



Perspectives

Family matters? The effects of size and proximity in the digital age

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FAMILY MATTERS?**THE EFFECTS OF SIZE AND PROXIMITY IN THE DIGITAL AGE****MICHAEL L. BARNETT**

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Family matters? The effects of size and proximity in the digital age

In response to: Jimenez, W. P., Xu, X., and Bennett A. A. Takin' care of small business: The rise of stakeholder influence. *Academy of Management Perspectives* (forthcoming)

ABSTRACT

In Barnett, Henriques, and Husted (2020), we argued that, in the aggregate, the digital age has not given stakeholders greater influence over firm behaviors. In their *Exchange* article, Jimenez, Xu, and Bennett (forth) agree with our broad model of stakeholder influence in the digital age but suggest that the model does not account for independent, owner-managed small businesses interacting with local stakeholders in crisis situations. In our response here, we explore the implications of the two factors that underpin their argument – firm size and firm-stakeholder proximity – for stakeholder influence in the digital age. We conclude that some scenarios associated with these two factors are worth further investigation, but they do not fundamentally alter the dynamics of stakeholder influence in the digital age that we identified in Barnett et al. (2020), even for small, independent firms in crisis situations.

Keywords: stakeholder influence, digital age, social control, small business

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3 The digital age brought about many transformative things, but widespread democratization of
4 corporate control was not one of those things. Sure, we now have instant access to all the cute cat
5 videos we could ever desire. But contrary to many profound predictions around the turn of the
6 millennium, the rise of social media has not ushered in an era of greater stakeholder influence
7 over firm behavior. Rather, in the aggregate, firms maintained and perhaps gained discretion.
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12 In Barnett, Henriques, and Husted (2020), we explained why. We did not explain every
13 instance of stakeholder influence, however. Again, we focused on the aggregate effect of the
14 digital age on stakeholder influence over firm behavior. We did not deny that some stakeholders
15 sometimes have substantial influence over some firms through social media (for some period of
16 time). Rather, we explained that despite this, most firms maintain the discretion to do most of
17 what they want to do most of the time. A relatable comparison is the lottery. Sure, some people
18 become (often temporarily) unimaginably wealthy from the lottery, but overall, the lottery has
19 not provided greater financial control to the citizenry. Most people most of the time are not
20 financially stronger for it. Likewise, though social media has given some people sometimes
21 staggering influence and reach into the C suite on occasion, most of us still have little sway over
22 what most firms do most of the time, no matter what we post on social media.
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40 In their Exchange article, Jimenez, Xu, and Campion (forthcoming) highlight a set of
41 factors that they suggest might allow a particular group of stakeholders to have greater influence
42 over a particular type of firm under a particular set of conditions in the digital age. As such, the
43 authors suggest that these factors could form boundary conditions for our broader model. We
44 welcome their clarification, as it is interesting to see how this set of conditions plays out within
45 our model, even though we find that the model still holds even for this specific combination of
46 factors. Herein, we discuss these factors and clarify their implications for our model.
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Too Close for Discomfort?

Jiminez et al. (forth) argue that rather than applying to all firms, stakeholders, and situations, our model does not fit the following firms, stakeholders, and situations: independent, owner-managed small firms dealing with local stakeholders in unfolding/uncertain/crisis situations. We freely acknowledge that we did not have that particular combination of factors in mind when formulating our model. Thus, we welcome the opportunity to explore their implications here.

Jiminez et al (forth) bring up the case of a “mom & pop” restaurant staying afloat in the COVID-19 pandemic due to the support of local stakeholders. They argue that members of the local community will be aware of the plight of the restaurant and support it on social media. The restaurant will respond to this support on social media, and this will help the restaurant to survive the crisis. Because the restaurant survives, Jiminez et al (forth) argue that our model explaining the “stall of stakeholder influence” in the digital age does not apply to small, independent firms embedded in local communities during a crisis.

