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A Report on Stakeholder Attributes and Salience, Corporate Performance, and CEO Values

Bradley R. Agle, University of Pittsburgh
Ronald K. Mitchell, University of Victoria
Jeffrey A. Sonnenfeld, Chief Executive Leadership Institute

Introduction

In an attempt to improve our collective understanding of what Freeman (1994) called "the principle of who or what really counts," Mitchell, Agle, and Wood (1997) offered a theory of stakeholder identification and salience that suggests that managers' perceptions of three key stakeholder attributes–power, legitimacy, and urgency–affect stakeholder salience: the degree to which managers give priority to competing stakeholder claims. This study, summarized only briefly here, empirically tested Mitchell and colleagues' (1997) model as it applies to specific decisions made by chief executive officers (CEOs). Detailed background, methods, and analysis sections can be found in Agle, Mitchell, and Sonnenfeld (1999).

Leaders, especially the CEOs of business organizations, imprint their firms with their own values (Wally and Baum, 1994), which then become manifest in decision processes (Keeney, 1992; Norburn, 1989) that lead to stakeholder salience and corporate social performance (Carroll, 1979; Waddock and Graves, 1997a; Wood, 1991). We therefore studied CEOs' perceptions as important managerial outcomes described by the theory stated above, taking their values into account as Mitchell and colleagues suggested (1997: 871). Our study followed the "principles, processes, performance" logic suggested by Wood (1991: 693) as a straightforward way to examine the effects of CEOs' perceptions of stakeholder attributes on stakeholder salience and corporate performance.

Theory and Hypotheses

Our research model (Figure 1) is based upon Mitchell and colleagues' (1997: 873) proposition that stakeholder salience will be positively related to the cumulative number of stakeholder attributes–power, legitimacy, and ur-

gency–perceived by managers to be present. Since these authors also argued that managerial characteristics are likely to moderate the attribute-salience relationship, and because the salience-performance link is implicit in their theory, we included CEO values as a moderating variable in the model and included several performance variables as outcomes.

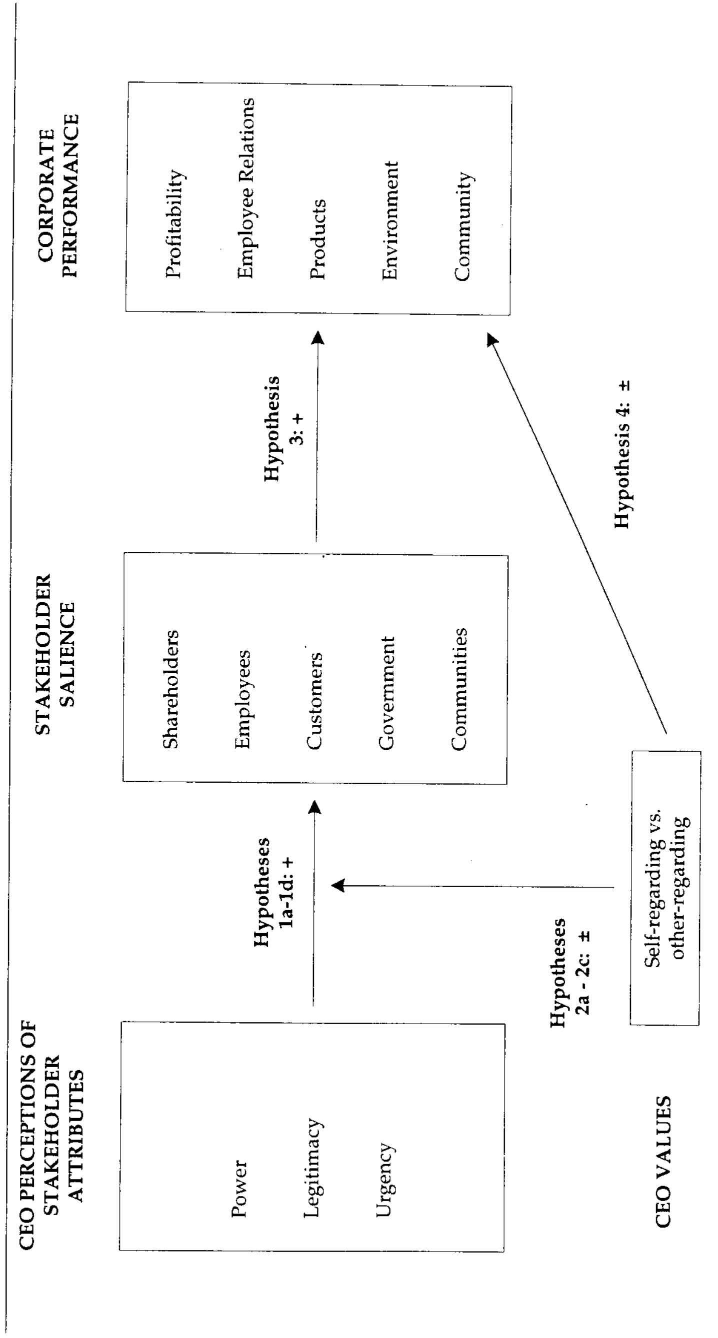
To facilitate a faithful test of the model as proposed, we accept the Mitchell, Agle, and Wood (1997) definitions of the attributes of power, legitimacy, and urgency. And, we assume that:

