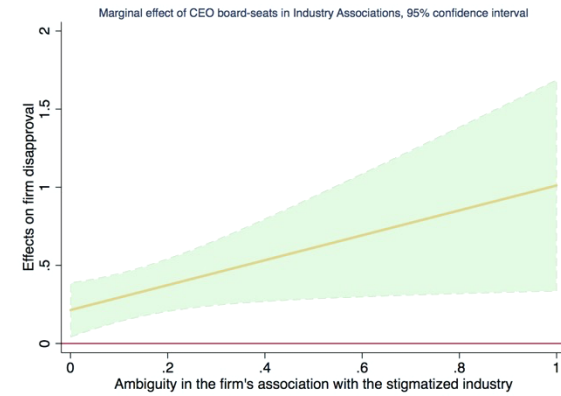
**Figure 3-1: Marginal effects of CEO military background(1a), industry tenure (1b), and Board-seats in associations (1c) on firm disapproval contingent on firm association ambiguity (95% confidence intervals)**



1a

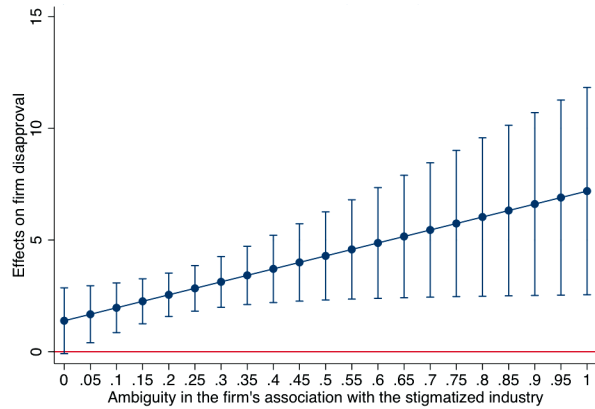


1b

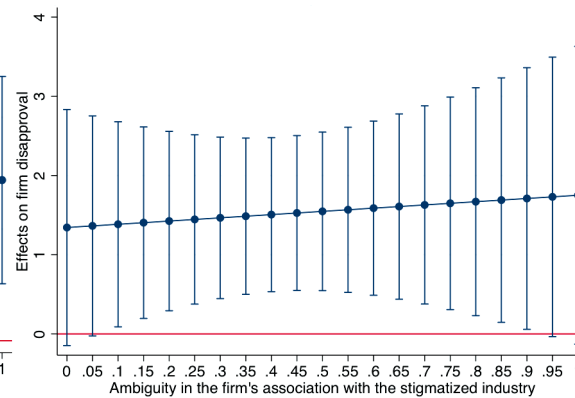


1c

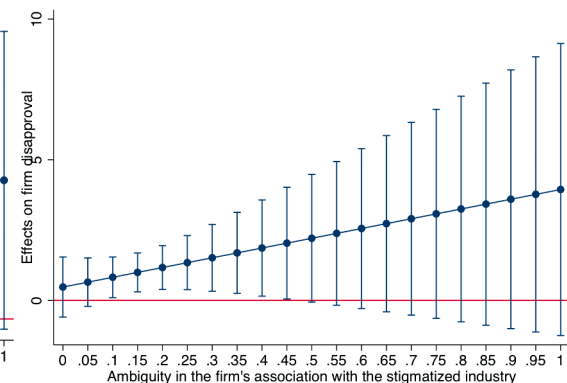
**Figure 3-2: Marginal effects of CEO turnover from non-military to military (2a), from low to high industry tenure (2b), and from non-member to member of associations' board on firm disapproval contingent on firm association ambiguity (95% confidence intervals)**



1a



1b



## APPENDIX A

**Table 1-A – Examples of the arms industry negative stereotypes (Durand & Vergne, 2015) and stakeholders’ disapproval associated with those stereotypes**

