International Journal of Business and Economic Development
Vol. 2, No. 1; March, 2021. pp 6-16
ISSN 2692-5591 (print), 2692-5583 (online)

Published by International Center for Promoting Knowledge
www.icpknet.org

Social Legitimacy and Sustainability: The Public's Mandate for Business Going Forward

Ernest H. Hall, Jr.
Professor
Romain College of Business
University of Southern Indiana
8600 University Blvd.
Evansville, IN 47712
United States of America

Jooh Lee
Professor
Rohrer College of Business
Rowan University
201 Mullica Hill Rd.
Glassbooro, NJ 08028
United States of America

Abstract

The foundation principles of business are changing or so it appears. Traditional business ways and practices are being called into question. No longer is the age-old adage of efficiency leads to profitability a certainty; in fact, it just might be a recipe for disaster, given the social justice barometer currently facing business. So, what new concoction holds the secret recipe for success in today's new business world? The answer, in just a few words: Social legitimacy and sustainability. The value of sustainability as a strategic asset and its impact on a firm's survival is the subject of this research treatise. Results suggest that sustainability has become a crucial strategic factor that can no longer be ignored.

Keywords: Sustainability, Reputation, Social Legitimacy

1. Introduction

Business education has always taught that corporations are "guests" in society, and that their existence and survival is predicated on the public's willingness to tolerate or embrace them. Given the current state of affairs in the United States, the power and impact of public/social causes on a firm's health cannot be overstated. Firms are being forced to address issues that, for a prolonged period of time, have been consciously ignored or simply overlooked. Issues, such as social justice, have exploded in popularity recently, but more importantly, the depth of the conviction exhibited by its adherents has solidified and hardened into a force that businesses can no longer ignore if they wish to survive(Berns, Townend, Khayat, Balagopal, Reeves, Hopkins,&Kruschwitz, 2009; Heineman, 2016). This topic is reflective of what is frequently referred to as social legitimacy; a firm's willingness to accept and embrace the societal values/mores of the environment in which it seeks to operate. Therefore, in order for a business to survive in today's tumultuous world it has become imperative that they mimic or reflect the new societal values.

Although the concept of social legitimacy was always implicitly assumed to lie at the foundation of a firm's financial success, the societal participants were largely impotent in their ability to unify and empower any major societal adjustments. However, times have changed and a cultural revolution has begun that shows no signs of dampening. In fact, with each passing day, the tide is rising and the number of participants is growing into a tidal wave of social change that has the potential to change the DNA of business practices forever (Berns,et al., 2009; Heineman, 2016). Future CEOs and business leaders will be mandated to develop skills and an aptitude for managing in what is surely to be an increasingly transparent society, with a more technologically and information savvy workforce(Heineman, 2016; Kochan, 2015).

Sustainability, as a reflection of an organization's concern for the environment, has become a lightning rod for public opinion. Although social and cultural issues abound, few have the power or potential to significantly impact a firm's survival than sustainability. Indeed, sustainability has become synonymous with survivability. No longer can the topic of sustainability be ignored (Berns et al., 2009)by publicly traded firms without incurring the wrath and displeasure of a highly motivated public or socially conscious investor. Embedded within this new paradigm is the effect of a firm's sustainability efforts on its corporate reputation. The relationship between a firm's reputation and its financial performance has been argued in previous research (Fombrun, 1996; Fryxell& Wang, 1994; Hall &Lee, 2011; Lee & Hall, 2008). Despite attacks on the proxy used for measuring reputation, even the critics admit that a company's reputation has an impact on a firm's financial performance (Brown & Perry, 1994; Fryxell& Wang, 1994).

Firms choosing to bury their heads in the sand or ignore such a volatile issue will ultimately pay the price on Wall Street. Public persona, image, reputation, and social legitimacy are widely becoming critical factors that need to be managed and managed well if a firm is to continue to prosper in the foreseeable future (Heineman, 2016).

Although very few things are certain in this world of change, one thing seems certain: a firm's stance onand approach to sustainability has become a strategic imperative within the business world (Berns, et al., 2009). Social legitimacy, which is derived from the social mores of a firm's customers, is becoming increasing important for business executives. One outgrowth of social legitimacy has been a growing trend, whereby consumers' buying behaviors are increasingly becoming matters of the heart. Whereas, in the past it could be said that customers voted with their feet, the future mantra may become one where the customers vote with their hearts. If the pun can be forgiven, to get to the heart of the matter, the root of sustainability lies in personal, value-driven, heartfelt ideals.

