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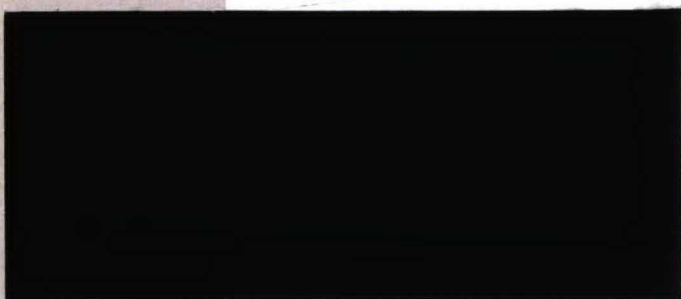
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**HIGH PERFORMANCE ON MULTIPLE
DOMAINS: OPERATIONALIZING THE
STAKEHOLDER APPROACH TO EVALUATE
ORGANIZATIONS**

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**High Performance on Multiple Domains:
Operationalizing the Stakeholder Approach to Evaluate Organizations**

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**High Performance on Multiple Domains:
Operationalizing the Stakeholder Approach to Evaluate Organizations**

Abstract

The stakeholder approach to evaluating organizations has been enthusiastically received by both organizational performance and effectiveness scholars. Despite the strong endorsement, we see a conspicuous restraint in terms of empirical studies. This paper operationalizes the stakeholder performance approach for evaluating small and medium-sized ICT service firms. We used multiple, stakeholder-specific evaluation criteria and multiple information sources. Moreover, we combined perceptual with objective performance data. Results indicate that in organizational contexts where the practical relevance and instrumentality of a stakeholder perspective is widely acknowledged and where the number of relevant stakeholders is fairly restricted, one is likely to find a group of firms that succeeds in realizing a high performance score on multiple stakeholder domains.

INTRODUCTION

The evaluation of organizations has always been central to organization and management science. We find evaluation approaches under labels like organizational effectiveness, performance, success, excellence, health, efficiency, or productivity. Some authors use these terms interchangeably (see, e.g., Kanter and Brinkerhoff, 1981), often in an attempt to overcome terminological confusion, but, in practice, they only contribute to it. Others have come up with additional labels, such as organizational goodness (Shenhav, Shrum, and Alon, 1994), to encompass the terminological variety.

Organizational performance and effectiveness are the most well-established of these concepts (Shenhav et al., 1994). The performance concept is largely associated with the evaluation of financial and economic outcomes of profit firms, an evaluation approach that is typically applied in the field of business policy or strategy research. The effectiveness concept is usually defined in much broader terms. It relates to the evaluation of a wide range of criteria (organizational inputs, throughputs, and outputs) in various types of organizations, including non-profit and public organizations. While the evaluation approaches to organizational effectiveness and performance used to differ considerably, the most recent conceptual development, the multiple stakeholder or multiple constituency approach, shows an interesting convergence. This evaluation approach is central to this paper. The multiple stakeholder approach¹ to evaluating organizations has been embraced by both the recent organizational effectiveness and performance literature. Yet, so far this approach has only rarely been translated into empirical research.

This paper starts with an examination of the historical developments in organizational effectiveness and performance research that formed the background for the embracement of the multiple constituency or stakeholder approach. It addresses the discrepancy between the enthusiastic adoption of the stakeholder approach in the conceptual organizational performance

¹ The term multiple constituency approach is more often associated with the organizational effectiveness research tradition, while the term multiple stakeholder approach has usually been applied in the field of organizational performance research. The two terms are, in fact, equivalent. In the following, we will use them interchangeably.

and effectiveness literature and the conspicuous restraint in terms of empirical research. A review of the few existing stakeholder performance studies will reveal four relevant research issues that would require more serious attention. The paper will then provide an empirical example of the stakeholder approach for evaluating small and medium-sized ICT service firms. This stakeholder performance study will consider the four specified research issues and test propositions relating to the interconnection of various stakeholder performance domains and their relation with more conventional performance measures. Our aim is to contribute to the anchoring of stakeholder-based performance evaluations of organizations through a balanced treatment of both conceptual and empirical issues.

PREVIOUS APPROACHES TO EVALUATE ORGANIZATIONS

The following two sections briefly review the developments in organizational effectiveness and performance research that preceded the stakeholder approach. This review describes the background for the multiple constituency or stakeholder approach which is currently widely seen as the most promising approach to evaluating organizations.

Rational Goal Approach: Focus on the Realization of Rational Output Goals

The rational goal approach is the most traditional model for evaluating organizations. It has its roots in the mechanistic view of the organization and focuses on the degree to which organizations realize their output goals (see, e.g., Etzioni, 1964; Price, 1968). **Organizational effectiveness** researchers have extensively discussed the limitations of this traditional approach (see, e.g., Ghorpade, 1970; Yuchtman and Seashore, 1967). In organizations where output goals are difficult to define and measure such as in non-profit or public firms, the use of the rational goal approach is clearly limited. The reliable identification of comparable and practically relevant organizational goals is difficult in such contexts. Another limitation relates to the multifunctionality of organizations. The rational goal approach does not take into account that multiple, explicit or implicit, compatible or incompatible goals may exist within organizations.

As a reaction to the limitations of this approach, organizational effectiveness researchers had already started developing alternative approaches to evaluate organizations in the 1960s.

For **organizational performance** researchers focusing on profit-seeking firms, the rational goal approach has always been the predominant evaluation approach. Given that individual business firms establish financial/economic goals and evaluate their performances based on goal accomplishment, the rational goal approach seems practically relevant in this context. Thus, it is not surprising that the vast majority of empirical performance studies in business firms are used to applying the rational goal approach. These studies typically assess performance on the basis of financial or economic outcomes. They implicitly assume financial/economic goals (e.g., profit maximization or maximization of shareholder value) to be the primary type of organizational goals (see, e.g., Venkatraman and Ramanujam, 1986; Zahrlly and Reuning-Elliott, 1994). Consequently, performance researchers have been less concerned with the conceptual limitations of the rational goal approach. They have been more preoccupied with measurement issues. In general, there is not much agreement on which specific measures to employ for the assessment of financial/economic firm performance. In their empirical study, Hubbard and Bromiley (1995) found that researchers as well as practitioners preferred highly diverse financial/economic performance measures. Usually, rational goal performance in profit firms is assessed with accounting-based measures (e.g., profitability measures such as return on assets, return on investment, return on sales, return on equity), market-based measures (e.g., stock market returns) or a mixture of both (e.g., price-earnings ratio). Accounting-based measures are most common in performance evaluations. Popular management magazines (such as *Business Week* and *Management Today*) use profitability criteria for performance-league tables. Profitability measures are also the most often used measures in academic performance studies (see, Hubbard and Bromiley, 1995; McGuire, Schneeweis, and Hill, 1986). Nonetheless, accounting-based measures have been subject to a considerable amount of criticism (see, e.g., Brown and Laverick, 1994; Doyle, 1994; Eccles, 1991; Habel, 1992; Kaplan and Norton, 1992; McGuire et al., 1986). Accounting-based figures can be misleading, especially if they have been manipulated to look good. A lack of consistency in corporate accounting methods (e.g., with regard to the treatment of inflation, inventory valuation, depreciation, or intangible assets) and

a lack of standardization in international accounting conventions makes interpretations as well as comparisons between organizations difficult (see, e.g., Gray, 1995). A further shortcoming of all accounting-based performance measures is their backward-looking focus (Habel, 1992; Kaplan and Norton, 1992). Data from past years reveal little about the future potential of a firm. The 'short-termism' (Doyle, 1994; Eccles, 1991) of the accounting-based measures relates to another point of criticism. Profit can easily be raised in the short term by cutting expenditures (e.g., for advertising or R&D), but that practice might be harmful in the long run. Thus, the question is whether firm performance is truly assessed when merely relying on accounting-based measures.

Given this criticism, several authors have proposed market-based measures as better overall organizational performance indicators (see, e.g., Habel, 1992; McGuire et al., 1986). Stock-market data are assumed to reflect investors' estimations of future firm potential and thus focus on the long-term value of the enterprise. Under the assumption that investors evaluate firms appropriately (perfect markets), stock-market data are seen as sensible indicators of corporate performance for listed firms. However, the idealistic assumption of perfect markets and the high percentage of unlisted firms pose serious limitations to their widespread use.

Development of Alternatives: Emphasis on Input or Operational Goals

Since the early 1960s, the **organizational effectiveness** literature has questioned the usefulness of the rational goal approach for evaluating organizations. Two major conceptual alternatives, the system resource approach and the internal process approach, expanded the notion of organizational effectiveness. The system resource approach to organizational effectiveness stresses input over output goals (e.g., Yuchtman and Seashore, 1967). In this view, organizations are conceived as entities that operate in order to survive, all the while competing for scarce and valued resources such as financial means and personnel. Survival is seen here as the ultimate criterion of organizational effectiveness. Because this criterion can only be assessed in the long term, multiple penultimate criteria (such as changes in the volume of various types of scarce resources) are used for the evaluation of organizations (Yuchtman and Seashore, 1967). This

approach has been widely discussed, yet rarely applied in empirical research. A practical problem of the system resource approach is that acquiring a high volume of valuable resources does not guarantee effective usage. Moreover, it is difficult to define an optimal level of resource acquisition across different organizations. Following Cameron (1984, 1986), the system resource approach appears of use in organizations where output goals are impossible to measure precisely and where accurate input measures are available such as in non-profit, budget-oriented organizations. In all other organizations, however, a pure system-resource approach to measuring organizational effectiveness falls short.

The internal process approach to organizational effectiveness was a reaction to the static output view of the rational goal approach (Bennis, 1966). The approach incorporates both the system plus the human relations models of organizations. It focuses on internal processes that increase the ability of organizations to cope with changes in the environment. Organizational effectiveness is defined here as smooth internal functioning and is assessed through criteria of internal health, such as adaptability and a strong sense of identity (Bennis, 1966). Other related effectiveness criteria found in the literature include undistorted communication, a strong corporate culture, or a positive work climate (Daft, 1992). Although the internal process approach is generally associated with human relations-type criteria, some of the literature also includes other types of criteria, such as economic efficiency (see, e.g., Daft, 1992). Overall, the selection of relevant internal process criteria to evaluate organizations is rather arbitrary. This adds to the often criticized vagueness of the organizational effectiveness construct. Furthermore, critics note that the internal process approach cannot yield valid indicators of organizational effectiveness. Instead, it is considered useful for studying assumed predictors (see, e.g., Bluedorn, 1980). This might explain why the internal process has never become established as a dominant organizational effectiveness approach.

In the field of **performance research**, the nearly exclusive focus on listed profit organizations has reinforced the reliance on the rational goal approach. Yet, discontent with financial/economic performance indicators and the oncoming quality movement in the 1980s resulted in a rethinking of performance measurement in profit firms. Discussions about conflicting goals within profit organizations (e.g., profit-maximization and quality) came on the agenda and had consequences

for the definition of organizational performance. Following the line of reasoning that organizational performance is more than output-oriented financial/economic performance, broader perspectives including non-financial performance indicators became a matter of discussion among performance researchers. A number of approaches that can be subsumed under the label 'focus on operational performance' have been developed. In addition to financial/economic performance criteria, Venkatraman and Ramanujam (1986) proposed operational performance measures such as new product introduction, product/service quality, and marketing effectiveness. Comparable approaches are the balanced scorecard (Kaplan and Norton, 1992) and the business model approaches (see, Meyer and Gupta, 1994), which include financial as well as operational performance criteria relating to value for customers, innovation, and internal business improvement. Such approaches are certainly helpful in monitoring internal organizational functioning. They promote the linking of data from several financial and operational measures in order to see if improvement in one area has been achieved at the expense of another. Yet, for comparative performance research, this approach has clear limitations. First, there are no guidelines for the selection of relevant operational performance criteria. Second, operational performance indicators come close to what other authors label critical success factors (see, e.g., Hoffmann, 1986) and which are usually regarded as predictors of performance. Overall, when relying on other than output criteria in defining the organizational effectiveness and corporate performance construct, the distinction between performance predictors and criteria becomes ambiguous. Such performance approaches are of limited use for academic research.

