An Application of Stakeholder Influence Strategies
On Environmental Disclosures:
Exploring the Impact of a Positive Environmental Event
In a Developing Country

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Structured Abstract

Purpose of the paper:

Stakeholder theory has been used extensively in the business literature as it offers a useful framework given its basic premise that the firm’s success is dependent upon the successful management of its relationship with their stakeholders (Freeman, 1983). Whilst the stakeholder literature is replete with research on stakeholder attributes and concerns on how to manage them, little is known about how stakeholders demand what they want from the firm (Frooman, 1999). The purpose of this research is to gain insights on the preferred strategies chosen by various stakeholder representatives to influence management to either provide/not provide environmental disclosures in an experimental setting.

Design/methodology/approach:

A Malaysian experiment is initiated to understand how different stakeholder groups go about seeking what they want from the management. Frooman’s (1999) typology of resource relationships and influence strategies is used as a starting point in order to make sense of the possible environmental reporting preferences imposed by the stakeholder representatives on the management. To facilitate the experiment, qualitative interviews with various stakeholder representatives are conducted with the aid of hypothetical vignettes to gain insights on the possible interplay between the management and various stakeholder representatives from an *ex ante* perspective, that is, the environmental reporting preferences before disclosures are made. The main hypothetical vignette features a pro-active environmental initiative taken by a prominent publicly listed firm in the banking industry. Another hypothetical involving a life-threatening environmental event is also introduced to allow comparisons between preferred influence strategies.

Findings:

The findings in this exploratory study indicate that although the model is useful to understand the possible influence strategies taken by each stakeholder group, its
effectiveness is tempered by the level of significance placed by these groups on the environmental initiative and their perception of how it will affect their stake on the firm.

The analysis conducted in this research, although based on a small sample, reveals the usefulness of Frooman’s (1999) typology to understand how different groups of stakeholders go about seeking what they want from the management. From the results, it is clear that there is a demand for environmental disclosures to be provided in the annual report and other means of communication, particularly in the case of a proactive environmental initiative as featured in this Malaysian experiment. The underlying assumption that ‘the stakeholder’s perception of how the environmental event will affect their stake and the firm/stakeholder interdependence structure’ has, indeed, determined whether the stakeholders demand environmental disclosures. The insights gathered from the stakeholders’ demand for environmental disclosures lead to the following conclusion.

From a practical perspective, the most pivotal conclusion drawn from this investigation is that although the model is useful to understand the influence strategies adopted by each stakeholder group represented, its effectiveness is tempered by the level of significance placed on the environmental event by the stakeholders. Given the considerably low level of environmental awareness in Malaysia, it is clear from the analysis that proactive efforts such as the one featured in this study is not given a very high significance level by the stakeholders closely identified with the general public such as the employees and the local customer representatives. The implication is such that without mobilizing public awareness, it is not surprising to see few companies adopting environmentally friendly activities. Hence, while the media and the environmentalists are seen to push the agenda of increasing public awareness, the onus is still on the relevant government agencies to exercise their power. Many of the stakeholders represented in this study rely on the relevant government agencies to regulate the company’s environmental activities and disclosures. Thus, without sufficient government regulations mandating environmental protection and disclosures, Malaysian companies are more likely to put economic measures ahead of environmental concerns.

From a theoretical perspective, the results presented lead to the conclusion that voluntary environmental disclosures are used by corporate entities to manage their possibly competing stakeholder demands. This is in accordance with the basic premise of stakeholder theory.
Original/value of the paper:

This study contributes to the existing body of literature in a number of ways. Firstly, it contributes to the development of stakeholder theory by extending its application to the means by which stakeholders try to get what they want from the firm. In particular, it allows a comparison on stakeholder influence strategies when positive and negative environmental events are involved. Prior studies feature mainly negative events such as corporate downsizing (Tsai, Yeh, Wu & Huang, 2005), possible threat to ecological balance and human life (Elijido-Ten, Kloo & Clarkson, 2007) and environmental NGO’s concerns and activism (Hendry, 2005; Frooman & Murrell, 2003, 2005). Secondly, it uncovers relevant insights on how various stakeholder groups demand environmental disclosures from an *ex ante* perspective. Much of previous environmental reporting research provides evidence from an *ex post* perspective (e.g. Wiseman, 1982; Patten, 1992; Al-Tuwaijri, Christensen and Hughes, 2004) thereby excluding the possibility of gaining an appreciation of stakeholders’ views prior to the decision to either disclose/not disclose environmental information. Thirdly, it extends the stakeholder influence strategy analysis to a wide variety of stakeholders. Previous research has focussed mainly on one stakeholder group such as environmental leaders/NGO (Frooman & Murrell 2003, 2005; Hendry 2005) and employees (Tsai et al 2005). And finally, it brings a perspective from a developing country such as Malaysia into the social and environmental reporting literature.

**Keywords:** Stakeholder theory, influence strategies, environmental disclosures, developing country, Malaysia.
Introduction

As more compelling scientific evidence link climate change and global warming to the activities inherent in commercial industrialisation, conventional wisdom would suggest that environmental reporting will continue to increase particularly if stakeholders’ demand for these disclosures increased. Indeed, a number of studies provide evidence that stakeholder pressures are on the rise. Ernst and Young’s study of 147 of the Global 1000 companies shows that majority of the key drivers for the management’s increased focus in corporate social responsibility (CSR) are stakeholder-related:

Surveyed companies identify five key drivers as influencing the increasing business focus on CSR ... These five drivers are: greater stakeholder awareness of corporate ethical, social and environmental behaviour; direct stakeholder pressures; investor pressures; peer pressures and an increased sense of social responsibility … (Ernst and Young, 2002, p. 6)

Likewise, a survey of the world’s largest 250 companies reveals that, apart from the Global Reporting Initiative (GRI) guideline, stakeholder consultation is commonly used as the basis for CSR report content (KPMG, 2005). Because of the increasing need to get the stakeholders involved in the reporting process, stakeholder theory offers a useful framework given its basic premise that the firm’s success is dependent upon the successful management of its relationship with its stakeholders (Freeman, 1983). It is in this regard that the stakeholder literature is now replete with research on stakeholder attributes and concerns on how to manage them (see for example, Ullmann, 1985; Roberts, 1992; Mitchell, Agle & Wood, 1997; Elijido-Ten, 2007). However, there is a scarcity of studies taking the view from the stakeholders’ perspective, that is, “how stakeholders demand what they want from the firm” (Frooman, 1999). The purpose of this research is to gain insights on the preferred strategies chosen by various stakeholder representatives to influence management to provide/not provide environmental disclosures in an experimental setting.

In this study, a Malaysian experiment is initiated to understand how different stakeholder groups go about seeking what they want from the management. Frooman’s (1999) typology of resource relationships and influence strategies is adapted as a framework to make sense of the possible environmental reporting preferences imposed by the stakeholder representatives on the management. To facilitate the experiment,
qualitative interviews are conducted with the aid of hypothetical vignettes to gain insights on the possible interplay between the management and various stakeholder representatives from an *ex ante* perspective, that is, the environmental reporting preferences before disclosures are made. The main hypothetical vignette features a pro-active environmental initiative taken by a prominent publicly listed firm in the banking industry. The findings suggest that because Malaysian environmental awareness is generally low, the local stakeholders would less likely find this event very high in their priority list. Despite this low significance level, it is found that there is a demand from various stakeholders for this event to be disclosed in the company’s Annual Report.

To enable a point of comparison, another hypothetical vignette featuring an accidental toxic air emission endangering human lives is introduced. The findings show a dramatic increase in the level of significance placed on this event by all the stakeholder groups represented and consequently, the demands for environmental disclosure also increase as expected. Overall, the analysis indicate that although the model is useful to understand the possible influence strategies taken by each stakeholder group, its effectiveness is tempered by the level of significance placed by these groups on the environmental event and their perception of how the event will affect their stake on the firm.

This study contributes to the existing body of literature in a number of ways. Firstly, it contributes to the development of stakeholder theory by extending its application to the means by which stakeholders try to get what they want from the firm. In particular, it allows a comparison on stakeholder influence strategies when positive and negative environmental events are involved. Prior studies feature mainly negative events such as corporate downsizing (Tsai, Yeh, Wu & Huang, 2005), possible threat to ecological balance and human life (Elijido-Ten, Kloot & Clarkson, 2007) and environmental NGO’s concerns and activism (Hendry, 2005; Frooman & Murrell, 2003, 2005). Secondly, it uncovers relevant insights on how various stakeholder groups demand environmental disclosures from an *ex ante* perspective. Much of previous environmental reporting research provides evidence from an *ex post* perspective (e.g. Wiseman, 1982; Patten, 1992; Al-Tuwaijri, Christensen and Hughes, 2004) thereby excluding the possibility of gaining an appreciation of stakeholders’ views prior to the decision to either disclose/not disclose environmental information. Thirdly, it extends the stakeholder influence strategy analysis to a wide variety of stakeholders. Previous research has focussed mainly on one stakeholder group such as environmental
leaders/NGO (Frooman & Murrell 2003, 2005; Hendry 2005) and employees (Tsai et al 2005). And finally, it brings a perspective from a developing country such as Malaysia into the social and environmental reporting literature.

