How Do Entrenched Managers Handle Stakeholders Interests?

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Abstract

This study examines the influences on non-shareholding stakeholders arising from managerial entrenchment, with the findings revealing that managers tend to focus different levels of attention on specific non-shareholding stakeholders. When managers have greater protection, they tend to establish good relationships with stakeholders, particularly with regard to the natural environment and local community involvement. However, well-protected managers attempt to minimize any damage to workforce diversity; they often tend to increase the damage to the employees and natural environment. Meanwhile, managerial entrenchment has very strong effects on environmental stakeholders, with the positive and negative influences on the environment taking place simultaneously. Entrenched managers paying more attentions on stakeholders tend to have positive influence on the short term financial performance of firms. However, negative social actions will have insignificant effect on financial performance.

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Keywords: managerial entrenchment, corporate social responsibility, anti-takeover provisions, environmental stakeholder, financial performance

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1. Introduction

Recent decades bear witness to debate on stakeholder issues with the prior works focusing primarily on the relationship between stakeholder management and financial performance, and further extending this to the ways in which corporate governance mechanisms affect the interests of stakeholders. In comparison to the extant literature on the governance-stakeholder management relationship, the question of managerial entrenchment influence on different stakeholder interests receives much less attention. The present study builds on the existing research by examining the effects of such entrenchment on different stakeholder management and extending the effect on financial performance of firms.

According to agency theory, managers may engage in behavior which provides them with personal benefits at the expense of shareholders; however, the impact on stakeholder interests is unclear. Separation of ownership and control leads to managers either pursuing their own interests, or seeking a more appropriate balance of stakeholders' interests in the firm (Poole, Mansfield, & Mendes, 2003).

The role of managers is at the center of this debate with the general assumption that such managers have a moral obligation towards the stakeholders in the firm, and that they therefore act in an ethical way, using their power to satisfy the interests of stakeholders (Aragon-Correa, Matias-Reche, & Senise-Barrio, 2004). Surroca and Tribo (2008) argue that in order to gain support of stakeholders, managers engage in a broad array of practices aiming at developing relationships with stakeholders and with environmental activists. Such managers may collude with non-shareholding stakeholders to protect themselves from internal corporate governance mechanisms. Although such collusion may reduce the efficiency of the internal control mechanisms, it does not have the same effect on anti-takeover defenses.

A series of recent studies by Gomper, Ishii, and Metrick (2003), Cremers and Nair (2005), and Masulis, Wang, and Xie (2007) examine one important dimension of corporate governance, namely, the market for corporate control. In the agency theory perspective, these studies show that manger entrenchment has a negative effect on operating performance and firm value. This study uses governance index (G-index) of Gomper, Ishii, and Metrick (2003) to measure manager entrenchment and attempts to examine the relationship between manager protection and stakeholders.

Since corporate social responsibility (CSR) offers no obvious direct financial benefits to shareholders, agents are more likely than principals to invest in CSR because they have no direct residual claims on the income of the firm (Wang & Coffey, 1992). Furthermore, agents may also be driven to pursue CSR activities based upon self-interests, such as membership of the social elite, immortality and distraction from mismanagement (Coffey & Wang, 1998). Recent research considers the ways in which corporate governance relates to CSR (Ayuso & Argandona, 2007), including issues such as insider ownership, institutional ownership and outside directors (Atkinson & Galaskiewicz, 1988; Coffey & Wang, 1998; Johnson & Greening, 1999; Wang & Coffey, 1992) and the change in takeover regime and control (Kacperczyk, 2009; Walsh & Seward, 1990).

The aggregate results are, however, inconclusive. Kacperczyk (2009) notes that the examination of governance mechanisms affecting the corporate focus on stakeholders is subject to limitations, essentially because the proxy variables for the governance mechanisms cannot suitably explain the relationship between managerial power and ownership; therefore, they cannot fully reflect the ways in which managerial control affects shareholders and stakeholders alike. Since the strengths and weaknesses of social action have different constructs (Mattingly & Berman, 2006), a need for further exploration exists.

When managers exercise their enhanced discretionary power in the best interests of the organization and its stakeholders, this relationship is likely to lead to enhanced performance; however, when managers use this discretion for self-serving purposes, the effects on social standing and financial performance of the organization may be negative (Cennamo, Berrone, & Gomez-Mejia, 2009). This research discusses the theoretical background and the effect on financial performance. Furthermore, the analysis also covers the effect on future financial performance measured by ROA (return on assets).

While the prior studies show that managers do not treat all kinds of stakeholders equally, this article considers the individual strengths and weaknesses of stakeholders to fully reflect the corporate attention paid to them. Mattingly and Berman (2006) indicate that positive and negative social action should remain totally independent, essentially because of their empirically and conceptually different compositions. Particularly, they argue that a social strength is not simply the converse of a social weakness, and vice versa.

