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Top-management's perception of public pressure against sweatshop

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**TOP-MANAGEMENT'S PERCEPTION OF PUBLIC PRESSURE AGAINST
SWEATSHOP**

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Abstract

Public pressure has been recognized as one of the most forceful factors underlying change in corporate social behavior. The purposes of this study were to investigate the level of public pressure against sweatshop practices perceived by top managers of U.S. clothing and footwear firms and to examine effects of individual and organizational factors that may differentiate the level of perception. Data were obtained through a mail survey and a total of 96 cases were included in the analysis. Results revealed significant influences of firm size, tenure, and firm ownership type on perceived public pressure, while gender, age, education, business type, and relative weight of foreign sourcing were not found to be significantly related to perceptions of public pressure. Implications for both managerial and public policy strategies are discussed in light of these findings.

Introduction

During the past decade, concerns related to ethics and social responsibility have emerged as significant issues which must be addressed by firms operating within the contemporary global environment. Clothing and footwear producers and retailers, competing within a highly fragmented, global industry have been the focus of attention by the government, public, media and other institutional sources with special interest regarding allegations of sweatshop conditions and labor exploitation within the industry. While some have argued that exploitation of low cost labor and sweatshops are necessary components of economic development, such practices are in direct violation of human right principles set forth in both the United Nation's Declaration of Human Rights and core conventions of the International Labor Organization. In the United States, sweatshop issues, which historically have been pervasive within the apparel and footwear sectors, were dramatically and very publicly brought to light in the Kathie Lee Gifford sweatshop scandal in 1996 (Alvarez, 2000). A considerable number of news stories and television exposure were generated, depicting production involving sweatshop operations and labor exploitation, and both controversy and concern regarding this issue continues today. Major U.S. corporations such as Wal-Mart and Nike, serve as examples of retailers and producers that were subjected to legitimacy attacks by the media and suffered public infamy throughout the latter portion of the 1990s. Such firms became targets of numerous boycotts and anti-sweatshop campaigns which furthered public acknowledgement of production undertaken with sweatshop practices linked to American companies sourcing in third world countries, as well as on domestic soil.

In response to these concerns, apparel and footwear firms began to engage in restoration behaviors designed to address better labor practices. While initial responses by some firms in

these sectors included denial and attempted public relations management (Alvarez, 2000), with continued exposure of sweatshop conditions and heightened public pressure, many firms soon realized that a significant portion of the American public held strong negative attitudes against companies linked to sweatshop practices and that fundamental changes on the production floor and supplier management were necessary. To encourage and foster development of fair labor practices, aggregate efforts included formation of government-industry coalitions (e.g., White House Apparel Industry Partnership) and industry-wide groups (e.g., Fair Labor Association), as well as NGO (Non-Governmental Organization)-firm alliances (e.g., Verité) to create and implement not only codes of conduct but also viable systems for monitoring labor conditions in factories where products are made (Arnold & Hartman, 2003; Graafland, 2002; Park & Stoel, 2005). To this end, labor issues in the apparel and footwear sectors primarily have been governed through voluntary actions of firms involved in creative, self-governing mechanisms.

In case studies of Nike and Adidas-Salomon, Arnold and Hartman (2003) observed that such voluntary labor condition remedy and maintenance actions, along with value based commitments by firms, most often are initiated by high-profile individuals within the firms. Consistent with this, research of stakeholder management and social responsiveness included within the management literature emphasizes the role of top-management in closing the gap between the concepts of corporate social responsibility and firms' actions (Ackerman & Bauer, 1976; Freeman, 1984; Wood, 1991). Recognition of social issues is proposed to be a precondition of consequent managerial engagement in developing and implementing social behavior strategies and actions of the firm (Ackerman & Bauer, 1976; Hambrick, 1981).