The long and short of it, is that customers want to "feel" good about the products they buy and the companies that make them. Such good will is a direct reflection of a firm's stance on sustainability. Customer patronage is increasingly becoming an ethical evaluation or judgment of a firm's efforts towards sustainability. It would seem that a consumer's social compass is going to play an increasingly larger role in buying decisions in the future. In order to respond, nay, in order to embrace this new condition, executives need to take a more active role in utilizing and exploiting this new consumer behavior. The focus of the present study is on sustainability, reputation, and the corresponding variables that tend to shape and define a firm's ability to develop its social legitimacy.

Sustainability, ethics, and social legitimacy all contribute to what is commonly called corporate reputation. It is argued that reputation is a multifaceted and complicated concept that encompasses a diverse array of factors. Barney (1991) has recognized firm reputation as a valuable strategic asset that can assist in maximizing a firm's financial performance. Previous studies have confirmed that corporate reputation is positively associated with firm performance (Hall & Lee, 2011; Hall, Lee, &Whang, 2011). However, Fryxell& Wang (1994) have argued that a financial 'halo' effect is largely responsible for the popularity of the currently employed measure of reputation (the *Fortune* reputation index in particular). This potentially critical flaw will be discussed more in depth later in the body of this paper. In spite of such criticism, the linkage between reputation and performance has been validated after statistically removing the financial 'halo" effect (Lee & Hall, 2008).

The present study seeks to tease out the effects of sustainability from the larger and more complicated concept of firm reputation. Therefore, a variety of variables will be investigated in an attempt to better understand a firm's sustainability posture.

2. *Literature Review*

2.1. Sustainability

Carbon footprints, environmental impact, and recycling, as well as a plethora of other like-minded concepts have gained immense popularity over the past decade. The pressure being exerted by various constituencies on firms to control the amount of pollution being generated has grown to enormous proportions in recent years and can only be expected to increase in the future (Kiron, Kruschwitz, Haanaes, &Von StrengVelken, 2009;Suriyankietkaew&Petison, 2020). One of the most popular ideas to gain notoriety of late is "corporate sustainability." The simplest and shortest definition of sustainability was provided by a 1987 United Nations conference, which states that sustainability is to "meet present needs without compromising the ability of future generations to meet their needs"(WECD, 1987).

In a special issue of the Sloan Management Review, Editor-in-Chief, Michael Hopkins (2009a) posed an interesting situation and question about sustainability:

> Even as attention is increasingly paid to "going green" and to the role business can play to help solve sustainability problems, the flip side of the business-and-sustainability relationship has gone under examined. Forget how management can affect sustainability. How will sustainability change management? (p.19)

It is imperative that firms recognize the impact that different stakeholders can have on their profitability and take deliberate actions to ensure their future survival and growth. Firms can expect the impact of sustainability to increase in the future. Firms that fail to address such issues can expect to be held accountable in the market and financial community. Viewed from a different perspective, sustainability may present an opportunity for firms to develop a competitive advantage over their competitors (Hopkins, 2009b). A smart response to an inevitable demand may be able to preempt retaliation by consumers and rivals and establish a firm as a leader in environmental issues. Such a valuable position may result in superior financial results, much like the effects of corporate reputation on firm performance.

The basic point is that stakeholder groups will vote with their dollars and their feet, and patronize firms that share their concerns for the environment. As an example, just look at the negative publicity that Apple has received over human resource violations in their suppliers', Foxconn factories in China. Since the stories broke of inhumane working conditions Apple has hired an independent agency to conduct a searching audit of its suppliers' factories. Firms can no longer rely on providing the cheapest priced products regardless of their social and environmental impact and expect consumers to continue to support them with their dollars. The general trend is for customers to become more socially conscious and in turn, demand that firms who want their dollars reflect their social values.

Not only is it important for a firm to produce its product in a socially responsible manner, but even when firms outsource their production to foreign countries around the world they are being held accountable for their suppliers' actions (e.g. Apple, Nike). An example of this is Sam's Club's introduction of a jewelry line known as "Love, Earth." This new line is an outgrowth of the concern of some consumers about the use of raw materials, namely, gold and diamonds, and certifying that all materials were obtained from vetted and legitimate suppliers (reference the movie "Blood Diamonds").