Environmental responsibility has become a topic of increasing concern over recent decades (Egri & Ralston, 2008; Sharivastava, 1995). Goering (2008) suggests that a socially responsible firm is more environmentally friendly in the popular press. On the other hand, firms that adopt environmentally friendly plans can also do considerable damage to the environment (Mattingly & Berman, 2006). For example, Lash and Wellington (2007) mention that Weyerhaeuser, a forest product company, creates a significant carbon footprint and has committed to decrease operational emissions by 40% by 2020. A qualitative research by McNamara and Gibson (2008) indicate that, along the Australia coastline, managers start to implement the environmental initiatives in accommodation facilities to protect environment. However, new and modern accommodation keeps growing in famous attractions located within one kilometer of the coastline. This behavior shows the poor uptake of environmental initiatives and inadequate to deal with the issue of sustainability. Therefore, the study attempts to examine how entrenched managers allocate resources to environmental stakeholders and extend to the dependence between the strengths and concerns of environmental stakeholders.

The structure of this paper is as follows. Section 2 provides a review of the extant corporate governance literature on managerial behavior and its effects on stakeholder interests. In addition, infer the effect on financial performance and also presents the hypotheses. Section 3 provides a description of the data and methodology adopted for this article. Section 4 explores and empirically analyzes the relationship among managerial entrenchment, stakeholders and financial performance. Finally, section 5 concludes with some of the implications and provides recommendations on issues for potential future research.

2. Theory Development

This study begins with an investigation into corporate objectives and managerial behavior, and then examines the ways relating to corporate governance mechanisms. From a perspective of financial theory, the primary aim of all firms is to maximize firm value; thus, an inherent requirement in managerial behavior places the highest priority on shareholder wealth. Despite this, Lougee and Wallace (2008) suggest that this aspect broadens substantially via stakeholder theory, with many studies investigating the connection between financial performance and stakeholder management; however, the results of such studies remain inconclusive.

Stakeholder theory maintains that management should evaluate corporate performance in terms of its ability to satisfy all important corporate constituencies. Managers have orientations towards each of their stakeholder groups, all of which exist simultaneously (Greenley, Hooley, & Rudd, 2005). Thus, instead of the traditional view of the firm as a shareholder-value maximizer, the more recent view of the firm as a stakeholder-value maximizer best describes the relationship between corporate social responsibility and value maximization (Beltratti, 2005).

Given the enormous differences in the goals among various firms, corporate governance mechanisms will take on diverse directions with different effects on managerial behavior. Generally, the maximization of shareholder value is probably the major goal for all firms, with the inclusion of corporate governance mechanisms ensuring accountability to shareholders and creating ways of controlling managerial behavior. The internal and external mechanisms can only enforce the alignment of the interests of managers and shareholders (Walsh & Seward, 1990), but those of stakeholders.

The prior studies suggest that firms with better governance mechanisms have higher firm value, higher profits and higher sales growth (Gompers, et al., 2003). Cremers and Nair (2005) further note that a portfolio consist of a long position in firms with superior governance mechanisms and a short position in firms with inferior governance mechanisms will generate annualized abnormal returns. However, Johnson and Greening (1999) indicate that both the hyper-competitive global marketplace and the increasing pressure from responsibility for all stakeholders leave senior managers in a very difficult situation; not only must they strive to ensure the survival of the firm, but meet the demands of all stakeholders. Posner and Schmidt (1984) suggest that managers are fairly similar in their stakeholder orientations, and that management, as a whole, tends to rate shareholders relatively low, whilst rating customers and themselves relatively high. Although it is important to consider corporate responsibility towards employees, consumers and society, in many important ways they are inconsistent with concerns relating to corporate governance based on agency theory (Benston, 1982).

Hillman and Keim (2001) also employ stakeholder theory to the analysis of strategic behavior and the association with corporate governance mechanisms. Robertson (2008) argues that, from a corporate governance perspective, one of the most important issues for a firm's senior management team is the creation and maintenance of a positive moral environment. From their examination of the relationship between corporate social performance (CSP) and executive compensation (salaries, bonuses and stock options), Mahoney and Thorn (2006) report positive relationships for all types of executive compensation, with the exception of salaries. Johnson and Greening (1999) also find a positive correlation between CSP and outside board members. Clearly, corporate goals and governance mechanisms drives managerial behavior; nevertheless, these governance mechanisms do not act as proxy variables between the power status of agents and shareholders (Kacperczyk, 2009). Accordingly, the present article also examines the takeover market in an attempt to determine the ways in which managers attend to the interests of stakeholders under the influence of the market.

From an examination of the influence of managerial decision-making power on the stakeholder relationship, Kacperczyk (2009) demonstrates that following the change in the Delaware takeover system, there was a growing tendency occurs amongst managers to pay greater attention to stakeholder interests. This suggests that Delaware-based firms obtain greater legal takeover protections from the decisions of the Delaware court (Subramanian, 2002); and indeed, takeover protections increase managerial control over the resources of a firm. Nevertheless, the Delaware takeover regime relates to a legal system of protective measures which cannot fully reflect managerial control.

