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Strategic Issues Management and Organizational Outcomes

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Abstract
This paper assesses whether strategic issues management activities contribute anything worthwhile to corporate performance by reporting two studies on the issues management strategies of Dutch food firms during the recent introduction of genetically modified ingredients. The first study applied grounded theory methods to assess which issues management activities were used most prominently by industry incumbents. The results indicated that in the present setting companies most significantly relied on stakeholder integration techniques and capability development. The second study used survey data to link these activities to a broad array of organizational outcome variables. The data showed that the adoption of issues management activities positively influenced firm competitiveness as well the relative standing of firms amongst their peers.

Key words: issues management; stakeholder integration; capability development; competitive advantage; corporate reputation

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INTRODUCTION

Strategic issues management is a managerial function that helps corporations identify, analyze, and respond to social and political concerns that can significantly affect them (Greening and Gray, 1994; Nigh and Cochran, 1987). Due to the potential of issues management activities to influence organizational outcome variables, the function has received generous attention from strategic management scholars, as evidenced by a steady stream of publications on the topic in the *Strategic Management Journal* (Ansoff, 1980; Arcelus and Schaeffer, 1982; Dutton, Fahey, and Narayanan, 1983; Smart and Vertinsky, 1984; Lenz and Engledow, 1986; Dutton and Duncan, 1987; Dutton, Ashford, O'Neill, Hayes, and Wierba, 1997; Sharma and Vredenburg, 1998; Shaffer & Hillman, 2000; Hillman & Keim, 2001). Scholarly advancement in the study of issues management has not always been linear and progressive, however, as academics studying issue evolution and issues management processes have increasingly organized themselves into two more or less disconnected camps.

The first of these camps can perhaps be called the public affairs cluster (Bartha, 1983; Chase, 1984; Gollner, 1983; Johnson, 1983; Meznar and Nigh, 1995; Post, 1978; Post, Murray, Dickie, and Mahon, 1983; Steckmest, 1982), even though it should be noted that the output of this group is intimately related to the literatures on corporate responsiveness (Ackerman, 1973, 1975; Ackerman & Bauer, 1976; Epstein, 1987; Frederick, 1978; Sethi, 1975) and strategic planning (Ansoff, 1975, 1980; Fleming, 1980; King, 1982, 1984; Marx, 1986). This group has mainly focused on the macro-level side of issues management, most notably on the organization of the public affairs function in

large complex organizations. Examples of research questions that have occupied the research agenda of this group over the last three decades are: (1) What scanning tools should companies use to identify new issues early (Aguilar, 1967; Fleming, 1980)? (2) What systems should organizations have in place to ensure that issues that were previously identified as salient can be tracked throughout their entire life span (Brown, 1979; Johnson, 1983)? (3) What types of symbolic and substantive responses can corporations use to address the most pressing and threatening of these social and political predicaments (Austrom and Lad, 1989; Bauer, 1978)?

The second camp may appropriately be labeled the organizational behavior cluster (Elsbach, 1994; Elsbach and Kramer, 1996; Daft and Weick, 1984; Dutton, 1986, 1993; Dutton and Ashford, 1993; Dutton, Ashford, O'Neill, Lawrence, 2001; Gioia and Thomas, 1996; Thomas and McDaniel, 1990; Mintzberg, Raisinghani, and Theoret, 1976; Schwenk, 1984). This group of scholars has primarily worked on the micro level of issues management, exploring the social-psychological foundations of the issues management process. Its research agenda has been dictated by questions like: (1) How do individual and group-level sense-making processes work in environments characterized by a continuous overload of stimuli (Dutton, Walton, and Abrahamson, 1989; Thomas and McDaniel, 1990)? (2) To what specific cues do organizational decision-makers respond when they categorize issues as either threats or opportunities (Dutton and Jackson, 1987; Jackson and Dutton, 1998)? (3) Under what conditions will middle managers try to "sell" the issues affecting them to individuals higher up in the organizational hierarchy (Ashford, Rothbard, Piderit, Dutton, 1998; Dutton, Ashford, Lawrence, and Miner-Rubino, 2002)?

Although these two separate streams of research have, each in their own right, made valuable contributions to the progress and proliferation of the field, an obvious downside of the present mode of organization is that certain pressing research issues are mostly left unattended. More specifically, relatively little issues management research is conducted which (a) bridges the micro-macro divide, (b) spans across multiple organizational functions, and (c) links issues management to organizational outcome variables. Consequentially, the ultimate question from a strategic management point of view, *whether issues management contributes anything worthwhile to corporate performance* (Wartick, 1988), remains one of the field's most pressing legacies. The present paper therefore seeks to contribute to the issues management debate from a strategy perspective by reporting a theory-building case study together with an associated theory-testing survey study, which were jointly designed to assess the contribution of issues management activities to performance differentials across firms.

STUDY 1: IN SEARCH OF ISSUES MANAGEMENT TECHNIQUES

One of the more pressing problems facing researchers trying to assess the contribution of professionally executed issues management practices to corporate performance is that the received literature suggests an overwhelming variety of tools and techniques for managing forthcoming developments. Amongst the suggestions are: (1) direct representation at the federal, state, and local levels of government (Chase, 1984; Cobb and Elder, 1972); (2) coordination with other companies through trade associations (Arrington & Sawaya, 1984; Mahon and McGowan, 1996); (3) building alliances with

affected interest groups (Austrom and Lad, 1989; Meznar and Nigh, 1995); (4) using issue committees to coordinate activities and communicate information across organizational units (Bhambri and Sonnenfeld, 1988; Lusterman, 1987); (5) appointing stakeholder directors on corporate boards (Hillman, Keim, and Luce, 2001; Luoma and Goodstein, 1999) (6) formalizing the issues management function by assigning its activities to dedicated departments (Ewing, 1987; Greening and Gray, 1994); (7) relying on advocacy advertising to persuade external audiences that the organizational perspective is appropriate and right (Arrington & Sawaya, 1984; Heath and Nelson, 1985); and (8) integrating issue analysis in overall strategic planning (Carroll and Hoy, 1984; Lenz and Engledow, 1986).

The variety in terms of available tools and techniques significantly complicates the operationalization of the issues management construct in empirical studies, as it is impossible to know *a priori* which activities matter most, and hence what to measure. A more basic research question must therefore be answered before the potential contribution of issues management activities to cross-organizational performance differentials can be assessed. This question is: *Which issues management activities do organizations use most extensively to manage forthcoming developments affecting their ability to meet their objectives?* In the present research project, the relative use of the various available alternatives was investigated by means of a grounded longitudinal study of the issues management practices of the Dutch food industry. The study was aimed at generating a theory of strategic issues management that was relevant, understandable, and fitting the empirical situation at hand (Glaser and Strauss, 1967).

Study design

To keep other factors constant, this research focused on one particularly salient issue impacting the Dutch food sector: the introduction of genetically modified ingredients in Western Europe. The European food industry had been exposed to critical issues before – most notably the diseases affecting European livestock such as foot-and-mouth disease, swine fever, and mad cow disease (bovine spongiform encephalopathy) – but the level of controversy surrounding modern biotechnology was unprecedented even for this over-anguished sector. The new ingredients, derived from foodcrops like genetically engineered soybeans, canola, and corn, quickly became known in the popular press as "Über-plants" (Walsh, 1999), "Franken-foods" (Miller, 1992), and "brave new foods" (Schechter, 1993). Hence, the Dutch food industry setting easily met the criteria of an extreme case (Eisenhardt, 1989), one in which the need for professionally executed issues management activities would be more pressing and the use of issue management techniques more transparent than in most other situations.