THE STAKEHOLDER APPROACH

An integrative and promising alternative to evaluate organizations is provided by the multiple constituencies or stakeholder approach. In general terms, the stakeholder theory represents a heuristic device to understand an organization's environment (see also Mitchell, Agle, and Wood, 1997). It focuses on organizational stakeholders, i.e., those groups without whose support the organization would cease to exist (e.g., owners, employees, customers, suppliers, the community; for an overview of stakeholder definitions see Mitchell, Agle, and Wood, 1997). The

stakeholder approach can also be used to evaluate organizations and has gained popularity in both organizational effectiveness and performance research (see, e.g., Chakravathy, 1986; Conolly, Colon, and Deutsch, 1980; Zammuto, 1984).

The stakeholder view explicitly takes into account that organizations strive for multiple goals. Following this approach, an organization is considered effective if it satisfies the needs of various relevant organizational stakeholders (see, e.g., Tsui, 1990). Each stakeholder group is supposed to have different interests vis-à-vis the organization and will therefore apply different evaluation criteria. If an organization performs poorly in the eyes of its stakeholders, it is not considered effective. This approach clearly presumes various organizational domains on which the organization must score in order for its stakeholders to be satisfied.

The idea that successful firms are balancing the competing claims of their stakeholders and thereby ensuring their continuing cooperation is not new. Chakravathy (1986) mentions a book by Barnard published in 1938 that already advocated this notion. Preston and Sapienza (1990) refer to a 1932 article by Dodd promoting the stakeholder idea. In 1967, Pickle and Friedlander even published an empirical study that applied the stakeholder approach to evaluate the performance of small business firms (see also Friedlander and Pickle, 1968). Yet, it was only in the late 1970s and early 1980s that the stakeholder approach became a general matter of discussion in organization and management science and gained popularity in both the effectiveness and the performance literature. Dissatisfaction with existing evaluation approaches in the context of changing conceptions of organizations have fostered this popularity.

The conceptual literature on **organizational effectiveness** has willingly adopted the constituency or stakeholder view for the evaluation of organizations (Conolly, Colon, and Deutsch, 1980; Zammuto, 1984). This approach smoothly connects to the diverging definitions of organizational effectiveness found in the conceptual and empirical literature. Organizational effectiveness has always been known as an extremely fuzzy construct and the lack of common ground in organizational effectiveness research has been the topic of numerous papers and books (e.g., Bluedorn, 1980; Cameron and Whetten, 1983; Goodman and Pennings, 1977; Hall, 1980; Hitt, 1988; Kanter and Brinkerhoff, 1981; Lewin and Minton, 1986; Steers, 1977). In a conspicuous attempt to more fully map out the construct space of organizational effectiveness,

Quinn and Rohrbaugh (1981) categorized a list of diverging effectiveness criteria used in empirical studies. Their resulting taxonomy revealed organizational effectiveness to be a socially constructed abstract notion in the minds of organizational researchers. This coexistence of various conceptions of organizational effectiveness (which is reflected in academic research as well as in organizational practice) is at the core of the multiple constituency approach. While previous organizational effectiveness research was obsessed by the search for a single valid effectiveness statement, the multiple constituency approach acknowledges that it is futile to debate the right perspective to organizational effectiveness (Conolly, Colon and Deutsch, 1980). Each stakeholder group applies different evaluation criteria (focuses on different domains of the organization) and comes to different evaluations of organizational effectiveness. The stakeholder view can thus be seen as a solution to the conceptual disarray in organizational effectiveness research. The merit of this approach is that it exposes the complexity involved in evaluating organizations. It provides a systematic and comprehensive approach for evaluating various types of organizations and integrates the previously viable organizational effectiveness approaches.

Recent **performance** literature also reflects the multiple constituencies or stakeholder approach (e.g., Brown and Laverick, 1994; Chakravarthy, 1986; Donaldson and Preston, 1995; Doyle, 1994; Preston and Sapienza, 1990). This approach corresponds with modern perspectives on business organizations as complex webs of contracts (e.g., Atkinson, Waterhouse, and Wells, 1997, Keeley, 1980) or political arenas (e.g., Cummings, 1977). Changes in business environments (increasing turbulence, globalization and increasing competition) as well as intensive discussions about the social responsibility of business firms which started in the early 1970s have fostered the popularity of the stakeholder approach in the management literature. Moreover, as mentioned in the previous section, the quality movement also has prepared the field for other than purely financial/economic performance approaches. As stated by Brown and Laverick (1994), the more a firm depends on the cooperation, loyalty and goodwill of others (e.g., workforce, suppliers, customers), the stronger the argument becomes for the inclusion of multiple constituencies in performance assessments. In this view, the pursuit of purely profit-maximization goals is seen as self-defeating. Financial/economic superiority is only one part of organizational performance and it is the part which is mainly in the interest of top management

and/or shareholders. Performance in terms of satisfaction of other relevant stakeholders is seen as the other complementing factor. While the financial/economic evaluation criteria are assumed to be indicators for short-term performance, stakeholder satisfaction criteria are seen as indicators of longer-term firm performance. Adopting this approach represents a major shift for the performance research tradition. It is a move away from an exclusively financial and shareholder or top management-oriented conventional performance perspective.

The most promising feature of the stakeholder approach is its future-directed orientation. With its focus on longer-term performance indicators, the stakeholder approach measures an organization's potential to be successful in the future based on indicators of loyalty, sustained cooperation and resource allocation of its major stakeholders.² It does in fact indicate an organization's position of competitive advantage and potential for sustained superior performance. These concepts, which are at the core of important recent approaches in the strategy literature, have assumed a prominent place in academic discussions. Yet, they have only rarely been translated into empirical research. According to the stakeholder approach, a high score in terms of stakeholder performance indicates an actual position of advantage in various stakeholder-related domains. The attainment of such a position of competitive advantage in multiple domains is not easily lost in the short-run and contains within it the potential for creating a sustained record of superior performance. While the sustainability of performance is ultimately only assessable in the long term, the operationalization of the stakeholder performance approach comes closest to this concept.

Overall, the recent conceptual rapprochement of organizational effectiveness and performance research in the multiple stakeholder approach could lead towards building a more cumulative body of knowledge with regard to the evaluation of organizations. The multidimensionality of

² As impressively elaborated by Rindova and Fombrun (1994), the stakeholder perspective considers important social and cognitive mechanisms of organizational performance. Stakeholders observe, analyze and evaluate firms with which they interact. They routinely make comparisons between firms and allocate their resources based on their particular performance evaluation criteria. Their 'resource allocations' have an effect on the future position of the firm in a given industry. In this fashion, organizational stakeholders define the rules for success.

organizational performance is fully acknowledged in this approach. Moreover, the stakeholder approach provides a systematic frame for the definition of performance criteria compared to previous multidimensional effectiveness or performance approaches. Its focus is on organizational outputs in relation to relevant organizational stakeholders.

EMPIRICAL STAKEHOLDER PERFORMANCE RESEARCH

Much of the empirical stakeholder literature has focused on the descriptive component of stakeholder theory. Mostly it assessed stakeholder-oriented organizational practices or organizational stakeholder attention in the context of corporate social responsibility (see, e.g., the studies by Kreiner and Bambri, 1991 and Wang and Dewhirst, 1992). Some studies focused on the instrumental component of the stakeholder theory, that is, the relation between organizations' stakeholder orientation (or corporate social responsibility) and financial performance (see, e.g., the studies by Aupperle, Carroll, and Hatfield, 1985, Greenley and Foxal, 1997, and Pava and Krausz, 1996). Relatively few academic studies have applied the stakeholder approach to evaluate organizational stakeholder performance or effectiveness.

Rather popular in the context of empirical stakeholder performance evaluations is the use of the *Fortune* reputational ranking (see, e.g., the studies by Chakravarthy, 1986, Preston and Sapienza, 1990, and Rhihi-Belkaoui, 1992). *Fortune's* annual survey asks external experts (executives and industry analysts) to evaluate the relative success of leading American organizations on eight dimensions (see Table 1 for an overview). The dimensions are assumed to represent the interest of shareholders, employees, customers, and the community at large (Preston and Sapienza, 1990). Yet, their validity as indicators of stakeholder performance is questionable.

 Insert Table 1 about here

It has been shown that the *Fortune* reputational ratings are highly correlated with financial performance measures (e.g., Fombrun and Shanley, 1990; Preston and Sapienza, 1990). Whereas

Preston and Sapienza (1990) conclude that financially successful firms satisfy their multiple stakeholders, other authors draw a different conclusion. They depict *Fortune* ratings as heavily influenced by the raters' knowledge of the firms' previous financial performances (Brown and Perry, 1994; Fombrun and Shanley, 1990; Fryxell and Wang, 1994; Rowe, Morrow, and Finch, 1995). According to Rowe et al. (1995), *Fortune* ratings are in fact perceptual measures of a firm's financial performance and valid as such. Caution, however, is needed when interpreting these ratings as indicators of stakeholder performance (Szwajkowski and Figlewicz, 1995). *Fortune* ratings have been criticized because the raters focus too narrowly on financial interests (Fryxell and Wang, 1994). Moreover, some argue that it is not clear whether the dimensions studied are exhaustive and if they should be weighted equally to form the overall index as *Fortune's* annual survey does (Szwajkowski and Figlewicz, 1995). In sum, *Fortune's* reputational ratings are of questionable validity in terms of stakeholder performance.

Now we will highlight the few academic studies that empirically assessed organizational stakeholder performance by referring to actual stakeholders' perspectives. Following a short description of each of the three studies, four general issues in empirical stakeholder performance research will be discussed which need more serious consideration in order to move the field forward.

The extensive study by Pickle and Friedlander (1967) is the pioneer of empirical stakeholder performance research. In 1967, long before the stakeholder view of the firm was en vogue in the organization and management literature, Pickle and Friedlander assessed the performance of small business firms with regard to seven stakeholder groups. They came to the conclusion that the organizations investigated found it rather difficult to simultaneously satisfy all or even a major segment of their stakeholders. Moreover, they found that the satisfaction of one stakeholder group did not immediately imply gross dissatisfaction for any other group (1967: 171). Tsui (1990) studied stakeholder performance in a sample of human resource business units. This study found executives to rate the subunits most favorably in terms of their overall satisfaction, relative to the ratings of managers and employees. The author came to a conclusion quite similar to that of Pickle and Friedlander: though the HR subunit may not be able to satisfy the three constituencies equally well simultaneously, satisfying one group did not necessarily

imply the dissatisfaction of another group (p. 479). Wilderom and Press (1994) applied the stakeholder performance approach to a sample of non-profit firms. They found external stakeholders (community leaders) to be significantly more critical in their effectiveness evaluations than internal stakeholders (employees and directors). Furthermore, directors' subjective evaluations of overall performance were found to be significantly correlated with objective efficiency figures.

 Insert Table 2 about here

Four issues need special consideration in empirical stakeholder performance research: (1) the selection of relevant stakeholders, (2) the definition of stakeholder-related performance domains and the selection of appropriate information sources, (3) the inclusion of objective performance indicators, and (4) the overall evaluation of organizations. Table 2 provides an overview of the three stakeholder performance studies with regard to these issues.

