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Stakeholder prioritization and reporting: Evidence from Italy and the US

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Abstract

This study investigates the considerations that might be made by managers when choosing between mutually exclusive stakeholder expectations and reaching and engaging in a dialogue with them. In addition, the study also examines if there are systematic differences across countries (Italy and the US) in the decision to address the concerns of various stakeholder groups. Data was collected from 244 managers and 72 companies simultaneously in two different national business contexts, Italy and the US. The results of the study provide some evidence that managerial perception of three stakeholder group characteristics – power, legitimacy, and urgency – form a parsimonious group of variables that explain the process of stakeholder prioritization. However, only limited support was found for the relationship between salience accorded to a stakeholder group and engagement efforts directed toward the group. The results of the study also show that the managerial decision as to which of the stakeholder groups' demands to address will be influenced by society-specific expectations. The significance of this study lies in investigating the stakeholder prioritization and engagement process, as it is being practiced, which, one could argue, would help in developing guidelines for effective stakeholder management that stands a realistic chance of being adapted and followed.

Keywords: Stakeholder reporting; Voluntary disclosure; Key performance indicator; Cross-cultural differences

1. Introduction

In recent years, a number of high-profile corporate failures have highlighted the need for companies to report and be held responsible to a broader social mandate that extends beyond groups with direct financial interests in the company (Gray, 2006; Lehman, 2004). This has been accompanied by efforts on part of a number of institutions and professional bodies worldwide to provide elaborate guidelines for stakeholder dialogue and reporting, aimed at building and managing effective stakeholder relations (Bhimani & Langfield-Smith, 2007; Boesso & Kumar, 2007). Also, with rapidly disintegrating cross-border economic barriers and unabated globalization, stakeholder management is increasingly being discussed in the international context (Laines, 2005; Mahoney & Roberts, 2007; Moneva, Archel, & Correa, 2006; Ogden & Watson, 1999; Smith, Adhikari, & Tondkar, 2005).

European research centers such as the Organization for Economic Co-operation and Development (OECD, 2001), the Association of Chartered Certified Accountant (ACCA, 1999) and the Institute for Social and Ethical Accounting (ISEA,

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1999) have each attempted to develop voluntary disclosure frameworks as they relate to corporate governance structure, social accounting and stakeholder reporting. Similarly, the Center for Social and Environmental Accounting Research (CSEAR, 1999), the Global Reporting Initiative (GRI, 2006) and the Institute for Social and Ethical Accountability (ISEA, 1999) have also examined the relationship between corporate voluntary disclosure and sustainable development of a company's business activities.

Support also appears to be emerging for creating a new, generally accepted disclosure framework that could be followed by companies operating across different countries (Lundholm & Winkle, 2006; Smith et al., 2005). For example, the Business School of Copenhagen in collaboration with Ernst and Young (1999), KPMG and other auditing firms, has developed a management guide to stakeholder reporting. The Copenhagen Charter suggests, "management should identify not only the obvious significant interests and high influence stakeholders, but also. . .those who have high influence but low interest, such as special interest groups, ideological organizations. . ." (Copenhagen Charter, p. 6). Similarly, the GRI, which is an official collaborating center for United Nations Environment Program, exhorts companies to take "a long-term, multi-stakeholder approach" and "extend beyond [the] traditional focus on investors to address diverse stakeholders" (GRI, 2006, p. 2). Based on these guidelines, the triple bottom line (TBL) reporting framework (Elkington, 1999) has proposed integrated reporting in terms of three different measures of value added, economic, environmental, and social.

But while managers are being urged to create and sustain, "a matching of values between the company and its key stakeholders" (GRI, 2006, p. 6), the extant research provides little insight into how managers actually go about according priority to a diverse range of multiple stakeholder groups and reaching and engaging them about their respective concerns and contributions. Also, much of the rhetoric gives the somewhat "implausible impression that organizations simply face a homogeneous set of [stakeholder] expectations" (Unerman & Bennet, 2004, p. 686), and the practical concern of managers—how could they be more effective in identifying, analyzing, and negotiating, with various groups of stakeholder groups—remains largely unaddressed. Preliminary evidence from practice (Moneva et al., 2006) seems to show that even though the guidelines were developed, "as a way of helping organizations to report on their environmental, social and economic performance and to increase their accountability" (Moneva et al., 2006, p. 121) they are, "insufficient to enable new accountability relationships" (Moneva et al., 2006, p. 122).

The pragmatic reality is that, despite their obligations to a range of multiple primary stakeholders, managers cannot attend to all of the actual and potential claims of all stakeholders (Harrison & St John, 1994). Managing a diverse range of multiple stakeholder interests may be problematic because of conflict among interests of various stakeholder groups (Greenley, Hooley, Broderik, & Rudd, 2004; Ogden & Watson, 1999) and scarcity of resources (Barney, 1991; Mahoney & Pandian, 1992). Also, as diverse groups of stakeholders seek information, the multiplicity of information requests may leave managers wondering how best to engage in stakeholder reporting. As such, it is not uncommon to find out that many if not most companies are not inclined to address all stakeholder interests, or managers may consider that not all stakeholders have an equal claim on the company (Ferguson, Collison, Power, & Stevenson, 2007; Greenley et al., 2004; Palmer & Quinn, 2005;), which may result in an "undemocratic managerial prioritization process" (Unerman & Bennet, 2004, p. 686).

2. Objectives of the study

Given the practical difficulties and limitations involved in identifying and soliciting the views of all stakeholders affected by an organization's activities, it would be of interest to investigate and to understand what considerations may be made by managers in choosing between mutually exclusive stakeholder expectations and reaching and engaging in a dialogue with them. This study has three key objectives aimed in this direction. First, the study attempts to empirically examine the influence of previously identified situational factors on the prioritization accorded by companies to the interests of various stakeholder groups. The second objective of the study is to examine how and to what extent companies reach and engage in a dialogue with stakeholder groups that they determine to be significant to the company. Finally, since decisions about which stakeholder groups' demands to address are expected to be based on society-specific expectations (Langlois & Schlegelmilch, 1990; Smith et al., 2005), the study examines if there are systematic differences across national business contexts (Italy and the US) in the efforts made to address the concerns of various stakeholder groups.

The choice of Italy and the US was based on the fact that, even though both are economically developed countries, there are fundamental and notable differences in their institutional demands and societal expectations that may have a