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THE ROLE OF STAKEHOLDER ENGAGEMENT IN SUSTAINABILITY REPORTING

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XXIX CICLO

for Chiara

"Let your soul stand cool and composed before a million universes."

Walt Whitman

Summary

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Introduction

Nowadays, many of the largest economies in the world are corporations, not nations. The revenues of many multinationals surpass the budget of entire countries. Apple's turnover outdoes Austria's revenues by a few billions of dollars; revenues of British Petroleum easily compete with the federal budget of Mexico[1] (CIA, 2016; Fortune, 2016). Although we acknowledge that dollar-value company revenues are not equivalent to a government's dollar-value budget, this illustrative comparison still reveals the vast power corporations hold and raises important questions on the accountability of large firms and their responsibilities to civil society.

Especially in a context of growing environmental concerns, the role of large enterprises towards sustainability is increasingly put into the spotlight. Both academic conversations and public-opinion debates more and more frequently question the extended responsibilities of firms in the frame of contemporary and inter-connected societies. In studying issues associated with the greatest challenges mankind is currently facing - from climate change to social exclusion - the scientific community today is fully aware of the necessity to account for actions and agendas of companies, especially large ones (Crane & Matten, 2016). Large firms are rising to global political actors, but with great power comes greater responsibility.

As we will see later in this dissertation, many authors agree that the historically prevailing thesis that the first and only responsibility of a firm is to maximise value for shareholders only (cf. Friedman, 1970) is becoming progressively untenable (cf. Freeman, 1984). Enterprises themselves are increasingly willing, for the more different reasons, to show their commitment towards the needs and expectations of their stakeholders (not only shareholders), their aspiration to create shared value (not only shareholders value) and to make every part of their business sustainable. Statements on this commitment, although varying case by case from being genuine to be completely rhetoric, are nowadays commonly found in sustainability reports or

[1] This association is not completely casual considering the 2010 spillage of the BP-operated Deepwater Horizon oil platform in the Gulf of Mexico.

integrated annual reports of companies operating in various sectors, even and especially in the most impactful ones, like mining and oil and gas.
Given the evolving expectations of consumers and investors, corporations nowadays face the need of communicating to internal and external stakeholders how their business model is integrated with sustainability aspects. Over the last 40 years, companies have paid growing interest towards environmental and social issues (Bagnoli, 2004); at the same time, there has been substantial growth in the research attention being devoted to social and environmental accounting topics (Deegan, 2002). This growing interest raised new questions on the real objectives of large corporations and the best ways to account for and report on the degree of achievement of these objectives. The development of social and environmental accounting and reporting over the last decades has resulted in a wide range of actual and potential accounts of organisational extended interactions with society and the natural environment: such accounts can be understood as narratives of events articulating, with varying degrees of thoroughness and misdirection, the relationships of the organisation with its stakeholders and the environment (Gray, 2010).
With that in mind, we believe today is more important than ever that large enterprises can, on the one hand, take into account the opinion of their stakeholder while defining their strategies and, on the other hand, disclose material and relevant information on their ability to contribute to sustainability while delivering value for all of their stakeholders. An increasing consensus is being reached on the responsibility of large enterprises to report not only on their financial performances, but also on their social and environmental outcomes. Consequently, in practical terms, it is important to understand which are the elements organisations need to report on to provide stakeholders with relevant and comprehensive sustainability reports.
In the last two decades, stakeholder dialogue and engagement have been playing an increasingly important role in defining the contents of integrated and sustainability reporting (Manetti, 2011), in accordance with the principle of materiality and relevance of information disclosed (Global Reporting Initiative, 2013c; Unerman & Bennett, 2004). According to the materiality principle, material aspects are those that reflect the organization's significant economic, environmental and social impacts or that substantively influence the assessments and decisions of stakeholders (Global

Reporting Initiative, 2013c). Stakeholder engagement can represent a powerful tool of dialogic communication and accounting (Bebbington, Brown, Frame, & Thomson, 2007; Brown & Dillard, 2014) and a channel for interactive mutual learning, capable of promoting transformative action and social change (Bebbington, Brown, Frame, et al., 2007). Moreover, stakeholder engagement is a milestone policy in social and environmental accounting because it allows the organisation to interact with its stakeholders in a two-way dialogue in which the engager and the engaged mutually learn from such cooperation, potentially revising their expectations, strategies and behaviors (Manetti & Bellucci, 2016; Manetti, Bellucci, & Bagnoli, 2016; Owen, Swift, & Hunt, 2001).

Against this background, the aim of this dissertation is to contribute to the social and environmental accounting literature with a study on the role and features of stakeholder engagement in sustainability reporting.

The present original contribution is structured as follows. The first chapter introduces and discusses the extended responsibilities of corporations in the frame of contemporary societies and through the opposition between shareholder and stakeholder theories. Alongside the evolution of the objectives of enterprises lies the evolution of reporting and the need to account for an integrated and broader set of information. Consequently, the concept of sustainability and the role of enterprises and accounting towards sustainability is framed in light of social and environmental accounting.

The second chapter provides a literature review on sustainability reporting, materiality assessment and stakeholder engagement. There is now a variety of local and global factors that advocate social and environmental reporting: the increasing relevance of beneficial relations with stakeholders, the growing concern about business ethics and corporate social responsibilities and the mounting importance of ethical investment have all raised the need for new accounting methods through which organisations and their stakeholders can mutually tackle these topics. After having analyzed the main motivations underneath sustainability reporting, we then discuss the topic of materiality and salience of information in social and environmental reports through the lens of materiality principle and the main sustainability reporting guidelines. We also provide some insights on how the concept of social and environmental

responsibility of firms is deeply rooted in the Italian school of *Economia Aziendale.* We then discuss how the involvement of every relevant group of stakeholders can represent the most straightforward way to produce comprehensive, relevant and material sustainability reports.

The third chapter provides a theoretical framework based on stakeholder theory and the involvement of stakeholders in decision making and sustainability reporting. We introduce a review of the different definitions of stakeholder and the diverse approaches to stakeholder theory. Consequently, the process of stakeholder engagement is theoretically divided into three phases: 1) Stakeholder identification and analysis; 2) Interaction with stakeholders; 3) Evaluation and reporting. Each phase is analyzed through the contributions of the most relevant authors and our elaboration. Then we discuss the theory underneath the possible achievement of materiality of information in sustainability reports through stakeholder engagement. The last section of the third chapter is dedicated to a review of stakeholder engagement tools in practice and to a focus on social media as a tool for supporting dialogic accounting.

Many theoretical tools introduced in the third chapter are then used to support our empirical analysis. The fourth chapter provides a deep, empirical focus on how sustainability reports address the topic of stakeholder engagement, the distinctive features of this process of involvement and which is the role of stakeholder engagement for assessing materiality and defining the contents of such a disclosure. In order to pursue this objective, we opted for a mixed methodology built on content analysis, a research technique based on the objective, systematic, and quantitative description of the manifest content of communication (Berelson, 1952). We analyze 81 sustainability reports of organizations operating in the mining sector prepared in compliance with the GRI G4 guidelines. We focus on the mining industry because it is a sector that presents many legitimacy concerns: organizations operating in this sector have to deal everyday with social and environmental issues and are very sensible to the interests of several groups of stakeholders. The results from this content analysis are discussed in details in the last section of the fourth chapter. Through this empirical analysis we hope to contribute to stakeholder theory literature and sustainability reporting literature with original insights on the properties of

information stated in sustainability reports regarding stakeholder engagement (SE) policies and practices.

Finally, conclusions summarize our contribution, offer supplementary comments on our main results and practical implications, and build on the limits of the present study to provide some ideas for further research on stakeholder engagement in social and environmental accounting.

1. Business and sustainability

1.1. The extended role of enterprises in society

1.1.1. The purpose of business

Which purpose are enterprises built for in the context of contemporary societies? This question is only apparently trivial. Many answers could be given to the question of the role of enterprises in society. Moreover, many other questions arise from this former, like, for instance, if enterprises can have more than one objective, how to measure their performances along their objective (or objectives) and how to effectively report on the level of achievement of their objective(s).

Enterprises[2] represent an ingenious coordination mechanism for natural, human, and financial capital, which, when skilfully combined, create value in a way humans could not achieve individually (Crane & Matten, 2016). However, the very success of large enterprises as an economic institution has put them in a societal space far beyond their initial economic purpose (Bagnoli, 2004; Ciepley, 2013; Scherer, Palazzo, & Baumann, 2006).

We believe that today enterprises, especially large corporations and companies, have new roles and responsibilities that are as much social and environmental as they are economic. We agree with Crane and Matten (2016) when they argue that the idea that large enterprises are economic actors with a purely economic function in society is becoming increasingly untenable. Enterprises often find their place among the world's dominant institutions, with the largest ones eclipsing most national governments in revenues, employment, logistical capabilities, and global presence (Ciepley, 2013). The power, scope and influence of the modern corporation are such that today it is a

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[2] During this dissertation we will mainly use the word "enterprise" to indicate an organization involved in the provision of goods or services to its users or consumers; where not otherwise stated, we are also referring to this general concept when using the words "corporation", "firm" and "business". We recognize that these notions refer to different things in different legal frameworks and we postpone the analysis of the different roles of stakeholder engagement within these specific legal forms to a further research.

key actor in social change. When we consider the greatest challenges currently facing mankind, from poverty (Biggeri, Ballet, & Comim, 2011) to climate change, it is now inconceivable that we can ignore the actions and agendas of companies, especially large ones (Crane & Matten, 2016).

However, in most industrialized nations today, economists, management scholars, policy makers, corporate executives, and special interest groups are engaged in a debate over corporate governance (Jensen, 2001). At the heart of this current global corporate governance debate is a remarkable division of opinion about the fundamental purpose of the enterprise in society. Much of the discord can be traced to the complexity of the issues and to the strength of the conflicting interests that are likely to be affected by the outcome; but also fueling the controversy are political, social, evolutionary, and emotional forces that we don't usually think of as operating in the domain of business and economics (Jensen, 2001). As argued by Jensen (2001), at the economy-wide or social level, the issue is: if we could dictate the criterion or objective function to be maximized by firms (and thus the performance criterion by which corporate executives choose among alternative policy options), what would it be? Or, to put the issue even more simply: how do we want the firms in our economy to measure their own performance? How do we want them to determine what is better versus worse?

1.1.2. Shareholder theory versus stakeholder theory

The discussion on corporate purpose has largely centered on the debate between those advocating a shareholder view of the firm and those promoting a more stakeholder-oriented perspective (Crane & Matten, 2016)

Those subscribing to the shareholder view argue that enterprises exist to maximize value for shareholders – and indeed that this is the only true way of effectively evaluating executives in managers-driven firms (Jensen, 2001; Sundaram & Inkpen, 2004). Most economists would answer simply that managers must have a criterion for evaluating performance and deciding between alternative courses of action, and that the criterion should be maximization of the long-term market value of the firm. This value maximization proposition has its roots in 200 years of research in economics

and finance (Jensen, 2001): in the field of finance, for example, the logic of shareholder value maximization is accepted as being so obvious that textbooks just assert it, rather than argue for it. Deviation from this objective is cast as an agency problem resulting from the separation of ownership and control, and failure to meet this goal is assumed to be corrected by corporate boards, shareholder voice, shareholder exit, and the market for corporate control (Sundaram & Inkpen, 2004). Entire generations of managers have been brought up believing in the idea that the central purpose of the enterprise is to maximize shareholder value, so any attempt to rethink the role and responsibilities of the enterprise will clearly need to engage with such assumptions (Crane & Matten, 2016).

Friedman (1970) argued that firms ought to do no more than abide by the letter of the law and that the additional costs associated with social spending just represents for firms a competitive disadvantage. Managers' pursuits of their desired social missions degrade firms' ability to maximize shareholder wealth. Sundaram and Inkpen (2004) propose five argument for why shareholder value maximization should be the preferred corporate goal: (1) The goal of maximizing shareholder value is pro-stakeholder; (2) Maximizing shareholder value creates the appropriate incentives for managers to assume entrepreneurial risks; (3) Having more than one objective function will make governing difficult, if not impossible; (4) It is easier to make shareholders out of stakeholders than vice versa; (5) In the event of a breach of contract or trust, stakeholders, compared with shareholders, have protection (or can seek remedies) through contracts and the legal system. Shareholder view assumes that the enterprise is an instrument for wealth creation and that this is its sole social responsibility (Garriga & Melé, 2013).

However, Sundaram and Inkpen (2004) argue that by no means firms should ignore other stakeholders or that there are no boundary conditions to the manner in which shareholder value creation logic has to be applied in practice. Supporters of this view believe that shareholder value as the objective function will lead to decisions that enhance outcomes for multiple stakeholders. They also reject the view that managers will somehow end up being negligent in their moral (and legal) duty to stakeholders if they actively and vigorously pursue a fiduciary responsibility to shareholders and are also skeptical of the argument that a stakeholder approach to governance leads to

either competitive advantage or better behavior.

Despite his terse dismissal of social performances as “hypocritical window-dressing”, “fraud”, and worse, Friedman (1970) did nonetheless acknowledge that a firm’s investment in social responsibility could make it easier to attract desirable employees, it may reduce the wage bill or lessen losses from pilferage and sabotage or have other worthwhile effects (Barnett & Salomon, 2012). In noting that social responsibility can generate valuable goodwill for firms, he thus provided a basis for the counter-argument of stakeholder theorists that corporate social performances and corporate financial performances are positively related (Barnett & Salomon, 2012).

Those arguing for the stakeholder view suggest that the purpose of the corporation is “creating value for stakeholders”, including but not necessarily prioritizing shareholders (Crane & Matten, 2016; Freeman, 1984; Freeman, Harrison, & Wicks, 2007; Freeman, Wicks, & Parmar, 2004). Stakeholder theory, that is the main contender to shareholder view, says that managers should make decisions that take into account the interests of all the stakeholders in a firm (Ciepley, 2013; Jensen, 2001). We will examine stakeholder theory in depth in Section 3.1 of this dissertation.

In a sense, both views agree that the original point of creating the corporate form was to achieve a more efficient means of creating value in society; where they differ is in what exactly that value is - is it just shareholder value, economic value more broadly, or societal value? - and who that value is created for - shareholders or stakeholders more broadly (Crane & Matten, 2016). Stakeholder theory, the origins of which are commonly credited to Freeman (1984), argues that the better a firm manages its relationships with the myriad groups that have some interest, or “stake”, in the firm, the more successful it will be over time (Barnett & Salomon, 2012). Stakeholders include all individuals or groups who can substantially affect, or be affected by, the welfare of the firm - a category that includes not only the financial claimholders, but also employees, customers, communities, and government officials (Jensen, 2001). We will return on the point of the classification of stakeholders in Section 3.2.

From the alternative to shareholder primacy emerge the concept of Corporate Social Responsibility (CSR) - a responsibility not just to shareholders but also to other stakeholders and society (Ciepley, 2013). Justifications for it vary, from long-term self-interest to the ethical principle that one should act in consideration of the

consequences of one’s actions for all, avoiding harm and perhaps even providing help (Garriga & Melé, 2013).

Opponents of shareholder theory argue that Friedman (1970) was mistaken in highlighting the centrality of shareholder value maximization for at least two main reasons. Firstly, for a reason of equality, because it is right to create, measure and report value for every stakeholder. Secondly, for a reason of efficiency, as social and stakeholder-oriented activities such as corporate social responsibility (CSR) can increase firm’s ability to attract customers (Barnett & Salomon, 2012). In other words, it is not only a matter of ethic but also a matter of economical performances: in many businesses, a worsening of relationships with stakeholders will compromise or stop activities through strikes, boycotts or community protests. Moreover, as argued by (Ciepley, 2013) and (Stout, 2012) the maximization of short-term share price would not be economically efficient in allocating resources to produce sustained growth. Given these premises, the broad success of the stakeholders theory introduced by Freeman (1984) is not surprising.

1.1.3. New responsibilities for a traditional purpose

During the 1960s and 1970s the relationship between business and society has been re-examined and with that re-examination emerged new theories regarding corporate responsibilities to society (Dierkes & Antal, 1986; Roberts, 1992; Zappa, 1957). In that period some authors (Davis, 1973; Roberts, 1992; Steiner, 1972; Terzani, 1989) argued that although business is, fundamentally, an economic institution, larger firms exert significant influence in society and have responsibilities to use some economic resources in an altruistic manner to aid in meeting social goals (Roberts, 1992).

Much of the business and management literature point out that businesses do have responsibilities towards the public good. We can find a compromise arguing that corporations were born to produce economic value for their creators but also that, in the 21th century, they have the potential to do more and to produce value also for stakeholders which are not shareholders. While one of the purposes of the enterprise is undoubtedly to produce value for shareholders (because without this there is no financial viability and lack of investments), not everyone agree that it has to maximise

this value in respect of the value for other stakeholders. Friedman's point is unquestionably straightforward; however, from a normative perspective more than from a positivistic perspective, many believe that the responsibility of an enterprise is to create value for all of their stakeholders. It is necessary to take into account both their initial economical purpose and their increasing social and environmental roles and responsibilities. Enterprises, especially larger ones, have nowadays such an economic, social, environmental and political potential that lead much literature to say that producing value for all of their stakeholders, if this was not be their initial purpose, it's definitely their actual role and responsibility. Moreover, this potential is increasing, especially nowadays, when the role of large corporations in society is enlarging and at the same time the regulatory power of national states is retrenching.
Crane and Matten (2016) outline three main drivers of a more pronounced social and political role of larger enterprises: political, economic and technological. From a political standpoint, since 1980s liberalisation has thus created a space where national governments have gradually ceded more influence and governing space to private actors, most notably companies and civil society groups. Moreover, from an economic standpoint, the rise of international trade regimes, the emergence of global markets for capital, commodities and labor, as well as the global spread of supply chains and production networks has created huge economic opportunities for companies and corporations. Finally, large enterprises have assumed a much more exposed role in society because of technological progress. Over the last decades we have seen unprecedented innovation in telecommunication and transport technology globally.
One increasingly influential way of thinking about the extended purpose of enterprises is to conceive of certain types of organizations as social purpose companies that aim to combine social goals with financial sustainability (Bagnoli, 2004; Haigh, Walker, Bacq, & Kickul, 2015). As such, social purpose companies specifically identify their purpose as the advancement of social or environmental goals, much as a non-profit would, but typically seek to achieve these goals through commercial or market-based tools, as a company would (Crane & Matten, 2016). On an international level, these companies, that share the objective to solve a social or environmental issue instead of only pursuing profit, can present different features and take different legal forms - such as social enterprises ((Defourny & Nyssens, 2008, 2010; Galera & Borzaga,

2009; Mook, Chan, & Kershaw, 2015)), benefit corporations (André, 2012; Hiller, 2013), social cooperatives (Bellucci, Bagnoli, Biggeri, & Rinaldi, 2012; Borzaga, Depedri, & Tortia, 2009; Galera & Borzaga, 2009; Thomas, 2004) and social business (Crane, Matten, & Spence, 2008; Yunus, 2007; Yunus, Moingeon, & Lehmann-Ortega, 2010) - whose discussion is beyond the scope of this work.

Nonetheless, whether we consider the extended responsibilities of every corporation, or we call into question new entrepreneurial forms as social purpose enterprises, we find that companies are therefore increasingly called to report on their economical, social and environmental performances towards all of their stakeholders. Companies, even those operate in critical sectors as mining and agroforestry industries, are increasingly aware of this responsibility, although the commitment to this responsibility varies case by case, sector by sector. The confirmation is that if we take the annual report of big companies that contain a sustainability report, it is common to find expressions like

> "We will deliver an attractive and differentiated value proposition to our shareholders, business partners and other stakeholders by having the right assets and technical expertise, the right people working with our partners, and a commitment to responsible mining that will support us in delivering the products that make our world work. We are focused on delivering our targeted returns to shareholders while creating value for all our partners and stakeholders" (AngloAmerican, 2013, p. 2).

A move towards a redefined corporate purpose needs a rethink in how corporate performances are conceived, assessed and reported. In fact, one of the biggest questions arising from the one that opened this section is whether, from the point of view of an expanded social, or even political, role for the enterprise, the measures used by companies, professionals or researchers are actually the most salient. Although there have been significant advances in determining the materiality of issues for reporting, many of the metrics used still focus primarily on inputs, or at best outputs, rather than actual outcomes for, or impacts on, relevant stakeholders (Crane & Matten, 2016). As Salazar, Husted, and Biehl (2012) contend, firm-level measures of corporate social performance tend to focus on inputs, such as the value of corporate contributions or number of volunteer hours donated, rather than the impacts of the firm's CSR activities on the intended beneficiaries (e.g. lives saved, improvements in

health, incomes raised, increased happiness, etc.) (Manetti, Bellucci, Como, & Bagnoli, 2015).
If the answer to our introductory question saying that enterprises have an economical purpose but also social and environmental roles and responsibilities, it also necessary to rethink the original function of accounting and reporting in the light of a broader and multi-dimensional set of objectives (Crowther, 1996, 2012; De Villiers, Rinaldi, & Unerman, 2014). Next sections will respectively analyse the general function of corporate reporting and the necessary adaptations in order take into account and report on environmental and social performances.

1.2. The path to integrated reporting

1.2.1. The evolution of corporate reporting

At the level of individual organizations, the most basic issue of governance is embraced in the following argument:

> Every organization has to ask and answer the question: What are we trying to accomplish? Or, to put the same question in more concrete terms: how do we keep score? When all is said and done, how do we measure better versus worse? (Jensen, 2001).

A conventional view of corporate reporting is that it provides a mean for the organisation, or its representatives, to communicate the past actions of the company, the results of those past actions and the intended future actions of the company (Crowther, 2012); this is undertaken partly to satisfy legal requirements but also in order that any interested party may undertake an evaluation of the effectiveness of the past actions of the company and the expected outcomes of its future activity (Crowther, 1996; Jensen, 2001).
This communication may be to the owners of the business, the investors in the business, prospective future investors in the business, or to any permutation or combination of stakeholders who are associated with the business in any way (Crowther, 2012). Indeed, this communication may even be to society at large on the basis that all members of society are either present or potential stakeholders in the

business (Crowther, 1996). In fact, the purpose of corporate reporting has changed from one primarily of stewardship and accountability to shareholders to a more outward-looking and forward-looking perspective Crowther (2012). One of the driving forces for this change in orientation has been the discourse of environmentalism and more latterly sustainability (see section 1.3), but that other forces are also involved.

> Modern accounting was born on the basis that there was a need to record the actions of the individual and its effects as a basis for the planning of future action. This need was brought about by the need for a separation of the public and private actions of an individual and the need to record, and account for, the public actions because of the involvement of others in these public actions. Thus the medieval methods of bookkeeping, with the indistinguishability of public from private actions, was inappropriate to this modern world in which capitalist enterprise was beginning to arise. Capitalism required the ability to precisely measure activities, and this was the founding basis of management accounting (Crowther, 2012).

Indeed, it has been argued (Sombart, 1915) that capitalism would not have been possible without the techniques of double-entry bookkeeping and its subsequent metamorphosis into management accounting (Crowther, 2012). This accounting provided the mechanism to make visible the activities of all involved in the capitalist enterprise and to both record the effects of past actions and the expected results of future actions (Crowther, 2012). The modern world therefore saw the genesis of the modern firm as a mechanism which enabled individuals to combine in enterprise, and to combine capital and expertise from different individuals. It also saw the concomitant genesis of modern accounting in providing a representation of the actions of the firm, as distinct from the individuals comprising that firm (Crowther, 2012).
The "archaeology" of corporate reporting until the 1970s is simply the archaeology of the financial accounting aspects of reporting, as little else was considered to be of significance (Crowther, 2012).

> This recognition of the use made of the corporate report has of course affected the way in which the report is produced as well as the contents and format of the report itself. Thus the earliest reports consisted merely of the financial reporting information of balance sheet, profit and loss account and increasing amounts of analysis of such information and notes to provide greater detail. The incorporation of the chairman's report provided an acknowledgement that financial information alone was insufficient to explain the actions of the company in the past and its

> prospects for the future. This was then extended, in recognition of the increasing size and complexity of organisations and the increasing divorce of investment from involvement in management of the organisation, to provide details about the activities and plans of the organisation. At the same time, over the last 25 years the report itself has changed from a plain statement to an increasingly glossy product containing maps, charts and pictures in a multi-coloured production designed to have mass appeal (Crowther, 2012).

Generally speaking, the corporate governance debate has merely focused on internal mechanisms and on disclosure and transparency with an eye to the suppliers of finance in the first place ((Daily, Dalton, & Cannella, 2003; Kolk, 2008; Shleifer & Vishny, 1997). In this regard, a broader notion of corporate governance in relation to the whole range of stakeholder – including, but not limiting to, shareholder - demands seems to be emerging (Kolk, 2008).

The last 30 years have seen considerable development in academic literature on accounting and accountability systems for the combined management and reporting of financial and non-financial performance (De Villiers et al., 2014). Academics and practitioners have analysed the interaction between managements' strategic propositions, organisational control systems and performance measurement and reporting systems (Parker, 2012). As argued by De Villiers et al. (2014), among several proposals advanced by scholars within the accounting, management and governance domains (Giovannoni & Pia Maraghini, 2013; Nixon & Burns, 2012), four frameworks that have emerged are: Balanced Scorecard[3], Triple Bottom Line (see section 1.3 of this dissertation), Sustainability Reporting (see section 2.1) and Integrated Reporting (we will focus on this further in the text). While drawing on multiple strands, the early development of integrated reporting policies and practices appears to have largely been informed and driven by considerations linked to social and environmental reporting (De Villiers et al., 2014).

> Until the latter part of the twentieth century much social and environmental reporting took place via the medium of corporate annual reports. Although these reports were predominantly financial in orientation, some organisations used parts of their annual reports to

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[3] In this dissertation we will not analyse Balance Score Card as an internal strategic management system and we will focus on reporting tools aimed at disclosing economic, social and environmental information to the public.

> disclose selected information about their social and environmental impacts and their policies towards managing the interactions between the organisation, the society in which it operated, and the natural environment (Unerman, 2000).

Research indicates that these social and environmental disclosures within annual reports appear to have been initially motivated by organisational or managerial desires to meet the perceived information requirements of the stakeholders who held the most economic power in relation to a reporting organisation (Brown & Dillard, 2014; Deegan, 2002; Neu, Warsame, & Pedwell, 1998).

> As social and environmental reporting became more widely practiced, and as the amount of social and environmental information reported by many organisations expanded, increasingly organisations began to separate out social and environmental disclosures, using media other than the annual report to disclose much of this information (..). For many of these organisations, the annual report became primarily focused on communicating information of core relevance to their financial stakeholders (De Villiers & Van Staden, 2011)(…). Information considered to be primarily of relevance to other stakeholders was published (often in increasing volume and complexity) in stand-alone social and environmental reports and/or other interactive media (such as sustainability web sites) (De Villiers & Van Staden, 2011).

In tandem with the growth in stand-alone social and environmental reporting practices, initiatives to develop voluntary reporting standards to guide organisations in initiating and implementing these reporting practices developed. The Institute of Social and Ethical Accountability (commonly known as AccountAbility – see section 2.2 of this dissertation) and the Global Reporting Initiative (commonly known by the acronym GRI – see section 2.1) were among the membership organisations that developed the most enduring and widely adopted reporting and assurance standards for social and environmental reporting (Brown & Dillard, 2014; Buhr, Gray, & Milne, 2014). As is the case with financial reporting standards, one of the aims of such standardisation in social and environmental reporting was to enhance the credibility and comparability of reports that have been compiled in compliance with the standards (De Villiers et al., 2014)

1.2.2. Integrated Reporting

As we will see further in the text, social and environmental reporting has a long history (Buhr et al., 2014; Guthrie & Parker, 1989).

> Initially this reporting took place predominantly through disclosures within corporate annual (financial) reports. Over the past two decades, however, social and environmental disclosures have increasingly been made in separate stand-alone reports in addition to a variety of other media such as web sites (Cho, 2009)). These stand-alone social and environmental reports have become more complex (and long) as a greater range of issues has been disclosed to meet the supposed information needs of a range of stakeholders (De Villiers et al., 2014).

More recently, possibly in response to the increased complexity and length of stand-alone reports, there have been moves to recombine some social and environmental disclosures with financial disclosures in single reports. In contrast to earlier social and environmental disclosures made within annual reports, where the social and environmental information was not integrated with the financial information, these recent moves have sought to integrate social, environmental, financial and governance information ((Dey, Burns, Hopwood, Unerman, & Fries, 2010; Hopwood, Unerman, & Fries, 2010). The resulting practices have come to be known as integrated reporting (De Villiers et al., 2014), which is poised to be an evolution of mainstream reporting (Adams & Simnett, 2011).

Integrated reporting is a new standard for corporate communication which helps to complete financial and other corporate reports and is a process that result in a concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term (International Integrated Reporting Committee, 2011). An integrated reporting aims to present the relation between the company's business model (BM)[4] and all forms of

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[4] A company's BM is seen as a tool that allows managers to better understand, capture, analyse, and manage their business (Amit & Zott, 2001; Magretta, 2002). It is also increasingly used as a representation device that can offer external users valuable information (Beattie & Smith, 2013; Magretta, 2002; Morris, 2014; Nielsen, 2010; Perkmann & Spicer, 2010). The BM is seen as a platform that provides a comprehensive and integrated description of the value creation process of a company, which is how resources, processes, and partnerships are combined to achieve long-term profitability (Nielsen, 2010). When a company's commitment to sustainability affects its strategy and its methods of operation, the disclosure of sustainability information through the BM platform might signal the authenticity of its sustainability rhetoric to its stakeholders.

capital (financial capital, manufactured capital, human capital, social capital, intellectual capital and natural capital) (Bini, Dainelli, & Giunta, 2016): "Integrated Reporting makes clearer the linkages between the organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates" (International Integrated Reporting Committee, 2011). In fact, one of the main distinguishing features of integrated reporting is its aim to provide a concise report that would indicate an organisation's most material social, environmental and economic actions, outcomes, risks and opportunities in a manner that reflected the integrated nature of these factors for the organisation (De Villiers et al., 2014).

International Integrated Reporting Council (IIRC) has gained considerable amount of attention since its formation in 2010 (Busco, Frigo, Quattrone, & Riccaboni, 2014; Eccles & Krzus, 2010). IIRC is

> a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting (IIRC, 2013b).

The IIRC proposes that organizations generate only single report that draws together financial and non-financial information (Busco et al., 2014; De Villiers et al., 2014; Eccles & Krzus, 2010, 2014). The IIRC's mission is to change the condition where financial and non-financial information are accounted for in isolation from each other towards integrated thinking which is embedded within mainstream management and accounting practice enabling integrated reporting to become the corporate reporting norm (De Villiers et al., 2014; IIRC, 2013a, 2013b).

A definition of integrate report is provided in "The International <IR> Framework" (2013b), which represents the main document of the IIRC guidelines:

> A concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term (IIRC, 2013b).

Moreover, integrated reporting is defined as a process "founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation" (IIRC, 2013b).

For the IIRC, the main purpose of integrated reporting is to provide a broader and more connected account of organisational performance than is provided by traditional financial and/or sustainability-specific reporting (De Villiers et al., 2014).

Following the guidelines provided by IIRC (2013b), the aim of an integrated report is to provide insight about the resources and relationships used and affected by an organization: these are collectively referred to as "the capitals" in the <IR> Framework. An integrated report also aims to explain how the organization interacts with the external environment and the capitals to create value over the short, medium and long term.

IIRC guidelines define the capitals as "stocks of value that are increased, decreased or transformed through the activities and outputs of the organization" (IIRC, 2013b).

> They are categorized in this Framework as financial, manufactured, intellectual, human, social and relationship, and natural capital, although organizations preparing an integrated report are not required to adopt this categorization or to structure their report along the lines of the capitals. The ability of an organization to create value for itself enables financial returns to the providers of financial capital. This is interrelated with the value the organization creates for stakeholders and society at large through a wide range of activities, interactions and relationships. When these are material to the organization's ability to create value for itself, they are included in the integrated report (IIRC, 2013b).

The following principles, contained in the <IR> framework and hereby presented in Table 1.1, should guide the preparation of an integrated report.

Table 1.1 – Guiding principles for an integrated report

Principle	**Description** (as provided in the <IR> framework)
Strategic focus and future orientation	"An integrated report should provide insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term, and to its use of and effects on the capitals"
Connectivity of information	"An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time"
Stakeholder relationships	"An integrated report should provide insight into the nature and quality of the organization's relationships with its key

	stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests”
Materiality	“An integrated report should disclose information about matters that substantively affect the organization’s ability to create value over the short, medium and long term”
Conciseness	“An integrated report should be concise”
Reliability and completeness	“An integrated report should include all material matters, both positive and negative, in a balanced way and without material error”
Consistency and comparability	“The information in an integrated report should be presented: (a) on a basis that is consistent over time; and (b) in a way that enables comparison with other organizations to the extent it is material to the organization’s own ability to create value over time”

Source: IIRC (2013b)

How an integrated report is structured in practice? As presented in Table 1.2, an integrated report should include eight core elements that are “fundamentally linked to each other and are not mutually exclusive” (IIRC, 2013b).

Table 1.2 – Content elements of an integrated report

Principle	**Description** (as provided in the <IR> framework)
Organizational overview and external environment	“What does the organization do and what are the circumstances under which it operates?”
Governance	“How does the organization’s governance structure support its ability to create value in the short, medium and long term?”
Business model	“What is the organization’s business model?”
Risks and opportunities	“What are the specific risks and opportunities that affect the organization’s ability to create value over the short, medium and long term, and how is the organization dealing with them?”
Strategy and resource allocation	“Where does the organization want to go and how does it intend to get there?”
Performance	“To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?”

Outlook	"What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?"
Basis of presentation	"How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?"

Source: IIRC (2013b)

Accounting and business professionals are increasingly expected, and showing some willingness, to report on social and environmental impacts to which they previously paid little attention (Brown & Dillard, 2014). BASF, ENI, Vodafone and Unilever are only a few names of many organizations which have adopted the approach of integrated reporting and the guidelines provided by IIRC[5].

However, opinions are divided among the academics, business people, public policymakers and civil society groups on whether integrated reporting is really enhancing sustainability (De Villiers et al., 2014). Some view it as a potential tool for mainstreaming sustainability within companies and capital markets, while others see it as a too narrow approach to enhance sustainability, especially from the point of view of non-financial stakeholders (Brown & Dillard, 2014). As argued by Brown and Dillard (2014),

> for some, integrated reporting is a potent tool to mainstream sustainability in companies and capital markets, while for others it perpetuates the myth that a singular, standardized narrative will somehow satisfy accounting's public interest responsibilities. For yet others, the International Integrated Reporting Council's (IIRC's) proposals are "a masterpiece of obfuscation and avoidance of any recognition of the prior 40 years of research and experimentation" that, if they take over from the Global Reporting Initiative (GRI), threaten to push us "even further away from any plausible possibility that sustainability might be seriously embraced by any element of business and politics" (Milne & Gray, 2012).