Thus, upper management's perception of public pressure seems to be a significant factor related to companies' fair labor practices in the apparel/footwear sector. Although fair labor

management is a critical social issue confronting all businesses today, studies investigating sweatshop issues (Alvarez, 2000; Arnold & Hartman, 2003; Graafland, 2001) have limited their focus to large corporations. The present study, therefore, was designed to assess top-managers' perceptions of public pressure regarding sweatshops issues and fair labor practices among U.S. clothing and footwear firms, with varying levels of firm size, and to examine whether individual (i.e., age, gender, tenure, and education) and company characteristics (i.e., ownership, percentage of foreign-sourced merchandise, sales volume, and business classification) differentiate levels of the perception. Findings from this study will enhance understanding of salient firm and managerial characteristics as they relate to sensitivity regarding social issues and likely engagement in responsive actions undertaken to address sweatshop issues. Such information serves as essential input in policy decision making, as well as NGO and media strategies designed to influence firms in these industry sectors to implement fair labor practices.

Literature Review

Stakeholder Management and Social Responsiveness

The concept corporate social responsibility has evolved over the last few decades, and scholars have attempted to explain it from various theoretical perspectives, including moral/ethics perspective and managerial perspective (e.g., common goods, social contract, and corporate citizenship). The common ideology underlying these theories is that a business is responsible for satisfying values and demands of the society in which it operates. In recent years, stakeholder theory (Freeman, 1984), an integrative theory proposed to clarify corporate social responsibility, has gained popularity in explaining the roles and expectations of businesses operating within a given society. According to the stakeholder theory, businesses are obligated to attend to and respond to stakeholders of the firm. Such stakeholders are defined as “any group or

individual who can affect or is affected by the achievement of the organization's objective” (Freeman, 1984, p. 46). The notion of stakeholders is important, as it indicates transformation of obligations of firms from stockholders to broader social constituents as primary responsibilities of the firm (Freeman, 1984). Immediate stakeholders are considered to be those who engage in formal transactions with the firm and, thereby, directly influence the firm’s survival. As such, these stakeholders include consumers, government, and suppliers. Beyond the immediate stakeholders, contemporary businesses interact with a much wider range of stakeholders and must address their interests as well. For example, pressure regarding sweatshop issues was exerted by NGOs, activists, communities, consumers, governments, and media during the late 1990s (Alvarez, 2000; Hughes, 2001). In order to survive, businesses had to develop strategies to overcome negative publicity and other pressures originating from these groups.

The stakeholder concept, therefore, must be an integral part of a firm’s actions in order for the firm not only to successfully meet interests and demands imposed by the stakeholders, but also to achieve corporate legitimacy within the society. Thus, stakeholder management includes a firm’s action to “redefine its entity within the economy, policy, and society” (Donaldson & Preston, 1998). The concept of stakeholder management shares similar components with the corporate social responsiveness concept which emphasizes the managerial approach in dealing with social issue pressures originating with members of society (Frederick, 1994). In the past decade, corporate public relations have become a fundamental challenge for American businesses, as opinions of and issues presented by the public with accompanying demands for answers and actions have shaped corporate responses (Gandy, 1992). Responsibility for formulating methods and modes of corporate response to social expectations is on upper management (Wood, 1991). Stakeholder management or social responsiveness, thus, requires

managerial commitment and preparation (Donaldson & Preston, 1995; Weaver et al., 1999). The importance of top-management's commitment in addressing public concerns was evident, for example, in Nike and Adidas-Salomon's labor management initiatives in addressing global sourcing operations (Arnold & Hartman, 2003).

Stakeholder management, or social responsiveness, requires three requisite processes: environmental scanning/appraisal, stakeholder identification and its claim/interest, and designing and implementing plans/policies (Ackerman & Bauer, 1976; Mitchell et al., 1997; Wood, 1991). Recognition of stakeholder claim, which includes management's sensing of the social pressure, is an essential precondition for changing corporate behaviors. Clarkson Center for Business Ethics' principle #1 of stakeholder management states: "Managers should acknowledge and actively monitor the concerns of all legitimate stakeholders and should take their interests appropriately into account in decision making and operations" (CCBE, 1999, p. 4). One of the most critical activities of top-management is environmental scanning, through which it learns about events and trends in the environment (Hambrick, 1981). This is accomplished by constant communication with the external environment (Ackerman & Bauer, 1976). Although environmental scanning is performed by many different levels and functions in a firm, environmental scanning by upper management is most likely to be directly linked to strategy formation, because the process of the firm's adaptation to the environment commences with top-management's perceptions and ends with corporate actions (Hambrick, 1981).

