

## Looking Beyond Environmental, Social and Governance Disclosures: A Stakeholder Framework<sup>1</sup>

Evangeline O. Elijido-Ten, Asia-Pacific International University, Thailand

Date Received: 25 May 2022 Revised: 10 August 2022 Accepted: 30 August 2022

### Abstract

Amidst heightened debate on the relevance and failures surrounding environmental, social, and governance (ESG) reporting, the challenge to look beyond such disclosures becomes even more important. This is the catalyst for this conceptual paper. The purpose is to develop a stakeholder research framework to understand how ESG reports come about as a result of the interplay between various stakeholders and corporate management. To provide the justification for choosing stakeholder theory as the foundation for the framework, the impetus for the Stakeholder View, social responsibility, and profit motives are revisited. Next, the basic premise and the discourses surrounding stakeholder theory are discussed with a view to propose a research framework that considers the normative, instrumental, and descriptive facets of the theory. Finally, an example of how the proposed framework can be used in a study with three distinct phases is presented. The stakeholder framework enables the implicit embedding of the normative core (ethical/moral aspects) into the managerial perspective (descriptive and instrumental facets) of the theory, thereby allowing greater insights to emerge from the thought processes involved in the decision to provide/not provide ESG disclosures.

**Keywords:** Stakeholder theory; Environmental, Social, Governance disclosures

### Introduction

The notion of maximizing shareholders' wealth being the sole objective of the business community has been increasingly criticized for some time (Freeman, 1984; Handy, 1995; Halal, 1996). Consequently, research on corporate social/environmental responsibility—including climate change and carbon disclosures—has become prevalent (e.g., Gray et al., 1995; Elijido-Ten & Clarkson, 2019; Yunus et al., 2020). Despite this, the inherent limitations of current accounting practices make the valuation of social and environmental costs difficult. An illustration of how failure to measure natural resource depletion would overestimate income follows:

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

This is a classic example of what the *Macnamara Fallacy* alludes to as explained in this quote:

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

Handy (1995) suggested that a 'just society' needs a new scorecard because money is not the measure of all things. To pretend that environmental issues like global warming and the ozone degradation really do not exist is tantamount to suicide. In recognition of these concerns, a

<sup>1</sup> This article is an expanded version of an earlier paper presented at the 35th European Accounting Association Annual Congress that was posted for a limited audience on a university website.

proliferation of environmental, social, and governance (ESG) disclosures provided by companies has been observed (KPMG, 2021; Shaikh, 2022). Despite this, the verdict is still up in the air as to whether ESG disclosures are deeply flawed greenwashing mechanisms or credible sources of information (e.g., the Special Report in *The Economist* (Anonymous, 2022). Hence, looking beyond such disclosures is even more important now and this provides the motivation for this paper. In this paper, a framework is developed to aid in understanding the interplay between various stakeholders and reporting entities enabling a rich examination of the thought processes involved in the decision to provide/not provide disclosures.

The rest of the paper proceeds as follows. The beginnings of the Stakeholder View, as well as the social/environmental responsibility and profit motives of the firm, are revisited in the next two sections to justify the choice of stakeholder theory as the foundation for the proposed framework. Then, the basic premise and the discourses surrounding stakeholder theory are discussed with a view to proposing a research framework that considers the normative, instrumental, and descriptive facets of the theory. This is followed by an example of how the proposed stakeholder framework may be used in a three-phase study. Finally, the concluding comments are provided.

### **The Impetus for the Stakeholder View**

In describing the impetus for the stakeholder concept, Freeman (1984) contended that current approaches were inadequate to cope with the changes that are taking place. Thus, he argued that a new conceptual framework was needed to accommodate the firm's dynamic external environment. Freeman provided a chronology of dynamic changes starting from the Production View of the firm, when organizations were simple production institutions and doing business consisted mainly of converting raw materials (bought from suppliers) into finished products (sold to its customers). During this era, firms were mainly family-owned: "the owner-manager-employee needed only to worry about satisfying suppliers and customers in order to make the business successful" (Freeman, 1984, p. 5). Massive diversity, intense global competition, and technological advancement have made larger firms more resource efficient and sustainable, thereby necessitating a shift to a Managerial View when other individuals/institutions such as shareholders and banks emerge to finance the firm. As firms grow and ownership becomes more dispersed, the interests of all its owners and employees need to be considered.