According to Gompers et al. (2003), many firms use defensive methods to avoid any hostile takeover by restricting shareholder rights to guard against such a threat. They construct a proxy variable for the balance of power between shareholders and managers, which refers to as the governance index (G-index). The index does not require any influence on the validity of the provision or welfare, but instead considers only the influence on the balance of power. From the perspective of a firm with more anti-takeover protections to guard against any hostile threats, the ultimate outcome is that its managers have more decision-making power. As a result, research needs to pay more attention to the ways in which managerial entrenchment can influence stakeholder profits in the absence of appropriate governance mechanisms.

In order to find out the relationship between entrenched managers and stakeholders management, the paper explores both positive and negative social actions of different stakeholders influence by entrenched managers. As Van der Lann, Van Ees and Van Witteloostuijn (2008) argue that corporations interact with different stakeholder groups differently, this research considers the aggregated and disaggregated measure of the positive and negative aspects of different stakeholders to investigate if managerial entrenchment can influence stakeholder profits without appropriate governance mechanisms. Accordingly, the current study develops the following hypotheses:

H1a: Entrenched managers associate with an increase in stakeholder strengths (managers with more anti-takeover provisions lead to an increase in stakeholder strengths).

H1b: Entrenched managers associate with a reduction in stakeholder weaknesses (managers with more anti-takeover provisions lead to a reduction in stakeholder weaknesses).

Based upon a review of the studies appearing in the Strategic Management Journal between 1996 and 2005, Robertson (2008) reports that a sizeable proportion of the issues under current discussion tend to focus largely on the environment which account for approximately 30 percent of all of the studies. However, those firms adopting environmentally-friendly programs are often the same firms which also tend to cause the greatest harm to the environment or to extract the greatest amounts of environmental resources (Mattingly & Berman, 2006).

This article therefore undertakes an additional examination of the dependence between the strengths and concerns of environmental stakeholders and develops the following hypothesis:

H 2: Entrenched managers associate with an increase in the strengths of environmental stakeholders and a simultaneous increase in their weaknesses.

The separation of management and ownership results in agency problem, but it also provides managers with valuable opportunities to demonstrate greater responsibility towards other important corporate members (Wells, 2002). Poole et al. (2003) suggest the separation leads to managers to balance stakeholder interest or their interests. According to stakeholder theory, such managers are more inclined to attend to certain non-shareholding stakeholders to creation of following financial benefits (Godfrey, 2005). Waddock and Graves (1997) indicate CSP associates positively with future financial benefits. Many studies also show this relationship (Donaldson & Preston, 1995; Jones, 1995). However, based on agency theory, managers who satisfy the demands of stakeholders are able to obtain resources at the expense of firm's financial benefits and enhance the self-interest.

The study here attempts to explore the existing theory by testing the following two hypotheses:

H3a: Entrenched managers associate with an increase in stakeholder strengths will lead to higher financial performance.

H3b: Entrenched managers associate with an increase in stakeholder strengths will lead to lower financial performance.

The financial performance focuses on accounting returns. Orlitzky, Schmidt, & Rynes (2003) indicate that CSP is more highly correlated with accounting-based measures of financial performance than with market-based indicators. Accounting-based measures can capture a firm's internal efficiency (Cochran & Wood, 1984). Orlitzky et al., (2003) suggest accounting returns reflect internal decision-making capabilities and managerial performance rather than external market responses.

The present study explores whether managers with more protection tend to pay greater attention to stakeholders and employs a simple proxy for the power between managers and shareholders. This paper seeks to examine the aspects from corporate governance and investigate the relationships between managerial entrenchment and stakeholders and explore the effect of managerial entrenchment on financial performance.

3. Data and Method

3.1 Data Source and Variable Definitions

The dependent variable is the stakeholder relationship; the resources for measuring this relationship are the Kinder, Lydenberg, and Domini (KLD) Research and Analytics database. KLD is a research organization which compiles social responsibility data on U.S. firms. Sharfman (1996) suggests that data from KLD passes several construct validity tests, with a potential to become a widely accepted set of corporate social performance measures.

The KLD data measures the stakeholder relationship, using a rating system, separating into two factors of strengths and weaknesses (concerns). The indicators contain seven categories comprising of community, corporate governance, diversity, employees, environment, human rights and products, each of which corresponds to one of six major stakeholder groups comprising of community, employees, environment, customers, shareholders and society (Lougee & Wallace, 2008).

The strengths and concerns within each category indicate the positive and negative aspects of corporate activities relating to stakeholders. KLD assigns a value of 1 if a particular strength or concern exists within a firm; otherwise 0. Using data in 2006, the focus of this article is on five KLD categories, including community, diversity, employees, environment and products. These categories reflect the level of corporate attention to primary and secondary stakeholders which have impacts on corporate survival (Clarkson, 1995; Kacperczyk, 2009) and often appear for research purposes (Turban & Greening, 1997). Appendix Table A1 illustrates the five KLD categories and their related information on strengths and concerns within each category.