Top-Management and Corporate Social Responsibility

While the role of top-management in business is well established in the strategic management field (Hambrick & Mason, 1984), business ethics and corporate social responsibility studies have also examined the role of top management in establishing corporate

ethical culture, not only in effecting ethical behaviors, but also implementing ethics or social programs in a firm (e.g., Donaldson & Preston, 1995; Weaver et al., 1999). Upper management has been found to assume a significant role in shaping and implementing corporate actions (Hambrick & Mason, 1984). Further research has shown that top-management creates the fundamental ethical culture that shapes the nature and scope of social responsibility for the firm (Cohen, 1995), defines acceptable behaviors (Trevino & Youngblood, 1990), and influences employees' ethical beliefs and behaviors in areas such as socially responsible buying efforts (Park & Stoel, 2005). Weaver et al. (1999) delineated the role of upper management in determining the scope of firms' ethics programs and recognized the importance of top-management's response to external pressure. This research further acknowledged the significance of external pressure as a critical factor that determines the scope and nature of ethics programs of a firm.

The relationship between top-management and stakeholder management has been explained through the social cognition perspective by linking individual perception to organizational outcome (Agle, Mitchell, Sonnenfeld, 1999; Kiesler & Sproull, 1982). Social cognitive theories have three components: Behavior, Personal Factors, and Environment (Fiske & Taylor, 1984). According to these theories, individuals interpret the environment as they attempt to determine appropriate strategies or behaviors. The manner in which information derived from environmental scanning is processed and interpreted is dependent upon personal factors. Kelley (1973) suggested that perception is a process in which the perceiver cognitively constructs reality from cues obtained through observation of the environment (Kelley, 1973). How the perceiver interprets information and the level at which an issue is perceived to be salient has been found to vary with individual factors such as past experience, attention capabilities, and

immediate environmental variations (Fiske & Taylor, 1984). This has been shown to be especially important when individuals are in upper management positions, as managerial perception of an issue frames management's problem sensing and subsequent decision making (Kiesler & Sproull, 1982).

When the top-manager perceives a social issue, it is likely triggered by external pressure (Ackerman & Bauer, 1976). The salience of claims embedded in public pressure against sweatshop practices is particularly noteworthy, because the general public and consumers affect the existence of the business that produces and sells consumer goods. Arnold and Hartman's (2003) study of multinational corporations in the footwear industry demonstrates the role of top-management in issue recognition, development of consequent remedies, and implementation of these remedies. This research was based on the concept of moral imagination ("capacity for creativity" per Werhane, 1998) at the individual or managerial level being an essential factor in effecting changes in labor practices. Initial responses of Nike and Adidas to public pressure were found to be primarily based on public relation management approaches (e.g., campaign), which were transformed over time into ethical and integrated global sourcing operations and labor management strategies. These transformations were found to have been prompted by top-management within each corporation initially through actions undertaken by Knight at Nike and Jayapal at Adidas. Moral imagination was recognized as being the source of action in both cases. Programs and operations implemented were found to be based on moral interpretation of corporate responsibility with respect of human rights and expanding stakeholder definition. Corporate actions were initiated originally in response to media attention exposing the issues and then consumers' individual and collective actions against the sweatshop issues which resulted in formation of public opinion.