Clearly, the Managerial View of the firm was more complex than the Production View. However, if management insisted on using the Supplier-Firm-Customers model to manage the business, it would remain oblivious to the needs of its owners and employees, all of whom have a stake in the firm. Success in this new environment necessitated a conceptual shift; one which incorporates dealing with owners and employees as part of its norm rather than as an exception. Failure to do so would lead to the demise of the firm, particularly if the owners withdrew their capital and/or employees withheld their services.

The dynamic nature of today's business environment, however, calls for continuous change, rendering even the Managerial View incapable of capturing the challenges that confront businesses. Hence, the Stakeholder View of the firm was proposed in order to address two types of changes: (a) internal change, and (b) external change. Internal change included the new demands brought about by the groups dealt with by the managers in the Managerial View. For example, the employees may want increased wages and also a safe working environment. Likewise, the owners/shareholders' primary concern was not just a higher return on investment; they also wanted control. External change is also significant. New groups may emerge that were previously not identified in the Managerial View of the firm. For example, groups like the government, competitors, environmentalists, special interest groups, and the media could change the way firms should be managed (Freeman, 1984). The changing role of governments as stakeholders of firms can no longer be ignored. Government intervention can provide real social and economic benefits, such as contributing to cleaner air and water, safer working environment, and a general increase in the standard of living. Possible government intervention means that firms cannot afford to be oblivious to them becoming an active stakeholder. Sufficient external changes like the strengthening of local and global competitors, the increasing concern for

environmental degradation, and changing consumer behaviour, among others, have occurred in the business environment to warrant the shift from the Managerial View to the Stakeholder View.

A brief overview of the corporate social responsibility (CSR) literature is provided next to explain the usefulness of the stakeholder concept in finding a balance between social responsibility and economic interests.

### **Corporate Social Responsibility and Profit Motives**

In defining CSR, Carroll (1991) argued that corporations have economic and legal obligations, as well as ethical and discretionary (philanthropic) responsibilities to society. Indubitably, CSR has to address the entire spectrum of obligations to society including the most fundamental, i.e., economic. The classical view, according to Friedman (1970), holds that there is no divergence between the economic and social performance of business organizations. A business organization is formed to provide goods and services that people are willing to buy at prices they can afford. To accomplish this, a firm must economize its use of resources to maximize profits for its shareholders. Society benefits as businesses successfully provide goods and services for consumers and create jobs for employees, while simultaneously increasing the wealth of society. Hence, according to this view, social responsibility is subsumed in the firm's profit maximization objective. This view prevailed for some time even though not everyone accepted the notion that businesses were solely economic institutions with only economic responsibilities. However, as society becomes increasingly conscious that pollution and unsafe workplace practices are largely due to the profit maximization objective, the notion that business' economic motives and social responsibility are one and the same has been questioned.

This point of divergence between corporate profit motive and changing social values exposed the deficiencies of the classical view, giving way to the neo-classical view. The neo-classical view promotes the idea that while the firm's primary function is to maximize profits for its owners, it also has an obligation to avoid inflicting harm to society. Bowie (1991, p. 56) explained that "the corporation has to make profit while (a) honoring the moral minimum, or (b) respecting individual rights and justice. "This moral minimum and respect for rights and justice is shown in the same light as the social contract<sup>2</sup>. Because corporations are given permission to operate by the societies in which they exist, society can choose to let them continue or hinder their existence (Donaldson, 1989). Therefore, the firm has a responsibility to honor the same rights and responsibilities expected of any citizen in society.