Other firms have adopted programs to certify that their suppliers are actively engaged in implementing sustainability measures and will decertify a supplier if certain conditions are not being met. All of this goes to show how important the sustainability movement has become and how much traction it has already gotten. Prognosticators expect the impact of sustainability measures to increase exponentially in the future (Heineman, 2016). Therefore, firms must respond if they are to survive. It is expected that this trend will continue and become a necessary condition of doing business in the future. Firms that ignore this movement do so at the peril of their company's very life.

2.2 Corporate Reputation

Corporate reputation, defined as the long-term evaluation of a firm's social and economic potential by external constituents (e.g. customers, suppliers, society, etc.), can be viewed as a valuable asset in a firm's strategic arsenal (Barney, 1991; Conine& Madden, 1986). From a different perspective, corporate reputation can be viewed as “a perceptual representation of a company’s past actions and future prospects that describe the firm’s overall appeal to all its key constituents when compared to other leading rivals.” (Fombrun, 1996: 72)No matter which definition is selected, it can be safely said that a firm’s corporate reputation is a valuable assetthat must be managed, maintained, protected and nourished by management. It is in this light that it is suggested that firms that undertake actions to improve their company’s reputation can expect to be rewarded with superior financial performance.

It is imperative that a firm take a proactive stance with regard to managing such a vital strategic resource as corporate reputation (Barney, 1991) and constantly seek to exploit its potential. Illusiveness, a key characteristic that is imbedded within the construct of corporate reputation, offers a firm the opportunity to build a sustainable competitive advantage which is not subject to rapid or easy imitation. Due to its ambiguous and long-term nature, reputation is a hard to measure, and even more difficult to imitate construct. According to Roberts & Dowling (2002, p. 1077) “Intangible assets—such as good reputations—are critical because of their potential for value creation, but also because their intangible character makes replication by competing firms considerably more difficult.” So, the real benefit of reputation may lie in the fact that it is inherently causally ambiguous. As cited by others, causal ambiguity has been identified in other research as a potentially valuable source of competitive advantage to a firm (Lippman&Rumelt, 1982).

In addition, a firm's response to a crisis or stand on an ethical issue will invariably have an impact on perceived image or reputation. How a firm responds to a crisis and how it regularly conducts business is under constant scrutiny by a plethora of constituencies (both internal and external). Examples of effective (e.g. Johnson & Johnson's Tylenol) and ineffective (e.g. Exxon's Valdez) crisis management may either positively or negatively impact a firm's image and, therefore, its reputation. However, one thing seems to be certain, a poor or weak reputation can have a devastating effect on the future profitability and survival of a firm.

As argued by Fombrun&Shanley (1990) reputation management may play an important role in determining future organizational performance. Developing a good corporate reputation may pay dividends through increased sales and profits by: 1) influencing customer product choices (Dowling, 1986), 2) inhibiting rival firms' actions (Caves & Porter, 1977; Wilson, 1985), and 3) developing social status among rivals within industries (Shrum&Wuthnow, 1988). Each of these benefits is likely to increase a firm's profitability, market share, and competitive advantage. As can be seen, the benefits of developing and maintaining a good corporate reputation are critical to the long-term success of the organization.

When corporate reputation has been included in studies within the management discipline the primary emphasis has been on its effect on financial potential (Fombrun&Shanley, 1990; McGuire, Sundgren,&Schneeweis, 1988). As a result of these studies it has been concluded that corporate reputation is positively correlated with organization performance and financial potential (Caves & Porter, 1977; Fombrun&Shanley, 1990; McGuire et al., 1988), although the issue of causality has not been investigated. Nevertheless, organizations that enjoy favorable reputations tend to out-perform firms which have less favorable reputations. Exactly why this occurs has been the subject of much controversy.

It should be clearly stated that not all studies are complementary when it comes to discussing the *Fortune* Reputation Index (FRI). The most severe criticism comes from a study conducted by Fryxell& Wang (1994) that concluded that the FRI is nothing more than a reflection of a firm’s financial performance. The conclusion is that the FRI is more of a measure of how well a firm is performing financially, than how well respected the firm is within its industry. The inevitable question arises: Is it possible that the “reputation index” is merely a reflection of a firm’s financial performance? If such a hypothesis is accurate, then results and conclusions from all previous research employing the FRI would be called into question.

