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Good Firms, Good Targets: The Relationship Among Corporate Social Responsibility, Reputation, and Activist Targeting

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Abstract
Much research on social movements and organizations contends that there is an empirical link between activists' contentious activity and corporate social responsibility (CSR; e.g., Bartley 2007; Campbell 2007; Soule 2009). Typically, we assume that activists influence firms' CSR practices directly. Activists target corporations in order to pursue their social change agendas, hoping to influence those companies to change their policies or practices (King and Pearce 2010). Targeting corporations give activists a way to directly address their grievances and influences a firm to amend an undesirable practice (King and Soule 2007; Walker, Martin, and McCarthy 2008; Lenox and Eesley 2009). For example, if a retail firm regularly sources its products from manufacturers that employ sweatshop labor, activists may raise concerns about this inflammatory practice by protesting the firm boycotting it. Getting in the activists' spotlight puts public pressure on firms to change their practices, especially inasmuch as movement tactics draw unwanted negative attention from the media that could influence the public's perceptions about a firm's level of social responsibility (King 2008, 2011; Bartley and Child 2011).

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13 *Good firms, good targets: the relationship among corporate social responsibility, reputation, and activist targeting*

BRAYDEN G KING AND MARY-HUNTER MCDONNELL

Much research on social movements and organizations contends that there is an empirical link between activists' contentious activity and corporate social responsibility (CSR; e.g., Bartley 2007; Campbell 2007; Soule 2009). Typically, we assume that activists influence firms' CSR practices directly. Activists target corporations in order to pursue their social change agendas, hoping to influence those companies to change their policies or practices (King and Pearce 2010). Targeting corporations gives activists a way to directly address their grievances and influence a firm to amend an undesirable practice (King and Soule 2007; Walker, Martin, and McCarthy 2008; Lenox and Eesley 2009). For example, if a retail firm regularly sources its products from manufacturers that employ sweatshop labor, activists may raise concerns about this inflammatory practice by protesting the firm or boycotting it. Getting in the activists' spotlight puts public pressure on firms to change their practices, especially inasmuch as movement tactics draw unwanted negative attention from the media that could influence the public's perceptions about a firm's level of social responsibility (King 2008, 2011; Bartley and Child 2011).

Another way that activists shape CSR is by encouraging corporations to engage in prosocial actions as protective measures against potential activist campaigns. Fearing that they will become protest, lawsuit, or boycott targets, firms seek to build their reputation as

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"virtuous" firms with the belief that activists will go after the most grievous violators of social and ethical norms. Proactive social responsibility is thought to deter activists from opportunistically launching campaigns against a company (Maxwell, Lyon, and Hackett 2000; Baron and Diermeier 2007; Godfrey, Merrill, and Hansen 2009). Used in this way, CSR practices and prosocial claims are both reputation-building activities and deterrents of future activism.

Although we have a growing body of evidence indicating that direct pressure from social movements influences firms to adopt prosocial practices, we have less evidence that firms are successful in using CSR to deter future activism. The relationship between past CSR, a firm's reputation, and future activist targeting is unclear. In fact, despite strong arguments made to the contrary, there are good reasons to think that "doing well by doing good" and creating a positive firm reputation may actually attract unwanted activist attention. If activists see their goal as not only to coerce firms into dropping bad policies and practices but also to increase general awareness about a social issue, then activists have incentives to go after firms that will maximize the likelihood of garnering attention and outrage. High-status firms with identities grounded in prosocial behavior should attract more attention for perceived normative violations than firms that are not seen in an equally positive light. For this reason, activists may be *more* likely, not less, to target firms that have committed themselves to CSR and have built a positive reputation.

The purpose of this chapter is to assess these two competing arguments about why firms are chosen as targets. Assuming that activists' grievances against firms are widespread, why do activists target some firms over others? To what extent does a firm's reputation and past prosocial claims affect the likelihood of its being targeted? On the one hand, making prosocial claims and building a positive reputation may deter activists from taking actions because it creates goodwill for the firm. On the other hand, a firm's past prosocial claims and positive reputation may attract activists who seek a high-profile target to generate attention for their issue in the public limelight.

Using data on corporate boycotts, we find empirical evidence that firms' past prosocial claims and a positive reputation increase the likelihood of a firm being targeted. This evidence suggests that, for all of their positive benefits, attempts to enhance CSR and reputation may have an unintentional negative side effect: they amplify a firm's attractiveness as an activist target. We discuss the implications of this finding for the literature on social responsibility and social movement activism.