Despite the addition of social considerations to the neo-classical view, the primary objective of business entities still remains the same, that is, to maximize profits. This means that if social responsibilities get in the way of economic performance, the latter should supersede the former as long as businesses can get away with it. Others (Halal, 1996; Svendsen, 1998) have argued that this is not sustainable in the long-run. Does this call for business entities to prioritize social responsibility over economic incentives? Halal's (1996) work sheds light on this question. While he believed that the majority of business managers are moral and dedicated professionals, he was convinced that the profit-centered model based on the capitalistic ideological system that served the interests of shareholders was the problem. In a sincere attempt to remedy this situation, some American businesses had voluntarily created programs to improve the treatment of their social constituencies, and even conducted social audits to measure their progress. The downside to this approach is that it can become an empty piety if "doing good" ignores the need to increase productivity, sales revenue, and profits. What is needed, Halal explained, is an economic equivalent of Copernican revolution, as explained in this analogy:

The profit-centered model of business is comparable to the Earth-centered model of the universe. Like the central role once attributed to the Earth, profit has been rather arbitrarily selected as the center of today's economic universe ....The social interests of stakeholders were placed in successively distant

---

<sup>2</sup> A social contract is an implicit agreement between society and its citizens. In order to live in society, it is implied that certain rights are given in return for giving up certain freedoms. In essence, the rights (and responsibilities) of human beings are the terms of the contract, and society in general is the entity that enforces the contract.

orbits as being of lesser importance even though they may in fact be as huge as the Sun. In contrast, the social responsibility model goes to another extreme by positing an economic universe that revolves around social interests but ignores financial realities (Halal, 1996, p. 68).

Halal goes on to suggest that this continual conflict between profit and the social welfare has left societies bereft of what economists view as a workable theory of the firm. He proposed that the stakeholder model provides a balanced view as it considers various stakeholders' interests to revolve around a common economic goal that is as central to society as the Sun is to our solar system. Halal's economic equivalent of Copernican revolution was not so different from what Handy (1995, p. 143) suggested as an alternative answer to the following question:

What then is a company for ... unless the *six interest groups* are satisfied, the company will be unlikely to live that long .... A company will only be allowed to survive as long as it is doing something useful, at a cost which people can afford, and it must generate enough funds for their continued growth and development (italics added).

Whilst Handy's response did not explicitly prioritize between economic and social motives, it makes sense that a company will only continue its existence for as long as it is able to satisfy the interested groups. Handy (1995, p. 130) identified the six interest groups (hexagonal stakeholders), consisting of the firm's "financiers, employees, and suppliers most obviously but also their customers, their environment and society as a whole." He hoped that the businesses of Britain and America would start to emulate the way in which the Japanese and continental Europeans had a form of a hexagonal Chinese contract with the six stakeholders. The contract "embodies a principle which went far beyond the making of lasting commercial deals .... It was about the importance of compromise ... and a belief in the future ... the willingness to forego some present good to ward off future evil (Handy 1995, p. 81).

Handy's vision and Halal's proposal of the economic equivalent of a Copernican revolution are very much related to promoting a Stakeholder View of organizations. The main proponents of stakeholder theory (Bowie, 1991; Donaldson & Preston, 1995; Freeman, 1983, 1984; Jones, 1995; Svendsen, 1998) were of the same view. However, just as Copernicus' theory of the Sun being the center of the universe was not perfect when first introduced, stakeholder theory continues to evolve as researchers conduct forums and studies to refine this concept and its application. This body of literature is reviewed in the next section.

### **Stakeholder Theory and Its Multiple Facets**

The basic premise in stakeholder theory is that the firm's success depends upon the successful management of relationships with its stakeholders. When viewed as such, the conventional view that the success of the firm is dependent solely upon maximizing shareholders' wealth is not sufficient because the entity is perceived to be a nexus of explicit and implicit contracts (Jensen & Meckling, 1976) between the firm and its various stakeholders. Freeman et al. (2004, p. 364) defended the basic tenets and assumptions underlying stakeholder theory:

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

This voluntary coming together and cooperation referred to in the quote above is similar to the 'new idea' introduced by Porter and Kramer (2011) in which they coin "creating shared value" (CSV). In promoting CSV, Porter and Kramer explained that the competitiveness of the firm and the welfare of communities surrounding them are intertwined. Thus, managers have a responsibility to develop

relationships with their stakeholders and create communities where everyone strives to give their best to deliver the value promised by the firm.