Although IR has the potential to represent that win-win solution which, on the one hand, meets substantive organisational accountability measures, and on the other

[5] On 1 March 2010 the Johannesburg Stock Exchange (JSE) adopted the King III (King Report on Corporate Governance) principles as part of its listing requirements, which recommends Integrated Reporting and require listed companies to issue integrated reports.

hand, is cost-effective to organisations, a number of academic scholars are critical about the scope and substance of the IR agenda (Abdifatah & Mutalib, 2016). The main concern is about the possibility that the focus on sustainability could be diluted too much between the other dimensions. For example, Milne (2013) and Brown and Dillard (2014) criticized the emphasis on value to investors and the unceasing advocacy of business case approach in the IIRC proposals. Empirical findings indicate that IR practice, albeit still at an early stage, suffers many of the previous organisational reporting problems (Setia, Abhayawansa, Joshi, & Huynh, 2015; Solomon & Maroun, 2012; Wild & van Staden, 2013); for instance, although studies confirm a significant increase in the amount of non-financial disclosures following the adoption of IR practice (Setia et al., 2015; Solomon & Maroun, 2012), it is observed that also integrated reports are sometimes permeated with rhetorical disclosures and are biased towards reporting only positive outcomes (Solomon & Maroun, 2012). In addition, the empirical studies reveal that companies continue to follow the traditional and not integrated way of "silo reporting" and provide limited disclosures on organisational value-creation/destruction process in the context of multiple capitals (Abdifatah & Mutalib, 2016; Wild & van Staden, 2013), which is what really matters to who cares for sustainability.

As we will study in section 2.1, there are important differences between the concepts of IIRC Integrated Reporting, sustainability reporting, and social and environmental reporting. In order to make sense of this debate, and to support our decision to focus on sustainability reporting as the best tool to report on sustainability and integrate the triple bottom line perspective, at this point of our dissertation we need to take a step back and focus on the concept of sustainability itself and on the role, and the history, of sustainability reporting.

1.3. The concept of sustainability

1.3.1. Defining sustainability

It is said to be sustainable what is able to be maintained at a certain level or rate in the

long term. In other words, sustainability is the ability of self-sustaining and it is a concept that who is willing to analyse every kind of phenomenon characterized by input and output has to consider. From deciding the winning pace in a marathon, to balancing our own lifestyle in respect of our income flow, to developing the business plan of an enterprise in the forest industry, up to the global utilization of non-renewable energy resources, the concept of sustainability indicates the need to balance inputs and outputs in consideration of the social, economic and environmental system we are operating in. Every human and non-human activity features inputs and outputs that can be considered, respectively, the outputs and inputs of other activities. In a closed system, in fact, the outputs of all parts of the system are linked to the inputs of other parts and vice versa.

> All living organisms, including man himself, are open systems. They have to receive inputs in the shape of air, food, water, and give off outputs in the form of effluvia and excrement. Deprivation of input of air, even for a few minutes, is fatal. Deprivation of the ability to obtain any input or to dispose of any output is fatal in a relatively short time. All human societies have likewise been open systems. They receive inputs from the earth, the atmosphere, and the waters, and they give outputs into these reservoirs; they also produce inputs internally in the shape of babies and outputs in the shape of corpses. Given a capacity to draw upon inputs and to get rid of outputs, an open system of this kind can persist indefinitely (Boulding, 1966).

Originating in the field of ecology, sustainability can be defined as "the ability of the whole or parts of a biotic community to extend its form into the future" (Ariansen, 1999). Consequently, from an environmental standpoint, sustainability is a state that requires that humans and organisations carry out their activities in a way that protects the functions of earth's ecosystem as a whole (Evans, 2012).

It was the Brundtland Commission's definition of sustainable development as "development which meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission for Environment and Development, 1987) that brought the concept of sustainability to a broader social consciousness in 1987 (Laine, 2010). The "Brundtland Report" was the culmination of a much longer process of examining human-environment interactions (Bebbington, 2001; Lele, 1991).

The UN-established Brundtland commission, formally known as the World Commission on Environment and Development (WCED), deliberately gave sustainable development a vague meaning, since this helped the concept to gain broader acceptance (Laine, 2010; Reid, 2013). The other side of the coin, as pointed out by (Bebbington, 2001), is that sustainability means different things to different people in different contexts. Nevertheless, sustainable development enjoys widespread acceptance as an appropriate goal for humankind, even though there is no common understanding regarding what this elusive goal actually is and how it could be achieved (Biggeri & Ferrannini, 2014; Laine, 2010; Meadowcroft, 2000; Reid, 2013; Robinson, 2004).

Generational equity, in its dual meaning of inter-generational equity and intra-generational equity, represents a central element in the culture of sustainability. On the first hand, inter-generational equity is intended as the moral duty of present generations to guarantee the same growth opportunities to future generations without compromising their ability to dispose of appropriate and sufficient natural assets (Padilla, 2002; Solow, 1974). On the second hand, intra-generational equity is concerned with equity between people of the same generation. This is separate from inter-generational equity, which is about equity between present and future generations. On the international level, intra-generational equity may refer to the principle of environmental, social and economic equity between rich and poor countries, developed and developing countries, north and south of the world, etc.; on the national level, intra-generational level may refer to equity between people and groups, as men and women, social classes or religious groups, young and elderly, people with power and people without power, etc.

In the context of business and society, it is possible to outline "strong" and "weak" forms of sustainability. The former places natural resources first and requires a radical transformation of the economic system, whereas the latter opts to solve environmental problems within the bounds of the present system and moderate reforms (Luke, 2013; Redclift, 2005). These views differ on the extent of change required to obtain sustainability. Followers of strong sustainability claim that fundamental, structural change is required, while followers of weak sustainability believe that sustainability is achievable with incremental adjustment of the current system. The former

perspective leads to abandon or deeply redefine infinite economic growth as a dominant goal of our socio-economic system and raises new questions about how we measure development and wellbeing in our society.

> The "weak" sustainability position does not question the present mode of economic development and views sustainable development as being compatible with some modified version of 'business as usual'. In contrast, the "strong" sustainability position throws this assumption into doubt and seeks to redefine the ends which human populations (…) should seek (Bebbington, 2001).

The notion of "weak" sustainability suggests that achieving sustainable development is seen to be contingent upon further economic growth, since without it society and social actors will not possess the resources required for innovating and developing further measures for environmental protection (Adams, 1995; Daly, 1996; Dobson, 2000; Ekins, 1993; Laine, 2010). In contrast to "strong sustainability", which directs humans first to preserve their supplies of natural capital (Scruton, 2012), in weak sustainability nature and natural resources are considered to be of solely instrumental value for increasing human welfare (Redclift, 2005; Shrivastava, 1995). This debate between "weak" and "strong" sustainability is also reflected in terminology. "Sustainable development" usually means ameliorating, but not challenging, continued economic growth, while "sustainability" focuses attention on the necessity of humans to continue to live within environmental constraints (Robinson, 2004).
In Table 1.3 we summarize the key differences between the views of strong and weak sustainability.

Table 1.3 – Strong and weak forms of sustainability

Aspects	Weak sustainability	Strong sustainability
Substitution of natural capital	Manufactured capital of equal value can take place of natural capital.	The existing stock of natural capital must be maintained and possibly enhanced because the functions it performs cannot be duplicated by manufactured capital.
Extent of change	Sustainability is achievable with incremental adjustment of the current system.	Fundamental, structural change is likely to be required.

Role of economic development	Economic development is actually essential for the pursuit of sustainability.	Economic growth may need to be redefined or abandoned as a dominant goal.

1.3.2. The role of enterprises towards sustainability

Responding to the call of new ecology movements during the 1960s and 1970s, some firms accepted greater responsibility for their operations on “Spaceship Earth” (Boulding, 1966; Fuller, 1968; Ward, 1966) by working with communities and other stakeholders (Freeman, 1984) in ways that implicitly addressed caring for the so-called “triple bottom line’ of ‘people, planet, profit’ (Elkington, 1997; Luke, 2013; Manetti, 2006). The pursuit of sustainability involves an examination of both environment and development issues and the interplay between these concepts (Bebbington, 2001). Redclift (2002) characterises environmental as being concerned with the "limits which nature presents to human beings" while development is concerned with the "potential for human material development locked up in nature". To combine these two concepts together is clearly problematic.

Corporate social responsibility and triple bottom line (Elkington, 1997) address economic, environmental and social dimensions as the three pillars of sustainability (Ariansen, 1999; Evans, 2012; Laine, 2010; Luke, 2013; Redclift, 2005). In fact, sustainability is becoming increasingly relevant for long-term success of firms: it is advocated that those that fail to rethink their business model around sustainability will fail in the longer-term to create competitive advantage (Laine, 2010; Nidumolu, Prahalad, & Rangaswami, 2009).

Much literature points out that the business sector has a crucial role to play along the path of global society towards sustainability. While we provided some first considerations on this topic in Section 1.1, the role of corporations in the race towards sustainability is still debated:

> "Global society has a right to expect business to do that at which it is most accomplished, i.e. to pursue traditional modes of efficiency, to seek market-lead innovation and to respond rapidly and successfully to changes in the ‘playing field' - changes in markets, prices, incentives, tastes and so on. It is not clear whether business can be expected to provide, on its own initiative, the innovative ways of thinking, the drastic re-design of life-

> styles, the costly structural re-adjustments and the major redistribution of wealth which are patently essential for a sustainable future" (Bebbington & Gray, 1996)

What is out of discussion is that a rapidly increasing number of companies are publishing different kinds of sustainability and corporate social responsibility reports and requesting consultancies on sustainability issues (Barth & Wolff, 2009; Deegan, Rankin, & Tobin, 2002; KPMG, 2015; Laine, 2010). Through these disclosures, business actors disseminate their views on environmental and social issues as well as on sustainable development in general. Since these organisations represent very powerful social actors, these disclosures also “construct reality” (Phillips & Hardy, 2002) and affect how society at large perceives sustainability (Hines, 1988). The significance of corporate non-financial environmental disclosures, and of carbon reporting in particular, appears to be growing due to increased concerns about the impacts of global climate change (Bebbington & Larrinaga-Gonzalez, 2008; Kolk, Levy, & Pinkse, 2008). There is thus a clear need to better understand both the corporate motivations to engage in such reporting and the rhetoric the organisations use in these reports while pursuing particular ends (Cho, 2009; Laine, 2010).
One of the most central questions in the frame of this section of our dissertation is connected to the features of a sustainable business. Which are the features of a sustainable business? Bebbington and Gray (1996) argue that

> “at minimum, a sustainable business is one which leaves the environment no worse off at the end of each accounting period than it was at the beginning of that accounting period. For full sustainability, the sustainable business would also re-dress some of the excesses of current un-sustainability and consider the intra-generational inequalities. It is perfectly clear that few, if any, businesses, especially in the developed economies, come anywhere near to anything that looks remotely like sustainability”.

Gray and Milne (2002) conceptualise a sustainable enterprise as one that leaves the natural environment and social justice no worse off at the end of the accounting period than it was at the beginning of that period, but also claim that to approximate such a state (and, especially the social justice requirement) is clearly difficult and raises contestable issues.

We believe that a sustainable enterprise is the one able to sustain the creation of social and economic capital without radically compromising our natural capital. However, many companies and organisations have brought forward a business view of sustainability, which is akin to “weak sustainability”. In fact, the presentation of the business view often concentrates on win–win situations and case examples describing organisations which have succeeded in diminishing environmental impacts while simultaneously increasing profitability (Elkington, 1999; Fritsch, Schmidheiny, & Seifritz, 2012).

If sustainability is not considered in an explicit sense, every claim risks to be rhetorical. As suggested by Gray (2010), ‘‘sustainability” can come to be synonymous with other notions such as ‘‘social responsibility” or ‘‘environmental management” but, and most especially, can also become a term that offers no threat to traditional corporate attitudes and activities (Bonacchi, 2007; Buhr & Reiter, 2006; Gladwin, Krause, & Kennelly, 1995; Livesey & Kearins, 2002; Milne, Kearins, & Walton, 2006). This has the effect of welcoming a suite of increasingly pervasive narratives of sustainability comprising some relatively benign, win–win cocktails of economic achievement, managerial excellence, environmental probity and social responsibility (Gray, 2010). Within these narratives lies an additional signifier for “sustainability” – that of the “sustainability of the business”: whilst this notion is also rarely dealt with explicitly in the claims reviewed here, it is a notion which adapts more comfortably with the preconceptions of ‘‘business as usual” (Gray, 2010). In essence, what seems to be being claimed is that no business can succeed without the approval of its stakeholders as a socially and environmentally responsible entity, and there is, consequently, an unexamined presupposition that the business is indeed so responsible (Gray, 2010).

To assess if a narrative on sustainability is genuine or rhetoric requires a close, case-by-case approach. We need once again to summon the relevance of stakeholders, as

the role of stakeholders is critical for the legitimisation[6] process of corporations, but also to understand what is more material in light of sustainability reporting. Moreover, we claim that engagement of stakeholders and impacted communities[7] is an essential tool for effective decision making of enterprises in relation to sustainability issues.

> A particular aspect of the human dimensions of sustainability that deserves special mention is the need to develop methods of deliberation and decision making that actively engage the relevant interests and communities in thinking through and deciding upon the kind of future they want to try and create (Robinson, 2004).

Important parts of the academic literature on these topics argue, both from a normative and an instrumental perspective[8], that enterprises should accept the responsibility to take into account the opinion of stakeholders, including the communities representing the environment they are operating in. Since there is a wide diversity of viewpoints as to what sustainability is and entails, it is important to develop tools and processes that make allow diversity to be expressed in a constructive way and without creating paralysis. We will return to this point in Section 3.4 of this dissertation.

1.3.3. How to measure sustainability?

Once one outlines the main concepts (and misconceptions) around sustainability, one may wonder how to measure sustainability and how to account for it, especially with regards to enterprises. There have been many attempts to identify a range of key factors that might be taken as indicators of moves towards or away from sustainability

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[6] Organizations want to operate within the boundaries and norms of society in order to ensure that their activities are seen as legitimate. According to Lindblom (1994), legitimacy is the condition or status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, real or perceived, exists between the two value systems, there is a threat to the entity's legitimacy. In other words, legitimacy can be viewed as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within a socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995). This definition implies that legitimacy is a desirable social good, that it is something more than a matter of optics, and that it may be defined and negotiated at various levels of society (Mitchell, Agle, & Wood, 1997). More details on legitimacy, legitimacy theory and the process of legitimization of enterprises will be provided in sections 1.4.2, 1.4.4 and 2.2.2 of this dissertation.

[7] The word "community" is often over-used. To the aim of this dissertation we define community as a social group of any size whose members live in a specific space, share a system of government, and often have a common cultural and historical heritage.

[8] Section 3.1.2 of this dissertation will provide an analysis of the diverse approach – positive, instrumental, normative – to stakeholder theory.

(Atkinson, 2000; Bonacchi & Rinaldi, 2006; Gray, 2010; Gray & Bebbington, 2001; Gray, Owen, & Adams, 1996; Ranganathan, 1998). These attempts can be roughly divided in two main areas, according if they are based on financial or non-financial representations.

The range of attempts to offer financial accounts of organisations' sustainability appear to be motivated by the assumption that, to put it simply, only through financial representation is it possible to speak to business in a language that it will recognise and accept. The main approach to the construction of a financial account of an organisation's un-sustainability is that of identifying the "sustainable costs" of organisation activity (Bebbington & Gray, 2001; Ekins, Simon, Deutsch, Folke, & De Groot, 2003; Gray, 1992, 2010; Lohmann, 2009; Taplin, Bent, & Aeron-Thomas, 2006). As argued by Gray (2010),

> this approach employs the concept of the maintenance of capital as an analogue for environmental sustainability and identifies: man-made, renewable/substitutable and critical natural capital at the level of the organisation. The 'sustainable organisation' would be one which maintained these three capitals over an ''accounting" period. The ''sustainable cost" is the amount that the organisation would have had to spend if it had been sustainable.

There is also a set of studies that approaches the assessment of sustainability through a non-financial quantification. Some of these experiments embraces the utilization of different concepts like the conservation of bio-diversity (Jones, 1996, 2003; Pallot, 1997), the monitoring of inputs and outputs for assessing progresses towards sustainability targets in specific cases studies (Lamberton, 2000) or the development of performance indicators of less un-sustainable practices (Ranganathan, 1998).

Moreover, one of the dominant discourses around sustainability that has grown rapidly in recent years is that around the notion of "ecological footprint" (EF) (Wackernagel & Rees, 1998). The ecological footprint is a notion linked directly to the carrying capacity of the planet and seeks to measure the amount of land usage that any activity requires for its support (Gray, 2010). The first academic publication about ecological footprint was by Rees (1992) but the ecological footprint concept and calculation method was firstly developed as the PhD dissertation of Mathis Wackernagel, under Rees' supervision at the University of British Columbia in

Vancouver, Canada, from 1990–1994[9]. Then, the seminal book on ecological footprint became "Our Ecological Footprint: Reducing Human Impact on the Earth" (Wackernagel & Rees, 1998). The typical image that is usually used to describe this indicator is the one of the three planets that would be necessary to support the world's population if India and China obtained the level of consumptions that is enjoyed by the USA (Dresner, 2008; Meadows, Randers, & Meadows, 2004). In other words, the ecological footprint is a measure of human impact on the ecosystems and it is typically estimated in land or amount of natural capital consumed each year to supply resources to a human population or an organization (Wackernagel & Rees, 1998). The basic idea is that every individual, process, activity, and region has an impact on the earth, via resource use, generation of waste and the use of services provided by nature (Blomqvist et al., 2013). These impacts can be converted to biologically productive area one can account for.

> The EF is presented as a simple operational indicator to aid in monitoring progress towards (un)sustainability, i.e. maintenance (loss) of natural capital. It accounts for the flows of energy and matter to and from a specific economy or activity, converted into corresponding land and water area needed to support these flows. Six land categories are included in the procedure, namely consumed/degraded land (built environment), gardens, crop land, pasture land and grasslands, productive forest, and energy land. (…) The power of the method is the fact that all human exploitation of resources and environment is reduced to a single dimension, namely land and water area needed for its support (Blomqvist et al., 2013).

An ecological footprint can be calculated for persons, activities, organization or regions. In brief, how is it calculated in practice?

> First, consumption is determined in a particular spatial domain for each relevant category. This includes food, housing, transportation, consumer goods and services. Next, the land area appropriated by each consumption category is estimated for different land categories. This includes land appropriated by fossil energy use, built environment, gardens, crop land, pasture/grassland and managed forest. This is based on both resource and waste flows, and leads to a consumption/land-use matrix. Summing all the

[9] Originally, Wackernagel and Rees used the concept of "appropriated carrying capacity": then, to make the idea of this measurement tool more accessible, Rees came up with the term "ecological footprint", inspired by a computer technician who praised his new computer's "small footprint on the desk" (Safire, 2008).

area figures in this matrix gives an estimate of the EF of the region considered (Blomqvist et al., 2013).

Although there are, inevitably, considerable difficulties in the measurement and application of the notion (Blomqvist et al., 2013; Fiala, 2008), the ecological footprint remains a very powerful and widely employed device to figure out (un)sustainability at the organisation level (Gray, 2010).

Much of the literature points out that, in the past decades, there has been a growing awareness of incorporating sustainability into business management (Wang, Halim, Adhitya, & Srinivasan, 2010). Moreover, there is growing global consensus that organizations have the responsibility to respect human rights: non-discrimination, gender equality, freedom of association, collective bargaining, child labor, forced or compulsory labor, and indigenous rights (Global Reporting Initiative, 2013c). It is common for decision-makers to address the economic aspect, and over the last decade, increasing attention has been given to the environmental aspect. The social dimension of sustainability, however, is in an earlier development stage. It includes themes and indicators such as poverty (e.g. percent of population living below poverty line), gender equality (e.g. ratio of average female wage to male wage), mortality (e.g. mortality rate under 5 years old, life expectancy at birth), sanitation, drinking water, healthcare access and education level which are to be considered along the whole supply chain (Wang et al., 2010). Indeed, gender equality issues are another important topic in the culture of sustainability. In fact, enterprises increasingly have the responsibilities to report on their actions on these topics (Pulejo, 2012). In a triple bottom line perspective, GRI and many other reporting guidelines now request to segment data, activities, outcomes and impacts by gender, in order to give to readers the opportunity to assess the effectiveness of the adopted gender equality policies.

As we have seen in this section, in every sector social and environmental sustainability issues are increasingly intertwined with business strategies, especially for larger companies. This lead us to face the topic of how to effectively report on the business activities that enterprises carry on towards sustainability. As noted by Gray (2010), “it has been said more than once that if one was looking to solve the problems of the world one would be unlikely to choose accounting as one’s starting point; however if we are to consider narratives of sustainability at the organisational level, then it is

accounts – in the broadest sense of the term – that we need to embrace". The next chapter will provide more insights on the processes underneath social, environmental and sustainability reporting.

2. The materiality of sustainability reporting

2.1. Social and environmental sustainability reporting

2.1.1. Framing sustainability reporting

Sustainability and sustainable development have been considered within the accounting literature in the context of social and environmental sustainability reporting (hereafter "sustainability reporting" or SR[10]). This has arisen because accounting for sustainable development shares some of the concerns of SR and both consider the same range of issues, namely the social and environmental impacts of corporate activity (Bebbington, 2001). What is the function of sustainability reporting?

> Sustainability reporting helps organizations to set goals, measure performance, and manage change in order to make their operations more sustainable. A sustainability report conveys disclosures on an organization's impacts – be they positive or negative – on the environment, society and the economy. In doing so, sustainability reporting makes abstract issues tangible and concrete, thereby assisting in understanding and managing the effects of sustainability developments on the organization's activities and strategy (Global Reporting Initiative, 2013c).

SR examines the areas where accounting affects its functional environment and seeks to develop accounting tools to assess these effects. As we have seen in the previous section, the concept of sustainability has gained wider acceptance, there has been a worldwide trend toward greater use of sustainability reports. Over the last decades, companies have paid growing interest towards environmental and social issues and there has been substantial growth in the research attention being devoted to social and environmental accounting topics (Bagnoli, 2004; Barth & Wolff, 2009; Deegan et al.,

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[10] During this dissertation we will use the acronym SR to refer both to sustainability accounting and reporting. Moreover, SR and the reporting practices complementing CSR activities will be used as synonyms.

2002; Elkington, 1999; Epstein, 2007; Kolk, 2008; Laine, 2010; Manetti & Toccafondi, 2011; Thorne, Mahoney, & Manetti, 2014).

It is the emergence of large-scale business organizations in the last third of the nineteenth century within Europe and the United States that gave rise to concerns about corporate social responsibility (Epstein, 2007). The development of social and environmental accounting and reporting over the last 40 years has resulted in a wide range of actual and potential accounts of organisational interactions with society and the natural environment: such accounts can be understood as narratives of events articulating, with varying degrees of thoroughness and misdirection, the relationships of the organisation with its 'stakeholders and its immediate substantive environment (Gray, 2010).

While the focus in the early 1990s was on environmental reporting and this was joined by growing interest in social reporting from about the mid 1990s, the principal focus in the latest years is on either triple bottom line reporting or sustainability reporting (Gray & Milne, 2002). It is important to note that these two latter concepts, despite appearances, are not synonyms. Although in practice there is a lot of confusion on the use of terms as "sustainability report" and "social and environmental report" - and even "social, environmental and sustainability report", on a theoretical level much literature argues that is important to highlight the specific features of each concept.

On the first hand, as stated in section 1.3.2, the concept of Triple Bottom refers to the notion that organisations that are beginning to think about issues related to sustainable development need to work away from a single, only financial bottom line and to a recognition that organisations also have both social and environmental performances, or social and environmental bottom lines (Gray, 2010; Gray & Milne, 2002). The merit of Triple Bottom Line is that promoted the idea that for full accountability, an organisation needed to produce, alongside its financial statements, a full set of both social and environmental disclosures (Gray, 2010; Gray & Milne, 2002).

> That is, with the growth in environmental reporting and social reporting, the company's annual report would contain, in addition to such matters as the chair's review, director's report and financial review, detailed social and environmental statements. For a truly meaningful "triple bottom line" these social and environmental statements would be as important, detailed, rigorous and reliable as the financial statements. But this is where the problems arose - the social and environmental information included by the

> few that approached any kind of triple bottom line reporting tended to be assertive, partial and to cherry-pick the "good news". As accountability statements they were, and still are, at very best, partial (Gray & Milne, 2002).

On the second hand, sustainability reporting requires a stronger commitment than social and environmental reporting. A sustainability report should contain a complete and transparent statement about the extent to which the organisation had contributed to - or, more likely, diminished - the sustainability of the planet (Gray, 2010; Gray & Milne, 2002). In other words, as reported by Gray and Milne (2002), we would need a detailed and complex analysis of the organisation's interactions with ecological systems, resources, habitats, and societies.

2.1.2. The motivations underneath sustainability reporting

There is now a variety of domestic and international factors that advocate reporting. The increasing concern with stakeholders, the growing concern about business ethics (Ciappei & Ninci, 2006) and CSR and the increasing importance of ethical investment have all raised the need for new accounting methods through which organisations and their stakeholders can address such topics (Gray, 2010; Laine, 2010). Accordingly, an increasing number of companies are publishing different kinds of sustainability and corporate social responsibility reports (KPMG, 2015). The number of reports published by corporations around the world that include sustainability information is growing. According to data from CorporateRegister.com, a repository of over 77,000 reports by 13,400 different organizations in 159 countries, the global output of sustainability reports increased from 26 in 1992 to 5,819 in 2011 (Eccles, Krzus, Rogers, & Serafeim, 2012) to 8,477 in 2015. Nearly 95 percent of the largest 250 companies worldwide issue SR, of which 46 percent are independently assured (Edgley, Jones, & Atkins, 2015).

KPMG has known to regularly publish a survey on sustainability reporting at regular intervals since 1993: the growth in the number of countries and companies covered in that report (KPMG, 2015) is just one indication of how sustainability reporting has evolved into a mainstream business practice over the last decades. In 2015 KPMG

issued the ninth edition of the report, which reflect the current state of non-financial reporting worldwide. Below are summarizes the key trends highlighted by KPMG (2015).

> - Almost three quarters of N100 companies now report on CR (*Corporate Responsibility*). The current rate of CR reporting among the G250 is over 90 percent;
> - More companies now report on CR in Asia Pacific than in any other region;
> - Four emerging economies have the highest CR reporting rates in the world: India, Indonesia, Malaysia and South Africa;
> - Companies in the retail sector have furthest to go, lagging behind all other sectors;
> - Including CR data in annual financial reports is now a firmly established global trend. Almost 3 in 5 companies do this now, compared with only 1 in 5 in 2011;
> - The number of companies stating that they produce integrated reports remains low: around 1 in 10;
> - Third party independent assurance of CR information is now firmly established as standard practice among the world's biggest companies (G250). Almost two thirds invest in assurance;
> - Major accountancy organizations continue to dominate the market for third party assurance among G250 and N100 companies;
> - The Global Reporting Initiative (GRI) remains the most popular voluntary reporting guideline worldwide but use of GRI declined among the world's largest companies.

KPMG (2015) also continues its study on the overall quality of sustainability reporting around the globe. In 2013, KPMG analyzed the quality of reporting among the world's largest companies using a proprietary assessment and scoring methodology based on seven criteria: "stakeholder engagement", "materiality", "risk, opportunity and strategy", "targets and indicators", "transparency and balance", "suppliers and value chain" and "corporate responsibility and governance". Assessing the quality of report is important because "poor quality reports tend to be associated with poor performance in the mind of the reader. Few companies practice 'total greenwash' these days but readers certainly give more credence to a higher quality report" (KPMG, 2013). According to KPMG (2013), companies in the electronics & computers sector leaded the G250 in terms of the quality of reporting, while the lowest scoring sectors were oil & gas, trade & retail, metals, engineering & manufacturing, and construction & building materials. European companies have a significant lead over other regions in reporting quality; Italy, Spain and the UK have the highest

average scores, reflecting the relative maturity of reporting in these markets compared with countries such as China where widespread reporting is a newer phenomenon. KPMG repeated this analysis in 2015 and identified that the quality of CR reporting has improved slightly in Asia Pacific but declined slightly elsewhere; however, companies are getting better at reporting the environmental and social trends and risks that affect their businesses (KPMG, 2015).

Moreover, in the last years the topic of sustainability gained increasing attention also within the national and international policy makers' agenda. In the European Union, the Directive 2014/95/EU on disclosure of non-financial and diversity information, that entered into force on the 6th December 2014 and that amends the Accounting Directive 2013/34/EU, requires large companies to disclose in their management report information on policies, risks and outcomes as regards environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues, and diversity in their board of directors. EU originally introduced official requirement for non-financial disclosure in 2003 (Directive 51/2003) further to a 2001 recommendation.

The United States introduced new corporate governance disclosure requirements under the Sarbanes-Oxley Act 2002, in response to corporate collapses such as Enron and WorldCom, and listed US Companies must also report on their environmental performance under Securities and Exchange Commission regulations (Items 101 and 103 of Regulation S-K).

Hence, recent years have seen an increased call for transparency for companies - especially large ones - that mainly comes from two different angles: accountability requirements in the context of corporate governance, which expand to staff-related, ethical aspects, and sustainability reporting that has broadened from environment only to social and financial issues (Kolk, 2008). Policy makers and academics have argued that the demand for external communication of new types of value drivers is rising as companies increasingly base their competitive strengths, and thus the value of the company, on know-how, patents, skilled employees and other intangibles (Nielsen, 2010).

One may conclude that in many cases large enterprises create sustainability reports only or also to obey the increasing number of regulations on the reporting of social

and environmental elements. We believe that to obey the law is not the only, nor main, reason why enterprises, especially large ones, issue sustainability reports. This is confirmed by the practice of business to publish info also on unregulated topics. Although a number of governments and institutions have stimulated this kind of disclosure directly or indirectly, corporate sustainability reporting has been and is still a mostly voluntary activity oriented at giving account of the societal and environmental implications of doing business to internal and external stakeholders (Kolk, 2008). It is relevant to point out that, in addition to national or international regulatory instances, companies can have a range of other reasons for publishing (or not) a sustainability report.

Following Kolk (2004) we hereby discuss a set of motivations that are different from just obeying the law. The following lists contain various motivations, mentioned in a study by Sustainability and UNEP (1998) in which reporters and non-reporters were interviewed. Basing on the results of that study, the main reasons for reporting are:

> enhanced ability to track progress against specific targets; facilitating the implementation of the environmental strategy; greater awareness of broad environmental issues throughout the organisation; ability to clearly convey the corporate message internally and externally; improved all-round credibility from greater transparency; ability to communicate efforts and standards; licence to operate and campaign; reputational benefits, cost savings identification, increased efficiency, enhanced business; development opportunities and enhanced staff morale.

At the same time, the reasons for not reporting resulted to be:

> doubts about the advantages it would bring to the organisation, competitors are neither publishing reports, customers (and the general public) are not interested in it, it will not increase sales, the company already has a good reputation for its environmental performance; there are many other ways of communicating about environmental issues; it is too expensive; it is difficult to gather consistent data from all operations and to select correct indicators; it could damage the reputation of the company, have legal implications or wake up.

Besides internal, sometimes company-specific, reasons, societal aspects, such as credibility and reputation, play an important role. Apparently, for an increasing and substantial number of companies, the arguments in favour of reporting prevail over

those against. This applies in particular to the largest, most visible multinational companies (Kolk, 2004, 2008).

Accounting literature usually adopts one or a mix of several different theoretical perspectives, including stakeholder theory (Adams, 2002; Freeman, 1984; Matten, Crane, & Chapple, 2003), signalling theory (Clarkson, Li, Richardson, & Vasvari, 2011; Clarkson, Overell, & Chapple, 2011), legitimacy theory (Deegan, 2002; Tate, Ellram, & Kirchoff, 2010), socio-economic theory (Clarkson, Li, et al., 2011; Clarkson, Overell, et al., 2011; Deegan, 2002; Deegan et al., 2002; Dowling & Pfeffer, 1975; Patten, 1992) and institutional theory (Larrinaga-Gonzalez & Bebbington, 2001) in order to explain why companies issue sustainability reports (Thorne et al., 2014).

Although we believe a detailed analysis of each of these theories is beyond the scope of this dissertation, we opted to provide a concise outline in Table 2.1, which introduces the main features of each framework and the most significant literature. Moreover, Stakeholder theory and the concept of legitimacy are analysed in detail in sections 1.1.2 and 3.1 and 1.3.2, 2.1.4 and 3.2.2 respectively.

Table 2.1 – Main theories used to explain why organizations publish a sustainability report

Theory	Main features	References
Stakeholder theory	Organizations must be accountable not only to investors but also balance a multiplicity of stakeholder expectations and interests that can affect or be affected by the organization's actions. Voluntary social and environmental disclosure is part of this dialogue between the organization and its stakeholders.	(Adams, 2002; Donaldson & Preston, 1995; Freeman, 1984; Freeman et al., 2004; Gray et al., 1996; Mitchell et al., 1997; Phillips, Freeman, & Wicks, 2003)
Institutional theory	The decision to initiate the sustainability reporting process depends on a number of organizational dynamics and on a variety of regulative, normative, and cognitive drivers that are strictly connected to the local context within which the organization is rooted. Enterprises are influenced and shaped by other social institutions.	(Adams, 2002; Adams, Larrinaga-González, Adams, & McNicholas, 2007; Gray, 2010; Larrinaga, 2007; Larrinaga-Gonzalez & Bebbington, 2001; Milne et al., 2006)
Signalling theory	Organizations voluntarily publish sustainability reports to point out their values,	(Clarkson, Li, et al., 2011; Clarkson, Overell, et al., 2011;

	goals and outcomes with regards to diverse social, environmental and ethical issue. Organizations with good financial, social and environmental outcomes are thus motivated to disclose their performances in order to avoid problems of adverse selection.	Morris, 1987; Thorne et al., 2014)
Legitimacy theory	Organizations issue social reports to reduce their external costs or diminish pressures that are being imposed by external stakeholders or regulators. Voluntary disclosure of sustainability reports is carried on for strategic reasons, rather than for responsibility towards the community, and can be used to influence (or manipulate) stakeholder perceptions of their image.	(Castello & Lozano, 2011; Deegan, 2002; Gray, Kouhy, & Lavers, 1995; Gray & Milne, 2002; Guthrie & Parker, 1989; Tate et al., 2010)
Socio-economic theory	The organization and its voluntary disclosure practices must be analyzed within a social and political context, since the institutional framework helps in understanding their behavior. Problems can emerge when there is a disparity between community values and the organization's values and impacts. By using external accountability mechanisms, voluntary disclosure on sustainability issues can strengthen an organization's social legitimacy, improving its image and perception among external stakeholders and the local community. The manipulation of an organization's image (greenwashing or bluewashing[11]) is perceived as being easier to accomplish than improving the organization's levels of sustainability performance, its supply chain structure, or its value system.	(Clarkson, Li, et al., 2011; Clarkson, Overell, et al., 2011; Deegan, 2002; Deegan et al., 2002; Dowling & Pfeffer, 1975; Laufer, 2003; Patten, 1992)

2.1.3. Inside the box of sustainability reporting

Over the years, SR has broadened from reporting on the environment only to include social and financial aspects as well ("people, planet, profit"); attention to the organization of, and the performance in, these areas has also grown (Global Reporting Initiative, 2002; Kolk, 2008). Likewise, the number of constituencies and potential

[11] As reported by Laufer (2003), the emergence of the terms "greenwashing" (a deceptive promotion the perception that an organization's products, aims or policies are environmentally friendly) and "bluewashing" (washing through the reputation of the United Nations) reflects an increasing apprehension that at least some organizations creatively manage their reputations with the public, financial community, and regulators, so as to hide deviance, deflect attributions of fault, obscure the nature of the problem or allegation, reattribute blame, ensure an entity's reputation and, finally, seek to appear in a leadership position.

readers of sustainability reports has widened, covering external and internal stakeholders, including shareholders. Sometimes also simply labelled as CSR, sustainability reporting is perceived as fulfilling a role in how companies account and report for their CSR, a concept that is seen to embody companies' economic, legal, ethical and philanthropic responsibilities towards society in general and their range of stakeholders in particular (Bagnoli, 2004; Carroll, 1999; Kolk, 2008; Whetten, Rands, & Godfrey, 2002).