This study employs aggregated and disaggregated item to measure positive and negative behavior of firms towards stakeholders. The overall positive actions of stakeholders aggregate the sum of the strengths from the five selected categories, whilst the negative actions comprise of the sum of the concerns. Following the argument of Mattingly and Berman (2006), that meaningful analysis should take positive and negative social actions separately, the current study undertakes a disaggregated measure of the positive and negative aspects of different stakeholders across the five categories in order to obtain more detailed information.

The explanatory variable is the firm-specific anti-takeover measure, the G-index (constructed by Gompers et al., (2003) which obtained from the Metrick website. The index comprises of 24 anti-takeover provisions (ATPs); for each additional anti-takeover provision adopted by a firm, the firm's G-index adds one point. The more the ATPs are, the higher the index and the greater the entrenchment of managers. In order to determine the effects of entrenched managers on stakeholders and avoid the potential problem of endogeneity, following Core, Guay, & Rusticus (2006), the regression model considers G-index at year t-1 for the study of year t; since the index is not available for each year, the ATP in a missing year is the index of the preceding year.

Firm characteristics may affect corporate actions towards stakeholders. Following Waddock and Graves (1997), this present article uses firm size, financial performance and leverage to control for corporate characteristics. Firm size is relevant and can affect the KLD rating (Johnson & Greening, 1999) essentially because, given their greater visibility, larger firms may be more vulnerable (Van der Lann, Van Ees, & Van Witteloostuijn, 2008). The study here defines firm size as the logarithm of net sales. The other control variables include return on assets (ROA) and leverage ratio. Because high leverage firms may not allocate resources toward other stakeholders, the regression model includes debt to assets ratio as a control variable. All control variables are from the COMPUSTAT database for 2005. In order to adjust for the industry effect, this paper uses four-digit SIC to calculate the industry average for each of the control variables, and then subtract it from each of the control variables.

In addition, the managerial entrenchment that pays more attention to stakeholders will lead to a change in the financial performance. Drawn from COMPUSTAT for the year of 2007 and 2008, ROA is a proxy for the future performance. This study also adjusts for the industry effect.

3.2 Method

Since the dependent variables are count data, the empirical study employs Poisson regression to examine the relationship between managerial entrenchment and stakeholders. The Poisson regressions are as follows:

$$\mathit{Stakeholders\ Strengths}_t\ (\mathit{Concerns}_t) = f(G\text{-}\mathit{index}_{t\text{-}1},\ \mathit{Size}_{t\text{-}1},\ \mathit{Performance}_{t\text{-}1},\ \mathit{Leverage}_{t\text{-}1}) \quad (1)$$

where the dependent variables are aggregated and disaggregated items of stakeholders. Following Cremers and Nair (2005), this paper considers lag one period value of the explanatory variables. Aggregated stakeholders strengths (concerns) are equal to the sum of the strengths (concerns) in five categories. Disaggregated stakeholders strengths (concerns) are different stakeholders' strengths (concerns). The main explanatory variable is the G-index which measures the number of ATPs for the firms, whilst the control variables include size, performance and leverage.

As regards the regressions on strengths, a negative (positive) coefficient of the G-index indicates that entrenched corporate managers pay less (more) attention to the strengths of stakeholders. A positive coefficient might imply that entrenched managers tend to have a stakeholder value system. As for the regressions on concerns, the positive (negative) coefficient of the G-index indicates that there is an increase (reduction) in the stakeholder concerns amongst entrenched managers.

This research uses the minimum function to characterize the behavior that firms adopting environmentally-friendly programs tend to simultaneously cause harm to the environment and specifies the following model to examine this relationship.

$$Minimum\ (Strength_t,\ Concerns_t) = f\,(G\text{-}index_{t\text{-}1},\ Size_{t\text{-}1},\ Performance_{t\text{-}1},\ Leverage_{t\text{-}1}) \qquad (2)$$

A positive coefficient of the G-index will support the argument that entrenched managers maintain a good relationship with stakeholders but cause harm on them at the same time.

Finally, the present article discusses the financial performance regarding the influence of managerial entrenchment that pays more attention to stakeholders. The following model tests the hypothesis:

$$ROA_{t+1}\ (ROA_{t+2}) = f\,(Strength_t, G\text{-}index_t, Strength_t \times G\text{-}index_t\ ,\ Size_t,\ Leverage_t) \qquad (3)$$

where financial performance is ROA of time t and t+1. Contrast to model (3), this study also specifies a model focusing on stakeholder concerns. In the model, the variables $Contern_t$ and $Contern_t$ *G-index$_t$ replace the variables $Strength_t$ and $Strength_t$ *G-index$_t$, respectively, in model (3).

As regards the regressions on strengths, in cases when the entrenched managers tend to have a stakeholder value system, the coefficient of the $Strength_t$ *G-index$_t$ will be positive; as for the regressions on concerns, the coefficient of the $Contern_t$ *G-index$_t$ will be negative.

4. RESULTS

This article relies on basic specifications to contrast hypotheses, by explaining CSP in terms of managerial entrenchment and explaining financial performance in terms of interaction between managerial entrenchment and CSP.