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

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

A number of variants under the umbrella of stakeholder theory have emerged over the years. Hence, some criticisms against stakeholder theory have been raised, ranging from 'being relatively vague giving little direction to management practice' (Jones & Wicks, 1999) to 'possessing too broad conceptual interpretation' (Phillips, et al., 2003). Donaldson and Preston (1995) suggested that one of the main problems in the development of stakeholder theory has been confusion about its nature and purpose. Stakeholder theory, they posited, is intended both to explain and to manage the operation of the firm. A business is viewed as an entity through which numerous and diverse groups accomplish multiple but not always congruent goals.

In an effort to clarify and justify the essential content and significance of the stakeholder concept, Donaldson and Preston (1995) developed a typology based on the division of stakeholder theories. A descriptive/empirical approach is used to describe and explain certain firm characteristics and behaviors like the nature of the firm, how management thinks about managing its constituents, and how companies are managed (e.g. Clarkson, 1991). An instrumental approach identifies the connections, or lack thereof, between stakeholder management activity and the achievement of the traditional profitability/wealth maximizing goal (e.g. growth) either using conventional statistical methodologies (e.g., Elijido-Ten, 2007) or direct observation and interview methods (e.g., Deegan & Blomquist, 2006). Finally, the normative approach, which dominated the classic stakeholder theory (Dodd, 1932) and continued in later versions (e.g. Carroll, 1989), attempts to offer guidance and interpret the function of the firm on the basis of some underlying moral or philosophical principles. Whilst both normative and instrumental approaches are prescriptive, their bases are entirely different. The normative approach is categorical—it prescribes: "Do (don't do) this because it is right (wrong)". On the other hand, the instrumental approach is hypothetical – it says: "If results A, B and C are preferred (not preferred), then principles and practices X, Y and Z should be adopted (avoided)."

While Donaldson and Preston's taxonomy has been widely cited, other researchers (Carroll & Nasi, 1997; Freeman, 1984, 1999) have argued that the normative-instrumental-descriptive categorization could result in a "separation thesis", thereby rendering the firm-stakeholder analysis partial and incomplete. To combat this criticism, Jones and Wicks (1999) proposed a convergence of stakeholder theory that "involves applying instrumental theory (what happens if?) to normative cores to see if they result in personally and organizationally viable outcomes; instrumental theory helps evaluate the practicability of the behavioral contingency (normative core) of the convergent theory" (Jones & Wicks 1999, p. 217).

Friedman and Miles (2002, p. 2) claimed that this integration is premature given that “not enough work has been done on the organization/stakeholder relation itself in order to combine different strands of stakeholder theory into a single meaningful framework.” Trevino and Weaver (1999) disagreed with Jones and Wicks’ proposal of convergent stakeholder, saying that stakeholder theory should be characterized not as a class of theories, but as a research tradition, i.e., one that incorporates multiple, varied approaches focused on the same domain. Furthermore, Freeman (1999) suggested that what is needed is not more theories that converge, but more narratives that show divergent accounts of organization and stakeholder relationships, as there is more than one way to be effective in stakeholder management. Donaldson’s (1999) response was to make stakeholder theory whole, i.e., to find out whether a conceptual glue can be found that is strong enough to bind together the separate methodological strands of stakeholder theory.

Despite the discourse on convergence, a point of agreement is seen: that is, for stakeholder theory to be whole, its normative core (ethical/moral aspects) and managerial perspectives (i.e., descriptive and instrumental facets) should co-exist. Donaldson (1999) argued for appropriate methodologies to be used, while Freeman (1999) promoted the acceptance of divergent views that show different but useful ways of understanding corporations on stakeholder terms. Trevino and Weaver (1999) believed that stakeholder theory provides a research tradition.