- Stakeholder *power* exists where one social actor, A, can get another social actor, B, to do something that B would not have otherwise done (Dahl, 1957; Pfeffer, 1981; Weber, 1947).
- Stakeholder *legitimacy* is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995; Weber, 1947).
- Stakeholder *urgency* is a multidimensional notion that includes both criticality and temporality, with a stakeholder claim considered to be urgent both when it is important and when delay in paying attention to it is unacceptable (Mitchell and Agle, 1997; Mitchell, Agle, and Wood, 1997).

We also accept Mitchell and colleagues' (1997: 854) definition of stakeholder salience as the degree to which managers give priority to competing stakeholder claims. However, their model of stakeholder salience was defined in terms of managerial perceptions, which necessitates further discussion. In their first proposition, those authors suggest that stakeholder salience is positively related to the cumulative number of the three variable attributes, power, legitimacy, and urgency, that are "*perceived* by managers to be present" (1997: 873; emphasis added). Further, Freeman (1984) observed that managers' priority perceptions may attach to stakeholder groups as well as to specific stakeholder claims. And, in addition to arguing that stakeholder attributes function as variables, not as steady states, and can change for any particular group or stakeholder-manager relationship, Mitchell, Agle, and Wood (1997: 868) argued that the existence (or the degree present) of each attribute as a matter of managerial perception is a reality constructed over time rather than an objective reality. Unfortunately, although the foregoing points draw attention to the role of perception, they do not constitute sufficient theoretical justification for why salience should be influenced by managerial perceptions. Social cognition theory and organization theory can provide the required explanations.

Social cognition theory, as an attempt to account for how people understand themselves and others, offers an explanation of how human cognitive

Figure 1: Research Model



(Source: Agle, Mitchell, Sonnenfeld, 1999: 508.)

processes such as attention, person memory, and social inference affect outcomes of interest (Fiske and Taylor, 1984). Therefore, when we applied the general social cognition model to the stakeholder case, we expected stakeholder salience to be highest when both selectivity and intensity–the precursors of attention–were high, which provides a theoretical reason for the expectations proposed by Mitchell and his coauthors (1997). Hence, social cognition theory suggests that as the stakeholder attributes of power, legitimacy, and urgency cumulate in the mind of a manager, selectivity is enhanced, intensity is increased, and higher salience of the stakeholder group is the likely result.

Organization theory suggests that the cumulating of stakeholder attributes in the organizational setting might enhance the selectivity and intensity judgments (perceptions) of managers through the domination, differentiation, and/or novelty of one stakeholder compared to another, which in turn might affect stakeholder salience. Organizations "reconcile divergent interests" (Hill and Jones, 1992: 134), to accomplish an "interlocking of the behaviors of the various participants that comprise the organization" (Pfeffer and Salancik, 1978: 258), and to facilitate "aspiration-level adjustments" (Cyert and March, 1963: 38) that might be termed responses to "urgency" in Mitchell, Agle, and Wood (1997) terminology. We therefore had the following expectations for CEOs, stated as the following hypotheses (H):

H1a: The stakeholder attribute of power will be positively related to the stakeholder salience of shareholders, employees, customers, government, and communities.