After selecting genetic modification as the focal issue for the theory generating study, one important question pertaining to the research design remained: What is the case here (Miles and Huberman, 1994)? Four cumulative demarcation criteria were used to draw a boundary between what to study and what not. First, the social unit of focus was the Dutch food industry and its stakeholders. It is important to note that both organization-level and industry-level dynamics were analyzed, reflecting an embedded case study methodology (Yin, 1994). Second, the phenomena of interest within this unit were the issues management activities of the firms represented in the industry. Third, the

spatial boundaries which were set for this study were the geographical borders of the Netherlands. In other words, the focus was only on the local activities of the domestic firms and foreign multinationals operative in the area. Fourth and finally, the years 1992 and 2001 were selected as the lower and upper temporal boundaries for this longitudinal study respectively.

Data collection and sampling

As Yin points out: "any finding or conclusion in a case study is likely to be much more convincing and accurate if it is based on several different sources of information, following a corroboratory method" (1994: 92). This triangulation principle (Denzin, 1989; Jick, 1979; Patton, 1987) was applied in the present study by combining five qualitatively different types of data.

First, to gather firsthand knowledge of the issues management practices of the Dutch food sector, so-called focused interviews (Merton, Fiske, and Kendall, 1956) were conducted with a broad range of participants in the genfoods issue. To obtain data that captured the greatest possible variation in issues management experiences, a group of 23 key players in the issue was selected, following Glaser and Strauss's (1967) notion of theoretical sampling in terms of theoretical relevance. More specifically, variation was sought with respect to the roles the various participants played in the issue, as evidenced by both the nature of the organizations that employed them and their job titles. A full listing of the interviewees is presented in Table 1. The average interview lasted an hour and a half, in which questions were asked and notes were taken simultaneously. Most of

the interviewees preferred the conversations not to be tape-recorded, so it was decided not to transcribe the interviews. Instead, detailed interview reports were made, usually within 2 days after the data collection. In all, the interview reports amounted to some 150 pages of double-spaced text.

Insert Table 1 about here

As a second source of data, an archival study was conducted on the records of the Product Board for Margarine, Fats, and Oils (a semi-public organization representing the interests of the Dutch food industry). These records contained a wealth of issue-relevant materials, including personal correspondence (letters, faxes) between members of the Product Board and industry representatives, as well as brochures, scientific reports, minutes of meetings, and so forth. A third source of data was formed by three roundtable discussions organized by the researcher, each involving key players in the Dutch food industry as well as high-placed officials from consumer representative bodies and other non-governmental organizations. Twelve people participated in the first roundtable discussion, nineteen in the second, and seventeen in the third, jointly comprising a sizeable and relevant community of interpretation (Apel, 1972). A collection of audio and video tapes, made available by the Product Board, represented the fourth source of data. The tapes contained all broadcasts on Dutch public radio and television related to the topic of genetic modification. Fifth, a number of publicly available data sources were

used, such as the ABI-Inform database, internet, and international as well as local newspapers and magazines.

Reliability and validity

Reliability. In the present study, a minimum degree of reliability was established by carefully documenting the data collection and analysis procedures (Kidder and Judd, 1986; Yin, 1994). Also, an interview protocol was used containing a set of theoretically relevant questions (analogous to Dutton and Dukerich, 1991), even though the interviews conducted were typically open-ended and assumed a conversational manner. The use of this protocol, of which an excerpt is presented in Table 2, established at least a minimum degree of comparability across the different interview reports.

Insert Table 2 about here

Communicative validity. It was attempted to establish communicative validity – correspondence between a respondent's lived experience of the world and the researchers' interpretation of that experience (Kvale, 1996; Sandberg, 2000) – by creating what Apel (1972) called a community of interpretation. Apel stressed that the production of valid knowledge presupposes an understanding between the researchers and their respondents about what the latter are actually doing. The aforementioned roundtable

discussions proved instrumental for the establishment of such a community of interpretation. They allowed for a repeated intensive discussion with a panel of industry aspects about the meaning and implications of the research findings.

Construct validity. Two tactics were used to establish construct validity, a criterion of research quality concerned with the formulation of correct operational measures for the concepts being studied (Kidder and Judd, 1986). First, as noted above, the study was designed according to the principle of triangulation, implying that multiple sources of evidence were used to establish convergent lines of inquiry (Yin, 1994). Second, several versions of the case study report were reviewed by a number of key informants (N = 5). The rationale behind this tactic is that informants and participants may disagree with the researcher's conclusions and interpretations, but they may as a rule not disagree over the actual facts of the case (Yin, 1994). The reviewers that were used to very the study findings are numbered 1, 2, 5, 13, and 22 in Table 1.

Data analysis

As a first phase in the analytical procedure, the data were searched for salient conceptual categories corresponding to broad issues management activities (Miles and Huberman, 1984). These categories were subsequently used as labels for codifying the data. During the coding process, the number of coded fragments and the total amount of coded text – proxies for the intensity of support – were used as criteria for retaining categories or instead dropping them as theoretically less significant (Glaser and Strauss, 1967). Two broad conceptual categories emerged from this process; representing the two

core issues management activities which were used by the Dutch foods industry for managing the issue of genetic modification (see Table 3). Subsequently, the coded data were explored carefully to inductively refine the two broader categories. This second step resulted in three conceptual sub-categories per issues management activity (see Table 4).

Insert Tables 3 & 4 about here

Results

Stakeholder integration. The first broad issues management activity which was uncovered during the first phase of data analysis consisted of activities through which corporations tried to establish "trust-based collaborative relationships with a wide variety of stakeholders, especially those with noneconomic goals" (Sharma and Vredenburg, 1998: 735). Through these relationships, companies tried to uncover the true positions and interests of these outside parties, for the purpose of incorporating them into corporate decision-making processes (Hart, 1995). This strategy, which neutralizes potentially adversarial external stakeholders by allowing them a moderate influence on corporate policy-making, has previously been labeled *stakeholder integration* in the literature (Hart, 1995; Heugens, van den Bosch, and van Riel, 2002; Sharma and Vredenburg, 1998).

The second phase of data analysis allowed the stakeholder integration strategy to be separated inductively into three more refined conceptual sub-categories: buffering, co-

optation, and meta-problem solving. *Buffering* is a strategy used by organizations to secure enough stability and determinateness to preserve the efficiency and effectiveness of their primary transformation processes (Scott, 1998). The term refers to organizational actions that are aimed at sealing off these core transformation processes from environmental influences (Thompson, 1967). From a stakeholder integration perspective, buffering refers to the development of close links with representative organizations, so that firms can avoid dealing directly with many widely dispersed, anonymous, and therefore uncontrollable individual stakeholders. These structural links enable firms to buffer so-called indirect stakeholders (Frooman, 1999; Rowley, 1997) from their core operations, while retaining a legitimate image in the eyes of relevant publics.