The managerial perspective involves the identification of the motives underlying the interaction between the firm and its stakeholders, while the normative core prescribes what should underlie this interaction. Regarding ESG disclosures, the managerial perspective provides this information if the stakeholders who have the power to influence the firm’s survival demand it. Conversely, the normative view is concerned with the stakeholders’ right to information. Wilmshurst (2004, p. 3) argued that existing theory development created “confusion since different researchers have tended to adopt either a managerial or a normative perspective and any overlap of perspectives often goes unrecognized.” Hence, he proposed, as Freeman (1984) and Carroll and Nasi (1997) also did, to give up the separation thesis. This leads to the “need to strive diligently, not for one single theory, but for many often complicated theories organized around the stakeholder idea” (Carroll & Nasi 1997, p. 48).

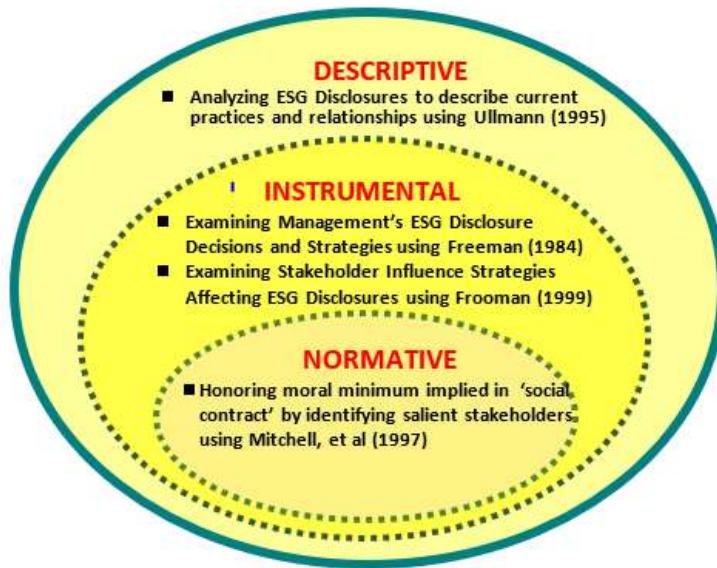
In this regard, Elijido-Ten (2011a) believed that Donaldson and Preston’s (1995) normative, instrumental, and descriptive taxonomy should not be seen as separate divisions, but should rather be nested within each other, much like the layers of an onion. The challenge then is to develop a framework that accommodates both the normative core (ethical/moral aspects) and managerial perspective (descriptive/instrumental facets) of the theory to understand how ESG disclosures come about, and to gain insights from the interplay between various stakeholders and corporate management. Figure 1 shows a proposed stakeholder framework that incorporates multiple stakeholder models allowing the normative, instrumental, and descriptive aspects to co-exist and inform each other.

The inmost normative core is used to interpret the firm’s function in society and how it affects management decisions. The normative core in this proposed framework is based on the established notion of honoring the moral minimum as implied in the social contract (Bowie, 1991). Thus, companies have responsibilities that extend to a wider range of stakeholders, not just their shareholders. The literature indicates that corporate management needs to respond to stakeholder demands if it intends to operate successfully. Indeed, Lokuwaduge et al. (2022) noted that the rising stakeholder demand for ESG disclosures has created a new tide of sustainability reporting, including Sustainable Development Goals (SDGs). However, considering the firm’s limited resources and the conflicting interests of various stakeholders, an important part of stakeholder management should incorporate the identification and analysis of stakeholder salience, i.e. how important the stakeholders are to the company’s existence. Mitchell, et al.’s (1997) stakeholder salience typology is useful here.

Much stakeholder literature (e.g., Deegan, 2002; Freeman, 1999; Jones & Wicks, 1999; Wilmshurst, 2004) combines the instrumental and descriptive facets because both are part of the managerial perspective of the stakeholder worldview. This perspective is concerned with the need to

manage incongruent stakeholder demands. Thus, in terms of management's decision to provide ESG disclosures, the managerial thesis states that managers ought to provide disclosures if stakeholders demand this information, while the normative thesis dictates that managers ought to provide disclosures because it is just and fair to do so. Despite the common collapsing of the descriptive–instrumental facets, and without necessarily seeking to separate the managerial perspective of the theory, the fact remains that there are distinct differences between the two facets. While the descriptive aspect “explains past, present and future states of affairs of corporations and their stakeholders ... and usually expands to generate explanatory and predictive propositions,” the instrumental aspect is used “to make a connection between stakeholder approaches and commonly desired objectives ....” (Donaldson & Preston 1995, p. 71).