Table 1 presents the means, standard deviations, minimums and maximums of all variables. Very little difference in the means is discernible between aggregated strengths and concerns (1.6681 for strengths and 1.7203 for concerns); however, there are significant differences in the standard deviations (2.3999 for strengths and 1.7560 for concerns). This indicates greater differentiation between the firms with regard to strengths, and also a greater divergence in the degree of care for stakeholders amongst sample firms.

Table 1 here.

Conversely, far less variability occurs amongst the sample firms with regard to stakeholder concerns. An examination of each of the five items of strengths and concerns shows greater variation in the means of the strengths than those of the concerns. Table 2 presents the correlation matrix of the variables, which reveals significantly positive correlations between the strengths and concerns for stakeholders.

Table 2 here.

The stakeholder strengths (concerns) in the present study are equal to the sum of the disaggregated stakeholder strengths (concerns), with a significantly positive correlation between aggregated stakeholder strengths and disaggregated stakeholder strengths, and vice versa with regard to concerns.

The diversity item in stakeholder concerns (Diversity_concern) has a significantly negative correlation with all of the disaggregated stakeholder strengths.

Diversity_concern indicates that the firm has involvement in some major controversies relating to affirmative action issues, or that no women are on the firm's board of directors or among its senior line managers. If a firm has a greater Diversity_concern measure, then this indicates that it pays less attention to other stakeholders. Ultimately, there is a strong possibility that such firms may be unable to maintain good relationships with their stakeholders, and that they are likely to have serious diversity problems within the workplace.

Firms with a higher G-index have more ATPs, which results in a greater level of managerial entrenchment. Table 2 also shows that the G-index has a positive correlation with the aggregated stakeholder strengths and concerns, albeit with a lower level of significance. This indicates that with greater managerial entrenchment, managers pay more attention to stakeholders; however, it also suggests that the firm may act to the detriment of such stakeholders.

The main regression model contains three control variables: firm size, performance (ROA) and leverage. Size has a significantly positive correlation with the aggregated stakeholder strengths and concerns, a relationship which confirms within the prior studies. With positive growth in firm size, the relationship with stakeholders strengthens as a result of the firm's greater visibility; however, the influence on greater numbers of stakeholders also becomes unavoidable.

Firms with better financial strength (a higher performance indicator) have more resources available to them to allocate to their stakeholders. The results indicate that performance has a positive correlation with the aggregated stakeholder strengths. Table 2 also indicates that firms with a higher leverage have very little additional resources available to stakeholders. Therefore, the benefits and interests of stakeholders may suffer from capital shortage (leading, for example, to the exploitation of employees).

Tables 3 and 4 present the results of the regression models. The dependent variables in the regression models are strengths (concerns) of stakeholders, the explanatory variable is the G-index, and the control variables are size, performance and leverage. The results in Table 3 show that greater managerial entrenchment (a higher G-index) has a positive impact on the aggregated stakeholder strengths, thereby providing support for Hypothesis 1a. When managers have greater protection, they tend to foster good relationships with their stakeholders.

Table 3 also shows the disaggregated items on stakeholder strengths. The results indicate that entrenched managers pay greater attention to stakeholders with regard to the community and the environment; the coefficients of G-index for both items are positive significantly, whereas not significant on diversity, employees and products.

These results are consistent with those of Kacperczyk (2009) who argues that firms paying more attention to the community and the environment obtain intangible benefits which are inherently difficult to assess by shareholders, such as promoting the reputation of the firm (Atkinson and Galaskiewicz, 1988; McWilliams and Siegel, 2000; Van der Lann, et al., 2008) and its competitive advantage (Hillman and Keim, 2001; Turban and Greening, 1997).

Table 3 here.

The results in Table 4 indicate that managerial entrenchment has no real influence on the aggregated stakeholder concerns, a result the marginally significant coefficient supports. However, when focusing on disaggregated concerns and then carry out a further regression analysis, the finding shows that managerial entrenchment does have some influence on three of the stakeholder concerns; these are diversity, employees and environment for which all of the coefficients are significant (negative for diversity, and positive for employees and the environment).

When managers have greater protection, they tend to reduce any existing diversity concerns, albeit to the detriment of employee relations and the environment. Johnson and Greening (1999) combine the community, diversity and employees items into a single dimension named People of corporate social performance. They note that this dimension is unrelated to senior management equity. The regression results provide a more detailed explanation of this finding.

Robertson (2008) notes that throughout the period under review, topics relating to the environment which are the most prominent ethical themes. Similarly, after including of all the secondary stakeholder issues, Van der Laan et al. (2008) also confirm that the environment is, without doubt, the one area that has most regulatory measures; indeed, from a mail survey of managers, Banerjee (2002) finds that 53 per cent of all respondents report their concerns on their firm's environmental activities.

Table 4 here.