Selection of relevant stakeholders. This selection process can be based on logical and/or empirical analyses of the internal and external organizational environment under consideration. As the relevance of stakeholder groups is largely dependent on the environment, the more specific and homogeneous the environment (e.g., focus on a single industry or organizational type), the less ambiguous the definition is of relevant stakeholders. Yet, as concluded by Zammuto (1984), the definitive selection of stakeholder groups is essentially value-based. Whether one includes all possible stakeholders in a given environment, the most salient stakeholders, or only the stakeholders belonging to the dominant coalition depends finally on the researcher's judgement with regard to their importance for overall performance. This selection process influences a study's results. In empirical stakeholder performance research, it is thus crucial to explicitly report the choices made with regard to the selection of stakeholders and to motivate their relevance for the environment under consideration. Of the three studies reviewed, only the study by Tsui explicitly legitimizes the selection process.

Definition of performance domains and selection of information sources. A stakeholder perspective can be incorporated in both the definition of performance domains (e.g., the

evaluation of stakeholder-specific domains) as well as the selection of information sources (e.g., the investigation of stakeholder groups). The *Fortune* ratings use external experts as a single information source to evaluate various stakeholder-specific performance domains. Here, the stakeholder perspective is incorporated in the definition of performance domains, yet not in the selection of information sources. In the studies by Tsui (1990) and Wilderom and Press (1994) various stakeholder groups were asked about their overall satisfaction with the organization (Tsui) or their perception of overall organizational performance (Wilderom and Press). Here, the stakeholder perspective was realized with regard to the selection of information sources, yet not with regard to the definition of performance domains. Only the study by Pickle and Friedlander combines the definition of stakeholder-specific performance domains with the investigation of actual stakeholder perspectives.

In general, the definition of stakeholder-specific domains and respective evaluation criteria is crucial for the quality of empirical stakeholder performance studies. Asking respondents to indicate their overall satisfaction with the performance of the organization (Tsui) or the perceived overall effectiveness of the organization (Wilderom and Press) is too vague and too ambiguous to yield meaningful results. The request to provide such an unspecific overall judgement is known to invite uncritical responses. Moreover, researchers have no control over which specific criteria respondents actually use for their evaluation. In order to get useful results, it is necessary to specify a priori stakeholder-related satisfaction or performance domains and appropriate evaluation criteria (see also Cameron and Whetten, 1983). The evaluations of various stakeholder groups are then more easily interpreted and more informative. With respect to the selection of information sources, asking the stakeholders themselves to provide their perspectives is closest in line with the theoretical foundations of the stakeholder approach. If this is not entirely possible, it is important to make sure that the informants consulted are knowledgeable with regard to the stakeholder-specific criteria under consideration. Ideally, a stakeholder-based performance evaluation requires multiple stakeholder-specific evaluation criteria and multiple information sources (preferably the stakeholder groups themselves). This would help to substantially increase our insights in the interrelation between the performance evaluations of various stakeholder groups.

Inclusion of objective performance data. Examining the relation between subjective evaluations of stakeholder-related performance criteria and objective performance data is interesting and promising (Donaldson and Preston, 1995). The study of this relationship would help to test some of the basic assumptions of the stakeholder approach. So far, this relationship has mainly been approached using the *Fortune* ratings whose validity for assessing stakeholder performance was shown to be questionable (see above). The studies by Pickle and Friedlander (1967) and Wilderom and Press (1994) did include objective performance data, yet, only the latter study explored their relation with perceived stakeholder performance to any extent. Without question, this connection needs more substantial theoretical and empirical examination.

Overall evaluation of the organization. As argued by Conolly et al. (1980), the claim to come to a final effectiveness or performance judgement should be abandoned. No single best perspective for evaluating an organization exists according to these authors. Of course, the multiplicity of performance evaluations is the core of the stakeholder approach. Nevertheless, the exploration of a potential final, overall evaluation of stakeholder performance is theoretically and empirically relevant. When focusing on a restricted number of relevant stakeholders and several stakeholder-specific performance domains, it makes sense to argue that the firms are performing best when perceived as successful in all these domains simultaneously. Determining whether such a group of high-performers in multiple stakeholder-specific domains can be found empirically and if so, whether their high stakeholder-performance could be conceived to be a competitive advantage for the future leading to sustained superior performance would be a promising area of research.

In summary, when scanning the literature on stakeholder performance, empirical applications are clearly underrepresented compared to conceptual elaborations. Additional empirical examinations of the stakeholder approach to organizational performance are obviously needed. The four issues that we have argued to require special attention in this context are (1) the specification of relevant stakeholders in various organizational contexts (e.g., specified for types of organizations or industries), (2) the interrelation of various stakeholder-specific performance evaluations (based on stakeholder-related evaluation criteria and the investigation of actual stakeholder groups as information sources), (3) the connection of subjective evaluations of

stakeholder performance and more conventional and objective performance indicators, and (4) the possible definition of a final, overall performance judgement based on multiple stakeholder performance scores.

STAKEHOLDER PERFORMANCE IN SMALL AND MEDIUM-SIZED ICT SERVICE FIRMS

Our stakeholder performance study focuses on the rarely studied, yet increasingly important, population of knowledge-intensive professional service firms. Comparative stakeholder performance studies are especially useful within homogeneous organizational settings because the importance of certain stakeholder groups (and thus the definition of performance) is contingent to context variables such as organizational type, industry or size. In order to level out contextual variance as much as possible we focused on a specific knowledge-intensive branch within this group of professional service firms, ICT services, and a certain size category, that of small-and medium-sized firms. This study aimed at addressing the open issues in the area of stakeholder performance research as specified in the previous section. The following five research questions guided this study: (1) Which stakeholders are most relevant in this organizational setting? (2) How do the performance evaluations of various stakeholder groups differ? (3) How are the stakeholder performance evaluations interrelated and how are they related to financial/economic performance? (4) Is it possible to identify firms that score high on all stakeholder performance domains? and (5) Does high perceived stakeholder performance lead to subsequent superior financial/economic performance?

Invoking the Stakeholder Approach

This empirical study compared a sample of small and medium-sized ICT service firms on a number of predefined stakeholder-related performance criteria. In the following, we will first explain our selection of relevant stakeholder groups and then refer to the criteria and information sources we employed.

Selection of Relevant Stakeholders. Our empirical study started with a logical analysis of the organizational context under consideration in order to specify relevant stakeholder groups. This logical analysis resulted in a (normative) definition of stakeholder-specific performance goals for knowledge-intensive professional service firms. We supplemented this logical analysis with expert interviews in order to confirm the practical relevance of this performance definition for the specific organizational context under question: small and medium-sized ICT service firms. In the following, we will describe both analyses.

ICT service firms belong to the category of knowledge-intensive professional service organizations (Alvesson, 1995; Riddle, 1990; Weggeman, 1995). The core of such firms is the creativity, the knowledge, and the problem-solving competence of their employees. Consequently, knowledge-intensive professional service firms depend heavily on the loyalty of their key employees (professionals). These firms are extremely vulnerable when professionals leave because they take crucial firm capital (i.e., knowledge) with them (Weggeman, 1995). Moreover, in professional service organizations, customer relationships play a central role. As stated by Maister (1993: xv), "a professional service firm must compete actively in two markets simultaneously: the 'output' market for its services and the 'input' market for its productive resources, the professional workforce." This strong dependence on employees and customers underscores the general relevance of a stakeholder approach to evaluating performance in professional service firms (see also Brown and Laverick, 1994; Fitzgerald and Moon, 1996; Whitt, Whitt, and Culpepper, 1991). The stakeholder notion is also reflected in the mission statements of such firms: "With varying refinements of language, the mission of most professional service firms is: to deliver outstanding client service; to provide fulfilling careers and professional satisfaction for our people; and to achieve financial success so that we can reward ourselves and grow" (Maister, 1993: 3). So far, we can conclude that two basic stakeholder groups play a major role in professional service firms: clients and employees. Moreover, as also reflected in Maister's summary of mission statements, a third stakeholder group that stands for financial and growth interests has to be considered. For listed firms, the most important representatives of this area of interest may be shareholders. For non-listed, small and medium-sized firms, these goals can be considered as being mainly in the interest of top

management and owners, a generally privileged class of organizational stakeholders (Donaldson and Preston, 1995).

In order to confirm this differentiation of relevant stakeholder groups for small and medium-sized ICT service firms, we conducted a small pilot study in July, 1995. This exploratory study involved qualitative, semi-structured interviews with directors of a pilot convenience sample of 10 small and medium-sized ICT service firms. An open question was used to determine their definition of firm success. Respondents in our pilot interviews named satisfied clients (N=10), financial success (N=8), loyal employees (N=7), and a good market reputation (N=5) as important performance aspects. By stressing performance aspects that are related to financial and market success as well as to client and employee satisfaction, the interviewed directors implicitly underlined the importance and practical relevance of a stakeholder view of organizational performance in ICT service firms. We also presented the respondents with a list of stakeholder groups and asked them to rate their importance in the ICT-service business on a 5-point scale ranging from unimportant to very important.³ Our respondents perceived clients (~~5~~=4.6), top management/owners (~~4~~=4.2), and employees (~~3~~=3.8) as being the most important stakeholder groups. Other potential stakeholder groups (such as suppliers, creditors, shareholders, pressure groups, the general public, or the community) were not rated as having considerable influence on their business.

An important result of our pilot study relates to the fact that the interviewed directors confirmed the relevance of a stakeholder approach to evaluating performance in small and medium-sized ICT service firms. With regard to the definition of relevant stakeholder groups, the results of our pilot interviews correspond with the more general literature on professional service firms. Hence, we decided to consider the three most salient stakeholder groups in small and medium-sized ICT service firms for our main study, namely, clients, employees, and top management/owners. The related performance criteria will be discussed in detail below

Stakeholder-specific Performance Domains and Information Sources. For a sensible

³ Stakeholders were defined as: internal and external parties having a considerable influence on the continuity of the firm.

application of the stakeholder performance approach, it is important to distinguish between the stakeholder definition, the stakeholder-related performance criteria, and the information sources that are used to evaluate these criteria. In our study, we evaluated organizational performance with regard to three stakeholder groups. We defined multiple stakeholder-specific evaluation criteria and used multiple information sources (see Table 3 for an overview). Our approach combines a number of advantages compared to relevant previous studies that we would like to stress.

(1) Focus on Organizational Level

Unlike previous studies, we did not ask respondents to report their own personal satisfaction with the organization, but asked them to evaluate the success of the organization with regard to specific stakeholder domains. This means that our assessment did not refer to the individual level but to the organizational level. Thus, to evaluate the employee performance domain, we did not ask employees to indicate how satisfied they are individually with their organization, but asked them to indicate how successful their organization is in the employee domain (e.g., in keeping high-quality personnel). This requires the respondents to take some distance from their individual needs and to evaluate specific organizational domains from a more general perspective. Such an approach is indicated in organizational performance studies, where the unit of interest is the organization and not the individual (see also Rousseau, 1985).

(2) Definition of Stakeholder-specific Performance Domains in Terms of Organizational Outcomes

We considered three stakeholder-specific performance domains (i.e., performance with regard to clients, employees, and top management/owners) and specified particular performance criteria for each domain that had to be evaluated. Such an approach provides more informative results compared to asking respondents to make unspecific evaluations of overall organizational performance or satisfaction. Each performance domain was defined in terms of organizational outcomes. A firm is seen as performing well in the client domain if it succeeds in satisfying its current clients and in having a good reputation among its clients. A firm is seen as performing well in the employee domain if it is successful in keeping and attracting high-quality personnel and in having a good reputation among employees. The performance domain that relates to top

management/owners is twofold. It refers to (1) the more conventional organizational performance indicators in terms of objective financial/economic outcomes and (2) perceived market success. A firm is seen as performing well in the market domain if it is successful in improving its market position (through, e.g., improving its services and attracting new clients) and in having a good reputation among its competitors. More details on the measurement of these variables will be found in the Methods section.

