Structured Abstract:

Purpose: The challenge to look beyond corporate sustainability reporting research is the catalyst for this paper. Given the richness of the insights afforded by stakeholder theory, much of this research is concerned with the development of a stakeholder framework that is useful in attempting to understand the interplay between the various stakeholders and the management of reporting entities.

Design/methodology/approach: First, revisiting the impetus for the stakeholder view as well as the corporate entities' social responsibility and profit motives provide the justification for choosing stakeholder theory as the foundation for the framework. Next, a mapping of the relevant stakeholder literature is conducted in order to understand and incorporate the normative, instrumental and descriptive aspects of stakeholder theory into a framework. Finally, a stakeholder research framework is proposed.

Findings: Corporate actions, including the provision of sustainability reports, are driven by stakeholder demands. This is in line with the basic premise of stakeholder theory which states that the firm’s success depends upon the successful management of the relationships that firms have with their stakeholders. A stakeholder research framework that considers the normative, instrumental and descriptive aspects of the theory enables a richer examination of the thought processes involved in management’s decision whether to provide/not provide sustainability reports.

Originality/value: There has been a proliferation of research conducted on corporate social responsibility and sustainability reports provided by companies. A stakeholder research framework proposed in this paper broadens research perspectives thereby enabling greater insights into the interplay between various stakeholders and corporate entities.

Keywords: Stakeholder Theory, Sustainability Reports, Social Responsibility

Paper Type: Conceptual paper

Brief Professional Biography:

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Beyond Sustainability Reporting: Developing A Stakeholder Research Framework

1. INTRODUCTION:

Unfortunately, Macnamara was right. He said, in what has come to be known as the Macnamara Fallacy: ‘The first step is to measure whatever can be easily measured. This is OK as far as it goes. The second step is to disregard that which can’t be easily measured or to give it an arbitrary quantitative value. This is artificial and misleading. The third step is to presume that what can’t be measured easily really isn’t important. This is blindness. The fourth step is to say that what can’t be easily measured really doesn’t exist. This is suicide.’ What does not get counted does not count. Money is easily counted. Therefore, all too soon, money becomes the measure of all things. (Handy 1995, p. 219).

Research on different aspects of corporate social and environmental responsibility and reporting has been prevalent in the literature for a number of decades (e.g. Gray et al 1995a; Griffin & Mahon 1997; Wood 1991) as has the increasing dissatisfaction on the notion of maximising financial returns to shareholders being the sole objective of the business community (Freeman 1983, 1984; Handy 1995; Halal 1996). The inherent limitations of current accounting practices make the valuation of environmental costs difficult (ASCPA 1999). For example, failure to measure the depletion of natural resources would overestimate the bottom line as shown in this example provided in the Pearce Report:

If an entire forest is logged and the resulting revenues invested in a cement factory, national income would show a rise because of the investment in the cement factory and… because of the logging activities. This, however, is a misrepresentation… because it fails to allow for the decline in one productive asset (forests) while allowing for the increase in another asset (factories). (cited in ASCPA 1999, pp. 8-9).

This is a classic example of what the Macnamara Fallacy alludes to. Handy (1995) suggests that what is needed in a ‘just society’ is a new scorecard because it is obvious that money is not the measure of all things. To pretend that environmental issues like the degradation of the ozone layer really do not exist is tantamount to suicide. In recognition of these concerns, a proliferation of sustainability reports and environmental disclosures voluntarily provided by companies has been observed. The challenge to look beyond corporate disclosure research is the catalyst for this paper. Given the richness of the insights afforded by stakeholder theory, the purpose of this paper is to develop a stakeholder research framework that enables an understanding of the interplay between various stakeholders and the reporting entities.

The rest of the paper will proceed as follows. The beginnings of the stakeholder view as well as the social/environmental responsibility and profit motives of the firm will be revisited in sections 2 and 3, respectively, to justify the choice of stakeholder theory as the foundation for the proposed framework. Section 4 discusses further what stakeholder theory is (and isn’t) including
its three aspects: normative, instrumental and descriptive. Section 5 provides a mapping of the relevant stakeholder literature used in the proposed research framework that is introduced in Section 6. Finally, Section 7 outlines the summary and concluding comments.

2. The Impetus for Stakeholder View

Freeman’s (1984) book, entitled ‘Strategic Management: A Stakeholder Approach’, is generally acknowledged to have brought stakeholder theory into the forefront of management literature. This book spells out the central purpose of stakeholder theory that is, “to enable managers to understand stakeholders and strategically manage them” (Frooman 1999, p. 191). In describing the impetus for the stakeholder concept, Freeman (1984) contends that current approaches or ‘world-views’ do not encompass the changes happening in the business environment. Thus, he argues that a new conceptual framework is needed to accommodate the firm’s dynamic external environment which changes over time.

2.1 The Traditional Family-Dominated Entities: A Production View

To illustrate this dynamic change, Freeman provides a chronology of changes starting from the early days when organisations were simple production institutions and doing business consisted mainly of converting raw materials (bought from suppliers) to finished products (sold to its customers). This is referred to as the Production View of the firm. During this era, firms are mostly family-dominated: “the owner-manager-employee need only worry about satisfying suppliers and customers in order to make the business successful” (Freeman, 1984, p.5).

2.2 The Need for a Conceptual Shift: From Production to Managerial View

Whilst many businesses may still start as a family-owned business, several factors such as massive diversity and intense global competition make larger firms more resource efficient and sustainable. Likewise, technological advancement allows for job specialisation which means that more work could be accomplished if investments in new equipment and technology are feasible. Thus, firms seek to expand necessitating the employment of more workers and large capital investment. Other individuals/institutions such as shareholders and banks emerge to finance the firm. This evolution stage is known as the Managerial View. As firm ownership becomes more dispersed, the managers must not only focus on its suppliers and customers, they must also consider the interests of its owners and employees.
It is clear that the Managerial View of the firm is more complex than the Production View. However, if management insists on using the Supplier-Firm-Customers model to manage the business, it would remain oblivious to the needs of its owners and employees, each of which now has a stake in the firm. Success in this new environment necessitates a conceptual shift, one which incorporates dealing with owners and employees as part of its norm rather than as an exception to the rule. Failure to do so would guarantee the demise of the firm particularly if the owners withdraw their capital and/or employees withhold their services through strikes. Whilst the latter view of the firm appears to be the current norm, the shift from Production View to Managerial View has not happened overnight. Over the years, the simple Supplier-Firm-Customers model has increasingly become inadequate making the Managerial View the norm.

2.3 Managing in Turbulent Times: From Managerial to Stakeholder View

The dynamic nature of the business environment, however, calls for a continuous change rendering even the Managerial View incapable of capturing the changes that confront businesses of today. Hence, the Stakeholder View of the firm is proposed in order to address two types of changes: (1) the internal change; and (2) the external change. Internal change includes the new demands brought about by the groups dealt with by the managers in Managerial View. For example, the employees may not only want increased wages, they may also demand a safe working environment. Likewise, the owners/shareholders’ primary concern is not just a higher return on investment, they also want control. Another important change that should not be taken for granted is the external change. This change pertains to the emergence of new groups which are previously not identified in the existing Managerial View of the firm. Freeman (1984) provides a discussion of how a number of groups like the government, competitors, consumer advocates, environmentalists, special interest groups and the media, could change the way firms should be managed. As an illustration, Freeman explains that the changing role of governments as stakeholders of the firm can no longer be ignored. Government intervention in the marketplace provides real social and economic benefits. For example, social benefits like cleaner air and water, safer working environment and a general increase in the standard of living are partly attributed to government actions. This ability of the government to intervene, reinforces the idea that firms could not afford to remain oblivious to the influence of governments as a possible active stakeholder that need to be managed if the firm is to remain successful. Sufficient external changes, like the strengthening of both local and global competitors, the increasing awareness and concern for environmental degradation and changing consumer behaviour, among others, have occurred in the business environment to warrant the shift from the Managerial View.
to a new framework called the **Stakeholder View**. In the same manner as the separation of the Owner-Manager-Employee requires a change in the view of the firm from *Production View* to *Managerial View*, the emergence of various stakeholder groups and new strategic issues necessitate a remodelling of the traditional picture of the firm.