Based upon the findings, current study pays specific attention to environmental stakeholders. As Table 4 shows, when managers have greater protection, they tend to cause greater harm to the environment. The stakeholder environmental strengths in Table 3 help with further analysis. KLD database contains some characteristics of the environmental strengths of firms as powerful pollution prevention plans, the continued use of recycled materials and the promotion of climate-friendly policies. KLD defines environmental concerns as controversies relating to environmental regulations, or as part of an industry which causes contamination by production, destroys or endangers the environment. Overall, the definitions of environmental strengths and concerns are compatible, since firms likely execute plans that are beneficial to the environment as compensation for the harm they cause during their production processes.

Table 5 presents the results of the minimum function regressions. The results show a positive and significant coefficient on the G-index for the environment regression. When firms are working to achieve a good relationship with the environment, they are simultaneously causing harm to it; Ihlen (2008), for example, provides concrete evidence to show that no matter how much time, effort and expense that the Shell Corporation invests in CSR– a supposed leader in the CSR movement – its profit-making activities continue to endanger the environment. Othman (2009) also provides other supporting evidence. He implies that, despite paying particular attention to the environment, the construction industry still has major adverse impacts; this suggests that the construction industry is the epitome of environmentally-damaging behavior.

Table 5 here.

In Table 5, the results of the aggregated regressions indicate positive and significant coefficients on the G-index, thereby indicating that managerial entrenchment tend to lead to simultaneous increases in both strengths and concerns. From their examination of firms with increases in strengths and concerns between 1991 and 2005, Lougee and Wallace (2008) discover a reduction in the average net strengths (number of strengths minus number of concerns) during that period. The results on the other disaggregated items (Table 5 does not show the results) show no statistical significance in the regression analysis.

Table 6 reports of the estimation results of the regression model (3). The results show a positive and significant coefficient on the Strength*G-index for the financial performance regression. When entrenched managers try to achieve a good relationship with the stakeholders, the firms are likely to cause positive financial performance at next period. However, the effect is not significant for the concern *G-index variable.

Table 6 here.

The results in Table 6 support for the stakeholder model. When entrenched managers pay more attention to stakeholders, this behavior will result in short-term financial performance. Kacperczyk (2009) points out that stronger takeover protection increase corporate attention to non-shareholding stakeholders and contribute to long-term value of the firm.

The focus of this study is on accounting returns rather than stock price. The results show that the positive effect on financial performance is shorter than that on stock price, since such factors as reputations, expectations of future returns, and risks have impact upon stock price. Accounting-based measures reflect managerial performance; that is, the greater power that managers have, the more corporate resources are available to stakeholders and then improve firm's financial performance.

5. Discussion and Conclusions

The findings demonstrate that when managers have greater protection, they tend to establish good relationships with their stakeholders and will not attempt to exploit them;

with aggregated stakeholder strengths and concerns as the dependent variables, the regression confirms the findings.

Since employees work diligently in exchange for appropriate remuneration, and since customers trade money for services or products, formal contracts protect both of them. Accordingly, entrenched managers tend to place less focus on these primary stakeholders than community and the environment. This outcome occurs because entrenched managers have a desire to establish good relationships with secondary stakeholders (the community and the environment), neither of which get the protection from the contracts with the firm (Kacperczyk, 2009; Van der Lann, et al., 2008). Not only does this help to develop good relationship with secondary stakeholders but it also helps to improve the reputation of the firm. This study finds that manager entrenchment has no effects on strengths of primary stakeholders.

Our findings reveal that entrenched managers will not exploit all stakeholders. The results from the regression of disaggregated concerns show that managerial entrenchment does have influence on diversity, employees, and environment, but it has no impact on community and customers. The results indicate that entrenched managers do not treat all kinds of stakeholders equally. The coefficient on employees and environment concerns are positive, while that on diversity is negative. When managers have greater protection, they will tend to cause greater harm to primary stakeholders, particular the employees. This negative effect on employees might be due to fact that the formal contracts of employees include rights and obligations with firms.

Klassen and McLaughlin (1996) demonstrate significantly positive returns for those firms with strong environmentally-friendly management practices, as indicated by their various environmental performance awards, as compared to significantly negative returns for those firms with relatively weak environmental management practices, as evidenced by specific environmental crises. Scholtens and Zhou (2008) also suggest that negative environmental performance leads to an increase in the financial risk of a firm and a corresponding reduction in its stock returns. When negative impacts on the environment are inevitable, managers must adopt compensatory means to avoid any excessive influence on their risk and returns. This may go some way towards providing an explanation for the simultaneous increases in both environmental strengths and concerns. Nevertheless, Mattingly and Berman (2006) find that those firms which tend to adopt strong environmental protection practices are also those tend to endanger the environment.

As regards diversity, managerial entrenchment tend to reduce diversity concerns essentially because any firm involving in any major controversy relating to diversity within the workplace tend to suffer from greater financial risk (Scholtens & Zhou, 2008), and managers therefore have strong incentive to alleviate such a shortcoming. As regards employees, managerial entrenchment tend to lead to an increase in employee concerns, although the employee contract may limit the motive; nevertheless, the prior empirical studies indicate that such increases in employee concerns would not necessarily result in any increase in financial risk or reduction in financial performance (Scholtens & Zhou, 2008).

