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Sustainability Reports Disclosures: Who are the Most Salient Stakeholders?

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Abstract

Due to the importance of stakeholders for the sustainability of the companies, there exists a research interest to identify the important stakeholders. With this study, most salient and other groups of stakeholders were identified based on a content analysis of sustainability reports of 78 large-scale companies. Although many researches are undertaken in developed countries based on sustainability reports that are popular tools for information disclosure for the companies, similar research in developing countries is still at infancy. The findings of the study indicate shareholders and government to be the most salient stakeholders regardless of industry difference.

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1. Introduction

There exists increasing evidence that, for many companies corporate sustainability is considered to be a strategic priority. Apart from financial performance, people give value to the companies which care about the needs of different people and whole society, or environmental impacts (Mitchel et al, 1997; Kolk, 2004). In accordance, concept of sustainability gained popularity in the literature, over the last years (Baumgartner and Ebner, 2010). With the increasing popularity, the number of companies reporting on non-financial issues increased. These reports based on different aspects of sustainability, are referred as triple-bottom line reports (known as triple-P: profit, people, planet), corporate responsibility reports or citizenship reports (Elkington, 1997).

Although company reports on environmental and social issues were present before, sustainability reporting became more popular starting from 1987. In this year, the document ‘Our Common Future’ was published by United Nations World Commission for Environment and Development’ (UNWCED). It is agreed mostly that the concept of sustainability originated from this report which is commonly known as Brundtland Report (1987: 8) (named for the former head of the commission Norwegian Prime Minister Gro Harlem Brundtland). With this report, ‘sustainable development’ concept was introduced and defined as ‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs’. Development that can be sustained for future, preservation of ecological processes, protection of heritage and biodiversity and holistic planning and strategy-making are defined to be the four noteworthy aspects of sustainability (Brundtland Commission Report, 1987). Initially defined at the macro-level, this concept was further developed afterwards. In 1992, United Nations hold a conference

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named United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro. The purpose was to establish strategies for a sustainable future. This conference was one of the most important events for the development of sustainability reporting. A comprehensive program for global action in all areas of sustainable development (Agenda-21) was adopted by 172 countries (United Nations, 1992). A decade later, in 2002 a ‘World Summit for Sustainable Development’ was held in Johannesburg, and a revised set of guidelines for the reporting process of the social and environmental impact of company operations were published. These guidelines, which is known as ‘Sustainability

Reporting Guidelines’ were developed by Global Reporting Initiative (GRI) which was founded in 1997. GRI published revised guidelines in 2006, which is known as third-generation GRI guidelines. For sustainability reporting, these guidelines are widely-used in organizations, worldwide. In 2013, a survey of Corporate Responsibility Reporting of 4.100 large-scale companies from 41 countries was published by KPMG. Most of the companies included in the survey stated that they use GRI as a guideline. The results of the survey indicate that most of the companies publish corporate responsibility reporting and the rate of the companies publishing the reports increased significantly when compared to prior years. The sustainability reports are published primarily to inform stakeholders about the topics that the stakeholders want to be informed about. Groups of people which a company impacts upon and in turn impact upon the company are called stakeholders. Stakeholders are customers, employees, suppliers, shareholders, governments, non-governmental organizations, local communities and others (Kolk, 2004). Since different issues are valued by different people, companies should carefully decide which issues they should report. This decision is based on which groups of people are most important for the sustainability of the company. The degree to which companies give priority to competing stakeholder claims is called salience (Mitchell et al, 1997). Mitchell et al (1997), identified stakeholder attributes of power, legitimacy and urgency that stakeholders may possess which makes them more salient than others. This framework is important to outline how companies decide which stakeholders are most salient to them and which information to publish in their reports. Within this framework, the main purpose of this research is to understand which of the stakeholder groups are most salient for Turkish large-scale companies. There exists limited research on the identification of stakeholders which are important for the company (Harrison and Freeman, 1999). In addition, although there exists a considerable interest of public and private institutions on the topic, academic research especially related to sustainability reports in Turkey is limited. KPMG survey does not include evidence from Turkey. In addition, some of the studies are either descriptive (i.e. Önce et al, 2015; Yaz and Demirel-Utku, 2015) or focus on one of the stakeholders of the companies (i.e. Altuntaş and Türker, 2012).