Though this would seem to be a very stylized combination of factors, Jiminez et al (forth) assert that this constitutes a crucial boundary condition for our model because small businesses “account for 99.9% of businesses in the United States,” according to the U.S. Small Business Administration. However, the types of businesses that the U.S. Small Business Administration classifies as small can be considerably larger than the typical “mom & pop” venture. The scope varies by industry, but in the mining, quarrying and oil and gas extraction sector, for example, a small business is defined as having up to 1,500 employees, while a small business in food services (restaurant) or food retail (bakery) is defined as having no more than \$7.5 million in average annual receipts (US Small Business Administration 2016). Thus, the types of firms that

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3 Jiminez et al (forth) have in mind are only a fraction of the great number of “small businesses”
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5 that exist and may not be generalizable beyond true local “mom & pop” firms.
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8 That said, we agree that a local small business can sometimes – though certainly not
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10 always – be more salient and more supported by local stakeholders than, say, a large chain store.
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12 The role of social media in this dynamic seems tangential at best, however, and may work in the
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14 opposite direction. The community embeddedness and social proximity that the authors argue are
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16 at the root of making local business more salient are not amplified in the digital age. In fact, we
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18 would expect them to be lessened. Small firms lack the expertise and budget for a substantial
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20 social media presence. In the digital age, small businesses are more likely to need to compete for
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22 consumer mind space with the professional and omnipresent social media accounts of large firms
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24 that can easily reach local stakeholders.
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28 In addition, social control, which was the focal concern of our paper, does not seem to be
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30 addressed Jiminez et al’s (forth) mom & pop case. We argued that stakeholders have not gained
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32 influence over how firms behave in the digital age. Jiminez et al (forth) focused on how
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34 stakeholders help the small, independent, local firm to stay afloat during a crisis. But as any
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36 actual mom or pop will tell you, supporting your kid during tough times versus telling your kid
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38 what to do are two very different things, leading to two very different results. Likewise, posting a
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40 positive review about a local restaurant is quite different from making demands of the owner
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42 regarding what they put on the menu and how they cook, clean, staff, or otherwise operate their
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44 restaurant. Our notion of stakeholder influence is one of making demands of firms – exerting
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46 social control – not one of helping firms to stay afloat so that they can continue to do what they
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48 have always been doing. Supporting a small business despite tough economic times means that
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3 the firm has maintained its operating discretion – which is supportive of, not counter to our
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5 model.
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8 Moreover, this all seems to be a wash in the aggregate anyway. Most people are
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10 concerned with their mom and pop, but there are many moms and pops out there, near and far.
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12 There are also brothers, sisters, aunts, uncles, cousins, step, once-removed, and otherwise, all
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14 seeking help during a crisis. With all these hands stretched out before them, which will the local
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16 stakeholders support? There are many local businesses, and perhaps many social media accounts
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18 associated with them. The problems of information overload that underpin our paper set in for all
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20 but the smallest, most isolated towns containing only a few local businesses.
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24 Finally, the crisis in this case is not specific to the firm. Rather, the firm is caught up in a
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26 global crisis not of its own making – a circumstance that might rightfully elicit sympathy from
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28 those closely associated. In contrast, local stakeholders may not be supportive of a neighborhood
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30 firm that has done something to bring on the wrath of social media, which is the perspective
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32 implicit in our model. If they are supportive, it is more a matter of personal identity than of local
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34 proximity. There are Apple fanboys, Disney devotees, and Target moms to name but a few
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36 disciples of large corporations that also profit from personal identity, perhaps to an even greater
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38 degree than any mom & pop. Compounding this, a firm-generated crisis provides the opening for
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40 social media to play a substantive role in harming rather than helping the mom & pop, as those
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42 from outside the local area can more easily coordinate an attack. Consider the small, independent
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44 baker who refuses to bake a “mom & mom” or “pop & pop” cake and sets off a national debate.
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47 In the digital age, a local issue can quickly and easily become a national issue.
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51 We see much of what Jiminez et al (forth) have stated as fitting within and perhaps
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53 extending our model, rather than challenging it. Local stakeholders may engage in sensemaking
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3 about small local firms differently than would distant stakeholders, even if the role of social
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5 media in this process may work opposite to the direction that the authors have suggested. Small
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7 local firms, if they are social media savvy, might then be able to use (abuse?) local support as
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9 part of sensegiving efforts to engender the support necessary to survive and maybe even thrive
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11 through a crisis – especially a crisis that is self-generated rather than external to the firm as
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13 Jiminez et al (forth) describe. Local stakeholders might be less prone to relying on slacktivism to
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15 express their preferences for local small businesses and they might be more able to synchronize
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17 their efforts. We next explore the implications of the size and proximity factors at the root of this
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19 Exchange.
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25 **Thinking Small and Local**