However, in a more recent study by Lee & Hall (2008) evidence was presented that validated the FRI as a robust measure of reputation. Accordingly, after removing the effects of financial performance, the FRI was found to be a very good indicator of corporate reputation (Lee & Hall, 2008). For a more detailed analysis of the exact methodology employed in the removal of what has come to be known as the “financial halo effect” of the FRI, please see Brown & Perry (1994) and Lee & Hall (2008).

Based on these studies, it is not the purpose of this study to dissect the FRI and undertake an investigation into the deep theoretical underpinnings of the reputation construct. Instead, we employ and promote the FRI as a valid and robust measure of corporate reputation and reject the suggestion that FRI is merely a measure of financial performance.

3. Hypotheses

Based upon the preceding discussion several hypotheses present themselves.

H_1: Firm sustainability will be positively associated with firm performance and other strategic variables.

H_2: Firm sustainability will be positively associated with corporate reputation, after controlling for firm performance and other strategic variables.

4. Methodology

4.1. Sample

The initial data source for the foundation of the sample being used in the study is the "Green Rankings" as they are published by*Newsweek*magazine for the year 2015. The Green Rankings include the largest publicly traded companies worldwide. The *Newsweek* 2015 issue will serve as the focal point and set the limitation on the initial sample.

Financial data for each of the companies will be obtained from *Compact Disclosure* and *The Directory of Multinationals* (Stockton Press). Corporate reputation will be measured using the *Fortune* Reputation Index (World's Most Admired Companies, *Fortune*). Only companies with complete data on all variables will be included in the statistical analyses.

In order to more accurately reflect a firm's reputation and sustainability, and to allow for any adjustments/changes that might have an impact on a firm's reputation and sustainability, a five-year timeframe (2011-2015)was adopted. The use of averages afforded the opportunity to avoid confounding and misleading issues related to one-time events that could unduly influence the statistical results.

4.2 Measurement of Variables

In order to maximize the comparability of the current study, a variety of variables were selected and included based on prior research studies on sustainability and corporate reputation.

Sustainability. Corporate sustainability was measured using four different measures as provided by *Newsweek's* Green Rankings (2015): overall green score, environmental management, environmental impact, and environmental disclosure.

Green score. The green score represents the overall evaluation of a firm's success in implementing a sustainability program. The green score is a composite of three component scores, namely; an environmental impact score, an environmental management score, and an environmental disclosure score. The weights assigned to environmental impact, environmental management and environmental disclosure were 45%, 45%, and 10%, respectively (*Newsweek*).

Environmental impact. Assessing the environmental impact of a firm's operations was operationalized using a comprehensive, quantitative, and standardized measurement of the overall environmental impact of a company's global operations provided by *Newsweek*. The environmental impact score is a composite measure that included more than 700 metrics, which included emissions of nine key greenhouse gases, water use, solid waste disposal, and emissions that contribute to acid rain and smog.

Environmental management. An assessment of how a company manages its environmental performance through policies, programs, targets, certifications, and the like, was reflected by an environmental management index. The environmental management index focuses on three distinct areas of influence: company operations, contractors and suppliers, and products and services.

Environmental Disclosure. Disclosure of environmental issues was used as a proxy of the company's transparency with regard to its environmental performance. Overall, the disclosure score is a reflection of a firm's breadth and quality of environmental reporting of their material impacts (*Newsweek*). It should be noted, that the disclosure score replaces the reputation score, which had been used in previous years. It was determined that a company's willingness to share environmental disclosures with key stakeholders was a positive signal of its "true" commitment to sustainability.

Corporate Reputation. Corporate reputation was operationalized using *Fortune's* Reputation Index (FRI), which is a composite score consisting of nine variables; innovation, people management, use of corporate assets, social responsibility, quality of management, financial soundness, long-term investment, quality of products/services, and global competitiveness. *Fortune's* FRI has been previously established as a valid measure of corporate reputation and social responsibility (Chakravarthy, 1986; Hall& Lee, 2011; Lee & Hall, 2008).