2. Literature on Conceptual Framework of Corporate Sustainability

Companies have a central role in contribution to sustainable development. Carroll (1979) was one of the first scholars who examined corporate responses for issues related to sustainability. He suggests that “the social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at given point in time” (1979: 500). It is widely agreed that companies, regardless of their size, ownership, location and other factors, should contribute to sustainable development; but there exists many different notions of how the contribution can be made. This results in a wide range of concepts and definitions.

Dyllick and Hockerts (2002: 131) define corporate sustainability as “meeting the needs of the firms’ direct and indirect stakeholders without compromising its ability to meet the needs of future stakeholders as well”. According to the authors, organizations must “maintain and grow their economic, social and environmental capital base while actively contributing to sustainability in the political domain (2002: 132). According to Baumgartner and Eber (2010), corporate sustainability is the sustainable development undertaken by the companies; therefore it is related to the triple-bottom line and long-term profitability of the companies.

Although, sustainability in the business context is complex and multidimensional (Stead and Stead, 2008: 64), economic, social and environmental dimensions are the basis of corporate sustainability and most of the studies measure sustainability taking these dimensions into consideration. According to Elkington (1997), economic prosperity, environmental quality and social equity are the three essential dimensions of organizational performance. Steurer (2006) propose that corporate sustainability integrates economic, social and environmental issues at the organizational level, considering both short-term and long-term. Dyllick and Hockerts (2002:132) define three key elements of corporate sustainability integrating economic, ecological and social aspects, also the authors consider the multi-influences that each of the aspects have on each other.

3. Literature on Theoretical Framework of Corporate Sustainability

Stakeholder theory is the mainly used theory to explain why companies disclose information on sustainability. The main assumption of the stakeholder theory is that, for the survival, the company need to manage its relationship with its important stakeholders in an appropriate manner (Freeman et al, 2004). Stakeholder theory focuses on which of the groups are stakeholders of the company and therefore deserve managerial attention. Many researchers indicate that stakeholder orientation of the company could lead to improve the financial performance of the companies.

According to Donaldson and Preston (1995), stakeholder theory includes three approaches as descriptive, instrumental and normative. The authors define descriptive approach of the stakeholder theory as description of both competing and cooperating stakeholders of a company. On the other hand, instrumental approach focuses on the relation of the stakeholder view of the company with its performance. Finally, normative approach based on an ethical view suggests that companies have an obligation for its stakeholders apart from the result of these actions to increase wealth of shareholders. Donaldson and Preston (1995) suggests that normative approach is the fundamental basis and utilized for the justification of stakeholder theory.

The relation between sustainable development and stakeholders is also based on three perspectives as normative, descriptive and instrumental (Steurer, 2006). According to Steurer (2006), the issues of sustainable development that companies and stakeholders should take into account are described by the normative perspective; whereas the issues of sustainable development taken into account by companies and stakeholders are described by the descriptive perspective. Besides, the extent that sustainable development could be achieved through stakeholder management is described by the instrumental perspective.

The most widely used definition of stakeholder in the literature is done by Freeman (1984). According to Freeman (1984: 46), a stakeholder is defined as ‘any group or individual who can affect or is affected by the achievement of the organization’s objectives’. Freeman (1984) suggests that if a company is responsive to the needs of its stakeholders, the developed good relationships provide a competitive advantage for the company. Freeman (1984) identifies, shareholders, customers, competitors, employees, suppliers, special interest groups, environmentalists, media, consumer advocates, governments, local community as the stakeholders of the companies. Other authors used their own definition for stakeholders and there exists various definitions of stakeholders, therefore it is a controversial concept.