The companies in the Dutch food industry (united from 1992 to 1995 in the so-called Informal Consultations on Biotechnology) have successfully attempted to raise the barriers between themselves and critical third parties by forging a link with what is perhaps the most influential representative organization in the Netherlands – the official Consumers' League. With its 640,000 members, it is the largest league of its kind in Europe, and in relative terms, it is even the largest league in the world (www.consumentenbond.nl). The industry, led by parties like Unilever, Sara Lee, Numico, and Ahold, was able to inform consumers indirectly about the pros and cons of biotechnologically modified foods through its relationship with the League, and hence avoided the impossible task of communicating about a salient issue directly with millions of disconnected households.

Co-optation has been defined by Selznick (1949) as "the process of absorbing new elements into the leadership or policy-determining structure of an organization as a

means of averting threats to its stability or existence" (p. 13; emphasis removed). Organizations can co-opt their stakeholders by placing directors on their boards who represent these stakeholders and safeguard their interests by incorporating them into the social structure of the enterprise (Freeman and Evan, 1990; Luoma and Goodstein, 1999; Selznick, 1992). Co-optation is perhaps the most far-reaching stakeholder integration mechanism, because it allows stakeholders to participate in matters of corporate governance and policy decision-making directly (Jones and Goldberg, 1982). Unilever, for example, has appointed advisory directors on its board, whose key role is to assure that government provisions concerning modern biotechnology (amongst other topics) are adequate and reflect best practice (www.unilever.com). Similarly, Numico has established an Independent Ethical Advisory Committee, which tests the company's plans and actions with respect to genetic modification against views held in society (www.numico.com).

Meta-problem solving (Chevalier, 1966) is a stakeholder integration technique which can best be applied when societal predicaments transcend the boundaries of many individual organizations (Emery and Trist, 1965) or require resources for their resolution that are not found readily under a single roof (Powell, 1998). Alternatives such as incremental or unilateral efforts to deal with such boundary-spanning problems typically produce less than satisfactory solutions (Gray, 1989). Effective meta-problem solving, therefore, requires what is sometimes called "the constructive management of differences" (Gray, 1989; Pasquero, 1991) – a general willingness on behalf of all the affected parties to compare and seek reconciliation between each other's problem definitions and feasibility preoccupations first, and face the predicament co-operatively

by combining the resources and perspectives required for its resolution later. One of the meta-problem solving initiatives in the Dutch food industry, for example, is the joint initiation of the Sustainable Food Chain Foundation (http://www.duurzaam-ondernemen.nl/duvo/duvo.shtml) by companies such as Heinz, McDonalds, Numico, Sara Lee, and Unilever. The objective of this foundation is to stimulate developments that promote sustainability in the food industry, including public and private initiatives contributing to a more thoughtful and balanced application of modern biotechnology.

Capability development. The second broad issues management activity which was identified during the first phase of data analysis consisted of activities used by corporations to develop repositories of valuable issues management-related knowledge, and to link these reservoirs of insight durably to the organization for subsequent reapplication to future issues. This strategy, which created competitively relevant heterogeneity across the firms in the Dutch food industry, has previously been denoted *capability development* in the strategic management literature (Collis, 1994; Galunic and Eisenhardt, 2001; Grant, 1996a, 1996b; Szulanski, 1996; Teece, Pisano, and Shuen, 1997). Broadly defined, the organizational capabilities which result from this process are coordinating mechanisms enabling the most efficient and competitive use of a firm's assets, regardless of whether these are tangible or intangible (Day, 1994; Grant 1996a).

The second phase of data analysis allowed for a conceptual refinement of this capability development strategy into three complementary sub-categories: autonomous-, joint-, and mediated development. *Autonomous development* refers to both the path-dependent, experiential learning-based processes through which corporations accumulate assets over time (i.e. the behavioral view, cf. Dierickx and Cool, 1989; Nelson and

Winter, 1982; Teece, Pisano, and Shuen, 1997) and the more deliberate knowledge codification processes through which firms encode inferences from their unique history in written tools like manuals, blueprints, decision support systems, and crisis scenarios (i.e. the cognitive view, cf. Eisenhardt and Martin, 2000; Glyn, Lant, and Miliken, 1994; Zollo and Winter, 2002). Autonomous capability development occurs when organizations independently decide to: (1) make new combinations with existing knowledge resources, thereby generating new applications from them (Kogut and Zander, 1992); (2) reconfigure their knowledge infrastructure through the internal transfer and replication of capabilities (Szulanski, 1996; Winter and Szulanski, 2001); or (3) integrate lower-level knowledge resources into higher-level capabilities to overcome the paradox of knowledge acquisition (which is a specialist function) and application (which is a generalist task, cf. Demsetz, 1991; Grant, 1996a, 1996b). Dutch companies like Shell, Unilever, and Gist-Brocades (presently DSM) autonomously developed valuable issues management capabilities in the 1992-2001 period due to their intimate involvement with prickly societal issues such as genetic modification. These enterprises not only accumulated a wealth of issues management-related insights due to the exposure; they also documented this knowledge in internal newsletters, in-company reports, and employee manuals (*sources*: interviews, archival data, and roundtable discussions).

When organizational environments are turbulent and characterized by the simultaneous occurrence of many strategic issues, the internal pace of knowledge creation may simply be too slow to match the rate of environmental change (Eisenhardt, 1989; Hagedoorn and Duysters, 2002). Under these circumstances firms often resort to *joint development* strategies, arrangements which bring new knowledge resources into the

firm from external sources (Gulati, 1999; Lane and Lubatkin, 1998; Powell, Koput, and Smith-Doerr, 1996; Zahra and George, 2002). The joint development perspective resonates closely with the resource-based view of alliance formation, which holds that differential resource endowments are an important catalyst for the emergence of collaborative agreements between firms (Dyer and Singh, 1998; Hagedoorn, 1993). The rationale behind this view is that issue-relevant knowledge in an industry is often so broadly distributed that no single firm has all the internal capabilities necessary for success, which urges the parties affected by the issue to cooperate (Powell, Koput, and Smith-Doerr, 1996; Powell, 1998). An interesting illustration of the joint development strategy is provided by the example of the Project Team Biotechnology (1998-2001). From the fall of 1996 onwards, the only genetically modified crop on the Dutch market was Monsanto's Roundup Ready soy, an oil crop which belonged to the jurisdiction of the Product Board for Margarine, Fats, and Oils. Novartis Bt-corn, the second modified crop, was introduced in the summer of 1998. Corn is primarily used for animal feed and for the production of starch, which implied that the parties responsible for managing the introduction were the Product Boards for Animal Feed and for Grains, Seeds, and Legumes. The three product boards soon decided to join forces in the Project Team Biotechnology, because they realized that this arrangement would greatly stimulate the joint development of issues management capabilities, a process which would otherwise be hampered by the broad distribution of skills and responsibilities across the three involved boards (*sources*: interviews, archival data).