**Figure 1** Proposed Stakeholder Framework



To gain rich insights from an examination of the thought processes involved in the provision of ESG disclosures, it is important to understand from the viewpoints of both management as well as stakeholders. Thus, in the instrumental layer of the framework, Freeman's (1984) stakeholder strategy formulation model is used to enable an examination of ESG disclosure decisions and strategies from the management's point-of-view. In addition, Frooman's (1999) stakeholder influence strategies model allows an investigation of ESG disclosures from the viewpoint of different stakeholders.

Finally, the outermost layer of the research framework is the descriptive facet. Here, Ullmann's (1995) three-dimensional model enables the operationalization of the ESG disclosure analysis to describe current practices and relationships that are observed in the external world. Its accuracy is supported by the instrumental aspect that provides its predictive value. The succeeding section outlines the various stakeholder models introduced in Figure 1 to further explain how the descriptive, instrumental, and normative facets of stakeholder theory are accommodated into the proposed stakeholder framework. Likewise, an example of how the proposed stakeholder framework can be applied in a research study is also shown.

#### **Multiple Stakeholder Models: One Framework Applied in a Three-Phase Study**

The proposed stakeholder framework is applied in a study with three distinct phases (Figure 2).

##### **Phase 1—Understanding Reporting Practices**

Before looking beyond ESG disclosures, analysis and description of current practices is needed. This is where the descriptive phase (Phase 1) of the proposed framework is useful. Content analysis of ESG disclosures provided by target firms and statistical analysis can be conducted. To determine

whether significant relationships exist between disclosures and performance, Ullmann's (1985) three-dimensional model is used.