Two competing views of corporate social responsibility and reputation

In their worst moments, the corporate drive to maximize wealth causes firms to take actions that harm the environment, abuse their workers, and sell products that are dangerous for consumers. Outraged by this corporate insolence, activists publicly "name and shame" the offenders. In recent years, corporations have proved vulnerable to activist influence, succumbing to their demands when threatened by lawsuits, protests, or boycotts (Hendry 2006; King 2008; Lennox and Eesley 2009; Reid and Toffel 2009). Corporations have proved to be highly sensitive to activists' demands, perhaps even more open to policy innovation than are elected representatives of the state. As Chatterji and Listokin observed, "A generation of activists has been raised on the idea of corporate social responsibility (CSR) – that large corporations can be cajoled into paying employees better, being more environmentally responsible, improving labor conditions in developing countries, retaining more American workers, embracing diversity, and donating money to fix inner-city schools. Where firms cannot be enticed, the strategy goes, they can be bullied" (2007: 53).

By pressuring companies to alter their practices, activists have changed corporations' outward attitude toward CSR (Soule 2009). The fear of being targeted by activists appears to be an even more direct cause of the adoption of CSR than is financial performance. Although the research seeking to find an empirical link between CSR and financial performance is voluminous, there is very little evidence that "doing good" really does improve a firm's profitability or market value. In a meta-analysis of 127 such studies, Margolis and Walsh (2003) concluded that the relationship is tenuous at best and is likely limited to very specific conditions. Marquis, Glynn, and Davis (2007) suggest that social dynamics, such as community-level normative pressures, are more likely instigators of corporate social actions (for more evidence about community pressures to adopt CSR practices see Galaskiewicz 1991, 1997).

Corporations do not seem to adopt prosocial practices because they are good for the bottom line, at least not in the short term, but rather because they are good for the firm's relationships with other actors in their community or because they appeal to global norms or institutional pressures (Lim and Tsutsui 2012). Understanding this rationale, activists do their best to frustrate the lives of corporations that do not live up to ethical or social standards. Firms accommodate activists because they wish to avoid becoming future targets. They seek to develop reputations as socially and morally appropriate actors by engaging in prosocial actions and thereby deter future activist targeting.

The prevalence of CSR practices has, in part, increased with the rise of corporate reputation rankings as quantified measures of corporate quality and prestige (Fombrun 2007) and the simultaneous spread of CSR frameworks that attempt to hold multinational corporations accountable to emerging standards of conduct (Meyer, Pope, and Isaacson, this volume). As reputational dynamics have come to be seen as more integral to corporate strategy, firms have sought increasingly sophisticated ways to differentiate themselves from their peers. Building a reputation is about being able to distinguish one's position in the global corporate field by excelling according to ever-higher social and economic performance standards (Haufler, this volume). As activist groups have built a complex framework of CSR standards and norms that prescribe certain practices and policies, thereby defining what it means to be "good," firms increasingly seek to build their reputations not only through product quality but also by affiliating themselves with these prestige-enhancing CSR practices. In this light, CSR practices are a tool of impression management that firms use to build positive reputations and gain the support of stakeholders, including activists.

But does "doing good" and reputation-building help firms avoid becoming activist targets? Two competing views exist. Certainly, many managers believe that by building a positive overall reputation and engaging in prosocial activities they are buffering themselves from the threat of future activist targeting. Many reputation scholars similarly believe that a positive reputation will protect a firm from stakeholder criticisms. We refer to this view as the *reputational halo effect*. But an alternative perspective suggests that activists are more likely to target firms that distinguish themselves through prosocial actions and that have created a positive reputation. Firms in this position garner more attention, making them salient targets for activists who crave the public limelight (and need it for their success). We refer to this view as the *reputational liability effect.* We discuss each perspective herein.

The reputational halo effect

In 1996, the anti-sweatshop movement coalesced as various human rights groups and labor organizations, such as the National Labor Committee, began organizing activists to draw media attention to manufacturers that employed sweatshop laborers. The movement gained momentum when it was revealed that Kathie Lee Gifford's clothing brand was made by teenage girls in Honduras who worked 16-hour days. Quickly, the issue of sweatshop labor made it into the national spotlight (Bullert 2000; Bernstein 2004; Soule 2009). A 1989 survey conducted by Asian American Free Labor Institute discovered that factory employees in Indonesia were paid, on average, 14 cents per hour (Bullert 2000). Nike was a glaring contributor to the low wage problem by keeping its employees at training-level wages for months. Despite employee strikes, the wages did not improve throughout the early 1990s.