Malaysia is chosen as the experimental setting because it is a developing country, aiming to become a developed economy by the year 2020 (Vision 2020) that has very limited mandatory requirements to provide environmental disclosures. As such, it is very likely that environmental disclosures in annual reports and other medium of communication are voluntarily made to manage stakeholder demands. Furthermore, the lessons learned from the Western experience hint that along with rapid economic growth comes the price of environmental degradation as a downside to industrialisation. Therefore, Malaysia offers an appropriate setting from which an investigation of this type could provide relevant insights.

The remainder of the paper is organised as follows. The next section provides a brief overview of the literature on corporate social and environmental disclosures leading to the introduction of the framework. An explanation of the research methodology employed is provided next followed by the discussion of results and further analysis. Finally, the concluding comments are provided.

Literature Overview and Theoretical Framework

One of the most commonly used vehicles to inform the public of the firm’s social and environmental accountability is the annual reports (Wiseman, 1982; Neu, Warsame & Pedwell, 1998; Cormier, Gordon & Magnan, 2004). Although much of the financial information is mandated, today’s annual reports contain more voluntary information than before (Anderson & Epstein, 1995). Social and environmental accounting researchers around the world appear to agree that environmental reporting in annual reports and other communication media has increased over time (Patten, 1992; Gray, Kouhy & Lavers, 1995; KPMG, 2002, 2005; Elijido-Ten, 2007).

Studies focusing on Malaysian environmental reporting, however, have not appeared in the literature until the turn of the millennium. In a study conducted by the Environmental Resources Management Malaysia (ERMM, 2002), the analysis of annual reports and stand-alone environmental reports of companies listed in the Kuala Lumpur Stock Exchange (KLSE) shows that environmental reporting is not widely practised in Malaysia. The report, however, highlights an increase in environmental reporting, albeit minimal:
The number of reporting companies grew from 25 in 1999, to 35 in 2000, reaching 40 companies by 2001. This represented 5.3%, 7% and 7.7% of the KLSE main board listed companies in 1999, 2000 and 2001 respectively. (ERMM, 2002, p. 8).

Another descriptive study (Thompson and Zakaria, 2004) confirms that Malaysian environmental reporting is still at its infancy and that majority of environmental disclosers are large companies with seven of the top 10 companies providing mostly general policy statement accompanied by some unsubstantiated declarative statements.

There is, however, an increase in the number of studies examining the motivations behind Malaysian environmental disclosures using different theoretical perspectives. Adopting the contracting and political cost perspective, Ahmad, Hassan and Mohammad (2003) examine the voluntary annual report environmental disclosures (AREDs) of 299 KLSE-listed companies using logistic regressions. Their results suggest lack of support for the general hypothesis that firms voluntarily disclose environmental information to mitigate contracting and political costs. They attribute this result to the “argument that the commonly held theoretical framework of principal-agent relationship may not hold in the Malaysian context” (p.85). On the other hand, Ahmad and Sulaiman (2004) employ legitimacy theory in their study of KLSE Main Board listed companies from the construction and industrial products sectors. Using quantitative analysis, their results provide limited support for legitimacy theory given the very low level of disclosure. This implies that there is no serious attempt on the part of the companies to appear legitimate to society.

Three recently published Malaysian studies (Yusoff, Lehman and Nasir, 2006; Sumiani, Haslinda and Lehman, 2007; Smith, Yahya and Amiruddin, 2007) adopt no specific theoretical model. In examining the AREDs of top 50 companies listed in KLSE, Yusoff, et al (2006) use the qualitative method of content and discourse analysis. Consistent with the findings by KPMG (2005), their analysis shows that “majority of disclosures made were around the motive of stakeholders’ concern” (p. 140). Sumiani, et al (2007) also examine the disclosures made by top 50 Malaysian public companies to explore the reporting behaviour of ISO-certified companies. They find that 13 companies are ISO14001 and all provide some form of environmental disclosure in
their annual reports. Smith, et al (2007) concentrate on the disclosing companies identified by the ERMM (2002) study in an attempt to find whether relationships exist between environmental disclosures and certain corporate characteristics. Of the explanatory factors examined, only financial performance is found to be significant. However, contrary to expectation, it is negatively associated with disclosures prompting their conclusion that “environmental reporting practices in Malaysia appear to differ from those elsewhere, which may be partly attributable to the maturity of reporting process” (p. 195).

The Malaysian studies reviewed highlight a number of important points. First, that although environmental reporting in Malaysia is still very limited, majority are driven by stakeholder concerns (Yusoff et al, 2006). Second, previous Malaysian quantitative studies (Ahmad, et al, 2003; Smith, et al, 2007) seem to suggest that some expectations from the variables directly derived from developed-country studies may not hold true in Malaysian context. Third, the theoretical frameworks used in previous studies (Ahmad et al, 2003; Ahmad & Sulaiman 2004) achieve limited support. It is in this light that the adoption of stakeholder theory using exploratory qualitative method is deemed appropriate in this study but perhaps not in the conventional way it has usually been adapted.

As noted earlier, stakeholder theory posits that the firm’s success is dependent upon the successful management of all the relationships a firm has with its stakeholders – a term originally introduced by Stanford Research Institute to refer to “those groups without whose support the organisation would cease to exist” (Freeman, 1983, p.33). The notion of ‘successful management’ appears to have been taken mostly from the management’s perspective; hence, much of the early development in stakeholder theory has focussed on stakeholder attributes and concerns on how to manage them. As a result, there is a scarcity of literature addressing the question: “how will the stakeholders try to get what they want from the firm?”

Frooman’s (1999) typology of influence strategies, which borrows heavily from resource dependence theory, is used to extend the development of stakeholder theory that accommodates the view from the stakeholders’ perspective. The basic premise central to resource dependence theory is that an entity’s need for resources provides opportunities for others to control the firm. Power is a central theme in the argument because the nature of the relationship is determined by who is dependent on whom and how much. Drawing from this power relationship, Frooman suggests two types of
resource control strategies: (1) **withholding strategies** - those where stakeholders discontinue providing a resource to a firm with the intention of making the firm change a certain behaviour; and (2) **usage strategies** - those in which the stakeholder continues to supply a resource, but with strings attached, i.e. some conditions must be met. Frooman and Murrell (2003; 2005) later labelled ‘withholding’ as *coerce* and ‘usage’ as *compromise* strategies.

Another source of power is one that comes from relationships with others who supply resources to a focal firm. While some stakeholder groups do not have the power to use either *withholding* or *usage strategies*, they could form an alliance with other stakeholder groups with whom the focal firm has a dependence relationship. Frooman identifies this concept as types of influence pathways which he divides into two: (1) **direct pathways** – those in which the stakeholder directly manipulates the flow of resources to the firm; and (2) **indirect pathways** – those where a stakeholder works in concordance with a principal despite not having formal relationships with the focal firm. Note that both types of influence pathways could use either *withholding* or *usage strategies*.

Finally, Frooman introduces a typology of resource relationships based on the power-dependence relationship between the firm and the stakeholders. Four types of relationships are observed: (1) **low interdependence** – when neither the firm nor the stakeholder are dependent on each other; (2) **high interdependence** – when both the firm and the stakeholder are dependent on each other; (3) **stakeholder power** – when the firm is dependent on the stakeholder; and (4) **firm power** – when the stakeholder is dependent upon the firm. The last two relationships show power asymmetry.

Appealing to these characterisatiions, Frooman’s typology of resource relationships and influence strategies suggests four propositions relating to the choice of pathway (direct or indirect) and strategy (withholding or usage). The choice of pathway-strategy combination is conditional on the power dependence relationship between the firm and the stakeholders. These propositions are shown in Figure 1.

**Figure 1: Typology of Resource Relationships and Influence Strategies**
A number of studies have adopted Frooman’s model. For example, Frooman and Murrell (2003, 2005) used experimental approach with the aid of hypothetical vignettes to solicit responses from actual environmental leaders regarding events with negative impact, e.g. recycling used car batteries in a developing country that has no environmental regulations. Hendry (2005) conducted interviews with 28 representatives of four environmental organisations to understand why they choose particular types of strategies to influence firms to change. And Tsai, et al (2005) used the model to understand the employees’ actions of 18 Taiwanese firms involved in business downsizing.