Arguably, many of the external changes brought about by new groups having some form of stake on the firm have been around for some time. Yet corporate managers have been slow to incorporate these changes into a framework thereby rendering them ill-equipped to effectively and efficiently manage their businesses to survive in a world of changing social demands and intense global competition. The **Stakeholder View** offers a way to accommodate the various demands of other stakeholder groups which are not included in the previous views of the firm.

### 3. Social/Environmental Responsibility and Profit Motives

The discussion on the impetus for the stakeholder view provides an understanding of the significance of adopting a broader perspective. As the focus of this paper is aimed at looking beyond corporate sustainability reporting, this section revisits the corporate social responsibility (CSR) literature and discusses the usefulness of stakeholder concept in finding a balance between social responsibility and economic interests.

Carroll (1987, 1991), in providing a definition of CSR, sets forth a four-part conceptualisation which includes the idea that the corporation has not only *economic* and *legal* obligations, but *ethical* and *discretionary (philanthropic)* responsibilities to society at any given point in time.

Thus, for CSR to be accepted as legitimate, it has to address the entire spectrum of obligations that the business has to society including the most fundamental, i.e. economic.

The limitation of profit maximisation as the sole motivation for the existence of business organisations has been noted earlier. In order to have a deeper understanding of how limited the traditional profit motive is, the literature on its origins and the forces that necessitate the conceptual shift is retraced.

#### 3.1 The Classical View: Friedmanite Profit Maximisation Objective

The *classical* view of the corporation, according to Milton Friedman's (1970) seminal work, promotes that there is no divergence between the economic and social performance of business organisations. A business organisation is formed to provide goods and services that people are
willing to buy at prices they can afford. To accomplish this, a firm must economise its use of resources in order to maximise profits for its shareholders. Society benefits as the business successfully provides goods and services for consumers, creates jobs and income for employees, while simultaneously increasing the wealth of society. Hence, according to this traditional view, social responsibility is subsumed or totally contained in the firm’s profit maximisation objective.

Buchholz (1991) posits that although not everyone accepted the notion that business is solely an economic institution with only economic responsibilities, it appears to have been the prevailing view in our society for quite a long time. However, as society becomes increasingly conscious that issues such as pollution and unsafe workplace practices are in large part due to profit maximisation objective, the notion that the business’ economic motive and its social responsibility are one and the same has been questioned.

3.2 From Classical to Neo-Classical View

This point of divergence between the firm’s economic performance and changing social values exposed the deficiencies of the classical view of the corporation. Thus, a new consensus is needed to address this divergence and the neo-classical view is introduced. This view promotes that while the firm’s primary function is to maximise profits for its owners, it also has an obligation to avoid inflicting harm to society. Bowie (1991, p. 56) explains that “the corporation has to make profit while (1) honouring the moral minimum or (2) respecting individual rights and justice”. This ‘moral minimum’ and ‘respect for individual rights and justice’ is shown in the same light as the social contract.1 Because corporations are created and given permission to operate by the society in which they exist, the society then can choose to let it continue or hinder its existence (Donaldson, 1982; 1989). Therefore, the firm has a responsibility to honour the ‘moral minimum’, that is, the same rights and responsibilities expected of any citizens in society.

Despite the addition of social consideration in the neo-classical view, the primary objective of business entities still remains the same - that is, to maximise profits for its owners. This means that if social responsibilities get in the way of economic performance, the latter should supersede the former as long as the ‘moral minimum’ is achieved. Others argue (Halal, 1996; Svendsen, 1

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1 A social contract refers to a hypothetical agreement between society and its citizens regarding the rights and responsibilities of both parties. This implies that in order to live in society, everyone must agree to an implicit contract which gives them certain rights in return for giving up certain freedoms. In essence, the rights (and responsibilities) of human beings are the terms of the contract and society in general is the entity that enforces the contract.
1998) that this is not sustainable in the long-run. Hence, this has been the subject of much theorising and research in the corporate social responsibility literature.

3.3 Profit Maximisation as a Means to an End

Another way of viewing the profit maximisation objective that is conceptually different from the neo-classical view is to consider it as a means to an end rather than an end in itself. In his widely-read book entitled ‘The Empty Raincoat’, Charles Handy suggests that it is wrong to overly emphasise the profit maximisation objective of the business. Handy argues that:

*The principal purpose of a company is not to make profit, full stop. It is to make a profit in order to continue to do things or make things, and to do so ever better and more abundantly. To say that profit is a means to other ends and not an end in itself is not semantic quibble, it is a serious moral point. A requirement is not a purpose. In everyday life those who make means into ends are usually called neurotic or obsessive. We have to eat to live, but if we live to eat we become distorted in more senses than one.*

(Handy 1995, p. 136)

Hence, it is argued that the traditional view of profit maximisation for the sake of increasing shareholder’s wealth should not be the only reason why companies exist. The increasing dissatisfaction with the notion of profit maximisation paved the way to the development of new theories and rationales for the corporation’s responsibilities to society that go beyond economic duties. Does this call for business entities to prioritise social responsibility over economic incentives? The next section unravels the literature in this area.

3.4 Should Social Responsibility Supersede Profit Motive?

In his book entitled ‘The New Management: Democracy and Enterprise are Transforming Organisations’, William Halal (1996) explains the limitation of both the profit and social responsibility motives. Citing a number of studies which showed American companies being involved in illegal practices like price fixing, pollution, bribes and other white collar crimes, he is convinced that its cause is not primarily attributable to ‘greed’ because he believes that most business managers are moral and dedicated professionals. The problem, he argues, lies on the profit-centred model which is based on a capitalistic ideological system that focuses on serving the interests of shareholders. Capitalism may have some good virtues but if the goal of business is defined as profit making, the interests of companies are opposed to the interests of society.

Halal documents that in a sincere attempt to remedy this situation, some American businesses, more than 30 years ago, have embraced the concept of corporate social responsibility (CSR). They have voluntarily created programs to improve the treatment of their social constituencies and even conducted ‘social audits’ to measure their progress. The downside to this approach is
that it can become an empty piety if “doing good” ignores the need to increase productivity, sales revenue and profits. What is needed, Halal submits, is an economic equivalent of Copernican revolution. In the same manner as Copernicus caused astronomers and scholars to take a more skeptical attitude toward established dogma at that time, Halal suggests an analogy of the coming economic Copernican revolution:

The profit-centered model of business is comparable to the Earth-centered model of the universe. Like the central role once attributed to the Earth, profit has been rather arbitrarily selected as the center of today’s economic universe …The social interests of stakeholders were placed in successively distant orbits as being of lesser importance even though they may in fact be as huge as the Sun. In contrast, the social responsibility model goes to another extreme by positing an economic universe that revolves around social interests but ignores financial realities. This is roughly equivalent to a solar system that revolves about Mars, Saturn, or Venus rather than the Earth (Halal, 1996, p. 68).