Sustainability reporting, as CSR, encompasses the economic, legal, ethical, and philanthropic expectations placed on organizations by society at a given point in time (Carroll, 1991). According to Carroll (1991), the satisfaction of economic responsibilities towards shareholders, employees, consumers and suppliers is the first layer of CSR and is a requirement for all organisations. A second layer is also required by society, as corporations seeking to be socially responsible must abide by the law. The third layer of ethical responsibility obliges corporations to do what is right, just, and fair, even when they are not compelled to do so by the legal system. In other words, ethical responsibilities consist of what is generally expected by society over and above economic and legal requirements (Carroll, 1991). Lastly, the fourth level of CSR - the tip of the pyramid - looks at the philanthropic responsibilities that are not expected or required from corporations, making them less important than the other three categories (Crane & Matten, 2004).

Following Lamberton (2005), we here discuss five main themes which are common in every approach to sustainability accounting and reporting:

- SR is based on the contemporary definition of sustainable development provided by World Commission for Environment and Development (1987), which includes the economic, environmental and social dimensions without providing particular guidance as to how these competing elements are prioritised (probably because this latter topic is more a policy maker rather than a reporting issue);
- Sustainability, being a complex and multi-dimensional concept, is not directly measurable and requires a set of different indicators to enable performance toward its multiple objectives to be assessed;

- Although some forms of environmental accounting rely on monetary units to measure environmental and social impacts, an increasing trend, evident in the guidelines provided by GRI Global Reporting Initiative (2013c), is the use of multiple units of measurement to assess performance toward the three dimensions of sustainability. Financial units of measurement, the preferred choice for measuring economic performance, are not necessarily suitable for capturing social and ecological impacts (Bellucci et al., 2012; Lamberton, 2005; Liberatore, 2001). Qualitative tools, such as narratives to describe an organisation's social and environmental outcomes, form a critical part of sustainability accounting (Lamberton, 2005; Lehman, 1999);
- Given the three dimensions of sustainability, SR necessarily becomes a process reaching across and requiring cooperation between the accounting, social and ecological disciplines;
- Most of the various approaches to sustainability accounting draw on traditional accounting principles and/or practice. The capital maintenance concept used in sustainable cost and natural resource inventory accounting, full cost accounting, inventory accounting, and the valuation of environmental assets and liabilities are examples of this reliance.

One of the biggest challenges in SR is determining standards for sustainability information that approximate the rigor of those for financial information.

> Without standards, it is difficult for companies to know exactly how to measure and report on some dimensions of sustainability performance. Without standards, the investment community cannot make meaningful "apples-to-apples" comparisons of performance among companies and over time. The ability to make such comparisons is an essential requirement for building sustainability performance information into financial models, with the eventual aim of turning them into more robust business models. Performance comparisons are also of interest to companies that want to be able to benchmark their performance against a set of competitors or peers defined in various ways (Eccles et al., 2012).

It is advocated that the simultaneous pursuit of economic, environmental and social sustainability is rapidly becoming a strategic priority for enterprises across sectors and geographical regions (Arevalo et al., 2011; Evans, 2012). We believe this involves a reorientation of reporting, to place more emphasis on the most material aspects of

performance, including both narrative and quantitative metrics. At the same time, the search for comparability of reports issued by different organisations has started to give its results, and we assist nowadays to an improved standardization.
As reported by KPMG (2015), the most adopted guidelines for preparing voluntary sustainability reports are those provided by the Global Reporting Initiative (GRI)[12]. GRI was established in 1997 by a number of companies and organizations belonging to the Coalition for Environmentally Responsible Economies, with the mission of developing globally applicable guidelines for reporting on economic, environmental and social performance, initially for corporations and eventually for any business or governmental or non-governmental organization (Global Reporting Initiative, 2002).

> The Global Reporting Initiative (…) is a long-term, multi-stakeholder, international process whose mission is to develop and disseminate globally applicable Sustainable Reporting Guidelines (…). These Guidelines are for voluntary use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products and services (Global Reporting Initiative, 2002).

The main reason for starting the GRI project was that there was no guideline on what a voluntary SR should contain; because of this, there was no possibility to compare reports from different companies (Hedberg & Von Malmborg, 2003). The GRI guidelines draw on the accepted three-dimensional definition of sustainability using a series of performance indicators to measure each of the economic, environmental and social dimensions, as well as a set of integrated indicators capturing multiple dimensions (Lamberton, 2005). It is also free for anyone to become a stakeholder to the GRI and leave comments on the work with the guideline, as it continues. Stakeholders are encouraged to develop the guidelines and the GRI encourages the companies that are using the guidelines to communicate with their stakeholders (Lamberton, 2005). The first version of the guidelines was released in 1999 and in 2013 was released the latest version GRI-G4.

[12] Another relevant practice is Integrated Reporting, which is presented in section 1.2.2 of this dissertation.

2.1.4. The critical perspective on sustainability reporting

Sceptics notice that, despite abundant public rhetoric on CSR and sustainability, the degree to which companies actually implement CSR principles in their on-the-ground operation is questionable and results obtained thus far in terms of the transparency and comparability of non-financial information given in financial statements are not however deemed to be satisfactory (Clarke & Gibson-Sweet, 1999; Deegan et al., 2002). The main question here is whether CSR is primarily motivated by the need to integrate sustainability issues in a company's strategic objectives, or rather to manage reputation, legitimacy instances or regulatory compliances (Clarke & Gibson-Sweet, 1999; Gray, 2010). The critical perspective on SR argues that the concept of sustainability and the associated use of accounting have been deliberately simplified and oriented towards supporting the business interests of firms (Gray, 2010; Tregidga, Kearins, & Milne, 2013). The critical literature points out that firms are oriented towards sustainability to pursue their own self-interests and not to protect natural capital or increase well-being (Passetti, Cinquini, Marelli, & Tenucci, 2014).

There are concerns that mandating reporting would promote form and rhetoric over substance and commitment while it would be more beneficial for companies to be encouraged strongly to engage voluntarily in sustainability reporting rather than being forced to do so (Ioannou & Serafeim, 2014). It is clear that, to date, despite decades of attention to corporate responsibility and SR, companies have still not yet made much headway in assessing their real impacts on society. Of course, such assessments are extremely challenging (Crane & Matten, 2016).

Since recent times have also seen an increase in the practice of SR (Deegan et al., 2002), there is much critical discussion about whether sustainability reports are what they claim to be and what would a "true" sustainability report should consist of (Deegan, 2002). Gray (2010) highlights that it is increasingly established in the literature that most business reporting on sustainability actually has little, if anything to do with sustainability (Beder, 2002; Gray & Milne, 2002; Milne et al., 2006).

> In essence, there is no sustainability reporting in the public domain, anywhere in the world. This is because it is exceptionally difficult, if not impossible (…); most organisations in pursuit of growth and profit are likely increasing their throughput, and, consequently, their ecological footprints - understandably something which company executives are not

> keen to recognise or publicise. So the real danger we face is that there is lot of talk about something which nobody is doing, can do or wants to do - sustainability reporting. This term, though, is used interchangeably with something which everybody could do - triple bottom line reporting- but virtually nobody is doing! And what are organisations doing? Well most of them are doing nothing at all and free-riding on the backs of the few leading reporters who have yet to even reach the foothills of real triple bottom line reporting. So the message is, there is an awful lot of talk and very little action. Don't believe what you read, and social and environmental accountability will remain a "nice idea" until there is substantive legislation requiring it of all large organisations (Gray & Milne, 2002).

Later research has shown that many corporations present the claim that their operations are sustainable; this claim of actually being sustainable has often been stimulated by strategic and self-interested definitions of what sustainability is (Luke, 2013). Corporations have, for instance, argued that they strive for sustainability; hence, they are sustainable (Ihlen, 2009). Indeed, some corporations indicate that they have been sustainable since their very inception (Ihlen & Roper, 2014). The *topos* of ethical heritage has been recognized in the wider corporate social responsibility discourse as well as in a way of strengthening legitimacy and reputation (Balmer, Blombäck, & Scandelius, 2013; Luke, 2013). Same definition issues apply for CSR, whose scopes risk to be too broad to result relevant for corporations (Van Marrewijk, 2003). The diversities and overlaps in terminology, definitions and conceptual models hamper academic debate (Göbbels, 2002).

It could be pointed out that, since social and environmental reporting emerged in the late 1980s (Milne, 2013), by now, corporations should have had a good chance to make the world more sustainable by following through on their claims (Luke, 2013). It appears nowadays important to keep up the discussion and critique of what understanding of sustainability corporations subscribe to, and what aspects of sustainability they draw attention to (Luke, 2013).

Although many organizations have embraced the sustainability rhetoric in their external reporting and their mission statements (Newton & Harte, 1997), these reports may serve as ‘veils’ hiding activities (Deegan, 2002) whose sole purpose is the reconstruction of an eroded legitimacy (Gond, Grubnic, Herzig, & Moon, 2012). Clarke and Gibson-Sweet (1999) question whether CSR is primarily motivated by the need to integrate sustainability issues in a company’s strategic objectives, or rather to

manage reputation and legitimacy instances (cfr socio-economic theory and the concept of greenwashing in section 2.1.2). More recently, (Slack, 2012) documents a sort of paradox between a rhetorical infrastructure that is often “vast and well-established”, reflecting company’s public relation strategies, and the low degree of integration of CSR into the firm’ ways of operating.

This sceptical view is nurtured by a lack of study of the intra-organizational impact of sustainability (Bebbington, 2007; Gond et al., 2012) and by the scant attention devoted to the role of management control systems supporting sustainability within organizations (Durden, 2008). The situation is compounded by apprehensions concerning the capacity of any strategic move toward sustainability to alter organizational practices (Hopwood, 2009). Lasting attempts to integrate sustainability within strategy, beyond external reporting, discourse and mission statements, should be reflected at some stage within formal control mechanisms (Gond et al., 2012).

The scepticism cited above is far from being groundless and this kind of rhetoric - where narratives on CSR and sustainability are separated from companies’ objectives, business model and strategy - hampers more genuine attempts to integrate sustainability and their perceptions from society and academia. In this view, a *real* commitment to CSR should encompass the value creation logic adopted by a company, that is its BM.

It can be concluded that corporate sustainability has clearly become a topic on which companies have started to offer information, and thus strive to increase transparency and accountability (Kolk, 2008). However, as reported by Castello and Lozano (2011), additional research, both from a theoretical and empirical standpoint, is necessary to understand the different processes initiated by firms for achieving further legitimacy as well as possibly determining whether the CSR engagement of a firm is authentic or simply a façade (Castello & Lozano, 2011). At the same time, from a more practical point of view, we believe there is room for improving the quality of sustainability reporting, with particular reference to its relevance and materiality. The future direction of sustainability accounting research is to continue to display the essential quality of diversity while attempting to increase the coverage, depth and quality of sustainability accounting (Lamberton, 2005).

On the one hand, in whatever form of report, sustainability sections in annual reports in many cases continue to be separate, although included; the same applies to corporate governance sections in relation to sustainability (De Villiers et al., 2014; Kiron, Kruschwitz, Haanaes, & Velken, 2012; Kolk, 2008). On the other hand, when corporate governance and sustainability become really linked and reported together, this may offer new opportunities for integrative approaches in addition to the accounting itself, as described by Sherman, Steingard, and Fitzgibbons (2002). It is also important to consider the level of detail in which information will need to be given because of the fact that such forms of reporting are voluntary to some extent, but, at the same time, not really in view of disclosure requirements on risk and control management, including social, ethical and environmental aspects, brand and reputation issues and the ethical dimensions of remuneration and auditing (Kolk, 2008).
It is interesting to note, however, that the overwhelming majority of "sustainability reports" still focuses on more traditional, although not less important, reporting topics (Kolk, 2004). We refer to those topics related to health and safety, employee relationships, and philanthropy and charitable contributions. Many studies showed that the most common social performance indicators included in the reports also largely focus on health and safety (accident/injury frequency), followed by community spending and the composition of the workforce (Kolk, 2004).
We believe there is room for improving both the number of areas covered and the quality of sustainability reporting. In the next sections of this dissertation we will focus on the role of stakeholders in improving the materiality and relevance of sustainability reports.

2.2. The topic of materiality and relevance in sustainability reporting

2.2.1. The materiality principle

In the previous sections we have seen how, on a general level, an increasing consensus is being reached on the responsibility of large enterprises to report not only on their

financial performances, but also on their social and environmental outcomes. Nonetheless, this is a very general statement: which are the elements organisations need to report on to provide stakeholders with a relevant and comprehensive sustainability report? In this section we will try to provide some more insights on the answer to this question, which is based, among other considerations, on the materiality principle.

In fact, at the core of preparing a sustainability report is a focus on the process of identifying material aspects. According to the materiality principle, material aspects are those that reflect the organization's significant economic, environmental and social impacts or that substantively influence the assessments and decisions of stakeholders (Global Reporting Initiative, 2013c). One benefit of using a concept such as materiality in the context of financial, social and environmental issues is that it helps emphasize a business-centric view and narrow down the broad universe of social and environmental information to those items that help inform investors and other stakeholders about a business's ability to create and sustain value (Eccles et al., 2012).

> Organizations are faced with a wide range of topics on which they could report. Relevant topics are those that may reasonably be considered important for the organization's economic, environmental and social dimensions or for influencing the decisions of stakeholders, and, therefore, potentially merit inclusion in the report. Materiality is the threshold at which aspects become sufficiently important that they should be reported[13] (Global Reporting Initiative, 2013c).

Guidelines provided by GRI argue that the report should emphasize information on performance regarding the most material aspects. Other relevant topics can be included, but should be given less prominence in the report; the process by which the relative priority of aspects was determined should be explained.

In addition to guiding the selection of aspects to report, the materiality principle also applies to the use of indicators. When disclosing performance data, there are varying degrees of comprehensiveness and detail that could be provided in a report.

> Overall, decisions on how to report data should be guided by the importance of the information for assessing the performance of the

[13] However, it must be considered that, beyond this threshold, not all material aspects are of equal importance and the emphasis within a report should reflect the relative priority of these material aspects.

> organization, and facilitating appropriate comparisons. Reporting on material aspects may involve disclosing information used by external stakeholders that differs from the information used internally for day-to-day management purposes. However, such information does indeed belong in a report, where it may inform assessments or decision-making by stakeholders, or support engagement with stakeholders that may result in actions that significantly influence performance or address key topics of stakeholder concern (Global Reporting Initiative, 2013c).

Materiality it is an iconic reporting concept associated with the fair representation of data (Edgley et al., 2015). The first definitions of materiality were proposed in the context of financial reporting, since the first reports disclosed mainly financial information (Messier Jr, Martinov-Bennie, & Eilifsen, 2005). A piece of information is considered to be material if its omission or misstatement would influence the economic decision made by the report's users, which, in the case of a financial report, are mainly the investors (Mio, 2013).

Thus, materiality is a cornerstone concept in accounting that determines the importance of an item for information users (Lee, 1984). By law, companies are required to show a true and fair view in their financial statements, but the precise meaning of this term can sometimes remain unclear: materiality complements this fuzzy requirement (Edgley et al., 2015). It determines important errors or omissions in data but allows a tolerable degree of flexibility in judgments (Brennan & Gray, 2005). In financial reporting, materiality functions as a threshold that determines significant errors or omissions, relevant to decision-making, for the benefit of shareholders (Edgley et al., 2015; Lo, 2010; Mio, 2013).

One of the definitions of materiality in the accounting field is provided by International Accounting Standards Board (2010). The Paragraph QC11 of Chapter 3 "Qualitative characteristics of useful financial information" (International Accounting Standards Board, 2010) in the Conceptual Framework sets out the concept of materiality as follows:

> Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform

> quantitative threshold for materiality or predetermine what could be material in a particular situation.

The assumption that the item in question is in some sense material is implicit in every decision to render some event into a financial datum, to classify a transaction, to dispute some controversial accounting treatment (Frishkoff, 1970; Unerman & Zappettini, 2014). Frishkoff (1970) define materiality in accounting as "the relative, quantitative importance of some piece of financial information, to a user, in the context of a decision to be made".

In the context of financial information, the quantitative threshold is very important, as it allows the assessment of materiality by making a comparison between specific financial performance items, such as assets or revenues. This approach is particularly useful to investors, who are interested in understanding the impact of material issues on the financial capital of a company (Mio, 2013).

Materiality is one of a number of accounting concepts, such as understandability, relevance and faithful representation that have been adopted in SR (Edgley et al., 2015). The concept of a threshold is also important in sustainability reporting, but it is concerned with a wider range of impacts and stakeholders. Materiality for sustainability reporting is not limited only to those aspects that have a significant financial impact on the organization (Global Reporting Initiative, 2013c).

> Determining materiality for a sustainability report also includes considering economic, environmental and social impacts that cross a threshold in reflecting the ability to meet the needs of the present without compromising the needs of future generations. These material aspects often have a significant financial impact in the short term or long term on an organization. They are therefore also relevant for stakeholders who focus strictly on the financial condition of an organization (Goertz & Mahoney, 2012).

2.2.2. SR standards and materiality

Besides the guidance proposed by the Global Reporting Initiative (2013b, 2013c), which is largely cited at the beginning of this section, the other two main international standards that provide some advice on the issue of materiality are the IIRC

Guidelines[14] and the AccountAbility AA1000. GRI and both these latter standards present specific sections on materiality in their main guidelines document.

The IIRC argues that an aspect is material if it is of such relevance and significance that it could substantively influence the assessments and decisions of the organization's highest governing body, or change the assessments and decisions of intended users with regard to the organization's ability to create value over time (IIRC, 2013a, 2013b, 2013c; Mio, 2013).

The intended users of integrated reporting are the providers of financial capital as it supports their financial capital allocation (Busco et al., 2014; IIRC, 2013b). The focus is on the investors also in determining what matters most (Mio, 2013): in fact, IIRC argues that, in determining whether or not a matter is material, senior management and those charged with governance should consider whether the matter substantively affects, or has the potential to substantively affect, the organization's strategy, its business model, or one or more of the capitals it uses or affects (IIRC, 2013b). This is coherent with the definition of materiality provided by IIRC and elucidated above.

However, the IR framework encourages companies to engage with other stakeholder groups as well. The stakeholder interests and concerns are used as a source to evaluate the effects on the capitals (IIRC, 2013b). Following Mio (2013), the materiality determination process according to IR framework consists of three elements: relevance, importance and prioritization.

- Relevance means identifying relevant matters for inclusion in the integrated report. This should be based on the potential value that the matter is able to create.
- Importance is evaluated either by the magnitude of the effect and/or the likelihood of occurrence. Prioritizing matters is the final step.
- Prioritization is the responsibility of the senior management and those charged with governance to accept the filters and processes in place to identify the material matters (IIRC, 2013b).

AccountAbility (2008a) established a standard for sustainability disclosure under its AA1000 framework and determined some criteria that ought to be met when tackling

[14] For an overview of the IIRC guidelines, see Section 1.2 of this dissertation.

the issue of materiality (Mio, 2013). AccountAbility is a non-profit global consultancy organisation, a multi-stakeholder network that promotes accountability in reporting (Bagnoli, 2004; Edgley et al., 2015). In particular, this framework proposes a five-step test in order to determine materiality (AccountAbility, 2008a).

> This is aimed at providing companies with some more information (…). The first test is "direct short-term financial impacts". Some non-financial performance indicators (such as carbon emission) may have a financial impact in the short term and, for this reason, need to be disclosed. The second test is "policy-related performance", requiring the disclosure of those issues that do not have any impact on short-term financial performance but that are related to policies the company has agreed upon. The third test is "business peer-based norms". According to this test, information that the company's competitors deem to be material ought to be considered material by the company as well. The fourth test is "stakeholder behaviour and concerns", which considers issues that will impact stakeholders' behaviour as material. This test is fairly similar to the definitions proposed following the user utility theory, and is probably the least insightful of the five tests proposed by (AccountAbility, 2008a), because it does not add much to the indications provided by the materiality definitions discussed above. Finally, the fifth test ("societal norms") requires companies to disclose issues or matters that are embedded in regulations or that will likely become regulated in the (Mio, 2013).

Materiality determines the relevance and significance of an issue to an organisation and its stakeholders (AccountAbility, 2008a). A material issue influences the decisions, actions and performance of an organisation or its stakeholders; consequently stakeholders need to know which material issues are relevant to the sustainability performance of the organisation (AccountAbility, 2008a; Edgley et al., 2015).

While the GRI Guidelines framework is mostly "principles-based", the AccountAbility (2008a) framework is more "process-based" and it focuses on the relationship of the company with its stakeholders. As argued by Mio (2013), on the one hand, this process-based approach can be effective because it focuses on the company's peculiarities to the highest extent; on the other hand, it can lack standardization of the process outcome.

Finally, since materiality is a context-specific concept and it is difficult to imagine a set of rules that could apply in all circumstances, another way of addressing the standardization of materiality assessment is the creation of sector-specific standards.

As argued by Eccles et al. (2012), developing sector-specific guidelines on what sustainability issues are material to that sector and the Key Performance Indicators (KPIs) for reporting on them would significantly improve the ability of companies to report on their social and environmental performance.

> Even such global issues as climate change are much more important in some industries than others. By replacing high-level topic-based guidance (…) with guidance that identifies the sustainability issues that are material to a sector and how best to report on them, companies will have much clearer guidance on what and how to report. For some industries, climate change will make the list; for others, it may not, although some companies in that industry may still choose to report on it because of their particular strategy or to meet the information demands of a specific stakeholder group (Eccles et al., 2012).

Moreover, on the European and national level, there are also country specific features and guidelines that need to be taken into account. In the European context, and in Italy in particular, the topic of corporate social responsibility has been historically analyzed in light of other traditional management accounting and control mechanism that enable to verify the compliance with business ethics constraints (Manetti, 2006). Although GRI, AccountAbility and IIRC are now acclaimed producers of standards and guidelines, the European tradition on business ethic is not to be undervalued. Germany, for example, has been characterized for the application of the "*Mitbestimmung*" principle, one of the first examples of multi-stakeholder governance, opening the doors of governance bodies to representatives of workers (Manetti, 2006); France was the first country to introduce a, albeit mild, obligation to disclose a social report for larger companies (Manetti, 2006).

Moreover, Italy has a long tradition of social and environmental reporting. GBS (*Gruppo di studio per il Bilancio Sociale*) is the first and most adopted Italian standard for social reporting. The Italian "*bilancio sociale*" encompasses three fundamental sections: corporate identity, production and distribution of added value and social performances (Bagnoli, 2004; Bagnoli & Megali, 2009; Manetti, 2006). This tool is based on the idea that is no more sufficient to report on the ability of generating profit only. The ability of making profit is a necessary but no more sufficient condition for an enterprise seeking public legitimization (Bagnoli, 2004). The social responsibility of a firm represents the attempt to respond to specific calls from the external

environment (Terzani, 1989). Terzani (1989) defines "*bilancio sociale*" as a tool capable of providing information on the objective and the achievement of a specific enterprise in relation to its social responsibility.

It is important to note that the topic of social responsibility of firms is deeply rooted in the Italian tradition of accounting: many important authors (Ferrero, 1968; Masini, 1960; Onida, 1965; Zappa, 1927, 1957) considered this issue as a crucial dimension of business institutions. Zappa (Zappa, 1927, 1957) points out that the ontological aim of the "*azienda*" is to "meet human needs": it seems clear that they represent something greater than just simple economic needs (Signori & Rusconi, 2009). Therefore, the *azienda,* as a social institution*,* is founded and operates at the service of human beings and for the purpose of their ethical life (Onida, 1954). All the legal or ethical restrictions necessary to reconcile the *azienda*'s interests with those of society at large are not detrimental to the purposes of the *azienda*, but rather they are factors favouring consolidation and lasting prosperity (Onida, 1954; Signori & Rusconi, 2009). Also in the work of Masini (1960, 1964), the reference to humankind in its material and spiritual entirety is central (Signori & Rusconi, 2009). As highlighted by Cafferata (2009) and Ruisi (2014), the topic was then further elaborated starting from the 80s by academics in the field of accounting and entrepreneurship (Coda, 1985; Giunta, 2008; Sorci, 1986) and social and environmental accounting (Bagnoli, 2004; Bandettini, 1981; Catturi, 2002, 2006; Matacena, 1984, 2008; Rebora, 1981; Rusconi, 1988; Rusconi & Signori, 2007; Terzani, 1984; Vermiglio, 1984).

2.2.3. How to assess materiality for SR

The previous section provided a definition of the materiality principle and an overview of the main standards that provide guidance on this topic for sustainability reporting. We now focus on how to practically assess materiality.

The guidelines provided by (Global Reporting Initiative, 2013c) claim that a combination of internal and external factors should be used to determine whether an aspect (of the reporting guidelines) is material for the organization and its

stakeholders, including factors such as the organization's overall mission and competitive strategy, concerns expressed directly by stakeholders, broader social expectations, and the organization's in influence on upstream (such as supply chain) and downstream (such as customers) entities. Assessments of materiality should also take into account the basic expectations expressed in the international standards and agreements with which the organization is expected to comply (Global Reporting Initiative, 2013c).

These internal and external factors should be considered when evaluating the importance of information for reflecting significant economic, environmental and social impacts, or stakeholder decision making (Global Reporting Initiative, 2013c). A range of established methodologies may be used to assess the significance of impacts[15]. In general, "significant impacts" refer to those that are a subject of established concern for expert communities, or that have been identified using established tools such as impact assessment methodologies or life cycle assessments (Global Reporting Initiative, 2013c). Impacts that are considered important enough to require active management or engagement by the organization are likely to be considered to be significant.

Some authors (Tuttle, Coller, & Plumlee, 2002) or standards (International Accounting Standards Board, 2010) attribute a predominant importance to thresholds in determining materiality (Mio, 2013). This way of operating is particularly effective (because it simplifies the materiality assessment process) for audit firms, which do not have a deep knowledge of the company and of its operations and that must rely on quantitative methods to proxy for materiality as they can only rely on accounting numbers (Mio, 2013).

However, as we had already had opportunity to claim before in the text, such quantitative thresholds employed for defining financial materiality cannot be easily and completely employed for non-financial information for a number of reasons (Guthrie & Parker, 1990). We hereby agree with the 5-points argument by Mio (2013):

> First, non-financial information captures a wider concept of firm value as compared to financial information. Therefore, when materiality is

[15] For a review of the main impact evaluation methodologies, see Khandker, Koolwal, and Samad (2010).

> assessed, the relationship between the issue to be assessed and firm value as represented by non-financial information is more difficult to determine, as non-financial pieces of information present many intersection levels in their definition. Second, even if the impact of a certain issue on the firm value can be determined, in the field of non-financial information it is not possible to employ a unique threshold, because the issues considered may have an impact on different capitals. Non-financial information is often relevant for many stakeholders, which have different and non-aligned interests (Berthelot, Cormier, & Magnan, 2003; Brammer & Pavelin, 2004; Guthrie & Parker, 1990). To rely only on financial capital would be a satisfactory approach only for one specific category of stakeholder (investors). Third, non-financial information cannot always be expressed in monetary terms. Fourth, non-financial information is often long- term oriented, meaning there may be some issues that are material despite not having an immediate impact on the item employed as a threshold. The long-term impact may be evaluated, but necessarily relying on models, which would need to make strong assumptions. Fifth, non-financial information is often derived from a life-cycle approach, therefore in order to properly assess it, information about events and phenomena that are external to the company would be needed (Mio, 2013)

While non-financial information refers to objects that are often not traded on a market, financial information refers to a market in which goods and services are being exchanged and often have a well-defined price (Busco et al., 2014). On the opposite, aspects represented by non-financial information cannot be "priced" in a market, generally because an efficient market for those aspects does not exist. In other words, is it possible to set a quantitative threshold to determine how many fatalities in a workplace are tolerable? Which is the value of a fatality in terms of loss of reputation for the firm? Aside from the ethical side, it is impossible to answer those questions, at least by relying on an active market (Busco et al., 2014).

> More precisely, quantitative thresholds may be determined even for non-financial information, but their calculation would have to rely on such heavy assumptions that would make the threshold too discretionary, and these assumptions would affect both values and methodology. Since a quantitative value does not exist, it is not possible to apply the thresholds as in the context of financial information, making it more difficult to separate material from non-material information (Mio, 2013).

Hence, in assessing materiality, one organization could face the issue to choose between, on the one hand, time-consuming and costly impact evaluations and, on the other hand, the exclusion of very important outcomes concerning intangible aspects. Given the methodological difficulties in setting standardized thresholds, we believe

that the involvement of stakeholders in deciding the material aspects is of the utmost importance. The involvement of every group of stakeholders has the potential to be the most straightforward way to produce comprehensive, relevant and material sustainability reports (AccountAbility, 2008a, 2008b, 2015; Bebbington, 2007; Global Reporting Initiative, 2013b, 2013c).

2.2.4. The external assurance of sustainability reporting

There is a growing need for a quality check in sustainability reporting. The popularity of sustainability reporting and the increased offer of sustainability reports have been accompanied by mounting interest in the accuracy of these reports (Kolk & Perego, 2010): external assurance (or verification) can provide both report readers and managers with increased confidence in the quality of sustainability performance data, making it more likely that the data will be relied on and used for effective decision making (Global Reporting Initiative, 2013a). Stakeholders are demanding more transparency, and companies themselves are under increasing competitive and regulatory pressure to demonstrate a commitment to corporate responsibility (Corporate Register, 2008).

While external assurance of sustainability reporting shares similarities with external audit of financial reporting, there are also important differences (Global Reporting Initiative, 2013a). It is clear what financial reporting is intended to measure and there are long-established procedures for financial accounting: sustainability reporting covers diverse topics, and the issues that are most critical to manage, measure and disclose vary by sector and even by company (Global Reporting Initiative, 2013a). As we have seen before in the text, sustainability disclosures often involve a mix of quantitative and qualitative information, quantitative sustainability disclosures are usually not measured in monetary units, and internal control systems and data collection processes may not be as developed as systems and processes for historical financial information (Global Reporting Initiative, 2013a).

> Assurance makes reports more credible and improves stakeholder confidence in the information provided. Seeking independent assurance also demonstrates one's commitment to corporate responsibility since the

process opens up the company to scrutiny of its management systems. It also provides a mechanism to drive improvements in such systems, and thereby increases their performance (Corporate Register, 2008).

Consequently, organizations seek assurance for a variety of reasons. It is possible to identify both internal and external benefits of assurance, often aimed at building trust and confidence in the areas of governance, management and stakeholder relations (Global Reporting Initiative, 2013a; Kolk & Perego, 2010). The main benefits of assurance, as described in different publications and summarized by Global Reporting Initiative (2013a), include the ones shown in Table 2.2.

Table 2.2 – Motivations for assurance of SR

Benefit	Description	References
Increased recognition, trust and credibility	An assured report can provide an organization's stakeholders with a greater sense of confidence in disclosures. Among other things, it reflects the seriousness with which the reporter approaches sustainability reporting. Investors, rating agencies and other analysts increasingly look for assurance when making investment and rating decisions.	(Corporate Register, 2008; Kolk & Perego, 2010; KPMG, 2013, 2015; Simnett, Vanstraelen, & Chua, 2009)
Reduced risk and increased value	Data quality continues to be a significant issue for reporters and report users. In this context, it is not unusual for large companies to issue restatements of sustainability disclosures. Disclosures which are viewed as robust and credible are more likely to be relied on, thus increasing the value of reporting.	(KPMG, 2013, 2015) (Global Reporting Initiative, 2013c)
Improved board and CEO level engagement	With increased interest in sustainability disclosures and their importance for driving improvements in organizational strategy, performance and reputation, sustainability issues are moving up to the Board Room. Disclosures and data which are believed to be trustworthy and credible are more likely to be used for internal decision making.	(Corporate Register, 2008; Global Reporting Initiative, 2013a)
Strengthened internal reporting and management systems	Internal robust reporting systems and controls play an important role in managing sustainability performance and impacts. External assurance can help confirm that internal systems and controls are robust, and can recommend any necessary improvements.	(Corporate Register, 2008)

Improved stakeholder communication	Assurance processes may involve the review of a reporter's stakeholder engagement processes. Some organizations use their reporting processes and/or sustainability reporting as the basis for on-going dialogue with stakeholders. Both of these can help promote mutual communication and understanding	(AccountAbility, 2008b; Corporate Register, 2008; Global Reporting Initiative, 2013a; Manetti & Toccafondi, 2011; O'Dwyer & Owen, 2005; Simnett et al., 2009)

Source: Global Reporting Initiative (2013a)

From a practical standpoint, the difficulties in defining thresholds for non-financial information have led assurance providers to mainly focus on the assurance of the stakeholder engagement and of the materiality determination process, rather than on the definition of a threshold (Mio, 2013). As we have seen before in the text, in recent years the literature has given clear indications regarding the need to increase stakeholder involvement and participation in SR processes (Manetti & Toccafondi, 2011). Primarily, it has been noted that the quality of SR is closely tied to that of stakeholder engagement carried out (Thomson & Bebbington, 2005). Moreover, as argued by Manetti and Toccafondi (2011), experts have supported the thesis that greater stakeholder involvement in SR and SR assurance processes can bring significant benefits to corporations, because of increased credibility of reporting and a greater ability to interact, during decision-making processes, with the outside environment and the internal organization structure (Gray, 2000; Gray et al., 1996; Owen et al., 2001). As a conclusion, we believe it is necessary to reinforce mechanisms of stakeholder engagement, during both the SR and the SR assurance processes, in order to guarantee the materiality and relevance of information disclosed in the reports and assurance statements (Bebbington, 2007).