Whilst these studies provide some empirical support to the usefulness of the model, what is clear from prior research is that the model has not been used in the context of environmental reporting. Furthermore, the use of the model has been restricted mainly on negative events thereby limiting the possibility of gaining insights from stakeholder preferences when a pro-active environmental event is involved. It is also evident that the use of the model has so far been restricted to a few stakeholders such as environmental leaders/NGO (Frooman & Murrell 2003, 2005; Hendry 2005) and employees (Tsai, et al, 2005). What is lacking is an attempt to extend the analysis to a wide variety of stakeholders.

This study addresses these gaps in the literature. Frooman’s model is adapted as a framework to make sense of the power-dependence relationships between the stakeholder groups and firm management. In order to apply the propositions in the

<table>
<thead>
<tr>
<th>IS THE STAKEHOLDER DEPENDENT ON THE FIRM?</th>
<th>NO</th>
<th>YES</th>
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<tbody>
<tr>
<td><strong>P1:</strong> When the relationship is one of <strong>LOW INTERDEPENDENCE</strong>, the stakeholder will choose <em>indirect-withholding</em> strategy to influence the firm.</td>
<td><strong>P2:</strong> When the relationship is one of <strong>FIRM POWER</strong>, the stakeholder will choose <em>indirect-usage</em> strategy to influence the firm.</td>
<td></td>
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<tr>
<td><strong>P3:</strong> When the relationship is one of <strong>STAKEHOLDER POWER</strong>, the stakeholder will choose <em>direct-withholding</em> strategy to influence the firm.</td>
<td><strong>P4:</strong> When the relationship is one of <strong>HIGH INTERDEPENDENCE</strong>, the stakeholder will choose <em>direct-usage</em> strategy to influence the firm.</td>
<td></td>
</tr>
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</table>

*Source: Adapted from Frooman (1999, p.200)*
context of environmental disclosure demand, there is an important underlying assumption, that is:

_The stakeholder’s perception of how the environmental event will affect their stake on the firm AND the firm management/stakeholder interdependence structure WILL determine whether or not they will demand environmental disclosure._

Hence, in extending the application of Frooman’s (1999) typology in the field of environmental disclosures, _Propositions P1 to P4_ will only apply, if and only if, there is a perceived demand for environmental disclosure. Furthermore, although Frooman’s typology is useful to analyse possible strategies which stakeholders may adopt to demand environmental disclosures from the firm, it is clear that the ‘withholding’ strategy assumes that the event or issue has a negative connotation necessitating pressure from the stakeholder/s to withhold or even withdraw a critical resource. The typology, therefore, is not entirely suitable when the focal event has a positive environmental impact. Hence, for this study, the propositions are slightly modified to alternate the ‘withholding’ strategy with ‘promoting’ strategy when a positive event is involved. The rationale for this is clear - those stakeholders who can see the value of environmentally friendly practices adopted by the firm are not likely to even consider withholding their support because of non-disclosure. Instead, they might even ‘promote’ this event either directly or indirectly. Therefore, the four propositions emanating from the modified framework are restated as follows:

**P1:** If the stakeholder/s place high significance to the _positive/negative_ environmental event and their relationship with the firm is that of _‘low interdependence’_, the stakeholder/s will adopt _indirect promoting/withholding strategy_ to demand environmental disclosures.

**P2:** If the stakeholder/s place high significance to the _positive/negative_ environmental event and their relationship with the firm is that of _‘firm power’_, the stakeholder/s will adopt _indirect usage strategy_ to demand environmental disclosures.

**P3:** If the stakeholder/s place high significance to the _positive/negative_ environmental event and their relationship with the firm is that of _‘stakeholder power’_, the stakeholder/s will adopt _direct promoting/withholding strategy_ to demand environmental disclosures.
If the stakeholder/s place high significance to the positive/negative environmental event and their relationship with the firm is that of ‘high interdependence’, the stakeholder/s will adopt direct usage strategy to demand environmental disclosures.

These propositions are consistent with resource dependence theory in that the level of interdependence between the firm and stakeholder plays a significant role in the choice of strategy used. For example, when the firm has a low level of dependence on the stakeholder (as in $P_1$ and $P_2$), the firm does not need to be responsive to the stakeholder’s demands, leaving the stakeholder no choice but to find an ally to indirectly influence the firm. On the contrary, when the firm depends heavily on the stakeholder for survival, the stakeholders will have no hesitation to express their demands directly to the firm (as in $P_3$ and $P_4$).

Research Methodology

The previous section revealed that while Frooman’s typology of stakeholder influence strategies may provide a useful framework, the processes involved in selecting these strategies are still not very much understood. Inductive methodologies like qualitative interviewing techniques are generally favoured for this type of research.

**Research Design and Methods**

This study is organised into two phases. The first part is the pilot phase aimed at exploring how Frooman’s model can be used in Malaysian context given that little is known about how Malaysian business psyche may affect business decisions. This phase used both secondary (website perusal and relevant news articles using Factiva database) and primary data in the form of unstructured/semi-structured qualitative interviews. *Qualitative interviews* is the preferred term to distinguish this method from the highly structured line of questioning normally used in survey research (Rubin & Rubin, 2005). Since the responses provided by the participants in this phase are triangulated against secondary data gathered from media and website releases, five interviews are considered sufficient.

The insights gathered from this phase provide the platform for the identification of the salient stakeholders. Mitchell, et al’s (1997, p.873) stakeholder salience typology characterised by the attributes of *power, legitimacy* and *urgency*, proposed that “stakeholder salience will be positively related to the cumulative number of stakeholder
attributes – power, legitimacy, and urgency – perceived by managers to be present”. Although, it is not the purpose of this research to directly test this proposition, the typology is useful in identifying the salient stakeholders to be included in the main phase of this study.

In line with Frooman and Murrell (2003, 2005), the main phase adopted an experimental approach using hypothetical vignettes to solicit the views of the interviewees representing a wide array of stakeholders identified from the pilot phase. The experimental approach is particularly useful in this study as it allows the injection of specific scenarios in a relatively controlled environment. A structured interview questionnaire is designed to include both closed and open-ended questions (see Appendix). In order to understand management/stakeholder behaviour, the literature hints that there is a need to ‘feel and see’ the world from their perspectives. Freeman (1984) suggests that role playing is an effective way to synthesise and fully understand the objectives and beliefs of particular stakeholders. Role playing, however, can only be effective if the participants have some first-hand knowledge of the role they are playing from their own experience. This is why it is considered crucial for this research that participants are chosen on the basis of their exposure to Malaysian business environment and on the presumption that their current/previous position enables them to represent the stakeholder groups identified.

Given that the questionnaire asks for the participants’ opinions and reactions regarding the chosen environmental events, it is considered important not to select the participants randomly. A number of authors argue that qualitative samples tend to be purposive rather than random (Kuzel, 1992; Miles and Huberman 1994). Hence, the participants are chosen based on their current/previous positions and/or their direct involvement in related fields, for example, media reporters/editors, government officials and environmentalists. Another fifteen interviews are conducted in this phase. Kvale (1996, p.101) notes that, in designing an interview study, it is important to “‘interview as many subjects as necessary to find out what you need to know… in current interview studies, the number of interviews tends to be around 15 +/- 10.” Most of the interviews are conducted in Malaysia in 2005. As all the targeted stakeholder groups are represented and given the time and geographic constraints, 15 interviews are considered sufficient in the main phase of this exploratory study.

**Analysis Techniques**
In the pilot phase all the interviews are transcribed and analysed using standard qualitative analytical techniques. Memoing is used to summarise the responses and to tie together different pieces of data into clusters of recognisable concepts. *Memoing* is a data reduction analytical technique that allows the researcher to write ‘memos’ to self summarise the responses and to identify recurring themes (Miles & Huberman, 1994, p.72). The primary data are supplemented with secondary data from news reports/relevant websites.

In the main phase, the responses to the closed and open-ended interview questions are separately analysed. Responses to the closed interview questions are tabulated and quantitative techniques such as weighting and/or ranking are used. The responses to the open-ended questions are transcribed and analysed using qualitative techniques such as ‘question-by-question matrix’ and ‘memoing’. Both the quantitative and qualitative analyses are linked using ‘conceptual matrix’ and ‘pattern matching’ techniques. Miles and Huberman (1994, p. 127) explain that a *conceptually clustered matrix* has “its rows and columns arranged to bring together items that “belong together.” This outcome can happen in two ways: *conceptual* – the analyst may have some *a priori* ideas about items that derive from the same theory or relate to the same overarching themes; or *empirical* – during early analysis you may find that informants answering different questions are tying them together or are giving similar responses”.