Halal goes on to suggest that this continual conflict between profit and the social welfare has left societies bereft of what economists call a workable ‘theory of the firm’. He proposes that the stakeholder model provides a balanced view, that is:

The stakeholder model reconciles this confusion by showing that all such interests are equally important. Shareholder wealth, employee welfare, customer satisfaction, the public good, and other corporate interests all revolve about a common economic goal that is as central to society as the Sun is to our solar system – serving the human needs of all these diverse members of the corporate community (Halal, 1996, p. 68).

Halal’s economic equivalent of Copernican revolution is not so different from what Handy (1995) is suggesting as an alternative answer to the question ...

What then is a company for … The only real answer, I suggest, is ‘for itself’. We might call it the existential company… unless the six interest groups are satisfied, the company will be unlikely to live that long… A company will only be allowed to survive as long as it is doing something useful, at a cost which people can afford, and it must generate enough funds for their continued growth and development. Existentialism in business is not, therefore, a form of selfishness (p. 143, italics added.)

Whilst Handy’s response does not explicitly prioritise between economic and social motives and might sound overly simplistic, it makes sense that a company will only continue its existence for as long as it is able to satisfy the interested groups. Handy identifies the six interest groups referred to as hexagonal stakeholders, consisting of the firm’s “financiers, employees, and suppliers most obviously but also their customers, their environment and society as a whole” (p. 130). He hopes that the businesses of Britain and America would start to emulate the way in which the Japanese and the continental Europeans had a form of six-sided or hexagonal Chinese contract with the six stakeholders. A Chinese contract, Handy explains, “…embodies a principle

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2 Nikolaus Copernicus was a Polish astronomer who theorised that the Earth was not the centre of the Universe. Although he was correct in believing that the planets, including the Earth, orbited the Sun, he was mistaken to think that the Sun is the centre of the Universe. Despite this, Copernicus’ theory marked the beginning of modern astronomy as philosophers begin to question currently established dogma. (Guinness Compact Encyclopedia, 1994).
which went far beyond the making of lasting commercial deals... It was about the importance of compromise... and a belief in the future... It was about sacrifice, the willingness to forego some present good to ward off future evil (Handy 1995, p. 81).

As noted earlier, Handy’s vision and Halal’s proposal of the economic equivalent of Copernican revolution are very much related to promoting a Stakeholder View of the organisation. As a matter of fact, the main proponents of stakeholder theory (Bowie 1991; Donaldson & Preston 1995; Freeman 1983, 1984; Jones 1995; Svendsen 1998) are of the same view. Svendsen (1998), for example, shows her agreement in the preface to her book, called ‘The Stakeholder Strategy: Profiting from Collaborative Business Relationships’, stating that:

Researchers dealing with corporate social responsibility were beginning to make claims about the corporate benefits of stakeholder management… The instrumental argument was made that companies that responded to the interest of their stakeholders in proactive fashion would be better than those who buffered themselves from outside influence. (Svenden 1998, p. x).

However, just as Copernicus’ theory of the Sun being the centre of the universe is not perfect when first published in 1543 in the book ‘Concerning the Movement of the Heavenly Bodies’, stakeholder theory is still evolving and stakeholder researchers continue to conduct forums and debate in their quest to further refine the concept and its application. This body of literature is reviewed in the succeeding section.

4. What Stakeholder Theory Is & Isn’t

Donaldson and Preston (1995) note that the management literature has been replete3 with stakeholder theory since Freeman’s landmark book is published in the early 1980s. Since then, the theory has been debated and refined by its opponents and proponents. One such debate questioning the normative core of the stakeholder concept is centred on the primacy of shareholders versus stakeholders as the corporate objective.

4.1 Stakeholder Theory vs. Shareholder Theory

As earlier noted, the basic proposition of stakeholder theory is that the firm’s success is dependent upon the successful management of all the relationships that a firm has with its stakeholders. When viewed as such, the conventional view that the success of the firm is

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3 By 1995, it was estimated that about a dozen books and more than 100 articles with primary emphasis on stakeholder concept have been published (Donaldson & Preston 1995) probably including the articles from the October 1994 issue of the Business Ethics Quarterly (Jones & Wicks 1999). Since then, interests in stakeholder theory has continued to attract both followers and critics (e.g. a solely dedicated issue of Academy of Management Review in 1999, Vol 42, Number 2 and Svendsen’s (1998) book. And in late 2010, Freeman and colleagues, Harrison, Wicks, Parmar and DeColle published another book entitled: Stakeholder Theory: The State of the Art.
dependent solely upon maximising shareholders’ wealth is not sufficient because the entity is perceived to be a nexus of explicit and implicit contracts (Jensen & Meckling 1976) between the firm and its various stakeholders. Despite the proliferation in the literature of the idea of achieving a balanced view of the economic and social objectives of the firm, there are others who still continue to promote shareholder wealth maximisation. For example, Sundaram and Inkpen’s (2004) article entitled “The Corporate Objective Revisited” argues for the primacy of shareholder value maximisation over stakeholder views. Freeman, Wicks and Parmar (2004) offer a comprehensive response to Sundaram and Inkpen’s arguments as they defend the basic tenets and assumptions underlying stakeholder theory:

The focus of stakeholder theory is articulated in two core questions. First, it asks, what is the purpose of the firm? This encourages managers to articulate the shared sense of the value they create, and what brings its core stakeholders together... Second, stakeholder theory asks, what responsibility does management have to stakeholders? This pushes managers to articulate how they want to do business...what kinds of relationships they...need to create … Today’s economic realities underscore the fundamental reality we suggest is at the core of stakeholder theory: Economic value is created by people who voluntarily come together and cooperate to improve everyone’s circumstance (Freeman et al. 2004, p. 364, italics added).

This voluntary coming together and cooperation referred to in the above quote is very similar to the ‘new idea’ introduced by Porter and Kramer (2011) which they call “creating shared value” (CSV). The basic premise in CSV is that the competitiveness of the firm and the welfare of communities surrounding them are intertwined. Thus, it is submitted that managers have a responsibility to develop relationships with their stakeholders and create communities where everyone strives to give their best to deliver the value the firm promises.

It is certainly acknowledged that shareholders are an important constituent and profit forms a significant part of the business activity but it is equally important to remember that profit is the result rather than the driving force in the value creation process. This is what Freeman (1994) meant when he pointed out that stakeholder theory begins with the assumption that values are necessarily and explicitly a part of doing business. As such, it clearly rejects the ‘separation thesis’ that connotes an assumption that social (ethical) and financial (wealth maximisation) motives can be neatly separated.

4.2 Social & Political Economy Theory: The Link Between Legitimacy & Stakeholder Theory

The surrounding social and political theories particularly legitimacy theory is inextricably linked to stakeholder theory. Indeed, contemporary scholars believe that ‘stakeholder theory’ and ‘legitimacy theory’ are better seen as overlapping perspectives on issues which are set within a
framework of assumptions about ‘political economy’ (Gray, Kouhy & Lavers 1995a). Political economy is described by Zald as “the study of the interplay of power, the goals of power wielders and the productive exchange system” (cited in Gray et al 1995a, p. 52).