H1b: The stakeholder attribute of legitimacy will be positively related to the stakeholder salience of shareholders, employees, customers, government, and communities.

H1c: The stakeholder attribute of urgency will be positively related to the stakeholder salience of shareholders, employees, customers, government, and communities.

And, since Mitchell and his coauthors (1997) suggested that stakeholder salience will be positively related to the cumulative number of stakeholder attributes–power, legitimacy, and urgency–perceived to be present, we also expected that for CEOs:

H1d: The cumulative number of the stakeholder attributes of power, legitimacy, and urgency will be positively related to the stakeholder salience of shareholders, employees, customers, government, and communities.

CEO Values and Stakeholder Salience

However, notwithstanding the direct effect of stakeholder attributes on salience, Mitchell and colleagues (1997) argued that the characteristics of managers are likely to moderate stakeholder salience. We therefore suggest that CEOs' values (Hambrick and Mason, 1984) are a primary characteristic that influence their perceptions of the attributes that lead to stakeholder salience. Thus, as Mitchell, Agle, and Wood (1997: 871) argue, the stakeholders that receive priority from management will be those whom managers–especially CEOs–perceive as highly salient.

Accordingly, we expected that, in general:

H2a: CEO values will affect CEO perceptions of power, legitimacy, and urgency and thus will be related to the stakeholder salience of shareholders, employees, customers, government, and communities.

Further, because CEO values are expected to vary on a continuum anchored at one end by profit maximization-firm-centered values and at the other by other-regarding-system-centered values (Wood, 1994), we specifically expected that:

H2b: CEO other-regarding values will affect CEO perceptions of power, legitimacy, and urgency and thus will be positively related to stakeholder salience for non-shareholders (employees, customers, government, and communities).

H2c: CEO other-regarding values will affect CEO perceptions of power, legitimacy, and urgency and thus will be negatively related to stakeholder salience for shareholders.

Stakeholder Salience and Corporate Performance

Within the stakeholder literature exists the highly appealing idea that paying attention to stakeholders is also good business (Jones, 1995). Recently, an explicit link has been suggested between stakeholder theory and corporate social performance (CSP), on the basis of the argument that CSP is all about the relationships between a firm and its stakeholders–with the quality of these relationships fundamentally defining the quality of a company's corporate social performance (Waddock and Graves, 1997b). Hence, we expected that:

H3: Stakeholder salience as perceived by CEOs will be positively related to corporate performance.

In hypothesizing this relationship, however, we were not unaware of the difficulties associated with its testing. Several variables that could not be

included in our study might also affect the results. For example, the influence of CEOs on outcomes might not be as great as expected for a number of reasons, including, for example, inflated expectations on our part. (See Agle, Mitchell, and Sonnenfeld (1999) for details.)

CEO Values and Corporate Performance

Two contrasting points of view explain some of the variations in CEO values as they affect corporate performance. One end of the spectrum is anchored by an emphasis on the firm as the center of a stakeholder nexus. This shareholder-profit maximization focus emphasizes managing stakeholder relationships for the firm's and its managers' benefit. The other end of this values spectrum is anchored by what we have referred to above as an other-regarding-system-centered view of relationships with stakeholders. Thus, it was reasonable to expect that:

H4a: CEO values will be related to corporate performance.

H4b: CEO other-regarding values will be positively related to corporate social performance variables (employee relations, product innovation/safety, environmental stewardship, and community relations).

Although we expected a clear relationship between CEO other-regarding values and these CSP variables, the relationship between CEO values and corporate financial performance is not as clear. Conventional wisdom (Jensen, 1988) suggests that corporations will perform better to the extent that CEOs concentrate on narrow profit maximization. This notion has been challenged by Clarkson (1988) and Miles (1987), whose research suggests that CEOs with other-regarding-system-centered values lead organizations that outperform their competitors on financial performance measures. Thus, to further test the conventional wisdom that narrow, firm-centered values will lead to greater financial performance, we hypothesized that:

H4c: CEO other-regarding values will be negatively related to the profitability component of corporate performance.