A firm's attributes, therefore, have been shown to reflect individual values and beliefs of the top-management and influence perceptions of social events and opinions (Hambrick & Mason, 1984). While managers' interpretations of information form the basis of initial perceptions, transformation of these perceptions into corporate social strategies have been found to depend on individual differences (e.g., cognitive ability), organizational factors (e.g., resources), and legitimacy and salience of the issues and/or stakeholders (Agle et al., 1999; Sharma, 2000; Simerly, 2003). Thus, managerial perception of social pressure is likely to initiate social actions undertaken by the firm, yet the perception may differ across individuals and firm characteristics. The present study, therefore, is designed to investigate members of top-management's perceptions of social pressure regarding sweatshop practices and to examine differential levels of perception across a variety of upper management demographics (i.e., gender, age, education, tenure in the firm) and organizational characteristics (firm ownership type, firm size, merchandise source, and business type). Based on the knowledge that social pressure is a precondition for organizational action regarding responsible labor management and that such action is most often prompted by messages sent by the consuming public, it is important to understand managerial characteristics that promote social issue recognition, particularly regarding sweatshop issues, in order to further understand responsible corporate actions.

Method

Data used in the analyses were part of a large mail survey conducted in 2004. Data were collected from U.S. apparel and footwear companies involved in production sourcing. A total of 967 apparel companies were identified from the *D & B Million Dollar Business Directory*. Because the sweatshop management issue has emerged as a critical issue in the global supply

chain comprised of independent contractors (Jørgensen et al., 2003), it was determined that U.S. companies engaging in outsourcing would be the population of this study. Therefore, a telephone screening procedure was employed to exclude companies not involved in outsourcing. A mail survey questionnaire was sent to all remaining firms that did engage in outsourcing of apparel and/or footwear. A multi-stage design was used (i.e., first mailing of the questionnaire, a postcard reminder after 2 weeks, second copy of the questionnaire after 2 weeks), and telephone contacts were made to maximize response rate. A total of 208 responses were collected from the survey. For the purpose of this study, a total of 96 responses from top-management were used. Comparisons between responses from mail requests and late responses after telephone contacts yielded no significant differences on key factors.

Seventy four respondents (77.1%) were male and 21 were female (21.9%). Respondents' ages ranged from 27 to 73, with mean age being 48.31 years (SD = 10.59). Over 53% of the respondents (n = 51) had a bachelor's degree, about 27% (n = 26) had completed high school or some college, and approximately 18% (n = 17) had a graduate degree. Tenure in the current company ranged from 1 year to 40 years; the mean was 13.78 years (SD = 10.54). Approximately 65% of the respondents identified their firms as being manufacturers (n = 62) engaging in some to 100% production sourcing; 26% (n = 25) identified their firms as being retailers or distributors.

Five items, employing a 7-point Likert scale, were developed to measure perceived public pressure against sweatshop practices (see Table 1). Cronbach's alpha for the items was .72. The items were summed to represent the public pressure construct (M=21.80; SD = 5.15).

Insert Table 1 about here

Results

Three variables had two groups initially: gender (male and female), major business type (retailer/distributor and manufacturer), and ownership (private and public). Two groups were created for each of the following variables: age, sales volume, percentage of foreign-sourced merchandise, tenure, and education (high school and bachelors/graduate). A median-split method was used to create the groups.

Table 2 shows the results of the t-tests. The t-tests confirmed influences of sales volume and tenure. The level of perceived public pressure against sweatshop practice was significantly different between those companies with sales volume of 24 million or less ($M = 20.95$) and those companies with sales volumes of more than 24 million ($M = 23.31$) [$t(79) = 2.18, p < .05$] at the .05 level, indicating that firm size resulted in a highly significant increase in the level of perceived public pressure by top management. The level of perceived public pressure was also statistically significantly different between two groups based on the manager's length of employment with the current company (tenure) [$t(90) = 4.00, p < .05$], indicating that tenure resulted in a statistically significant decrease in level of perceived public pressure. Perceived public pressure levels were different between managers of publicly held companies ($M = 24.23$) and privately held companies ($M = 21.43$) [$t(91) = 1.84, p < .10$] at the .10 significance level. For this sample, levels of perceived public pressure were not found to be statistically different across groups based on gender, age, education, major business type, and percentage of foreign sourced merchandise.