Activists went looking for a vulnerable target, and Nike was on the top of their list. Rather than target a number of retailers that used sweatshops – any number of manufacturers, including Nike's competitor Reebok, could have just as easily have been targeted – the human rights group Global Exchange decided to focus its efforts squarely on Nike. Nike had done little to build relationships with activists; in fact, their CEO Phil Knight had actively derided critics of the firm who suggested that Nike ought to be more concerned with its image as a world citizen. When asked by Michael Moore if it bothered him that 14-year-olds worked in Indonesian factories with sweatshop conditions, Knight decisively answered "no."[1] The incident reinforced the larger reputational problem that Nike had in the 1990s, making them an attractive target for anti-sweatshop activists.

The media campaign alerted activists across the globe of the inhumane conditions of Nike's factories, initiating a series of protests of Nike stores and boycotts of their products. Student protestors began demanding that their universities end their business relationships with Nike. The protests and boycotts created a storm of negative media

[1] The interview can be heard on Moore's website at http://www.dogeatdogfilms.com/mikenike.html

attention. Although Nike's CEO defended the company throughout most of the 1990s, by the 2000s, Knight succumbed to pressure and began instituting employment practices that would raise the minimum age of employees, increase employees' wages, and improve working conditions.

In addition to taking care to eliminate concerns about sweatshop employment, Nike changed its antagonistic relationship with activists and has sought to build a more prosocial image. The company now proudly touts its commitment to environmental responsibility, implementing environment-friendly policies that caused the Dow Jones Sustainability Index to include the firm (Beder 2002). Conscious of the value of its reputation, Nike has poured money into marketing and branding, seeking to make consumers forget that they were the company that was, in Phil Knight's words, "synonymous with slave wages, forced overtime and arbitrary abuse" (Beder 2002: 27).

Nike's reputation-building strategy is not unlike many other firms that seek to avoid being targeted by activists. Movement protests and boycotts inflict reputational damage on firms, which increases the costs of doing business and hurts market value (King and Soule 2007; King 2008b, 2011; Bartley and Child 2011). Recognizing that failing to abide by moral and ethical standards puts their reputation at risk motivates firms to take preemptive action and engage in more prosocial behavior.

Some have argued that taking preemptive action by instituting socially responsible practices makes firms less attractive targets (Klein and Harford 2004). Inasmuch as firms are willing to publicly make prosocial commitments, they signal that they are doing the right things and living up to environmental and social standards. Activists therefore have more trust in them and will be less critical of them in the future. Furthermore, because these organizations have demonstrated a commitment to abiding by norms of social responsibility, activists are more likely to work directly with them rather than publicly antagonize them if they have a problem with a firm policy or practice. Companies that engage in more philanthropic behavior, for example, tend to have closer relationships with nonprofit organizations (Galaskiewicz 1997). As companies do more prosocial activities, they enhance their credibility with actors in the nonprofit world and create alliance relationships, rather than conflicting relationships, with activist groups (Bansal and Roth 2000).

The idea that "doing good" enhances firms' relationships with activist groups is consistent with scholarship that argues that CSR practices have "insurance-like" properties (Godfrey, Merrill, and Hansen 2009). "CSR activities create a form of goodwill or moral capital for the firm that acts as 'insurance-like' protection" from attacks or negative assessments following crisis situations (Godfrey et al. 2009: 426; see also Gardberg and Fombrun 2006). Having "purchased" this insurance by adopting CSR practices in the past, firms will be given more benefit of the doubt by activist groups in the future. One implication of the insurance effect may be that activists are simply less likely to notice grievous behavior by companies that engage in CSR. Because they see those companies as more trustworthy and credible, they monitor them less frequently and therefore are less likely to uncover reasons to target them with future boycotts. Activist groups may also be more likely to forgive these firms should bad practices be discovered. Or, more likely, rather than publicly humiliate them, activist groups will approach them privately and seek to work out potential issues before they escalate and move to a public stage. Companies that are not actively engaged in CSR, in contrast, do not have those relationships of trust and have not built up the moral capital needed to avoid public shaming.

Similarly, companies that have created positive reputations, more generally, should benefit from a "halo effect" that buffers them from criticism and unwanted negative attention (Fombrun and Shanley 1990; Roberts and Dowling 2002; Sine, Shane, and Di Gregorio 2003). The more admired a company is, the more likely it is to be viewed favorably by all of its stakeholders. The effect of being a prestigious firm may be especially strong when its reputation is quantified as a ranking, such as *Fortune*'s reputation index. Rankings inform stakeholders about the quality and value of a company, thereby positively biasing evaluations of a company's behavior (Espeland and Sauder 2007; Sauder 2008). Thus, being highly ranked in a reputation index should discourage a firm from being investigated and having negative attention focused on it.

Based on this argument, we should expect the following:

Hypothesis 1 (H1): Firms that engage in more prosocial activities are less likely to be activist targets than are firms that do not engage in prosocial activities.