Mitchell et al (1997) suggests that if the stakeholders are defined to be any groups that could affect or be affected, by the company, this may result that the stakeholders are almost anyone, which is an extremely broad definition. While some of the authors use the wide definition, some others use a narrower definition. For example, Cornell and Shapiro (1987) defined a narrow group of stakeholders, only including shareholders, customers and employees. According to Mitchell et al (1997) the narrow group of stakeholders consists of the ones who are directly related with the company’s core economic interests. On the other hand, Clarkson (1995) defined primary and secondary stakeholders; indicating that the survival of the company depends on primary stakeholders. Although there exists different perspectives of the authors in order to define the stakeholders, first of all legitimacy is important. Legitimacy is a generalized perception that the actions of an entity are desirable, proper, or appropriate within some socially constructed norms, values and beliefs (Suchman, 1995). Freeman (1984) states that, legitimacy of a stakeholder is considered to be the ability to affect the direction of the company. Besides legitimacy, Mitchell et al (1997) argue that the stakeholders might have a kind of power to affect the company without a legitimate claim. According to Gray et al (1997), the power of stakeholders depends on different factors, intrinsic abilities and power of the specific stakeholders, or the legislative processes of the society. In the literature, in order to determine the main stakeholders most of the studies focus on legitimacy and power. Mitchell et al (1997) suggests that only legitimacy and power is not enough, but also urgency is necessary. According to Mitchell et al (1997), claims of the stakeholders are urgent in two conditions, when it is time-sensitive and when it is important and critical for the stakeholder.

It is believed that the companies give more importance to more powerful stakeholders (Gray et al, 1995) and therefore the information disclosed in the reports is based on the needs of the most important stakeholders. The degree to which managers give priority to stakeholder claims is defined as ‘stakeholder salience’ by Mitchell et al (1997). According to the authors, if the stakeholders possess three attributes, which are power, legitimacy and urgency; these stakeholders are more salient compared to the others.

The stakeholders are classified as latent, expectant and definitive by Mitchell et al (1997). Latent stakeholders possess one of the attributes, expectant stakeholders possess two of the attributes and definitive stakeholders possess all of the three attributes. The typology of Mitchell et al (1997) is presented in Figure-1.

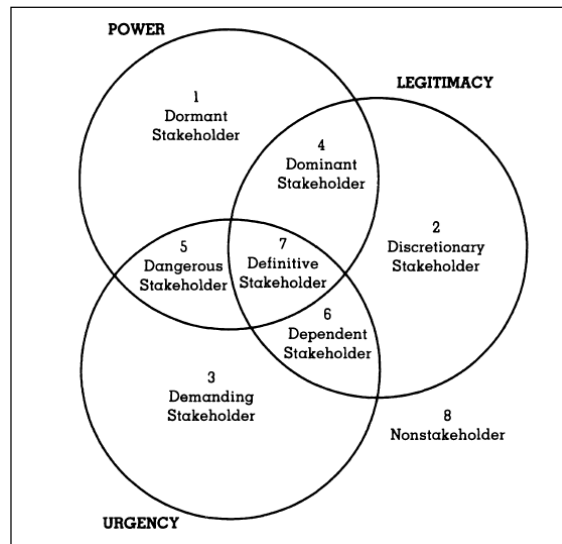


Figure 1. Stakeholder Typology

As defined by Mitchell et al (1997), dormant stakeholders only possess to have a power without legitimacy and urgency; discretionary stakeholders possess legitimacy but not power and their demands are not urgent; and demanding stakeholders' demands from the company are urgent without being legitimate and they do not have a power. If a stakeholder has power and legitimacy and also the demand is urgent, this stakeholder is a definitive stakeholder. Dominant stakeholders possess power and their demands are legitimate. Mitchell et al (1997) claim that dominant stakeholders are the ones that are seen by many as the *only stakeholders* of the firm. Dependent stakeholders' demands are both legitimate and urgent, and when a stakeholder has power and an urgent demand, this stakeholder is called a dangerous stakeholder.

4. Methodology

4.1. Research Goal

In this study, it was intended to identify the salient stakeholders for the companies from the published sustainability reports. Besides, it was also intended to understand whether there exist differences between the salient stakeholders according to industries in which the companies have their activities. It is proposed that shareholders are the most salient stakeholder of the companies and salient stakeholders do not differ between industries. Accordingly, the following hypotheses are proposed.

H_1 : The most salient stakeholders are shareholders.

H_2 : Salient stakeholders do not differ according to industries.

4.2. Sample and Data Collection

In order to understand which stakeholders are more salient for the companies, initially a qualitative research is conducted. The sample of the study consists of 78 companies which published a sustainability report in 2014.

Published sustainability reports were investigated and content analysis of these reports was used as a research methodology in order to determine the various kinds of stakeholders. The disclosures within the reports were codified into different stakeholder groups by the authors separately and later mutual agreement was achieved for different codes. After the codification is completed, the data was interpreted based on the framework of Mitchell et al (1997). Quantitative research was undertaken for further analysis. The variables were coded and analyzed by SPSS-21. The differences between groups were identified by ANOVA-Test.