3. A theory of stakeholder engagement

3.1. Stakeholders theory

3.1.1. An introduction to the stakeholder approach

During the previous chapters we argued that enterprises, especially large ones, have nowadays an extended role in society. From these new responsibilities derive the willing of corporations to integrally report on their financial, social and environmental outcomes. In deciding what to report on, enterprises are called to select from a wide set of triple bottom line aspects. This selection is oriented by the principle of materiality, according to which material aspects are those that reflect the organization's significant economic, environmental and social impacts or that substantively influence the assessments and decisions of stakeholders. Using the materiality principle in the context of SR helps select those items that inform investors and other stakeholders about a business's ability to create and sustain value.
Since is often not possible or very difficult to set thresholds for non-financial or non-market aspects in order to assess their materiality, we highlight the centrality of the stakeholder engagement process. An analysis of the stakeholders' interests, in fact, can help define the spectrum of financial, social and environmental aspects the organization has the responsibility to be accountable for.
In order to further analyse the role of stakeholder engagement for sustainability reporting, this chapter will provide a theoretical framework based on stakeholder theory and a review of the main tools and methodologies for carrying out stakeholder engagement.
In the last thirty years the stakeholder approach and its uneasy coexistence with the goal of shareholder value maximization has increased in prominence in organization and accounting studies (Sundaram & Inkpen, 2004). Scholars usually credit Freeman's (1984) pioneering work linking stakeholders with strategic management as the starting point (e.g. Mitchell et al., 1997). Stakeholder theory is an organizational and management approach originally elaborated by Freeman (1984), who pointed out

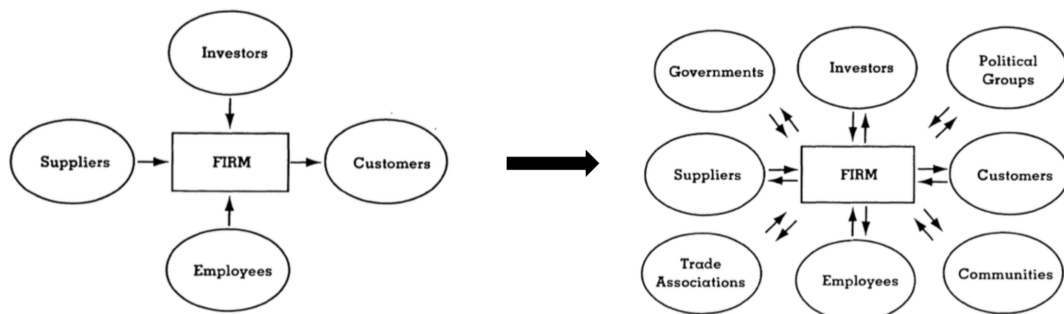
that managers not only have to satisfy the expectations of the company's shareholders or contractors, but must also recognize various stakeholder interests (Scherer et al., 2006). In other words, a common theme is that firms should treat stakeholders as their ends and should attend to the interests of all stakeholders, not just shareholders (Jawahar & McLaughlin, 2001). The key point is that, in light of stakeholder theory, organizations need to be accountable towards all the relevant stakeholders and not only owners and managers.

> Stakeholder theory is managerial in that it reflects and directs how managers operate rather than primarily addressing management theorists and economists. The focus of stakeholder theory is articulated in two core questions (Freeman, 1984). 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. This propels the firm forward and allows it to generate outstanding performance, determined both in terms of its purpose and marketplace financial metrics. Second, stakeholder theory asks, what responsibility does management have to stakeholders? This pushes managers to articulate how they want to do business—specifically, what kinds of relationships they want and need to create with their stakeholders to deliver on their purpose (Freeman et al., 2004).

Stakeholder theory is rooted in strategic management (e.g. Clarkson, 1995; Edward Freeman, Rusconi, Signori, & Strudler, 2012; Freeman, 1984; Frooman, 1999), but in the last twenty years it also has found expression in the fields of organization theory (e.g. Donaldson & Preston, 1995; Jones, 1995; Rowley, 1997), business ethics (e.g. Phillips & Reichart, 2000; Starik, 1995), and accounting theory (Thorne et al., 2014). Stakeholder theory also figures prominently in the study of social, environmental and sustainability issues (Wood, 1991a, 1991b). Moreover, in the last decade it has gained traction among scholars who study sustainable development (Sharma & Henriques, 2005; Steurer, Langer, Konrad, & Martinuzzi, 2005).
Freeman (1984) initially offered a rational approach to strategic management, urging firms to recognize stakeholders in order to achieve better results and improve general performance. Whereas the traditional "shareholder view" (see Section 1.1.2 of this dissertation) suggests that companies have a fiduciary duty to give priority to shareholders' expectations, Freeman's stakeholder approach argues that several other groups and individuals should be involved in the process of managing an organization,

including employees, customers, suppliers, financiers, the community, governmental and non-governmental organizations, political groups, and trade unions. Each of these stakeholder groups has a right not to be treated as a means to some end, and therefore must participate in determining the future direction of the firm in which they have a stake (Evan & Freeman, 1988; Miles, 2012; Stieb, 2009). Freeman's (1984) initial intent was to offer a pragmatic approach to strategy that urged organizations to be cognizant of stakeholders to achieve superior performance (Laplume, Sonpar, & Litz, 2008). Freeman and McVea (2001) argue that the stakeholder framework does not rely on a single overriding management objective for all decisions. To the contrary, a stakeholder approach rejects the very idea of maximizing a single-objective function as a useful way of thinking about management strategy; rather, stakeholder management is a never-ending task of balancing and integrating multiple relationships and multiple objectives (Sundaram & Inkpen, 2004). A major role of corporate management in light of stakeholder theory is to assess the importance of meeting stakeholder demands in order to achieve the strategic objectives of the firm: as the level of stakeholder power increases the importance of meeting stakeholder demands increases (Roberts, 1992).

Figure 3.1 – From an input-output model to the stakeholder model



Source: Our elaboration on Donaldson and Preston (1995).

As suggested in Figure 3.1 and as we already pointed out before in the text, one of the cornerstone of stakeholder theory is that the organization itself should be thought of

as a combination of stakeholders and the purpose of the organization should be to manage their interests, needs and viewpoints (Friedman & Miles, 2006)[16].

> In so doing, a particular group of stakeholders - (top-level) managers - are thought of as the focal group, charged with fulfilling the role of stakeholder management. The concept was elaborated by (Evan & Freeman, 1988) as the following two principles:
> 1. Principle of corporate legitimacy. The corporation should be managed for the benefit of its stakeholders: its customers, suppliers, owners, employees, and local communities. The rights of these groups must be ensured, and, further, the groups must participate, in some sense, in decisions that substantially affect their welfare.
> 2. The stakeholder fiduciary principle. Management bears a fiduciary relationship (…) to stakeholders and to the corporation as an abstract entity. It must act in the interests of the stakeholders as their agent, and it must act in the interests of the corporation to ensure the survival of the firm, safeguarding the long-term stakes of each group (Friedman & Miles, 2006).

If the relationship between the stakeholder and the corporation was originally conceived following a “hub and spoke” approach, in the last decade models of interactive relations – often defined as forms of “stakeholder thinking” - were developed, in which the management and stakeholders agree to a management approach oriented towards transparency and accountability (Andriof & Waddock, 2002; Manetti, 2011).

The stakeholder theory has been at the core of the scientific debate in management and accounting studies for over thirty years after the first formulation of the “stakeholder approach” by Freeman (1984). However, despite its increasing popularity within academics and non-academics, stakeholder theory still collects a number of critiques. As reported by Friedman and Miles (2006), a further measure of the popularity of the stakeholder approach has been the recent proliferation of literature broadly contesting the concept and reiterating the view that stakeholder concept promoters have been specifically trying to replace (Argenti, 1993, 1997; Jensen, 2001; Marcoux, 2000; Marcoux, 2003; Sternberg, 1997, 2000; Sundaram &

[16] In Figure 2 the arrows between the firm and its stakeholder constituents run in both directions. At the same time, all stakeholder relationships are depicted in the same size and shape and are equidistant from the "black box" of the firm in the center (Donaldson & Preston, 1995): this representation is a simplification and the point of the different relevance of each group of stakeholder will be better analyzed in the next sections.

Inkpen, 2004). According to Laplume et al. (2008), “stakeholder theory is timely yet adolescent, controversial yet important”. It is timely because it affects “the dominant institutions of our time”, oftentimes discovering misconduct or environmental wrongdoing by firms. At the same time, the theory is “adolescent” because its empirical validity has not yet been established (Jones, 1995). Obviously, stakeholder theory is also debated because it questions the traditional idea that profits are the primary measure of a firm’s success, a phenomenon that (Jensen, 2001) refers to as a “single-valued objective”. Many contributors to the stakeholder concept have made their contributions in debate with those who promote the chief rival vision of the corporation and the role of its top managers: the shareholder model, based on ownership (Friedman & Miles, 2006).

> The objective of the corporation is to maximize stockholder (*shareholder, ndr*) value expressed either as maximizing long-run profits, growth, or dividends (though how long this long run should be is debatable). Friedman (1970) argued that this is the ‘one and only social responsibility of business’ as long as companies keep to the rules of the capitalist game, i.e. ‘engage in open and free competition without deception or fraud’ (Friedman & Miles, 2006).

However, this view appears to be giving way to the view that business has wider responsibilities and that those responsibilities are best expressed in terms of the stakeholder approach (Friedman & Miles, 2006). In other words, stakeholder theory is relevant precisely because it seeks to address how organizations affect the societies in which they operate and not only their economic and financial performance. Laplume et al. (2008) also believe that, despite its detractors (cfr. Margolis & Walsh, 2003) the emergence of stakeholder theory is also a product of its emotional resonance and its ability to move people (Weick, 1999). As such, Freeman (2000) claims that stakeholder theory recalls the “emergence of concerns with ‘vision and values,’ and ‘a sense of purpose’ in the mainstream conversations about business”. Even detractors such as Jensen (2001) acknowledge that “stakeholder theory taps into the deep emotional commitment of most individuals to the family and tribe”. In this sense, stakeholder theory should be given priority in the study of behavioral economics and deserves to be one of the focuses of present and future academic research.

3.1.2. The diverse approaches to stakeholder theory

Stakeholder theory is a multifaceted concept. In this section, in order to provide some more insights on this theory, we follow Donaldson and Preston (1995) who argue that stakeholder theory features three distinct categories of analysis: descriptive, instrumental, and normative.

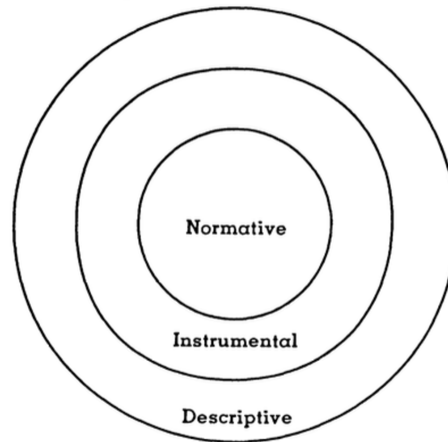
In fact, a first approach is to study how managers and stakeholders actually behave and how they view their actions and roles (Friedman & Miles, 2006). This has been labelled as the descriptive approach to stakeholder theory. From a descriptive point of view, stakeholder theory is used to explain the characteristics and behaviors of companies and other organizations, including how they are managed (Brenner & Molander, 1977), how the board of directors addresses the needs and demands of multiple constituencies (Wang & Dewhirst, 1992), how they create and implement various management strategies and how this affect the nature of the organization itself (Clarkson, 1991; Halal, 1990; Kreiner & Bhambri, 1988). In other words, in this perspective, the theory is empirically used to describe, and sometimes to explain, specific corporate characteristics and behaviors (Donaldson & Preston, 1995).

A second approach is to study how managers should act if they are willing to further their own interests or what theorists traditionally conceive as the interests of the organization, usually viewed as (long-run) profit maximization or maximization of stockholder value (Friedman & Miles, 2006). This strategic approach is generally based on what has been called instrumental stakeholder theory, which is the proposition that if managers treat stakeholders in line with the stakeholder concept, then the organization will be more successful or more likely to be sustainable (Friedman & Miles, 2006; Sundaram & Inkpen, 2004). The instrumental approach tries to identify the potential or effective connections that exist between stakeholder management and the achievement of organization goals and aims. This includes the links between better stakeholder management and profitability, as well as the enhancement of an organization's reputation within the community. In particular, instrumental stakeholder theory views the firm as a nexus of contracts (Jensen & Meckling, 1976) and addresses the ability of a firm to increase its competitive

advantage by minimizing the costs of contracting. Jones (1995), in his discussion of instrumental stakeholder theory, argues that if firms contract with their stakeholders on the basis of mutual trust and cooperation, they will have a competitive advantage over firms that do not (Sundaram & Inkpen, 2004). A firm minimizes these costs by developing trusting relations with its various stakeholders (Berman, Wicks, Kotha, & Jones, 1999). Mitchell et al. (1997) state that "stakeholder theory (…) holds the key to more effective management". Engaging in socially responsible behaviors become one of the primary mechanisms through which a firm may foster (Barnett & Salomon, 2012). Donaldson and Preston (1995) argue that "corporations practicing stakeholder management will, other things being equal, be relatively successful in conventional performance terms".

Finally, the normative approach presumes that organizations have a duty to identify and involve stakeholders who have specific interests with the organization, identifying the "moral or philosophical guidelines for the operation and management of the corporation" (Donaldson & Preston, 1995). According to Phillips (1997), stakeholder engagement is based on the "moral" assumption that the firm has an obligation to its stakeholders: "stakeholder status as here conceived indicates the presence of an additional obligation over and above that due others simply by virtue of being human" (Phillips, 1997). The normative approach refers to extended responsibilities of firms. An example of normative arguments is that "the interests of key stakeholders must be integrated into the very purpose of the firm, and stakeholder relationships must be managed in a coherent and strategic fashion" (Freeman & McVea, 2001). Clarkson (1995), for instance, argues that "the economic and social purpose of the corporation is to create and distribute wealth and value to all its primary stakeholder groups, without favoring one group at the expense of others" (Sundaram & Inkpen, 2004).

Figure 3.2 – Three aspects of stakeholder theory



Source: Donaldson and Preston (1995).

In the view of Donaldson and Preston (1995), the three aspects of the stakeholder theory are nested within each other, as suggested by Figure 3.2.

> The external shell of the theory is its descriptive aspect; the theory presents and explains relation- ships that are observed in the external world. The theory's descriptive accuracy is supported, at the second level, by its instrumental and predictive value; if certain practices are carried out, then certain results will be obtained. The central core of the theory is, however, normative. The descriptive 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 (Donaldson & Preston, 1995).

Drawing inspiration from the proposals of (Donaldson & Preston, 1995), some scholars believe that stakeholder theory is primarily a moral theory and that much of the research focuses on finding moral bases to support its major ideas (Boatright, 1994; Donaldson & Preston, 1995; Goodpaster, 1991). In keeping with the normative point of view, stakeholder theory implies the presence of specific duties and obligations that companies ought to address among various stakeholders. More recently, supporters of the normative approach have tried to classify the relational models between organizations and stakeholders by assuming a gradual growth of

stakeholder involvement and participation (Andriof & Waddock, 2002; Svendsen, 1998). Firstly, the organization identifies and maps its stakeholders, if possible distinguishing between primary parties (those who are strategic in the middle- to long-term) and secondary parties (stakeholders who do not affect its sustainability) (Clarkson, 1995). Secondly, it tries to manage stakeholders' expectations and the claims they support in accordance with their salience (Mitchell et al., 1997), while also balancing these various positions through a process of stakeholder management (O'Dwyer, 2005). During the final step, organizations try to engage primary stakeholders in various decision-making processes, making them participants in organizational management and governance, sharing information, dialoguing, and creating a model of mutual responsibility. The stakeholder engagement phase, unlike the stakeholder mapping and management phase, creates a dynamic context of interaction, mutual respect, dialogue and change, not a unilateral management of stakeholders. As a result, the main feature of stakeholder engagement is not to encourage the mere involvement of stakeholders in order to "mitigate" or manage their expectations, but to create a network of mutual responsibility (Andriof & Waddock, 2002; Manetti & Bellucci, 2016; Manetti et al., 2016; Polonsky, Giraud Voss, Voss, & Moorman, 2005; Unerman & Bennett, 2004). (Jones & Wicks, 1999) and (Freeman, 1999) explicitly reject the idea that it is possible to separate the branches of stakeholder theory, arguing that all of these branches overlap with each other. Thus, stakeholder theory is simultaneously descriptive, instrumental, and normative.

Regardless of the preferred approach, stakeholder theory requires to address the question of which groups of stakeholders deserve or require management's attention (Sundaram & Inkpen, 2004). In the next sections we will focus on the process of defining and classifying stakeholders.

3.1.3. Defining stakeholders

We believe at this point it is important to take a step back and raise one, crucial question: what we precisely mean by "stakeholder"? The earliest definition is often credited to an internal memo produced in 1963 by the Stanford Research Institute:

"those groups without whose support the organization would cease to exist" (Freeman, 1984; Friedman & Miles, 2006; Mitchell et al., 1997). Similar definitions have been advocated by Bowie (1988), (Freeman & Reed, 1983), and Näsi (1995). (Freeman et al., 2004) has continued to use this definition in a modified form: "those groups who are vital to the survival and success of the organization". This type of definition, which is entirely organization-centric, is stringent in the sense that it excludes categories of agents that other definitions include (Friedman & Miles, 2006). For example, in what is commonly regarded, at least in academic circles, as seminal stakeholder texts, stakeholders are defined as "any group or individual who can affect or is affected by the achievement of the organization objectives" (Freeman, 1984; Friedman & Miles, 2006).

For the purpose of this dissertation we will stick with this latter definition provided by Freeman (1984), although we recognize the need for a compromise between a very broad and a very narrow approach to the delineation of the appropriate range of relevant stakeholders. We appreciate this definition because, although being one of the broadest in literature, leaves the notion of stake and the field of possible stakeholders open, giving full discretion to the organization in the phase of stakeholder identification (this phase will be covered in details in Section 3.2.2).

For Bryson (2004) in this definition the term refers to persons, groups or organizations that must somehow be taken into account by leaders, managers and front-line staff. This definition is intentionally broad: Freeman's objective was to develop a literary device that calls into question the emphasis on shareholders (Sundaram & Inkpen, 2004). Clearly, such a broad definition raises some practical concerns.

> This definition is much broader than that of the Stanford Research Institute. The symmetrical phrase 'can affect or is affected by' opens the idea that 'outside' individuals or groups may consider themselves to be stakeholders of an organization, without the organization considering them to be stakeholders. A group or individuals may consider themselves to be affected by the achievement of organization objectives without 'insiders' in the organization noticing or acknowledging these affects (Friedman & Miles, 2006).

The topic of stakeholder identification is still debated.

> How should a manager identify the important stakeholders and on what basis should other stakeholders be classified as unimportant? Who should

> determine the criteria that distinguish important and unimportant stakeholders—The board? The CEO? The stakeholders themselves? In attempting to answer these questions, Mitchell et al. (1997) reviewed the literature and developed a list of 27 different definitions of stakeholders. The definitions were sorted along dimensions such as basis for legitimacy, power dependence, and urgency (Sundaram & Inkpen, 2004).

Although Mitchell et al. (1997) develop a theory of stakeholder identification and salience, they conclude that the attempt to define relevant stakeholders along these dimensions can potentially be complex (Sundaram & Inkpen, 2004).

> Jones (1995) makes clear that the term stakeholder applies not only to groups such as customers or employees, but also to subgroups of customers (e.g., buyers of over-the-counter medicine versus buyers of shampoo) and employees (e.g., shopworkers and middle managers) who might have distinct and competing interests, thus implying that some stakeholders are more important than others. In contrast to such a hierarchy, Clarkson (1995) argues that the interests of all legitimate stakeholders have intrinsic value and that no particular interests should dominate those of the others (Sundaram & Inkpen, 2004).

There is a clear relationship between definitions of what are stakeholders and identification of who are the stakeholders: the most common way of classifying stakeholders is to consider groups of people with a distinguishable relationship with corporations (Friedman & Miles, 2006). The most common and simple groups of stakeholders to be considered are usually the following:

- SHAREHOLDERS;
- CUSTOMERS;
- SUPPLIERS;
- EMPLOYEES;
- LOCAL COMMUNITIES.

As we stated above in this section,

> a key issue is whether stakeholders are confined to those that are crucial for the achievement of corporate objectives or if they are merely any entity affected by corporate actions, especially if the latter includes alternative actions corporations could have taken in order to achieve their objectives, but were not chosen. The latter can lead to a very wide definition of stakeholders. Freeman and Reed (1983) and Freeman (2004) actually label these definitions separately: narrow and wide. Freeman's stakeholder-enabling principle, based on the narrow definition, was stated to apply only to 'stakeholders defined as employees, financiers, customers, and communities' (Friedman & Miles, 2006).

It is clear that if one is willing to adopt a wide approach to stakeholder identification, almost every subject and group of subjects can be considered as affected in some way by at least one activity large enterprises carry out in order to achieve their goals. Continuing to follow the argument by Friedman and Miles (2006), many types of individuals or groups have been considered to be possible stakeholders, in addition to the main one listed above, including:

- MANAGERS[17];
- STAKEHOLDER REPRESENTATIVES (such as trade unions or trade associations of suppliers);
- NGOS or 'activists' (that have been considered individually or as stakeholder representatives);
- COMPETITORS;
- GOVERNMENT(s), REGULATORS, and other POLICYMAKERS;
- FINANCIERS OTHER THAN STOCKHOLDERS (creditors, bondholders, debt providers);
- MEDIA;
- THE PUBLIC IN GENERAL;
- THE ENVIRONMENT and other non-human aspects of the Earth;
- BUSINESS PARTNERS;
- ACADEMICS;
- FUTURE GENERATIONS;
- PAST GENERATIONS (in particular the memory of founders of organizations).

The number of identifiable categories of stakeholder groups depends on the narrow or broad approach we adopt but it is also inversely proportional to the broadness of the way in which the groups have been defined. For example

> the category of employees, for example, can usefully be defined more finely as white-collar and blue-collar, trade unionists and non-trade unionists, permanent or temporary, full-time or part-time, or in terms of which plant or section they work in. Different subcategories of employees may have different interests, identities, claims, and other characteristics. Strategically, organizations may clearly treat different subcategories of employees differently based on differential power. Normatively, the line of legitimacy may run between different employee categories, rather than between the crude category of employees compared with other crude groupings (Friedman & Miles, 2006).

[17] Managers are treated in various ways in the literature. For many they are regarded as stakeholders, but with special access to focal organization resources; for others, they are treated as the embodiment of the focal organization's actions and responsibilities (Friedman & Miles, 2006).

An advantage of finer stakeholder categories is that they are likely to embrace more homogeneous groupings of people; at the same time, a limitation in considering finer categories is that the chances of overlap of interests and actions will be greater (Friedman & Miles, 2006).

Next parts of this dissertation will study stakeholder engagement on two different but complementary levels: theory and practice. We will provide a theoretical framework for stakeholder engagement and a review of tools supporting stakeholder engagement.

3.2. The process of stakeholder engagement

3.2.1. The phases of stakeholder engagement

In this section we will start analysing what is stakeholder engagement from a theoretical stand point and which is its role in relation to strategies and reporting.

We believe involvement of stakeholder is important because it provides crucial data and information which can be useful both for effectively managing an organization and for determining the most relevant and material topics to be covered in the organization's integrated or sustainability report. In fact, as argued by Friedman and Miles (2006), there are many reasons large enterprises devote resources to stakeholder engagement:

> business case motives are most frequently linked to the attainment of maximizing long-term profits through strategies either to forestall government regulation or for risk management. Effective risk management can lead to damage limitation and reduction of financial penalties for acting unethically, whether directly through lawsuits or clean-up costs or indirectly through the deterioration of relationships. Employee relations are most commonly highlighted, as poor relations can result in declining productivity, creativity, and loyalty as well as recruitment and staff retention problems. The development of a close stakeholder network can provide corporations with valuable information about external events, market conditions, technological advances, or consumer trends, which can help corporations anticipate, understand, and respond to external changes more efficiently and effectively (Svendsen, 1998). Where stakeholders feel they are being ignored, or that their claims are not being met, dissatisfaction is often expressed through protest. Stakeholder engagement cannot only diffuse protest but is also credited

with leading to more effective solutions (Friedman & Miles, 2006; Neligan, 2003).

Building on Garriga and Melé (2013) we define stakeholder engagement as the attempt to integrate groups with a stake in the firm into managerial decision-making. As a consequence, a stakeholder engagement plan includes the systematic analysis and implementation of actions designed to involve stakeholders.

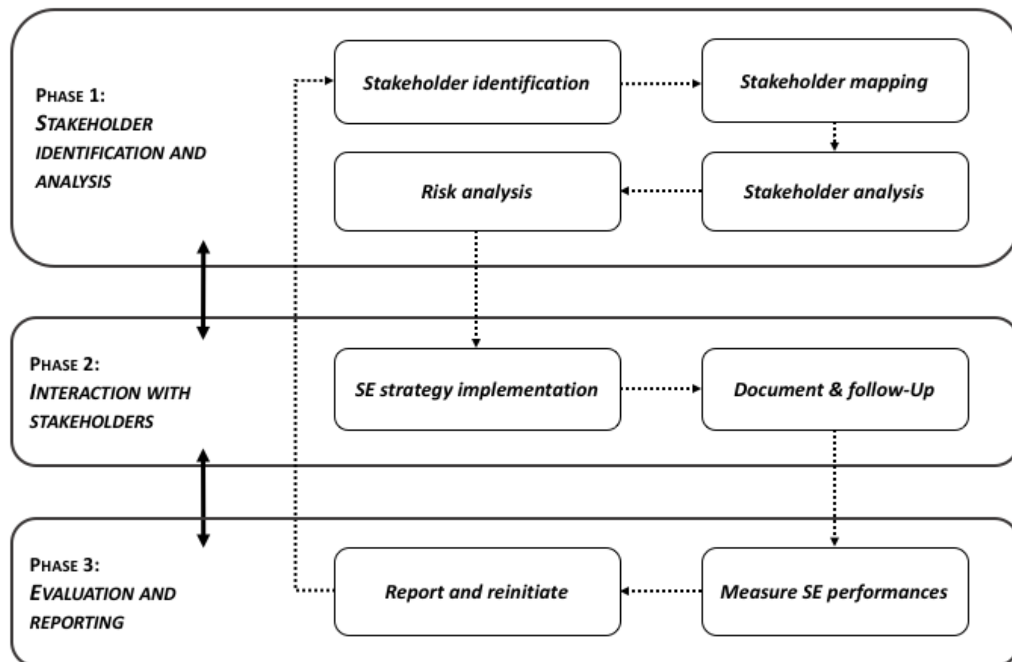
Part of the literature tends to differentiate the concepts of stakeholder engagement from the concept of stakeholder management (Manetti, 2011; Manetti & Toccafondi, 2011; Svendsen, 1998; Waddock, 2008), defining the latter as the mere administration of stakeholders' interests and expectations in an instrumental way. Stakeholder management is essentially stakeholder relationship management, as it is the relationship and not the actual stakeholder groups, that are managed (Friedman & Miles, 2006).

Stakeholder theory scholars have tried to classify the relational models between corporations and stakeholders assuming different gradual paths of the stakeholders' involvement (Manetti, 2011; Svendsen, 1998; Waddock, 2008). We opted to summarize the overall process of stakeholder engagement in the following three phases:

1. STAKEHOLDER IDENTIFICATION AND ANALYSIS. In a first stage, organizations need to identify and analyse the characteristics of each group of stakeholders, understanding how these groups can affect and/or are affected by the organization. Moreover, in this phase it is necessary to study how the engagement of stakeholders affect the risk management of the enterprise. We refer to these steps as the "Stakeholder identification and analysis" phase.
2. INTERACTION WITH STAKEHOLDERS. Secondly, the corporations try to manage stakeholders' expectations and the social and economic issues that they support and begin to find a way for balancing their positions (Manetti, 2011). This phase sees the implementation of the stakeholder engagement strategy and it is where the interaction with stakeholders actually takes place. Corporations involve their stakeholders in decision-making processes, making them participants in the business management, sharing information, dialoguing and creating a model of mutual responsibility (Manetti, 2011).

3. EVALUATION AND REPORTING. The third phase is not necessarily to intend as the final stage. Its steps concern the measurement of the stakeholder engagement performances and outcome and the report of data to be useful for consequent redefinition of the process: thus, these operations are to be performed along the whole process and are useful to further develop next iterations of stakeholder engagement activities.

Figure 3.3 – The components of stakeholder engagement



The path along these phases is illustrated in Figure 3.3 and is analysed in details in the next sections. As Figure 3.3 shows, the three phases are reciprocally interconnected and all the steps form a path whose end helps reinitiate the process with new data and information.

3.2.2. Phase 1: Stakeholder identification and analysis

The first stage of SE is to identify which are the stakeholders an organization want to interact with. In other words, the questions are “which are the relevant stakeholders?”

and “are there difference in terms of relevance between stakeholder groups that should affect the interaction with them?”. In this and the next subsections we will analyse how the most relevant academic literature addressed the issue of stakeholder identification and engagement.

As we have said earlier, one of the main points in stakeholder engagement is the identification and prioritization of stakeholders (Carroll, 1999; Clarkson, 1995; Donaldson & Preston, 1995; Manetti, 2011). Mitchell et al. (1997) argue that stakeholder theory attempts to articulate the fundamental question of which groups are stakeholders deserving or requiring management attention, and which are not. Much of stakeholder theory is concerned with identifying different ways of segmenting the range of possible stakeholders in order to distinguish different ways corporations ought to deal with stakeholders in each segment (Friedman & Miles, 2006).

Primarily, the managers of an organization need to know what kind of stakeholders exist, and, secondly, who or what really counts. Mitchell et al. (1997) wrote a seminal paper on the theory of stakeholder identification and salience.

They begin their analysis adopting Freeman's definition of stakeholder - "any group or individual who can affect or is affected by the achievement of the organization's objectives" (1984). They start, and we agree on this conception, with a broad definition so that no stakeholders, potential or actual, are excluded from analysis arbitrarily or *a priori*. Starting from this definition, they develop a theory of stakeholder identification drawn from various theoretical literatures, such as agency, resource dependence and transaction cost theories, which are particularly helpful in explaining why power plays such an important role in the attention managers give to stakeholders.

> We then propose that classes of stakeholders can be identified by their possession or attributed possession of one, two, or all three 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. This theory produces a comprehensive typology of stakeholders based on the normative assumption that these variables define the field of stakeholders: those entities to whom managers should pay attention (Mitchell et al., 1997).

Thus Mitchell et al. (1997) propose that managers should identify a subject as a

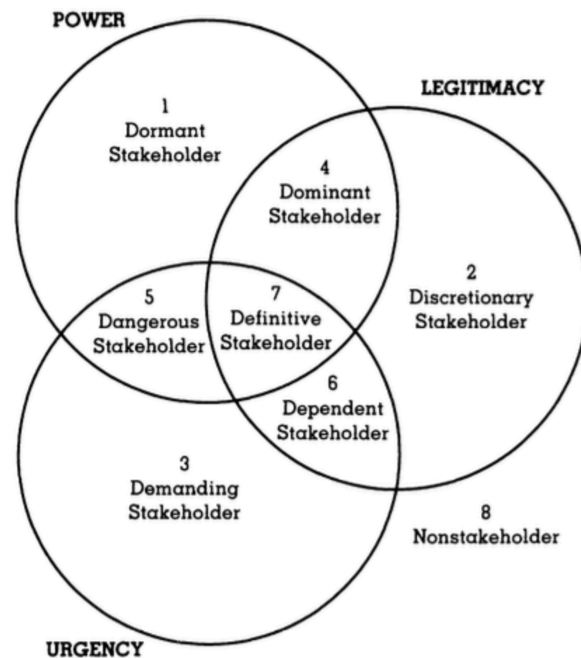
stakeholder if that subject present at least one attribute among power, legitimacy and urgency. A stakeholder will present an higher salience in respect to managers if it presents two or all of these attributes. In other words, stakeholder salience will be positively related to the cumulative number of stakeholder attributes - power, legitimacy, and urgency - perceived by managers to be present (Mitchell et al., 1997). Power is the ability to bring about the outcomes they desire (Salancik & Pfeffer, 1974). Suchman (1995) defines legitimacy as "a generalized 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". Mitchell et al. (1997) define urgency as the degree to which stakeholder claims call for immediate attention, and salience as the degree to which managers give priority to competing stakeholder claims.

> This analysis allows and justifies identification of entities that should be considered stakeholders of the firm, and it also constitutes the set from which managers select those entities they perceive as salient. According to this model, then, entities with no power, legitimacy, or urgency in relation to the firm are not stakeholders and will be perceived as having no salience by the firm's managers (Salancik & Pfeffer, 1974).

Figure 3.4 provides an outline of the different stakeholder groups which is possible to define using this identification approach.

> The low salience classes (areas 1, 2, and 3), which we term "latent" stakeholders, are identified by their possession or attributed possession of only one of the attributes. The moderately salient stakeholders (areas 4, 5, and 6) are identified by their possession or attributed possession of two of the attributes, and because they are stakeholders who "expect something," we call them "expectant" stakeholders. The combination of all three attributes (including the dynamic relations among them) is the defining feature of highly salient stakeholders (area 7) (Mitchell et al., 1997).

Figure 3.4 – Stakeholder identification in Mitchell et al. (1997)



Source: Mitchell et al. (1997).

We will now provide a brief description of these classes of stakeholder citing Mitchell et al. (1997). Dormant stakeholders possess power to impose their will on a firm, but, by not having a legitimate relationship or an urgent claim, their power remains unused (e.g. possible buyers of the company).

> Dormant stakeholders have little or no interaction with the firm. However, because of their potential to acquire a second attribute, management should remain cognizant of such stakeholders, as the dynamic nature of the stakeholder-manager relationship suggests that dormant stakeholders will become more salient to managers if they acquire either urgency or legitimacy.

Discretionary stakeholders possess the attribute of legitimacy, but they have no power to influence the firm and no urgent claims[18]. Demanding stakeholders, those with urgent claims but having neither power nor legitimacy.

Dominant stakeholders are both powerful and legitimate, so their influence in the firm is assured. They are dominant in deference to the legitimate claims they have upon the firm and their ability to act on these claims. Usually these stakeholders will have some formal mechanism in place that acknowledges the importance of their relationship with the firm. Dependent stakeholders lack power but have urgent legitimate claims and depend upon others (other stakeholders or the firm's managers) for the power necessary to carry out their will. Mitchell et al. (1997) suggest that where urgency and power characterize a stakeholder who lacks legitimacy, that stakeholder will be coercive and possibly violent, making the stakeholder "dangerous," literally, to the firm.

Finally, by definition,

> a stakeholder exhibiting both power and legitimacy already will be a member of a firm's dominant coalition. When such a stakeholder's claim is urgent, managers have a clear and immediate mandate to attend to and give priority to that stakeholder's claim.

It is important to note that this model of stakeholder identification depict a dynamic situation where stakeholders can move from a sector to another by losing or gaining attributes over time.

> Further, this model enables a more systematic sorting by managers of stakeholder-manager relationships as these relationships attain and relinquish salience in the dynamics of ongoing business. In addition, our three-attribute model permits managers to map the legitimacy of stakeholders and therefore to become sensitized to the moral implications of their actions with respect to each stakeholder (Mitchell et al., 1997).