Hypothesis 2 (H2): Firms that are ranked highly in a reputation index are less likely to be activist targets than are firms that have weaker overall reputations.

The reputational liability effect

Seen from the perspective of activists, however, reputation-building through CSR practices may have the opposite effect. If one motivation of activists is to use tactics that will generate public attention for their cause, then they should target firms that maximize their visibility (Bartley and Child 2014). Furthermore, firms that have made commitments to CSR and have developed positive reputations should be associated with greater expectations to abide by social norms, which, when violated, may lead to greater outrage and sanctioning (Rhee and Haunschild 2006). Inasmuch as CSR and reputation-building have become critical tools that corporations use to build consumer and stakeholder support, activists may use a firm's reputation or brand against them in their efforts to instigate broader social changes (Klein 1999; Bartley 2007; Seidman 2007; Vogel 2010).

For example, Starbucks Coffee has frequently found itself in the activists' spotlight despite trying to consciously build a reputation for being a socially responsible company (Linn 2001). In 2001, community activists concerned about the increasing corporate presence in their neighborhoods targeted Starbucks specifically despite it being just one of several large companies to set up shop. In that same year, organic food activists called for a boycott of Starbucks even though the company had already agreed to stop using milk that contained an artificial growth hormone. Both protesters and corporate representatives believed that the firm was targeted *because of*, not despite, its CSR practices. As an activist leader in the anti-growth hormone boycott expressed, "We believe that Starbucks is the weakest link in the chain because their customer base cares about the environment and cares about social justice and cares about their health" (Linn 2001). Having committed the company to cultivating a "socially conscious image," Starbucks drew the attention of activists who wanted to draw more attention to their cause and vilify a potentially high-profile corporation. One Starbucks representative noted that being the target of activists was "the price of being so visible" (Linn 2001).

Firms that make prosocial claims and develop positive reputations are more visible and salient to activists. By proclaiming their dedication to prosocial values, they put themselves in a spotlight, drawing the attention of socially conscious consumers and investors. Attracting the attention of the public is, of course, one purpose of this tool of impression management. Firms embrace CSR practices in order to increase their visibility in the field, drawing greater attention to reputation-enhancing characteristics (Udayasankar 2008) and positively differentiating themselves from their competitors (Mackey, Mackey, and Barney 2007). Although this increased visibility may increase customers' and suppliers' commitment to the firm, a negative side effect is that it also exposes the firm to activists' attention. Social movement activists become more critical of a firm's practices when they become aware of its claims to decency and moral excellence.

In a similar way, having a positive overall reputation makes a firm more visible in the public eye (Brammer and Millington 2005). This increased visibility makes activists more likely to focus on an organization's actions and thereby more likely to notice when they do something controversial. This increased visibility also makes the firm a more attractive target because news media and the public will pay more attention to activists' grievances when they make claims about the firm's poor behavior (King 2011). The public expects more from reputable companies and will react more negatively to exposed faults than they would to companies that they are unfamiliar with or that have negative reputations. For example, a company like Starbucks, which is one of the most reputable companies in the United States, must be more careful in monitoring its behavior because any mistakes are magnified due to its high reputation. Activists, who realize that their leverage over firms comes from their ability to mobilize public retaliation via negative media attention (King 2008, 2011; Bartley and Child 2011), may see Starbucks's reputation as a resource they can draw on to generate attention for their cause.

Another reason that reputation-building through CSR activities may make a firm a more vulnerable activist target is because it exposes a firm to potential internal contradictions in behavior that may create stakeholder discontent. A number of scholars have argued that when a firm commits to CSR, it becomes obligated to uphold values and ethics that stakeholders, including employees and activists, view as important (Joyner and Payne 2002; Brammer, Millington, and Rayton 2007).

Firms that take public prosocial orientations foster enhanced expectations among their critical stakeholders, who expect them to live up to their claims. Inevitably, firms that set high standards for their conduct face dilemmas in which they must choose between maximizing profitability and holding their behavior accountable to those standards. When reputable organizations fail to "put their money where their mouth is" by violating their stakeholders' expectations, jilted stakeholders may be especially angered, perceiving such actions as evidence of "organizational hypocrisy" (Holzer 2010) or "organizational sacrilege" (Harrison, Ashforth, and Corley 2009).

Once a firm makes a prosocial claim about its behavior, even if it is only for impression management purposes, activists now have a weapon to use against that firm should it prove to engage in some other harmful behavior. Some proponents of CSR worry that by embracing prosocial practices, firms have unintentionally created unrealistic expectations. Bryan Cress, a global CSR adviser, has said, "CSR has been hijacked by NGOs [nongovernmental organizations], so that businesses are expected to do things they just can't do.... There are limits to what business can do" (*The Guardian* 2003). Firms that engage in more prosocial activities become more vulnerable to activism because they have already publicly committed to many of the goals espoused by the movement.