Methods

We developed a unique dataset on the three stakeholder attributes, salience, CEO values, and performance, and used it to test the hypotheses. The dataset was developed from primary data gathered in 1997 and 1998 using surveys sent to 588 CEOs at firms in the Kinder, Lydenberg, Domini, and Company (KLD) database. Eighty CEOs returned completed surveys, for a 13.6 percent response rate. Response rates for CEOs are notoriously low, and our response rate for the KLD sample was normal for this population (Friedman and Singh, 1989).

The survey instrument asked respondents to choose answers from seven-point Likert scales (1, strongly disagree, to 7, strongly agree). Questions on stakeholder attributes were adapted from research by Mitchell and Agle (1997); survey instruments developed by Rokeach (1972) and Aupperle (1984) were adapted to measure values and attitudes toward corporate social responsibility (CSR).

Data Analysis

This section provides a very simplified outline of the data analysis. Full details can be found in Agle, Mitchell, and Sonnenfeld (1999).

Various statistical tests were performed on the data. Table 1 provides the means, standard deviations, and correlations for the variables used to test hypotheses H1a to H1c and H2a to H2c.

To test H1a to H1c, we performed analyses for each of the five stakeholder groups, regressing the three stakeholder attributes (power, legitimacy, and urgency) against stakeholder salience. To comply with the assumptions of regression analysis, we transformed the dependent variable, salience, for normalcy in the data for three groups, shareholders, employees, and customers. We used the reflective inverse transformation suggested by Tabachnick and Fidell (1996) for a J-shaped distribution skewed to the left.

To test H1d, we used a simplified form of the mathematical decision structure devised by Mitchell and Agle (1997: 368) to help researchers quantify the absence or presence of variables. As Mitchell and Agle suggested (1997: 370), we quantified the absence/presence of the stakeholder attributes to correspond to the absence/presence conditions existing in each case to form a basic interval scale (Nunnally, 1978:16). We then established a threshold value for each attribute, using (in the absence of any data in the literature) the mean value on that attribute in our sample. The cumulative number of stakeholder attributes above the threshold level for each stakeholder was then regressed against the salience of that stakeholder.

To test H2a, H2b, and H2c, we performed a moderated regression analysis on each stakeholder group using CEO assessments of the three attributes, power, legitimacy, and urgency; our two measures of CEO values; and the interaction of CEO attributes and CEO values on stakeholder salience. H3 was tested in two different ways. Firstly, we examined simple Pearson correlations to determine if significant relationships existed between the salience of each particular stakeholder group and performance. Secondly, we combined the data and regressed each stakeholder group salience rating against the matching performance rating (Wood and Jones, 1995). Thus, employee salience was matched with the KLD employee relations score, shareholder salience was matched with return on equity (ROE) (both return on assets [ROA] and ROE in the first analysis), community salience was matched with the KLD community relations measure, customer salience was matched with

Table 1: Means, Standard Deviations, and Correlations of Stakeholder Attributes, Stakeholder salience, and CEO Values