(3) Multiple Information Sources per Stakeholder-specific Performance Domain

We used multiple information sources for the evaluation of the predefined stakeholder performance domains. This allowed us to compare multiple stakeholder-related performance evaluations of an organization from different stakeholder perspectives. Our major information sources were top management/owners and employees. With regard to client performance, we had to ensure that our internal firm respondents were able to validly evaluate this domain. Therefore, we also assessed the satisfaction of actual clients in a limited number of firms and compared it to client satisfaction as perceived by employees and top management/owners. Regarding the top management/owner-related performance domain, we combined perceived performance evaluations with objective performance data from firm records. This set-up allowed us to explore the relation between perceived and objective performance ratings.

 Insert Table 3 about here

PROPOSITIONS

In the following, we will formulate the propositions that we examined. The first and the last proposition are context independent; the other propositions are specific for the context of professional service firms.

Proposition 1a:

Overall, top managers' or owners' evaluations of the three stakeholder-related performance domains are expected to be higher than those of employees.

We expected the responses of top managers and owners to be positively biased when asked to evaluate the performance of their own firm (and to report their evaluations to external researchers). Previous research showed managers or executives to be considerably more positive about their companies than non-managerial employees (Hay Group, 1986; Tsui, 1990; Wilderom and Press, 1994). A favorable self-presentation of the organization in terms of achieved successes through the managers in charge is comparable to mechanisms of impression management on the individual level (Dowling, 1986; Rindova and Fombrun, 1994). We did not expect the evaluations of employees to be unbiased. Organizational evaluations of a representative sample of employees, however, can be expected to be biased in both positive and negative directions. Hence, their biases are averaged out when aggregating their responses on the organizational level (see Hofstede, Bond, and Luk, 1993; Rousseau, 1985). Thus, this aggregated employee evaluation can generally be assumed to be more realistic than that of top managers/owners.

Proposition 1b:

In a service context, employees' evaluations of client-related performance can be expected to be more similar to actual client' evaluations than those of top managers/owners.

An important characteristic of service firms is the high number of employee-client contacts (Bowen and Cummings, 1990; Patterson and Cicic, 1995). This close interaction makes it possible for employees to know quite well how clients see the firm and how satisfied they are with the services provided. Their evaluations of client-related performance will thus come very close to clients' own evaluations. This proposition corresponds with the findings of Johnson (1996), Schneider and Bowen (1985) and Schneider (1973), who reported a significant positive relationship between employees' and clients' evaluations of service quality in service organizations and the findings of Desphandé, Farley, and Webster (1993) who could not find such congruence in non-service-type firms. Top managers/owners of service firms typically operate at a distance from actual service provision. Their evaluation of client-related performance is thus expected to show less congruence with actual clients' satisfaction.

Proposition 2:

In professional service firms, client performance, employee performance, and market performance are expected to be highly correlated.

Although previous studies found that correlations of performance in various stakeholder domains are of rather low magnitude (Pickle and Friedlander, 1967; Tsui, 1990), we expected to find employee and client performance as well as employee and market performance to be closely interrelated in professional service firms. (1) Employee performance \rightarrow client performance: Owing to the close employee-client interaction, low morale or a moderate level of knowledge among employees has direct effects on the quality of the services provided (Alvesson, 1995; Weggeman, 1995). Thus, if a firm scores low on employee performance (i.e., the firm is not able to attract and keep high-quality personnel), the effects are expected to be immediately discernable in a decrease in client performance (i.e., the firm is not able to satisfy its current clients). (2) Employee performance \rightarrow market performance: The strong dependence of professional service firms on high-quality personnel also forms the basis for this relationship. Strategic moves that could improve a firm's market performance (e.g., improving its services and attracting new clients) are bound to fail if the firm is not able to attract and keep high-quality personnel that realizes the intended new challenges. Thus, a high score on employee performance is assumed to be a necessary precondition for being able to realize a high market performance score. Overall, when high-quality professionals are so scarce that professional service firms have to compete to attract and keep their employees, the general importance of employee performance for client and market performance further increases.

Proposition 3:

In the professional service context, it is possible to detect a group of high performing firms that is characterized by a strong performance profile over multiple stakeholder domains.

Critics of the stakeholder approach state that it is impossible to follow various stakeholder performance goals simultaneously (Argenti, 1997) and the results found by Pickle and Friedlander (1967) and Tsui (1990) seem to support this statement. Both studies could not find any organization that satisfied all stakeholder groups simultaneously. We disagree with the general statement by Argenti and suggest that environmental conditions account for the results reported by Pickle and Friedlander (1967) and Tsui (1990). The stakeholder approach has gained popularity and practical relevance in turbulent environmental circumstances as a reaction to increasing competition, rapid technological changes and increasing importance of clients and

environmental groups (Freeman, 1984). From an ethical point of view, a careful stakeholder management is always indicated because it supports the fulfilling of a firm's societal and moral responsibilities (Donaldson and Preston, 1995; Wood, 1991). Yet, from the viewpoint of organizational practice, the acceptance and realization of a stakeholder perspective depends more on its instrumentality in responding to environmental challenges than on its ethical appropriateness. In the late 1960s, when Pickle and Friedlander conducted their study, environmental conditions did not make a strong stakeholder orientation economically necessary. The same may hold for the human resource business units studied by Tsui. Only if the satisfaction of multiple stakeholder groups is an explicit organizational goal can high performance scores in multiple stakeholder domains be expected. As we have shown before, a stakeholder performance approach appears to be practically relevant in knowledge-intensive professional service firms. Our pilot study confirmed its relevance for ICT service firms. In this context, therefore, it is expected that a group of firms will be found that has succeeded in realizing high performance in all stakeholder domains simultaneously.

Proposition 4:

Perceived high performance in multiple stakeholder domains does lead to subsequent superior financial/economic performance.

An important theoretical question in the stakeholder approach that needs empirical investigation is whether multiple stakeholder goals are conflicting or in harmony (Keeley, 1984). With regard to profit firms in turbulent environments it is generally assumed that successful stakeholder management prohibits unbalanced thinking and provides for superior financial performance in the long run (Campbell, 1997). The fulfillment of multiple stakeholder demands, resulting in high stakeholder performance evaluations, is thus seen as a condition for long-term superior financial/economic performance. Figure 1 depicts the assumed relation over time. A high level of perceived stakeholder performance in multiple domains is assumed to increase subsequent financial/economic performance which reinforces the pursuit of multiple stakeholder performance goals and the attainment of positive stakeholder performance evaluations.

 Insert Figure 1 about here

METHODS

Sampling and Data Collection

Our examination of stakeholder performance is part of a larger research project that is aimed at studying predictors of superior stakeholder performance from a resource-based perspective (for more information on the complete study see Glunk and Wilderom, 1998). The target population in this study was small and medium-sized ICT service firms in the Netherlands and Germany. Our sampling frame was based on the official listing of ICT service firms (SBI code: 7220) from the Chambers of Commerce in the Netherlands and Germany.⁴ Criteria for the selection of the operational population were (1) size: 20-100 employees, (2) founding date: before 1993, and (3) independence: exclusion of firms that were part of a large international ICT firm (such as IBM or SAP).

Seventy-nine Dutch and 64 German firms met these criteria. Data collection within both national samples took place in the period February-June 1997. A personal letter including an information folder first informed the directors of the selected firms about the aims of the study, with particular attention being given to the individual organizational diagnosis (based on benchmark data) they would receive as a reward for their participation. A telephone call followed this letter. The purpose of this call was to provide further information on the study and to arrange a one-hour interview appointment with one person from the organizational directorate.

From our listing of 79 Dutch ICT service firms, 31 were immediately willing to cooperate (39%), and we succeeded in getting full data sets from 25 firms (32%). From our listing of 64 German ICT service firms, 24 agreed to cooperate (37%), and we succeeded in getting full data sets from 21 firms (33%). Our total sample thus consisted of 46 small and medium-sized ICT

⁴ For practical reasons, we restricted our firm selection in Germany to a limited number of federal states. Based on the information of the German Chamber of Commerce, we selected the two federal states with the largest number of small and medium-sized ICT service firms: Nordrhein-Westfalen and Baden Württemberg.

service firms.

Data on the participating firms were gathered using (1) interviews with one director per firm (2) a directorate survey, (3) an employee survey, and (4) a client satisfaction survey. The structured interview with each director included questions about the background characteristics of the firm and objective performance data. In addition, the directors (as representatives of the top management/owners stakeholder group) were asked to answer the questionnaire which was also to be distributed to a sample of representative professional ICT employees in their firm. The questionnaire included closed questions regarding perceptions of organizational practices and top managerial qualities for our larger research project as well as perceptions of client, employee and market performance, perceived client satisfaction, and background data on the respondents. We also offered a client-satisfaction survey to interested firms. This one-page survey investigated the satisfaction of a sample of clients with regard to specific aspects of the ICT services provided. This (limited) client-satisfaction survey was meant to validate the information gained from the two other stakeholder groups (ICT professionals and directors) on client-related performance criteria.

In each firm, one director was queried as a representative and key informant of the top management/owner stakeholder group. We did not consider studying more top managers per firm because it was feared that this would be too demanding in terms of time and effort on the part of participating firms which could result in reduced cooperation.

Sampling goals for the number of ICT professionals investigated per firm were established in proportion to the size of the organization. The number of questionnaires distributed in each firm ranged between 15 and 30, with a maximum of 75% coverage in the smallest firms and a minimum of 30% coverage in the largest firms. The questionnaires were distributed randomly among ICT professionals by the directors who, in the interview, had consented to do this. Completed questionnaires were filled out anonymously and returned directly to the university with pre-addressed postpaid envelopes. Reminder letters were sent out to the directors and personal calls were made in order to maximize the number of returned questionnaires. Of the 46 questionnaires left behind with the directors, 34 completed questionnaires (74%) were returned. Of the 982 questionnaires distributed among ICT professionals of the 46 firms, 611 completed

questionnaires (62%) were received. This means that an average of 13 employee questionnaires were received per organization (range: 5-24).

Thirteen ICT firms were willing to participate in the client-satisfaction assessment. From each of these firms, we received the addresses of 10 to 50 client organizations (the number varied according to the size of the firm). In total, the ICT-contacts in 281 client organizations were approached with a client-satisfaction survey (including a cover letter and a pre-addressed postpaid return envelope). We received 138 completed surveys (49%). For each of the 13 participating ICT firms, an average of 11 client-satisfaction surveys were returned (range: 5-25).

In our study, we had to deal with various sources of non-response (regarding firm participation, questionnaire completion by directors, questionnaire completion by ICT professionals, and client-satisfaction survey completion by client organizations). Non-response regarding the sampling of firms and ICT professional within firms was most significant to the interpretation of our results. Unfortunately, neither the Chambers of Commerce nor the REACH data bank could provide us with background data (e.g., turnover or profit information) about the non-participating firms in our operational population. Such information would have been useful in checking the representativeness of our sample. Our response rate of 32% is comparable to those reported in other studies which were less demanding of the firms in terms of time and effort. Information on the background characteristics of the participating firms is provided at a later point in this paper. Regarding the distribution of questionnaires among ICT professionals per firm, we were very dependent on the cooperation of our interview partners. They were instructed to distribute the questionnaires randomly and were made aware of the fact that only by following this procedure would useful feedback information be gained. There were no means available to check the extent to which these instructions were followed. An average response rate of 62% per firm was considered to be quite high, given the fact that we were not able to administer the questionnaires in a different fashion.