Joint development is often the preferred mode of capability building in the (semi) public sector, but in the private sector it is often impossible because of anti-trust

considerations or undesirable for competitive reasons. Private companies that are forced by the market to speed up the pace of their capability-development processes therefore often rely on *mediated development*, an informal or contractual arrangement with outside experts to assist in the development and exploitation of the required skills (cf. Pisano, 1990). Mediators sometimes act as brokers, parties who stimulate capability development by transferring knowledge resources from groups where they are plentiful to groups where they are dear (Hargadon and Sutton, 1997). Brokers benefit from the fact that knowledge is imperfectly shared over time and across contexts, and through their role as linking pins they are the first to "see new opportunities created by the needs in one group that could be served by skills in another group" (Burt, 1992: 70). At other times, mediators act as facilitators by stimulating the intra-organizational codification and dissemination of previously unrecognized or unstructured knowledge resources (Attewell, 1992). Facilitators help organizations overcome "internal stickiness" by assisting them with the discovery, adjustment, and "fine-tuning" of the complex sets of interdependent routines they already possess (Szulanski, 1996; Winter and Szulanski, 2001). In the Dutch food industry, the Product Board for Margarine, Fats, and Oils acted as a knowledge broker in the formative years of the issue (1994-1996), when knowledge about genetic modification was sparsely available and widely distributed across the firms in the Dutch food industry. By virtue of its close and often non-redundant ties with many of the affected parties, the Board managed to develop itself into a key knowledge resource on biotechnology-related affairs (*sources*: interviews, archival data, and roundtable discussions).

STUDY 2

The overall objective of the present paper is to explore the links between issues management activities and organizational outcome variables. The previous study helped uncover the specific issues management activities which will feature as the independent variables for the second study reported here: stakeholder integration and capability development. To make a robust assessment of how these variables affect organizational outcomes, four qualitatively different constructs were selected as the study's dependent variables. First, two indicators of tangible organizational outcomes were chosen. The first of these was *economic benefits*, which was defined for the purposes of this study as immediate increases in the wealth and earnings of a firm. The construct points at the need of organizations to realize short-run economic returns in order to secure immediate survival (cf. Aharoni, 1993). The second indicator was *strategic benefits*, defined as operational, tactic, and strategic changes to a firm's structure or core transformation processes, which enable it to strengthen its competitive position vis-à-vis direct rivals. This construct refers to the organizational need for securing a sustainable competitive advantage in their industries to facilitate long-run prosperity (Rumelt, Schendel, Teece, 1991).

Also, two indicators of more intangible organizational outcomes were selected to assess the impact of issues management activities. The first indicator was *corporate reputation*, previously defined as: "a collective representation of a firm's past actions and results that describes the firm's ability to deliver valued outcomes to multiple stakeholders. It gauges a firm's relative standing both internally with employees and

externally with its stakeholders, in both its competitive and institutional environments" (Fombrun and van Riel, 1997:10). This construct provides the broadest possible assessment of the relative standing of a firm in its task environment (Fombrun and Shanley, 1990; Fombrun and Zajac, 1987), but it is not very informative as to how well this party is doing with respect to the particular issue of genetic modification. An issue-specific construct – *biotechnology reputation* – was therefore also included, and defined as follows: a representation of a firm's past actions and results with respect to its use of modern biotechnology, describing the firm's ability to deliver valued outcomes to parties that are affected by or that may affect the company's use of the new technology (cf. Fombrun and van Riel, 1997; Freeman, 1984).

Hypotheses

Stakeholder integration and tangible outcomes. Stakeholder theory predicts that "firms that contract (through their managers) with their stakeholders on the basis of mutual trust and cooperation will have a competitive advantage over firms that do not" (Jones, 1995: 422). As Hillman and Keim (2001) argue, the development of longer-term relationships with key stakeholders such as customers, suppliers, employees, and communities allows firms to expand their value-creating exchanges with these constituencies beyond those which would be possible with interactions limited to market-like transactions. These claims concerning the instrumental value of stakeholder integration activities have recently been supported by a number of rigorous empirical studies. Berman, Wicks, Kotha, and Jones (1999) have demonstrated that managers can

improve the financial performance of their firms by attending to the needs of two important stakeholder groups: employees and consumers. Similarly, Ogden and Watson (1999) found that although it is costly for firms to improve their relative customer service performance, shareholder returns respond positively to such investments. In more general terms, Hillman and Keim (2001) have shown that stakeholder management activities have a positive impact on shareholder value creation. Hence, the following is expected:

Hypothesis 1a: The degree to which a firm is involved with stakeholder integration activities will be positively associated with the extent to which it is able to realize economic benefits.

Hypothesis 1b: The degree to which a firm is involved with stakeholder integration activities will be positively associated with the extent to which it is able to realize strategic benefits.

Stakeholder integration and intangible outcomes. Since a corporate reputation represents an assessment of a firm's relative standing by its relevant stakeholders, the task of building a more favorable reputation is best to be understood as a process of stakeholder management (Dowling, 1994; Fombrun, 1996; Zyglidopoulos, 2002). Fombrun and Shanley (1990), for example, found that the public assigns more favorable reputations to firms that have charitable foundations and give proportionately more to charity than other firms. Subsequent studies have largely confirmed these results (Wally and Hurley, 1998; Williams and Barrett, 2000). Several studies have also demonstrated,

on a somewhat more general level, that a positive empirical association may be expected between the magnitude of a firm's stakeholder integration attempts and the favorability of its external reputation (Bostdorff and Vibbert, 1994; Fombrun, 1996; McGuire, Sundgren, and Schneeweiss, 1988). Verify with the following hypotheses:

Hypothesis 2a: The degree to which a firm is involved with stakeholder integration activities will be positively associated with the extent to which it is able to realize a favorable corporate reputation.

Hypothesis 2b: The degree to which a firm is involved with stakeholder integration activities will be positively associated with the extent to which it is able to realize a favorable biotechnology reputation.

Capability development and tangible outcomes. The assertion that organizational capabilities represent important sources of competitive advantage is one of the central postulates of the so-called resource-based view (Dierickx and Cool, 1989; Mahoney and Pandian, 1992; Peteraf, 1993; Rumelt, 1984; Wernerfelt, 1984). The view provides a firm-specific perspective, wherein the tangible and intangible resources that are unique to the firm are regarded as the principal drivers of performance differentials across organizations (Yeoh and Roth, 1999). A firm is said to have created a sustained competitive advantage when it is implementing a strategy that creates superior value that is not simultaneously being implemented by competitors, and when these other firms are

unable to duplicate the benefits of this strategy (Barney, 1991). The following relationships are therefore expected:

Hypothesis 3a: The degree to which a firm is involved with capability development activities will be positively associated with the extent to which it is able to realize economic benefits.

Hypothesis 3b: The degree to which a firm is involved with capability development activities will be positively associated with the extent to which it is able to realize strategic benefits.

Capability development and intangible outcomes. The development of organizational capabilities may also add favorably to corporate and biotechnology reputations through a mechanism which has previously been labeled competence trust (Barber, 1983; Nooteboom, 1999). Organizations that are perceived by outsiders as parties that handle complex tasks or touchy societal issues (such as modern biotechnology) with great care and concern, may expect to receive more third-party endorsement than their reckless or incompetent counterparts (Murray and Montanari, 1986; Russo and Fouts, 1997). They may also expect reputation-enhancing effects from reduced exposure to societal activism (Elsbach, 1994; Marcus and Goodman, 1991) and organizational failures and crises (Perrow, 1984; Weick, 1987). Verify with the following hypotheses:

Hypothesis 4a: The degree to which a firm is involved with capability development activities will be positively associated with the extent to which it is able to realize a favorable corporate reputation.