This framework is one of the most well-regarded example of how academic literature addressed the topic of stakeholder identification and analysis. Many authors addressed this topic. For example, Bryson (2004) focused specifically on stakeholder analyses,

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[18] Discretionary stakeholders are a particularly interesting group for scholars of corporate social responsibility and performance (see Wood, 1991), for they are most likely to be recipients of what Carroll (1979) calls discretionary corporate social responsibility, which he later redefined as corporate philanthropy (Carroll, 1991).

either to help their organization perform better directly, or to help create an 'authorizing environment' (Moore, 1995) that will indirectly improve organization performance - for example, through changing the organization's externally imposed mandates, funding sources, decision-making protocols or accountability mechanisms. Moore (1995) and Bryson (2004) claim that attention to stakeholders is important throughout the strategic management process because success for organizations – and certainly survival – often depends on satisfying key stakeholders according to their definition of what is valuable (Bryson, 2004; Moore, 1995).

> Because attention to stakeholders is so important, stakeholder analyses become important. If they can help public organizations better fulfill their purposes, then there is much to commend them. Said differently, I would hypothesize that strategic management processes that employ a reasonable number of competently done stakeholder analyses are more likely to be successful (Bryson, 2004)

Donaldson and Preston (1995) argue that it is important to distinguish between influencers and stakeholders: some actors in the firm may be both (e.g. stockholders), some may be recognizable as stakeholders but have no influence (e.g. job applicants), while others may have influence but no stake (e.g. media) (Friedman & Miles, 2006). Clarkson (1995) argues that is important to use different methodologies to distinguish between primary (which determine the very survival of the corporation) and secondary (that affect or are affected by the corporation but do not affect its sustainability) (Manetti, 2011). For example, Bryson (2004) presents fifteen stakeholder identification and analysis techniques. In practice, among these methods, stakeholder mapping enables managers and organizations to map stakeholder in a chart whose horizontal axe represents the level of interest at stake in company success (from negative to positive attitude) and the vertical axe represents the actual or potential influence of the different group of stakeholder on the company (from low to high influence). Another kind of stakeholder analysis is the one used to map stakeholder in relation to their influence over the company (from absent to high influence) and the impact the company has on them (from low to high impact).
These kind of stakeholder analysis help picking the appropriate level of engagement for every category of stakeholders which, on a range from the lower to the higher, include inform, consult, involve, collaborate and empower. Usually these analyses are

then complemented with a social risk analysis. In brief, risk assessment is based on tools that consider the likelihood and the magnitude of possible consequences for every risk associated with every stakeholder. For every risk usually there is a responsible person, in charge of preparing a plan to minimize and address that risk. All the activities performed in the stakeholder identification and analysis phase are functional to gather data necessary to define the next phase, which sees the implementation of the stakeholder engagement strategy.

3.2.3. Phase 2: Interaction with stakeholders

This phase, unlike the first one, foresees a mutual commitment on resolving issues that may emerge in the relations between the corporation and its general and specific environment (Manetti, 2011). It is where the actual activities of engagement take place. This process of involvement "creates a dynamic context of interaction, mutual respect, dialogue and change, not a unilateral management of stakeholders" (Andriof & Waddock, 2002). Phillips (1997) argues that, in ideal conditions, the interaction with stakeholders draws on a mutually beneficial and just scheme of cooperation which is based on the idea of "social contract"[19] (Rawls, 1971). The concept of reciprocity of rights and duties implies overcoming a vision focused on the interests of shareholders, alleging that stakeholder expectations are managed in a strategic manner for the creation of worth in the medium to long term (Jonker & Foster, 2002; Manetti, 2011), as the mere stakeholder management would imply.

> In this perspective, relations between stakeholders and corporations are based on the principles of reciprocity, interdependence, and power (Andriof & Waddock, 2002) as a network that interprets the relationship as two-way rather than one-way (Rowley, 1997). The main feature of SE, therefore, is not the mere involvement of stakeholders to "mitigate" or

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[19] A "social contract" - or "social license" for a company - contains the implicit and explicit expectations that society has on how an entity should conduct its operations. As reported by Deegan (2002), the social contract idea is not new, having been discussed by philosophers such as Thomas Hobbes (1588-1679), John Locke (1632-1704), and Jean-Jacques Rousseau (1712-1778). These early thinkers in the field viewed the social contract primarily as a political theory, insofar as it explained the supposed relationship between government and its constituencies (Rawls, 1971). In the modern era, however the social contract has been extended to include businesses and other institutions (Campbell, 2007).

manage their expectations (stakeholder management), but to create a network of mutual responsibility (Andriof & Waddock, 2002). Stakeholders are also participants in business management through the submission of questions and issues deemed important that generate positive or negative impact on corporations, influencing managerial decisions. Their main responsibility is therefore to avoid making matters that might cause unintended negative externalities on the corporation, other organizations or local communities (Andriof & Waddock, 2002). If, on the contrary, the negative effects of the mentioned subjects were known and based on ethical relevant issues, stakeholders would still have fulfilled their fiduciary duties to the company (Manetti, 2011).

If stakeholders have responsibilities and rights, then their interest in the relationship with the corporation goes beyond the scope of mere satisfaction of their ambitions and expectations (Manetti, 2011). Stakeholders, therefore, as petitioners with legitimate expectations, assume the role of moral agents (Jones, Wicks, & Freeman, 2002) with the responsibility to consider the rights and interests of the corporation and of the other parties and promote effective and ethically correct relationships (Manetti, 2011). A great deal of empirical research has been done on these topics. As reported by Garriga and Melé (2013), it includes studies on how to determine the best practices to incorporate stakeholder relations (Bendheim, Waddock, & Graves, 1998), stakeholder salience to managers, as we have seen in the previous section (Agle, Mitchell, & Sonnenfeld, 1999; Mitchell et al., 1997), the impact of stakeholder management on financial performance (Berman et al., 1999), the influence of stakeholder network structural relations (Rowley, 1997) and how managers can successfully balance the competing demands of various stakeholder groups (Ogden & Watson, 1999).

In a seminal paper, Emshoff and Freeman (1978) presented two basic principles, which underpin stakeholder engagement (Garriga & Melé, 2013). The first principle is that the central goal of stakeholder engagement is to achieve maximum overall cooperation between the entire system of stakeholder groups and the objectives of the corporation; the second principles states that the most efficient strategy for managing stakeholder relations involves efforts which simultaneously deal with issues affecting multiple stakeholders (Garriga & Melé, 2013).

The interaction with stakeholders is constituted of different heavily interconnected activities. The Clarkson Centre for Business Ethics (1999) developed a list of principles that summarize the key features of stakeholder engagement (Table 3.1) and

defined stakeholder engagement as the process of effectively eliciting stakeholder views on their relationship with the organization.

Table 3.1 – Clarkson principles for stakeholder engagement

Principle 1	Managers should acknowledge and actively monitor the concerns of all legitimate stakeholders, and should take their interests appropriately into account in decision-making and operations.
Principle 2	Managers should listen to and openly communicate with stakeholders about their respective concerns and contributions, and about the risks that they assume because of their involvement with the corporation.
Principle 3	Managers should adopt processes and modes of behavior that are sensitive to the concerns and capabilities of each stakeholder constituency.
Principle 4	Managers should recognize the interdependence of efforts and rewards among stakeholders, and should attempt to achieve a fair distribution of the benefits and burdens of corporate activity among them, taking into account their respective risks and vulnerabilities.
Principle 5	Manages should work cooperatively with other entities, both public and private, to insure that risks and harms arising from corporate activities are minimized and, where they cannot be avoided, appropriately compensated.
Principle 6	Managers should avoid altogether activities that might jeopardize inalienable human rights (e.g., the right to life) or give rise to risks which, if clearly understood, would be patently unacceptable to relevant stakeholders.
Principle 7	Managers should acknowledge the potential conflicts between (a) their own role as corporate stakeholders, and (b) their legal and moral responsibilities for the interests of stakeholders, and should address such conflicts through open communication, appropriate reporting and incentive systems, and, where necessary, third party review.

Source: Clarkson Centre for Business Ethics (1999).

The Clarkson Principles are highly respected in the literature as a model of best practice (Friedman & Miles, 2006). The first principle arises from a need to recognize the existence of multiple and diverse stakeholder interests: only legitimate interests are considered, as defined by those stakeholders that have explicit or implied contracts with the firm and those whose well-being has been impacted by the firm (Clarkson Centre for Business Ethics, 1999; Friedman & Miles, 2006). Two-way dialogue, the second principle, is a prerequisite for good stakeholder management (Friedman & Miles, 2006). (…) The third principle attempts to raise managers' awareness that

stakeholders differ with respect to their involvement with the organization.

> Governance mechanisms have created official arenas for some stakeholders to engage through formal processes, such as annual general meetings (AGMs) and union representation. Others require an unofficial approach, such as through direct contact, advertising, or press releases. Two points are raised: regardless of the means of engagement a consistent message should be delivered; and extreme caution should be taken when dealing with stakeholders that have a limited capacity to interpret complex situations and options (Clarkson Centre for Business Ethics, 1999)}(Friedman & Miles, 2006).

The fourth principle highlights the need to balance risk and rewards between different stakeholders and to make the distribution of benefits apparent to all parties (Friedman & Miles, 2006). The fifth principle seeks to promote cooperation and joint corporate action in order to reduce harmful externalities on the premise that individual action is inadequate (Friedman & Miles, 2006). The sixth principle relates to the need to avoid activities that endanger basic rights (Friedman & Miles, 2006). (..) The seventh principle asks managers to recognize their own conflicts of interest and to encourage practices intended to regulate this. This should lead to increased credibility and hence increased trust in the organization (Friedman & Miles, 2006).

In general, a first issue that needs to be addressed when a plan of stakeholder engagement has to be initiated refers to the explicit or implicit nature of the approach a company wants to follow.

> Many corporations undertake explicit stakeholder management associated with official procedures, policies, and allocated lines of responsibility, without adopting a comprehensive approach founded on the principles of participation, empowerment, and inclusion. The explicit nature of this approach can also afford greater corporate legitimacy. Some organizations have created 'community relations' or CSR positions or even departments in order to highlight their commitment to stakeholder management. However, such practices do not necessarily reflect a high level of stakeholder synthesis. The focus of stakeholder management may be as a strategic tool for competitive advantage, which is not deeply embedded and could be abandoned with changed competitive environments (Friedman & Miles, 2006).

A second issue is related to how organizations balance their approach to stakeholders. In fact, primary stakeholders (employees or customers) are often dedicated greater resources to the management of their relations (Friedman & Miles, 2006). This

unbalanced approach risks to disregard important stakeholders for the sake of opportunistic behaviours.

Finally, a third issue is that many organizations have no genuine commitment to stakeholder engagement: fiduciary duties to shareholders and legal, not moral, obligations are the driving factors and so stakeholder management exists only to resolve conflict, such as boycotts, protests, and strikes, which can negatively impact short-term shareholder value (Friedman & Miles, 2006).

This is one of the many reasons why it is important to assess and report on the quality of stakeholder engagement. This latter topic will be analysed in the next subsection.

3.2.4. Phase 3: Evaluation and reporting

The evaluation phase of stakeholder engagement is not necessarily to intend as the final stage. Its steps concern the measurement of the stakeholder engagement performances and outcome and the report of data to be useful for consequent redefinition of the process. As a consequence, these operations are to be performed along the whole process and are useful to further develop next iterations of stakeholder management activities.

The activities in this phase are useful to collect every document related to the engagement efforts and their results. In fact, staff in charge of SE has to assure that there is data management system in place, capable to follow up the implementation plan. This system may contain both qualitative (transcription of focus groups, etc.) and quantitative (number of meetings, participants, etc.) information. The latter are internally useful, while qualitative ones usually provide the most important info to the organization.

The key points here are the need to assess the quality of stakeholder engagement and the willing to report on the outcome of this engagement, for the aim of contributing to new iteration of the loop. AccountAbility (2015) defines a quality stakeholder engagement as the one that:

- clearly define its scope;
- has an agreed decision-making process;
- focuses on issues material to the organisation and/or its stakeholders;

- creates opportunities for dialogue;
- is integral to organisational governance;
- is transparent; has a process appropriate to the stakeholders engaged;
- is timely;
- is flexible and responsive;
- adds value both for the organisation and its stakeholders.

Academic literature presents a broad amount of works on these topics. Strong, Ringer, and Taylor (2001) surveyed customers, stockholders, and employees of financial institutions to identify management behaviors that lead to stakeholder satisfaction concerning their involvement. They suggest that the factors critical to satisfaction across stakeholder groups are the timeliness of communication, the honesty and completeness of the information and the empathy and equity of treatment by management. There are some common sense aspects to effective dialogue, such as a willingness to learn for each other and the flexibility to ensure the implementation of good ideas (Friedman & Miles, 2006). Zöller (1999) suggests that effective dialogues require symmetrical communication, transparency of the benefits and risks, unbiased facilitation, inclusivity and an early start to facilitate change if needed.

Zadek and Raynard (2002) suggest three dimensions of quality: procedural quality, responsiveness quality, and the quality of outcomes.

> Procedural quality encapsulates how the engagement was undertaken and whether it was consistent with the declared purpose. The terms of engagement, the parameters for discussion, and the areas that are negotiable or not relevant should all be clearly understood and shared by all parties. Most engagement is restricted to operational issues and therefore precludes stakeholders from having a say in terms of the broader structures and policies that impact them. (…) Quality characteristics include the existence of formalized procedures, the facility for stakeholders to initiate engagement, and the assurance that stakeholders are empowered to raise the issues of most concern to them. (…). The legitimacy of engagement is also important in assessing quality. Stakeholders should be selected in an unbiased and comprehensive fashion, with some verification process included to ensure that all relevant parties are represented and that participants represent the interests of those they claim to speak on behalf of (Friedman & Miles, 2006).

Neligan (2003), for example, identifies four dimensions of procedural quality: access to timely and accurate information; terms of engagement; legitimacy of engagement; and procedures for redress. In second place, responsiveness quality relates to whether

an organization responded in a coherent and responsible manner and the way stakeholder views were dealt with.

> Were recommendations forwarded to the relevant decision-makers? Did the organization have the competencies to understand stakeholder concerns? How might they be addressed in practice? Was there evidence of organizational learning through the engagement and of putting such learning into practice in policies and decisions? Were corporate responses consistent with general policy statements such as represented in budgets and staff performance reviews? (Friedman & Miles, 2006).

Thirdly and most importantly, tangible evidence of the extent that the organization adjusted its policies and practices in line with stakeholder engagements or evidence of stakeholder satisfaction would indicate a level of quality of outcomes: quality stakeholder engagement must involve mechanisms that link engagement with decision-making (Friedman & Miles, 2006; Zadek & Raynard, 2002). Quality of outcomes is important for understand if stakeholder engagement is only a façade or if is really used as a tool for supporting and enhancing corporate strategies.

Ethics also plays a relevant role in the quality of the process of stakeholder engagement. Weiss (2014) suggests constructing a matrix of stakeholder moral responsibilities, distinguishing between legal, economic, ethical, and voluntary corporate responsibilities for each stakeholder group. It is possible for managers to implement stakeholder involvement and to be proponents of best practice, engaging in good stakeholder activities, such as effective constructive dialogue, but ignoring ethics when generating policy (Friedman & Miles, 2006). Ethics should be an important element to consider along the whole process.

Arnstein (1969) created a "Ladder of citizen participation" which measures public involvement in strategy creation, with eight categories ranging from a paternalistic to a more participatory system. On the lower rungs of non-participation lie manipulation and therapy; the middle section of the ladder is identified as degrees of tokenism (informing, consultation, and placation) and the higher rungs are degrees of citizen power (partnership, delegated power, and citizen control) (Friedman & Miles, 2006). Friedman and Miles (2006) build on this model and elaborate a 12-levels model of stakeholder management and engagement which is showed in Figure 3.5.

Figure 3.5 – A 12-rungs ladder of stakeholder management and engagement

		Stakeholder management tool and nature of response	*Intention of engagement*	*Level of influence*	*Style of dialogue and associated examples*
Degrees of stakeholder power	*Proactive or responsive/trust*	**12. Stakeholder control**	Majority representation of stakeholders in decision-making process	Forming or agreeing to decisions	Multi-way dialogue, e.g. community projects
		11. Delegated power	Minority representation of stakeholders in decision-making process		Multi-way dialogue, e.g. board representation
		10. Partnership	Joint decision-making power over specific projects		Multi-way dialogue, e.g. joint ventures
Degrees of involvement		**9. Collaboration**	Some decision-making power afforded to stakeholders over specific projects		Multi-way dialogue, e.g. strategic alliances
		8. Involvement	Stakeholders provide conditional support; if conditions are not met support is removed. The organization decides the extent of conformity	Having an influence on decisions	Multi-way dialogue, e.g. constructive dialogue
		7. Negotiation			Multi-way dialogue, e.g. reactive bargaining
Degrees of tokenism	*Responsive/neutral*	**6. Consultation**	Organization has the right to decide. Stakeholders can advise	Being heard before a decision	Two-way dialogue, e.g. questionnaires, interviews, focus groups, task forces, advisory panels
		5. Placation	Appease the stakeholder; stakeholders can hear and be heard, but have no assurance of being heeded by the organization		
		4. Explaining	Educate stakeholders		Two-way dialogue, e.g. workshops
Non-participation	*Autocratic/cynical*	**3. Informing**		Knowledge about decisions	One-way dialogue, e.g. verified corporate social reports
		2. Therapy	'Cure' stakeholders of their ignorance and preconceived beliefs		One-way dialogue, e.g. briefing sessions, leaflets, magazines, newsletters, green glossy social corporate reports, or other publications
		1. Manipulation	'Misleading' stakeholders, attempting to change stakeholder expectations		

Source: Friedman and Miles (2006).

We believe the model represented in Figure 3.5 has the merit to focus on two very important elements which are the level of influence by stakeholder (knowledge about

decisions; being heard before decisions; having an influence on decisions; forming or agreeing to decisions) and the style of dialogue (mono-way; two-way; multi-way) for each level of engagement.

> Besides reviewing lies the step of reporting the results and the quality of the process. Communicating to stakeholders on the value and impact of engagement should go beyond providing feedback to stakeholders who participated in specific engagements. The organisation should publicly report on the aggregate of its engagement activities together with overall outcomes and impact, to show the scope and breadth of its outreach, and to demonstrate how its engagements contribute value to its strategy and operations (AccountAbility, 2015).

Reporting on stakeholder engagement may include which are the stakeholder groups engaged, the approach to stakeholder engagement and methods used, the frequency of engagement, the primary issues and concerns raised through engagement and the organization response to the engagement outcomes. Organizations should integrate reporting on stakeholder engagement with appropriate other forms of public organisational reporting, such as sustainability reports, annual or financial reports, website reporting, social media reporting (AccountAbility, 2015).

3.3. Stakeholder engagement for sustainability reporting

3.3.1. The role of stakeholders in sustainability reports

How sustainability reports address the importance of stakeholders and what is the role of stakeholders in and for sustainability reports are two different but intertwined issues. As we saw in the previous section, stakeholder literature argues that stakeholders who are important, primary (Clarkson, 1995; Freeman, 1984), or considered salient by managers in terms of their power, legitimacy, and urgency (Mitchell et al., 1997), influence organizational strategies (Sharma & Henriques, 2005). Stakeholder influences can be direct or indirect based on the resource dependence (Pfeffer & Salancik, 1978) between the focal firm and the stakeholder (Frooman, 1999), or based on the position of the focal firm in the stakeholder network (Rowley, 1997; Sharma & Henriques, 2005). Stakeholders that do not control

resources critical to the focal firm's operations or those who do not have the attributes of saliency (Mitchell et al., 1997) may be able to influence the focal firm only indirectly via other stakeholders (Frooman, 1999; Rowley, 1997; Sharma & Henriques, 2005). Several stakeholders considered secondary by managers in the past, such as local communities, non-governmental organizations (NGOs), and international regimes, have nowadays become more salient in assessing the social and ecological impacts of business (Sharma & Henriques, 2005).

Furthermore, stakeholders engagement has been of paramount importance in the evolution of corporate reporting in the sense that systematic engagement with key stakeholders has enabled corporations to question, and then challenge, a number of things that possibly had been taken for granted before (Busco et al., 2014). Moreover, in the context of sustainability reporting, the principles of relevance and materiality expect that SE will support determinate which information and data should be included in the report (Gray, 2000). In fact, all the main international standards and guidelines for SR require SE as a compulsory stage to get a complete and useful document for the intended users (AccountAbility, 2008a; Global Reporting Initiative, 2013b, 2013c; Manetti, 2011). More than giving a general framework of corporation activities as planned and carried out by managers, a sustainability report should communicate really useful information for stakeholders (Global Reporting Initiative, 2013b, 2013c; Manetti, 2011).

In the last decades, much research, both at national and international levels, collected empirical evidence of unprecedented levels of stakeholder dialogue in SR, but it questioned the sincerity and the impact of these practices on sustainability reports (Downey, 2002; Manetti, 2011; Owen et al., 2001; UNEP, 1998). Engagement and dialogue with stakeholders are increasingly recognized as crucial elements of preparing a SR, although there is a shortage of evidence within social and environmental reports that such engagement and dialogue is actually taking place (ACCA, 2005) with relevant outcomes.

Notwithstanding the democratising potential of corporate social reporting standards, claimed for example by the GRI and AccountAbility, severe reservations have been expressed in the academic accounting literature as to the real degree of participatory role played by stakeholders in the process (Cooper & Owen, 2007). It has been

suggested that prevailing stakeholder engagement practices have little to do with extending accountability and amount to nothing more than exercises in stakeholder management and corporate spin (Cooper & Owen, 2007; O'Dwyer & Owen, 2005; Owen et al., 2001). In particular, this led some authors to claim that SR has often been used by corporations as a legitimating tool to change the expectations of stakeholders (Campbell, 2003; Swift, 2001), although this has often been found ineffective (O'Dwyer, 2002).

For example Manetti (2011) studies the quality of SE in the process of social and sustainability reporting, including consideration of the dual-way that should characterize, in theory, relations between corporations and stakeholders. He notices an opportunistic and strategic approach to the stakeholder theory, since management believes it is essential to involve stakeholders in order to reach a social consensus necessary for economic success in the long term without acknowledging their legitimate interest. Therefore, it is possible to conclude that sustainability reporting practice so far are seen to be using SE as a legitimization device and for managing the stakeholders' expectations effectively.

Manetti (2011) share the application of Arnstein's Ladder of Citizen Participation (introduced in Section 3.2.4) to sustainability reports with Cummings (2001), who notes that, in her sample of 13 British or multinational companies, managers reported that approaches to stakeholder dialogue are mixed and matched depending on the stakeholder groups concerned, their physical location, and the relevant issue. Cumming conducts her research using semi-structured interviews with representatives of the corporations included in the sample. Where structured techniques are employed to monitor the opinions and expectations of company stakeholders, we have levels 3 and 4 of Arnstein's Ladder; when panels or small groups of stakeholder representatives have been nominated (e.g. focus groups, round tables, community forums, etc.) and have dialogue with management, we have reached levels 5 and 6 of the Ladder; when consultation techniques are applied, such as telephone interviews, one-to-ones and dedicated hotlines, the company can be rated between levels 4 and 6 (Manetti, 2011).

> The author points out that, in the vast majority of cases in the companies studied, SE is limited to levels 1–5 on the Arnstein's Ladder. Her research

> identified only one case of partnership (level 6) using bi-directional communication and no companies at all on levels 7 and 8. Cumming emphasis that the higher levels of the Ladder cannot be found in the sample, owing to the problem of balancing different expectations among stakeholders. In particular, to reach the eighth level, companies would have to redefine their statutes, sometimes violating the principal that is commonly found in company law of safe- guarding, as a priority, the investors and shareholders. As far as the seventh level is concerned, only companies particularly inclined towards good social responsibility practices could envisage delegating decision-making to stakeholders (Manetti, 2011).

Clarkson (1995) argued that transferring corporate social responsibilities into business objectives is best undertaken using a stakeholder perspective - more specifically, by transferring intangible social and environmental issues into tangible stakeholder interests (Sharma & Henriques, 2005). However, at present, companies are far more likely to consult stakeholders in an opportunistic manner in order to build consensus for what they are already doing rather than genuinely engaging stakeholders in a two-way conversation that involves them in meaningful decision-making about what constitutes performance and how it should be assessed (Crane & Matten, 2016; Manetti, 2011). As O'Dwyer and Owen (2005) note, many academic researchers have been critical of key features of emerging practice of sustainability reporting, given its tendencies towards managerialism at the expense of accountability and transparency to stakeholder groups (Crane & Matten, 2016). Analyses suggest that while improvements are evident, significant deficiencies in many core quality indicators persist (Crane & Matten, 2016; Manetti, 2011; O'Dwyer & Owen, 2005). As we have seen in the first and second chapter of this dissertation, it is clear that, to date, despite decades of attention to corporate responsibility and sustainability reporting, companies have still road ahead in improving their way of assessing and reporting their economic, social and environmental impacts on society (Crane & Matten, 2016). Of course, such assessments are extremely challenging.

Stakeholder theory is not only to be used to transfer social and environmental responsibilities in business objective, but also to transfer them into clear objectives and indicators organizations need to report on. In other words, dialogue with groups with a stake is essential for sustainability reporting because enable organizations to create truly material and relevant reports about what really is the creation of value for

all of their stakeholders. Just to give an example, Mark Bristow, Chief Executive of Randgold Resourcers, claims in the sustainability report 2015 of the company that “It is 20 years since Randgold was first incorporated as an Africa focused gold mining and exploration business with a vision to create long term value for all stakeholders”[20]. The company also claims: "we have a wide range of policies, processes and people in place to ensure we identify and manage the risks and opportunities that sustainability factors present to our business, and to ensure we engage effectively and transparently with all our stakeholders”[21]. Similar claims on the centrality of relationships with stakeholders appear with increasing frequency also on the corporates’ websites:

> Effective engagement is a prerequisite to our establishing mutually-beneficial relationships with stakeholders. These relationships, we believe, are essential in maintaining our social licence to operate. AngloGold Ashanti has a wide range of stakeholders. Relationships with communities, government and regulators, employees, both individually and through affiliations such as organised labour, community-based organisations (CBOs) and non-governmental organisations (NGOs) are some of the most critical to our business. Engagement takes place at a group level with stakeholders whose interests require them to have an overview of the business as a whole, such as investors, employees, organised labour unions, the media, regulatory authorities and certain government and civic organisation representatives. (…) Engagement begins from early stages of exploration and continues through to closure[22].

Chapter 4 will provide a deep focus on how sustainability reports address the topic of stakeholder engagement and which is the role of stakeholder engagement for assessing materiality, but these examples, which are nowadays very commonly found in reports of large enterprises, provide a first insight on what corporations publicly claim about their relationships with stakeholders.

Thus, many companies underline the importance of partnerships and interaction with their stakeholders. To interact with their stakeholders, companies can use several instruments. Most frequently mentioned in reports are staff surveys, and community panels/forums; moreover, to reflect different stakeholder views, it has become rather common to include stakeholder statements in reports (Kolk, 2004).

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[20] Randgold Resources Sustainability Report 2015, part of Annual Report 2015, pag. 99.
[21] Randgold Resources Sustainability Report 2015, part of Annual Report 2015, pag. 106.
[22] AngloGoldAshanti website: http://www.aga-reports.com/14/ir/strategy/stakeholder-engagement

> Some companies give detailed information about opinion polls and surveys among their employees. Employee perceptions on a variety of issues, including safety, health and environment, ethics, accountability, diversity, personal respect and open, two-way communications, are presented. (…) The stakeholder statements included in the reports can originate from internal and external stakeholders (Kolk, 2004).

As argued by Kolk (2004), who studies worldwide trends in sustainability practices in the last decades, some companies give information about the circulation of reports and the feedback they have received to their public communication efforts.

> In some cases, readers' opinions on the previous report are presented on a separate 'environmental communication sheet' enclosed in the report. On the back of the form, stakeholders are invited to give their view on the current report (Kolk, 2004).

Influential standards and guidelines which increasingly inform leading edge reporting practice, notably the Global Reporting Initiative (GRI) and AccountAbility's AA1000, unequivocally suggest that the "business case" for CSR can enable a gradual empowerment of stakeholders (Cooper & Owen, 2007). The former, for example, notes that "a primary goal of reporting is to contribute to an ongoing stakeholder dialogue. Reports alone provide little value if they fail to inform stakeholders or support a dialogue that influences the decisions and behaviour of both the reporting organisation and its stakeholders" (Global Reporting Initiative, 2002). As argued by AccountAbility (2015), a quality reporting process is governed by the principle of accountability, which is itself underpinned by the principle of inclusivity: inclusivity concerns the reflection, at all stages of the reporting process over time, of the aspirations and needs of all stakeholder groups. Stakeholder views are obtained through an engagement process that allows them to express themself without fear or restriction (AccountAbility, 2015). The principle of inclusivity embraces accountability to all stakeholder groups.

3.3.2. Achieving materiality in SR through stakeholder engagement standards

AccountAbility provides a specific standard for supporting good-quality SE. The AA1000 Stakeholder Engagement Standard (AA1000SES) is a generally applicable

framework for assessing, designing, implementing and communicating stakeholder engagement (AccountAbility, 2015). This standard builds on, and is consistent with, the AA1000 AccountAbility Principles Standard (AccountAbility, 2008a) and the principle of inclusivity, materiality and responsiveness.

Stakeholder engagement is a tool that organizations can use to achieve inclusiveness. In AA1000SES stakeholder engagement is defined as "the process used by an organisation to engage relevant stakeholders for a clear purpose to achieve agreed outcomes. It is now also recognised as a fundamental accountability mechanism, since it obliges an organisation to involve stakeholders in identifying, understanding and responding to sustainability issues and concerns, and to report, explain and answer to stakeholders for decisions, actions and performance" (AccountAbility, 2015).

> Stakeholder engagement must have a purpose. It is essential to first think about why the organisation is engaging and what needs to be achieved. No stakeholder engagement should be initiated without defining a purpose. There are two broad categories of purpose: strategy and operations. That is, stakeholder engagement takes place to develop or improve strategy or to help identify and address operational issues. Building trust-based relationships is inherent to both strategic and operational stakeholder engagement. The purpose may be associated with ongoing activities, such as aiming to ensure that the organisation has a good understanding of stakeholder views or to foster positive stakeholder relationships, or it may be associated with a specific project or need, such as to inform a materiality-determination process (AccountAbility, 2015).

The point here is that stakeholder engagement is not only a tool for discussing material issues with stakeholders, but also a process where the interaction with stakeholders is crucial to define what is material in a participatory perspective. AA1000SES also suggests how to report on the process of stakeholder engagement and how this process can be fruitful for sustainability, annual or integrated reports, since "quality stakeholder engagement can help to determine material issues for sustainability management and reporting".

AccountAbility (2008b) also issued an Assurance Standard which further underlines the stakeholder accountability credentials of the reporting process in promulgating the principles of materiality, completeness and responsiveness (Cooper & Owen, 2007).

The materiality principle requires the assurance[23] provider to state whether the reporting organisation has included in its report information required by stakeholders to enable them to make informed judgements, decisions and actions, whilst the completeness principle calls for an evaluation of the extent to which the organisation can identify and understand material aspects of performance (Cooper & Owen, 2007). Moreover, the responsiveness principle requires that the assurance provider evaluate whether the reporting organisation has responded to stakeholder concerns, policies and relevant standards and adequately communicated these responses in its report (AccountAbility, 2008b; Cooper & Owen, 2007).

Also IIRC (2013c) provides some guidance on the materiality determination process and on how to disclose material aspects in integrated reporting. In particular, the Technical Task Force of the International Integrated Reporting Council (IIRC) established a Technical Collaboration Group (TCG) to prepare the Materiality Background Paper for <IR> (2013c). The process of materiality determination is similar to the one provided by GRI which is described later in this section. Stakeholder engagement plays a crucial role and the Appendix 1 of the Materiality Background Paper for <IR> suggests to refer to the previously described AA1000 Stakeholder Engagement Standard for specific guidance and states that AA1000SES "provides a principles-based, open-source framework for quality stakeholder engagement and (…) it can be used as a "stand-alone" standard, or as a mechanism to achieve the stakeholder requirements of other standards.

GRI-G4, the new version of the guidelines provided by the Global Reporting Initiative (see Chapter 2) also has a clear focus on materiality.

> G4 has an increased emphasis on the need for organizations to focus the reporting process and final report on those topics that are material to their business and their key stakeholders. This "materiality' focus will make reports more relevant, more credible and more user-friendly. This will, in turn, enable organizations to better inform markets and society on sustainability matters (Global Reporting Initiative, 2013c).

The Global Reporting Initiative provides in its guidelines some guidance on how to perform a materiality assessment with stakeholders. At the core of preparing a

[23] See section 1.5.4. of this dissertation for a focus on the role of external assurance.

sustainability report is a focus on the process of identifying material aspects – based, among other factors, on the materiality principle; material aspects are those that reflect the organization's significant economic, environmental and social impacts; or substantively influence the assessments and decisions of stakeholders (Global Reporting Initiative, 2013c). This approach is consistent with the adoption of four principles which describe the process to be applied to identify what content the report should cover by considering the organization's activities, impacts, and the substantive expectations and interests of its stakeholders (Global Reporting Initiative, 2013c):

1. Stakeholder inclusiveness: the organization should identify all of its stakeholders and explain how it has responded to their reasonable expectations and interests.
2. Sustainability context: the report should present the organization's performance in the wider context of sustainability (see Section 1.3 of this dissertation).
3. Materiality: the report should cover aspects that reflect the organization's significant economic, environmental and social impacts or substantively influence the assessments and decisions of stakeholders.
4. Completeness: the report should include coverage of material aspects and their boundaries, sufficient to reflect all the significant economic, environmental and social impacts, and to enable stakeholders to assess the organization's performance in the reporting period.

All these principles, which inspire the whole procedure of elaborating a report in compliance with GRI guidelines, are extremely relevant for the purpose of this dissertation. Henceforth, table 3.2 describe the points of GRI-G4 guidelines that directly refer to stakeholder engagement. In particular, these Standard disclosures provide an overview of the organization's stakeholder engagement during the reporting period (however, these standard disclosures do not have to be limited to engagement that was conducted for the purposes of preparing the report) (Global Reporting Initiative, 2013c).

Table 3.2 – Aspects directly concerned with stakeholder engagement in GRI G4 guidelines

Aspect	Instructions	Further guidance from GRI Implementation Manual
G4-24	Provide a list of stakeholder groups engaged by the organization.	Examples of stakeholder groups are: Civil society; Customers; Employees, other workers, and their trade unions; Local communities; Shareholders and providers of capital; Suppliers.
G4-25	Report the basis for identification and selection of stakeholders with whom to engage.	Describe the organization's process for defining its stakeholder groups, and for determining the groups with which to engage and not to engage.
G4-26	Report the organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	This may include surveys (such as supplier surveys), focus groups, community panels, corporate advisory panels, written communication, management or union structures, and other vehicles.
G4-27	Report key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns.	n.a.

Source: Global Reporting Initiative (2013b, 2013c).

Moreover, Table 3.3 outline the process to be followed to define the content of reports in accordance to GRI-G4 guidelines in light of materiality and stakeholder inclusiveness principles.