Therefore, we should expect:

Hypothesis 3 (H3): Firms that engage in more prosocial activities are more likely to be activist targets than are firms that do not engage in prosocial activities.

Hypothesis 4 (H4): Firms that are ranked highly in a reputation index are more likely to be activist targets than are firms that have weaker overall reputations.

Methods

In our analysis, we assess the effects of prosocial activities and reputation on the likelihood of being targeted by an activist boycott. To build our sample of boycotted firms, we collected information on all US boycotts targeting publicly traded companies that were covered by top national newspapers from 1990 to 2005. To limit the potential for regional bias in our sample, we searched for boycotts across five regionally diverse newspapers: the *New York Times, Washington Post, Wall Street Journal, Chicago Tribune*, and *Los Angeles Times*. Research assistants searched Factiva, ProQuest, and Lexis-Nexis databases for all articles in these newspapers that contained the word "boycott" in the article's text. To control for firm characteristics, we only included boycott targets in our final dataset that were publicly traded because of the availability of financial data for these firms. In total, coders identified 133 distinct boycotts waged against 189 target firms. Next, we matched each boycotted company with company-specific financial data from COMPUSTAT. Full financial data were not available for twenty-eight of the targeted firms. Four additional firms were excluded because the companies were acquired in the year of the boycott, reducing the final sample to 157 target firms.

Next, we sought to create a set of matched firms that were also at high risk of being boycotted. Given that prior research has found that a company's size increases its likelihood of being boycotted (King 2008), we created this initial matched set by randomly pairing each boycotted firm with three firms from a sample of the 500 largest publicly traded firms in the year of the boycott (by asset value). This resulted in a total set of 471 matched firms, bringing the total number of firms in our analysis to 628.

To test Hypotheses 1 and 3, we used the online database Factiva to search the two largest press release outlets – PR Newswire and Business Wire – for all prosocial action–related press releases issued by each boycotted and nonboycotted company in the six months prior to the date of the boycott's announcement. Identified claims span a wide array of topics including social justice and diversity initiatives, disaster relief, environmental protection programs, promotion of education, and support of the arts. Our search yielded a total of 548 press releases in which targeted companies made prosocial claims. In the models, we included a count variable capturing the number of each firm's prosocial claims released in public relations (PR) press releases (*CSR PR*) in the six months prior to a boycott event. Because the raw count variable is skewed to the right, we transformed this variable by adding 0.5 (so as not to lose "0" observations) and then took the natural log of the variable.

To assess Hypotheses 2 and 4, we coded each firm's *reputation* using *Fortune's Most Admirable Companies* index. This list is regularly employed in organizational scholarship as a reliable indicator of a company's overall reputation (McGuire, Sundgren, and Schneeweis 1988; Fombrun and Shanley 1990; Staw and Epstein 2000; Roberts and Dowling 2002; King 2008, 2011). *Fortune's* reputation scores, which range from 0 to 10, are derived from surveys capturing the perceptions of the executives of peer firms. The variable used in our initial model represents an ordinal transformation of the raw reputation scores. Past research of organizational reputations suggests that firms are more concerned with their relative reputation than their absolute reputation (e.g., Elsbach and Kramer 1996; Philippe and Durand 2011). Thus, we opted for an ordinal transformation based on each firms' relative position within the *Fortune* rankings. Companies not included in *Fortune*'s ranking received a value of 0. A score of 1 was given to companies in the lowest third of *Fortune's* annual index within a given year; companies in the middle tier of the rankings in their year received a value of 2, and the highest value, 3, was allotted to all companies in the top third of the rankings.

As an additional robustness check of this categorical measure, we ran a second model in which we only included firms that were ranked in the *Fortune* rankings (n = 332). The measure of *reputation* in this model is the firm's raw reputation score.

Control variables

We include a number of control variables to account for other reasons that a firm might be targeted. To control for a firm's general level of PR activity, we include variables capturing each firm's (boycotted and nonboycotted) total number of non-prosocial PR releases in the six months prior to (*Other PR Before*) a boycott. To address a skew in this variable, we use its logged transformation in the models after adding 0.5 so as not to lose observations with 0 values. As a proxy for each firm's size, we control for its *logged assets*. We also control for financial performance, using return-on-assets (*roa*) in the year prior to the boycott to capture differences in firms' performance.