Measures

Objective Financial/Economic Performance: One part of the top management/owner

performance domain relates to financial/economic performance. The measurement of financial/economic performance in small and medium-sized firms is not obvious. As these firms are usually non-listed, market-based performance data are not available. Also, small and medium-sized firms are not legally obliged to make their accounting figures public. Researchers have to count on the firms' willingness to share financial information. The quality of financial/economic data (in terms of specificity and completeness) depends on the bookkeeping standards of the individual firms. Following Robinson (1983), turnover and profit-based measures are the two basic indicators of financial performance for small and medium-sized firms. Firm directors were, therefore, asked to share their profit and turnover figures of the last three years (1994-1996) so that we could calculate the rate of turnover growth in 1995-1996, the average rate of turnover growth in 1994-1996, the profit margin in 1996, and the average profit margin in 1994-1996. By calculating growth rates and profit margins (percentages), the indicators met the requirement of being comparable across firms and countries.⁵ We used both the averages of the years 1994-1996 and 1996 figures. The averages had the advantage that they compensated for potential fluctuations. The 1996 figures had the advantage of being closer to our time of data collection and thus less backward-oriented. We encountered no problems regarding the information on turnover. Not all directors were willing to share profit information, however. Moreover, some of our interview partners made us aware of the fact that the profit information provided could not be seen as reliable, because many firms modified their figures to reduce their tax burden. Therefore, we decided not to include profit-based measures in our analyses.

Perceived Stakeholder Performance: As we could not find validated scales to measure perceived performance with regard to clients, employees, and the market in small and medium-sized professional service firms, we generated a pool of potential items that tapped each stakeholder performance domain as closely as possible. These items were then presented to 4 academics, experienced in research in professional service firms, who critically evaluated them with regard to ambiguity, specificity, and domain representativeness. As our sampling took place

⁵ Turnover or profit per employee could not be calculated due to the considerable number of flexible employees with varying or unknown full-time equivalents in a large number of the firms.

in two countries, we had to ensure equivalence of our entire questionnaire (see, e.g., Nasif, Al-Daeaj, Ebrahimi, and Thibodeaux, 1991). All items were first formulated in Dutch (jointly by a bilingual German researcher and a native Dutch researcher). The items were then translated into German by a (bilingual) German researcher together with a (bilingual) German linguist. Finally, the items were presented to 3 Dutch and 3 German ICT professionals to check comprehensibility, potential ambiguity, and correctness of ICT-specific terminology. Based on their comments, we refined and finalized all scales.

Perceived client-related, employee-related, and market-related performance (the latter as part of the top management/owner domain) were measured with 15 items. For each domain, we asked respondents (ICT professionals and directors) to evaluate the success of their firm in the last three years as well as potential success in the future on a five-point Likert scale, where '5' represented 'very successful' and '1' represented 'not successful.' Moreover, we asked respondents to evaluate the reputation of their firm among clients, employees and competitors on a five-point Likert scale, where '5' represented 'good' and '1' represented 'bad.' An additional 9-item scale investigated client satisfaction. It included items assessing the satisfaction with key processes related to ICT services on a five-point Likert scale, where '5' represented 'very satisfied' and '1' represented 'not satisfied at all.' The original items and the corresponding factor analysis are presented in Table 5. These items were administered to ICT professionals and directors of all 46 ICT firms and to the clients of 13 ICT firms. The measurement of client satisfaction was meant to validate the ICT professionals' and directors' evaluations of client-related performance.

 Insert Table 4 about here

 Insert Table 5 about here

We employed factor analysis to establish construct validity of our perceived client, employee and market performance measures and our perceived client satisfaction scale. Mean scores per organization were computed for each item, based on the scores of employees and directors.

Principal components analysis with varimax rotation on firm level (N=46) produced a sensible factor structure that corresponded strongly with the initial categorization of our items (see Table 4). The analysis of the perceived stakeholder performance items produced 2 factors, which together explained 74.7 % of the variance.⁶ Factor 1 consisted of all client- and employee-related performance items (8 items; Cronbach's alpha: .94). Factor 2 consisted of all market-related performance items, with the exclusion of firms' reputation among competitors (6 items, Cronbach's alpha: .92). Our differentiation in past performance and future performance potential is not reflected in the factor structure. This makes sense in so far as the evaluation of future performance potential is always based on past experiences. Moreover, it indicates that the perceived performance profile of organizations is of some temporal stability. Interestingly, the split into employee- and client-related performance criteria was not found, as the items of these two performance domains score on one single factor. For conceptual reasons we will, nevertheless, keep these two aspects apart and distinguish the following: Client-related Performance (3 items; Cronbach's alpha: .90), Employee-related Performance (5 items; Cronbach's alpha: .92), and Market-related Performance (6 items, Cronbach's alpha: .92). The corresponding factor scores were formed by computing the means of corresponding items for employees and directors (which allows potential transformation into country z-scores and correction for common method variance).

Regarding the client satisfaction items, a principal components analysis on firm level (N=46; based on firm mean scores of employees and directors) resulted in one factor that explained 72.5% of variance (9 items; Cronbach's alpha: .95). All 9 client satisfaction items loaded considerably on this factor (see Table 5). The corresponding factor score was formed by

⁶ The reported factor structure could also be replicated in firm-level factor analyses for the two countries separately (N=21, N=25). To further examine the stability of the resulting factor structure, we also executed factor analyses on the individual level (N=645). The resulting factor structures did not differ much from the one reported above. As expected, factor loadings and reliabilities were somewhat higher for the firm-level analyses. Aggregation reduces the error component of individual level data; therefore, ecological correlations are usually higher than individual ones (see, e.g., Hofstede, Bond, and Luk, 1993; Rousseau, 1985).

computing the means of corresponding items for employees and directors of all ICT firms and for the clients of the 13 firms that had agreed to participate in this additional analysis.

Initial Analyses

Aggregation issues. In our study, the level of reference is the organization, while the level of measurement for the perceived performance variables is the individual. In general, the level of analysis should be consistent with the level of reference (see Hofstede et al., 1993; Rousseau, 1985). Therefore, we aggregated the responses of our employee and client samples per firm and worked with firm means. A precondition for the aggregation of individual level data to the organizational level is that interfirm variance exceeds intrafirm variance. Multivariate analysis of variance (MANOVA) showed that this requirement was met. Interfirm variance exceeds intrafirm variance significantly for all perceived stakeholder performance factors ($p < .001$). The observed significance level is .000 for Hostelling's T-square and Pillai's trace. Variations within firms are thus low enough to allow aggregation.

Skewness and kurtosis. Skewness and kurtosis tests indicated that all our perceived stakeholder performance factors meet the criterion of normal distribution.

RESULTS

Sample Description

On average, the ICT service firms investigated in our sample have 54 employees with a range of 14 to 180. The range we had formulated beforehand (selection criteria for sampling: 20-100 employees) had to be extended because the databases from the Dutch and German Chambers of Commerce were not reliable in this respect. The firms' average turnover in 1996 amounted to \$ 6,468,726. In the years 1994-1996, they realized an average yearly turnover growth of 25%.

Insert Table 6 about here

How do the performance evaluations of various stakeholder groups differ?

We expected directors' evaluations of the three stakeholder-related performance domains to be significantly higher than those of ICT professionals. Table 7 gives an overview of the corresponding figures for the 34 firms with complete director data sets. We find that directors' evaluations of client, employee and market performance is indeed significantly higher than those of ICT professionals. The discrepancies in their evaluations are highest with regard to employee and market performance. Interestingly, both directors and professional rate their firms' employee performance significantly lower than market and client performance.

Insert Table 7 about here

Furthermore, we expected ICT professionals' evaluations of client-related performance to be more similar to actual client' evaluations than those of directors due to ICT professionals' high amount of client contact. Table 8 shows that, indeed, ICT professionals' perception of client satisfaction correlates highly with actual client satisfaction ($r=.83$, $p<.001$, $N=13$), which means that the ICT professionals in our sample were able to very accurately estimate the satisfaction of clients with regard to items like service quality, client orientation or project management. Directors' estimation of client satisfaction is also correlated with actual client satisfaction ($r=.61$, $p<.05$, $N=13$), but less than that of ICT professionals.

Insert Table 8 about here

The client satisfaction assessment in a limited number of firms was also meant to validate our client-related performance scale. ICT professionals' perceived client performance showed high concurrent validity with ICT professionals' perceived client satisfaction ($r=.90$, $p<.001$, $N=46$) as well as actual clients' satisfaction ($r=.68$, $p<.01$, $N=13$). Based on these results, we consider

the ICT professionals' evaluations of client performance to be good estimates of actual clients' evaluations. Overall, we can conclude that both directors and ICT professionals are able to validly evaluate their firms' performance in the client domain and that especially ICT professionals' evaluations come very close to actual clients' evaluations.

How are the stakeholder performance evaluations interrelated and how are they related to financial/economic performance?

Our expectation that client performance would be strongly correlated with employee performance was already reflected in our factor structure: Client and employee performance appeared to load on a single factor. Table 9 shows the intercorrelations of the three perceived stakeholder performance variables as well as their correlations with objective turnover growth rates. In this correlation analysis, we did not separate the evaluations of directors and ICT professionals, but used directors as regular firm respondents and included their scores in the firm averages (the correlation matrix for the separate groups of directors and employees can be found in Appendix 1). We applied a correction procedure for common method variance for our perceived performance data (see Schmit and Allscheid, 1995). This procedure is desirable when correlation analyses are based on perceptual data from a single information source. Therefore, we randomly split respondents from each firm into two samples (A and B) of the same size and averaged their correlation coefficients (mean of correlation of sample A with sample B and correlation of sample B with sample A). These averaged coefficients cannot be affected by sources of common method because the scores were derived from different respondent subsamples. The intercorrelations of sample A with sample B per performance domain represent split-half reliabilities. They range from .67 to .83, which is rather high (Lord and Novick, 1968).

 Insert Table 9 about here

Table 9 shows that all three perceived performance variables (corrected for common method bias) are significantly intercorrelated. As expected, a high correlation is found between client and

employee performance ($r=.70$, $p\leq.001$, $N=46$). Also, the correlation between employee and market performance is significant ($r=.55$, $p\leq.001$, $N=46$). We also find significant correlations between perceived stakeholder performance and objective turnover growth rates. Whether we use the most recent turnover growth rate (1995 to 1996) or the average of two years (1994 to 1995 and 1995 to 1996) barely makes a difference. Only perceived market performance shows a somewhat higher correlation with regard to the most recent turnover growth figures. We have to keep in mind that our turnover data are retrospective. They date from 1994, 1995 and, 1996, while our perceived performance data were collected in 1997. Yet, our measurement of perceived performance also covered a broader time range, since respondents were asked to evaluate firm performance in the last three years as well as potential future performance. We can, therefore, conclude that objective turnover growth and perceived client, employee and market performance are strongly interrelated.

Is it possible to identify firms that score high on all performance domains?

We expected to find in our sample a group of high performing firms that is characterized by a strong performance profile over multiple stakeholder domains. In order to test this proposition, we categorized the firms in our sample into three performance groups (high, midfield, low) on the basis of their turnover growth figures as well as their client, employee and market performance scores. It is important to note that we did not form an overall performance index by calculating the average of all separate performance scores. Following the stakeholder theory, we do not consider the different performance domains as compensatory. Firms in the high performance group have to score high on all four variables independently, i.e., a high score in one stakeholder domain cannot compensate for a low score in another domain. We categorized the firms in two steps: first in terms of their objective turnover growth figures and then in terms of their three perceived performance scores. This also allowed us to further examine the relation between objective and perceived performance.

The categorization on the basis of turnover growth figures is less straightforward than one would assume. The growth figure of a certain period is always dependent on the results of the

year before. A firm could, for instance, realize an exceptionally high (low) growth rate for the period 1995-1996 just because the turnover 1995 was very low (high). In order to get a sensible performance categorization, we used the turnover growth rates for a two-year period (1994 to 1995 and 1995 to 1996). Firms belonging to the high performance group had to meet two criteria: (1) realizing growth rates above average in both periods independently (1994-1995 and 1995-1996) and (2) realizing an overall growth rate (1994-1996) of more than 0.5 standard deviations above average.⁷ This categorization-rule allows us to differentiate between firms with a consistent and clear above-average turnover growth development and firms with a consistent below-average turnover growth development and a midfield of firms that show an overall average turnover development.