Negative stereotype	Example	Year	Media outlet	Targeted firm	Stakeholder that expressed disapproval
(1) Black market transactions, arms trade with repressive regimes, leakage of secret military information to foreign countries	<i>GKN faced hostile questions from shareholders. GKN is “irresponsible” in selling armored vehicles to the Indonesian government, and joint ventures with Chinese and South Korean companies involved in manufacturing landmines. GKN is alleged to have supplied 45 Tactical vehicles with water cannons to Indonesia, which were used to quell civil demonstrations.</i>	1998	Guardian	GKN	Investors
(2) Violating human rights and killing innocent civilians	<i>“The woman at the heart of America’s killing machine. After a 30-year climb, Marilyn Hewson has reached the top of Lockheed Martin.”</i>	2013	The Times	Lockheed Martin	Media
(3) Endangering world peace and stability, promoting and profiting from war	<i>Democratic legislators step up criticism of Halliburton Co for what they say was “war profiteering” in Iraq</i>	2005	The New York Times	Halliburton	Politicians
(4) Illegitimate influence on governments through bribing, political ties and contract overcharging	<i>Just when the Army thought the Bofors ghost had finally been exorcised, the kickbacks demon once again reared its head in the form of South African armament firm Denel.</i>	2006	Times of India	Denel	Media
(5) Ties with arms manufacturers are perceived to be unethical	<i>“the organizers of the summer’s Glasgow Commonwealth Games have been accused of signing a “totally unacceptable” deal with a major arms company to provide security for the event. [...] Anti-arms trade campaigners said the involvement of Selex ES in a major sporting event was immoral.</i>	2014	Independent	Salex	Activists
(6) Firms in the arms industry are in general corrupt, immoral, and nasty	<i>Richard Sterling, an engineer at the University of California, Berkeley, who in newspaper articles had criticized Lockheed Martin, said he was relieved. “It’s pretty sad when one is forced to root for Bechtel,” Mr. Sterling said. “I’m surprised but glad. The lesser of two evils has won.”</i>	2005	NYT	Lockheed Martin and Bechtel	An engineer (Individual activist)

**Table 2-A – List of the keywords used in extracting instances of attacks by stakeholders from the media outlets**

<i>Keywords related to harmful behavior/ activities of firms</i>	Name of the firm) + Kill*, died, harm*, hurt*, damage*, slaughter*, devastat*, (promot*, nurtur*, involve*) and (conflict*, insecurity or war*), (endanger*, loss) and (peace*, live*, security), threat* to, death*, (violat*, undermin*, jeopardiz*, threaten*) and right*, war crime*, criminal, evil, murder, tortur*
<i>Keywords related to allegedly illegal behavior/ activities of firms</i>	(Name of the firm) + illegal, allegat*, accus*, against law, allegations, against rules, violat* and (rule*, law*, legal code), fraud*, corrupt* and (influent*, lobby*, practice*, impact*, act*, behavior, activit*), (break* or bend* or circumvent*) and law*), (shady or questionable) and (activit*, practic*), bribe*, bribing, kickback*, (contract* or bid*) and (defraud*, rigg*, collusion, collud*, overcharg*, infring*, breach*), export* and repressive regime*, leak* and (secret*, data, information, files), charges, wrongdo*
<i>Keywords related to immoral/ unethical affiliations with firms</i>	(Name of the firm) + unethical, immoral, illegitimate, (against, violat*, question*, contradict*, undermin*, ignor*, transgress*, defy, breach*) and (ethics, ethical, moral, norms, values, beliefs, legitimacy), (critic*, sever, abandon, divest, cut, terminat*, stop*) and (deal*, invest*, tie*, contribut*, sponsor*, collaborat*, link*, connection*, service*)

**Table 3-A – List of defense associations**

AeroSpace and Defence Industries Association of Europe (ASD)
Aerospace Industries Association of America Inc (AIA)
Aerospace Industries Association of Canada
AeroSpace, Defence and Security (ADS)
American Institute of Aeronautics and Astronautics (AIAA)
Armed Forces Communications and Electronics Association (AFCEA)
ASIS International (American Society for Industrial Security (ASIS))
Association of the United States Army (AUSA)
Defence Industries Council (DIC)
Defense Industry Initiative (DII)
Defence Manufacturers Association
European Association of Aerospace Industries Council (AECMA)
German Aerospace Industries Association (BDLI)
Groupement des Industries Françaises Aéronautiques et Spatiales (French Aerospace Industries Association) (GIFAS)
Intelligence and National Security Alliance (INSA)
International Association of Chiefs of Police
Ligue Internationale des Societes de Surveillance
National Defense Industrial Association (NDIA)
National Defence Industries Council
National Rifle Association (NRA)
Naval Submarine League (NSL)
Navy League of the United States (NLUS)
Royal Aeronautical Society (RAeS) (UK)
Royal Swedish Academy of War Sciences
Society of British Aerospace Companies (SBAC)
Society of Maritime Industries
Surface Navy Association (SNA)
US Naval Academy Foundation (USNAF)