Performance Measure. Identified as the performance measure of choice among strategy scholars, the accounting-based measures of firm performance have long been recognized as valid measures of firm performance. Therefore, in an effort to maintain the comparability of the present study, return on assets (ROA; Delio& Beamish, 1999; Geringer, Beamish, & da Costa, 1989; Geringer, Tallman, & Olsen, 2000; Kim, Whang, & Burgers, 1989; Tallman & Li, 1996)was used as a proxy for firm performance.

ROA = (Net Profit After-Tax)/(Total Assets)

Strategic Resource Variables. Since a firm's sustainability strategy may be influenced by a variety of strategically important resource variables, a select group of variables identified from previous research were included as control variables (Bergh, 1995; Chatterjee &Wernerfelt, 1991; Fombrun, 1996; Lang &Stulz, 1994).

Firm size = Ln (sales)
R&D intensity = R & D expenditures / total sales
Advertising intensity = advertising expenditures/total sales
Capital intensity = total assets/total sales

5. Statistical Methodology

To investigate the relationship among sustainability, corporate reputation, profitability, and other strategically important variables, a hierarchical regression was employed in the study.

Sustainability	=	Stage 1:	Firm Performance, Firm size, R&D intensity, Advertising intensity, Capital intensity
		Stage 2:	Corporate reputation

6. Results, Analysis, and Summary

Descriptive statistics and correlations are reported in Table 1. General correlations reveal that sustainability and corporate reputation are highly correlated, suggesting that these two concepts may be tapping into the same core concept. At the same time, corporate reputation was not associated with any variable other than firm size. The connection between size and reputation may reflect that only firms with strong reputations are repeatedly patronized, which will lead to an increase in company girth. An interesting finding was that firm performance was not correlated with any of the measures of sustainability or corporate reputation. Intuitively, one would expect firms to be rewarded for their commitment to sustainability and maintaining a strong corporate reputation. A firm's reputation and sustainability scores were expected to be highly correlated with each other and this was supported by the results. Firms actively involved in managing their reputation would suggest that they would also be aware of the negative impact that sustainability measures could have on their overall reputations.

Using hierarchical regression analysis, the relationship between sustainability and corporate reputation can be found in Tables 2, 3, 4, and 5. All regression models were highly significant ($p < .001$), indicating that the regression models were useful in explaining sustainability differences among the firms in the sample. After a review of the results, several interesting findings are worth highlighting.

First, it was clear from the results of the present study that the effect of corporate reputation on a firm's commitment to sustainability was positive and significant. All statistical models indicated that a favorable reputation is associated with higher levels ofsustainability. Therefore, firms that are committed to sustainability tend to be rewarded with a more favorable reputation. Both, sustainability and reputation tend to go hand in hand. It is interesting to note, that even whenother strategically important variables were factored out, reputation was still a significant factor in explaining a firm's commitment to sustainability. Such a finding suggests that a company's reputation plays a significantfactor in explaining a firm's commitment to sustainability. Indeed, reputation was significantly influential in explaining sustainability, regardless of which measure of sustainability was being employed.

Table 1

Descriptive Statistics and Correlations [a]

Variables	Mean	Std.D.	1	2	3	4	5	6	7	8	9
1. Environ. Green score	65.22	10.17									
2. Environ. Impact	47.94	22.14	0.52 ***								
3. Environ. Management	47.28	16.24	0.62 ***	0.08							
4. Environ. Disclosure	40.47	16.03	0.34 ***	-0.17 **	0.63 ***						
5. Return on Assets (ROA)	5.48	5.93	0.02	0.04	0.03	-0.04					
6. Firm size	9.52	0.91	0.25 ***	0.12 *	0.25 ***	0.35 ***	0.00				
7. R&D intensity	0.05	0.07	0.35 ***	0.25 ***	0.17 **	0.13 *	0.07	0.02			
8. Advertising intensity	0.03	0.04	0.19 *	-0.05	0.19 *	0.12	0.06	-0.07	0.10		
9. Capital intensity	1.51	1.00	-0.18 ***	-0.27 ***	-0.08	0.13 *	-0.14 **	-0.22 ***	0.51 ***	0.12	
10. Corporate reputation	6.65	0.60	0.35 ***	0.14 *	0.32 ***	0.30 ***	0.02	0.19 **	0.09	0.07	-0.11

a. N= 287

b. * P < 0.05; ** P < 0.01; *** P < 0.001

Table 2

Results of Hierarchical Multiple Regression Analysis [a]