Insert Table 2 about here

Discussion

The purpose of this study was to examine individual and organizational factors that affect the level of perceived public pressure against sweatshop by top-management of U.S. clothing and footwear firms that outsource. Results indicated that the level of public pressure perceived by top-management did not vary by either individual demographic factors or product or business classification. Organizational factors, including scale of business (i.e., sales volume), ownership of the company, and an organization-individual interactive factor, tenure with the current firm, were found to be statistically related to the level of top-management's perception of the public pressure against sweatshop. This suggests that top-managers of both larger companies and publicly held companies are more likely to perceive public concerns regarding labor practices and pressures which prompt businesses to be responsible in their labor practices than are managers of those of smaller and privately held companies. Previous studies investigating sweatshop issues frequently have focused on large multinational companies and behavioral changes made in response to public pressures (e.g., Arnold & Hartman, 2003). Industry – government efforts to improve labor conditions in the apparel and footwear sector during the 1990s, such as the Apparel Industry Partnership, also included predominantly large corporations. Such focus is explained by the historic fact that public infamy of high profile apparel and footwear companies caused by media exposure and activities by various groups, such as the National Labor Committee, frequently targeted big corporations, which resulted in companies engaging in legitimizing and image restoration behaviors. A study by Rock (2003) reported that public disclosure of unethical labor conditions by the media negatively affected stock prices of companies that were exposed. Perceptions regarding labor practices seem to have become an

integral component of corporate image, and publicly held companies are more likely to be concerned about the manner in which both shareholders and consumers view the corporation than privately held companies.

The finding of a negative effect of tenure on the level of perceived public pressure is of particular interest. Previous business ethics studies have found existence of a positive influences of both age and tenure on ethical values and ethical behaviors of individuals (e.g., Simerly, 2003). While, in the present study, the effect of age was not found to be statistically significant, the effect of tenure was. It may be that individuals who have been in an upper management position with a company longer have become shielded or are no longer exposed to various views and pressures from external, public interests. It more likely may be that individuals who have remained in top management positions for a longer period have effectively dealt with social responsibility issues, for example in creating standards for behavior and continuing to do business with outside contractors that comply with established codes of conduct.

The results of this study further suggest that large and public companies are more likely to be engaged in fair labor practices, because top-management tends to respond to the external pressure and its awareness and response is directly related to corporate social performance (Weaver et al., 1999). Arnold and Hartman (2005) claimed that extreme public pressure results in extremely ethical corporate actions for a social issue in target, and this changes industry-wide views and practices in a positive way, which the authors refer to as 'positive deviancy'. While the findings of this study alerts us a low level of pressure perceived andperhaps inferior labor practices by small and private companies, more responsible behaviors by the big corporations currently may change the industry norm in the long-run.

The study by Alvarez (2000) describes how Kathie Lee and Wal-Mart responded to the public and media attack from a public relations perspective and legitimized their practices in American society using media. On the other hand, Arnold and Hartman (2003) show how a value based system can be integrated into a firm's practices starting from issue recognition, rather than avoidance or falsely legitimizing behaviors using public relation tactics. Furthermore, top-management's recognition of external pressure may create 'decoupled' ethics practices (Weaver et al., 1999). Decoupled practices, such as simple communication practices (e.g., memo), can be triggered by government, industry, and social pressures but may lack integration within the firm which results in failures in employee involvement and in integration between the idea and everyday activities. Upper management's personal commitment has been found to be an essential element in developing an integrated and value-based ethics program in a firm (Arnold and Hartman, 2003; Weaver et al., 1999).