Since the underlying premise in legitimacy theory is that companies can only survive if the society in which they exist perceives that the firm is operating within the bounds of its socially acceptable value system (Dowling & Pfeffer, 1975), it follows that the quest for firm survival and legitimacy is founded within the tenets of political economy. Further, since legitimacy is conferred when the stakeholders affected by organisational outcomes endorse and support an organisation’s goals and objectives (Pfeffer & Salancik 1978, p. 194), it is clear that both the concept of legitimacy and political economy are embedded in stakeholder theory. In the same manner as legitimacy theory seeks societal approval for company survival, stakeholder theory seeks to balance the possibly competing goals between various groups of stakeholders in the society in which the company exists. In essence, both political economy and legitimacy theory provides the foundation for stakeholder theory’s normative (moral/ethical) core, i.e. firms should do the right thing because this is what the society and its institutional framework collectively believes to be the right thing to do.

4.3 Stakeholder Theory: One Grand Approach or Multiple Aspects?

Over the years, a number of variants of theories under the umbrella of stakeholder concept have emerged. Hence, some criticisms that have been raised against stakeholder theory range from ‘being relatively vague giving little direction to management practice’ (Jones & Wicks 1999) to ‘possessing too broad conceptual interpretation’ (Phillips, Freeman & Wicks 2003). Donaldson and Preston (1995) suggest that one of the main problems in the development of stakeholder theory has been the confusion about its nature and purpose. Stakeholder theory, they posit, is intended both to explain and to manage the operation of the firm. The business is viewed as an entity through which numerous and diverse groups accomplish multiple and not always congruent goals. As such, they argue that stakeholder theory goes well beyond the descriptive observation that firms have stakeholders.

Donaldson and Preston are of the view that stakeholder theory can be, and has been, used in a number of quite distinct ways involving varied methodologies, types of evidence and appraisal criteria. Hence, in an effort to clarify and justify the essential content and significance of the stakeholder concept, they developed a typology based on the division of stakeholder theories into descriptive/empirical, instrumental, and normative. A descriptive/empirical approach is used to
describe and/or explain certain firm characteristics and behaviours like the nature of the firm, how management thinks about managing its constituents (see for example Brenner & Molander 1977; Wang & Dewhirst 1992) and how companies are managed (e.g. Clarkson 1991; Halal 1990; Kreiner & Bhambri 1991). An instrumental approach is used to identify the connections, or lack thereof, between stakeholder management activity and the achievement of traditional profitability or wealth maximising goal (e.g. growth) either using conventional statistical methodologies (e.g. Cochran & Wood 1984; Preston, Sapienza & Miller 1991; Roberts 1992) or direct observation and interview methods (e.g. Kotter & Heskett, 1992; O’Toole, 1991). However, instrumental studies, particularly those adopting statistical methodologies, usually stop short of exploring the links between cause and effect in detail although such links are commonly implicit. Finally, the normative approach, which dominated the classic stakeholder theory (Dodd, 1932) and continued in their more recent versions (Carroll, 1989; Kuhn & Shriver, 1991), attempts to offer guidance and interpret the function of the firm on the basis of some underlying moral or philosophical principles.

Whilst both normative and instrumental are prescriptive, their bases are entirely different. The normative approach is categorical - it prescribes: “Do (don’t do) this because it is right (wrong)”. On the other hand, the instrumental approach is hypothetical – it says: “If results A, B and C are preferred (not preferred), then principles and practices X, Y and Z should be adopted (avoided).”

Donaldson and Preston’s taxonomy of stakeholder theory has been widely cited and many find it useful as a way to understand this large and evolving body of literature in stakeholder theory. However, various researchers (Carroll & Nasi, 1997; Freeman, 1994, 1999; Rowley, 1997) argue that the normative-instrumental-descriptive categorisation could result in a ‘separation thesis’ thereby rendering the firm-stakeholder analysis partial and incomplete. To combat this criticism, Jones and Wicks (1999) suggest a convergence of stakeholder theory, one which:

... involves applying instrumental theory (what happens if?) to normative cores to see if they result in personally and organisationally viable outcomes; instrumental theory helps evaluate the practicability of the behavioural contingency (normative core) of the convergent theory (Jones & Wicks 1999, p. 217).

Thus, the integration attempted is for the normative to dominate the instrumental. Jones and Wicks’ proposal for a convergence, however, has ignited a debate (see Donaldson, 1999; Freeman, 1999; Friedman & Miles, 2002; Gioia, 1999; Trevino & Weaver, 1999) for varied reasons. Friedman and Miles (2002, p. 2) argue that this integration is premature given that “not
enough work has been done on the organization/stakeholder (sic) relation itself in order to combine different strands of stakeholder theory into a single meaningful framework”. Trevino and Weaver (1999) disagree with Jones and Wicks’ proposal of convergent stakeholder saying that stakeholder theory should be characterised not as a ‘class of theories’ but as a ‘research tradition’⁴. However, Freeman (1999), whilst also arguing against Jones and Wicks’ convergent theory, dismisses the need for convergence. Freeman goes on to argue that what is needed is not more theories that converge but more narratives that show divergent accounts of organisation and stakeholder relationships because surely there is more than one way to be effective in stakeholder management. On the other hand, Donaldson’s (1999) proposition, in response to Jones and Wicks’ convergent proposal, is to make stakeholder theory whole, i.e. to find out whether a conceptual glue can be found that is strong enough to bind the separate methodological strands of stakeholder theory.

What is clear from the discourse presented here is that, although there are some disagreement in differentiating stakeholder theories (see also Kaler 2003⁵), everyone seems to agree that for stakeholder theory to be whole, its normative (ethical and moral core) and managerial (i.e. descriptive and instrumental) aspects should co-exist. Donaldson (1999) argues for appropriate methodologies to be used while Freeman (1999) promotes the acceptance of divergent views that show different but useful ways of understanding corporations on stakeholder terms. Trevino and Weaver (1999) believe that stakeholder theory provides this ‘research tradition’ – one that incorporates multiple, varied approaches focused on the same domain.

The **managerial aspect** is concerned with the identification of the motives underlying the interaction between the firm and the stakeholder while the **normative aspect** prescribes what should underlie this interaction. In terms of the provision of sustainability disclosures, the managerial perspective is concerned with providing this information if the stakeholders who have the power or the ability to influence the survival of the firm demand this type of information. On the other hand, the normative view is concerned with the stakeholders’ right to information. Wilmshurst (2004, p. 3) argues that existing theory development created “confusion

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⁴ A research tradition incorporates multiple, varied theories that are focused on the same domain of observed or postulated phenomena or related sets of questions or problems (Trevino & Weaver 1999, p. 224).

⁵ Kaler (2003) rejects the typology based on the division of stakeholder theories into normative, descriptive and instrumental on the grounds that the latter two designations refer to second order theories rather than divisions within stakeholder theory and the first is a designation which, for the purposes of business ethics, applies to all stakeholder theories.
since different researchers have tended to adopt either a managerial or a normative perspective and any overlap of perspectives often goes unrecognized (sic)”. Hence, he proposes, as Freeman (1994) and Carroll and Nasi (1997) did, to give up the “separation thesis” and embrace the idea of stakeholders “as fully complex normative beings who are inseparable from the idea of business” (Wilmshurst 2004, p. 3). This inevitably leads to the “need to strive diligently, not for one single theory, but for many often complicated theories organised around the stakeholder idea” (Carroll & Nasi 1997, p. 48). Indeed, Elijido-Ten (2011a) believes that this is what the original intention of Donaldson and Preston’s (1995) tripartite typology should be, i.e. that the three aspects of stakeholder theory be nested within each other as shown in Figure 1.