Hypothesis 4b: The degree to which a firm is involved with capability development activities will be positively associated with the extent to which it is able to realize a favorable biotechnology reputation.

Reciprocity between issues management activities. The behavioral view on capability development stresses that rare and valuable organizational assets can only be accumulated over time, and that they must be understood as the outcome of learning-by-doing processes (Dierickx and Cool, 1989; Nelson and Winter, 1982; Teece, Pisano, and Shuen, 1997; Zollo and Winter, 2002). Hence, organizations that are actively involved with stakeholder integration activities are constantly exposed to stimuli that help them accumulate further skills in the area, and capability development activities may therefore benefit greatly when performed in tandem with stakeholder integration tasks. In turn, the stakeholder integration process is likely to be completed faster and with greater efficacy if a firm is simultaneously developing competitively valuable capabilities to support this process (Hart, 1995; Russo and Fouts, 1997; Sharma and Vredenburg, 1998). The following relationship is therefore expected:

Hypothesis 5: The extent to which a firm is able to develop competitively valuable capabilities will be positively associated with the extent to which it is able to integrate purposefully with its stakeholders.

Sample and data collection

In late 1999 and early 2000, a 15-page survey was mailed to the population of Dutch food firms affected by the issue of genetic modification. The source for this set of firms was the mailing list of the Newsletter Biotechnology, a publication of the Product Board for Margarine, Fats, and Oils. Since membership of the Product Board is mandatory for food firms in the Netherlands, it may be assumed that the list contained contact information for the entire population. After deleting affiliated individuals, non-food firms, and government agencies from this list, the target population of firms numbered 551.

The survey was directed to the senior manager responsible for biotechnology-related affairs. Typically, the responding managers would be the chief executive officer of the organization (32.6 percent), the senior officer in charge of research and development (30.2 percent) or the senior marketing manager (17.0 percent). The cover letter explained that the survey was part of a "study examining the experiences of Dutch managers with plant genetic modification." The initial mailing (which also contained an endorsement letter from the chairman of the Product Board), a second mailing, and a telephonic reminder resulted in a total of 243 responses (a response rate of 44.1 percent). Because of missing responses, the usable number of surveys for the present study was

reduced to 212 (a 38.5 percent response rate). Through the telephonic reminder, scores on a restricted set of control variables were obtained from a group of 45 non-respondents. A statistical comparison of the two groups revealed no statistically significant differences between them, implying that the response group is representative of the larger sample.

Measures

Dependent variables. Economic benefits were measured by means of a four-item scale (individual items measured on seven-point disagree/agree scales), which was based on the Sharma and Vredenburg (1998) organizational benefits scale. Sample items are: "We have increased our production efficiency" and "Our profitability has increased." Confirmatory factor analysis (CFA) demonstrated that the scale was unidimensional and adequately reliable ($\alpha = .77$).

The measure of strategic benefits was adapted from the Sharma and Vredenburg (1998) organizational benefits scale and had four items with seven-point disagree/agree scales. Sample items are: "In the future we will be able to use modern biotechnology for improving the quality of our products" and "The modern biotechnology issue triggers continuous learning amongst our employees." CFA showed that the scale was unidimensional and reliable ($\alpha = .88$).

An integrated CFA conducted on all benefits-related items and the two benefits-related latent variables in the model (with each item constrained to load only on the factor for which it was the proposed indicator) yielded a good fit ($\chi^2_{19} = 48.02$, $p < .001$; Comparative Fit Index (CFI) = .99, Tucker-Lewis Index (TLI) = .99, Root-Mean-Square

Error of Approximation (RMSEA) = .085; n = 212). This analysis confirmed the appropriateness of the two-factor solution. The hypothesis of one common benefits factor was unambiguously rejected ($\Delta\chi^2_1 = 235.51$, $p < .001$), implying that economic benefits and strategic benefits are separate, though correlated, constructs.

The measure for corporate reputation was based on Smidts, Pruyn, and van Riel's (2001) perceived external prestige scale and had five items with seven-point disagree/agree scales. Sample items are: "Our organization has a good reputation" and "Our organization is looked upon as a prestigious company to work for." CFA revealed that the scale was unidimensional and reliable ($\alpha = .83$).

Biotechnology reputation was measured by adapting four items (all measured on seven-point disagree/agree scales) of the Smidts, Pruyn, and van Riel (2001) scale for perceived external prestige. Sample items are: "Our customers are generally satisfied with our modern biotechnology-based products" and "In comparison with other companies in our industry, our organization is seen as a positive role model in the area of modern biotechnology." CFA demonstrated that the scale was unidimensional and reliable ($\alpha = .92$).

An integrated CFA conducted on all reputation-related items and the two reputation-related latent variables in the model (with each item constrained to load only on the factor for which it was the proposed indicator) yielded an acceptable fit ($\chi^2_{26} = 128.44$, $p < .001$; CFI = .98, TLI = .97, RMSEA = .137; n = 212). This analysis showed the appropriateness of the two-factor solution. The hypothesis of one common reputation factor was unambiguously rejected ($\Delta\chi^2_1 = 346.43$, $p < .001$), implying that corporate reputation and biotechnology reputation are separate, though correlated, constructs.

Independent variables. A stakeholder integration scale was developed, consisting of six items measured on seven-point disagree/agree scales. Items were based on the concept of stakeholder integration (Hart, 1995; Heugens, van den Bosch, and van Riel, 2002; Sharma and Vredenburg, 1998) and derived from the case study data. Sample items are: "We are able to establish an open dialogue with our stakeholders" and "We integrate the opinions of our stakeholders into our decisions." CFA showed that the scale was unidimensional and reliable (α = .83).

Capability development was measured using a scale consisting of seven items derived from the Sharma and Vredenburg (1998) organizational capabilities scale. All items were measured on seven-point disagree/agree scales. Sample items are: "Our capabilities span (provide benefits) to several functional areas/departments" and "Our capabilities act as triggers for innovation within the company." CFA revealed that the scale was unidimensional and reliable (α = .90).

Results

Structural equation modeling (Bollen, 1989) was used to (a) assess the overall fit of the theoretical model to the data and (b) test the nine individual hypotheses of which it is comprised. Data analyses were conducted with AMOS 4.0 (Arbuckle and Wothke, 1999), a software package that estimates structural models with latent variables based on the structure of the covariance matrix (n = 212). Structural equations modeling is especially appropriate for the present study, because the theoretical model asks for a simultaneous assessment of the impact of two latent independent variables on multiple

latent dependent variables. In Figure 1, the ovals represent the aforementioned latent variables, whereas boxes represent their indicators. All latent dependent variables (economic and strategic benefits, as well as corporate and biotechnology reputation) are affected by two correlated latent factors describing stakeholder integration and capability development. Four or more indicators assess each latent variable. Standardized regression coefficients are presented, with *p*-values in brackets. The relative importance of the variables is reflected by the magnitude of the coefficients. The overall fit of the model is good (χ^2_{396} = 1003.90, $p < .001$; CFI = .97, TLI = .96, RMSEA = .085; n = 212), especially considering the relatively large number of observed and latent variables in the model. The overall fit measures, the multiple squared correlation coefficients (R^2s) of the separate variables, and the correct signs and significance of the path coefficients all indicate that the model fits the data well.