Table 3.3 – Process for defining reporting content using the principles of materiality and stakeholder inclusiveness of GRI G4 guidelines

Step 1 - Identification	Step 3 - Validation
• Consider the GRI Aspects list and other topics of interest • Apply the Principles of Sustainability Context and Stakeholder Inclusiveness: Identify the Aspects – and other relevant topics – based on the relevant economic, environmental and social impacts related to all of the organization's activities, products,	• Apply the Principles of Completeness and Stakeholder Inclusiveness: Assess the list of material Aspects against Scope, Aspect Boundaries and Time to ensure that the report provides a reasonable and balanced representation of the organization's significant economic, environmental and

services, and relationships, or on the influence they have on the assessments and decisions of stakeholders • Identify where the impacts occur: within or outside of the organization • List the Aspects and other topics considered relevant, and their Boundaries	social impacts, and enables stakeholders to assess the organization's performance • Approve the list of identified material Aspects with the relevant internal senior decision-maker • Prepare systems and processes to gather the information needed to be disclosed • Translate the identified material Aspects into Standard Disclosures – DMA and Indicators – to report against. • Determine which information is available and explain those for which it still needs to establish management approaches and measurements systems
Step 2 - Prioritization	**Step 4 - Review**
• Apply the Principles of Materiality and Stakeholder Inclusiveness: Assess each Aspect and other topic considered relevant for: – the significance of the organization's economic, environmental and social impacts – the influence on stakeholder assessments and decisions • Identify the material Aspects by combining the assessments • Define and document thresholds (criteria) that render an Aspect material • For each material Aspect identified, decide the level of coverage, the amount of data and narrative explanation to be disclosed • List the material Aspects to be included in the report, along with their Boundaries and the level of coverage	• Apply the Principles of Sustainability Context and Stakeholder Engagement: Review the Aspects that were material in the previous reporting period • Use the result of the review to inform Step 1 Identification for the next reporting cycle

Source: Global Reporting Initiative (2013b, 2013c).

As Table 3.3 shows in details, to begin the process of defining the content of a report, the organization is required to identify a first set of material topics (or "Aspects" in GRI guidelines) (Step 1). The next step in defining report content refers to the prioritization of relevant topics from Step 1, in order to identify those that are material and therefore deserve to be reported on (Step 2). This step is followed by the phase of validation where the principles of completeness and stakeholder inclusiveness are used to finalize content of the report together with stakeholders (Step 3). The main outcome of these first three steps is a list of material topics. Finally, after the report

has been published, it is important that the organization undertakes a review of its report (Step 4). This review can take place as the organization is preparing for the next reporting cycle (Global Reporting Initiative, 2013b).

All these steps need to implement the principle of stakeholder inclusiveness. In other words, the engagement of stakeholders is considered as a decisive part in the process of identifying material topics and material impacts. Both in GRI and AccountAbility guidelines, the aspects that the organization deems to be material, in response to its stakeholders' expectations and interests, drive sustainability reporting and its content (AccountAbility, 2008a, 2015; Global Reporting Initiative, 2013c). The conclusion is that a genuine, quality stakeholder engagement represents a crucial step for organizations willing to disclose truly relevant sustainability reports.

3.3.3. Dialogic accounting and stakeholder engagement[24]

Many scholars over the last decade have collected empirical evidence regarding unprecedented levels of stakeholder dialogue in social, environmental or sustainability reporting (hereafter, SR), while also questioning the sincerity and the impact of these practices on sustainability reports (ACCA, 2005; Downey, 2002; UNEP, 1998). According to sustainability reporting guidelines 4.0 of the Global Reporting Initiative:

> The organization should identify its stakeholders, and explain how it has responded to their reasonable expectations and interests. Stakeholders can include those who are invested in the organization as well as those who have other relationships to the organization. The reasonable expectations and interests of stakeholders are a key reference point for many decisions in the preparation of the report (Global Reporting Initiative, 2013c, pp. 16-17).

And again:

> Organizations are faced with a wide range of topics on which they could report. Relevant topics are those that may reasonably be considered important for reflecting the organization's economic, environmental and social impacts, or influencing the decisions of stakeholders, and, therefore,

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[24] This paragraph is based on "Manetti, G., & Bellucci, M. (2016). The Use of Social Media for Engaging Stakeholders in Sustainability Reporting. *Accounting, Auditing & Accountability Journal, 29*(6), 985-1011. doi:doi:10.1108/AAAJ-08-2014-1797".

> potentially merit inclusion in the report" (Global Reporting Initiative, 2013c, pp. 16-17).

It is safe to say that stakeholder engagement is not only at the very core of SR, but SR itself has the characteristics of a dialogic process that examines accountability relationships between stakeholders and organisations (Gray, 1997). A dialogic system, in fact, extends beyond notions of communication and refers to iterative mutual learning processes that are designed to promote transformative action. According to Brown (2009), dialogic processes inform accountability relationships between stakeholders and organisations (Gray, 1997). This is why previous studies on SR focused on enhancing the levels of democratic interaction (Boyce, 2000; Brown, 2009; Dey, 2003a; Gray, 1997; Gray & Bebbington, 2001; Medawar, 1976; Morgan, 1988) and, most recently, on attempts to create new dialogic accounting practices and technologies that are able to promote stakeholder engagement and interaction at every level (Bebbington, Brown, & Frame, 2007; Bebbington, Brown, Frame, et al., 2007; Frame & Brown, 2008; Thomson & Bebbington, 2005). Thomson and Bebbington (2005) claim that stakeholder engagement is of utmost importance in SR, arguing that it should address conflicts among stakeholders, recognize diverse viewpoints, and explicitly manage power dynamics. They maintain that monologic accounting should be replaced by an accounting approach that is able to consider and balance the different perspectives and expectations of the community (Gray, 1997).

According to Brown (2009), Brown and Dillard (2013) and Dillard and Yuthas (2013), many CSR tools over the years have been proposed as a means of promoting democratic interaction (Bebbington & Gray, 2001; Boyce, 2000; Dey, 2003a; Gray, 1997; Medawar, 1976; Morgan, 1988). In the last decade these have included attempts to promote explicitly dialogic accounting technologies and forms of engagement (Bebbington, Brown, & Frame, 2007; Bebbington, Brown, Frame, et al., 2007; Frame & Brown, 2008; Thomson & Bebbington, 2005) that use online social media and social networks. These new tools of dialogic communication have opened up new possibilities for organisations to connect with their stakeholders by allowing them to receive real-time feedback about organisational announcements and engage in conversations. Although one-way communication is still the most common form of messaging strategy adopted by organisations on social media (Waters & Jamal, 2011;

Xifra & Grau, 2010), attempts to develop interactions among corporations and users are becoming increasingly popular (Rybalko & Seltzer, 2010).

In a dialogic accounting framework, the outcome of the processes of stakeholder engagement can generally attain to:

1. a deliberative, general consensus (Laughlin, 1987, 2007) based on Habermas' "ideal speech situation" — a communication among stakeholders in undistorted conditions (Habermas, 1984; Habermas, 1987, 1991) that can be built in a "public sphere," "a discursive arena that is home to citizen debate, deliberation, agreement and action" (Dahlberg, 2005; Villa, 1992) – on what information and data should be disclosed in the report. When applied to the corporate arena the result of "an open, honest and unbiased ideal speech situation debate among all stakeholders should therefore lead to the acceptance by all stakeholders of a democratically determined consensus view of corporate responsibilities" (Unerman & Bennett, 2004, p. 691).
2. a collection of divergent socio-political views in an agonistic perspective, highlighting the unavoidable values and assumptions associated with different accounts and recognizing the need for multiple engagements between different actors across various political spaces (Brown & Dillard, 2013; Gray & Milne, 2002; O'Dwyer, 2005). This perspective involves an understanding of SR that is much broader than formal organisation-centric reports, and recognizes the need for multiple engagements between different actors across various political spaces (Gray & Milne, 2002; O'Dwyer, 2005) based on an agonistic model of democratic participation (Brown, 2009; Brown & Dillard, 2013; Dillard & Brown, 2012; Dillard & Roslender, 2011).

In the democratic deliberative approach, stakeholder engagement is necessary for defining the general consensus among diverse stakeholders or inside a specific category. Proponents of the agonistic approach, meanwhile, suggest that stakeholder engagement helps synthesize the different points of views found among diverse groups of interest.

3.4. A review of stakeholder engagement tools

3.4.1. The nature of stakeholder engagement

Stakeholder analyses have always, and in many disciplines, important practical implications. As reported by Bryson (2004),

> Barbara Tuchman in her sobering history "The March of Folly: From Troy to Vietnam" (2009) recounts a series of disastrous misadventures that followed in the footsteps of ignoring the interests of, and information held by, key stakeholders. She concludes 'Three outstanding attitudes – obliviousness to the growing disaffection of constituents, primacy of self-aggrandizement, and the illusion of invulnerable status – are persistent aspects of folly'. The story continues with Paul Nutt's Why Decisions Fail (2002), a careful analysis of 400 strategic decisions. Nutt finds that half of the decisions 'failed' – that is they were not implemented, only partially implemented or otherwise produced poor results – in large part because decision makers failed to attend to interests and information held by key stakeholders. Other quantitative and qualitative studies report broadly similar findings with respect to the importance of paying attention to stakeholders (Bryson & Bromiley, 1993; Bryson, Bromiley, & Jung, 1990; Burby, 2003; Margerum, 2002).

In other words, failure to attend to the information and concerns of stakeholders clearly is a kind of flaw in thinking or action that too often and too predictably leads to poor performance, outright failure or even disaster (Bryson, 2004).

While Chapters 1 and 2 provided a literature review on the extended responsibilities of corporations and the issues beneath the topic of sustainability, and the first part of Chapter 3 introduced a theoretical framework mainly based on stakeholder theory, we now want to consider what stakeholder engagement means in practice. To this purpose, we will introduce here a general and not exhaustive description of a set of tools that can support the second phase (see Section 3.2.3 of this dissertation) of the stakeholder engagement process. A study of the reported utilization of these tools by companies in engaging their stakeholders is part of the empirical analysis illustrated in the last chapter of this dissertation.

SE is now accepted as integral to an organisation's sustainability and success (AccountAbility, 2015). As we stated before in the text, one possible definition of SE is:

> the process used by an organisation to engage relevant stakeholders for a clear purpose to achieve agreed outcomes. It is now also recognised as a fundamental accountability mechanism, since it obliges an organisation to involve stakeholders in identifying, understanding and responding to sustainability issues and concerns, and to report, explain and answer to stakeholders for decisions, actions and performance (AccountAbility, 2015).

It is important, however, to understand the difference between good-quality and poor-quality engagement (Manetti, 2011). A quality stakeholder engagement can help giving those who have a right to be heard the opportunity to be considered in decision-making processes and, moreover, help to determine material issues for sustainability management and reporting.

> Stakeholder engagement takes place to develop or improve strategy or to help identify and address operational issues. Building trust-based relationships is inherent to both strategic and operational stakeholder engagement. The purpose may be associated with ongoing activities, such as aiming to ensure that the organisation has a good understanding of stakeholder views or to foster positive stakeholder relationships, or it may be associated with a specific project or need, such as to inform a materiality-determination process (AccountAbility, 2015).

The empirical analysis illustrated in Chapter 4 will provide insights on these two functions (definition of strategies and materiality-determination), contributing to understand which is the reported role of stakeholder engagement for companies operating in the mining sector.

Another question arises at this point: which tools can companies use to support SE and, in particular, these two functions? Nowadays many companies underline in their annual reports the importance of partnerships and interaction with their stakeholders (Kolk, 2004). To interact with their stakeholders, companies can use several instruments. The instruments organizations can use to involve stakeholders also depend on the level and type of involvement they want to achieve.

> In determining level(s) of engagement, the owners of the engagement define the nature of the relationship they have or aim to develop with their stakeholders. Engagement may take place at more than one level. The owners of the engagement may choose to engage with the stakeholders in one segment of its stakeholder map at one level and with stakeholders in another segment of the stakeholder map at another. The level of engagement may also change over time as relationships deepen and mature. The method of engagement should be selected to best meet the

needs, capacity and expectations of the relevant stakeholders. More than one method may be selected for any given engagement. Different methods may be used concurrently or sequentially (AccountAbility, 2015).

Consequently, we opted to organize this review of tools of SE in three parts. Every part is based on the level of engagement the organization can usually achieve through the different methodologies. This classification build on the models of SE quality developed by Arnstein (1969)[25] and Friedman and Miles (2006). Our three-levels model, which is supported also by AccountAbility (2015), will be implemented in the empirical analysis illustrated in the next chapter, which will provide some insights on the most recurrent levels of engagement as reported in sustainability reports.

Table 3.4 – Levels of stakeholder engagement and supporting methodologies

Level	Examples of preferred methods of engagement
1) Information Simple information of stakeholders by the organization: one-way dialogue and no opportunity for SE to influence decisions (*1-4 rungs in Friedman and Miles' model*)	• MEDIA • WEBSITE • SOCIAL MEDIA • REPORTS • BULLETINS AND NEWSLETTERS • SPEECHES AND PRESENTATIONS
2) Consultation Consultation of stakeholders by the organization: information gathering and basic involvement (*5-6 rungs in Friedman and Miles' model*)	• FOCUS GROUPS AND WORKSHOPS • SURVEYS • INTERVIEWS • SOCIAL MEDIA • FIELD VISITS AND PUBLIC MEETINGS WITH Q&A
3) Empowerment Proactive role of stakeholders, decision-making alliances and appointment of representatives in the governing bodies (*7-12 rungs in Friedman and Miles' model*)	• JOINT VENTURES, PARTNERSHIPS OR COLLABORATION • ADVISORY PANELS • SPECIFIC ONLINE INTERACTION TOOLS • MULTI-STAKEHOLDER FORUMS • SOCIAL MEDIA

[25] As illustrated in section 3.2.4, this model was initially applied to a different field, that is citizen participation.

Table 3.4 provides, for each level of engagement, a list of preferred methods for SE. The first level is represented by simple "information", with one-way dialogue and no real opportunity for SE to influence decisions. The second level is "consultation", monitoring, information gathering in a truly two-way perspective. Thirdly, "empowerment" requires a proactive role of stakeholders, also through alliances, and the appointment of representatives in the governing bodies.

Although to present every aspect of each method is beyond the scope of our dissertation, next sections will highlight the key features of the most important approaches for each desired level of engagement.

3.4.2. Information

The promise of these level is: "We will keep you informed" (Bryson, 2004). Standard tools like websites, bulletins, newsletters, presentation of reports are often used by organizations to inform their stakeholders. If the purpose of a company is just to inform stakeholders, without the willing to create a truly two-way interaction, we are still in the first level of stakeholder engagement.

Corporations may release information to stakeholders in order to be open and transparent (Friedman & Miles, 2006). However, one could argue if this level, which does not encompass a real form of interaction, can be considered a form of SE. If we look at the definition stated in the previous section, the key feature is the purpose. In light of this definition, we are still talking of a legit form of SE when a company pursues the purpose of engaging stakeholder in order to keep them informed. At the same time, we believe that many doubts emerge when we think at the potential of SE in creating an interaction which is directed to the definition of strategies and to a materiality assessment; this potential is dispersed if one organization only aims to inform their stakeholders without collecting their opinions or ideas.

In this level we usually find tools that do not encompass the possibility or opportunity of a reply. Tools like bulletins, newsletters, presentation of reports are born to communicate in a mono-directional way. Instead of an accounting approach that is able to consider and balance the different perspectives and expectations of the community, they support a monologic (Gray, 1997) form of accounting. These tools

are useful if a company is willing to disclose a certain message but is not interested in gathering any comment or opinion about this message or its general strategies.

At the same time, there are tools that can be used both in a mono-directional way or a multi-directional way. In these cases, it is the orientation of the company in pursuing one or another level of engagement that matters. A clear example of a tool featuring this binary orientation is represented by the official website of a company. A website can represent just a showcase for the company's products and services, or provide a platform where stakeholders can comment, interact and submit their opinions. In fact, among the instruments and techniques of stakeholder engagement, a leading and crucial role is played by online interaction, using the organisation's social media, social networks, blogs, websites, and other technologies linked to the Internet (Kent, Taylor, & White, 2003; Park & Reber, 2008; Rybalko & Seltzer, 2010; Unerman & Bennett, 2004). Once again, however, it depends on the owner of the stakeholder engagement process to use these tools for consulting (or even empowering) stakeholders, or just to inform them. As we will see further in the text, websites and social media are increasingly representing powerful and innovative tools for supporting stakeholder engagement, but it depends on the organization if and how to exploit their potential to create a conversation with stakeholders.

3.4.3. Consultation

The promise in this level is: "We will work with you to ensure your concerns are considered and reflected in the alternatives considered, and provide feedback on how your input influenced the decision" (Bryson, 2004). Stakeholder engagement is seen as the process of effectively eliciting stakeholder views on their relationship with the organization (Friedman & Miles, 2006). Surveys, focus groups, interviews and social media are frequently mentioned in reports as method for supporting this level of SE. These kind of tools are usually used to go beyond the simple information of stakeholder. Stakeholders are usually asked to give their opinion on the materiality of issues in a way that can influence the decision making process.

Each of the tools featured by this level has its peculiarities. In the frame of SE, surveys are built on a list of questions (which can be open or closed) aimed at gathering

specific information from a particular group of stakeholders. Surveys may be conducted by mail, phone, web, and face-to-face on the field, and are often used to assess views, opinions, and feelings; can be specific or they can have more widespread objectives. Surveys are typical of this level as they represent an important tool to collect information through the interaction with stakeholders. Stakeholder surveys can lead to a noteworthy level of engagement as the organization is actively soliciting stakeholder feedback (Friedman & Miles, 2006). Arguably, organizations would not waste precious resources in conducting such activities if the results were not actively incorporated into future strategic actions; however, the organization has the right to decide what it does with the feedback (Friedman & Miles, 2006).

Moreover, once the structure of the survey has been prepared and the sample of respondents has been defined, surveys represent a convenient way to collect information from a large number of respondents and build a relevant database for subsequent analysis. Consequently, many companies use stakeholder surveys for assessing stakeholder needs and expectations (Jackson & Bundgard, 2002). This can be conducted in-house, or commissioned to an independent research agency. Surveys can solicit views that would otherwise go unheard and are considered more democratic than other methods of engagement (Friedman & Miles, 2006; MacRae Jr & Whittington, 1997).

Corporations have historically used stakeholder surveys for employee and consumer research (Friedman & Miles, 2006). Some companies give detailed information about opinion polls and surveys among their employees (Kolk, 2004). Surveys can collect info on employee perceptions on a variety of issues, including safety, health and environment, ethics, accountability, diversity, personal respect and open, two-way communications (Kolk, 2004). Nonetheless, survey can represent a powerful tool to have a consultation - in the sense organizations can collect info and opinions - with both internal and external stakeholders (e.g. consumers) and to determine with every group of stakeholders the issues that should be reported on by the organizations.

Interviews are another typical method for consulting internal or external stakeholders. Stakeholder interviews can provide detailed information about individual's perceptions. Interviews also allow for a two-way communication and can reduce or avoid misunderstandings (Friedman & Miles, 2006). While surveys are useful to reach

a large number of respondents with a single questionnaire, interviews are more time-consuming but can provide a more tailored, one-to-one experience and collect more specific data. Interviewing, the transcription of interviews and the analysis of transcripts are all very time-consuming (Bryman & Bell, 2015). Interviews can be conducted by phone, web, and face-to-face.

There are many levels to the degree of structuration that interviews can have: organizations can opt for structured interviews with very specific questions that follow a previously prepared outline or opt for less structured interviews. While the former orientation usually maximizes the reliability and validity of measurement of key concepts, the latter can give more insights on what the interviewee sees as relevant and important (Bryman & Bell, 2015). Organizations need to choose case by case which is most suitable approach for each kind of stakeholder they want to involve and the level of SE they want to pursue.

Meetings, workshops and focus groups are other methods to engage stakeholders in a collective manner. In particular, the focus group method is a form of group interview in which there are several participants (in addition to the moderator/facilitator) and the accent is upon interaction within the group and the joint construction of meaning (Bryman & Bell, 2015). In other words, the stress is laid on the interactive aspect of data collection (Flick, 2009): the hallmark of focus groups is the explicit use of group interaction to produce data and insights that would be less accessible without the interaction found in a group (Flick, 2009; Morgan, 1988). Focus groups can be used as a method of SE on its own or in combination with other methods - surveys, single interviews, etc. (Flick, 2009; Morgan, 1988). Focus groups emphasizes questioning on a fairly tightly defined topic and contains elements of two methods: the group interview, in which several people discuss a number of topics, and what has been called a focused interview, in which interviewees are selected because they are known to be involved in a particular situation (Bryman & Bell, 2015; Merton, Fiske, & Kendall, 1956). Focus groups are usually recorded and transcript.

Meetings, workshops and focus-groups can represent a powerful tool of SE where stakeholders are called to discuss the materiality of certain issues or to provide their opinion or point of view on specific topics. Participant stakeholders can originate from the same groups of stakeholders (e.g. a focus group with employees) or represent a

more heterogeneous group, with stakeholders originating from different categories (e.g. workshop with one participant for each class of salient stakeholders).

As we claimed before in the text, we believe social media can also represent a powerful tool for supporting stakeholder engagement and dialogic accounting. There is a partial literature gap on the role of stakeholder engagement in defining the contents of SESR according to the principles of materiality and relevance of information disclosed, and the specific contribution of social media and web 2.0 in creating a model of authentic dialogic accounting. In light of these considerations, Section 3.4.5 will focus on the innovative role and potential of social media in consulting and engaging stakeholders.

As a result of the consultation process and to reflect different stakeholder views, it has become rather common to include stakeholder statements in reports (Kolk, 2004). The stakeholder statements included in the reports can originate both from internal and external stakeholders (Kolk, 2004). A specific part of the analysis described in Chapter 4 will be devoted to assess how many reports contained statements or quotes from stakeholders.

3.4.4. Empowerment

The promise in this level is: “We will incorporate your advice and recommendations to the maximum extent possible” (Bryson, 2004). In other words, the third level, “empowerment”, suggests a proactive role of stakeholders, the creation of alliances and the appointment of representatives in the governing bodies. This third level presents different features in respect of the others and cannot only build on tools and methods of engagement. Empowerment needs to directly involve stakeholders into the decision making process and to create partnerships and joint initiatives. Through this emancipatory process there is a shift from “accounting for” communities and stakeholders to “accounting by” communities and stakeholders (Lombardi, 2016).

Organizations that pursue this level of involvement usually appoint representatives of certain stakeholder groups in governing bodies. In fact, the key point is that organizations are not only trying to engage stakeholders to gather information or

opinions, but are trying to form productive alliances with those individuals or organizations that are considered relevant to their activity.

> Strategic alliances are collaborative 'marriages' between organizations and stakeholders to pursue mutually beneficial goals. Each partner brings a particular (complementary) skill or resource and through joint engagement both parties are expected to benefit. The most common alliances are between corporations and environmental groups (Murphy & Bendell, 1997) and with supply chain partners (Friedman & Miles, 2006).

Organizations can engage in joint ventures, social partnerships, and joint committees with a range of stakeholders. Suppliers and NGO are among the most salient classes of stakeholders for alliances because these joint ventures could help improve the decision-making process by providing skills and different, pro-active point of views. If stakeholders are informed of and participate in the decision-making process, they are more likely to agree with the outcome, and hence the public perception of the decision may be enhanced, leading to a greater degree of public trust (Darnall & Jolley, 2004; Friedman & Miles, 2006). Consequently, this confirms that SE could be implemented for purely political, strategical or instrumental reasons, in order to manage legitimacy issue. As we have seen before in the text, the instrumental approach tries to identify the potential or effective connections that exist between stakeholder management and the achievement of organization goals and aims. This includes the links between better stakeholder management and profitability, as well as the enhancement of an organization's reputation within the community. We believe a case by case analysis is necessary to understand the real nature of SE.

> Organizations may join forces with competitors to lobby at the industry level, or with customers, suppliers, or an environmental group for product development. The difference between partnerships and collaborations or alliances is a matter of degree, with the former involving more substantial joint activities and taking on greater risk (Friedman & Miles, 2006).

This behavior can be explained in light of stakeholder theory, as organizations could be willing to orient their strategies towards stakeholders' expectations for a various range of motivations. In particular, instrumental stakeholder theory, that views the firm as a nexus of contracts (Jensen & Meckling, 1976), addresses the ability of a firm to increase its competitive advantage by minimizing the costs of contracting. Jones (1995), in his discussion of instrumental stakeholder theory, argues that if firms

contract with their stakeholders on the basis of mutual trust and cooperation, they will have a competitive advantage over firms that do not (Sundaram & Inkpen, 2004).

> Bridging reduces uncertainties that arise from unpredictable demands and pressures that come from high levels of interdependences among stakeholders, by increasing the level of control each party has over the other's activities. Bridging can also increase organizational flexibility. This style of stakeholder management requires high levels of trust between parties. Social capital must be created, values and norms should be shared, and there should be agreement about rules for cooperation. Such activities can positively result in increased levels of decision-making power being transferred to the stakeholder (Friedman & Miles, 2006).

An organization can minimize these costs by developing trusting relations with its various stakeholders (Berman et al., 1999). Mitchell et al. (1997) state that stakeholder theory holds the key to more effective management: if managers empower stakeholders, then the organization will be more successful or more likely to be sustainable (Friedman & Miles, 2006; Sundaram & Inkpen, 2004).

As a consequence, if the features of the first level, "information", cast some doubts on whether it attains to a genuine form of engagement, this level, "empowerment", concerns something that is really above the consultation of stakeholders through surveys, interviews, etc. and attains the various forms of their involvement in the decision making process. The organization is more likely to engage in multi-way discussions if the goals of the stakeholder converge with, or are not excessively different from, those of the organization (Friedman & Miles, 2006). The resolution to share part of the decisional power with one group (or more) of stakeholders may introduce new opportunity but may also lead the organizations to unavoidably expose itself. Therefore, through this level, the management needs to tackle a managerial issue, more than a methodological one, which concerns if and how certain stakeholders have to be involved into the decision making process and which are the most effective forms of partnership.

Next section will present the main results of an empirical study where Manetti and Bellucci (2016) assess if online interaction through social media represents an effective stakeholder engagement mechanism in order to define the contents of sustainability reports.

3.4.5. Social media for SE

Manetti and Bellucci (2016) explore the utilization of social media (with particular reference to Facebook, Twitter, LinkedIn, YouTube, Google+, and Flickr) as an instrument of stakeholder engagement in sustainability reporting in identifying, dialoguing with, and engaging the largest possible number of organisation stakeholders (Lovejoy, Waters, & Saxton, 2012; Swift, 2001), while also taking into account their opinions and expectations, even if they diverge from the organisation's point of view. More specifically, Manetti and Bellucci (2016) study the role played by social media in promoting a democratic debate on CSR issues (Unerman & Bennett, 2004) in order to define the contents of social, environmental or sustainability reporting.

We believe that social media and social networks can represent powerful mechanisms for reaching and keeping in touch with a large number of stakeholders, thus guaranteeing an interactive dialogue with them at very low costs. This Internet-based dialogue can also contribute to creating a process of authentic stakeholder engagement based on a democratic – even if not necessarily convergent – consultation of stakeholder opinion. We think this is an increasingly relevant topic, as social media is becoming one of the main channels through which organisations promote their activities and communicate with customers, users, communities, and other primary stakeholders. Moreover, within an interdisciplinary accounting research perspective, the study by Manetti and Bellucci (2016) aims to explore the link between accounting and social media since, as corporations and markets increasingly become mediatized, issues of accountability become more prominent and prevalent (Jeacle & Carter, 2014).

In the process of answering thier exploratory research question, Manetti and Bellucci (2016) ran a two-step analysis. Firstly, authors analysed a sample of 332 sustainability reports to verify the presence of references to social media (placing special emphasis on Facebook, Twitter, LinkedIn, YouTube, Google+, and Flickr) or a disclosure in the stakeholder engagement section on the use of social media. This was done in order to understand whether the organisation has effectively declared its intent to use these

online tools for engaging stakeholders. They then observed and analysed the social media pages of organisations that declared in their reports to use these tools for interacting with their stakeholders. This was done in order to study the type of interaction that exists between the organisation and its stakeholders through social media, using both social media analytics and content analysis.

We believe this study by Manetti and Bellucci (2016) produced at least two significant results. Firstly, they have determined whether (and to what extent) organisations are effectively using social media for engaging stakeholders. Their analysis, in fact, suggests that only a small number of organisations use social media to engage stakeholders as a means of defining the contents of sustainability reports. Results show that using social media for interacting with stakeholders, retrieving their opinions, and collecting data for SR is not yet a common practice among organisations that publish GRI reports. It seems that the use of social media for one-way communication to users (especially customers) and for legitimizing the presence of the organisation within society is a strong and consolidated tendency. However, authors did find a higher level of online interaction with the "community" with reference to more broadly understood CSR topics that are not specifically connected with SR policies and practices.

Secondly, their analysis of the social media pages enables an understanding of which kind of dialogue between organisations and stakeholders is actually performed: the level of interaction (measured as comments/replies, liking/starring and sharing/retweeting, depending on the social network) is generally very low with the exception of posts on Facebook that sometimes result in effective means of dialogue among various parties. However, the use of a Facebook profile for interacting with the community is more often oriented towards a dialogue on CSR topics than to the definition of SR contents. Manetti and Bellucci (2016) observed, in particular, several posts concerning very critical topics (e.g. the use of renewable resources or the collection of resources in areas at risk of war) where a high amount of negative feedback is produced. Accordingly, this type of interaction is more oriented towards gathering divergent socio-political views in an agonistic perspective (Brown & Dillard, 2013) than to adopting a deliberative approach aimed at forging a democratic consensus on how to address specific CSR or SR issues and problems (Unerman &

Bennett, 2004, p. 691). In these cases it is possible to affirm that the tendency of organisations to use social media for legitimizing their presence in society (Deegan, 2006) is still strong, but the interaction that arises from the initial posts on CSR topics is associated with agonist accounting. Indeed, it is not unusual to find cases where the initial post by the organisation generates a conversation that could be potentially damaging to the organisation's image, since the company is criticized for its activities, for the services or products provided, or for the way in which socially - or environmentally - sensitive issues are managed. The "tone" and the contents of the replies are unpredictable and, given the nature of social media, hard to manage by the organisation.

Facebook, in particular, seems to be utilized as a vehicle for synthesizing the different points of views found among diverse groups of interest and for recognizing elements of difference, antagonism, and divergent socio-political orientations within the community of online users. As such, organisations should take these views into account. Regardless, the level of interaction between the organisation and its stakeholders on these topics is not particularly high and communication, after an initial push towards a two-way conversation, assumes unidirectional tones because organisations tend not to respond to the comments or provocations of Facebook users. Manetti and Bellucci (2016) also determined that messages posted with the aim of interacting with users are not usually targeted towards a specific category of stakeholders, but rather towards the community in general. Social media are still used mainly as mono-directional channels for promoting products, services, and activities, rather than as platforms in which to interact with stakeholders and gather relevant data for sustainability reporting.

In conclusion, social media can be used by corporations, public agencies, and non-profit organisations to give voice to their stakeholders with reference to SR or to CSR topics, but without necessarily providing people an effective say in the decision-making process (Fuchs, 2009). Stakeholders can communicate their ideas, but in their everyday life they do not necessarily have transformative institutionalized power over organisations. As a result, the main risk of social media use for stakeholder engagement in SR is to give the illusion that stakeholders can make a difference, whereas in reality they do not often influence policies. On the contrary, the recourse

to social media for this type of involvement can contribute to the building of an illusory mechanism of democratic decision-making process in SR. However, in accordance with the principle of materiality and relevance of information disclosed (Global Reporting Initiative, 2013c; Unerman & Bennett, 2004), the different levels of interaction among different topics enable organisations, although in a few cases, to better define the main relevant topics - in addition to the contents and the communication mode of such topics - they need to cover in their reports.

In light of these considerations, we believe the research by Manetti and Bellucci (2016) points towards the necessity of determining whether online mobilization through social media induces social self-expression, information gathering, and real changes of opinions among stakeholders as it does in the area of politics (Bond et al., 2012). There is evidence that online mobilization works in changing political opinions because it is spread primarily through strong-tie networks that often exist offline, but have also established an online presence. These findings suggest that online messages might influence a variety of offline behaviours, which have implications for our understanding of the role of social media in society (Bond et al., 2012). By adopting a similar approach, contemporary scholars might consider studying how organisations plan, build, and organize their online interactive networks and media in order to engage stakeholders for answering their CSR and SR issues. Moreover, future research might examine the best features of social media in terms of engaging stakeholders in SR and the corresponding impacts on an organization's economic, social, and environmental performance. This prospective development could allow us to better understand what types of organizations are more likely to engage in a two-way conversation with their stakeholders in order to define the contents of SR.

4. An empirical study on SE in sustainability reports

4.1. Introduction

4.1.1. Research context and objectives

In stakeholder theory literature, little attention has been paid to the properties of information stated in sustainability reports regarding stakeholder engagement (SE) policies and practices (Abdifatah & Mutalib, 2016; Brown & Dillard, 2015; Cooper & Owen, 2007; Crane & Matten, 2016; Dobele, Westberg, Steel, & Flowers, 2014; Manetti, 2011; Owen et al., 2001). The aim of the present chapter is to provide a deep, empirical focus on how sustainability reports address the topic of stakeholder engagement, the distinctive features of this process of involvement and which is the role of stakeholder engagement for assessing materiality and defining the contents of such a disclosure.

In order to pursue these research objectives, we analyzed a sample of sustainability reports prepared in compliance with the GRI guidelines. As of July 2016, the GRI sustainability disclosure database encompasses 9,319 organizations, 34,136 reports, and 23,731 GRI reports published between 1999 and 2016. We wanted our sample to be up-to-date and constituted of reports prepared in accordance with the latest version of the GRI guidelines (G4) in order to study the most current reporting practices of organizations. Our sample is descripted in details in the second section of this chapter. We decided to focus on the mining industry because it is a sector that presents many legitimacy concerns: organizations operating in this sector have to deal everyday with social and environmental issues and are very sensible to the interests of several groups of stakeholders[26]. Extraction and processing of mineral resources are widely regarded as one of the most environmentally and socially disruptive activities undertaken by business (Jenkins & Yakovleva, 2006; Peck & Sinding, 2003). Many of the

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[26] The following paragraphs on the sustainability issues of the mining sector are partially based on "*Giunta, F., Bini, L., Bellucci, M. (2016). Put your money where your mouth is: how to tell real commitment to sustainability apart from mere rhetoric? (working paper)*".

environmental disasters or human rights incidents, which have contributed to the growing public concern about sustainability, have took place in the mining industry (Cowell, Wehrmeyer, Argust, & Robertson, 1999; Warhurst, 2001). As a consequence, many studies and reports have been conducted on this industry, contributing to the acknowledgment of the main key sustainability instances claimed by the main stakeholders. The same studies document that, in recent years, mining companies have started to pay serious attention to its environmental and social impacts (Dobele et al., 2014; Jenkins & Yakovleva, 2006; Mouan, 2010; Peck & Sinding, 2003). As stated by Peck and Sinding (2003), one of their major concerns of companies deals with the increasing need to legitimate their existence and document their performance through the disclosure of social and environmental information.