**Results and Discussion**

**Identification of Relevant Environmental Issues and Stakeholders**

The qualitative interviews and the perusal of relevant media/website reports point to a number of significant environmental issues that are specific in the Malaysian setting. For example, the popular media (New Straits Times via Factiva) highlights a number of environmental issues such as:

- Toxic wastes and chemicals used by companies destroying the ecological balance;
- Health risks due to rampant air pollution arising from toxic wastes and forest fires;
• Push for companies to adopt environmentally-friendly technology and practices.

Given that the purpose in this study is to gain insights on stakeholder reporting preferences when a pro-active environmental initiative is involved, attention is focussed on the third environmental issue. Hence, a hypothetical vignette containing an environmental event that simulates the popular media coverage on environmentally-friendly technology and practices is formulated. The vignette features a firm in the banking industry which promotes sustainability and socially responsible initiatives. The focal event is the investment on a ‘state of the art’ technology that enables recycling, reduction of waste and energy consumption.

Likewise, to facilitate a comparison of stakeholder demands when positive and negative events are involved, another vignette is introduced simulating the second issue on health risks due to rampant air pollution. A hypothetical oil refinery is featured highlighting an event when a significant amount of toxic fume was emitted to the air causing nearby students to become seriously ill. Details of the vignettes are shown in the questionnaire (see the Appendix).

Another important aspect of the pilot phase is the identification of the salient stakeholders. The stakeholder literature hints that while there could be an infinite number of stakeholders ‘out there’, a coalition analysis (Freeman, 1983; 1984) would suggest that certain stakeholders can be grouped together as they may have similar demand/stake on the firm. Utilising Mitchell, et al’s (1997) typology characterised by the attributes of power, legitimacy and urgency, a list of the stakeholder groups commonly referred to by the respondents in the pilot phase is collated. The groups identified consist of both primary and secondary or adversarial stakeholders. The primary stakeholders include the long-term creditors, customers, suppliers, employees, relevant government agencies and the shareholders. It is decided to split the shareholder stakeholder group into two: major shareholders and minor shareholders, since it is conceivable that the two groups are able to exert their power on the firm in different manners. The secondary stakeholder groups identified by the respondents include the media and the environmentalists.

Establishing Power-Dependence Relationship
Part I of the structured interview questionnaire (see Appendix A) starts by asking the participants to provide general information like their current/previous position and the type of stakeholder they are most likely to be classified based on their past/current experience. They are also asked to rank the stakeholder groups identified from the pilot phase in the order of their perceived relevance to the company’s survival with 1 being the most important and 9 being the least important. The purpose here is to understand the respondents’ perceived power-dependence relationship between the stakeholders and the firm management.

It appeals to intuition that the higher the mean ranking is (i.e. closest to 1), the more probable it is for that stakeholder group to exert their power over the firm (i.e. 

\textit{stakeholder power}) given that these groups are most important to company survival. In the same token, the lower the mean ranking is (i.e. closer to 9), the less probability there is for that stakeholder group to have influence over the firm suggesting \textit{firm power}. This ranking analysis, however, is not likely to give an indication as to whether there is perceived \textit{high/low interdependence}. Thus, a follow-up open-ended question asking the respondents to elaborate on their reason for ranking is necessary to establish the perceived potential of the stakeholder to threaten or cooperate with the firm. An analysis of the stakeholder’s threat and cooperation potential is likely to give an indication on the perceived level of interdependence between the firm and the identified stakeholder groups.

Table 1 shows the overall mean ranking and qualitative findings summary. The last column shows the established power-dependence relationship based on the findings from the conceptual matrix and pattern matching analyses conducted. Note that despite the major shareholders (MJS) being perceived to be the most important stakeholder group to company survival (ranked 1), the relationship established is one of \textbf{high interdependence}. This is because their potential to threaten firm survival is \textit{neutralised} by their high cooperation potential. The major shareholders, by virtue of their substantial investment, are dependent on the firm for their capital growth. However, the firm is equally dependent on them for funding. Despite the lower ranking (ranked 4) for long-term creditors (LTC), the same rationale applies for companies highly dependent on long-term debt for funding.
### Table 1: Summary of Power-Dependence Analysis

<table>
<thead>
<tr>
<th>Stakeholder Group</th>
<th>Overall Mean Ranking</th>
<th>Qualitative Findings Summary: Analysis of Threat/Cooperation Potential</th>
<th>Power-Dependence Relationship Established</th>
</tr>
</thead>
</table>
| MJS               | 1 (2.30)             | POTENTIAL FOR THREAT (PT) => HI POSSESS CONTROL & POWER TO MAKE DECISIONS [6, 8, 11, 13, 16, 17, 20]

POTENTIAL FOR COOPERATION (PC) => HI BECAUSE OF CAPITAL INVESTMENT [15, 20]

High Interdependence - both the potential to cooperate and threaten the firm are equally high. |
| CUS               | 2 (3.63)             | POTENTIAL FOR THREAT (PT) => HI WITHOUT CUSTOMERS’ SUPPORT, THE COMPANY CAN’T SURVIVE [10, 14, 16, 18, 19]

POTENTIAL FOR COOPERATION (PC) => LO DEPENDENT ON HOW MUCH THE CUSTOMER RELY ON THE FIRM BUT GENERALLY LOW BECAUSE OF COMPETITION, [10, 14, 19]

Stakeholder Power - highly important for firm survival with high threat potential and low potential to cooperate |
| EMP               | 3 (4.20)             | POTENTIAL FOR THREAT (PT) => LO to HI HI=> Employee skills/services are vital [12], [16], ME => Employee skills/dedication is needed [19]

LO=> employee generally have not much say... [18]

POTENTIAL FOR COOPERATION (PC) => HI COMPANY’S [FINANCIAL] SUCCESS IS CRUCIAL TO EMPLOYEES’ JOB SECURITY [18, 14, 18]

Firm Power - although quite highly ranked, Malaysian employees are more likely to cooperate than to threaten firm survival |
| LTC               | 4 (4.67)             | POTENTIAL FOR THREAT (PT) => LO TO HI NOT ALL COMPANIES DEPEND ON LTC BUT MANY DEPEND ON BANKS FOR FUNDING: POSSESS POWER TO RETRACT FUNDING [11, 18]

POTENTIAL FOR COOPERATION (PC) => LO TO HI COMPETITIVE INVESTMENT & L-TERM RELATIONSHIP [11, 15]

High Interdependence - for companies relying more on LTC, both potential to cooperate and threaten will be high |
| RGA               | 5 (4.77)             | POTENTIAL FOR THREAT (PT) => HI DEPENDING ON THE INDUSTRY [8], POSSESS PUNITIVE & OTHER POWERS; COULD STOP OPERATION IF NECESSARY [13, 16, 18, 20]

POTENTIAL FOR COOPERATION (PC) => LO to HI POLICIES CAN PROVIDE CONDUCIVE INVESTMENT CLIMATE TO ASSIST THE COMPANY [16, 18, 20]

Stakeholder Power - despite low to high potential to cooperate, their sanction and punitive power is enough to threaten company survival |
| SUP               | 6 (5.43)             | POTENTIAL FOR THREAT (PT) => LO BECAUSE OF BUSINESS OPPORTUNITY & COMPETITION, [14, 15, 18, 19]

POTENTIAL FOR COOPERATION (PC) => HI MUTUAL BUSINESS RELATIONSHIP NECESSITATES SUPPLIER COOPERATION [17, 18, 20]

Firm Power - given the low ranking and low threat potential but high cooperation potential |
| MIS               | 7 (5.57)             | POTENTIAL FOR THREAT (PT) => LO POSSESS NO POWER INDIVIDUALLY; CAN’T MAKE DECISION [8, 16, 20]

POTENTIAL FOR COOPERATION (PC) => LO TO HI CAPITAL INVESTMENT CAN BE EASILY LIQUIDATED [8, 9]

Firm Power - given the low ranking and low threat potential but high cooperation potential |
In the absence of any urgent event, adversary stakeholders like the media (MED) and environmentalists (ENV) virtually have neither power nor legitimate claim against the firm, i.e. their potential to threaten or cooperate with the firm is generally low. As confirmed by the low ranking of MED and ENV (shown in Table 1), the firm does not depend on them for survival, hence the relationship is expected to be one of low interdependence.

While the customers (CUS) and the relevant government agency (RGA), to a certain extent, may depend on the firm for various reasons such as the supply of goods/service (for CUS) and socio-economic progress (for RGA), the analysis shows that the firm is dependent on these groups more than they are to the firm, i.e. stakeholder power. This is because of the stakeholder’s ability to threaten the firm’s existence in terms of lost business (for CUS) as well as penalties, sanction or even closure (for RGA).