**Figure 1: Three Aspects of Stakeholder Theory**

![Diagram of three aspects of stakeholder theory](Source: Adapted from Donaldson & Preston 1995, p. 74)

The outermost layer of the theory is its descriptive aspect, one that presents and explains management-stakeholder relationships that are observed in the external world. Its accuracy is supported by its instrumental aspect which provides its predictive value. However, as Donaldson and Preston (1995, p. 74) clearly state: “the central core of the theory is … normative. Thus, the managerial (i.e. descriptive and instrumental) accuracy of the theory “presumes the truth of the core normative conception, insofar as it presumes that managers and other agents act as if all stakeholders’ interests have intrinsic value. In turn, recognition of these ultimate moral values and obligations gives stakeholder management its fundamental normative base.”

The challenge then is to develop a stakeholder framework that accommodates both the normative (ethical/moral) and managerial (descriptive/instrumental) aspects of the theory. A number of relevant studies from the stakeholder literature are mapped in the succeeding section in an attempt to broaden our perspectives and to enable us to look beyond sustainability reports.
5. Literature Mapping: Stakeholder Framework Overview

The literature on corporate social/environmental responsibility and reporting shows a marked increase in sustainability disclosures over the past 25 years or so. At the same time the stakeholder literature hints that corporate managers react to environmental/social issues in the order of their priority to the firm’s survival. It is intuitive from the literature that given a company’s limited resources, the demands of its salient stakeholders will take precedence. The literature has also established that whilst stakeholder theory has managerial and normative aspects, its normative core is inextricably linked and is dependent on the instrumentality built into the idea of stakeholder management (Freeman 1999, p. 234).

Hence, while it is crucial to have an understanding of ‘what is’ happening out there (i.e. a descriptive account of corporate reporting practices) before a meaningful analysis of corporate management and stakeholder behaviour can be deduced, a link to its normative core should also be established. Therefore, a well balanced stakeholder research framework should show how both aspects of stakeholder analysis are accommodated. Drawing from the various stakeholder models introduced in the literature, Figure 2 shows an overview of how the different aspects (descriptive, instrumental and normative core) of stakeholder concept can be accommodated into a proposed stakeholder framework.

**Figure 2: Proposed Stakeholder Framework Based from Existing Literature**

- **DESCRIPTIVE**
  Analysis of Sustainability Reporting Practices
  Using Ullmann (1985) 3-Dimensional Model

- **INSTRUMENTAL**

- **NORMATIVE CORE**
  - based on the concept of common good and fairness to the firm and all its salient stakeholders (not only its shareholders).
  - Stakeholder Identification and Salience derived from Mitchell, Agle and Wood’s (1997) Typology
  - Analysis of Various Stakeholder Influence Strategies Using Frooman’s (1999) Model
5.1 Normative Core: Mitchell, Agle and Wood’s (1997) Stakeholder Typology

The normative core of the theory is used to interpret the firm’s function in society and how it affects management decisions. The normative core in this proposed framework is based on the established notion that companies have responsibilities that extend to a wider range of stakeholders, not just its shareholders. Based on the concept of common good (Argandona, 1998) and the doctrine of fairness (Freeman 1984; Phillips 1997, 2003), the literature indicates that corporate management needs to respond to stakeholder demands if it intends to operate successfully for the common good of everyone affecting or affected by the firm in society. It is clear from previous discussions that given the firm’s limited resources and the conflicting interests of various stakeholders, an important part of stakeholder management should incorporate the identification and analysis of stakeholder salience, i.e. how important the stakeholder/s is/are to the company’s survival. This is where Mitchell, Agle and Wood’s (1997) stakeholder typology is envisaged to be useful.

If stakeholder theory is concerned with managing the operation of the firm by balancing multiple and not always congruent goals of diverse groups, it follows that for stakeholder theory to be practical and applicable, the management needs to be able to identify and prioritise the needs of the most influential or ‘salient’ stakeholder groups/individuals. Mitchell et al (1997) provides the answer to two questions: 1) “who (or what) are the stakeholders of the firm?” and 2) “to whom (or what) do managers pay attention?” According to Mitchell et al (1997, p. 853):

The first question calls for a normative theory of stakeholder identification, to explain logically why managers should consider certain classes of entities as stakeholders. The second question call for a descriptive theory of stakeholder salience, to explain the conditions under which managers do consider certain classes of entities as stakeholders (italics original).

The stakeholder literature offers a wide array of stakeholder classifications ranging from owners to non-owners of the firm; actors versus those acted upon; resource providers versus dependents of the firm; voluntary versus involuntary risk-bearers; primary versus secondary; and risk takers versus influencers. Because of this maddening variety of signals to identify the firm’s stakeholders, virtually anyone can affect or be affected by the firm’s actions. Hence, Mitchell et al (1997, p. 854) argue that, “what is needed is a theory of stakeholder identification” to address

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6 Clarkson (1994) defines voluntary stakeholders as those bearing risk as a result of having invested something to the firm like capital while involuntary stakeholders are those placed at risk as a result of a firm’s activities.

7 Clarkson (1995, 106-7) states that primary stakeholders are those without whose continuing support the firm cannot survive, e.g. the shareholders, employees, customers, suppliers, government and communities. Secondary stakeholder groups are those who influence/affect, or are influenced/affected by the firm but are not essential for its survival, e.g. the media, competitors and special interest groups.
the first question of ‘who or what are the stakeholders?’ And to answer the second question of ‘to whom or what do managers pay attention?’, they propose that an attempt should be made to prioritise managerial attention. This, they suggest, is the question of stakeholder salience, that is, the degree to which managers give priority to competing stakeholder claims.

5.1.1 Stakeholder Identification
Mitchell et al (1997, p. 854) propose that “classes of stakeholders can be identified by their attributed possession of one, two or all of the following attributes: (1) the stakeholder’s power to influence the firm, (2) the legitimacy of the stakeholder’s relationship with the firm, and (3) the urgency of the stakeholder’s claim on the firm”. Power and legitimacy are necessary core attributes of a comprehensive stakeholder identification model. In order to make ‘systematic, comprehensible and dynamic stakeholder identification model’, these two attributes of power and legitimacy must be examined in light of the intensity or urgency of demands for immediate attention (see Appendix 1 for the definitions and additional descriptions of these three attributes.)

5.1.2 Stakeholder Salience
Stakeholder salience is the degree to which managers give priority to competing stakeholder claims (Mitchell, et al 1997). In using the three attributes of power, legitimacy and urgency to understand stakeholder salience, Mitchell et al (1997, p. 868) are cautious in stating that the stakeholder identification and salience theory is only dynamic if it is acknowledged that:

“1) Stakeholder attributes are variable, not steady state.
2) Stakeholder attributes are socially constructed, not objective reality.
3) Consciousness and willful exercise may or may not be present.”