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
1. Shareholder power	6.1	0.9																									
2 Shareholder legitimacy	6.2	1.1	0.13																								
3. Shareholder urgency	5.2	1.8	0.37***	0.39***																							
4. Shareholder salience	6.3	0.8	0.29**	0.31***	0.45***																						
5. Employee power	5.6	1.0	0.33***	0.26**	0.19	0.08																					
6. Employee legitimacy	6.1	0.9	0.60	0.38***	0.19*	0.21*	0.21*																				
7. Employee urgency	5.1	1.4	0.27**	0.06	0.53***	0.15	0.20*	0.12																			
8. Employee salience	6.4	0.6	0.20*	0.19*	0.12	0.32***	0.36***	0.36***	0.13																		
9. Customer power	6.3	0.9	0.22*	0.05	-0.04	-0.08	0.33***	0.19	-0.06	0.23**																	
10. Customer legitimacy	6.3	1.1	0.19	0.47***	0.20*	0.07	0.20*	0.33***	0.07	0.23**	0.44***																
11. Customer urgency	5.5	1.5	0.10	0.27	0.37***	0.10	0.01	0.15	0.29**	0.10	0.30***	0.33***															
12. Customer salience	6.6	0.5	0.01	0.10	-0.04	0.03	0.15	0.18	-0.07	0.34***	0.60***	0.57***	0.35***														
13. Government power	5.9	1.1	0.14	0.00	-0.17	0.14	0.08	-0.05	0.02	-0.01	0.22	0.17	-0.13	0.11													
14. Government legitimacy	4.1	1.7	0.03	0.07	0.04	0.00	0.13	0.34***	0.16	-0.04	0.07	0.00	0.15	0.01	0.03												
15. Government urgency	3.9	1.8	0.20*	-0.03	0.01	0.00	0.18	0.16	0.27**	-0.03	0.12	0.04	0.35***	0.11	0.19*	0.21*											
16 Government salience	5.1	1.6	0.04	-0.06	-0.11	0.17	0.00	0.05	0.18	0.00	-0.01	0.00	-0.04	0.04	0.29**	0.13	0.44***										
17. Community power	3.0	1.6	0.19*	0.00	0.00	-0.04	0.11	0.13	0.09	-0.03	0.14	0.01	0.18	0.06	0.08	0.25**	0.39***	0.23**									
18. Community legitimacy	4.4	1.4	0.17	0.09	0.18	-0.02	0.18	0.29**	0.12	0.02	0.23	0.07	0.23	0.16	0.05	0.45***	0.30***	0.31***	0.49***								
19. Community urgency	4.1	1.7	0.13	-0.03	0.15	0.14	-0.06	0.17	0.39***	-0.03	0.09	0.00	0.36***	0.04	0.01	0.28**	0.36***	0.36***	0.49***	0.32***							
20. Community salience	4.0	1.6	0.18	0.10	0.11	0.12	0.04	0.20	0.16	0.09	0.13	0.00	0.29***	0.11	0.05	0.23**	0.35***	0.42***	0.52***	0.63***	0.47***						
21. Values, Rokeach	4.2	0.9	-0.04	-0.17	0.00	0.08	0.03	0.17	0.03	0.19*	-0.24**	-0.15	-0.02	-0.14	0.08	0.20*	0.16	0.28**	0.21	0.34***	0.18	0.30***					
22. Values, Auppetle	-1.0	2.3	-0.16	-0.30***	-0.29***	-0.15	-0.14	0.02	-0.20*	0.06	-0.08	-0.11	-0.18	0.01	0.13	0.00	-0.05	0.10	-0.02	-0.03	0.07	0.03	0.38***				
23 CSR, economic	3.3	1.0	0.08	0.27**	0.26**	0.02	0.04	-0.04	0.18	-0.18	0.11	0.04	-0.18	0.01	-0.17	0.01	0.03	-0.13	0.00	-0.02	-0.03	-0.06	-0.37***	-0.87			
24. CSR, legal	2.7	0.7	0.00	0.04	-0.27**	0.10	0.01	-0.06	-0.25**	0.19	0.10	0.11	-0.02	0.25**	0.20*	-0.13	-0.07	0.02	-0.14	-0.06	-0.19*	-0.15	-0.02	0.16	-0.38***		
25. CSR, ethical	2.6	0.8	-0.19	-0.23	-0.24**	-0.24**	-0.20	0.00	-0.17	-0.07	-0.03	-0.15	-0.13	0.03	0.05	0.02	-0.06	0.03	-0.03	-0.08	0.09	-0.01	0.27**	0.84***	-0.48***	-0.12	
26. CSR, discretionary	1.1	0.7	0.09	-0.05	0.15	0.16	0.09	0.07	0.15	0.17	-0.14	0.04	0.00	-0.10	-0.02	0.03	0.08	0.18	0.18	0.22*	0.13	0.36***	0.20*	-0.11	-0.15	-0.32***	-0.37***

*p<.10, **p<.05, ***p<.01

(Source: Agle, Mitchell, Sonnenfeld, 1999: 516.)

the KLD products measure, and government salience was matched with the KLD environment measure (see Agle, Mitchell, and Sonnenfeld (1999) for details). Finally, H4a to H4c were tested through a correlational analysis, with simple Pearson correlations showing the relationships between the various measures of CEO values, CSP variables, and financial performance variables.