Insert Figure 1 about here

The findings show that the model explains the dependent variable economic benefits (R^2 = .22). The economic benefits construct is affected both by stakeholder integration and capability development. As predicted by Hypothesis 1a, organizations that integrate the "voice of the environment" into their decision-making structure tend to accumulate short-run economic gains (β = .28, $p < 0.01$). This result yields further support for instrumental stakeholder theory (Jones, 1995; Jones and Wicks, 1999), which

postulates that competitive advantages accrue to firms that contract with their stakeholders on the basis of mutual trust and cooperation. Also, as predicted by Hypothesis 3a, the amount of accumulated economic benefits appears to be influenced significantly by capability development ($\beta = .24$, $p < 0.01$). This finding further supports resource-based thinking, which stipulates that firm-specific resource endowments are a determining source of competitive leverage (Rumelt, 1984; Wernerfelt, 1984).

The dependent variable strategic benefits is also explained by the proposed theoretical model ($R^2 = .13$). The strategic benefits construct is affected by stakeholder integration and capability development. Following instrumental stakeholder theory logic, Hypothesis 1b predicted a positive association between stakeholder integration and strategic benefits. The effect was found, but was only moderately significant ($\beta = .18$, $p < 0.07$). A possible explanation for the relatively weak effect is that stakeholder integration attempts may consist of a substantial impression management component, especially when these attempts are part of an issues management strategy (Marcus and Goodman, 1991). Impression management tactics may yield economic benefits for organizations, as they help them survive immediate threats (Arndt and Bigelow, 2000; Sutton and Callahan, 1987). Symbolic tactics are unlikely to yield long-term strategic benefits, however, unless they are supported by substantive action (Pfeffer, 1981). Hypothesis 3b drew on resource-based thinking to link capability development to strategic benefits, and was fully supported by the data ($\beta = .22$, $p < 0.02$).

The third outcome variable, corporate reputation, was explained quite well by the model ($R^2 = .27$), as it was affected significantly by both stakeholder integration and capability development. The data supported Hypothesis 2a, which predicted a positive

association between stakeholder integration and corporate reputation (β = .34, p < 0.01). These results attest to the notion that reputation building should be seen as a process of stakeholder management (Dowling, 1994; Zyglidopoulos, 2002), as organizations that developed tight-knit relationships with a broad range of external stakeholders were rewarded with a substantial improvement of their corporate reputations. For Hypothesis 4a the concept of competence trust (Berger, 1993; Nooteboom, 1998) was used to link capability development to corporate reputation. The hypothesis was fully supported by the data (β = .25, p < 0.01), implying that firms that develop capabilities for handling complex technologies are held in higher esteem by relevant stakeholders than their less competent counterparts.

The biotechnology reputation construct was explained by the model (R^2 = .27), but it was only affected by stakeholder integration, not by capability development. Hypothesis 2b, which predicted a positive association between stakeholder integration and biotechnology reputation, was strongly supported by the data (β = .29, p < 0.01). This evidence provides further support for the notion that effective reputation building should primarily be interpreted as a process of stakeholder management. Hypothesis 4b predicted a positive association between capability development and biotechnology reputation, but was rejected by the data (β = .09, p < 0.34). A potential explanation for the lack of association between the variables might be found in the linking mechanism – competence trust. In theory, organizations that develop capabilities for handling modern biotechnology with care and concern should be rewarded for their efforts with a score on the biotechnology dimension of corporate reputation than their less capable competitors. In practice, the issue of genetic modification is probably subject to such intense debates

and surrounded by so much uncertainty that it is not unlikely that relevant stakeholder groups look upon all the involved companies with suspicion, regardless of how their competence level compares to that of their direct rivals (cf. *Eurobarometer*, 2000).

Finally, Hypothesis 5 predicted a positive association between the two independent variables, stakeholder integration and capability development, based on the expectation that both issues management activities would positively reinforce one another when implemented simultaneously. The hypothesis was supported by the data (cov = .38, $p < 0.01$). This result provides further support for the behavioral view on capability development, which stresses that knowledge assets accumulate over time as a consequence of prolonged exposure to activities that enable learning-by doing processes (Nelson and Winter, 1982; Zollo and Winter, 2002). Hence, organizations that are repeatedly exposed to positive and negative stimuli – like stakeholder integration successes and failures – are more likely to build competitively valuable capabilities than organizations operating in impulse-deprived environments. The result also supports a capability-driven view of stakeholder integration (Hart, 1995; Sharma and Vredenburg, 1998), which states that organizations that invest in the development of knowledge skills in conjunction with investments in stakeholder relations are more likely to complete their integration efforts successfully than firms that do not simultaneously invest in capability development.

DISCUSSION AND CONCLUSION

The results presented here suggest that the implementation of issues management activities by firms that are exposed to societal or political predicaments significantly and positively influences organizational outcome variables. This pattern is evidenced by the fact that the principal issues management activities adopted by the Dutch food industry – stakeholder integration and capability development – are intimately linked to both tangible (economic and strategic benefits) and intangible (corporate and biotechnology reputation) indicators of corporate performance.

Managerial implications

Interestingly, a direct comparison of all the standardized regression coefficients in the model reveals that both predictor variables do not contribute to organizational outcomes in similar ways. More specifically, it is found that stakeholder integration is more strongly associated with the reputational indicators of performance, whereas capability development is more intimately linked to economic and strategic benefits. The first practical implication to be derived from these findings is that managers who fear reputational damage as a consequence of their companies' association with strategic issues are well-advised to integrate the opinions and beliefs of critical external stakeholders into corporate decisions. A second implication is that managers who want to contribute to the short- and long-term profitability of their firms should codify their valuable issues management-related experiences in the form of routines and capabilities

that they can tap into whenever they are confronted with similar issues in the future. A third implication is that managers should consider the simultaneous implementation of stakeholder integration and capability development strategies, as the benefits that these activities yield are likely to increase when they are implemented in tandem (cf. Hypothesis 5).

Limitations and further research

The qualitative data for the first study were collected in the Netherlands, during a time of serious upheaval in the food industry as a consequence of the introduction of genetically modified ingredients. Two pertinent issues management strategies were uncovered via a grounded theory approach. By design, grounded theory studies yield contextual theory, which is intimately related and hence highly relevant to the situation at hand (Glaser and Strauss, 1967). The main limitation of the grounded theory method is that the external validity of the findings it yields cannot be taken for granted. More studies are therefore needed, both in different national contexts and on other types of strategic issues, in order to assess the universal applicability of stakeholder integration and capability development as issues management strategies.