Hence, for example, the attribute of power is transitory – it can be acquired or lost. Also, the possession of power does not imply the consciousness of such possession nor does it imply its actual use. A special interest group may have the power to impose its will upon a firm but unless it is aware of its power and intends to use it on the firm, it is not considered a stakeholder with high salience. The same reasoning goes for legitimacy – it is a variable, dynamic attribute. Claimants may or may not perceive the legitimacy of their claims likewise managers may perceive stakeholder legitimacy differently from the stakeholder’s perception. Hence, “power gains authority through legitimacy, and it gains exercise through urgency” (Mitchell et al 1997, p. 869) and “legitimacy gains rights through power and voice through urgency” (p.870). Using various combinations of the three attributes, Mitchell, et al (1997) develop a stakeholder typology shown in Figure 3 (see also Appendix 2 for stakeholder type definitions).
In conjunction with the analysis of stakeholder classes derived from the three attributes, the main proposition is formed stating that “stakeholder salience will be positively related to the cumulative number of stakeholder attributes – power, legitimacy, and urgency – perceived by managers to be present” (p. 873). Appendix 2 shows the predictions and propositions as suggested in Mitchell et al (1997).

The analysis made possible by the stakeholder typology provided by Mitchell et al (1997) is useful in identifying who are the stakeholders and making an assessment of how important it is for managers to give attention to their claims. Agle, Mitchell and Sonnenfeld (1999) have operationalised this model using data provided by the CEOs of 80 large US firms to examine relationships among the stakeholder attributes of power, legitimacy, urgency, and stakeholder salience as well as CEO values and corporate performance. They find strong support for the attribute-salience relationship and some significant relationships among CEO values, salience, and corporate social performance. These findings suggest that the stakeholder attributes do affect the degree to which top management prioritise competing stakeholder demands.

Although it can be argued that applying the stakeholder attributes of power, legitimacy and urgency to identify stakeholder salience may already cross over to the instrumental and descriptive aspects of the theory (i.e. a broken line is used to encapsulate the normative core, as shown in Figure 2, indicating that the dividing line between the normative and the other aspects of the theory is not always clear), this is not a big concern given that, as noted earlier, the
‘separation thesis’ is not accommodated by the main proponents of the theory. What is important is to recognise that corporate management must be able to identify its salient stakeholders and manage them fairly to preserve the common good. This is the normative core used to interpret and offer guidance for the management of the firm.

5.2 Descriptive and Instrumental Aspects of Stakeholder Theory

Much of the stakeholder theory literature (see for example, Deegan 2002; Freeman 1999; Jones & Wicks 1999; Wilmshurst 2004) combines the instrumental and descriptive aspects since both are considered part of the managerial side of the concept. The managerial arm is concerned with the need to manage incongruent stakeholder demands. Thus, in terms of management’s decision to provide sustainability disclosures, the managerial thesis will state that managers ought to provide disclosures if the salient stakeholders demand this information, while the normative thesis will dictate that managers ought to provide environmental disclosures because it is the right thing to do. Despite the common collapsing of the descriptive–instrumental dichotomy and without necessarily seeking to separate the managerial arm of the theory, the fact remains that there are distinct differences between the two aspects. While the descriptive aspect “explains past, present and future states of affairs of corporations and their stakeholders … and usually expands to generate explanatory and predictive propositions”, the instrumental aspect is used “to make a connection between stakeholder approaches and commonly desired objectives such as profitability” (Donaldson & Preston 1995, p. 71).

As in Figure 2, the instrumental aspect can use a number of models including Freeman’s (1984) stakeholder strategy formulation and Frooman’s (1999) stakeholder influence strategies while the descriptive aspect can be operationalised using a framework such as Ullmann’s (1995) model. These models are discussed in the succeeding sections.

5.2.1 Stakeholder Strategy Formulation (Freeman, 1984)

Combining Porter’s (1980) generic strategies to establish competitive advantage, Freeman (1984, pp. 131-36) introduces a process by which stakeholder strategy can be formulated. The first step is to analyse the stakeholders’ potential behaviour regarding the issue in question. Potential behaviour is assessed in terms of: (1) their potential for cooperation (PC) that is, what the stakeholder could do to help the firm achieve its desired outcome; and (2) their potential for threat (PT), i.e. what could the stakeholder do to prevent or help prevent the firm from achieving its goal. The second step is to explain stakeholder behaviour through role playing in order to feel and see the world from the stakeholder’s point of view. In doing so, the management is able
to synthesise and understand the stakeholder’s objectives and beliefs in terms of what the stakeholder is trying to accomplish on a particular issue, the linkage between the current issue and the stakeholder’s long-term objective and their views on whether the firm is competent/incompetent and/or responsive/unresponsive. Finally, the third step is to conduct a coalition analysis which allows the management to search for commonalities in terms of: commonality in behaviour – to look for stakeholder groups who have similar cooperative potential or competitive threat; and commonality in interests – to look for groups who share common objectives and beliefs about the firm.

Hence, Freeman (1984, pp. 141-42), proposes that the relative power of stakeholders, in terms of potential for cooperation (PC) and potential for threat (PT) would determine the appropriate strategic programs adopted by the management. A typology of four types of stakeholders categorised according to their threat and cooperative potential together with the propositions for stakeholder strategy as suggested from Freeman’s framework are summarised in Figure 4.

**Figure 4: Stakeholder Strategy Formulation Framework**

<table>
<thead>
<tr>
<th>Potential for Cooperation (PC)</th>
<th>Potential for Threat (PT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High (HiPC)</td>
<td>High (HiPT)</td>
</tr>
<tr>
<td><strong>Grid 1: Swing Stakeholders</strong></td>
<td>If a stakeholder group is classified as swing stakeholder (HiPC and HiPT), the firm should adopt a strategy to change or influence the rules of the game to govern firm-stakeholder interactions.</td>
</tr>
<tr>
<td>Low (LoPC)</td>
<td>Low (LoPT)</td>
</tr>
<tr>
<td><strong>Grid 2: Offensive Stakeholders</strong></td>
<td>If a stakeholder group is classified as offensive stakeholder (HiPC and LoPT), the firm should choose a strategy to exploit &amp; try to bring about the cooperative potential of these stakeholders.</td>
</tr>
<tr>
<td><strong>Grid 3: Defensive Stakeholders</strong></td>
<td>If a stakeholder group is classified as defensive stakeholder (LoPC and HiPT), the firm should adopt a defend strategy to prevent competitive threat from these stakeholders.</td>
</tr>
<tr>
<td><strong>Grid 4: Hold Stakeholders</strong></td>
<td>If a stakeholder group is classified as hold stakeholder (LoPC and LoPT), the firm should adopt a strategy that holds the current position of these stakeholders in place.</td>
</tr>
</tbody>
</table>

(Adopted from Freeman, 1983; 1984)

To cater for the swing stakeholders (Grid 1) who have the ability to influence the outcome of a particular situation (high PC and PT), Freeman proposes a managerial strategy to change or influence the rules. This strategy necessitates either changing the kinds of decisions made by the firm or seeking to change rules that have been enacted into law. The obvious reason for such change is to enable strong collaboration with this type of stakeholders (see also Savage, Nix, Whitehead & Blair, 1991). As shown in Grid 2, offensive stakeholders can help a great deal in achieving objectives but pose little relative threat. Since there is relatively little downside risk,
virtually any strategic program is worth a try so the most appropriate strategy is to exploit any possible opportunity. In Grid 3, defensive stakeholders are characterised by low cooperative potential and high competitive threat. Freeman suggests a defensive managerial strategy. Some of the ways to introduce this strategy are to reinforce current beliefs or maintain programs while linking issues that stakeholder sees more favourably. Finally, Freeman believes that managers do not need to put much effort to hold stakeholders (Grid 4) as they can be of relatively little extra help/harm. If these groups are likely to stay, then existing strategic programs are sufficient, hence the manager is likely to hold the current position. Savage et al (1991) refer to this group as marginal stakeholders (e.g. environmentalists) as they are generally not concerned about issues pertaining to the firm. It is, however, important to monitor relationships with these groups particularly when issues like public safety could increase their cooperation or threat potential.