Variables	Environmental Green Score						
	Step 1			Step 2			
	B	(Std.ε.)		B	(Std.ε.)		V.I.F.
(Constant)	44.929	(6.31)	***	16.134	(8.85)		
Return on Assets (ROA)	-0.070	(.094)		-0.067	(.091)		1.037
Firm size	2.128	(.626)	***	1.745	(.611)	**	1.086
R&D intensity	59.827	(10.59)	***	55.456	(10.30)	***	1.180
Advertising intensity	43.852	(22.20)	*	41.919	(21.48)	*	1.008
Capital intensity	-2.648	(.611)	***	-2.422	(.594)	***	1.256
Corporate reputation				4.871	(1.084)	***	1.040
Model R^2	0.1828			0.2378			
Adjusted R^2	0.1683			0.2215			
Δ in R^2				0.055		***	
F-Ratio	12.5744		***	14.5627		***	
F-ratio forΔ in R^2				20.2069		****	

a. N= 287 . Unstandardized regression coefficients, with standard errors in parenthes

b. * P < 0.05; ** P < 0.01; *** P < 0.001

Table 3

Results of Hierarchical Multiple Regression Analysis [a]

Variables	Environmenta Impact						
	Step 1			Step 2			
	B	(Std.ε.)		B	(Std.ε.)		V.I.F.
(Constant)	48.976	(13.87)	***	34.738	(20.11)		
Return on Assets (ROA)	-0.135	(.207)		-0.133	(.207)		1.037
Firm size	0.703	(1.375)		0.514	(1.388)		1.086
R&D intensity	127.472	(23.29)	***	125.310	(23.40)	***	1.180
Advertising intensity	-16.646	(48.79)		-17.602	(48.80)		1.008
Capital intensity	-8.464	(1.344)	***	-8.352	(1.349)	***	1.256
Corporate reputation				2.409	(2.461)		1.040
Model R^2	0.1054			0.1603			
Adjusted R^2	0.0895			0.1423			
Δ in R^2				0.0549		***	
F-Ratio	11.2842		***	9.5617		***	
F-ratio forΔ in R^2				18.301		***	

[a.] N= 287 . Unstandardized regression coefficients, with standard errors in parenthe:

[b.] * P < 0.05; ** P < 0.01; *** P < 0.001

Table 4

Results of Hierarchical Multiple Regression Analysis [a]

Variables	Environmental Management						
	Step 1			Step 2			
	B	(Std.ε.)		B	(Std.ε.)		V.I.F.
(Constant)	3.905	(10.55)		-42.019	(14.83)	**	
Return on Assets (ROA)	0.002	(.158)		0.007	(.153)		1.037
Firm size	4.244	(1.05)	***	3.633	(1.024)	***	1.086
R&D intensity	47.287	(17.71)	**	40.315	(17.26)	*	1.180
Advertising intensity	84.359	(37.09)	*	81.276	(36.00)	*	1.008
Capital intensity	-1.440	(1.021)		-1.080	(.995)		1.256
Corporate reputation				7.769	(1.816)	***	1.040
Model R^2	0.1054			0.1603			
Adjusted R^2	0.0895			0.1423			
Δ in R^2				0.0549		***	
F-Ratio	6.6247		***	8.9104		***	
F-ratio forΔ in R^2				18.302		***	

[a.] N= 287 . Unstandardized regression coefficients, with standard errors in parenthes

[b.] * P < 0.05; ** P < 0.01; *** P < 0.001

Table 5

Results of Hierarchical Multiple Regression Analysis [a]

Variables	Environmental Disclosure						
	Step 1			Step 2			
	B	(Std.ε.)		B	(Std.ε.)		V.I.F.
(Constant)	-33.249	(10.00)	***	-75.021	(14.09)	***	
Return on Assets (ROA	-0.054	(.149)		-0.049	(.145)		1.037
Firm size	7.032	(.990)	***	6.475	(.973)	***	1.086
R&D intensity	9.589	(16.78)		3.247	(16.40)		1.180
Advertising intensity	58.840	(35.15)		56.036	(34.21)		1.008
Capital intensity	3.080	(.968)	**	3.408	(.945)	***	1.256
Corporate reputation				7.066	(1.725)	***	1.040
Model R^2	0.1756			0.2222			
Adjusted R^2	0.1609			0.2055			
Δ in R^2				0.0466		***	
F-Ratio	11.9678		***	13.3284		***	
F-ratio forΔ in R^2				16.7725		***	