Consistent with the findings of Lougee and Wallace (2008), this research finds that managerial entrenchment leads to simultaneous increases in both the aggregated strengths and concerns of stakeholders. According to the results of the disaggregated regressions, managers focus on secondary stakeholders (such as the community, diversity, and environment) more than primary stakeholders. The findings also indicate that managerial entrenchment has no significant impacts on the aggregated stakeholder concerns. The reason may simply be that there are no real influences on the aggregated stakeholder concerns, or the negative effects of increasing employee and environmental concerns neutralize the positive effects of reducing diversity concerns. This outcome is an important gap within the literature which may be worthy of further exploration in the future.

Finally, result of this study indicates that the entrenched managers paying more attention to stakeholders leads to positive future financial performance. Kacperczyk (2009) suggests a similar conclusion. According to the results, when entrenched managers tend to pay more attention to stakeholder, the results include using resource more effectively and increasing accuracy in accounting performance.

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Table 1 Descriptive statistics

Variables	Mean	Std. Dev	Min	Max
Stakeholder_strength	1.7	2.40	0	19
Community_strength	0.2	0.60	0	5
Diversity_strength	0.9	1.23	0	7
Employee_strength	0.3	0.66	0	4
Environment_strength	0.2	0.60	0	4
Product_strength	0.1	0.27	0	3
Stakeholder_concern	1.7	1.76	0	13
Community_concern	0.1	0.36	0	3
Diversity_concern	0.3	0.50	0	2
Employee_concern	0.6	0.74	0	4
Environment_concern	0.3	0.79	0	5
Product_concern	0.3	0.69	0	4
G-index	9.13	2.59	2	18
Size (Sales)	6126.47	18161.63	1.06	328213
Performance (ROA)	4.85	8.70	−116.72	39.08
Leverage (D/A)	22.25	19.35	0	115.26

Note: The sample comprises of 1,415 matched firms with available data on stakeholder relations and characteristics, as well as the corporate governance indices (G-index); the sources and definitions of all of the variables are provided in the 'Data and Methodology' section.

Table 2 Correlation matrix

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1.Stakeholer_strength	1														
2.Community_strength	0.71***	1													
3.Diversity_strength	0.85***	0.52***	1												
4.Employee_strength	0.65***	0.31***	0.34***	1											
5.Environment_strength	0.64***	0.34***	0.33***	0.37***	1										
6.Product_strength	0.46***	0.22***	0.25***	0.26***	0.35***	1									
7.Stakeholder_concern	0.34***	0.29***	0.24***	0.20***	0.30***	0.11***	1								
8.Community_concern	0.24***	0.23***	0.19***	0.18***	0.15***	0.04	0.52***	1							
9.Diversity_concern	-0.13***	-0.02	-0.15***	-0.08**	-0.07**	-0.03	0.26***	-0.04	1						
10.Employee_concern	0.16***	0.11***	0.13***	0.09***	0.14***	0.067*	0.64***	0.14***	0.06*	1					
11.Environment_concern	0.25***	0.14***	0.11***	0.23***	0.34***	0.092*	0.71***	0.36***	-0.07*	0.26***	1				
12.Product_concern	0.36***	0.35***	0.36***	0.11***	0.19***	0.095***	0.60***	0.26***	-0.03	0.15***	0.23***	1			
13.G-index	0.05*	0.05	0.03	0.03	0.06*	0.023	0.05	0.03	-0.14***	0.06*	0.09**	0.04	1		
14.Size	0.46***	0.45***	0.38***	0.27***	0.23***	0.14***	0.52***	0.38***	0.06*	0.25***	0.37***	0.38***	-0.04	1	
15.Performance	0.08**	0.04	0.04	0.10***	0.06*	0.07*	0.02	0.03	-0.01	-0.03	0.05	0.02	0.01	0.06*	1
16.Leverage	0.01	0.04	0.02	-0.06*	0.01	-0.02	0.11***	0.08**	-0.03	0.06*	0.10***	0.09***	0.02	0.02	-0.28***

Note: *, **, and *** indicate significance at the 5%, 1% and 0.1% level.

Table 3 Poisson regression results on stakeholder strengths and anti-takeover protections[a]

Variables[b]	Stakeholder	Community	Diversity	Employee	Environment	Product
G-index	0.02**	0.04*	0.01	0.02	0.06**	0.03
	(0.01)	(0.02)	(0.01)	(0.02)	(0.02)	(0.04)
Size	0.17***	0.21***	0.13***	0.15***	0.26***	0.24***
	(0.01)	(0.02)	(0.01)	(0.02)	(0.02)	(0.04)
Performance	-0.0017	0.0002	-0.0045	0.0044	-0.0040	0.01
	(0.0030)	(0.01)	(0.0039)	(0.01)	(0.01)	(0.02)
Leverage	-0.02***	-0.02***	-0.01***	-0.02***	-0.02***	-0.03***
	(0.0016)	(0.0047)	(0.0022)	(0.0037)	(0.0048)	(0.01)
No. of Obs.	1,415	1,415	1,415	1,415	1,415	1,415
R^2	0.09	0.04	0.04	0.05	0.07	0.04

Notes:

[a] The dependent variables are different stakeholder strengths; the explanatory variable is the G-index.