While the moral imagination of the top-management is an essential element of fundamental change in the firm's actions, Arnold and Hartman (2003) also emphasized 'productive imagination' followed by moral imagination, which points out the importance of organizational implementation of culture and actions in accordance to values in the moral imagination. That is, consequent actions by the firms that feel the public pressure against sweatshop lead the changes. In contrast, Kiesler and Sproull (1982) warned of a possibility of misinterpreting of social events or opinions from the environment by the management. Although individual characteristics, such as information search involvement, influence the degree of the misconception and consequent actions, this can be minimized through clear guideline from trendsetters, such as industry forums or collaborative standard setters (e.g., American Apparel

and Footwear Association endorses the Worldwide Responsible Apparel Production (WRAP) principles and certification programs to its members).

This study focused on top-management's perceptions of public pressure. Further investigations of upper management's managerial actions and implementation of fair labor practices in response to such pressure will lead to further understanding of the manner in which public pressure can result in responsible labor practices in the industry.

As more companies expand capacities of foreign sourcing with the removal of trade barriers and accelerate the pace of globalization in the clothing/footwear sector, global supply chains will likely become even more vulnerable to competitive pressures and sweatshop risks due to the dispersed structure of supply chains in which multiple layers of subcontractors and agent firms and as supply links from factories to consumers become protracted and indistinct (Jørgensen et al., 2003). According to Hosmer (1994), corporations that operate in foreign countries confront a larger number of stakeholders and management of the stakeholders has become essential for both survival of firms and gaining and maintaining legitimacy. Although this study did not find significant linkage between foreign sourcing and the level of perceived public pressure, globalization of clothing and footwear production has impacted the boundary of stakeholders. Therefore, in addition to placing focus on U.S. companies and the domestic public, future research should examine perceptions of various stakeholder pressures along with the degree of globalized operation of the firm. In examining stakeholder opinions, especially foreign suppliers and Western as well as non-Western NGOs, Werhane (2002) noted that the standards and expectations from each sector exhibited significant differences from one another. Although Hughes (2001) emphasized multi-stakeholder approaches to management of labor issues in the global supply chain, it has been found that firms have limited resources and have to prioritize

salient stakeholders in responding to their claims (Mitchell et al., 1997). Further research is needed to assess standards perceived by firms, which may be different across firms, and influential stakeholders whose opinions are considered salient by the firm to better understand corporate response to the external pressures regarding sweatshop issues and fair labor practices.

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Table 1. Items & reliability of public pressure scale

Items	M (SD)	Sum M (SD)	Cronbach's alpha
The American public is very concerned about workers' welfare in manufacturing facilities	4.61 (1.42)	21.80 (5.15)	.72
American consumers are increasingly demanding products that are made in decent working conditions	4.24 (1.64)		
The public is more worried about the economy than workers' welfare*	2.31 (1.15)		
Fair treatment of workers in manufacturing facilities where our products are made is our firm's responsibility to society	6.15 (1.10)		
The anti-sweatshop movement is a major social trend today	4.48 (1.71)		

Note. * Reverse coded

Table 2. Summary of the t-tests

Variables (n)	M	SD	t	df	<i>p</i>
Gender					
Male	21.86	5.20	.16	91	.87
Female	21.65	5.19			
Age					
Younger (younger than 49)	21.80	4.92	.12	86	.90
Older (49 or older)	21.67	5.54			
Education					
High school	20.73	5.52	1.20	90	.23
Bachelors or Graduate	22.17	5.00			
Tenure					
Long (11 years or more)	19.85	5.37	4.00	90	.00
Short (less than 11 years)	23.87	4.16			
Ownership					
Public	24.23	.99	1.84	91	.07
Private	21.43	.59			
Firm size (sales in million \$)					
Smaller (less than \$24 mil)	20.95	5.56	2.18	79	.03
Larger (\$24 mil or more)	23.31	3.97			
Foreign merchandise source					
More than 65%	22.38	4.84	.67	72	.51
65% or less	21.54	5.73			
Major business type					
Retailer/distributor	21.40	6.06	.58	84	.56
Manufacturer	22.11	4.81			