For the second study, a causal model was estimated on cross-sectional data, so any overinterpretations of the results with respect to causality should be avoided. Furthermore, with self-report measures, the possibility that common method bias has inflated the relationships between the constructs cannot be ruled out altogether. Nevertheless, CFA has demonstrated that both economic and strategic benefits, as well as

corporate and biotechnology reputation, are separate constructs which cannot be explained by one general underlying factor. Also, significant and interpretable differences showed up in the relationships between indicator and outcome variables, implying that potential common method bias has certainly not mitigated meaningful variance across hypotheses. While the current results therefore appear to be more than methodological artifacts, further research should establish the causal claim of the present model that issues management activities are indeed tools managers can use to improve their economic and strategic performance or enhance their reputational standing with relevant audiences. Field experiments and longitudinal designs may be applied to this end, preferably in other national settings or on different strategic issues. Such studies may also shed some more light on possible alternative explanations for the results reported here.

Conclusion

As indicated in the introduction, the issues management field is organized into two more or less disconnected camps. Macro-level scholars focus on how *organizations* shape their relationships with external constituencies, whereas micro-level scholars are primarily interested in how *managers* make sense of the larger environment in which they operate. As a consequence of the Chinese walls separating the public affairs and organizational behavior camps, few issues management scholars actively attempt to study the types of questions that matter most from a strategy perspective: whether issues management activities influence organizational outcome variables (cf. Hillman, 2002). The studies reported here provide some evidence at least that issues management is

indeed a strategic organizational function, in the sense that the adoption of issues management techniques can improve the performance and relative standing of organizations that are confronted with nasty societal and political predicaments. It is hoped that these results will contribute to a tentative reconciliation between the two camps, and to a more focused research agenda for the field as a whole.

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TABLE 1

Listing of Interviewees

NUMBER	ORGANIZATION	JOB TITLE
1.	Product Board for Margarine, Fats, & Oils	Secretary
2.	Product Board for Margarine, Fats, & Oils	Policy director
3.	Product Board for Margarine, Fats, & Oils	Head of Communications
4.	Product Board for Margarine, Fats, & Oils	Editor Biotechnology Newsletter
5.	Product Board for Grains, Seeds, & Legumes	Policy director
6.	Product Board for Animal Feed	Policy director
7.	Ministry of Economic Affairs	Coordinator Biotechnology
8.	Ministry of Agriculture	Coordinator Biotechnology
9.	Dutch Standardization Institute	Standardization consultant Food and Agriculture
10.	Consumer & Biotechnology	Policy director
11.	Consumer's League	Policy director
12.	Unilever	Issues Manager
13.	Unilever	Purchasing Officer
14.	Unilever	Public Affairs Manager

15.	Numico	Director Corporate Affairs
16.	Shell	Public Affairs Manager
17.	Gist-brocades	Director of Public Affairs
18.	Gist-brocades	Senior External Communications
19.	Ahold	Public Affairs Manager
20.	Het Financieele Dagblad	Editor
21.	De Volkskrant	Science Editor
22.	Schuttelaar & Partners	Communication Advisor
23.	Wageningen Agricultural University	Professor of Mass Communications

TABLE 2

Interview Protocol

THEME	ILLUSTRATIVE QUESTIONS
Position on biotechnology	• What is your official position on the use of biotechnology? • Under what conditions do you approve of the use of modern biotechnology?
Involvement with biotechnology	• When did you become involved with biotechnology? • How are you involved with modern biotechnology?
Corporate communication	• How do you communicate with your stakeholders about the issue? • Are you satisfied with the outcomes of your corporate communication strategy?
Stakeholder relations	• In what formal or informal collaborative platforms do you participate? • Are you still a member of these platforms?
Stakeholder attitudes	• Would you call your stakeholders cooperative? • Can you discuss every topic with your stakeholders without immediately politicizing the discussion?
International dimensions	• What factors determine the level of public attention for the issue in the Netherlands? • What are the most influential institutions in other European countries with respect to this issue?

TABLE 3

Two Most Prevalent Issues Management Activities[†]

ACTIVITY	ILLUSTRATIVE QUOTATIONS
Stakeholder integration	**R01**: We can only succeed in keeping this issue at manageable proportions if we, on the one hand, maintain our good relationships with what we call "bridgeable partners." On the other, we must continue to inform the "unbridgeables," those stakeholders that are against biotechnology and that do not want to compromise. Maintaining our dialogue with them, and supplying them with information, are key.
	R01: Through informal consultations we inform the societal cadre. (…) We have made specific agreements with certain NGOs to consult them before we go public with any new piece of information.
	R07: We [the Ministry of Economic Affairs] have decided not to intervene in the process because the industry informs us well. We often meet one another in a range of different settings, such as the Communicative Consultations on Biotechnology and the Regular Consultations of the Food and Drug Administration. That is how we keep a finger on the pulse.
	R08: I strongly support the roundtable negotiation model. My Ministry has organized a number of roundtables on biotechnology in the past, in collaboration with the Ministry of Economic Affairs. I also feel that the importance of open roundtable discussions will only increase

in the future. The more products are brought to market, the more industries will become involved. Since this greatly complicates the complexity of the issue, the continuation of regular informal meetings in which every party is able to voice its own beliefs and concerns is of utmost importance.

R09: Policy documents are just an outcome. (…) The fact that we have to consult all of the involved parties during the writing process is of much greater value.

R10: We are well aware that the companies in the sector have invited us to participate in a dialogue with them for instrumental reasons. We still accepted this invitation because we feel that we can play that game too. The participating companies are paying us a good price, so to speak. Through our participation we have been able to reach a few quite tangible successes, of which the agreement that the participating companies would start with voluntary labeling [of foods containing modified ingredients] is perhaps the most important one.

R12: If you are serious about providing customer service, you need to use a central information point. A worried mother does not want to dial twenty different telephone numbers. From a consumer's point of view, centralization of responsibilities is the best alternative.

R14: As companies we need to reach out to other parties ourselves. (…) We have to make field trips to societal organizations and the

	government.
	R21: They [Unilever] understand my profession. What matters to me is that I have a personal contact person inside the organization. I don't want to speak to some kind of Public Relations official, because they are only a burden. Unilever lets me speak to people that are of interest to me.
Capability development	**R01**: The idea that we will ever attain total consumer acceptance for modern biotechnology is an illusion. (…) "Business as usual" before the introduction of modern biotechnology will be completely different from what "business as usual" will be once the introduction is completed. We'll have to accept that the issue of modern biotechnology has acquired a permanent position on the agenda of many stakeholders.
	R02: It is an absolute necessity to centralize our information services [with respect to the biotechnology issue]. (…) A decentralized information strategy would be a Public Affairs atrocity.
	R08: The industry went through a really hard time with the introduction of genetically modified soy, because this crop hardly offers any direct benefits to consumers. But the industry has really learned from its experiences. Many companies have developed crisis scenarios, for example, and the industry as a whole has learned that it is sometimes wise to communicate in a concerted effort rather than going it alone. The introduction of corn turned out to be a good test

ground for these newly developed skills.

R15: Initially, we decided to stick with our industrial partners and refrain from providing non-gm statements [in which a company announces that its products do not contain genetically modified ingredients]. But our company got confronted with a few very serious crises that were particularly hart-felt in our baby foods business. That's when we decided to change our communications strategy and to start stressing that we have origin certificates [stating that a particular ingredient stems from an unmodified source] for every ingredient we use.