Results

Statistical results of the hypothesis tests are found in Tables 1 through 3. The results presented in Tables 1 and 2 showed strong support for H1a to H1d, suggesting that the stakeholder attributes of power, legitimacy, and urgency are indeed related to stakeholder salience. Table 1 shows that shareholder salience is significantly related to shareholder power, legitimacy, and urgency ($p<.05$, .01, and .01, respectively); employee salience to employee power and legitimacy (both $p<.01$); customer salience to customer power, legitimacy, and urgency (all $p<.01$); government salience to government power and urgency ($p<.05$ and .01, respectively); and community salience to community power, legitimacy, and urgency (all $p<.01$). Table 2 presents the results of the regression analyses for individual attributes in its top half and results for cumulative attributes in its lower half. Effect sizes range from an adjusted R^2 value of .17 for employee salience to a value of .52 for customer salience in the individual attributes models, and from an adjusted R^2 value of .14 for employee salience to a value of .47 for shareholder salience in the cumulative attributes models.

Table 3 shows the results of moderated regression analyses testing H2a to H2c. The top half of the table shows a significant effect ($p<.05$) on employee salience for the interaction between CEOs' other-regarding values, as measured by the Rokeach instrument, and stakeholder attributes. The lower half shows a significant effect ($p<.05$) on customer salience for the interaction between other-regarding values, as measured by the Aupperle instrument, and stakeholder attributes. However, except for these findings, the overall pattern of results is one of non-significance. Thus, although two significant interaction effects were found, it appears that the majority of the evidence suggests that we retain the null hypothesis, that values have no moderating effect.

The results of the analysis used to test H3 and H4a to H4c, provided in detail in Mitchell, Agle, and Sonnenfeld (1999), are briefly outlined here. H3 states that stakeholder salience will be related to corporate performance. An overall regression analysis (not shown) using all ratings ($n = 374$) between a stakeholder group's salience and corporate outcome matched for that stakeholder group yielded no significant relationship. A significant ($p<.05$) correlation was found between community salience and community performance. Nevertheless, the general pattern of results does not allow us to reject the

null hypothesis and, once again, this hypothesis–that there is no relationship between stakeholder salience and corporate performance–is retained.

Results showed slight support for H4a to H4c, suggesting a relationship between CEO values and corporate performance. There is a correlation approaching significance (p<.10) between CEO values, as measured by the Rokeach instrument, and community performance. A significant correlation (p<.01) is also seen between CSP discretion, as measured on the Aupperle scale, and community performance. However, the overall pattern of findings does not justify rejecting the null assumption for H4a to H4c, and therefore it is once again retained. Thus, no significant relationship was found between CEO values and corporate performance.

Discussion and Conclusion

The primary objective of this study was to test the theoretical model of stakeholder salience proposed by Mitchell and colleagues (1997). Our results confirmed this model. We found that in the minds of CEOs, the stakeholder attributes of power, legitimacy, and urgency are individually (with only two exceptions) and cumulatively (with no exception) related to stakeholder salience across all groups. This finding suggests that these stakeholder attributes do affect the degree to which top managers give priority to competing stakeholders.

Table 2: Results of Regression Analysis

Salience: *Variable*	*Shareholder*	*Employee*	*Customer*	*Government*	*Community*
Individual attributes					
Stakeholder power	0.16	0.25**	0.34***	0.30***	0.23**
Stakeholder legitimacy	0.18*	0.30***	0.46***	0.07	0.47***
Stakeholder urgency	0.40***	0.06	0.11	0.34***	0.17*
Adjusted R^2	0.30***	0.17***	0.52***	0.23***	0.48***
F	11.15	5.83	26.39	8.23	22.72
n	73	73	72	72	71
Cumulative attributes					
Number of stakeholder attributes exceeding threshold	0.69***	0.38***	0.65***	0.41***	0.56***
Adjusted R^2	0.47***	0.14***	0.42***	0.15***	0.30***
F	65.48	12.24	51.58	13.91	31.48
n	73	73	72	72	71

*p<.10, **p<.05, ***p<.01

(Source: Agle, Mitchell, Sonnenfeld, 1999: 519.)