In terms of perceived performance, we categorized firms as high performers if they scored at least 0.5 standard deviations above average in all three domains independently: client performance, employee performance and market performance. Accordingly, we categorized firms as low performers if their results on all three variables were at least 0.5 standard deviations below average. As a consequence, our middle category consists of firms that score average on all three scales or, for example, high (low) on one but low (high) or average on the other perceived performance scales. In sum our categorization rules are:

High Performance:

Objective: Overall turnover growth rate 1994-1996 is at least 0.5 standard deviations above the (national) sample average and the growth rates in both periods (1994-1995 and 1995-1995) are above average. **Perceived:** Client performance and employee performance and market performance scores are at least 0.5 standard deviations above the sample average.

Low Performance:

Objective: Overall turnover growth rate 1994-1996 is at least 0.5 standard deviations below the (national) sample average and the growth rates in both periods (1994-1995 and 1995-1995) are below average. **Perceived:** Client performance and employee performance and market performance are at least 0.5 standard deviations scores below the sample average.

Midfield:

⁷ The ICT services market is highly diverse and it is difficult to find market studies with identical subcategories of activities and levels of aggregation. As industry averages of yearly turnover growth rates are not available for our subcategory of firms (firms of less than 180 employees with SBI code 722), we used the sample averages for our categorization.

Objective: All firms belonging to neither of the groups of high or low performance. Perceived: All firms belonging to neither of the groups of high or low performance.

Table 10 shows the sample descriptives that form the basis for this categorization. We had to use country means for the categorization of turnover growth data (1994-1996) because of significant differences between our Dutch and German samples. Compared to the German firms, the Dutch firms in our sample realized significantly higher turnover growth rates ($t=-3.98$, $p \leq .001$) and the variance of their turnover growth rates was less restricted (see Table 10). This points to important differences between the two national market environments (for more details on country-specific differences see Glunk and Wilderom, 1998). Regarding the perceived performance variables, we could not find significant country differences: a correction was therefore not necessary.

 Insert Table 10 about here

The following 3x3 matrix (see Table 11) shows the combinations of objective and perceived performance categories and the corresponding means of performance variables per cell. We find a group of 6 firms that belong to the high/high performance category (cell 1). These firms are characterized by a high performance profile in all perceived and objective stakeholder performance variables. We also find a group of 4 firms that belong to the low/low performance category (cell 9). In accordance with the assumptions of the stakeholder approach, we find no firm belonging to the high objective/low perceived performance category (cell 7). Yet, we find two firms belonging to the low objective/high perceived category (cell 3). Following the stakeholder assumptions, such high/low or low/high combinations are rather unlikely. If such a combination appears at a certain point in time, it can be assumed to be of a rather transient quality. Firms in this situation would have a strong tendency to move into another state. Over time, low scores in terms of perceived stakeholder performance are expected to result in low (objective) financial/economic performance, while high scores in terms of perceived stakeholder performance are expected to result in high financial/economic performance. This relationship will be addressed in an exploratory way in the following section.

Insert Table 11 about here

Does high perceived stakeholder performance lead to subsequent superior financial/economic performance?

We expected that firms belonging to the category of high perceived stakeholder performance at t1 would subsequently realize a turnover growth rate which is above the sample average. Likewise, we expected that firms belonging to the category of low perceived stakeholder performance at t1 would subsequently realize a turnover growth rate which is below the sample average. In terms of Table 11 this would mean that over time, firms in cells 2 and 3 are expected to move towards cell 1 and firms in cells 7 and 8 would move towards cell 9.

In order to explore this relation, we contacted the firms in our Dutch sample again in 1998 and asked them to provide us with their turnover growth data of 1997. Nineteen of the twenty five firms of our Dutch sample consented to provide us with these figures. Unfortunately, we had to do without the data of six firms. Two firms had been taken over in the meanwhile by bigger ICT corporations, so that the figures would not have been comparable anymore. Two firms did not yet have their 1997 figures ready. Two other firms refused to cooperate. For the 19 cooperating firms, we will first show descriptives and correlation coefficients of all relevant performance variables (Table 12). Next, we will categorize the firms anew, based on their turnover growth rate 1996-1997 and explore their movements compared to the previous categorization.

Insert Table 12 about here

We included the turnover growth rate of two time periods in the correlation matrix (Table 12) in order to explore the relation between objective and perceived stakeholder performance over time: (1) Turnover growth 1995-1996 (preceding the assessment of perceived stakeholder

performance) and (2) turnover growth 1996-1997 (coming shortly after the assessment of perceived stakeholder performance). We have to state in advance that this exploration has two obvious limitations. First, turnover growth rates are always based on turnover figures of the previous year. A high (low) growth rate can actually be due to an exceptionally high (low) turnover figure in the recent year or to an exceptionally low (high) turnover figure in the year before. This can be expected to lower the correlations between perceived and objective performance in our analysis. Second, the amount of time that elapsed between the measurement of perceived performance (early 1997) and the subsequent turnover growth rate (1996-1997) may be too short to reveal significant effects. Both limitations will lower the empirically found association. Thus, if, in spite of these limitations, we find significant correlations between our perceived performance variables and subsequent turnover growth, we believe this to be a rather convincing indication of an actually existing effect between perceived stakeholder performance and subsequent objective performance.

As in our full sample, we find significant correlations between objective and perceived performance variables in this restricted sample of 19 ICT firms. We find a high correlation between employee performance (assessed in 1997) and the most recent turnover growth rate (1996-1997), suggesting that the ability to keep and attract high-quality personnel is strongly related to subsequent turnover growth. Perceived client performance is significantly correlated with previous turnover growth, but only slightly with subsequent turnover growth. The high correlation between the turnover growth rate 1995-1996 and perceived market performance (assessed in 1997) is striking. We also find a significant correlation between perceived market performance and subsequent turnover growth (1996-1997), indicating that firms that are perceived as successful in improving their market positions do indeed realize higher turnover rates in the following year.⁸

⁸ Here we encounter a general issue in performance research that has already been depicted in Figure 1. Performance researchers tend towards postulating unidirectional causal relationships, despite the obvious fact that such models are not adequate for explaining the complex network of performance interdependencies. Perceived stakeholder performance does indeed have to be conceived of as being influenced by previous objective performance and as influencing subsequent objective performance.

In order to explore their movements compared to our previous categorization, we categorized the firms anew according to their most recent turnover growth figures. We defined high (low) performing firms in terms of objective performance as firms with a turnover growth rate 1996-1997 of at least 0.5 standard deviations above (below) the sample average. Table 13 shows the categorization of our 19 firms according to their previous and their most recent turnover growth scores. We numbered the firms from 1 to 19 so that we could follow their movements in terms of objective performance categories. In the following, we will discuss these movements per row of perceived stakeholder performance, according to our assumptions.

 Insert Table 13 about here

Within the first row of high perceived performance we see that the two firms that were previously in the low objective performance category (firms 7 and 8 in cell 3) moved, as expected, into higher categories. Firm 7 moved to the midfield and firm 8 even moved to the category of high objective performance. These moves are in line with the assumptions of the stakeholder theory that high perceived stakeholder performance leads to subsequent superior financial/economic performance. Moreover, we find that two firms in the high objective performance category stayed, as expected, in the same cell (firms 1 and 3). Yet, we also find one unexpected move within the row of high perceived performance. In spite of scoring high on all perceived performance variables, firm 2 moves from the category of high objective performance into midfield. Moreover, the three firms that were previously in the midfield of objective performance (firms 4, 5, and 6) did not ascend to the high objective performance category as we would have expected. This persistence might be due to the small time interval between our measurement of perceived performance and subsequent objective performance. We can conclude that within the category of high perceived performance we find stakeholder theory assumptions confirmed for 4 of the 8 firms (firms 1, 3, 7, 8); three firms persisted in a position that was not anticipated by stakeholder theory and only one firm moved in a completely unexpected direction.

For the firms with a low perceived performance categorization we cannot say much because, unfortunately, only one firm of our restricted sample belongs to this category. This firm (firm 19) moved from the low objective performance category to the midfield. Thus, in spite of a low score in perceived stakeholder performance, this firm succeeded in improving its turnover.

We did not preformulate concrete assumptions regarding the midfield of perceived performance because this category consists of firms with non-uniform perceived performance profiles. Firms in this category are characterized by average scores in client, employee and market performance or by combinations of low, medium and high scores on these variables (in any case, they do not show a consistently high or low performance profile over all three domains). Looking at this midfield row, we see that the three firms that were previously in the high objective performance category moved to a lower category (firms 9, 10, 11). Two firms from the low objective performance category moved to the midfield (firms 15 and 18), and from the midfield one firm moved up (firm 12) and one down (firm 14). In order to allow us to explore these movements more thoroughly, Table 14 provides a more detailed look at the firm's perceived performance profiles in terms of client, employee and market performance.

 Insert Table 14 about here

Table 14 shows that firms with a medium score in all three perceived performance domains stay in the medium category of objective performance or move towards it (firms 11, 13, and 18). This is in line with stakeholder theory. Moreover, we see that those firms where employee performance scores are lower than client and market performance move to a lower category (firms 9, 10, 14), while firms where employee performance scores are higher than client and market performance move to a higher category (firm 12). This is an interesting result that again stresses the importance of the employee performance domain for professional service firms. We would, however, not have expected to see firms 9 and 10 with their overall rather high perceived performance profile moving to the lowest objective performance category. Also, we find it surprising to see firm 15 with a rather poor perceived performance profile moving to the midfield of objective performance.

In sum, our analysis of perceived performance and objective performance in a limited number of professional service firms showed quite some congruence with stakeholder theory expectations. It became evident that, as expected, the combination of high perceived/low objective or low perceived/high objective performance is rare and that if it occurs it is not likely to persist. Moreover, within the category of high perceived performance, we found half of the firms confirming to theory regarding subsequent objective performance. Within the rather heterogeneous midfield category of perceived performance, it seemed difficult to detect consistent patterns of movements. Nevertheless, we could discern a tendency of firms scoring average on all perceived performance domains to move towards the midfield of objective performance. Moreover, we found the employee performance scores to have quite some influence on subsequent objective organizational performance. Overall, we can conclude that our restricted and exploratory analysis shows that a high profile in perceived stakeholder performance can indeed provide firms with a competitive advantage that leads to subsequent superior performance.

SUMMARY AND CONCLUSION

The stakeholder approach has been embraced by both the recent organizational effectiveness and performance literature. Yet, so far, it has only scarcely been translated into empirical research. An important merit of this approach is that it explicitly acknowledges the multidimensional nature of performance evaluations and that it provides a systematic and comprehensive approach to deal with this complexity. One of the most promising features of the stakeholder approach is its future orientation. With its focus on longer-term performance, the stakeholder approach is assumed to measure an organization's potential to be successful in the future based on financial indicators as well as indicators of loyalty or sustained cooperation of its major stakeholders.

Our review of the few empirical stakeholder performance studies pointed to four issues that would require more attention: (1) the specification of relevant stakeholders in various organizational contexts (e.g. specified for types of organizations or industries); (2) the interrelationship of various stakeholder-specific performance evaluations (based on stakeholder-

related evaluation criteria and the investigation of actual stakeholder groups as information sources); (3) the connection of perceived stakeholder performance and more conventional objective performance indicators, and (4) the possible definition of a final, overall performance judgement based on multiple scores.

Our empirical study of 46 small and medium-sized ICT service firms in the Netherlands and Germany aimed to address these four issues. Based on the results of a pilot study with directors of ICT service firms and a literature review, we decided to consider the three most salient stakeholder groups in this type of firm: clients, employees and top management/owners. We defined multiple stakeholder-specific evaluation criteria (in terms of organizational outcomes) and used multiple informants (employees, directors and a limited number of clients) as well as objective data.