We also control for the past social performance of the firms in our sample. It is possible that firms engage in more prosocial behavior and attract more activist attention because they have previously exhibited poor social performance. In this sense, they engage in prosocial actions and become activist targets because they are known for their bad behavior. To capture a firm's prior social performance, we include a measure of social responsibility derived from the KLD Research and Analytics database. The KLD provides annual assessments of firms' strengths and weaknesses across seven separate dimensions – community, environment, diversity, employee relations, corporate governance, product, and human rights. In the model, we include three different binary controls to capture firms' KLD scores. First, *In KLD* is included as a binary variable coded 1 if a firm was covered by the KLD rankings in a given year and 0 otherwise. *KLD Positive* is coded as 1 if the number of a firm's strengths across the seven dimensions exceeded its weaknesses in a given year and 0 otherwise. *KLD Negative* is coded as 1 if the total number of a firm's weaknesses across the seven dimensions exceeded its strengths in a given year. The reference category includes those firms that are not in the KLD index at all and are thus not publicly known as violators of CSR norms.

Because a target firm's industry may affect its general propensity to engage in CSR initiatives (e.g., Delmas and Toffel 2004; Chen and Bouvain 2009), we included a separate fixed effect for each of the four most common industries in our sample (by two-digit SIC code): *Transportation, Petro, Chemicals*, and *Food*.

We also included a binary variable to capture whether the firm was boycotted in the prior year (*firm boycotted in prior year*) because firms that are chronically targeted might behave differently than first-time targets. Controlling for this tendency ensures that we are accounting for those firms that are already in the activist spotlight. And, finally, to account for temporal or seasonal factors that could affect a firm's PR activity, we included fixed effects for the *year* and the *month* in which the boycott was announced. Descriptive statistics for independent and dependent controls are included in Table 13.1.

The dependent variable we employ is a binary variable capturing whether a firm was the target of a *boycott* during the observed time period, 1990–2005. This variable is coded 1 for all boycotted firms and 0 for all of the matched firms in our sample. The data are cross-sectional, rather than longitudinal, so that we can measure the effects of CSR in the time window before the boycott event. To test our hypotheses, we employ a series of probit models. The probit model is a specialized case of generalized linear regression that is appropriate for use with a binary dependent variable. Here, the probit models allow us to measure the association between all independent and control variables and the likelihood of being boycotted.

Table 13.1 *Descriptive statistics and correlation matrix*

Variable	N	Mean	Std. Dev.	Min	Max
1. Reputation	628	1.19	1.28	0	3
2. Logged CSR PR Releases	628	0.093	1.02	−0.69	3.86
3. Logged Other PR	628	2.90	2.00	−4.60	7.17
4. Firm Boycotted in Prior Year	628	0.062	0.24	0	1
5. Industry Boycotts in Prev Year	628	13.62	6.37	3	25
6. ROA	628	0.037	0.047	−0.28	0.40
7. Logged Assets	628	9.58	1.47	2.07	14.04
8. KLD Positive	628	0.15	0.36	0	1
9. KLD Negative	628	0.15	0.35	0	1
10. Firm Included in KLD	628	0.33	0.47	0	1

Table 13.1 (*cont.*)

Variable	1	2	3	4	5	6	7	8	9	10	11
1. Boycott	1.0000										
2. Reputation	0.1713	1.0000									
3. Logged CSR PR	0.3247	0.2195	1.0000								
4. Logged Other PR	0.1350	0.2275	0.3657	1.0000							
5. Firm Boy. Prev Year	0.3500	0.2074	0.1221	0.0542	1.0000						
6. Ind. Boy. Prev Year	0.0034	−0.1014	0.0812	−0.0473	−0.0156	1.0000					
7. ROA	0.1199	0.1071	0.0343	0.0192	0.0486	0.0471	1.0000				
8. Logged Assets	0.0276	0.2447	0.2966	0.2758	0.0522	0.0000	−0.2221	1.0000			
9. KLD Positive	0.0832	0.2218	0.0752	0.1207	0.0344	−0.0879	0.0971	0.0919	1.0000		
10. KLD Negative	−0.0342	0.1895	0.0941	0.0760	−0.0150	−0.1335	−0.0098	0.1361	−0.1694	1.0000	
11. Firm in KLD	0.0209	0.3487	0.1156	0.1450	0.0013	−0.1822	0.0870	0.1689	0.6127	0.6019	1.0000

Results

Results for all models are shown in Table 13.2.