Table 3: Interaction Effects[a]

	Shareholders		*Employees*		*Customers*		*Government*		*Community*	
	Adjusted R^2	ΔR^2	*Adjusted* R^2	ΔR^2	*Adjusted* R^2	ΔR^2	*Adjusted* R^2	ΔR^2	*Adjusted* R^2	ΔR^2
CEO values, Rokeach										
Stakeholder power, legitimacy and urgency	0.29***		0.18***		0.52***		0.23***		0.46***	
CEO values, Rokeach	0.27	-0.02	0.25	0.07**	0.51	-0.01	0.24	0.01	0.45	-0.01
n	71		71		70		70		69	
CEO values, Aupperle										
Stakeholder power, legitimacy and urgency	0.30***		0.19***		0.52***		0.24***		0.48***	
CEO values, Aupperle	0.28	-0.01	0.2	0.01	0.57	0.04**	0.23	-0.01	0.46	-0.02
n	72		72		71		71		70	

[a] Because of missing data, a slight variation in *n* results in minor variations between Tables 2 and 3 in values of adjusted R^2.

*p<.10, **p<.05, ***p<.01

(Source: Agle, Mitchell, Sonnenfeld, 1999: 519.)

A secondary objective of the study was to test other relationships: the potentially moderating effect of CEO values on the attribute-salience and salience-performance links, and the effects of salience on performance. With a few minor exceptions, these tests showed few relationships among the variables as operationally defined. These findings suggest that much more work will be necessary before researchers will be able to fully understand these phenomena, and, as explained in more detail in Agle, Mitchell, and Sonnenfeld (1999), they suggest a continuing emphasis on normative stakeholder theory.

The capability of normative declarations to alter outcomes is well accepted. "We hold these truths to be self-evident . . . "; "inalienable rights, . . . life, liberty, . . . pursuit of happiness . . . " and similar statements contain within them social energy that inspires the mind, justifies new modes of thought, and enables change. In our study, we observed that the terms "stakeholder" and "really counting" are not yet synonymous. We suggest that without the persistent and persuasive linking of these terms in the normative discourse of our society, and without careful construction upon this foundation of a truly viable, rigorous alternative to the dominant view (Clarkson, 1995), the future of the corporation is uncertain.

We reason as follows: in our study, we saw that, at present, society does grant authority (legitimacy and power) to business leaders, shareholders, employees, and customers. And we are reminded of Davis's "iron law," which states that "in the long run, those who do not use power in a manner which society considers responsible will tend to lose it" (Davis, 1973: 314). It appears to us that after over thirty years of attention to the stakeholder concept, it is unlikely that either descriptive or instrumental discourse will generate the social energy necessary to forge an actual link between stakeholder salience and corporate social performance. Descriptive discourse describes a corporation as a constellation of cooperative and competitive interests possessing intrinsic value, while instrumental discourse establishes a framework for examining the connections between the practice of stakeholder management and the achievement of various corporate performance goals (Donaldson and Preston, 1995). As helpful as these aspects of stakeholder theory are in explaining "what is," normative discourse, we believe, must continue to be central to stakeholder theory and research. This is necessary if scholars want the theory to flourish and fulfill its aims as a theory of the firm–not the least of which is attending to the long-run interests of both the business corporation and the society that gives it life.

Bradley R. Agle *(agle@vms.cis.pitt.edu)* is an assistant professor at the Joseph M. Katz Graduate School of Business, University of Pittsburgh, Pittsburgh, PA 15260. He received his Ph.D. from the University of Washington. His research interests include strategic and moral leadership, stakeholder theory, values, corporate social responsibility, and religious influences on business.

Ronald K. Mitchell *(mitch@business.uvic.ca)* is an associate professor in the Faculty of Business at the University of Victoria, Victoria, BC V8W 2Y2. He received his Ph.D. from the University of Utah. His research interests focus on entrepreneurship–specifically, the study of expert information-processing theory, strategic management, and stakeholder theory as they apply to entrepreneurs, ventures, and the venturing environment.

Jeffrey A. Sonnenfeld *(jeffrey.sonnenfeld@yale.edu)* is the chairman and president of the Chief Executive Leadership Institute in Atlanta. He is also an adjunct professor of leadership at the Yale University School of Management, New Haven, CT 06520. He received his doctorate from Harvard University. His research interests focus upon chief executive leadership, the careers of top leaders, corporate social performance, corporate governance, and top management teams.

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University of Toronto
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