Finally, the employees (EMP), suppliers (SUP) and minor shareholders (MIS) are found to fall under the firm power relationship since they are more likely to depend on the firm for their survival than vice versa. Generally in a highly competitive market, the suppliers need the firm more because it is easy for the firm to find another supplier. Moreover, in the Malaysian setting, the employees (EMP) and minor shareholders (MIS), rarely exercise their prerogative to question management decisions. Thus, the power lies mainly with the firm management. Although the above discussion may appeal to intuition, without a particular event that could change the
power/interdependence relationships, the analysis is incomplete. This is where Part II of the questionnaire is deemed useful.

Perceived Significance of the Event

After reading the hypothetical vignette in Parts II and III of the questionnaire, the interviewees are asked to assume the role of the stakeholder they are most likely to be associated with given their previous/current professional experience. They are then asked how significant the featured event is to them, on a scale of 1 (Extremely Significant) to 5 (Not Significant), in deciding whether to provide continued support to the company. They are also asked to elaborate their reasons for providing such significance level. The purpose here is to elicit the respondent’s perception on how urgent the environmental issue/event is to them.

As shown in Table 2, 8 out of 15 respondents consider the featured pro-active environmental event to be between Very Significant and Significant. On average, however, the results suggest that the perceived significance of the event is relatively low with mean average of 3.33 indicating somewhere between Significant to Moderately Significant. Furthermore, none of the stakeholders represented consider the event to be Extremely Significant, whilst 4 perceive the event to be Not Significant at all. This appears to suggest that pro-active environmental initiatives are not given much kudos as indicated in the following comments:

…here in Malaysia, it’s quite common that when you’re doing well, you won’t get much attention. If you’re doing pretty badly … then you get the attention…

[Interviewee 7]

In Malaysia, it’s very much profit-oriented … It doesn’t work… [Interviewee 8]

I think in our environment here, this [environmental] event is not significant...

What they care is just making profit - the bottom-line. [Interviewee 9]

Table 2: Perceived Significance of Featured Environmental Events

<table>
<thead>
<tr>
<th>INTERVIEW NUMBERS</th>
<th>13</th>
<th>18</th>
<th>10</th>
<th>11</th>
<th>16</th>
<th>8</th>
<th>9</th>
<th>19</th>
<th>20</th>
<th>7</th>
<th>14</th>
<th>12</th>
<th>15</th>
<th>6</th>
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</thead>
<tbody>
<tr>
<td>STAKEHOLDERS</td>
<td>MJS</td>
<td>MIS</td>
<td>LTC</td>
<td>LTC</td>
<td>RGA</td>
<td>EMP</td>
<td>EMP</td>
<td>CUS</td>
<td>CUS</td>
<td>SUP</td>
<td>SUP</td>
<td>SUP</td>
<td>MED</td>
<td>MED</td>
<td>ENV</td>
</tr>
<tr>
<td>Case 1 - Pro-active Environmental Initiative</td>
<td>5</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>2</td>
<td>3</td>
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<td>4</td>
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<td></td>
</tr>
<tr>
<td>Case 2 - Life-threatening Environmental Event</td>
<td>3</td>
<td>3</td>
<td>1.5</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>5</td>
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</tbody>
</table>

Legend Stakeholders:  
MJS – major shareholders; CUS – customers; EMP – employees; LTC – long-term/major creditors; RGA – relevant government agency; SUP – suppliers; MIS – minor shareholders; COM – competitors; MED – media; ENV – environmentalist.

Legend Q1: (5) Not Significant; (4) Moderately Significant; (3) Significant; (2) Very Significant; (1) Extremely Significant.
The above sentiments are shared by majority of the informants like Interviewees 12, 14, 15, 16, 18 and 19 who expressed their belief that because Malaysian environmental awareness is generally low, the local customers and employees would less likely find this event very high in their priority list. The local customers and the employees are the closest representatives of the Malaysian public in this study.

Not surprisingly, 14 out of 15 respondents consider the second event to be somewhere between Extremely Significant (1) to Significant (3). Nearly half of the informants choose (1) for this featured event confirming that the perceived urgency of this life-threatening environmental event is much higher (mean average of 1.90) than the pro-active event.

**Demand for Environmental Disclosures**

In order to understand whether there is a demand for environmental disclosures from each stakeholder representatives, Questions 2 (Q2) and 3 (Q3) are asked for each of the featured event. Question 2 aims to solicit the participants’ Annual Report environmental disclosures (AREDs) preference while Question 3 asks if they are likely to demand environmental disclosures in other ways of communication.

Table 3 shows the stakeholder representatives disclosure preferences. Of the 15 respondents, only two - a minority shareholder and a local customer representative [Interviewees 18 and 19] - will not demand AREDs. Interestingly, the answers provided by the respondents are the same regardless of the featured event (see Table 3 Panel A and B). The implication is such that while pro-active environmental event may not have been given as high a priority as the life-threatening event, there is a demand from various stakeholders for this event to be disclosed in the company’s Annual Report. When Interviewees 18 and 19 are asked to explain why they will not demand AREDs, the necessity for government regulation is raised:

> You see the problem is, there is no statutory requirement to provide this type of disclosure... I reckon, as long as the government will not make a legal requirement to do so, I don’t think many companies will bother to provide voluntary disclosure. [18]
I think at the end of the day, one depends on the government to drive the environmental issues. In the Malaysian context, a lot depends on the government to take that leadership role. [19]

Table 3: Environmental Disclosure Demand

<table>
<thead>
<tr>
<th>INTERVIEW NUMBERS</th>
<th>13</th>
<th>18</th>
<th>10</th>
<th>11</th>
<th>16</th>
<th>8</th>
<th>9</th>
<th>19</th>
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<th>7</th>
<th>14</th>
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<th>6</th>
<th>17</th>
</tr>
</thead>
<tbody>
<tr>
<td>STAKEHOLDERS</td>
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<td>MIS</td>
<td>LTC</td>
<td>LTC</td>
<td>RGA</td>
<td>EMP</td>
<td>EMP</td>
<td>CUS</td>
<td>CUS</td>
<td>SUP</td>
<td>SUP</td>
<td>MED</td>
<td>MED</td>
<td>ENV</td>
<td>ENV</td>
</tr>
<tr>
<td>Q2- Will demand Annual Report disclosures?</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Q3-Will demand disclosure elsewhere?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Legend: Stakeholders:
- MJS – major shareholders;
- CUS – customers;
- EMP – employees;
- LTC – long-term/major creditors;
- RGA – relevant government agency;
- SUP – suppliers;
- MIS – minor shareholders;
- COM – competitors;
- MED – media;
- ENV – environmentalist

The response to Q3 is, however, different for the positive and negative events. Given the high urgency of the featured life-threatening event in Case 2, all the stakeholders represented prefer some kind of disclosure from other means of communication mainly from press conference/release, newsletters/bulletins/memos, company website and direct communications with the people affected.

The level of demand for environmental disclosures from other means is slightly for Case 1. All but three of the respondents prefer to see this event disclosed in other ways of communication with press conference/release as the most preferred medium followed closely by some form of internal communiciqué such as newsletters, emails and memos. Of the 3 respondents who expect not to receive disclosures from other means, one represents the local customer [Interviewee 19], while the other two include a representative from the media [Interviewee 15] and the environmentalist [Interviewee 17]. When asked to explain why they would not expect the firm to provide disclosures through other means, their comments are:

I’m taking the stand that I am not a good corporate citizen which means I’m not really interested with pro-active environmental initiatives. [19]

It’s already good, there’s no need to promote. It’s just like having a good programme, it will sell by itself. [15]
Honestly, I really wouldn’t bother whether the company do it or not [i.e. provide ‘other’ disclosures], I will still support this company. [17]

Although the response provided by Interviewee 19, once again, confirms earlier comments on low environmental awareness, the explanations offered by Interviewees 15 and 17 give an entirely different view, that is, not demanding disclosure does not tantamount to non-appreciation of the company’s pro-active environmental efforts. Hence, it is clear that direct answers provided to questions pertaining to environmental disclosure demand are not sufficient. The answers to the open-ended questions asking them to elaborate on their reasons provide a rich data source for further analysis. These comments clearly have further implications in their preferred action which is discussed next.

**Preferred Stakeholder Action**

In Question 4 (Q4), participants are asked to choose the most likely action they would take if they are aware of the featured pro-active environmental event and the company did not provide any environmental disclosure. Three ‘possible actions’ are provided as follows for Case 1:

(a) Ignore the environmental event and continue supporting the firm.
(b) Encourage the company to make environmental disclosure and continue supporting the company.
(c) Continue supporting the company and attempt to promote this initiative by influencing others to do the same.

Option (a) is likely to be chosen by those who believe that environmental considerations are not significant and/or are not likely to affect their stake on the firm. On the other hand, Options (b) and (c) are likely to be chosen by stakeholders who either feel strongly about environmental issues and/or see the need for the firm to publicise its pro-active environmental initiatives.