The analysis confirmed our suspicion that it would be misleading to merely rely on information from directors for the evaluation of stakeholder performance. Due to impression management mechanisms, they tend to provide a positively biased picture about their organization. We confirmed Tsui's (1990) insight that top managers might view poor performance ratings as a reflection of their own inability to manage the firm, leading to leniency in the ratings. Aggregated performance evaluations of a sample of non-managerial employees seem more reliable. With regard to the client performance domain, as have previous researchers in service contexts (Johnson, 1996; Schneider and Bowen, 1985; Schneider, 1973), we found employees' and clients' evaluations of client performance to be highly congruent. In cases where clients themselves cannot be approached, professional service employees may thus be considered a valid information source for evaluating client performance.

Consistent with our expectations, we found that the employee and client performance domains are closely interrelated. Critics would claim that the high correlation is a methodological artefact. Yet, as we checked the validity of employees' evaluations of client performance and as we corrected our data for common method variance, we consider this objection to be ruled out. We also found the employee and the market performance domains to be strongly related. These results confirm the often mentioned centrality of employees in the professional service context (see Alvesson, 1995; Weggeman, 1995). A superior client or market performance score can,

finally, only be realized when professional service firms are able to keep and attract high-quality personnel. Thus a high score in the employee performance domain can be seen as a necessary (yet not sufficient) precondition for realizing high client and market performance. Unfortunately, with our data we could not test the causality that is implied in this statement. In general, we can conclude that multiple stakeholder performance domains need not to be in conflict. In the context of our professional service firms, they appeared largely interdependent.

Applying the stakeholder approach to evaluate organizational performance in multiple domains does not imply that a final, overall evaluation of organizations has to be abandoned. Following the stakeholder theory, best performing firms succeed in attaining a high score on all stakeholder performance domains. Our categorization of firms into low, high, and midfield performers allowed us to present the complex results of our stakeholder performance assessment in a compressed way. Such a final aggregated evaluation is a good basis for examining the longer-term consequences of a high or low overall stakeholder performance score. Moreover, our categorization proved useful for feedback to the assessed organizations.

While critics of the stakeholder approach state that it is impossible for organizations to follow multiple performance goals simultaneously (Argenti, 1997), we were able to detect a group of professional service firms with a strong performance profile on multiple stakeholder domains. Given that previous research could not find such a group of firms, this result seems context-specific. Our data indicates that in organizational contexts where the practical relevance and instrumentality of a stakeholder perspective is widely acknowledged and where the number of relevant stakeholders is fairly restricted, it is likely to find firms that realize a high performance score on multiple stakeholder domains. Further empirical research should investigate the stakeholder performance approach in different contexts.

The interrelation between perceived stakeholder performance and objective financial/economic performance is the key to a better establishment of the stakeholder approach in academic performance research. We found turnover growth rates of the last two years preceding our data collection to be significantly correlated with perceived stakeholder performance. The mechanisms underlying this finding may be threefold: First, knowledge about previous turnover growth might have influenced the stakeholder performance evaluations of our

respondents through logical reasoning, sense making processes or a financial halo effect (e.g., if previous turnover or profit figures were high, a firm's client, employee or market performance cannot be low). Such cognitive processes certainly prevail when respondents lack necessary stakeholder performance information while having financial performance data available (as it might be the case in the *Fortune* reputational ratings). Yet, as we investigated internal firm respondents who are very knowledgeable with regard to client, employee and market performance, we do not think these processes have dominated the perceived performance evaluations in our study. A second more potential explanation for our finding would be that firms change their stakeholder management as a consequence of their financial results (e.g., a high turnover and profit rate might result in additional client, employee or market-oriented investments). Our significant positive correlation would then indicate that firms with high turnover growth rates would tend to ameliorate their stakeholder relations while firms with a low turnover growth rate would tend to reduce their efforts with regard to clients, employees, and the market. Such a tendency is likely to exist (e.g., due to the availability of financial means) and we might have captured it with our data. Yet, we find a third possible explanation for the finding also conceivable. By asking our respondents to evaluate stakeholder performance during the last three years, we implied a certain steadiness or stability in the firms' stakeholder performance achievements. After all, obtaining a high score in stakeholder performance is the result of a rather lengthy process. It takes time and effort to build up a good reputation among employees or clients and to be considered successful in the market. Therefore, we conceive of perceived stakeholder performance as a rather stable organizational feature. A high perceived performance rating in one year would imply that perceived performance in the previous year was also rather high because changes in stakeholder performance are slow. The significant correlation obtained in this study could thus even be interpreted as turnover growth effect of a stable client, employee and market performance record. Which of these interpretations holds cannot be answered on the basis of our data. The assumed bi-directional effects point to the general interdependency of perceived stakeholder performance and objective financial/economic performance as depicted in Figure 1. The timely succession of these effects is rather difficult to disentangle in comparative research. Here, in-depth case studies could provide useful insights. Further research is needed

that addresses questions like: Exactly on which information and knowledge do respondents base their evaluations of stakeholder performance? How stable are the stakeholder performance scores of firms? Which events cause managers to change their efforts on specific stakeholder domains? How long does it take before such changes are measurable in terms of perceived stakeholder performance?

Even more important than its relation with previous financial/economic performance is, of course, the relation between perceived stakeholder performance and subsequent financial/economic performance. After all, the attainment of a position of advantage in multiple stakeholder domains is assumed to lead to superior financial/economic performance in the long run. Correlation results in a limited subsample of our firms indicate that there is indeed a positive relation between perceived stakeholder performance and subsequent turnover growth. Firms that were perceived as successful in keeping and attracting high-quality personnel and in improving their market position realized a high turnover growth rate in the following. We did not find a significant relation with regard to perceived client performance. A possible explanation for this is that the amount of time that elapsed between the measurement of client performance and the subsequent turnover growth rate was too short to reveal an effect. After all, the satisfaction and sustained cooperation of current clients cannot be assumed to immediately lead to additional orders.

The exploratory analysis of movements from previous to subsequent turnover growth categories on the basis of our final, overall stakeholder performance score revealed a number of interesting insights. Firms scoring high in perceived stakeholder performance did indeed, as expected, show a tendency to stay in or move towards the high turnover growth category. Only one firm in this subgroup moved unexpectedly towards a lower turnover growth category. We assume that this unexpected result is due to the difficulty of realizing consistently high turnover growth rates over time. After all, an exceptionally high turnover growth rate in one time period is not easily topped in the following period. Our detailed analysis of the heterogeneous midfield of perceived stakeholder performance underlines the special importance of the employee performance domain for subsequent turnover growth in small and medium-sized ICT service firms. Those firms where employee performance scored lower than client and market

performance, moved to a lower turnover growth category, while firms where employee performance scored higher than client and market performance, moved to a higher category. This critical importance of the employee performance domain is probably due to the recent scarceness of high-quality ICT professionals in both the Netherlands and Germany.

Our exploration of stakeholder performance effects in terms of future financial/economic performance suffers from three basic limitations. (1) Turnover growth might not have been the optimal objective performance measure to assess the effects of stakeholder performance. While growth is an important performance variable in small and medium-sized firms, growth rates have the disadvantage of always being related to the results realized in the previous period. Such a variable complicates the interpretation of results. Additional objective performance criteria such as profitability or turnover per employee should – where possible – be included in future research on this topic. (2) In general, a complete longitudinal research design would, of course, have been better for studying the assumed relationships between perceived stakeholder performance and subsequent financial/economic performance. (3) Our time interval between the measurement of stakeholder performance and subsequent financial/economic performance might have been too short to reveal clear effects. So far, we do not know how much time has to elapse before the effects of stakeholder performance can be traced in terms of objective performance. We would welcome future research that addresses this issue.

Overall, our study illustrated an operationalization of the stakeholder approach to organizational performance. Our results show that a high stakeholder performance score can indeed provide firms with a competitive advantage that leads to increased performance in the longer term. The fact that we also found perceived stakeholder performance to be related to previous objective financial/economic performance points to a whole network of performance interdependencies that needs to be explored further. Finally, we hope to have shown that stakeholder performance studies are less complex than is often assumed and certainly more promising – in terms of accumulated knowledge buildup -- than conventional performance studies with few or simplistic measures.

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TABLE 1:
THE FORTUNE REPUTATIONAL RATING

FORTUNE RATINGS (yearly since 1982)

Organizational Sample: Ten largest firms of various industries (the actual number changes per year).

Basis for Stakeholder Selection: Not referred to.

Evaluation of Organizations: Computation of overall index of average reputation.

Criteria of Stakeholder Performance

Info Source

Relative perceived firm success regarding

External experts (N ≥ 100)

- financial soundness (stockholders)
 - use of corporate assets (stockholders)
 - quality of management (stockholders)
 - long-term investment value (stockholders)
 - quality of products/services (customers)
 - innovativeness (customers)
 - ability to attract, develop and keep talented people (employees)
 - community and environmental responsibility (community)
-

TABLE 2:
EMPIRICAL STAKEHOLDER PERFORMANCE STUDIES

PICKLE & FRIEDLANDER (1967)

Organizational Sample: N=97 small business organizations of various industries.

Basis for Stakeholder Selection: Not explicitly referred to.

Use of Objective Performance Data: Profit.

Evaluation of Organizations: Multidimensional: Seven stakeholder satisfaction scores. No overall evaluation.

Criteria of Stakeholder Performance	Info Source
Owners' satisfaction with financial and non-financial perf. criteria	Owners (N=97)
Employees' satisfaction with employee-specific perf. criteria	Employees (in average 5.3 per firm)
Customers' satisfaction with customer-specific perf. criteria	Customers (N=?)
Suppliers' satisfaction with supplier-specific perf. criteria	Suppliers (in average 2.1 per firm)
Creditors' satisfaction with creditor-specific perf. criteria	Banks, statistical data
Perceived community satisfaction with specific perf. criteria	Owners (N=97)
Perceived government satisfaction with specific perf. criteria	Owners (N=97)

TSUI (1990)

Organizational Sample: N=151 Human Resource (HR) subunits of three large organizations (two for-profit organizations, one governmental organization).

Basis for Stakeholder Selection: Focus on salient stakeholders, derived logically from an analysis of the environment of the HR subunits and empirically confirmed.

Use of Objective Performance Data: No.

Evaluation of Organizations: Multidimensional: Three stakeholder satisfaction scores. No overall evaluation.

Criteria of Stakeholder Performance	Info Source
Executive satisfaction with overall performance of HR subunit	Executives of operating units (N=146)
Manager satisfaction with overall performance of HR subunit	Managers of operating units (on average 5.5 per HR unit)
Employee satisfaction with overall performance of HR subunit	Employees of operating units (on average 5.9 per HR unit)

WILDEROM & PRESS (1994)

Organizational Sample: N=49 nonprofit human service organizations for the aged.

Basis for Stakeholder Selection: Not explicitly referred to.

Use of Objective Performance Data: Cost efficiency, productivity, budget growth, staff growth, service recipients' growth.

Evaluation of Organizations: Multidimensional: Factor analysis of the stakeholder evaluations and the objective performance criteria results in four factors: growth, quality of service, efficiency, marketing. No overall evaluation.