The descriptive statistics of the sample according to the industry is summarized in Table-1.

Table 1. Descriptive Statistics of the Sample

	n	%
Services	36	46,2
Manufacturing	23	29,5
Holding	13	16,7
Energy	6	7,7

According to the descriptive results, most of the companies (46,2%) in the sample operates in services industry, and 29,5% have their activities in manufacturing industry whereas energy companies' share is 7,7%. Holding companies that have affiliated companies operating in various industries accounts for approximately 17% of the sample. The companies operating in banking industry has the highest share (10,3%), on the other hand food and IT system companies represent the lowest shares (1,3%) of the sample.

11 stakeholders were identified from the sustainability reports, as shareholders, employees, managers, customers, government, media, local community, suppliers, competitors, environment and special interest groups. Among these stakeholders, environment and special interest groups were mostly addressed by the companies within the sample (Table-2). In addition, only one of the companies addressed all of the stakeholders in its sustainability report. This company is one of the energy companies. On the other hand, at least three stakeholders were mentioned in the sustainability reports. Approximately 40% of the companies address to 4 of the 11 stakeholders in their sustainability reports.

Table 2. Stakeholders presented in the Reports

	n	%
Environment	77	98,7
Special Interest Groups	73	93,6
Employees	51	65,4
Managers	49	62,8
Shareholders	44	56,4
Customers	24	30,8
Suppliers	17	21,8
Local Community	8	10,3
Government	3	3,8
Media	2	2,6
Competitors	2	2,6

When the reports are analyzed according to the industry that the companies are operating in, it was noticed that government, media and competitors was not mentioned by the companies operating in some industries. As it is summarized in Table-3, although government is presented as a stakeholder in all of the three industries, services, manufacturing and energy; holding companies did not include government as their stakeholder. On the other hand, media was included only in 2 of the energy companies as a stakeholder, but all of the other companies did not describe media as their stakeholder. In addition, competitors were only described as a stakeholder in manufacturing and energy industries.

Apart from these differences, regardless of the industry, environment and special interest groups was described in most of the companies as their stakeholders. Employees were the other mostly mentioned stakeholders for services and holding companies; and managers were the other mostly mentioned stakeholders for manufacturing companies.

Table 3. Stakeholders presented in the Reports according to Industries

	Services		Manufacturing		Energy		Holding	
	N	%	N	%	n	%	n	%
Shareholders	20	55,6	14	60,9	4	66,7	6	46,2
Employees	25	69,4	13	56,5	4	66,7	9	69,2
Managers	23	63,9	17	73,9	4	66,7	5	38,5
Customers	14	38,9	2	8,7	4	66,7	4	30,8
Government	1	2,8	1	4,3	1	16,7	-	-
Media	-	-	-	-	2	33,3	-	-
Local community	2	5,6	2	8,7	1	16,7	3	23,1
Suppliers	7	19,4	5	21,7	2	33,3	3	23,1
Competitors	-	-	1	4,3	1	16,7	-	-
Environment	35	97,2	23	100	6	100	13	100
Special Interest Groups	33	91,7	22	95,7	5	83,3	13	100

4.3. Data Analysis and Findings

Stakeholder groups based on the typology of Mitchell et al (1997) were identified by content analysis of the reports. The findings are summarized in Table-4. Local community is identified as dormant stakeholder. These stakeholders possess power to impose their will on the company. However, by not having a legitimate relationship or an urgent claim, their power remains unused. Disclosures within the reports about local community mainly focus on ‘increasing life standards that satisfies the public’. Special interest groups, mostly NGOs, are identified as discretionary stakeholders. Disclosures about these groups contain the joint collaborations with NGOs such as ‘providing scholarships for disadvantage groups’ or ‘financial support for institutions like schools or hospitals’. In addition, employees and suppliers of the companies are also discretionary stakeholders. Employees are disclosed as ‘family members’ or ‘powerful link between managers and customers’ and suppliers are disclosed to account for ‘their better products’ in some of the reports, however, since these groups do not have power and urgent claims, they have absolutely no pressure on the companies. Although, environmental issues are addressed in most of the reports as ‘green future’, ‘importance of waste management’, environment and environmentalists are identified as a demanding stakeholder. Since these groups lack power, they depend on the other stakeholders of the company like managers to take immediate actions. On the other hand, dominant stakeholders are the managers and customers of the companies. These are the stakeholders who have a powerful and legitimate claim to demand information from the company. Most of the companies describe their managers as ‘resources of the strategies’ and ‘the agent for increasing sustainability’ and the customers are identified as ‘groups for continuity of profitability’. Media is identified as a dangerous stakeholder since the claims should be treated urgently and due to wide coverage media has a strong power. In the reports which media is identified as a stakeholder, the companies define media as their ‘close stakeholder’. Competitors are defined as a dependent stakeholder. They have legitimate claims and urgent responses should be taken. In one of the reports, competitors were mentioned as ‘competitors create rivalry, rivalry creates quality, and quality creates sustainability’. Finally shareholders and the government are identified as definitive stakeholders. They