Several interesting relationships emerge among our control variables. We find a significant negative relationship between a firm's size (in terms of logged assets) and its likelihood of being targeted. We argue that this contradictory finding derives primarily from our matching scheme because all of the matched sets of untargeted firms were selected from among the largest US firms. If we had included firms of varying size in the sample, we likely would have found size to have a positive effect (e.g., King 2008). Across both models, we find that the number of times that a firm has been targeted in the past five years is highly positively related to its likelihood of being targeted, suggesting that some firms may be singled out and serially targeted. Also, in model 1, we find that a firm's total amount of non-CSR PR activity is positively related to its likelihood of being targeted. Non-CSR PR is a good proxy for a firm's media engagement and indicates the firm's overall visibility in the public. This finding suggests that firms that are more active in their communications with the public are more likely to be singled out by activists. Activist groups may assume that their contentious tactics will receive more public exposure and media attention if they target these more conspicuous and publicly active firms. Surprisingly, we do not find that either being in the KLD index or the net valence of a firm's social performance in the index has an effect on the likelihood of being targeted by a boycott. This result suggests that the most grievous violators of CSR norms are no more likely to be the targets of boycotts than are firms that have not attracted the public's attention as norm violators.

We now turn to our hypotheses. In model 1, we find that the likelihood of being targeted for firms in the bottom or middle tier of the reputation rankings does not differ significantly from unranked firms. However, firms in the highest tier of the reputation rankings – that is, the most reputable firms – are significantly more likely to be targeted. Firms in the highest reputation category are 5.85 percent more likely to be targeted than are firms not listed in the reputation rankings at all. In model 2, where we limit the model to include only those firms that were included in the reputation index and compare their raw scores, we again find a significant and positive relationship between firm reputation and the likelihood of being targeted by a boycott. For each

Table 13.2 ***Probit regressions predicting the likelihood of being boycotted, 1990–2005***

	(Model 1)	(Model 2)
	All firms	Firms in Fortune's Most Admired Index
Independent Variables		
Rep: Bottom Third	0.0536	
	(0.20)	
Rep: Middle Third	–0.138	
	(0.20)	
Rep: Highest Third	0.360*	
	(0.17)	
Reputation: Raw Score		0.218*
		(0.11)
Logged CSR PR	0.425***	0.537***
	(0.07)	(0.08)
Control Variables		
Logged Other PR	0.043	0.042
	(0.03)	(0.05)
ROA	2.005	2.179
	(1.40)	(2.79)
Logged Assets	–0.128*	0.0266
	(0.05)	(0.09)
Prev. Industry Boycotts	–0.006	0.040
	(0.02)	(0.03)
Prev. Firm Boycott	1.636***	2.040***
	(0.33)	(3.93)
KLD Positive	0.592	–0.103
	(0.40)	(0.42)
KLD Negative	0.063	–0.286
	(0.38)	(0.40)
In KLD	–0.287	0.122
	(0.41)	(0.12)
Constant	0.053	–3.622**
	(0.80)	(1.32)
Industry Controls	YES	YES
Yearly Fixed Effects	YES	YES
Quarterly Fixed Effects	YES	YES
N	628	332
Log Pseudo-likelihood	–262.16	–127.39

Robust standard errors, clustered by firm, are in parentheses.
* p<0.05, ** p<0.01, *** p<0.001

standard deviation change in a firm's reputation, the predicted probability of being targeted increases by 4.5 percent. Thus, with regard to activists' selection of targets for boycotts, our results support the predictions of the reputation as liability effect over the perspective about reputation's halo effect. However, the results in model 1 suggest that this liability may only attach to the most reputable firms, which are the most visible and whose audiences' expectations are likely to be highest.

Lending further support to the predictions of the reputation as liability approach, we find a positive and highly significant relationship between the amount of a firm's prosocial activity (in terms of its CSR PR releases) and its likelihood of being targeted. For each standard deviation change in a firm's logged prosocial PR, the predicted probability of being targeted increases by 10.35 percent. This finding holds across both models. Rather than buffering a firm from being targeted, these results suggest that a firm's prosocial activity may make it more vulnerable to being targeted because activists may seek to impugn the organization's claims of being socially responsible. Firms that actively engage in prosocial activities and implicitly make claims about being socially responsible appear to synchronously be making themselves more shameable.

Thus, we find strong support for the reputation as liability approach. Both a firm's standing in the *Fortune* reputation index and its previous levels of prosocial activities, as advertised by itself, make a firm a more attractive target to activists. Notably, the effect of reputation and prosocial activities is net of a firm's actual social performance rating in the KLD index, and the latter does not even have a statistically significant effect. The findings, then, indicate that activists tend to target firms that have high reputational standing and firms that promote their prosocial activities more than they do firms that have become known for poor social performance.