[a.] N= 287 . Unstandardized regression coefficients, with standard errors in parentheses

[b.] * P < 0.05; ** P < 0.01; *** P < 0.001

So, a firm's commitment to sustainability seems to be directly tied into the firm's overall reputation. At the very least it is proposed that firms must recognize that a corporate reputation is a valuable strategic asset and should warrant the attention of senior executives, and that a firm's commitment to sustainability will pay dividends in determining a company's overall corporate reputation. From a corporate management perspective, the development and maintenance of a solid and highly respected corporate reputation should be a high priority on any executive's agenda. The results were consistent across all models regardless of what type of measure was used to measure sustainability..

The inability of firm profitability to significantly explain sustainability is an interesting one. The conclusion seems to be, that if a firm is engaging in sustainability merely to increase profitability that it might want to reconsider its strategic direction. It seems that profitability is not the central objective of firms pursuing a green and sustainable strategy. It does not mean that firms who engage in sustainable activities are not interested in profits, just that profits might not be the their predominant goal. A firm's commitment to sustainability initiatives may lie at the root of this relationship, with only firms that are genuine in their commitment to sustainability, being ultimately rewarded with additional profits. With the ever increasing transparency of the modern age, customers are becoming not just more committed, but more motivated and purposeful in their purchasing decisions. Firms that attempt to "fake" commitment for sustainability may no longer be able to hide their "true" intentions; to make profits. Just as many firms found out with the total quality management (TQM) movement in the past, half-hearted attempts do not pay the dividends of total commitment.

In summary, the results of the present study indicate that corporate reputation is positively associated with corporate sustainability, regardless of how sustainability is operationalized. It should be noted that these results were obtained after removing the influences of a variety of other variables that may have impacted a firm's commitment to sustainability. Based on the use of the *Fortune* Reputation Index it is argued that a firm's reputation plays an important role in explaining its devotion to sustainability and is worthy of the attention of executive level managers. An active program for managing firm reputation may pay dividends by magnifying a firm's sustainability posture. However, it is important to understand that sustainability and corporate reputation are not synonyms. As the results of this study show, although the two concepts may be interrelated and correlated, there still exists a great deal of variation in the sustainability measures that cannot be explained by corporate reputation alone. While the connectedness between a firm's reputation and its stance on sustainability cannot be ignored, it is expected that sustainability will play a larger role in determining a firm's reputation in the future and that CEOs would be well advised to actively embrace a sustainability program.

References

Barney, J. (1991). Firm resources and sustained competitive advantage. Journal of Management, 17: 99-120.

Bergh, D. D. (1995). Size and relatedness of units sold: An agency theory and resource-based perspective. Strategic Management Journal, 16: 221-239.

Berns, M., Townend, A., Khayat, Z., Balagopal, B., Reeves, M., Hopkins, M.,&Kruschwitz, N. (2009). The business of sustainability: What it means to managers now, Sloan Management Review, 51(1): 20-26.

Brown B. & Perry, S. (1994). Removing the financial performance halo from *Fortune's*"Most Admired" companies. Academy of Management Journal, 37: 1347-1359.

Caves, R. E. & Porter, M. E. 1977.From entry barriers to mobility barriers.Quarterly Journal of Economics, 91: 421-434.

Chakravarthy, B. (1986). Measuring strategic performance. Strategic Management Journal, 7: 437-458.

Chatterjee, S. &Wernerfelt, B. (1991). The link between resources and type ofdiversification: Theory and evidence. Strategic Management Journal, 12: 33-48.

Conine, T. F. & Madden, G. P. (1986). Corporate social responsibility and investment value. In W. D. Guth (Ed.), Handbook of Business Strategy1986/1987 Yearbook.Boston: Warren, Gorham & Lamont.

Delios, A. & Beamish, P. W. (1999). Geographic scope, product diversification, and the corporate performance of Japanese firms. Strategic Management Journal, 20: 711-727.

Dowling, G. R. (1986). Managing your corporate images. Industrial MarketingManagement, 15: 109-115.

Fombrun, C. (1996). Reputation: Realizing value from the corporate image. Boston: Harvard Business School Press.

Fombrun, C. &Shanley, M. (1990). What's in a name? Reputation building and corporate strategy. Academy of Management Journal, 33:233-258.