R15: We have written down the lessons that we learned from this first introduction in what we call our 'charter.' (…) We expect our employees to use it for all subsequent introductions.

R17: For years, we have regarded ourselves as a research and development organization that happened to sell products on the side. As you know, we are mainly operative in business-to-business markets, that's why. Our involvement with modern biotechnology was a big eye-opener for us, however. The level of controversy that we met when we introduced a number of genetic engineering-based products was unprecedented for us. Since then, we have started to integrate our research and development center more with our marketing and public affairs departments.

R17: Managing the issue of genetic modification is primarily a matter of

making sure that you do your homework thoroughly. On the one hand, we try to monitor what is happening in Brussels and Strasbourg, because we depend on the European Union for the registration and approval of our products. On the other, we are continually testing and assessing the safety of our products, because we must rule out the possibility that our products will cause people to become sick or develop an allergy.

R18: Initially, our policy was one of "public education." We published a lot about modern biotechnology. But we got the door slammed right in our face. The information we provided was far too general. The public could not make the cognitive link between generic information about the technology and the products that they daily buy in the supermarket. That made us realize that we should not use biotechnology as a means to improve our image.

R19: As a retailer, we are very close to the final customer. They visit our shops frequently, and they are our most important external constituency. We therefore invest a lot of time and money in consumer research. We just completed a major consumer research project in the United States, for example, but we also monitor the European situation on a daily basis.

R19: I believe that we should all just keep our mouths shut and wait for the day that a product with more benefits [than modified soy] comes along. Until that day, we cannot explain the benefits [of genetic

modification] to the public.

† In the quotations, the number following "R" indicates the particular respondent who was speaking. The numbers correspond with those of Table 1.

TABLE 4

Categorical Analysis of Issues Management Activities

BASIC CATEGORIES	SUB-CATEGORIES	FINAL CATEGORIES
1. Representative organization	Buffering	Stakeholder integration
2. Dispersed stakeholders		
3. Protecting core operations		
1. Stakeholder directors	Co-optation	
2. Joint decision-making		
3. *Quid pro quo*		
1. Boundary-spanning problems	Meta-problem solving	
2. Managing differences		
3. Combining resources		
1. Experiential learning	Autonomous development	Capability development
2. Path dependency		
3. Knowledge codification		
1. Partner learning	Joint development	
2. Resource complementarity		
3. Knowledge absorption		
1. Third-party services	Mediated development	
2. Facilitated learning		
3. Knowledge brokering		

TABLE 5

Descriptive Statistics, Correlations, and Scale Reliabilities for Composite Variables[a]

Variable	Mean	s.d.	1	2	3	4	5	
1. Stakeholder integration	4.80	1.01	(.83)					
2. Capability development	4.92	1.13	.53**	(.90)				
3. Economic benefits	4.45	1.24	.35**	.40**	(.77)			
4. Strategic benefits	4.36	1.41	.26**	.31**	.35**	(.88)		
5. Corporate reputation	5.76	0.83	.42**	.38**	.19**	.15*	(.83)	
6. Biotechnology reputation	3.59	1.42	.30**	.27**	.31**	.56**	.25**	(.92)

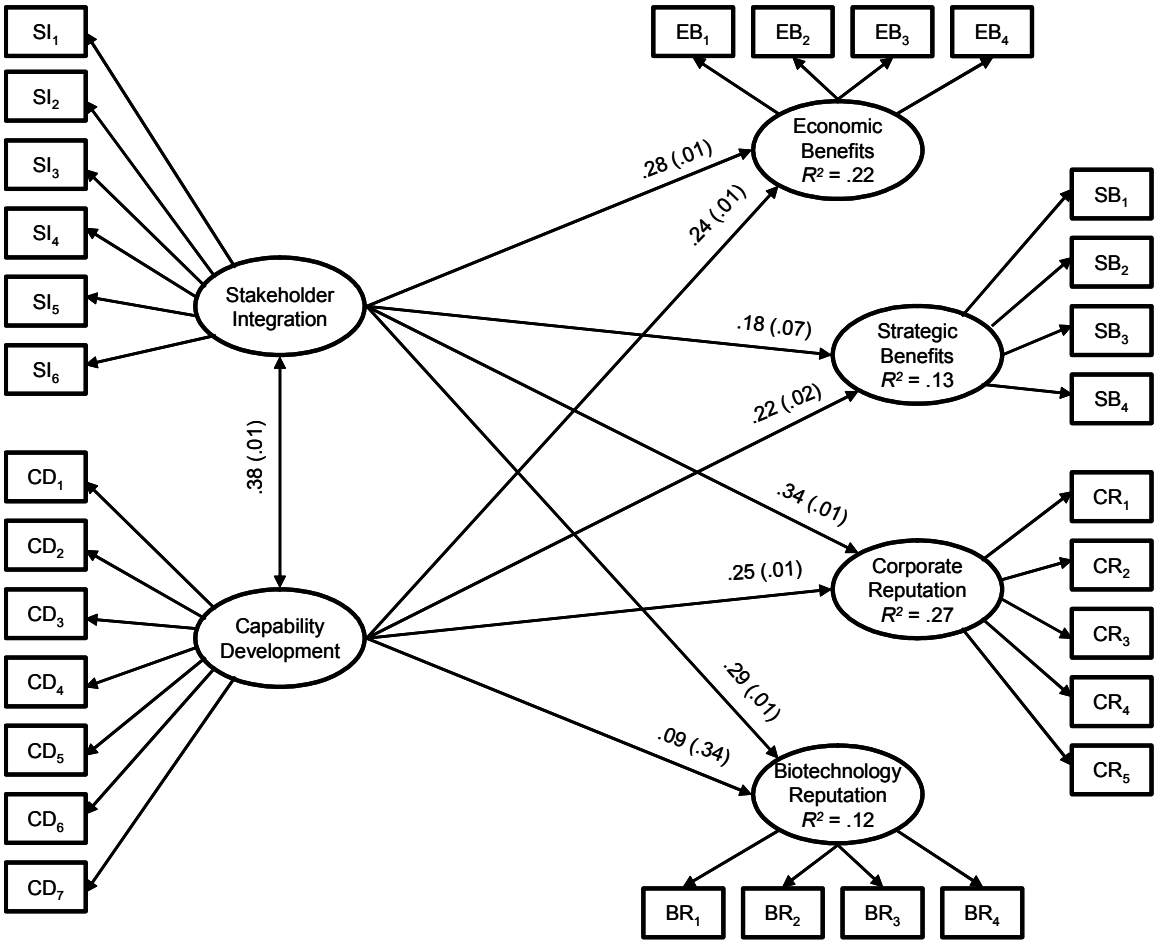
[a] For comprehensibility, composite scores are presented here. Descriptive statistics for individual items underlying these composites are available from the author on request. Cronbach alphas appear on the diagonal in parentheses.

* $p < .05$

** $p < .01$

FIGURE 1

Estimated Impact of Stakeholder Integration and Capability Development on Organizational Outcomes[a]



[a] Ovals show latent variables and boxes show their indicators. Statistics are standardized regression coefficients, with *p*-levels in parentheses, with the exception of the statistic for the relationship between stakeholder integration and capability development (which is a covariance, *p*-level in parentheses).