This behavior can be explained in light of legitimacy theory and socio-economic theory[27]. Under these perspectives, some authors claim that organizations issue social reports to reduce their external costs or diminish pressures that are being imposed by external stakeholders or regulators (Castello & Lozano, 2011; Deegan, 2002; Gray et al., 1995; Gray & Milne, 2002; Guthrie & Parker, 1989; Tate et al., 2010); in other words, voluntary disclosure of sustainability reports can be carried on for strategic reasons, rather than for responsibility towards the community, and can be used to influence (or manipulate) stakeholder perceptions of their image. Legitimacy theory can be complemented by socio-economic theory in furtherly explaining why organization can issue a sustainability reporting for strategic reasons. Advocates of socio-economic theory states that an organization and its voluntary disclosure practices must be analyzed within a social and political context, since the institutional framework helps in understanding their behavior (Clarkson, Li, et al., 2011; Clarkson, Overell, et al., 2011; Deegan, 2002; Deegan et al., 2002; Dowling & Pfeffer, 1975; Laufer, 2003; Patten, 1992). Problems can emerge when there is a disparity between community values and the organization's values and impacts. By using external accountability mechanisms, voluntary disclosure on sustainability issues can strengthen an organization's social legitimacy, improving its image and perception

[27] For a review of the main theoretical motivations underneath sustainability reporting, see Section 2.1.2 of this dissertation.

among external stakeholders and the local community. The manipulation of an organization's image (greenwashing and bluewashing, see Section 1.4.2) is perceived as being easier to accomplish than improving the organization's levels of sustainability performance, its supply chain structure, or its value system.

Against this background, the mining industry represents a proper context to study the role of stakeholder engagement in defining the materiality of information for the purpose of preparing a sustainability report.

4.1.2. Main features and sustainability issues of the mining sector

Before describing our research design in the next section and discussing results in section 4.3, we now provide a brief depiction of the major stakeholders and related sustainability issues in mining industry, mainly based on the detailed analysis proposed by Azapagic (2004) and the recommendations included in the GRI's Sector Supplement for mining industry (Global Reporting Initiative, 2010).

Mining companies are characterized by high degree of strategic homogeneity, mainly referable to high barriers to market entry/exit, low product differentiation, standardized technology, and international exchange-based pricing (Shapiro, Russell, & Pitt, 2007). In light of these characteristics, competitive success in the industry is mainly based on external growth strategies, cost efficiency, risks and reputation management.

Employees represent one of the most important stakeholders in the industry. Their interests mainly lie in organizational cultural issues: working conditions, opportunities for training and carrier development and respect for human rights. Similar issues are promoted by trade unions. However, the real influence of this stakeholder differs substantially among countries, especially between Western developed economies and developing countries.

Historically, the division between employees and management has been the cause of major dispute between trade unions and mining companies. In this respect, local authorities and governments potentially play the most influential role in supporting sustainability issues related to labour conditions, as they define the legislative

framework for workers' rights and their enforcement. Likewise, the same actors represent the major stakeholder in advocating issues related to societal influence.

A key aspect involves how mineral wealth is distributed at the local level. Increasingly, mining companies' licence to operate in a country is bound to the realization of social investments for the host communities, including schools, hospitals, and water and road infrastructures.

A correlated issue, particularly important in mining industry, is represented by corruption. Bribing and corruption are damaging for the development of the host community as they divert profit away from the public interest. Inspection authorities and NGOs have documented huge sums spent by mining companies bribing officials, for example to secure or speed up the permitting process (O'Higgins, 2006).

Societal instances are mainly the results of a growing social awareness among local communities affected by minerals operations. To date, local communities represent the largest stakeholder of mining companies, including also those neighbouring the mine sites. Sustainability instances advocated by local communities are among the most complex and articulated (Dobele et al., 2014). Local communities usually supply almost all of workforce employed in mining companies. Even if local communities take advantages from the provision of employment, they suffer the strong effects caused by extractive activities, both in terms of clean and healthy life conditions and environment preservation. Environmental issues related to mining activity form a long list, ranging from depletion of non-renewables resources to water pollution, discharges of liquid effluents, solid waste and energy use. Mining industry is one of the biggest consumers of energy. Moreover, extractive activities imply the production of large quantities of toxic substance, which can be dangerous for both human health and environment protection. Other issues are related to the responsibility of the company in the period subsequent to closure of the mine (Jenkins & Yakovleva, 2006). In this phase, main problems concern water contamination, loss of biodiversity, loss of land and visual impact.

Increasingly, over time, the interest towards such issues has transcended the borders of local communities to drawn attention from people all over the world. Many NGOs have risen and campaigned for more attention to environment protection or safer work conditions.

It is in light of all these arguments that many authors highlight the many legitimacy concerns of the mining sector. As we stated in previous section, extraction and processing of mineral resources are regarded as one of the most environmentally and socially impactful business activities (Jenkins & Yakovleva, 2006; Peck & Sinding, 2003) (Cowell et al., 1999; Warhurst, 2001). As a consequence, organizations operating in this sector have to deal everyday with social and environmental concerns and their license to operate is very sensible to the perception of their stakeholders. However, practically involving stakeholders is not always a straightforward process, as mining is a global industry, characterized by large companies located in different countries around the world (Brummer, Badenhorst, & Neuland, 2006). To disclose the largest amount of information on this process trough sustainability reports become imperative in order to fully understand company's strategies and orientations in light of stakeholders' expectations.

Next section introduces our research design (4.2.2) and some descriptive statistics for our sample (4.2.1), while section 4.3 discusses and comments our main results.

4.2. Research design

4.2.1. Sample

The empirical study presented in this section is based on a content analysis of 81 annual sustainability reports prepared in compliance with the GRI-G4 standard. We analyzed all the reports provided by the GRI database which were published in 2015 for the Mining sector complying with the latest edition of the guidelines. Out of a total of 95 reports which presented these characteristics, we included in the final analysis 81 reports in English, Spanish and Portuguese which have an adherence level "in accordance – Core" or "in accordance – comprehensive". We excluded 11 reports that presented an adherence level "Undeclared" for homogeneity reasons, as they do not guarantee a complete compatibility with the GRI standard and their inclusion could introduce a bias; moreover, we did exclude 3 reports written in Greek and Czech, languages that we do not have the ability to properly read or understand.

All in all, our sample is based on the annual reports of 81 organizations in the mining sector: 69 private companies (defined as a business organizations owned either by a non-governmental organization or by a number of stakeholders), 6 state-owned companies (legal entities created by a government in order to undertake commercial activities on behalf of the owner government) and 6 subsidiaries (companies controlled by another company through the ownership of 50% or more of the voting stock). Table 4.1 provides an overview of the organization types we can find in our sample and if these organizations are listed (63) or not (18) on a stock exchange[28].

Table 4.1 – Organization types and stock exchange listing

Organization type	Stock exchange		TOTAL
	Listed	Non-listed	
Private company	59	10	**69**
State-owned company	4	2	**6**
Subsidiary	0	6	**6**
TOTAL	**63**	**18**	**81**

Table 4.2 indicates the region in which the organization's headquarters are located (in the case of subsidiaries, the country relates to the location of the reporting entity). Central and South America are the most represented regions (22 organizations), followed by Africa (13), Europe (13), Asia (11), Northern America (13) and Oceania (6). This distribution is clearly influenced by the relevance of southern countries in the provision of raw resources and, as a consequence, in the field of mining. Our sample counts 16 multinationals (MNE), 63 large enterprises (Large) and only 2 small or medium enterprises (SME)[29]. The headquarters of multinational enterprises are located in particular in North America.

[28] For state-owned companies, "Non-listed" stands for fully state-owned and "Listed" means that part of the company is listed on a stock exchange for public trading (partial government ownership).

[29] GRI (and this dissertation) adopts the following EU definitions of organization size:

Enterprise category	Head count	Turnover	or	Balance sheet total
SME	< 250	≤ € 50 million		≤ € 43 million
Large	≥ 250	> € 50 million		> € 43 million
MNE	≥ 250 and Multinational	> € 50 million		> € 43 million

Table 4.2 – Region and size

Region	Size			TOTAL
	Large	MNE	SME	
Africa	13	0	0	**13**
Asia	11	0	0	**11**
Europe	13	2	0	**15**
Latin America & the Caribbean	20	2	0	**22**
Northern America	3	9	2	**14**
Oceania	3	3	0	**6**
TOTAL	**63**	**16**	**2**	**81**

This study analyzes reports prepared in compliance with the GRI-G4 guidelines, which are the latest version of the standard. Table 4.3 shows the adherence level of included reports, which reflects the extent to which the GRI Sustainability Reporting Framework has been applied to a report. In order not to introduce biases, we included in the final analyses only those reports that officially declared an adherence level in accordance with GRI-G4: the vast majority is constituted of reports with a "core" adherence level (77), while 4 reports presented a "comprehensive" level. As previously specified, 11 "undeclared reports" have been excluded from the final analysis[30].

18 organizations issued an integrated report in 2015, including both non-financial and financial disclosures.

Table 4.3 – Adherence level and integrated reports

Adherence level	Integrated		TOTAL
	No	Yes	
In accordance - Comprehensive	4	0	**4**
In accordance - Core	59	18	**77**
TOTAL	**63**	**18**	**81**

[30] While our analysis showed that an undeclared level of adherence is not necessarily related to a low quality of the reporting process, we opted to focus on reports that follow a specific level of adherence in order to define a more homogenous sample and not to introduce any form o bias.

As Figure 4.1 shows, English is the most common language in our sample. 62 reports are prepared in English, 9 of whose are bilingual (7 in both Indonesian and English). Figure 4.2 shows that 44 out of 81 reports are externally assured by an accountant, an engineering firm or a consultancy. With reference to the format of the report, only 2 organizations did not provide a Pdf version of the report, relying only on a section of their website.

Figure 4.1 – Language of reports

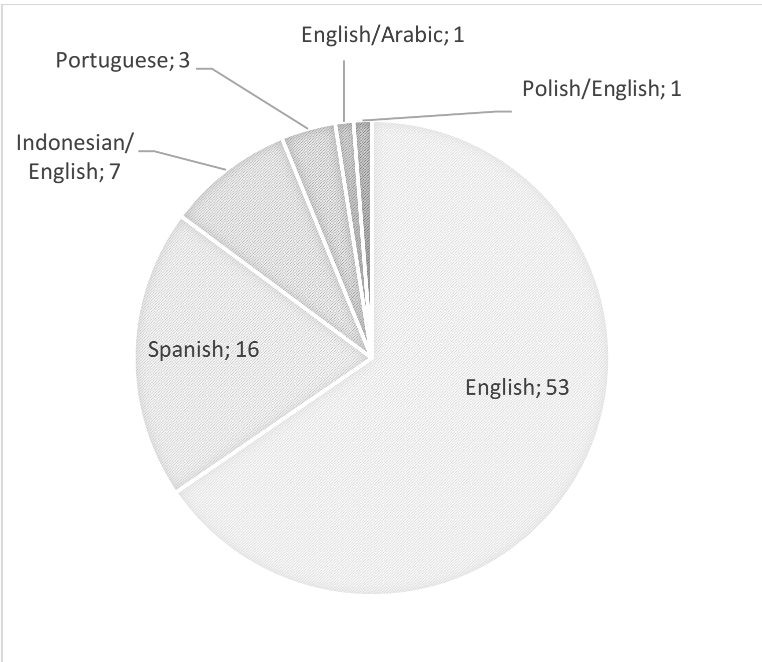
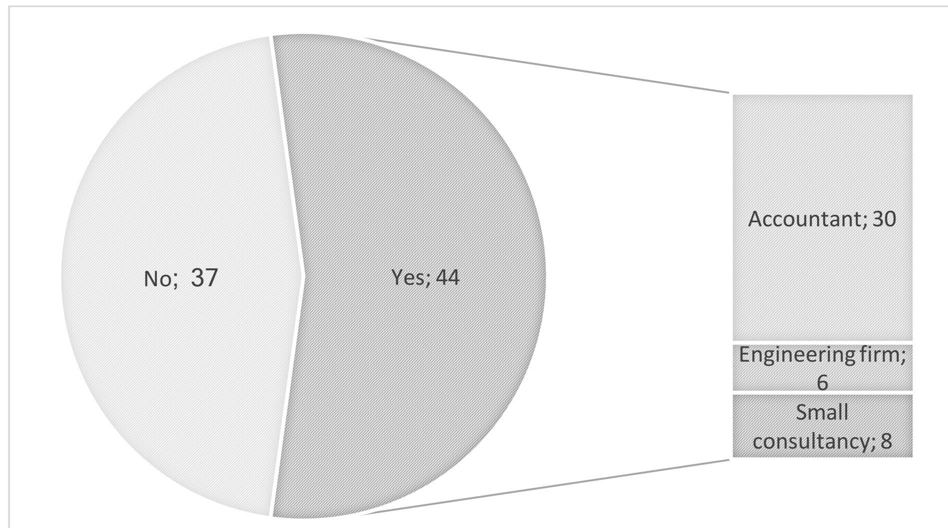


Figure 4.2 – External assurance



4.2.2. Methodology

Our main research objective for this chapter is to study how sustainability reports address the role of stakeholder engagement. In order to answer our exploratory research question, we opted for a mixed methodology built on content analysis, a research technique based on the objective, systematic, and quantitative description of the manifest content of communication (Berelson, 1952). It is conceived as a technique for making inferences by objectively and systematically identifying specific characteristics of certain types of messages (Holsti, 1969). Content analysis is a flexible approach to the examination of various media, documents, and texts, that seeks to quantify content in terms of predetermined categories and in a systemic and replicable manner (Bryman & Bell, 2015). As reported by Hsieh and Shannon (2005),

> content analysis has a long history in research, dating back to the 18th century in Scandinavia (Rosengren, 1981). In the United States, content analysis was first used as an analytic technique at the beginning of the 20th century (Barcus, 1959). Initially, researchers used content analysis as either a qualitative or quantitative method in their studies (Berelson, 1952). Later, content analysis was used primarily as a quantitative research method, with text data coded into explicit categories and then described using statistics. This approach is sometimes referred to as quantitative analysis of qualitative data (Morgan, 1988).

Today, content analysis has a long tradition of use in business, communication, sociology and psychology studies; during the last few decades its use has shown a steady growth (Elo & Kyngäs, 2008; Neuendorf, 2002).
As reported by Bryman and Bell (2015), the main use of content analysis has been to examine media items, as well as texts and documents produced by organizations, such as annual reports, or written about them, such as articles in the business press. In this regard, content analysis is one of a number of approaches to the examination of texts that have been developed over the years (Bryman & Bell, 2015). It is a research technique widely adopted in corporate disclosure studies (Guthrie, Petty, Yongvanich, & Ricceri, 2004) because it allows repeatability and valid inferences from data according to their context (Krippendorff, 2004; Manetti, 2011). Elo and Kyngäs (2008) provided a review of the main features of content analysis which is hereby reported:

> content analysis as a research method is a systematic and objective means of describing and quantifying phenomena (Downe-Wamboldt, 1992; Krippendorff, 2004; Sandelowski, 1993). It is also known as a method of analysing documents. Content analysis allows the researcher to test theoretical issues to enhance understanding of the data. Through content analysis, it is possible to distil words into fewer content-related categories. It is assumed that when classified into the same categories, words, phrases and the like share the same meaning (Cavanagh, 1997). Content analysis is a research method for making replicable and valid inferences from data to their context, with the purpose of providing knowledge, new insights, a representation of facts and a practical guide to action (Krippendorff, 2004).

The aim of content analysis, therefore, is to attain a condensed and broad description of the phenomenon, and the outcome of the analysis is concepts (or categories) describing the phenomenon; usually the purpose of those concepts (or categories)[31] is to build up a model or a conceptual map (Elo & Kyngäs, 2008).

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[31] Researcher need to decide between the terms "concept" and "category" and to use one or the other (Kyngas & Vanhanen, 1999); for example, if the purpose of the study is to develop a theory, it is recommended that the term "concept" be used as a proxy for "category", being this latter the mostly used in literature (Elo & Kyngäs, 2008). In this dissertation, when describing the analysis process, we opted to use the term "category".

Consequently, researchers regard content analysis as a flexible method for analyzing text data (Cavanagh, 1997; Hsieh & Shannon, 2005). Especially when researcher - as in our case - want to code text in terms of certain subjects and themes, content analysis lead to a categorization of the phenomena of interest (Bryman & Bell, 2015). Accordingly, as stated by Elo and Kyngäs (2008), it is much more than a naive technique that results in a simplistic description of data (Cavanagh, 1997) or a counting game (Downe-Wamboldt, 1992). It is a research technique that can be used to develop an understanding of the meaning of communication (Cavanagh, 1997) and to identify critical processes (Lederman, 1991). It is concerned with meanings, intentions, consequences and context (Downe-Wamboldt, 1992; Elo & Kyngäs, 2008).

Although content analysis is generally regarded as a quantitative method because it can concern the quantification of recurrent information, it also represents a powerful tool for collecting qualitative data (Hsieh & Shannon, 2005). In other words, it enabled us to study the content of sustainability reports both from a quantitative and qualitative perspective. Qualitative content analysis is defined as a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns (Hsieh & Shannon, 2005). The aim is to become immersed in the data, which is why the written material is usually read through several times (Burnard, 1991). After making sense of the data, analysis is conducted using an inductive or deductive approach (Elo & Kyngäs, 2008; Kyngas & Vanhanen, 1999). As stated by Elo and Kyngäs (2008),

> content analysis is a method that may be used with either qualitative or quantitative data; furthermore, it may be used in an inductive or deductive way. Which of these is used is determined by the purpose of the study. If there is not enough former knowledge about the phenomenon or if this knowledge is fragmented, the inductive approach is recommended (…). The categories are derived from the data in inductive content analysis. Deductive content analysis is used when the structure of analysis is operationalized on the basis of previous knowledge and the purpose of the study is theory testing (Kyngas & Vanhanen, 1999).

An approach based on inductive data moves from the specific to the general, so that particular instances are observed and then combined into a larger whole or general statement (Chinn & Kramer, 1983; Elo & Kyngäs, 2008). A deductive approach is

based on an earlier theory or model and therefore it moves from the general to the specific (Elo & Kyngäs, 2008; Grove & Burns, 2005).

If the researcher has chosen to use inductive content analysis, the next step is to organize the qualitative data. This process includes open coding, creating categories and abstraction (Elo & Kyngäs, 2008). In this approach, coding categories are derived directly from the text data (Hsieh & Shannon, 2005).

With a deductive approach, as in the case of this study, analysis starts with a theory or relevant research findings as guidance for initial codes (Elo & Kyngäs, 2008). This may also involve testing theories, previous literature, concepts, models or hypotheses (Marshall & Rossman, 2014). If a deductive content analysis is chosen, the next step is, as reported by Elo and Kyngäs (2008),

> to develop a categorization matrix (…) and to code the data according to the categories (…). In deductive content analysis, either a structured or unconstrained matrix of analysis can be used, depending on the aim of the study (Kyngas & Vanhanen, 1999). It is generally based on earlier work such as theories, models, mind maps and literature reviews (Hsieh & Shannon, 2005; Sandelowski, 1993).

Researchers must, of course, tailor their approach to the requirements of their research by selecting specific techniques and integrating them with other methods, substantive considerations, and theories (Weber, 1990). To the purpose of our study, a content analyses has been performed on our sample of 81 sustainability reports, with particular reference to the SE sections, in order to build a database capable of complementing info gathered form the GRI Sustainability Database. In analyzing SE disclosure, attention has to be paid to the presence of a SE section, to the intrinsic characteristics of such a process (if in place) and to what has been disclosed and how (Manetti, 2011). All the 81 reports have been downloaded from the GRI website, identified with a unique ID and their content has been manually analysed. A specific data entry grid was developed in a spreadsheet software (Excel) in order to support the data collection phase, the coding scheme and categorization of concepts. Specific coding rules for each cell were defined in order to avoid the insertion of wrong values during data entry and minimize coding errors. External appendices or secondary reports were not included in the analysis.

Table 4.4 and 4.5 respectively report all the data we collected from the GRI sustainability database and all the data we manually collected through our content analysis.

Table 4.4 – List and description of data collected from GRI Sustainability Database

Variable label	Description
Organization	
Name	Name of the organization
Size	Size of the organization (SME, Large, MNE)
Organization type	Type of the organization (private, state-owned, subsidiary)
Listed/Non-listed	Whether the organization is listed or not on a stock exchange
Sector	Sector the organization is operating in
Country	Country in which the organization's headquarters are located
Country Status	Whether the country is member of OECD, receives funding from DAC, or none
Region	Continent the organization operates in
Report	
Date Added	Date that the report was added to the Database
Title	Official title of the report
Publication Year	Year the report was published in
Integrated	Indicates whether or not the report includes both non-financial and financial disclosures, beyond basic economic information
Adherence Level	Reflects the extent to which the GRI Sustainability Reporting Framework has been applied to a report
GRI Service	Indicates whether the Report has gone through one of the GRI Services: Materiality Disclosures Service, SDG Mapping Service, Content Index Service, Application Level Service
External Assurance	If the report is externally assured or not
Type of Assurance Provider	Specifies the type of assurance provider: Accountant, Engineering Firm or Small consultancy/boutique firm
Assurance Provider	Indicates the specific name of the firm which provided the external assurance
Stakeholder Panel/ Expert Opinion	Indicates whether there was formalized input to or feedback on the report provided by a panel of stakeholders or expert(s)
Assurance Scope	Specifies the assurance scope (entire report or specific sections)

Level of Assurance	Specifies the level of assurance: limited/moderate, reasonable/high, a combination of both
Assurance Standard: AA1000AS	Indicates application of the AccountAbility AA1000 Assurance Standard (AA1000AS) as disclosed in the external assurance statement
Assurance Standard: ISAE3000	Indicates application of the International Standard on Assurance Engagements (ISAE) 3000 as disclosed in the external assurance statement
Assurance Standard: national (general)	Indicates application of a general national assurance standard (e.g., general accounting principles developed at the national level or by an organization within the specific national context) as disclosed in the external assurance statement
Assurance Standard: national (sustainability)	Indicates application of a sustainability (non-financial) specific national assurance standard (e.g., developed at the national level or by an organization within the specific national context) as disclosed in the external assurance statement
Sector Supplements (Final)	Indicates whether one of the final versions of the GRI Sector Supplements was used in the report
OECD	Indicates explicit reference to/ use of the OECD Guidelines for Multinational Enterprises in the report
UNGC	Indicates explicit reference to/ use of the United Nations Global Compact and its principles in the report
CDP	Indicates explicit reference to the organization responding to one of the annual Carbon Disclosure Project (CDP) questionnaires, or participating in an associated CDP project
IFC	Indicates explicit reference to/ use of the IFC Performance Standards in the report
ISO	Indicates explicit reference to/ use of the ISO 26000 clauses in the report

In particular, data listed in Table 4.5 came from a deep study of each report, with particular reference to our content analyses the stakeholder engagement section. We collected data on general characteristics of the reports, stated methodologies used for SE, reported categories of engaged stakeholders and features of reported interaction with stakeholders. All these qualitative and quantitative data were collected for every of the 81 reports which make part of our final sample.

Table 4.5 – List and description of data collected from Content Analysis

Variable label	Description
General info	
Type	Report format (PDF or Web-based)
Language	Language of the report
SE section	Indicates if there is a specific section devoted to SE
SE role	Indicates which is the claimed role for SE in the report
Stated methodologies used for SE	
Standard procedures	Indicates if SE is performed through standard procedures such as formal channels, presentation of annual reports, etc.
Focus groups	Indicates if SE is performed through focus groups and workshops
Interviews	Indicates if SE is performed through interviews and other one-to-one procedures
Surveys	Indicates if SE is performed through surveys and polls
Meetings	Indicates if SE is performed through group meetings, site visit, official meetings, etc.
Social media	Indicates if SE is performed through social media
Other web app.	Indicates if SE is performed through technological applications different from social media
Others	Indicates if different SE methodologies were used
Reported engaged stakeholders	
Shareholders	Indicates if the report presents shareholders and investors as an engaged class of stakeholders
Employees	Indicates if the report presents employees and their representatives (e.g. unions) as an engaged class of stakeholders
Customers	Indicates if the report presents customers as an engaged class of stakeholders
Suppliers	Indicates if the report presents suppliers, contractors and subcontractors as an engaged class of stakeholders
Government	Indicates if the report presents government, authorities and regulators as an engaged class of stakeholders
NGOs	Indicates if the report presents Non-Governmental Organizations, members of civil society and non-profit organizations as an engaged class of stakeholders
Local communities	Indicates if the report presents communities, community members, traditional councils and community trusts as an engaged class of stakeholders
Others	Indicates if there are other classes of stakeholders reported as engaged
Interaction	

SE degree	General evaluation of the degree of stakeholder involvement
Stakeholders Perceptions	Indicates if stakeholder perceptions on previous reports are reported
Stakeholders issue	Indicates if stakeholder issues are reported in the SE section or only in the materiality matrix
Quotations	Indicated if quotations from at least one stakeholder are reported
Dialogic accounting	Indicates if there are forms of dialogic accounting within stakeholders (*see our theoretical framework in chapter 3 of this dissertation for details and a literature review*)
SE for materiality	Indicates if it is clearly stated that SE is used for materiality check
SE guidelines	Indicates if and what specific guidelines are followed for SE
Assurance reported	Indicates if it is reported that an external assurance specifically devoted to SE is in use
Difficulties	Indicates if the report describes the main difficulties met in the SE process
Level of covering	Indicates the general level of covering of the SE process in the report
Photos	Indicates if the report makes use of photos
Visual arts	Indicates if the report makes use of other visual arts
Visual message	Indicates which is the general message of photos and other visual arts contained in the report

4.2.3. Validity and trustworthiness

Content analysts need to demonstrate the reliability of their instruments and the reliability of the data collected using those instruments in order to permit replicable and valid inferences to be drawn from data derived from content analysis (Milne & Adler, 1999).

Reliability in content analysis involves two separate but related issues. First, with reference to trustworthiness, the analysis process and the results should be described in sufficient detail so that readers have a clear understanding of how the analysis was carried out and its strengths and limitations (General Accounting Office, 1996). This means dissection of the analysis process and the validity of results (Elo & Kyngäs, 2008). This is one of the reason that led us to describe every step and detail of our empirical study in this section.

Creating categories is both an empirical and a conceptual challenge, as categories must be conceptually and empirically grounded (Dey, 2003b). Consequently, a

successful content analysis requires that the researcher can analyse and simplify the data and form categories that reflect the subject of study in a reliable manner (Elo & Kyngäs, 2008; Kyngas & Vanhanen, 1999). Moreover, credibility of research findings also deals with how well the categories cover the data (Graneheim & Lundman, 2004). It is important to make defensible inferences based on the collection of valid and reliable data (Weber, 1990). As reported by Elo and Kyngäs (2008),

> to increase the reliability of the study, it is necessary to demonstrate a link between the results and the data (…) This is why the researcher must aim at describing the analysing process in as much detail as possible when reporting the results. Appendices and tables may be used to demonstrate links between the data and results. To facilitate transferability, the researcher should give a clear description of the context, selection and characteristics of participants, data collection and process of analysis (Graneheim & Lundman, 2004). Demonstration is needed of the reliability of the findings and interpretations to enable someone else to follow the process and procedures of the inquiry.

A second issue is that content analysts can seek to attest that the coded data or data set that they have produced from their analysis is in fact reliable; the most usual ways in which this is achieved is by demonstrating the use of multiple coders and either reporting that the discrepancies between the coders are few, or that the discrepancies have been re-analysed and the differences resolved (Milne & Adler, 1999). In this case, as reported by Elo and Kyngäs (2008),

> the internal validity of content analysis can be assessed (…) by using agreement coefficients (Weber, 1990). However, there are various opinions about seeking agreement (Graneheim & Lundman, 2004), because each researcher interpret the data according to their subjective perspective and co-researchers could come up with an alternative interpretation (Sandelowski, 1993). Content validation requires the use of a panel of experts to support concept production or coding issues. (Graneheim & Lundman, 2004) defend the value of dialogue among co-researchers to agree the way in which the data are labelled.

Alternatively, researchers can demonstrate that a single coder has undergone a sufficient period of training: the reliability of the coding decisions on a pilot sample could be shown to have reached an acceptable level before the coder is permitted to code the main data set (Milne & Adler, 1999). As reported by Weber (1990),

> the central problems of content analysis originate mainly in the data-reduction process by which the many words of texts are classified into

> much fewer content categories. One set of problems concerns the consistency or reliability of text classification. In content analysis, reliability problems usually grow out of the ambiguity of word meanings, category definitions, or other coding rules. Classification by multiple human coders permits the quantitative assessment of achieved reliability.

By establishing the reliability of particular tools across a wide range of data sets and coders, content analysts can reduce the need for the costly use of multiple coders; well-specified decision categories, with well-specified decision rules, may produce few discrepancies when used by relatively inexperienced coders (Milne & Adler, 1999).

To this aim, under the supervision of two experienced senior researchers and building on the main existing literature described in Section 4.2 and 4.3, we defined a strategy in order to raise the reliability of our analysis (Bryman & Bell, 2015). This strategy followed four steps:

1. SAMPLE DEFINITION: we defined the full set of reports to be analyzed (cf. section 4.1);
2. DRAFT OF THE CODING CATEGORIES: we worked on a first draft of the specific research questions and relative coding categories (cf. Table 4.5);
3. CODING TEST: a test of the coding rules was run through a preliminary content analysis on a random sub-sample of 12 reports;
4. REVISION OF THE CODING RULES AND FINAL VERSION: the pilot test enabled us to fine-tune tools and coding procedures, deleting not useful categories and adding new, more insightful ones.

Only after these preliminary procedures we effectively ran our content analysis on the whole sample. For each of the sustainability reports, our analysis created quantitative measures of attention devoted to various content categories (Weber, 1990). The final deliverable of our data collection phase was a complete database which is the source of the analysis and results discussed in the next section. An analysis of these quantitative data can deliver some original insights on the role of stakeholder engagement for sustainability reporting and on the features of such an engagement. Moreover, this comprehensive and up-to-date database could easily be the source of further studies on sustainability reporting, stakeholder engagement and dialogic accounting.

4.3. Discussion of results

Our content analysis, together with the data we gathered from the GRI sustainability database, provided a lot of quantitative and qualitative information that enabled us to assess which is the reported role of stakeholder engagement in sustainability reporting. Moreover, we also wanted to understand the distinctive features of the reported processes of SE. Most content analysis is likely to entail several research questions that descend from the main one (Bryman & Bell, 2015). Table 4.6 presents these specific research questions and the results from our content analysis (for descriptive statistics of our sample, cfr. Section 4.2.1).

These results will be interpreted in light of the theoretical framework presented in Chapter 3 of this dissertation. We also included throughout this section a set of relevant quotations from our sample of reports.

Table 4.6 – Research questions, categories and results from content analysis

Question	N.	%
What is the format of the report?		
Pdf	79	98.53%
Web-based	2	1.47%
Has a specific section been devoted to SE in the report?		
Yes	69	85.19%
No	12	14.81%
What is the claimed role (aims and objectives) of SE for this organization?		
Setting or reviewing strategic objectives	5	6.17%
Setting the content of the report (defining materiality and relevance of information)	2	2.47%
Both the previous elements	72	88.89%
No reference to the previous elements	2	2.47%
Does the organization use one or more of the following methodologies for SE? *(being this is a multiple choice question, percentages indicate the ratio of organization that make use of that specific methodology)*		

Standard procedures	56	69.14%
Focus groups	4	4.94%
Interviews	17	20.99%
Surveys	36	44.44%
Meetings	58	71.60%
Social media interaction	3	3.70%
Other web applications	45	55.56%
Which are the stakeholder groups which have been engaged? *(this categorization is based on Chapter 3's review of stakeholder's definitions. Being this a multiple choice question, percentages indicate the ratio of organizations that declared to regularly engage that class of stakeholders)*		
Shareholders	63	77.78%
Employees	73	90.12%
Customers	45	55.56%
Suppliers	54	66.67%
Government	68	83.95%
NGOs	34	41.98%
Local communities	70	86.42%
What is the reported degree of stakeholder involvement? *(our three-categories elaboration is based on Arnstein 1969 and Friedman & Miles 2006: see theoretical framework in Chapter 3 for details)*		
EMPOWERED: Proactive role of stakeholders and appointment of representatives in the governing bodies *(12-7 rungs in Friedman and Miles' model)*	1	1.23%
CONSULTED: Consultation, monitoring, and information gathering *(6-5 rungs)*	70	86.42%
INFORMED: Simple information, one-way dialogue and no opportunity for SE to influence decisions *(4-1 rungs)*	9	11.11%
ABSENT: No reference to SE	1	1.23%
Are stakeholders' perceptions regarding the previous edition of the sustainability report included?		
Yes, only positive	0	0.00%
Yes, only negative	1	1.23%
Yes, both positive and negative	2	2.47%
No	78	96.30%
Stakeholders' issues are reported in the SE section or only in the materiality matrix?		
Yes	59	72.84%
No	22	27.16%
Are quotations from stakeholders included in the report?		
Yes, only positive (collaborative/accordant)	9	11.11%

Yes, only negative (agonistic/adversarial)	0	0.00%
Yes, both positive and negative	1	1.23%
No	71	87.65%
Are there forms of dialogic accounting within stakeholders?		
Yes, collaborative/accordant	2	2.47%
Yes, agonistic/adversarial	1	1.23%
Yes, both collaborative and agonistic	1	1.23%
No	77	95.06%
Is the report claiming explicitly that stakeholders have been directly involved to provide materiality check for the reporting process?		
Yes	75	92.59%
No	6	7.40%
Are specific guidelines used for SE?		
Yes	11	13.58%
No	70	86.42%
Is reported that a specific external assurance is in place for the process of SE?		
Yes	0	0.00%
No	81	100.00%
Are difficulties met in the SE process stated?		
Yes	5	6.19%
No	76	93.81%
In general, how the report covers the topic of SE?		
Deeply	11	13.58%
Intermediate	27	33.33%
Superficially	36	44.44%
Not at all	7	8.64%
Do the report makes use of photos?		
Yes	78	96.30%
Yes with a specific section	1	1.23%
Not particularly	2	2.47%
Do the report makes use of other visual arts?		
Yes	2	2.47%
Yes with a specific section	0	0.00%
Not particularly	79	97.53%

What type of message is the organization trying to articulate with such photos and other visual art?		
Positive	79	97.53%
Negative	0	0.00%
Mixed	0	0.00%
Absent	2	2.47%

69 enterprises (85.19% of the organizations[32]) decided to provide a specific section in their reports that illustrates the SE process. This is recommended by the GRI guidelines. Our content analysis confirmed that such a section usually comprises the following standard disclosures (Global Reporting Initiative, 2013c):

- G4-24: provides a list of stakeholder groups engaged by the organization;
- G4-25: reports the basis for identification and selection of stakeholders with whom to engage;
- G4-26: reports the organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process;
- G4-27: reports key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. It also reports the stakeholder groups that raised each of the key topics and concerns.