Criteria of Stakeholder Performance	Info Source
Community's perceived overall org. effectiveness	Community leaders (N=17)
Community's perceived need of improvement in three domains	
Directors' perceived overall org. effectiveness	Directors (N=49)
Directors' perceived need of improvement in three domains	
Employees' perceived overall org. effectiveness	Employees (on average 6.2 per org.)
Employees' perceived need of improvement in three domains	

TABLE 3:
PERFORMANCE CRITERIA AND INFORMATION SOURCES

Stakeholder	Performance Criteria	Information Source
Client	Perceived client-related performance (Perceived) client satisfaction	Top management/owners, employees A restricted number of client firms
Employee	Perceived employee-related performance	Top management/owners, employees
Top Management / Owner	Perceived and objective top management/ owner-related performance	Top management/owners, employees, firm records

TABLE 4:
PERCEIVED STAKEHOLDER PERFORMANCE FACTORS

Original Constructs and Items	Factor Loadings		Final Communalities
	F1	F2	
Perceived client-related Performance			
How successful was this firm in the last three years at			
– satisfying its clients	.85		.78
What is the reputation of this firm			
– among clients	.81		.83
How successful will the firm be in the future at			
– satisfying its clients	.74		.69
Perceived employee-related performance			
How successful was this firm in the last three years at			
– acquiring high-quality personnel	.70		.76
– keeping high-quality personnel	.80		.67
What is the reputation of this firm			
– among employees	.79		.78
How successful will the firm be in the future at			
– acquiring high-quality personnel	.65		.75
– keeping high-quality personnel	.84		.74
Perceived market-related performance			
How successful was this firm in the last three years at			
– improving its market position		.74	.80
– improving its services/products		.80	.71
– acquiring new clients		.79	.68
What is the reputation of this firm			
– among competitors			
How successful will the firm be in the future at			
– improving its market position		.84	.81
– improving its services/products		.81	.70
– acquiring new clients		.88	.84
Variance Explained			
% of variance explained (unrotated solution)	63.5	11.2	
Cumulative % of variance (unrotated solution)	63.5	74.7	
Summary Statistics			
Scale Mean	3.52	3.74	
Scale Standard Deviation	.46	.40	
Cronbach's Alpha	.94	.92	

N=46 (aggregated on the organizational level, including employees' and directors' responses)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = .82

Bartlett Test of Sphericity = 792.77, Significance = .000

Only loadings > .60 are shown

**TABLE 5:
PERCEIVED CLIENT SATISFACTION FACTOR**

Original Construct and Items	Factor Loadings	Final Communalities
	F1	
Perceived Client Satisfaction		
How satisfied are the clients with the firm's		
- quality of service	.84	.71
- client orientation	.74	.55
- promptness in reacting to desired adaptations	.84	.71
- project management	.80	.64
- realization of promised performance	.91	.83
- meeting of deadlines	.91	.83
- keeping to the budget	.81	.66
- keeping to previously determined arrangements	.92	.85
- handling of complaints	.86	.75
Variance Explained		
% of variance explained	72.5	
Summary Statistics		
Scale Mean	3.62	
Scale Standard Deviation	.44	
Cronbach's Alpha	.95	

N=46 (aggregated on the organizational level, including employees' and directors' responses)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = .89

Bartlett Test of Sphericity = 433.53, Significance = .000

**TABLE 6:
SAMPLE DESCRIPTION**

	Number of Firms	Av. Number of Employees	Av. Turnover 1996 (in US \$)	Av. Turnover Growth 94-96
Total	46 (100.0%)	53.7	6468726	25%
Ranges		14 - 180	164,706 - 37,552,941	- 22% - 93%

**TABLE 7:
DESCRIPTIVES OF DIRECTORS' AND ICT PROFESSIONALS'
PERFORMANCE EVALUATIONS**

Info Source	Stakeholder Performance Domain	Mean	Std.Dev	Sign. Diff. between Dir. and Empl.
Director	Perceived Client Performance	4.05	.56	*
Professionals	Perceived Client Performance	3.85	.35	
Director	Perceived Employee Performance	3.83	.55	***
Professionals	Perceived Employee Performance	3.43	.51	
Director	Perceived Market Performance	4.16	.50	***
Professionals	Perceived Market Performance	3.78	.42	

Directors (N=34); Firm Means of ICT Professionals (N=34);

*p < .05. **p < .01, *** p < .001

**TABLE 8:
INTERRELATIONS OF CLIENT-RELATED PERFORMANCE EVALUATIONS**

Info Source Evaluation		Director Client Perf.	Professionals Client Perf.	Director Client Sat.	Professionals Client Sat.	Clients Client Sat.
Info Source	Evaluation					
Director	Perc. Client Perf.	1.0				
Professionals	Perc. Client Perf.	.45**	1.0			
Director	Perc. Client Satisf.	.80***	.43*	1.0		
Professionals	Perc. Client Satisf.	.51**	.90***	.51**	1.0	
Clients	Client Satisfaction	.57*	.68**	.61*	.83***	1.0

Directors (N=34); Firm Means of Employees (N=46); Firm Means of Clients (N=13).

Listwise deletion of missing cases.

*p ≤ .05. **p ≤ .01, *** p ≤ .001

**TABLE 9:
INTERRELATIONS OF STAKEHOLDER PERFORMANCE VARIABLES**

Perceived and Objective Performance	1	2	3	4	5
1 Perceived Client Performance ^a	.67 ^b				
2 Perceived Employee Performance ^a	.70***	.83 ^b			
3 Perceived Market Performance ^a	.46**	.55***	.77 ^b		
4 Av. Turnover Growth 94-96	.46**	.43**	.47**	1.0	
5 Turnover Growth 95-96	.41**	.43**	.55***	.79***	1.0

N=46

^a Intercorrelations of perceived performance variables are corrected for common method variance.

^b Diagonals of perceived performance variables represent split-half reliabilities.

** $p \leq .01$, *** $p \leq .001$

TABLE 10:
BASIS FOR STAKEHOLDER CATEGORIZATION: SAMPLE DESCRIPTIVES

Performance Variable	Mean	Std.Dev.	Min.	Max.
Av. Turnover Growth 1994-1996, German Sample (N=21)	1.14	.09	.95	1.32
Av. Turnover Growth 1994-1996, Dutch Sample (N=25)	1.35	.24	.88	1.93
Perceived Client Performance (N=46)	3.80	.41	2.73	4.52
Perceived Employee Performance (N=46)	3.35	.52	2.05	4.46
Perceived Market Performance (N=46)	3.74	.40	2.83	4.35

**TABLE 11:
OBJECTIVE AND PERCEIVED PERFORMANCE CATEGORIES:
MEANS PER CELL**

		Objective Performance		
		High	Midfield	Low
Perceived Performance <u>High</u>	Number of Firms	N=6	N=7	N=2
	Turnover (Ger/NL)	1.28 / 1.67	1.16 / 1.43	- / 1.05
	Client Perf.	4.22	4.09	4.07
	Empl. Perf.	4.10	3.85	3.84
	Market Perf.	4.13	4.00	4.04
		Cell 1	Cell 2	Cell 3
Perceived Performance <u>Midfield</u>	Number of Firms	N=5	N=9	N=8
	Turnover (Ger/NL)	1.32 / 1.61	1.13 / 1.35	1.04 / 1.19
	Client Perf.	3.89	3.78	3.85
	Empl. Perf.	3.16	3.21	3.32
	Market Perf.	3.83	3.83	3.56
		Cell 4	Cell 5	Cell 6
Perceived Performance <u>Low</u>	Number of Firms	N=0	N=5	N=4
	Turnover (Ger/NL)		1.14 / -	1.04 / 1.02
	Client Perf.		3.04	3.38
	Empl. Perf.		2.62	2.96
	Market Perf.		3.15	3.43
		Cell 7	Cell 8	Cell 9

**TABLE 12:
DESCRIPTIVES AND INTERRELATIONS
OF PERFORMANCE VARIABLES FOR 19 FIRMS**

Perceived and Obj. Perf.	Mean	Std.Dev.	1	2	3	4	5
1 Perceived Client Perf. ^a	3.97	.20	1.0				
2 Perceived Employee Perf. ^a	3.50	.38	.52*	1.0			
3 Perceived Market Perf. ^a	3.84	.36	.44	.56*	1.0		
4 Turnover Growth 95-96	1.34	.23	.59**	.48*	.70***	1.0	
5 Turnover Growth 96-97	1.24	.23	.37	.60**	.51*	.27	1.0

N=19

^a Intercorrelations of perceived performance variables are corrected for common method variance.

*p<.05 ** p<.01, *** p<.001

**TABLE 13:
MOVEMENTS IN PERFORMANCE CATEGORIES OVER TIME**

	Objective Performance in Two Time Periods					
	High Performance		Midfield		Low Performance	
	94 - 96	96 - 97	94 - 96	96 - 97	94 - 96	96 - 97
Perceived Performance High	1 2 3 Cell 1	1 3 8 Cell 1	4 5 6 Cell 2	4 5 6 2 7 Cell 2	7 8 Cell 3	 Cell 3
Perceived Performance Midfield	9 10 11 Cell 4	 12 Cell 4	12 13 14 Cell 5	 13 11 15 18 Cell 5	15 16 17 18 Cell 6	16 17 9 10 14 Cell 6
Perceived Performance Low	 Cell 7	 Cell 7	 Cell 8	19 Cell 8	19 Cell 9	 Cell 9

The numbers in the cells show the codes of the 19 Dutch firms that participated in this analysis.

**TABLE 14:
DETAILED EXPLORATION OF THE PERCEIVED PERFORMANCE MIDFIELD**

	Perceived Performance			Objective Performance	
	Client	Employee	Market	Previous	Recent
Firms					
9	+	=	+	+	-
10	+	=	+	+	-
11	=	=	=	+	=
12	=	+	=	=	+
13	=	=	=	=	=
14	=	-	=	=	-
15	=	-	-	-	=
16	=	=	-	-	-
17	=	-	-	-	-
18	=	=	=	-	=

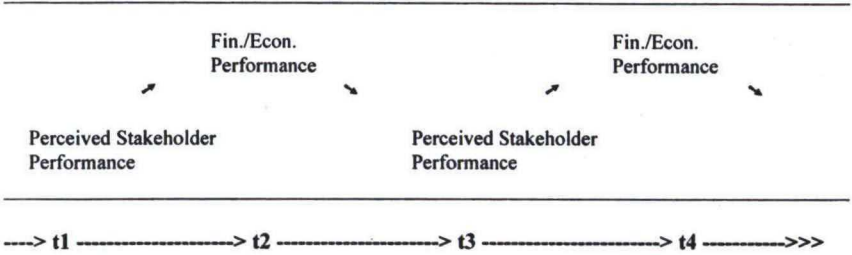
Categories:

High Performance: +

Midfield: =

Low Performance: -

**FIGURE 1:
THE ASSUMED RELATION OF PERCEIVED STAKEHOLDER PERFORMANCE
AND OBJECTIVE FINANCIAL/ECONOMIC PERFORMANCE OVER TIME**



**APPENDIX 1:
INTERRELATIONS OF STAKEHOLDER PERFORMANCE VARIABLES PER INFO SOURCE**

Info Source		Director	Director	Director	Empl.	Empl.	Empl.	Av. Turnover	Turnover
Evaluation Criteria		Client Perf.	Empl.Perf.	Market Perf.	Client Perf.	Empl.Perf.	Market Perf.	Growth 94-96	Growth 95-96
Info Source	Evaluation Criteria								
Director	Perc. Client Performance	.77 ^a							
Director	Perc. Employee Performance	.24	.77 ^a						
Director	Perc. Market Performance	.64***	.31	.81 ^a					
Employees	Perc. Client Performance	.45**	.19	.42*	.90 ^a				
Employees	Perc. Employee Performance	.26	.23	.23	.88***	.91 ^a			
Employees	Perc. Market Performance	.36*	.32	.47**	.64***	.68***	.92 ^a		
Firm Records	Av. Turnover Growth 94-96	.22	.19	.42*	.46**	.42**	.45**	1.0	
Firm Records	Turnover Growth 95-96	.17	.14	.40*	.40**	.40**	.53***	.79***	1.0

Directors (N=34); Firm Means of Employees (N=46); Firm Records (N=46).

^a Diagonals of perceived performance variables represent Cronbach's alphas.

Listwise deletion of missing cases.

* p ≤ .05. ** p ≤ .01, *** p ≤ .001

Diagonal => Cronbach's alpha

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