Freeman’s model is useful in examining various ways by which firms can effectively manage possibly incongruent and conflicting demands by various stakeholders from the management’s point of view. What is missing, however, is a model that incorporates how various stakeholders make their explicit demands known to the firm. The model described next accommodates this.

5.2.2 Stakeholder Influence Strategies (Frooman, 1999)

Noting the scarcity of literature addressing the question “how will the stakeholders try to get what they want from the firm?”, Frooman (1999) formulates a typology of resource relationships and influence strategies based on resource dependence theory. According to resource dependence theory, a firm’s need for resources provides opportunities for others to control it. Resource dependence theory is proposed as a starting point for understanding stakeholder influences because power is a central theme in the argument. Frooman explains that operationalising power is quite different. He quotes Pfeffer and Salancik (1978):

> For the dependence between two organizations (sic) to provide one organization (sic) with power over the other, there must be asymmetry in the exchange relationship (Frooman 1999, p. 53).

In other words, to know whether A has power over B, one must know that both B is dependent on A and that A is not dependent on B. Drawing from this power relationship, two types of resource control strategies are identified: (1) withholding strategies - where stakeholders discontinue providing resources to a firm with the intention of making the firm change a certain behaviour; (2) usage strategies - where stakeholders continue to supply a resource, but with specified conditions attached. Next, Frooman suggests two types of influence pathways: (1)
direct – where stakeholders directly manipulate the flow of resources to the firm; and (2) indirect – where stakeholders who do not have direct relationship with the firm have to work in concordance with other stakeholders who have 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 stakeholder and the firm. 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 characterisations, four propositions relating to choice of strategy and pathway emerge (Frooman, 1999, p. 200), with the choice of strategy-pathway combination conditional on the power-dependence relationship as shown in Figure 5.

![Figure 5: Typology of Resource Relationships and Influence Strategies](image)

As in P1 and P2, when the firm has a low level of dependence on the stakeholder, the firm does not need to be responsive to stakeholder demands. This could force the stakeholder to indirectly influence the firm by finding an ally. Alternatively, as in P3 and P4, when the firm is highly dependent on the stakeholder for survival, stakeholders can express their demands directly to the firm. Further, when the level of the stakeholders’ dependence on the firm is low (i.e. P1 and P3), the stakeholders can afford to withhold critical resources. Conversely, when the level of stakeholders’ dependence on the firm is high (i.e. P2 and P4), the stakeholders are more likely to focus on usage strategies to influence the firm since they would not want the firm’s success to be
threatened. This typology can provide useful insights in sustainability research that looks at how salient stakeholders can demand companies to put sustainability strategies higher in the firm’s list of priorities.

Given this paper’s focus on developing a framework that takes into account the normative, instrumental and descriptive aspects of stakeholder theory, it is important to capture the current practice in order to generate descriptive and possibly predictive propositions forming the basis of an instrumental analysis later. Ullman’s (1985) model can be useful in this regard.

5.2.3 Stakeholder Power, Strategic Posture and Economic Performance (Ullmann, 1985)

Ullmann (1985) suggests that firms use social disclosures as a means to manage their relationships with their stakeholders and the external environment. Ullmann develops a three-dimensional strategic framework used to describe social disclosures and to determine whether correlations exist between disclosures and performance.

The first dimension, stakeholder power, explains that a firm will be responsive to the intensity of stakeholder demands. For example, when stakeholders control critical resources, the firm is likely to react in a way that satisfies their demands. In contrast, if the power of stakeholders is low, the firm is likely to ignore their demands. This implies that stakeholder power tends to be positively correlated with social disclosures. The second dimension, strategic posture, describes the mode of response the firm is likely to take concerning social/environmental demands. Companies employing an active posture try to influence their status by continuously monitoring their position with stakeholders, e.g. by initiating social responsibility programs and disclosing their commitment to social responsibility. Conversely, companies displaying a passive posture are neither monitoring activities their social responsiveness nor searching for an optimum sustainability strategy. The third dimension, past and current economic performance, determines the relative weight of a social demand and the attention it receives. This dimension is relevant because it is conceivable that firms suffering from poor profitability may place economic demands ahead of social demands. Also, economic performance affects the financial capability of the firm to undertake sustainability initiatives. Ullmann’s framework is useful in conducting empirical studies using statistical methods (e.g. Roberts, 1992, Elijido-Ten, 2007).

6. Proposed Stakeholder Research Framework

Utilising the various stakeholder models discussed, a stakeholder research framework consisting of three phases is developed as shown in Figure 6.
Phase 2b
ISSUES/EVENT IDENTIFICATION
Environmental issues/events of varying degree or level of impact to different stakeholders

Phase 2b
STAKEHOLDER IDENTIFICATION AND COALITION ANALYSIS
[Mitchell et al.'s (1997) typology can be used as the normative core to identify stakeholder salience]

Understanding Reporting Practice
Content analysis of sustainability disclosures using regression analysis operationalised using Ullmann’s model (1985)
[Mitchell et al.’s (1997) typology can be used as the normative core to identify stakeholder salience]

Phase 2a
PROBING thru semi & unstructured interviews & news perusal

From Management’s Point of View:
Analysis of stakeholders’ potential to cooperate and/or threaten the firm using Freeman (1984) Stakeholder Model

Strategy used in providing environmental disclosures in AR:
Hold/Influence rules Exploit/Defend

Environmental/Sustainability Disclosures in Annual Reports (AR) & other public media

Strategy used to demand environmental disclosures:
Direct or Indirect Withholding/Promoting or Usage Strategy

From Stakeholders’ Point of View:
Analysis of stakeholder’s resource dependence to or by the firm using Frooman (1999) Model
Content analysis of sustainability disclosures provided by the firms can be initiated to operationalise the descriptive phase (Phase 1) of the proposed framework. Using Ullman’s model, regression analysis can be conducted to test the following hypotheses, each pertaining to the three dimensions in Ullman’s strategic framework.

**Hypothesis 1:** The power of the firm’s stakeholders is associated with the quantity and quality of a firm’s sustainability disclosures.

**Hypothesis 2:** The strategic posture adopted by the firm is associated with the quantity and quality of sustainability disclosures.

**Hypothesis 3:** Firms with better financial performance are more likely to provide more and/or better quality of sustainability disclosures.

Note that in considering the stakeholder power, Mitchell et al’s (1997) typology can be used as the normative core to identify salient stakeholders. In addition, the proposed framework allows for further probing (Phase 2a) to seek explanations regarding the motives for sustainability disclosures provided. For a published example of how this phase of the study is conducted in the Malaysian context, see Elijido-Ten (2009).