These standard disclosures provide an overview of the organization's stakeholder engagement during the reporting period and do not have to be limited to engagement that was conducted for the purposes of preparing the report (Global Reporting Initiative, 2013c). The compliance with GRI G4 usually enables organization to comply with the list of principles developed by the The Clarkson Centre for Business Ethics (1999) that summarize the ideal key features of stakeholder engagement (see Section 3.2.3 of this dissertation) and defined stakeholder engagement as the process

[32] While we acknowledge the rule of thumb not to use percentages for samples under 100 units, we opted to include them because we believe they can be useful to better interpret our results.

of effectively eliciting stakeholder views on their relationship with the organization. 12 organizations (14.81%) opted not to prepare a specific section of their report for the SE process, and to disseminate SE information throughout the whole report (referencing the above mentioned standard disclosures through the GRI index at the end of the report) or not to include them at all. In the perspective of the users of the report, we believe that a specific SE section better serves the purpose of addressing the call for transparency and accountability in the reporting of stakeholders' involvement.

The large majority of organizations (72 out of 81, 88.89%) in our sample claimed in their report that stakeholders have been engaged both for reviewing strategic objectives and setting the content of the report. Therefore, the role of SE appears to be crucial for organizations in the mining sector: the dialogue with stakeholders is relevant both for defining strategies and practices and also for conducting a materiality check of voluntary disclosures.

> "We regularly engage with stakeholders through a variety of mechanisms to ensure that we meet their needs. Our Stakeholder Engagement Sub-committee leads our approach. The committee identifies important stakeholders and ensures that we manage relationships in a consistent and accountable way. It maps all our stakeholders, the level of impact, and set outs a plan for how we should engage with them"[33].

Although the role of SE appears to be usually twofold, 5 enterprises (6.17%) claimed that SE was used just for reviewing strategic objectives, while 2 enterprises (2.47%) relied on SE just to define the contents of their report. Table 4.7 presents a focus on these organizations which specified a single function for their SE process. In particular, in 75 out of 81 reports (92.59%) organizations claimed to stakeholders have been directly involved to provide materiality check for the reporting process.

[33] Sandfire Sustainability Report 2015, p. 17.

Table 4.7 – Focus on companies which specified a single objective for their SE process

Size	Organization type	Listed/Non-listed	Country	Country Status	Integrated	Adherence Level	GRI Service	External Assurance	Type of Assurance Provider	Assurance Provider	Stakeholder Panel	Language	Specific section on SE?	Claimed role for SE?
Large	Private	Listed	South Africa	DAC-UMICT	Yes	In accordance - Core		Yes	Accountant	PricewaterhouseCoopers	No	English	Yes	*Strategic objectives*
Large	Private	Non-listed	Argentina	DAC-UMICT	No	In accordance - Core		No			No	English	No	*Strategic objectives*
Large	Private	Listed	Australia	OECD	Yes	In accordance - Core		Yes	Accountant	PricewaterhouseCoopers	No	English	Yes	*Strategic objectives*
MNE	Private	Listed	Canada	OECD	No	In accordance - Core	Materiality Disclosures Service	No			No	English	No	*Strategic objectives*
MNE	Private	Listed	Australia	OECD	No	In accordance - Core		No			No	English	No	*Strategic objectives*
Large	Subsid	Non-listed	Chile	DAC-UMICT	No	In accordance - Core		No			No	Spanish	Yes	*Content of the report*
Large	Private	Non-listed	Peru	DAC-UMICT	No	In accordance - Core		No			No	Spanish	Yes	*Content of the report*

In 59 reports (72.84%) the list of issues generated by stakeholders is reported also in the SE section, while in the remaining reports it is included in the materiality matrix only.

> "Our most material matters are those factors that could significantly impact our ability to create long-term sustainable value. Material matters are identified by a combination of processes including our risk management processes, the continuous review of internal performance and the external environment and our stakeholder engagement initiatives, both formal and informal. These matters are analysed and prioritised according to the significance of their impact on the Company and our key stakeholders"[34].

> "We have conducted a materiality analysis with internal and external stakeholders through our risk assessment process to guide the content of this responsibility report. Together we have identified the material issues that are of the highest importance to all of our stake- holders and our business and that are most material to our mutual future success and sustainability"[35].

To interact with their stakeholders, companies can use several mechanisms. Which tools and methodologies support this very important process? As we have seen before in this dissertation, organizations often rely on a mix of different tools (for a review of this tools, see Section 3 of this dissertation). 71.60% of the organizations reported to use group meetings, site visit, official meetings and other collective approaches to perform SE; 69.14% of the organizations declared to use formal procedures such as standardized, general channels of communication (e.g. newsletters, bulletins, etc.) and presentation of annual reports; 55.56% of the enterprises rely on their website and other technological applications different from social media (e.g. mobile apps). Other frequently used tools are survey and polls (44.44%) and interviews and other one-to-one procedures (4.94%). Social media have proven to be a tool capable of supporting a two-way conversation with stakeholder (see section 3.2 of this dissertation) but only 3 organizations (3.70%) in our sample claimed to actively use Facebook, Twitter or other social media platform to engage their stakeholders. Although one-way communication is still the most common form of strategy adopted by organizations

[34] African Rainbow Minerals Integrated Report 2015, p. 32.
[35] Teranga Sustainability Report 2014, p. 3

on social media (Waters & Jamal, 2011; Xifra & Grau, 2010), attempts to develop interactions among corporations and users are becoming increasingly popular (Manetti & Bellucci, 2016; Manetti et al., 2016) (see Section 3.4.5 of this dissertation for more details on the use of social media for SE). While traditional forms of interaction with stakeholders are still the most common, it is possible to imagine how complementary, innovative tools to engages stakeholders will begin to be employed more often in the near future.

We also wanted to assess the stakeholders' groups that organizations claim to have engaged with. The categorization we used for this content analysis is based on Chapter 3's review of the definitions of stakeholder. We analyzed every sustainability report in order to understand if the organization claim to engage shareholders and investors (77.78% of the organization indicates it engaged this group of stakeholders), employees and their representatives (90.12%), customers (55.56%), suppliers, contractors and subcontractors (66.67%), non-governmental organizations, members of civil society and non-profit organizations (41.98%), communities, community members, traditional councils and community trusts (86.42%). In general, employees, local communities, government, shareholders and suppliers are claimed to be engaged by more than two thirds of the organizations.

> Engagement with employees is critical to ensure that strategic focus is maintained[36].

Our empirical analysis confirms that employees represent one of the most important stakeholders in the mining industry (Azapagic, 2004). Contrasts between employees and management on working conditions, opportunities for training and carrier development and respect for human rights have been the cause of major clash between trade unions and mining companies. Our analysis confirms these trends and suggest that organizations are especially willing to include most relevant stakeholders. In particular, organizations in our sample are particularly interested to include employees in their strategies of SE as they represent a key group of stakeholders. In this respect, local authorities and governments also play a very influential role in supporting sustainability issues related to labour conditions, as they define the

[36] Anglo Gold Ashanti Annual Sustainable Development Report 2014, p.19.

legislative framework for workers' rights and their enforcement. Some companies give detailed information about opinion polls and surveys among their employees and communities; employee and community members perceptions on a variety of issues, including safety, health and environment, ethics, accountability, diversity, personal respect and open, two-way communications, are often presented (Kolk, 2004).

> "Continuously improving and maintaining positive relationships with stakeholders is one of Anglo American's priorities. Key stakeholder groups include national governments, local communities, Indigenous Peoples, labour unions, human rights bodies, think-tanks and universities, opinion-formers, international organisations and NGOs. In the first instance, this means understanding and being responsive to their interests and concerns. The inability to maintain constructive relationships can have a material impact on our licence to operate, workforce productivity and operational continuity"[37].

On the contrary, customers and NGOs are often involved in the definition of strategies or reports' content but their participation (or not) depends on the specific features of the enterprise. It is useful to interpret these data in light of the particular sector our organizations are operating. In the mining sector, the opinions and expectations of employees (for security, training and human rights reasons), local communities (for the social license to operate) and shareholders (for the willing to provide them of steady dividends) are particularly important. In light of these consideration, SE is a key process both for orienting the strategy of the organization and for reporting on its own accountability. Other engaged stakeholders that are cited in reports are academia, media, other industrial peers and other representatives of the civil society.
A vast array of methodologies can be used to engage different stakeholder's groups to a different extent. In order to understand what is the reported degree of stakeholder involvement, we build on Arnstein (1969) and Friedman and Miles (2006) to develop our own four-levels categorization:

0. ABSENCE: no reference to SE.
1. INFORMATION: one-way communication and no opportunity for stakeholders to influence decisions (1-4 rungs);
2. CONSULTATION: monitoring and information gathering (5-6 rungs);

[37] Anglo American Sustainability Report 2014, p.12.

3. EMPOWERMENT: proactive role of stakeholders and appointment of representatives in the governing bodies (7-12 rungs in Friedman and Miles' ladder; see Chapter 3);

This categorization is based on our theoretical framework (cf. Chapter 3) and enable us to classify organizations by their reported degree of stakeholder engagement. On the lower rungs of non-participation lies manipulation; the middle section of the ladder is identified as degrees consultation and placation and the higher rungs are degrees of delegated power and full partnership (Arnstein, 1969; Friedman & Miles, 2006). 70 enterprises in our sample (86.42%) carry out a form of level-2 SE, where stakeholder are consulted, more than informed, through a two-way form of dialogue but without being empowered of managerial functions or appointed in decisional bodies. This form of consultation corresponds to rung 5 or 6 in Friedman and Miles' ladder. Only 11.11% of our organizations reported that they are used to inform stakeholders, with no reference in their report of any form of active consultation: in other words, their reports communicate that stakeholders are informed of the organization's decisions but they are not involved in any decision making at any phase. This appears as a focal point to us and in the conclusions we will question if this very basic form of interaction with stakeholders, that corresponds to rungs 1 to 4 in Friedman and Miles' ladder, can be considered as an effective form of SE or it is only a way to manage stakeholders' perception. While 1 report makes no reference to SE, 1 organization also declared to empower some of their stakeholders by appointing some representatives in a council that has governmental power. Table 4.8 provides a focus on these particular cases concerning the degree of SE. In particular, the only organization that featured a reported level of stakeholder engagement of "empowerment" is considered one of the largest mining company in the world: it mines copper, iron, gold, coal, and has proved oil reserves.

Building on our theoretical framework, we also wanted to assess if practices capable of supporting forms of dialogic accounting (see Section 3.3.3 of out theoretical framework) are in place. What we found out is that forms of dialogic accounting, such as stakeholders that answer other stakeholders' questions on critical topics (see citation below), are still very rare.

> "The Report's novelty was its introduction of direct answers and comments by the Company's managers to the questions and proposals of stakeholders, as voiced in the dialogues held in the course of Report drafting"[38].

Only 4 organizations declared to have this kind of practices in place. 2 of these organizations reported a collaborative/accordant form of dialogic accounting (where stakeholders are working together to produce a deliberative consensus), while the remaining contemplated a mixed or agonistic/adversarial (where conflicts among stakeholders emerge). Table 4.9 provides a focus on the features of organizations highlighting dialogic accounting within stakeholders in their sustainability reports.

Only a few companies give information about the circulation of reports and the feedback they have received to their public communication efforts; in some cases, stakeholders are invited to give their view on the current report (Kolk, 2004). As table 4.6 shows, only 3 organizations included stakeholders' perceptions regarding the previous edition of the sustainability report. The willing to report (or not) these perceptions is important in light of legitimacy theory: table 4.10 provides a focus on these particular companies, whose business units extract gold, copper, steelmaking coal and zinc. This value is very low in light of the fact that GRI guidelines recommend to review every version of the sustainability report with stakeholders, in order to check its rigour and completeness and to provide new spaces of improvement. It is noteworthy, anyway, that two of these organization reported both positive and negative perceptions. This is thought-provoking because it is generally uncommon to find reports of negative or agonistic expressions in sustainability reports: on the contrary, we believe it is considerable as a form of commitment and willing to disclose areas where it is possible to improve in the future. Moreover, 9 organizations out of 81 (11.11%) declared they took advantage of a formalized input to or feedback on the present version of the report provided by a panel of stakeholders or experts.

Furthermore, to reflect different stakeholder views, it has become rather common to include stakeholder statements in reports (Kolk, 2004). Quotations from stakeholders, not necessarily on the previous edition of the report but also on general activities of

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[38] ARMZ Uranium Integrated Annual Report, p. 7. In light of legitimacy theory, it is interesting that a company operating in one of the most critical part of this sector – i.e. uranium mining – decided to carry out a form of dialogic accounting among stakeholders.

the organizations, are more often included: 9 organizations (11.11%) included positive (collaborative or accordant) quotations, while 1 organization (1.23%) - a large private multi-commodity mining company located in the Republic of South Africa with its shares listed on the JSE Securities Exchange (JSE) - included both positive and negative (agonistic or adversarial) quotations. These stakeholder statements included in the reports can originate from both internal and external stakeholders (Kolk, 2004).

11 organizations (13.58%) claimed to use specific guidelines for defining the processes of SE. In every of these cases, organizations declared to follow AA1000SES (see section 2.3.2 of this dissertation for details).

> "In accordance with the Standard on interaction with stakeholders AA1000SES when drafting the Report four dialogues were held to discuss the concept, priority topic and draft annual report. Besides, stakeholders participated in the procedure of Report's major aspect highlighting and public assurance"[39].

Not unsurprisingly, in no cases an external assurance is in place for the specific process of SE only; in many cases limited assurance is provided for the whole report. Only 5 organizations (6.19%) reported on some difficulties that have been met in the process of SE. Engaging stakeholders is a very complex process that, also for companies that represent a best practice, could naturally present logistical, cultural and technical difficulties. We believe that to report over these difficulties is to be interpreted positively, as it signals to users of the report the complexity that concretely lies behind SE and the willing of the organization to improve year after year in how it involves its stakeholders and in the outcomes of this process.

[39] ARMZ Uranium Integrated Annual Report, p. 89.

Table 4.8 – Focus on particular cases concerning the degree of SE

Size	Organization type	Listed/Non-listed	Country	Country Status	Integrated	Adherence Level	External Assurance	Type of Assurance Provider	Assurance Provider	Stakeholder Panel	Language	Specific SE section	Degree of stakeholder involvement
SME	Private	Listed	Canada	OECD	No	In accordance - Core	No			No	English	No	Absent
MNE	Private	Listed	Australia	OECD	No	In accordance - Comprehensive	Yes	Accountant	KPMG	No	English	Yes	Empowered

Table 4.9 – Focus on dialogic accounting

Size	Organization type	Listed/Non-listed	Country	Country Status	Integrated	Adherence Level	External Assurance	Type of Assurance Provider	Assurance Provider	Stakeholder Panel	Language	Specific SE section	Dialogic accounting within stakeholders
Large	State-owned	Listed	Indonesia	DAC-LMICT	No	In accordance - Core	Yes	Engineering firm	SGS	No	Indones./ English	Yes	Yes, only positive (collaborative/accordant)
Large	Subsid	Non-listed	Russian Federation	Non-OECD / Non-DAC	Yes	In accordance - Core	No			No	English	Yes	Yes, only positive (collaborative/accordant)
MNE	Private	Listed	Australia	OECD	No	In accordance - Core	No			No	English	Yes	Yes, only negative (agonistic/adversarial)
Large	Private	Listed	South Africa	DAC-UMICT	No	In accordance - Core	Yes	Accountant	PricewaterhouseCoopers	No	English	Yes	Yes, both positive and negative

We also studied the utilization of photos and other forms of visual arts. As Table 4.6 shows, only 2 reports (2.47%) are completely without photos. Photos and other kind of visual arts are always used to articulate a positive message, to highlight positive features or to encourage a sense of legitimization. There are no cases where photos are used to admit there are some unresolved issues or ongoing emergencies. This kind of behaviour is not restricted to photos, as it is commonly found in relation to the whole content of these report.
Sampled organizations are used to provide their sustainability report in Pdf format. Only a very small minority relies on a dedicated section of their website. Portable Document Format (Pdf) is a logical choice, as it enables organizations to produce eye-catching, compatible and easily shared reports, making use of paginated texts, figures and photos. Pdf is compatible with a vast set of operating systems and platforms. Moreover, pagination is useful to reference the GRI Content Index which is usually located at the end of the report. On the contrast, web-based report can allow organizations to quickly fix errors and typos, and even update outdated information during the operating period.

> "Building strong relationships with our stakeholders and understanding their interests and concerns is fundamental to achieving our mission and delivering stakeholder value. Teranga deals with a wide range of stakeholders at all levels: international, national, regional and local. Furthermore, as the first fully operational commercial gold mine in Senegal, communication is key to raising awareness about who we are, what we are doing and how we operate. We believe that we can improve our CSR performance and earn and maintain our social license to operate by engaging in meaningful dialogue with stakeholders at all levels. Our main stakeholder groups, their communication channels and main concerns regarding our activities are described in the table below. Communication channels and frequency of communication vary depending on the type of stakeholders"[40].

After having analyzed the content of every report, we gave a general score to the coverage level of the SE section. Not every report disclosed sufficient information on how and why these organizations engage stakeholders, who are the most relevant stakeholders and, above all, how these organizations would like to involve their

[40] Teranga Sustainability Report 2014, p. 17.

communities in their decision making processes. On the one hand, 27 (33.33%) and 36 (44.44%) enterprises provided an intermediate or superficial level of covering respectively. On the other hand, 11 organizations fully disclosed every detail on their process of SE, with accurate figure and sensitive information: such a commitment is significant because it signals that an organization effectively consider SE as a core process in its strategies definition. 7 companies (8.64%) do not cover the topic of SE at all, although they declare to follow GRI G4 guidelines, which are especially focused on materiality trough SE. Table 4.11 provides a focus on these particular companies.
We can build on Manetti (2011) in order to further comment our results. In particular, we could focus on the following levels of comparison:

1) The reported role of stakeholder engagement. Our results confirm that SE is often used both for reviewing strategic objectives and defining the content of report (88.89% of organizations in our sample). The above mentioned research by Manetti (2011) on the quality of SE found out that both these objective were pursued by 41.95% of the organization in his sample; moreover, only 10.34% of the organization used SE to defining the relevance of the information for the report (while more than 90% of our organization now use SE to assess materiality). We need to consider that our analysis is sector-specific, but these data suggest that SE is increasingly used as a management practice both for supporting strategy definition and material reporting. Moreover, the recent G4 version of the GRI guidelines stresses the importance of SE as the best way to address the issue of materiality of non-financial information (Global Reporting Initiative, 2013c). Consequently, the introduction of G4 facilitated a shift in how organizations approach SE and the involvement of stakeholders in preparing sustainability reports.

2) The reported degree of stakeholder engagement. Our results suggest a mild involvement of stakeholder, which are usually consulted (86.42%), more than actively empowered (1.23%) or just informed (11.11%). These results are consistent with Manetti (2011) who found out that the involvement concerned a “simple consultation, monitoring, and information gathering” in 3 cases out of 4 (73.56%) and that a “proactive role and appointment of representatives in the governing bodies” was reported only in the 15.52% of the cases.

Table 4.10 – Focus on reports with stakeholder perceptions

Size	Organization type	Listed/Non-listed	Country	Country Status	Integrated	Adherence Level	External Assurance	Type of Assurance Provider	Assurance Provider	Stakeholder Panel	Language	Specific SE section	Stakeholder perceptions on previous reports
Large	Private	Listed	UK	OECD	No	In accordance - Core	Yes	Small consultancy	Other	No	English	Yes	Yes, both positive and negative
MNE	Private	Listed	Australia	OECD	No	In accordance - Core	No			No	English	Yes	Yes, only negative
MNE	Private	Listed	Canada	OECD	No	In accordance - Core	Yes	Accountant	Deloitte	No	English	Yes	Yes, both positive and negative

Table 4.11 – Focus on reports with absent and "deep" level of covering

Size	Organization type	Listed/Non-listed	Country	Country Status	Integrated	Adherence Level	External Assurance	Type of Assurance Provider	Assurance Provider	Stakeholder Panel	Language	Specific SE section	General level of covering in the SE
Large	State-owned	Listed	Indonesia	DAC-LMICT	No	In accordance - Core	Yes	Engineering firm	SGS	No	Indonesian /English	Yes	Deeply
Large	Private company	Listed	South Africa	DAC-UMICT	Yes	In accordance - Core	Yes	Accountant	KPMG	Yes	English	Yes	Deeply
Large	Subsid	Non-listed	Russia	Non-OECD / Non-DAC	Yes	In accordance - Core	No			No	English	Yes	Deeply
MNE	Private company	Listed	Australia	OECD	No	In accordance - Comprehensive	Yes	Accountant	KPMG	No	English	Yes	Deeply

Table 4.11 continued													
Large	State-owned	Listed	Indonesia	DAC-LMICT	No	In accordance - Core	Yes	Accountant	Other	No	Indonesian /English	Yes	Deeply
Large	Private company	Non-listed	Colombia	DAC-UMICT	No	In accordance - Core	Yes	Accountant	Deloitte	No	Spanish	Yes	Deeply
Large	Subsid	Non-listed	Colombia	DAC-UMICT	No	In accordance - Core	Yes	Accountant	Ernst & Young	No	Spanish	Yes	Deeply
SME	Private company	Listed	United States of America	OECD	No	In accordance - Core	Yes	Small consultancy	Other	No	English	Yes	Deeply
MNE	Private company	Listed	Canada	OECD	No	In accordance - Core	Yes	Engineering firm	Bureau Veritas	No	English	Yes	Deeply
Large	Private company	Non-listed	USA	OECD	No	In accordance - Core	No			No	English	Yes	Deeply
Large	Private company	Listed	Peru	DAC-UMICT	Yes	In accordance - Core	Yes	Engineering firm	SGS	No	Spanish	Yes	Deeply
SME	Private company	Listed	Canada	OECD	No	In accordance - Core	No			No	English	No	Not at all
Large	Private company	Non-listed	Argentina	DAC-UMICT	No	In accordance - Core	No			No	English	No	Not at all
Large	Private company	Listed	South Africa	DAC-UMICT	Yes	In accordance - Core	Yes	Accountant	KPMG	No	English	No	Not at all
MNE	Private company	Listed	Australia	OECD	No	In accordance - Core	No			No	English	No	Not at all
Large	Private company	Listed	Austria	OECD	No	In accordance - Core	Yes	Accountant	Deloitte	No	English	No	Not at all
MNE	Private company	Non-listed	Brazil	DAC-UMICT	No	In accordance - Core	No			Yes	Portuguese	No	Not at all
Large	Private company	Non-listed	Brazil	DAC-UMICT	No	In accordance - Core	Yes	Accountant	PricewaterhouseCoopers	No	Portuguese	No	Not at all

It is possible to reach some conclusions on the role of SE and the characteristics of this engagement. Building on our theoretical framework presented in section 3 we used content analysis to study 81 sustainability reports from the mining sector prepared in accordance with GRI G4 guidelines. Further research could build on some key results that emerged from our empirical analysis, and in particular:

- Organizations report that SE is used both for defining their strategies and contents of sustainability reports. This appears to confirm that stakeholder theory is really capable of describing the need of organizations to define and report on their policies taking into account stakeholder's viewpoints.
- That nearly every organization affirms that stakeholders have been directly involved to provide materiality check for the reporting process appears to confirm our thesis on the centrality of stakeholders and SE in the materiality assessment process. Using the materiality principle in the context of SR helps select those items that inform investors and other stakeholders about a business's ability to create value in a sustainable manner.
- Meetings, surveys, interviews and standard procedures are among the most used methodologies for supporting SE.
- Employees, communities, shareholders and governments are among the most frequently engaged groups of stakeholder, although all the other categories are commonly included. If on the one hand is legit that organizations are willing to engage their most relevant stakeholders, on the other hand the prioritization of the most powerful groups appears to be in line with an instrumental approach to stakeholder theory, that highlight potential connections between stakeholder management and the achievement of organization aims. An unbalanced approach risks to disregard important stakeholders for the sake of opportunistic behaviours.
- The concept of consultation well describes the overall reported level of engagement, and only a minority of organizations are directly empowering stakeholder by appointing them in governing bodies. This casts a shadow on the degree to which stakeholders can effectively influence business management. Further studies could go behind what is written in public

reports and involve stakeholders themselves in a research about their genuine grade of participation.

- Rare adoption of specific standards covering the SE process, probably because G4 partly covers the process.
- Forms of dialogic accounting are still very rare or unreported.

In addition to answer our research question on the reported role of SE in sustainability reporting, our empirical study provided a comprehensive database that could be useful for further research on the above-mentioned topics. Our data could suggest that companies operating in the most critical parts of the industry (e.g. uranium extraction, diamond, etc.) are more willing to manage their relations with stakeholders and to use sustainability reports as a form of legitimization towards them. Further case-by-case research, however, is necessary to complement our data with case studies providing a deep look at how organizations, on the one hand, and stakeholders themselves, on the other hand, perceive the significance of SE in the frame of sustainability reporting and sustainable development. Since it is challenging to ascertain the answers to "why?" research questions through content analysis (Bryman & Bell, 2015), we could make use of case studies to investigate the main reasons behind authentic stakeholder engagement. These in-depth studies could go behind the veil of reports and try to understand how truly genuine and effective are the processes of stakeholder engagement, their impact on strategies and performances and what stakeholders offer and learn through their involvement.

Conclusions

The aim of this dissertation is to provide an original contribution to the literature on stakeholder theory and social and environmental accounting with a study on the role and features of stakeholder engagement in sustainability reporting and with an empirical analysis on the properties of information stated in sustainability reports regarding stakeholder engagement policies and practices. In a global context of growing social and environmental concerns and evolving consumers' expectations in terms of responsible consumption, large companies are increasingly expected to provide more than a financial report. Even the academic community is reaching a consensus on the responsibilities of large enterprises to report not only on their financial performances, but also on their social and environmental outcomes (Deegan, 2002). In deciding what to report on, enterprises are called to select from a wide set of triple bottom line aspects. The most relevant sustainability reporting guidelines (AccountAbility, 2008a, 2015; Global Reporting Initiative, 2013c) state that this selection is oriented by the principle of materiality, according to which material aspects are those that reflect the organization's significant economic, environmental and social impacts or that substantively influence the assessments and decisions of stakeholders. Using the materiality principle in the context of sustainability reporting helps select those items that inform investors and other stakeholders about a business's ability to create and sustain value. Since is often not possible or very difficult to set thresholds for non-financial or non-market aspects in order to assess their materiality, we highlight the centrality of the stakeholder engagement process. An analysis of the stakeholders' interests, in fact, can help define the spectrum of financial, social and environmental aspects the organization has the responsibility to be accountable for.

Since large corporations are extending their role in our societies, and since from these new responsibilities derive the willing to integrally report on financial, social and environmental outcomes, our thesis is that stakeholder engagement has the potential to be one of the most effective tool for materiality assessment of information in sustainability reporting and for supporting the orientation of strategies and decision

making in light of stakeholders' expectations.

We believe our research on these topics, hereby presented in this dissertation, produced at least three main deliverables. Firstly, we produced a systematic literature review on topics which are essential to understand the state of the art on the study of the role of stakeholder engagement in sustainability reporting. In particular, we integrated the main contributions on the extended role of large enterprises in contemporary societies, their responsibility towards sustainability issues, and the path to integrated reporting. Naturally, we analyzed what is inside the black box of social and environmental sustainability reporting, which are the motivations underneath sustainability reporting and even the critical perspective on this form of reporting. To the purpose of our study, very important was the framing of the materiality principle in the perspective of sustainability reporting guidelines and materiality assessment of information to be reported. This literature review of the most influential academic contribution was crucial to set the context of our research.

Secondly, we defined a theoretical framework based on stakeholder theory and stakeholder engagement. Starting from the opposition between stakeholder and shareholder theory, we then proceeded to a review of the different definitions of stakeholders and the positive, instrumental and normative approaches to stakeholder theory. We also provided an original theoretical three-phases segmentation of the process of stakeholder engagement: 1) Stakeholder identification and analysis; 2) Interaction with stakeholders; 3) Evaluation and reporting. All these steps are needed to implement the principle of stakeholder inclusiveness in sustainability reporting. In both Global Reporting Initiative (2013b, 2013c) and AccountAbility (2008a, 2015) guidelines, the aspects that the organization deems to be material, in response to its stakeholders' expectations and interests, drive sustainability reporting and its content. In other words, the engagement of stakeholders represents a pivotal part in the process of identifying material topics and material impacts. Our conclusion is that a committed, genuine, quality stakeholder engagement represents a fundamental step for organizations willing to disclose truly relevant sustainability reports and drive their strategies in the interest of their community of stakeholders.

Thirdly, since in stakeholder theory literature little attention has been paid to the properties of information stated in sustainability reports regarding stakeholder

engagement policies and practices (Abdifatah & Mutalib, 2016; Brown & Dillard, 2015; Cooper & Owen, 2007; Crane & Matten, 2016; Dobele et al., 2014; Manetti, 2011; Owen et al., 2001), we aimed to contribute by providing an empirical analysis on how sustainability reports address the topic of stakeholder engagement, the distinctive features of this process of involvement and which is the role of stakeholder engagement for assessing materiality and defining the contents of such a disclosure. Building on our theoretical framework, we used content analysis to study 81 sustainability reports from the mining sector prepared in accordance with GRI G4 guidelines. Many of the environmental disasters or human rights incidents which have contributed to the growing public concern about sustainability, took place in the mining industry (Cowell et al., 1999; Warhurst, 2001). We then decided to focus on this sector because it presents many legitimacy concerns: the extraction and processing of mineral resources are widely regarded as one of the most environmentally and socially disruptive activities undertaken by business (Jenkins & Yakovleva, 2006; Peck & Sinding, 2003). Our empirical analysis provides the following key results: a) Most of the organizations report that stakeholder engagement is used both for defining their strategies and the contents of sustainability reports; b) Nearly every organization claims that stakeholders have been directly involved to provide materiality check for the reporting process; c) Meetings, surveys and interviews are the most commonly used methods for supporting stakeholder engagement; d) employees, communities, shareholders and governments are the most frequently engaged groups of stakeholders; e) the most common level of engagement is “consultation” of stakeholders, that lies between the vary basic “information” and the very rare “empowerment”; f) Forms of dialogic accounting are still very sporadic or unreported.

In conclusion, we can argue that underneath stakeholder engagement are processes with the potential to really affect how organizations conceive decision making, the orientation of strategies, and the assessment of materiality of information for sustainability reporting. This potential, however, it is still not entirely unleashed. We believe the potential of stakeholder engagement towards decision making on sustainability issues and materiality assessment in sustainability reporting is hampered by at least two factors, with as many practical implications.

Firstly, organizations should take the risk of exposing themselves more. If an organization really wants to create value for each stakeholder and really want to seriously take stakeholders' perception into account, it needs to be ready to cope with agonistic or adversarial feedback at least, if not be willing to transfer part of its decisional power. In light of dialogic accounting, the interaction between organizations and stakeholders, and within stakeholders themselves, represent a powerful tool for including stakeholders' expectations into new managerial strategies and for supporting a materiality assessment for sustainability reports. At the same time, however, the owner of the process of stakeholder engagement needs to be open and ready to receive both positive and negative feedbacks: in other words, criticisms, protests, divergent opinions and agonistic behaviors are part of the game. Stakeholder engagement provides opportunities for change precisely through the combination of different, and sometimes opposing, points of view. This is also the reason why the basic level "information" cannot suffice to achieve stakeholder engagement. To only consider and report on concordant opinions or "easy" issues would definitely limit the scope of stakeholder engagement for social and environmental accounting. As argued by Neu, Cooper, and Everett (2001), accounting academics have a responsibility to influence social change. Actors of social and environmental accounting, in particular, need to provide opportunity for rethinking, to take into account critical issues, do not be afraid to expose inconvenient situations (Gray, 2016). Same applies to the need of transparently include in sustainability reports also the most critical and less "shiny" issues. This would have practical implications in the way of conceiving reports as legitimization devices, as they would include more negative or mixed feedbacks and could provide more space to area where companies could improve their responsibility. However, we also believe that consumers would reward this choice. We are now living in an increasingly aware context, where consumers are including along their preferences ethical and environmental factors.

A second element which is hampering the potential of stakeholder engagement is the limited use of new technologies. This reason is connected to the previous one: generally speaking, organizations are not searching for new way of interacting in public with their stakeholders because they fear the adverse publicity they could receive. This is an issue because nowadays there are new technologies, and in

particular web-based technologies, that could support organizations in reaching a broader set of stakeholders. For example, we believe that social media can represent powerful mechanisms for reaching and keeping in touch with a large number of stakeholders, thus guaranteeing an interactive dialogue with them at very low costs. We have already started to explore the utilization of social media as an instrument of stakeholder engagement in sustainability reporting, capable of identifying, dialoguing with, and engaging the largest possible number of organisation stakeholders, while also taking into account their opinions and expectations, even if they diverge from the organisation's point of view (Manetti & Bellucci, 2016; Manetti et al., 2016). Nonetheless, we think this is an increasingly relevant topic with many practical implications, as social media is becoming one of the main channels through which organisations promote their activities and communicate with customers, users, communities, and other primary stakeholders. Companies could create more interactive and fruitful conversations without having a significant impact on their budget.

Further research could build on the limits of the present study by providing additional empirical evidence on the role of stakeholder engagement for sustainability reporting, the real motivations underneath social and environmental reporting and the legitimization processes behind voluntary disclosure of non-financial information. Firstly, from a qualitative standpoint, further case-by-case research is necessary to complement our data with case studies providing a deep look at how organizations, on the one hand, and stakeholders themselves, on the other hand, perceive the significance of stakeholder engagement in the frame of sustainability reporting and sustainable development. Our data suggest that companies operating in the most critical sectors are more willing to manage their relations with stakeholders and to use sustainability reports as a form of legitimization towards them. Further research should make use of case studies to investigate the main reasons behind authentic stakeholder engagement. These in-depth studies could go behind the veil of reports and try to understand how truly genuine and effective are the processes of stakeholder engagement, their impact on strategies and performances and what stakeholders offer and learn through their involvement.

Secondly, from a quantitative standpoint, software-assisted content analysis could be

useful to study the manifest content of a broad set of sustainability reports. Quantitative content analysis could serve the purpose of measuring the number of concepts and words related to sustainability and legitimacy in different reports from organizations operating in different fields. In particular, a study based on words count and quantitative content analysis could answer to the research question of which are the sectors where key words related to sustainability issues or legitimacy issues emerge with greater frequency. Implementing a dynamic setup, this analysis could also take into account the occurrence of scandals or environmental disasters (e.g. Deepwater Horizon spillage, Volkswagen "Dieselgate", etc.) and study if after these episodes there are changes in the information disclosed by companies suggesting a proactive attempt to restore eroded legitimacy.

We hope to start designing theses above mentioned studies in the near future, in order to keep contributing, with passion and scientific rigour, to the literature on social and environmental accounting and the extended role of enterprises towards sustainability.

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