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27 Most owner-managed firms are small. Size matters in at least two ways related to the Exchange.
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29 First, smaller firms do not have the resources to engage in the astroturfing and counterattacks in
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31 social media in the same ways that a large corporation can. Hence, the likelihood that small firms
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33 will generate noise (misinformation, rumors, etc.) is lower than for large corporations. Second,
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35 our article focused on corporations, which is where the problem of the separation of ownership
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37 and control occurs. This separation means that managers do not necessarily do what owners
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39 want. In the case of the owner-managed firm, this agency problem does not exist. Mom & pop
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41 cannot act opportunistically with respect to themselves, nor do they need to be sensitive to the
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43 outrageous demands of stockholders. Instead, they may be extremely sensitive to customers and
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45 more so with respect to employees as well as neighbors (Darnall, Henriques & Sadorsky, 2010).
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51 Geographic proximity captures the sense of community and defines small firm-
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53 community stakeholder relationships. Given proximity, there are additional opportunities and
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55 networks for communication that are not often available with the kinds of costless digital
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3 communications that make distance meaningless in terms of stakeholder influence. Thus, our
4 model may not apply to the same extent to local firms, precisely because the local firm-
5 stakeholder logic is different and richer than what occurs through social media. However, this
6 proximity and these networks existed before the digital age and it is doubtful that the digital age
7 has done anything to amplify them. Rather, in consonance with our argument, they may have
8 stalled or even lessened in influence in the face of competing social media from afar. Instead, the
9 promise of stakeholder influence in the digital age lies in the ability of stakeholders to influence
10 distant firms by mobilizing dispersed stakeholders.
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26 As shown in Figure 1, by combining the dimensions of size and proximity, we create four
27 quadrants in which to further explore stakeholder influence over firm behavior in the digital age.
28 Quadrant 1 is the case of large firms relating to distant stakeholders. This is where our paper
29 applies most directly. This kind of influence was, in the aggregate, minimal before the digital
30 transformation. Although there were cases of activism directed against large global companies,
31 most stakeholders had little influence over most of what most firms did. Our paper argues that
32 despite the promise of the digital age, this influence remains minimal in the aggregate. As we
33 outlined, “the cognitive processes inherent in coping with the excesses and oddities of the digital
34 age have retarded stakeholder influence over firm behavior” (Barnett et al, 2020: 60).
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46 Quadrant 2 deals with the influence of stakeholders on small, distant firms. Most
47 stakeholders are unaware of most small firms in distant locations and so hold little or no sway
48 over their behaviors. It is unlikely that, say, a boutique bookstore in Austin will attract much
49 attention from distant stakeholders in Boston, let alone face demands from them to alter their
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3 behaviors. However, the digital age may change this. It is now possible for the actions of small
4 local firms to reach national and international audiences quickly and costlessly, such as the
5 example of the Masterpiece Cakeshop in Lakewood, Colorado refusing to sell a wedding cake to
6 a gay couple. If attacked, these small firms seem vulnerable, lacking the resources to
7 independently respond. However, the digital age changes that, too. They could mount a
8 coordinated counterattack quickly and costlessly. Thus, the outcomes of stakeholder influence
9 efforts on distant small firms in the digital age are unclear, but it does seem that the dynamics of
10 stakeholder influence change in the digital age in this case and so warrant further study. For
11 example, how have small, independent firms adjusted their practices to deal with the possibility
12 of online attacks? Perhaps the digital age has created a sort of “reputation commons problem”
13 (King, Lenox & Barnett, 2002) across small firms in particular industries, whereby they now
14 need to be concerned with events that happen at similar other firms in distant locations.
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31 Quadrant 3 again deals with large firms, but nearby ones. Major corporations, despite
32 their size and resulting power, have long taken account of local concerns. For example, it is well
33 known that the focus of CSR and philanthropy from large firms tends to be the city where it is
34 headquartered (Marquis, Glynn & David, 2007; Galaskiewicz, 1997). These effects pre-date the
35 digital transformation and exist because of the tightly connected networks in local communities,
36 which permit the transmission of information about the firm and its social and environmental
37 impacts. Given the rich local interaction already in place, as with small firms we see no reason
38 that social media interaction in the digital age would change stakeholder influence. However, the
39 exploits of large firms in local communities can now be broadcast more easily. Social media
40 campaigns can arise to shame large firms, such as Amazon faced regarding its opposition to
41 further taxation in Seattle, or Facebook, Google, and other digital age titans continue to face in
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3 dealing with their impacts on Silicon Valley. Thus, in ways similar to quadrant 2, this quadrant is
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5 also worthy of further attention.
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8 Finally, the fourth quadrant focuses on the case brought forth by Jiminez et al (forth), that
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10 of nearby small firms. We agree with Jiminez et al (forth) that this is where stakeholder influence
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12 is likely to be the highest. However, stakeholder influence was already high in this case before
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14 the digital transformation. Social media has not increased stakeholder influence over their local
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16 firms; rather, fitting with our model, stakeholder influence has stalled in this case.
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21 **On Not Letting a Good Crisis Go to Waste**