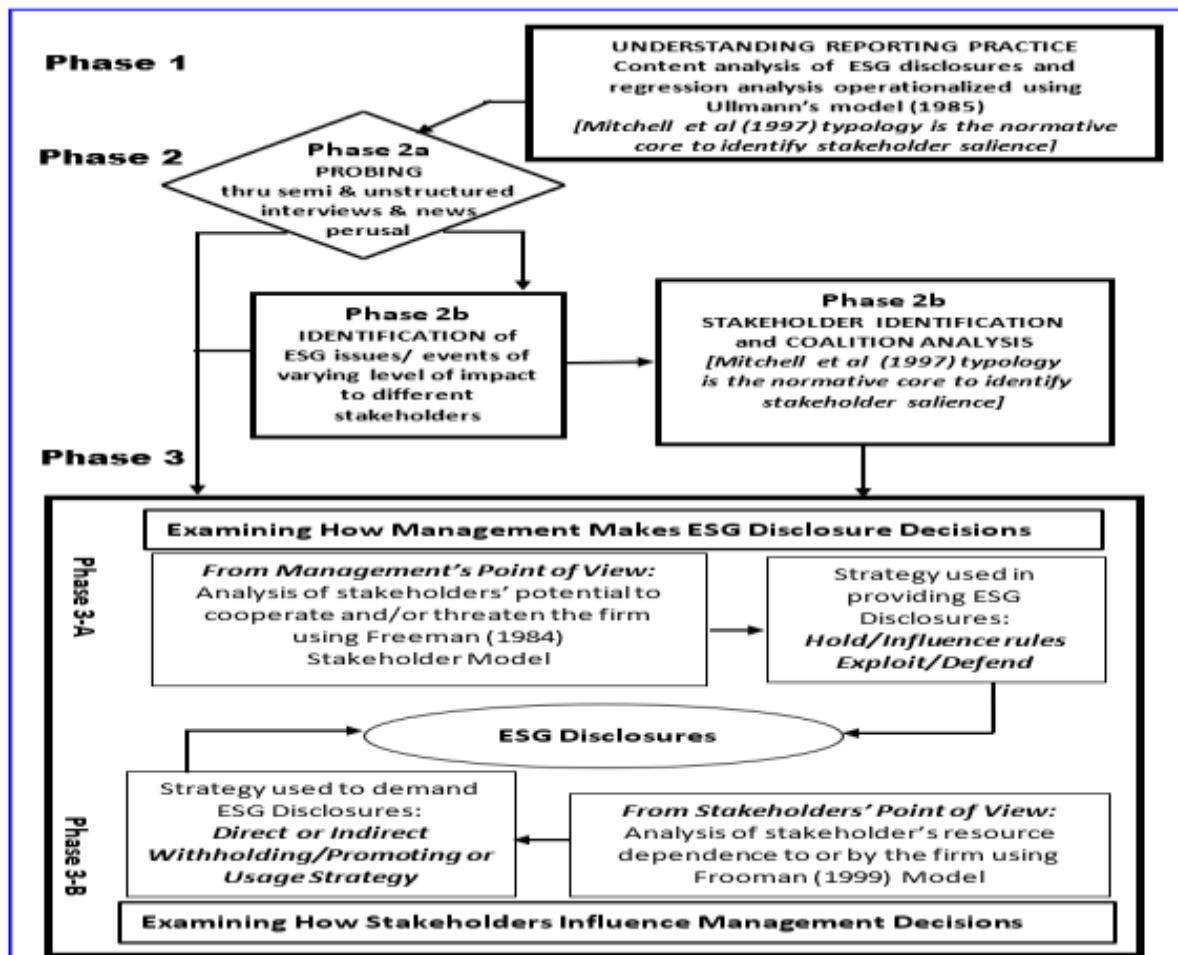
In the first dimension, it is conjectured that when stakeholders control critical resources, the firm is likely to react in a way that satisfies their demands. By contrast, if the power of stakeholders is low, the firm is likely to ignore their demands. This implies that stakeholder power tends to be positively correlated with disclosures. The second dimension, strategic posture, describes the mode of response the firm is likely to take concerning social/environmental demands. Companies employing an active posture continuously monitor their position with stakeholders, such as by initiating and disclosing social responsibility programs. Conversely, companies adopting a passive posture are neither searching for an optimum sustainability strategy nor monitoring their socially responsive activities. The third dimension, past and current economic performance, determines the relative weight of a social demand and the attention it receives. This dimension is relevant because it is conceivable that firms suffering from poor profitability may place economic demands ahead of social demands. Economic performance affects the financial capability of the firm to undertake ESG initiatives. Using Ullmann's model, a regression analysis can be conducted to test hypotheses [e.g., Ejido-Ten's (2009) study in Malaysia]. The hypotheses used here were:

$H_1$ : The power of the firm's stakeholders is associated with the quantity and quality of a firm's ESG disclosures.

$H_2$ : The strategic posture adopted by the firm is associated with the quantity and quality of ESG disclosures.

$H_3$ : The financial performance of the firm is associated with the quantity and quality of ESG disclosures.

**Figure 2 Applying the Stakeholder Framework in a Study with Three Phases**



When considering stakeholder power, Mitchell et al.'s (1997) typology can be used as the normative core to identify salient stakeholders. They proposed that classes of stakeholders can be identified by their possession of combinations of the following attributes: (a) power, i.e., the stakeholder's ability to impose its will on the firm, (b) legitimacy, i.e., the stakeholder's legitimate/lawful relationship with the firm, and (c) urgency, i.e., the degree to which the stakeholder's claims call for immediate action. Power and legitimacy are necessary core attributes of a comprehensive stakeholder identification model. These two attributes must be examined in light of the urgency of demands for immediate attention. In using the three attributes of power, legitimacy and urgency to understand stakeholder salience, it is vital to acknowledge that "stakeholder attributes are variable ... socially constructed [and] wilful exercise may or may not be present." For example, the attribute of power is transitory—it can be acquired or lost. Furthermore, the possession of power does not imply the consciousness of such possession, nor does it imply its actual use. A special interest group may have the power to impose its will upon a firm, but unless it is aware of its power and intends to use it, it is not considered a stakeholder with high salience. The same reasoning goes for legitimacy—claimants may or may not perceive the legitimacy of their claims, while managers may perceive stakeholder legitimacy differently. Hence, "power gains authority through legitimacy, and it gains exercise through urgency" (Mitchell et al., 1997, p. 869), while "legitimacy gains rights through power and voice through urgency" (p. 870).