On the other hand, given the negative impact of Case 2, there is a real possibility that stakeholders who feel strongly about the environmental issues may see the need to withhold their support to the firm. Hence, the ‘possible actions’ suggested for this case is slightly different as follows:

(a) Ignore the environmental event and continue supporting the firm.
(b) Make explicit statement informing the company of your view regarding this environmental event but continue supporting the company

(c) Make explicit statement informing the company of your view regarding this environmental event and stop supporting the company

(d) Stop supporting the company and make an attempt to influence other stakeholders. (Indicate possible way to do this, e.g. through word of mouth and/or campaigning or lobbying against the company)

Whilst Options (a) and (b) may have similar implications for both Case 1 (positive) and Case 2 (negative) events, Options (c) and (d) in Case 2 implies withholding support as a result of not providing disclosures. Table 4 provides the summary of the respondents’ direct answers to Q4. Panel A results show that majority (12 out of 15 respondents) see some value in encouraging the environmentally pro-active firm to make disclosures (Options b and c) with six respondents going further as to influence others to do the same (Option c). Only three respondents choose to ignore the event (Option a). Of these three, the local customer and employee representatives [Interviewees 19 & 9] believe that the environmental event is not significant (consistent with their response to Q1), hence they do not see the need to compel the management to provide disclosures.

Table 4 shows similar preferences under Cases 1 and 2 for the major and minor shareholders [Interviewees 13 & 18], long-term creditors [Interviewees 10 & 11] and one of the employee [Interviewee 8], customer [Interviewee 19] and supplier [Interviewee 14] representatives. It is interesting to note that given the high urgency of this life-threatening event, 6 out of 15 stakeholder representatives are considering to withhold their support (Options c & d) if no disclosure is provided by the firm (see Panel B). Thus, taken together, the results suggest that there is a higher demand from stakeholders for companies to provide environmental disclosures the higher the urgency of the event is.

**Table 4: Most Preferred Action If No Disclosure Provided**
There are, however, somewhat conflicting responses. For example, it is interesting to know why the minority shareholder representative [Interviewee 18] consider both featured events significant and yet chose Option a (i.e. to ignore the event). Likewise, it seems strange for an environmentalist representative [Interviewee 17] to feel very strongly about influencing others about the pro-active initiative (Panel A – Option c) yet not consider withholding support to the firm despite non-disclosure of a life-threatening event (Panel B - Option b). Hence, further analysis is necessary.

**Further Analysis of Results**

The direct answers to the questions (Q1 to Q4) do not provide sufficient basis for further analysis. Cognisant of this limitation, these answers are analysed further together with the answers to open-ended questions probing deeper into the reasons for the respondents’ choices.

The four power-dependence quadrants of ‘Low Interdependence’, ‘Firm Power’, ‘Stakeholder Power’ and ‘High Interdependence’ and the respective influence strategies corresponding to propositions P1 to P4 developed earlier are reproduced in Figure 2. Furthermore, the stakeholders identified to belong in each power-dependence quadrant (as shown in Table 2) are now superimposed in each of the four quadrants. For example, the media (MED) and environmentalists (ENV) fall into the Low Interdependence Quadrant while the major shareholders (MJS) and long-term creditors (LTC) are in the High Interdependence Quadrant.
Recall, however, that these power-dependence relationships established earlier are based from the respondents’ general perception of how crucial each stakeholder is to company survival without particular consideration of the featured pro-active and life-threatening environmental events. Since the perceived urgency of the event is highly likely to affect the influence strategy to be adapted by the stakeholder groups, the case-specific analysis of stakeholder/firm interdependence for each interviewees are also included for each quadrant. In order to gain insights on the preferred strategies chosen by various stakeholder representatives to demand/not demand environmental disclosures, the answers to the open-ended questions provide a rich data source. The purpose here is to explore the possibility that if there is a demand and the firm does not provide environmental disclosures, then these stakeholders may exercise their power possibly either directly or indirectly through usage or promote strategy. The results from this further analysis are discussed here.

**Figure 2: Case-Specific Analysis of Stakeholder/Firm Interdependence & Strategy**

**P1: Low Interdependence Quadrant**

The low interdependence quadrant in Figure 2 includes both the environmentalists (ENV) and the media (MED). For both Cases 1 & 2, since neither the firm (Keluarga Banking Berhad (KBB) & Shexxon Refinery Berhad (SRB), nor the stakeholders (ENV & MED) rely on each other to fulfill their goals, the relationship is

**P2: Firm Power**

Indirect usage strategy

**CASE1:** EMP[8&9], SUP[7,14], MIS[18]

**CASE2:** EMP[8&9], SUP[7], MIS[18]

**P3: Stakeholder Power**

Direct promote/withhold strategy

**CASE1:** RGA[16], CUS[19&20]

**CASE2:** RGA[16], CUS[19&20]

**P4: High Interdependence**

Direct usage strategy

**CASE1:** MJS[13], LTC[10&11]

**CASE2:** MJS[13], LTC[10&11], SUP[14]

**Legend:**

ENV – environmentalist; RGA – relevant government agency; MJS – major shareholders; MED – media; EMP – employees; LTC – long-term creditors; CUS – customers; MIS – minor shareholders; SUP – suppliers. *(Note: Numbers in brackets [ ] are Interviewee Numbers).*
one of low interdependence. One can even argue that these groups do not really have a stake on KBB and SRB. However, because of the nature of the featured proactive environmental initiative, for Case 1, and the nature of the role played by both the environmentalists and the media, it is conceivable that both groups could take this opportunity to use KBB as an example to promote this activity. If both groups feel strongly about increasing environmental awareness, this event creates an indirect stake on the firm. As such, the slightly modified model predicts that both the media and environmentalist representatives will adopt indirect promoting strategy. This is evident from the responses to Q4 (shown in Table 4) with both the environmentalists [Interviewees 6 & 17] and media representatives [Interviewees 12 & 15] choosing Option c. The following direct quotes describe their attempt to influence others to follow KBB’s example:

Since they are doing something good, it would be good to let other stakeholders know so they can set a good example. [17]

An environmentalist will be most comfortable lending a hand to a reputable company that does not just talk but takes the necessary action… I’m happy to discuss this initiative with other stakeholders and write an article which can be sent to the media. [6]

Interviewee 6’s desire to promote KBB’s initiative through discussions with other stakeholders including the mobilisation of the media is characteristic of an indirect attempt to help promote this event.

With regards to the life-threatening event in Case 2, an indirect withholding strategy is expected particularly since all the ENV and MED representatives consider this event between significant [Int. 6] to extremely significant [Int. 12, 15, 17]. The analysis of responses confirms this prediction. Lacking power and a legitimate stake in SRB, these stakeholder groups can not threaten the management directly. What they can do, however, is to find some allies who have the ability to withhold support to the firm as one environmentalist representative suggests.

As an environmentalist, I’d lobby with other government environmental protection agencies... [6].
As noted earlier, it is particularly intriguing that the most preferred action chosen by Interviewee 17, the other environmentalist representative, is that of continuing to support the firm despite non-disclosure. The explanation provided sheds some light:

*I’d prefer to engage in a conversation with the firm at the first instance while continuing my support. If, however, they did not listen, then I’d choose Option (c), and withhold my support.* [17]

The influence of the media to inform the public, as shown in the following comments, provides some evidence in line with the predicted *withholding strategy* through *indirect* means:

*Now that there is immediate health hazard, I’m most likely to choose (c), to make explicit statement and stop supporting the company. And, it’s also very likely that I’d make an attempt to influence other stakeholders. This is easily done through media coverage.* [12]

*... environmental awareness is more or less on the increase because of the activities publicised by the media. The media plays a very important ...they inform the public on what is happening...* [15]

This view is shared by other respondents including the two top executives interviewed in the pilot phase. Hence the predictions of the modified stakeholder influence strategy model appears to hold true for both the positive and negative environmental events.

**P2: Firm Power Quadrant**

Since the employees (EMP), minor shareholders (MIS) and suppliers (SUP) depend more on the firm to fulfil their goals, the relationship is one of *firm power*. Hence, *P2* suggests that *indirect usage strategy* is likely to be adopted but only if the stakeholders place high significance to the environmental event.