[b] Figures in parentheses are standard errors; *, **, and *** indicate significance at the 5%, 1% and 0.1% level.

Table 4 Poisson regression results on stakeholder concerns and anti-takeover protections[a]

Variables[b]	Stakeholder	Community	Diversity	Employee	Environment	Product
G-index	0.01	0.03	-0.08***	0.03*	0.07***	0.02
	(0.01)	(0.03)	(0.02)	(0.01)	(0.02)	(0.02)
Size	0.09***	0.14***	-0.06*	0.06***	0.14***	0.17***
	(0.01)	(0.03)	(0.02)	(0.02)	(0.02)	(0.02)
Performance	-0.0008**	-0.01	0.0026	-0.01***	-0.01	-0.0044
	(0.0026)	(0.01)	(0.01)	(0.0038)	(0.01)	(0.01)
Leverage	-0.0037*	-0.01*	0.0027	-0.0025	-0.01	-0.01*
	(0.0015)	(0.01)	(0.0032)	(0.0025)	(0.0035)	(0.0034)
No. of Obs.	1,415	1,415	1,415	1,415	1,415	1,415
R^2	0.04	0.0045	0.02	0.02	0.02	0.03

Notes:

[a] The dependent variables are different stakeholder concerns; the explanatory variable is the G-index.

[b] Figures in parentheses are standard errors; *, **, and *** indicate significance at the 5%, 1% and 0.1% level.

Table 5 Poisson regression results on minimum function and anti-takeover protections[a]

Variables[b]	Minimum (strengths, concerns)		Minimum (environmental strengths, environmental concerns)	
	Coeff.	S.E.	Coeff.	S.E.
G-index	0.05***	0.01	0.08*	0.03
Size	0.18***	0.01	0.28***	0.03
Performance	- 0.01***	0.0036	- 0.01	0.01
Leverage	- 0.02***	0.0023	- 0.02**	0.01
No. of Obs.	1,415		1,415	
R^2	0.06		0.04	

Notes:

[a] The dependent variables are the minimum of the aggregated and disaggregated strengths and concerns, as measured by the KLD data; the explanatory variable is the G-index.

[b] *, **, and *** indicate significance at the 5%, 1% and 0.1% level.

Table 6 OLS regression results on stakeholder strengths (concerns), anti-takeover protections and performance[a]

Variables[b]	ROA(t+1)	ROA(t+2)	ROA(t+1)	ROA(t+2)
Strength	-0.61* (0.26)	0.19 (0.37)		
Concern			0.28 (0.30)	0.76 (0.65)
G-index	-0.07 (0.07)	-0.05 (0.16)	0.11 (0.10)	0.10 (0.21)
Strength × G-index	0.06* (0.03)	0.01 (0.04)		
Concern × G-index			-0.04 (0.03)	-0.08 (0.07)
Size	1.03*** (0.11)	0.74*** (0.18)	1.03*** (0.11)	0.80*** (0.17)
Leverage	-0.10*** (0.02)	-0.09** (0.03)	-0.10*** (0.02)	-0.09** (0.03)
No. of Obs.	1,174	1,174	1,174	1,174
R^2	0.10	0.02	0.10	0.02

Notes:

[a] The dependent variables are ROA(t+1) and ROA(t+2); the explanatory variable is the interaction between stakeholder strength (concern) and G-index.

[b] Figures in parentheses are standard errors; *, **, and *** indicate significance at the 5%, 1% and 0.1% level.

Appendix Table A1

Criteria	Strengths	Concerns
Community	Charitable giving	Investment controversies
	Innovative giving	Negative economic impact
	Non-US charitable giving	Indigenous population relations
	Support for housing	Tax disputes
	Support for education	Other concerns
	Indigenous population relations	
	Volunteer programs	
	Other strengths	
Diversity	CEO	Controversies
	Promotion	Non-representation
	Board of Directors	Other concerns
	Work/life benefits	
	Women and minorities	
	Employment of the disabled	
	Gay and lesbian policies	
	Other strengths	
Employees	Union relations	Union relations
	No-layoff policy	Workforce reduction
	Cash profit sharing	Retirement benefit concerns
	Employee involvement	Health and safety concerns
	Retirement benefit strengths	Other concerns
	Health and safety strengths	
	Other strengths	
Environment	Beneficial products and services	Hazardous waste
	Pollution prevention	Regulatory problems
	Recycling	Ozone-depleting chemicals
	Clean energy	Substantial emissions
	Communications	Agricultural chemicals
	Property, plant and equipment	Climate change
	Other strengths	Other concerns
Product	Quality	Product safety
	R&D/Innovation	Marketing/contracting concerns
	Benefits to economically disadvantaged	Anti-trust
	Other strengths	Other concerns

Note: The table provides a list of the rating criteria on the 2006 KLD data, showing the five KLD categories and the strengths and concerns associated with each category.