exhibit both power and legitimacy, and their claims are urgent. In one of the reports it is disclosed that ‘government is the main element of our activities; it provides our contribution to our economy’. This disclosure is an example for the importance of government as a stakeholder. On the other hand, in most of the reports shareholders are defined as ‘primary stakeholders’, it is also mentioned that ‘improvement of the financial tables and contribution to the economy to be directly related to the support of the shareholders’.

Table 4. Stakeholder Types

Stakeholder Type	Stakeholder Groups		
Dormant	Local Community		
Discretionary	Employees	Suppliers	Special Interest Groups
Demanding	Environment		
Dominant	Managers	Customers	
Dangerous	Media		
Dependent	Competitors		
Definitive	Shareholders	Government	

The results of the ANOVA test indicate that there exists a significant difference between industries for disclosure of customers and media in their reports (Table-5). With further analysis of LSD-test, for customers disclosure, there exists a significant difference between manufacturing and services, and manufacturing and energy industries. In terms of media disclosure, there exists a significant difference between energy companies and all of the other types of companies.

Table 5. Differences between Industries in terms of Stakeholders

	Mean Square	F	P
Shareholders	0,083	0,323	0,808
Employees	0,087	0,369	0,776
Managers	0,356	1,535	0,213
Customers	0,710	3,629	0,017
Government	0,041	1,094	0,357
Media	0,205	11,385	0,000
Local Community	0,108	1,164	0,329
Suppliers	0,034	0,191	0,903
Competitors	0,053	2,189	0,096
Environment	0,005	0,379	0,768
Special Interest Groups	0,047	0,759	0,521

5. Conclusion

Sustainability reporting is a widely research topic in developed countries. Although there exists many research on this topic in developed countries, research in developing countries and especially in Turkey is still at infancy. Gray et

al (1995) suggest that the country in which the organization is reporting have a significant effect on the reports. Therefore it is important to understand the situation in different countries and compare the findings. In accordance, this research based on content analysis was conducted in order to determine the most salient stakeholders of the Turkish companies as identified in their sustainability reports. 11 stakeholders were identified which the companies mostly address in their sustainability reports.

According to the findings of this study, the most salient stakeholders for the companies in the research sample are identified to be shareholders and government, therefore the first hypothesis is accepted. Besides, all of the other stakeholders were defined according to the stakeholder typology defined by Mitchell et al (1997). Most of the stakeholders (employees, suppliers, special interest groups) are defined to be discretionary stakeholder, these groups only have legitimacy but lacks power and urgency. Dominant stakeholders that have both power and legitimacy are defined as managers and customers. Local community is defined as the dormant, media is defined as the dangerous and competitors are defined as dependent stakeholders. Although environment and environmentalists are disclosed in most of the sustainability reports, from the content analysis environment is analyzed to be a demanding stakeholder, having urgency but lacking legitimacy and power on the companies.

Furthermore, according to the results of the quantitative analysis there is no significant difference for the disclosure of most of the stakeholders among different industries, the only differences exists for the disclosure of customers and the media. As a result, the second hypothesis is also accepted.

In sum, with this study, a basic understanding of the salient stakeholders and the content of sustainability reports of large-scale Turkish companies is developed. The main limitation of this study is the sample size, future studies could address the topic by enlarging the sample to include more companies. Furthermore, a longitudinal and more detailed investigation of the reports is necessary. The comparative analysis could include the differences according to the scale of the companies and the ownership. In addition, future studies could address sustainability strategies of the companies.

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