For Case 1, it is clear that both the employee representatives [Interviewees 8 & 9] consider this event as not significant, hence it is highly unlikely that they will adopt
the indirect usage strategy. This is confirmed in the following comments by the employee representatives:

*If this is a good thing, as in this case, it doesn’t matter to us whether they disclose or not.* [8]

*I personally think that if the company does something good, they should do it willingly. It’s not necessary to let other people know so I don’t care whether they publicise it or not.* [9]

Somewhat following the same vein, the following quote explains why the minor shareholder representative [Interviewee 18] choose to ignore the environmental event (Option a) despite the fact that he considers the event significant:

... *I won’t even consider encouraging the company to make environmental disclosure – they won’t take notice of me as a minor shareholder anyway.* [18]

Hence, despite the different preferred actions chosen by the representatives of employees [Interviewees 8 & 9], suppliers [Interviewees 7 & 14] and minor shareholder [Interviewee 18], it is clear that none of them choose Option c (see Table 4) suggesting that either they do not put high significance on this event (i.e. they do not care whether it is disclosed or not) or they feel powerless to demand disclosure. As such, it is highly unlikely that anyone of them will use the *indirect usage strategy*. A close examination of the responses to open-ended questions confirms that none of the respondents in the *firm power quadrant* intend to make an alliance with other stakeholders. This is hardly surprising particularly since earlier findings from the pilot phase reveal that economic concerns are likely to supersede environmental concerns magnified by the fact that environmental awareness in Malaysia is still very low, albeit increasing slowly.

For Case 2, it appears that despite a higher significance level given by the employee representatives, their dependence on the firm seem to take precedence as confirmed in this quote:

*People have family to support. We can not just resign... Even though you may not agree with what the company does, you have no choice but to continue to work for the company because of job security. I think that a lot of Malaysians are in that situation. They don’t have this luxury. It’s still survival – everyday bills come in and they have to be paid.* [8]
The above comments provide evidence that these stakeholder groups possess no power to influence the firm directly. Without this ability, their only recourse is to make an alliance with other more powerful stakeholders such as the government in order to achieve their goal as predicted in the model. The quote below confirms this assertion.

*In the business environment in Malaysia, if it’s not required to disclose, most companies will not volunteer to disclose additional information particularly sensitive environmental issues. So if I feel very strongly about this, I’ll have to lobby from the relevant government agencies to make this compulsory.* [18]

This confirms the possibility of using an indirect pathway. There is, however, one significant change revealed in the analysis. Interviewee 7, a supplier representative supplying insurance policy, believes that because of the seriousness of Case 2 event, her insurance company is not likely to close an eye as pointed out in the following quote:

*Because of this event, this company is considered risky. So most likely, we’ll stop insuring this company. Even if we decide to support, this company, we’re not likely to just close our eye and ignore the issue. As the level of risk increase, the amount of premium will increase. So there will be an additional cost to this company.* [7]

The above quote suggests that **indirect usage strategy** may come in the form of increased cost rather than direct alliance with other powerful stakeholder groups. Furthermore, an interesting finding emerges from the analysis of supplier responses in Case 2. Interviewee 14, assumes the role of a major supplier of crude oil to Shexxon Refinery Berhad. As a major supplier, he believes that he is as dependent to the firm as the firm is dependent on him for the supply of crude oil. Hence this supplier representative is moved to the **high interdependence quadrant**.

**Stakeholder Power Quadrant**

For both Cases 1 and 2, the analysis reveals that the relationship between KBB and SRB and those of the relevant government agency (RGA) and customers (CUS) is one of **stakeholder power** since both firms are dependent upon these stakeholder groups to continue their existence. In the modified model, **P3** suggests that, if there is a demand for environmental disclosure, a **direct promoting** strategy is predicted when a
positive environmental event is featured as in Case 1. However, similar to the **low interdependence quadrant**, it is important to highlight the fact that these strategies will only be adopted, if and only if, these stakeholder groups feel very strongly about the pro-active environmental initiative, thereby creating a sense of urgency to promote this event. Hence, the personal convictions of the stakeholder representatives play an important role. It is promising to see that, for Case 1, the relevant government officer and one customer representative [Interviewees 16 & 20, respectively] place a high significance level on this event (2) and choose Option c suggesting that both find KBB’s environmental initiative valuable. In fact, the only respondent in the **stakeholder power quadrant** who choose to ignore this event (Option a) is the local customer representative [Interviewee 19] who consistently takes the stand of a ‘bad’ corporate citizen. It is clear, however, that even the socially responsible customer is very much aware that Malaysian customers generally are not willing to forego their own interest in the name of sustainability:

*If this expenditure of $20 million is out of the bank’s pocket and it’s not affecting their interest rates… they will continue supporting this bank. They might not want to sacrifice their benefits though.* [20]

Despite this, perhaps the best display of **direct promoting strategy** is the one portrayed by the relevant government representative in this direct quote:

*Because this event is more of a private sector initiative, we’ll look at this positively. What we, as relevant government agencies, will do is to establish good networking so that we can look after them as one of our partners – as a good example for other companies to follow.* [16]

On the other hand, a **direct withholding strategy** is expected in regards to the life-threatening event in Case 2, particularly since the RGA [Interviewee 16] and one CUS representative [Interviewee 20] put high significance to this event. It is clear from the analysis that these stakeholders would not hesitate to adopt **direct withholding strategy** as confirmed in this quote from the RGA representative:

*I will issue a directive, not just a statement, to carry out remedial action immediately and to provide reports on actions that have been taken… so that we can have a strategic action plan. If they don’t abide by the directives, we’ll stop*
supporting this company. That means, we might revoke their license ... or shut them down. [16]

P4: High Interdependence Quadrant

The high interdependence quadrant for Case 1 shows the inclusion of the major shareholder (MJS) and long-term creditor (LTC) representatives because of mutual dependence to achieve profitability goals. Hence, direct usage strategy is expected in proposition P4. What stands out from the analysis is that the major shareholder [Interviewee 13] and long-term creditor representatives [Interviewees 10 & 11] prefer to encourage KBB to provide disclosures (i.e. their most preferred Option is b) mainly because it is good for company image. Their ability to ‘attach strings’ is inherent particularly in this comment from the major shareholder representative:

I’ll just invite the CEO one morning over coffee and ask him to explain what is happening. I’ll encourage him to make disclosures – call a press conference, make posters and brochures; sponsor environmental campaigns– these are mainly exploiting mechanisms to enhance our public image. Yes, I will ask the management to pay the newspaper, underline the word “pay”, to publicise this as a major event with pictures. I can easily do that since I’m a major shareholder. [13]

This suggests that because both the firm management and the stakeholders are highly interdependent, the major shareholders and creditors could directly demand the use of all means of environmental disclosures since they have the ability to set certain conditions in their relationship with the management. Furthermore, since the featured event provides an opportunity to improve company image, both parties are in a win-win situation as confirmed in these quotes from long-term creditor representatives:

I’ll encourage the bank to use different communication media to advertise this initiative since it’s good for our image. [10]

...if we’ve been dealing with this company for years, we would feel very comfortable with this relationship ... so we would encourage them to disclose this since it’s a win-win situation. [11]
As noted earlier, in relation to Case 2 event, the major supplier of crude oil [Interviewee 14] is moved to the high interdependence quadrant (joining that MJS and LTC representatives) given that this stakeholder will be dependent on the firm to achieve its own goal while at the same time, the company also can not survive without this main supplier. As predicted in P4, a direct usage strategy is evident in the analysis given that all of these stakeholders consider this event of high significance. Notice that none of the major shareholder [13], creditor [10 & 11] and the major SUP [14] representatives would even consider Option c or d, indicating that none of these stakeholders intend to withhold their support to the firm because it is in their best interest to protect the reputation of the company. Inherent with the direct usage strategy is the ability to ‘attach strings’ for the relationship to continue as evident in these comments:

[As] MJS, I’d choose (a) and that’s it. If I’m not happy, I’ll just fire the CEO so I won’t even have to choose a second option because the company has no choice but to listen to me. [13]

…when we do the credit paper for the loan, there are a lot that we require. For example, there must be sufficient evidence and everything must be substantiated in black and white. [11]

As the major supplier of the chemical ... I would have done my homework.... I will be helping this company to deal with this environmental issue but I’m not going to withhold my support given that it’s beneficial for both parties. [14]

These quotes confirm the prediction that direct usage strategy is likely to be used because of the highly interdependent relationship portrayed. Hence, further analyses reveal that the level of interdependence between the management and the stakeholder groups as well as the perceived significance of events have some bearing on the type of influence strategies used by the stakeholders to demand environmental disclosures. It is also clear that the stakeholder’s perception of how the event will affect their stake on the firm will determine the demand.

Concluding Comments

The purpose of this research is to gain insights into the preferred influence strategies adopted by various stakeholder groups in demanding environmental
disclosures. These insights are important given that worldwide surveys show that stakeholder pressures are one of the main drivers for increased corporate social and environmental responsiveness.