Conclusion

The global market has created a complex political environment for corporations. On the one hand, they seem less beholden to state control; on the other hand, they have become more concerned with brand, image, and reputation as assets used to gain customer loyalty, stakeholder support, and regulatory freedom (Meyer et al., this volume; Klein 1999). Their reliance on reputation as an asset means that they have become more committed to impression management tactics, such as philanthropic activity and improving firm environmental standards, to gain the approval of the stakeholders that matter most.

Although having a good reputation has numerous positive consequences for firms, this study suggests that it also creates certain liabilities. Belonging to the top tier of most-reputable firms and engaging in reputation-building actions (such as announcing prosocial activities) exposes a firm to activist attention, making it a more likely target of boycotts. Activists, ever eager for media coverage and the agenda-setting influence attached to it, use firms' reputation-seeking as a weapon against them. By targeting firms that are already committed to reputation-building, they put those firms in positions where they must react by conceding or by doing more CSR activities if they wish to maintain their lofty status in the field. Our findings suggest that scholars who have asserted that CSR and other reputation-building activities have insurance-like properties that protect a firm from future activist challenges may be partially wrong. Rather than serving as a form of insurance against future criticism, CSR may in fact make firms more attractive targets. Insofar as activists are eager to target companies that the media and other stakeholders will notice, companies that built reputations for being socially conscious are certainly on their radar. Such companies offer a visible stage for activists.

The irony of our finding is that firms believe reputations will protect them, and, in a sense, they are correct in this assessment. Past research suggests that boycotted firms are initially protected from negative investor reaction (King 2011). Investors seem to believe that high-reputation firms will be able to better deal with the consequences of the boycott than will firms with weaker reputations. But a firm's positive reputation also creates critical liabilities. Firms with positive reputations also receive more negative media attention following a boycott, and, for every additional day of boycott media coverage a corporate target experiences, greater damage to its market value. The implication of this is that firms with a positive reputation have a greater incentive to quickly concede to activists' demands. Failing to do so can damage their reputation and lead to a decline in their value.

Firms that become boycott targets are also more likely to increase the amount of prosocial activities they do in the public (McDonnell and King 2013). Fearing the reputational threat represented by the boycott, they do more philanthropy, more community outreach, and engage in other CSR activities, hoping that their audiences will give more weight to these positive actions than they will to the negative claims made by boycotters. The results of this study suggest, however, that by increasing the amount of prosocial activities they do, these firms also expose themselves to the threat of future activist targeting.

The implication of these various studies is that the increasing focus on reputation building only makes firms more vulnerable to activist attacks. Reputation, in this sense, has become an important liability for firms. Once a firm develops a positive reputation, it is obligated to maintain it. From the activist perspective, there is much to gain by forcing firms to defend their reputations. Not only do they generate more attention to their cause by targeting high-reputation firms (King 2011), but the net social impact is also positive. As these firms do more prosocial activities to renovate their image after the boycott, they subsequently dedicate more resources and strategic focus on CSR. A virtuous circle – at least from the perspective of the activist – follows. More CSR practices lead to an improved (or at least maintained) reputation, which causes the firm to continue to be a target of activism, the consequence of which is more commitment to CSR. From the point of view of the company, having a good reputation can be a double-edged sword or at least a potential liability when facing activists who seek the public limelight (Rhee and Haunschild 2006).

Of course, another implication of this pattern is that activist focus is almost exclusively on the upper tier of reputable firms. Corporations that are in the lower tier of the reputation index or that are not ranked at all receive considerably less attention from activists; therefore, those same firms have fewer incentives to engage in prosocial activities and may fly under the radar of activists no matter how irresponsible their practices. Inasmuch as they are ignored by social movement activists, they have fewer reasons to engage in CSR activities and are freer to deviate from norms of moral and social appropriateness. Thus, even as prestigious firms are doing their best to improve their standards and become more socially conscious citizens, firms that fly under the radar because of their weak reputations are able to get away with irresponsible behavior. The net social impact of activists ignoring these less-reputable firms is almost surely negative. Scholars and activists who put a great deal of hope in private or voluntary regulation as a way to rid society of corporations' negative influences will surely be disappointed, especially if they believe that reputation management is the primary motivation for a sustainable system of private regulation (King 2013).

Future research ought to focus on the behaviors of firms that are not targeted by activists and assess the consequences of failing to engage these firms. In addition, we need to develop a better understanding of how firms and activists negotiate settlements, such as those observed by Bartley (2007), in which activist targeting is curtailed in favor of setting up certification systems or active partnerships between firms and social movement groups. Our research suggests that firms with positive reputations have good reasons to set up such partnerships, inasmuch as it would allow them to escape future activist targeting while also benefiting from the glow of prosocial actions.

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