Fryxell, G. E. & Wang, J. (1994). The *Fortune* corporate 'Reputation' index: Reputation for what?Journal of Management, 20: 1-14.

Geringer, M. J., Beamish, B. W., &daCosta R. C. (1989). Diversification strategy and internationalization Implications for MNE performance. Strategic Management Journal, 10: 109-119.

Geringer, M. J., Tallman, S., & Olsen, D. M. (2000). Product and international diversification among Japanese multinational firms. Strategic Management Journal, 21: 51-80.

Hall, Jr., E. H. & Lee, J. (2011). A CEO's Most Important Strategic Asset: Assessing Corporate Reputation, International Journal of Business and Management Research, 1(3): 1-19.

Hall, Jr., E. H., Lee, J., &Whang, K. S. (2011). An International Study of Corporate Reputation, Diversification, and Performance, International Journal of Economics and Management, 1(3): 1-23.

Heineman, Jr., B.W. (2016). The "Business in Society" Imperative for CEOs, HarvardBusiness Review, Dec. 20, 2016.

Hitt, M. A., Hoskission, R. E., & Kim, H. (1997). International diversification: Effects on innovation and firm performance in product-diversified firms. Academy of Management Journal, 40: 767-798.

Hopkins, M. (2009a). Sustainability and competitive advantage, Sloan Management Review, 51(1): 19-20.

Hopkins, M. (2009b). What executives don't get about sustainability, Sloan Management Review, 51(1): 35-40.

Hoskisson, R. E., Hitt, M. A., Johnson, R. A. &Moesel, D. D. (1993). Construct validity of an objective (entropy) categorical measure of diversifications strategy. Strategic Management Journal, 14: 215-235.

Keats, B. W. (1990). Diversification and business economic performance revisited: Issuesof measurement and causality. Journal of Management, 16: 61-72.

Kim, C. W., Hwang, P., & Burgers, W. P. (1989).Global diversification strategy and corporate profit performance. Strategic Management Journal, 10: 45-57.

Kiron, D., Kruschwitz, N., Haanaes, K., & Von StrengVelken, I. (2009). Sustainability nears a tipping point, Sloan Management Review, 51(1): 69-74.

Klein, B. &Leffler, K. (1981). The role of market forces in assuring contractual performance. Journal of Political Economy, 89: 615-641.

Kochan, T. A. (2015). Social Legitimacy of the HRM Profession: A US Perspective. In P.
Boxall, J. Purcell, & P. M. Wright (Eds.), The Oxford Handbook of Human Resources Management, (www.oxfordhandbooks.com), Oxford University Press.
Lang, L. H. P. &Stulz, R. M. (1994).Tobin's q, corporate diversification, and firm performance. Journal of Political Economy, 102(6): 1248-1280.
Lee, J. & Hall, Jr., E. H. (2008). An Empirical Investigation of the 'Halo' Effect of Financial Performance on the Relationship between Corporate Reputation and CEO Compensation, American Journal of Business Research, 1 (1): 93-110.
Lippman, S.A. &Rumelt, R.P. (1982). Uncertain Imitability: An analysis of interfirm differences in efficiency under competition. Bell Journal of Economics, I3: 418-438.
McGuire, J., Sundgren, A., &Schneeweis, T. (1988). Corporate social responsibility andfirm financial performance. Academy of Management Journal, 31: 854-872.
Roberts, R. W. & Dowling, G. R. (2002). Corporate reputation and sustained superior financial performance, Strategic Management Journal, 23: 1077-1093.
Rumelt, R. P. (1982). Diversification strategy and profitability. Strategic Management Journal, 3: 359-369.
Shrum, W. &Wuthnow,R. (1988). Reputational status of organizations in technical systems. American Journal of Sociology, 93: 882-912.
Suriyankietkaew S, Petison P. (2020). A Retrospective and Foresight: Bibliometric Review ofInternational Research on Strategic Management for Sustainability, 1991–2019. SUSTAINABILITY, 12(1):91.
Tallman, S. & Li, J. (1996).Effects of international diversity and product diversity on the performance of multinational firms. Academy of Management Journal, 39: 179-196.
Wilson, R. (1985). Reputations in games and markets. In A. E. Roth (Ed.), Game theoretic models of bargaining, 65-84. New York: Cambridge UniversityPress.