Phase 2b of the proposed framework enables an exploration on how the proposed Phase 3 can be operationalised to understand sustainability disclosure motives in specific research context. At the centre of the firm’s decision whether or not to provide sustainability disclosures is the perceived importance or urgency of the social/environmental events. Hence the significance of identifying suitable and realistic issues/events cannot be understated. Depending on how much is known about the business culture and legal sanctions affecting business decisions to disclose, it is necessary to probe deeper into these contextual aspects. This can be achieved through secondary sources such as news/website perusal and from primary sources like discussions/interviews with relevant people utilising open-ended line of questioning. The insights gathered from these methods can be used to identify relevant social/environmental issues/events. Again, it is crucial to identify the salient stakeholders and Mitchell et al’s (1997) typology, once again, forms the normative core pertaining to this phase of research.

In Phase 3, the proposed framework allows for a two-way analysis from the point of view of the management using Freeman’s (1984) stakeholder strategy formulation model (Phase 3A) and also from the point of view of the various stakeholder groups (Phase 3B) utilising Frooman’s (1999) stakeholder influence strategy model. An experimental approach can be adopted using in-depth interviews as the method for collecting data. With the aid of hypothetical vignettes featuring different social/environmental events developed from Phase 2b, the participants can be
asked to take the role of the management and the stakeholders alternately. A structured
questionnaire with some open-ended questions can be designed to incorporate the possible

The rich insights gathered from studies conducted using this stakeholder research framework
open up opportunities to look beyond sustainability reporting decisions made by firms. For
published examples of how Phase 3A and 3B are conducted, see Elijido-Ten (2008), Elijido-Ten,

7. **Summary and Concluding Comments:**

The challenge to look beyond research on corporate sustainability reporting decisions is the
catalyst for this paper. Given the richness of the insights afforded by stakeholder theory, much of
this paper is concerned with the development of a stakeholder framework that is useful in
attempting to understand the interplay between between the various stakeholders and the
management of reporting entities. The approach taken in this paper is to, first, revisit the impetus
for the stakeholder view as well as the corporate entities’ social responsibility and profit motives
in order to provide the justification for choosing stakeholder theory as the foundation for the
framework. Next, a mapping of the relevant stakeholder literature is conducted in order to
understand and incorporate the normative, instrumental and descriptive aspects of stakeholder
theory into a framework. Finally, a stakeholder research framework is proposed.

Given that corporate actions, including the provision of sustainability reports, are driven by
stakeholder demands, a stakeholder research framework that considers the normative,
instrumental and descriptive aspects of the theory enables a richer examination of the thought
processes involved in management’s decision whether to provide/not provide sustainability
reports. As research conducted on corporate social responsibility and sustainability reporting
continues to proliferate, it is important to broaden our research perspectives. The stakeholder
framework introduced in this paper enables the implicit embedding of the normative core into
the managerial aspects (descriptive and instrumental aspects) of the theory thereby allowing an
in-depth understanding of the interplay between corporate management and stakeholders and
how each could use/demand sustainability disclosures to achieve their respective goals.
8. References:


Appendix 1: Stakeholder Identification Attributes

<table>
<thead>
<tr>
<th>ATTRIBUTES</th>
<th>DEFINITION</th>
<th>ADDITIONAL DESCRIPTION</th>
</tr>
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<tbody>
<tr>
<td>Power</td>
<td>- “the probability that one actor within social relationship would be in a position to carry out his own will despite resistance” (Weber 1947) - “a relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not otherwise have done” (Dahl 1957)</td>
<td>Three types of power: <em>Coercive power</em> – control based on application of physical means like the threat to use physical sanctions such as a gun, a whip or a lock. <em>Utilitarian power</em> – the use of material rewards for control purposes such as granting symbols (e.g. money) to acquire goods or services. <em>Normative-social</em> or <em>Social power</em> – the use of ‘pure’ symbols for control purposes. (those whose use does not constitute physical threat or claim on material rewards, e.g. prestige, esteem, love and acceptance)</td>
</tr>
<tr>
<td>Legitimacy</td>
<td>- “a generalized (sic) perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman 1995, p. 574)</td>
<td>Legitimacy and power are distinct attributes that can combine and create authority. The implicit assumption that “legitimate stakeholders are necessarily powerful” is not always true, e.g. minority stockholders in a closely held company have legitimate claim but no power while corporate raiders have no legitimate claim in the eyes of current managers but they have the power.</td>
</tr>
<tr>
<td>Urgency</td>
<td>- “the degree to which stakeholder claims call for immediate attention” (Mitchell et al 1997)</td>
<td>Two conditions that must exist to consider something urgent: <em>(1) Time sensitivity</em> – the degree to which managerial delay in attending to the claim or relationship is unacceptable to the stakeholder. <em>(2) Criticality</em>– the importance of the claim or the relationship to the stakeholder.</td>
</tr>
</tbody>
</table>

Appendix 2: Stakeholder Types & Management Predictions/Propositions

<table>
<thead>
<tr>
<th>SALIENCE CLASS</th>
<th>PREDICTIONS / PROPOSITIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Low Salience Classes:</strong> Latent Stakeholders - the one-attribute-stakeholders called latent stakeholders include:</td>
<td>Proposition: Stakeholder salience will be low where only one of the stakeholder attributes is perceived by managers to be present.</td>
</tr>
<tr>
<td>(1) the ‘dormant stakeholders’ – those who possess power but without legitimate relationship or urgent claim, their power remains unused</td>
<td>Managers may well do nothing and may not even go as far as to recognise those stakeholders’ existence.</td>
</tr>
<tr>
<td>(2) the ‘discretionary stakeholders’ – those who have a legitimate claim but possess no power to influence the firm and no urgent claims</td>
<td>Same as above.</td>
</tr>
<tr>
<td>(3) the ‘demanding stakeholders’ – those with urgent claims but having no power nor legitimacy.</td>
<td>Same as above.</td>
</tr>
<tr>
<td><strong>Moderate Salience:</strong> Expectant Stakeholders - the two-attribute-stakeholders called expectant stakeholders include:</td>
<td>Proposition: Stakeholder salience will be moderate where two of the stakeholder attributes are perceived by managers to be present.</td>
</tr>
<tr>
<td>(4) the ‘dominant stakeholders’ – those who are both powerful and legitimate and whose influence in the firm is assured (e.g. directors, investors, creditors, government, etc.);</td>
<td>These stakeholders will expect and receive much of manager’s attention (but they are by no means the full set of stakeholders to whom managers should relate to).</td>
</tr>
<tr>
<td>(5) the ‘dependent stakeholders’ – those who lack power but have urgent and legitimate claims (e.g. special interest groups, local residents and even the natural environment itself (Starik 1993).</td>
<td>Managers will only give them attention if they themselves take the initiative to carry their will or these stakeholders win the support of dominant stakeholders.</td>
</tr>
<tr>
<td>(6) the ‘dangerous stakeholders’ – those who have the power and urgent claims but lack legitimacy could be potentially dangerous, coercive and violent (e.g. wildcat strikes, employee sabotage and even terrorism.</td>
<td>Claims arising from this typology are outside the bounds of legitimacy and stakeholder-manager relationship.</td>
</tr>
<tr>
<td>(7) High Salience: Definitive Stakeholders – those who possess all three attributes of power, legitimacy and urgency</td>
<td>Stakeholder salience will be high where all three of the stakeholder attributes are perceived by managers to be present.</td>
</tr>
</tbody>
</table>