In examining stakeholder influence strategies and disclosure preferences, this research extends the application of stakeholder theory in the environmental reporting area particularly when a pro-active environmental initiative is involved. This is a first-of-its-kind as prior studies feature mainly negative events. Likewise, unlike other studies which focussed mainly on one group of stakeholders, this study extends the stakeholder influence strategy analysis to a wide variety of stakeholders such as the major shareholders, minor shareholders, customers, suppliers, relevant government agency, long-term creditors, employees, media and environmentalists. Furthermore, it uncovers relevant insights into the environmental reporting preferences in the context of a rapidly developing economy such as Malaysia from an ex ante perspective. Much of previous research conducted mainly in developed countries provides evidence from an ex post perspective thereby excluding the possibility of gaining an appreciation of the processes and rationale behind the decision to either disclose or not disclose environmental information.

The analysis conducted in this research, although based on a small sample, reveals the usefulness of Frooman’s (1999) typology to understand how different groups of stakeholders go about seeking what they want from the management. From the results, it is clear that there is a demand for environmental disclosures to be provided in the annual report and other means of communication, particularly in the case of a pro-active environmental initiative as featured in this Malaysian experiment. The underlying assumption that ‘the stakeholder’s perception of how the environmental event will affect their stake and the firm/stakeholder interdependence structure’ has, indeed, determined whether the stakeholders demand environmental disclosures. The insights gathered from the stakeholders’ demand for environmental disclosures lead to the following conclusion.

From a practical perspective, the most pivotal conclusion drawn from this investigation is that although the model is useful to understand the influence strategies adopted by each stakeholder group represented, its effectiveness is tempered by the level of significance placed on the environmental event by the stakeholders. Given the considerably low level of environmental awareness in Malaysia, it is clear from the analysis that proactive efforts such as the one featured in this study is not given a very
high significance level by the stakeholders closely identified with the general public such as the employees and the local customer representatives. The implication is such that without mobilising public awareness, it is not surprising to see few companies adopting environmentally friendly activities. Hence, while the media and the environmentalists are seen to push the agenda of increasing public awareness, the onus is still on the relevant government agencies to exercise their power. Many of the stakeholders represented in this study rely on the relevant government agencies to regulate the company’s environmental activities and disclosures. Thus, without sufficient government regulations mandating environmental protection and disclosures, Malaysian companies are more likely to put economic measures ahead of environmental concerns.

From a theoretical perspective, the results presented lead to the conclusion that whilst voluntary environmental disclosures are used by corporate entities to manage their possibly competing stakeholder demands, stakeholder pressure and influence strategy is seen as the driving force for firms to make the decision to provide disclosures. This is in accordance with the basic premise of stakeholder theory. This is also in line with the conclusion reached in Cormier et al’s (2004) study of multinational companies’ environmental disclosures from Canada, France and Germany. They summarise their findings as follows:

As we attempt to understand the actions taken by corporate managers …we know that managers react to stakeholder demands. Over time such reactions lead to an evolutionary process that results from managers adapting and changing as they try to understand what stakeholders think is important as well as deciding which stakeholders are most important in a given setting (Cormier et al 2004, p. 160).

This suggests that the stakeholder power-dependence/influence strategy typology, in particular, and stakeholder theory, in general, has much to offer in our understanding of management / stakeholder behaviour and the demand for corporate environmental disclosures.
References:


Patton, M (1990) Qualitative evaluation and research methods, Sage Publications, Newbury Park, California


APPENDIX: STRUCTURED QUESTIONNAIRE

PART I: GENERAL INFORMATION

INTERVIEW NUMBER: _____ NAME:

What is/was your current/previous position?

RELEVANCE OF STAKEHOLDERS: Please rank the following stakeholders in the order of their importance to a company’s survival with 1 (most important) to 10 or 11 (least important).

<table>
<thead>
<tr>
<th>Stakeholder Type</th>
<th>RANK</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major shareholders (Owns&gt;5% shareholding/Top20)</td>
<td></td>
<td>Customers</td>
</tr>
<tr>
<td>Minor shareholders (Owns&lt;5% shareholding/non-Top20)</td>
<td></td>
<td>Suppliers</td>
</tr>
<tr>
<td>Major / Long-term Creditors</td>
<td></td>
<td>Media</td>
</tr>
<tr>
<td>Relevant government agency</td>
<td></td>
<td>Environmentalist</td>
</tr>
<tr>
<td>Employees</td>
<td></td>
<td>Others (please indicate)</td>
</tr>
</tbody>
</table>

In your current/previous job or situation, please indicate which type of stakeholder you would most likely be classified:

__

PART II: CASE-SPECIFIC INFORMATION
Keluarga Banking Berhad (KBB) is a large publicly listed company operating profitably since 1975. The company has been an active supporter of socially responsible initiatives including sustainable development. Its corporate mission and vision specifically includes environmental and social concern and this is reflected in the corporate environmental policies which are regularly revised in line with the social audits conducted annually. Recently, KBB spent RM$ 20 million for a state of the art technology which will enable the following:

- reduce energy consumption by 25%;
- make paper and other stationery recycling easy;
- reduce wastes and rubbish collection by 20%;
- promote paperless transactions thereby reducing the use of paper.

1) How significant do you believe this environmental event is to you in deciding whether to provide your support to the company? Please indicate the significance level as shown below:

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely Significant</td>
<td>Very Significant</td>
<td>Significant</td>
<td>Moderately Significant</td>
<td>Not Significant</td>
</tr>
</tbody>
</table>

Can you elaborate as to the reason for your choice?

2) If you are aware of the environmental event featured in this vignette, would you demand Annual Report environmental disclosures (AREDs) regarding this event? Please elaborate on your reasons for demanding/not demanding AREDs.

3) Will you be expecting the company to use other ways of communication to provide environmental disclosures regarding this event? If yes, please indicate other means of disclosure and explain why?
4) If you are aware of the environmental event identified in this case and the company did not make any disclosure, choose the most likely Possible Action that you would likely take.

<table>
<thead>
<tr>
<th>Possible Action</th>
<th>(Tick)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Ignore the environmental initiative and continue to support the company</td>
<td></td>
</tr>
<tr>
<td>b) Encourage the company to make environmental disclosure and continue supporting the company</td>
<td></td>
</tr>
<tr>
<td>c) Continue supporting the company and attempt to promote this initiative by influencing others to do the same</td>
<td></td>
</tr>
<tr>
<td>d) Others? Please specify.</td>
<td></td>
</tr>
</tbody>
</table>

Please elaborate on the reasons for your choice.

PART III: CASE-SPECIFIC INFORMATION

Instruction: Please read the following hypothetical vignette. THEN, answer the questions below taking the role of the stakeholder you are most likely to be classified with.

Shexxon Refinery Berhad (SRB) is an international oil company located in Port Dickson. Its core business is the extraction and refining of crude oil. It also sells petroleum products through its own chain of service station outlets. Recently, a significant amount of toxic fume was accidentally emitted to the air. A nearby primary school was directly hit causing many students to experience breathing difficulty and vomiting. More than 20 students became seriously ill and were hospitalised. As soon as the school notified Shexxon of this incident, the company immediately conducted an investigation. Shexxon discovered that a faulty refining equipment caused the unusual emission of toxic waste on the air and as such the equipment was immediately shut down. The Environmental Protection Agency came to investigate whether the level of air emission is still hazardous for human health.
1) How significant do you believe this environmental event is to you in deciding whether to provide your support to the company? Please indicate the significance level as shown below:

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely Significant</td>
<td>Very Significant</td>
<td>Significant</td>
<td>Moderately Significant</td>
<td>Not Significant</td>
</tr>
</tbody>
</table>

Can you elaborate as to the reason for your choice?

2) If you are aware of the environmental event featured in this vignette, would you demand **Annual Report environmental disclosures** (AREDs) regarding this event? Please elaborate on your reasons for demanding/not demanding AREDs.

3) Will you be expecting the company to use other ways of communication to provide environmental disclosures regarding this event? If yes, please indicate other means of disclosure and explain why?

4) If you are aware of the environmental event identified in this case and the company did not make any disclosure, choose the most likely **Possible Action** that you would likely take.

<table>
<thead>
<tr>
<th>Possible Action</th>
<th>(Tick)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Ignore the environmental issue and continue to support the company</td>
<td></td>
</tr>
<tr>
<td>b) Make explicit statement informing the company of your view regarding this environmental event but continue supporting the company</td>
<td></td>
</tr>
<tr>
<td>c) Make explicit statement informing the company of your view regarding this environmental event and stop supporting the company</td>
<td></td>
</tr>
<tr>
<td>d) Stop supporting the company and make an attempt to influence other stakeholders. (Indicate possible way to do this, e.g. through word of mouth and/or campaigning or lobbying against the company)</td>
<td></td>
</tr>
</tbody>
</table>
Please elaborate on the reasons for your choice.