



It's All About Stakeholders: Corporate Moral Responsibilities, Stakeholder Capitalism, and Hypocrisy Perceptions

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Stakeholder capitalism (SC), the notion that corporations are oriented to meet the needs of all its stakeholders, is the new mantra of America's leading companies (Schwab, 2019). Industries are embracing SC as their corporate moral responsibilities (CMR), i.e., core ethical obligations towards stakeholders (Hess, 2013). However, companies, in spite of their CMR promises, do not always act as promised, specifically in the textile and apparel industry (Farmbrough, 2018), and often contradict their commitments with immoral actions (Denning, 2020). Such inconsistencies between CMR commitments and enacted behaviors, potentially generate hypocrisy perceptions among various stakeholders; a perception known to undermine stakeholders' perceptions towards corporations (Goswami, Ha-Brookshire, & Wesley, 2018) and threaten corporations' reputation (Cour & Kromann, 2011). Thus, this research investigates how inconsistencies between corporate promises related to CMR and their actions might be perceived as corporate hypocrisy (PCH) by stakeholders, how SC issues might impact such relationship, and how such PCH might be variably evoked in different types of stakeholders.

CMR obligations indicate how corporations should act to promote stakeholders' well-being and minimize harm (Hess, 2013). However, these pledges are often contradicted with immoral actions, as revealed by news-media, federal bureau reports, as well as media-documentaries (such as True Cost). Such inconsistencies, where corporations continue to harm stakeholders through their actions while maintaining a public front of social sensitivity, potentially create rooms of PCH among stakeholders. PCH is created when stakeholders think corporations to be not walking the talk (Goswami et al., 2018). Thus, we hypothesize that inconsistencies related to CMR claims and actions generate PCH among stakeholders (**H1**).

While PCH is evoked in both consumers and employees, exploratory research suggests that employees' PCH could differ than that of consumers (Goswami & Ha-Brookshire, 2016). Compared to consumers, employees have insiders' view of their corporations (Scheidler et al., 2018). Due to higher visibility of corporations' inconsistent moral assertions and actions, their perceptions might differ from that of consumers (*idem*). However, the power-dynamics between corporation, consumers, and employees vary, as employees tend to be more vulnerable whereas consumers tend to leverage more influence on corporations (Xia, 2014). Since power can influence perceptions (Guinote, 2017), we hypothesize that types of stakeholders (employees/consumers) would moderate the relationship between CMR inconsistency and PCH (**H2**).

A recent study identified five areas of SC, namely workers, customers, shareholders, community and environment as most important issues to people in the US (Just Capital, 2019). Similar to

prior literature, workers' issues were found to be of paramount importance compared to other areas (Bhaduri, 2011; JUST capital, 2019). Accordingly, it is expected that inconsistencies in CMR, specifically related to workers, would be more important than other SC issues, and likewise, would generate higher PCH among stakeholders. Thus, we hypothesize that types of SC issues would moderate the relationship between CMR inconsistencies and PCH, such that worker related issues would generate higher PCH compared to others (**H3**).

U.S. adult participants ($n = 503$) were recruited using Qualtrics for a 2 (inconsistency: present/absent) X 5 (stakeholder capitalism issue: worker/ environment/ shareholder/ customer/ community) X 2 stakeholders (employees/consumers) between-subjects online experiment. Stimuli messages were designed in the form of marketing messages from corporations advertising their CMR initiatives followed by a news media report indicating that the corporation followed through their CMR promises (for inconsistency absent) or failed to keep its promises (for inconsistency present). SC issues were experimentally induced by emphasizing either workers, environment, shareholders, customers or community as the subject of interest in both corporate and media messages. For stakeholders, participants were identified as either retail employees ($n = 305$) having experience of working at a retail corporation for at least one continuous year or retail consumers ($n = 198$). US retail industry was selected as literature reported of stakeholders' hypocrisy perceptions existing in this environment (Goswami *et al.*, 2018). Participants saw one randomly assigned stimulus set, followed by questions about PCH measured using six items (Wagner *et al.*, 2009) on a 7-point Likert-type scale (1: strongly disagree to 7: strongly agree).

Result of three-way ANOVAs indicated statistically significant direct effect of inconsistency on PCH ($F = 2.39, p < 0.001$). PCH was higher when inconsistency was present between CMR claims and media reports (mean = 4.74, S.D. = 1.33) than absent (mean = 3.14, S.D. = 1.11), supporting H1. Stakeholders moderated the relation between inconsistency and PCH ($F = 3.97, p = 0.047$). PCH was higher for consumers (inconsistency present mean = 5.11, S.D. = 1.23; inconsistency absent mean = 3.21, S.D. = 1.01) than employees (inconsistency present mean = 4.52, S.D. = 1.34; consistency absent mean = 3.07, S.D. = 1.18). In addition, stakeholders had a direct effect on PCH ($F = 10.60, p = 0.001$). This means that overall, retail consumers perceived higher PCH (mean = 4.19, S.D. = 1.46) than retail employees (mean = 3.87, S.D. = 1.46) irrespective of inconsistency present/absent. SC issues significantly moderated the relationship between inconsistency and PCH ($F = 2.23, p[\text{one tailed}] = 0.03$). For inconsistency present, highest PCH was generated for worker issues (mean = 5.12, S.D. = 1.43) and the lowest for issues related to customers (mean = 4.59, S.D. = 1.42). For inconsistency absent, PCH was highest for shareholder issues (mean = 3.40, S.D. = 1.42), while lowest for community issues (mean = 2.67, S.D. = 1.67). In addition, SC issues had a direct effect on PCH ($F = 2.39, p = 0.05$), with PCH being highest for issues related to workers (mean = 4.22, S.D. = 1.53), followed by environment (mean = 4.09, S.D. = 1.14), shareholders (mean = 4.02, S.D. = 1.21) and finally community (mean = 3.79, S.D. = 1.67) and customers (mean = 3.77, S.D. = 1.52). In this light,

the two-way interaction effect of SC issues X stakeholders ($p = 0.175$) and three-way interaction effect of SC issues X stakeholders X inconsistency ($p = 0.477$) were not significant.

The study underscores the importance of CMR in stakeholders' perceptions, highlighting the consequences for corporations that may consider SC as a discretionary obligation. The study results have several implications. First, it indicated that CMR inconsistencies in claims and actions are critical to their stakeholders' perceptions. Since PCH is known to challenge corporations' overall business viability, avoiding such inconsistencies need to be corporations' first step towards managing PCH. Second, given that consumers reported of higher PCH (than employees) for inconsistent CMR assertions and actions, it is now time that corporations revisit their marketing messages. While majority of marketing initiatives focus on asserting CMR, corporations might need to include specific information about their actions implementing those assertions. This also paves path for future research of comparing (in)consistencies reported and explained through different platforms (corporate message vs. media/third-party message) and investigating their impact on stakeholders' perceptions. Third, it is important that corporations pay specific attention to worker related issues in their morally responsible industrial practices. Such area of SC, being a high-risk to influence PCH, must therefore be carefully reviewed by corporation before endorsement and if endorsed, needs to be consistently enacted.

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