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23 An additional point to clarify is with Jiminez et al's (forth) contention that that during times of
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25 great uncertainty, people engage in high levels of information search. As Oh, Agrawal and Rao
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27 (2013: 408), whom Jiminez et al (forth) cite, explain, "Information overload and information
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29 dearth signify the two enduring and interlocking problems that prevent sensemaking of urgent
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31 situations and emergency response operations." Lack of information or information dearth is a
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33 real problem during a crisis. However, turning to social media often leads to rumoring, which is
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35 "a collective and collaborative transaction in which community members offer, evaluate, and
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37 interpret information to reach a common understanding of uncertain situations, to alleviate social
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39 tension, and to solve collective crisis problems," but which undermines the quality of online
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41 information even in tight territorial groups (Oh et al., 2013: 409).
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47 In the case of Covid-19, the internet has been inundated with misinformation (Kouzy, et
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49 al., 2020). Too often people share information without verifying its accuracy (Pennycok, et al.
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51 2020). Although businesses may be able to use social media fruitfully during crises to rally
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53 support from the local community, there is no evidence that local information provided through
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55 social media to influence firm action is more accurate or more influential than the ordinary
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3 influence a firm would receive from local stakeholders. Information provided in local
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5 communities appears to be subject to similar processes of rumoring since local stakeholders are
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7 no more likely to verify the quality of information (Oh, et al., 2013). Hence, we expect that
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9 during crisis situations, social media will not change local stakeholder influence with respect to
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11 the influence they would ordinarily exert; again, stakeholder influence stalls.
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16 17 **Conclusion**

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19 Jiminez et al (forth) invited us to think more deeply about traditional, local forms of stakeholder
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21 influence in the digital age. We argued that these forms of stakeholder influence remain intact,
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23 and that digital stakeholder influence adds little and perhaps subtracts from the support that
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25 community embeddedness and social proximity bring, particularly under crisis conditions.
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27 However, investigating size and proximity has helped us to identify other cases that warrant
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29 additional research.
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FIGURE 1
Aggregate Change in Stakeholder Influence in Digital Age

		Firm size	
		Small	Large
Firm-stakeholder proximity	Low	?	<i>Stalled</i>
	High	<i>Stalled</i>	?

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