Although it can be argued that applying the stakeholder attributes of power, legitimacy, and urgency to identify stakeholder salience may already cross over to the instrumental and descriptive facets of the theory, this is not a big concern given that the separation thesis is not supported by stakeholder theory scholars.<sup>3</sup> What is important is to recognize that corporate management must be able to identify its salient stakeholders and satisfy their right to relevant ESG information in order to honor the moral minimum as implied in the social contract, i.e., the normative core.

### ***Phase 2—Probing, Identification, and Coalition Analysis***

**Phase 2a—Probing and Triangulation.** In probing, explanations are sought concerning the motivation behind disclosures. While still descriptive, the primary and secondary data collected from multiple sources (i.e., interviews and news/website perusal) enable triangulation of findings, thereby allowing an opportunity to look beyond current reporting practices.

**Phase 2b—Identification and Coalition Analysis.** This phase enables an exploration of how the proposed Phase 3 can be operationalized in a specific research context. At the center of the firm's decision whether to provide/not provide ESG disclosures is the perceived urgency of the social/environmental events. Hence, the significance of identifying suitable and realistic issues/events cannot be understated. Depending on how much is known about the business culture and legal sanctions affecting business decisions, deeper probing may be warranted. This can be achieved through secondary sources (e.g., news/website perusal) and from primary sources (e.g., discussions/interviews with relevant people utilizing open-ended questioning). The insights gained can be used to identify relevant ESG issues/events. Again, it is crucial to identify the salient stakeholders (Mitchell et al., 1997).

### ***Phase 3—Examining Management Decisions and Stakeholders' Influence on ESG Disclosures.***

The proposed framework allows for a two-way analysis from the management's point-of-view using Freeman's (1984) stakeholder strategy formulation model (Phase 3A), and from the point-of-view of various stakeholder groups (Phase 3B) utilizing Frooman's (1999) stakeholder influence strategy model.

**Phase 3A—Management's Point-of-View.** Freeman (1984, pp. 131–136) introduced a model to analyze the stakeholders' potential behavior. From the management's point-of-view, this potential behavior is assessed in terms of (a) potential for cooperation, i.e., what the stakeholder could do to

---

<sup>3</sup> Note that a broken line is used to encapsulate the instrumental and normative core, as shown in Figure 1 indicating that the dividing line between the normative core and other aspects of the theory is not always clear.

help the firm achieve its desired outcomes, and (b) potential for threat, i.e., what could the stakeholder do to prevent or help to prevent the firm from achieving its goals. Explaining stakeholder behavior enables management to synthesize and understand the stakeholder's objectives and beliefs. Then, a coalition analysis allows management to search for commonalities in terms of commonality in behaviour (identify stakeholder groups who have similar cooperative potential or competitive threat), and commonality in interests (identify groups who share common objectives and beliefs). Hence, Freeman (1984) proposed that the stakeholders' potential for cooperation (PC) and/or potential for threat (PT) would determine the appropriate strategic decisions to be adopted. A typology of four types of stakeholders categorized according to their threat and cooperative potential, together with propositions for stakeholder strategy, are summarized in Table 1.

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

**Table 1 Stakeholder Strategy Formulation Framework**

		Potential for Threat (PT)	
		High (HiPT)	Low (LoPT)
Potential for Cooperation (PC)	High (HiPC)	<b>Grid 1:</b> Swing Stakeholders—If a stakeholder group is classified as swing stakeholders (HiPC and HiPT), the firm will adopt a strategy to change/influence the rules of the game to govern firm-stakeholder interactions.	<b>Grid 2:</b> Offensive Stakeholders If a stakeholder group is classified as offensive stakeholders (HiPC and LoPT), the firm will adopt an exploit strategy to bring about the cooperative potential of these stakeholders.
	Low (LoPC)	<b>Grid 3:</b> Defensive Stakeholders—If a stakeholder group is classified as defensive stakeholders (LoPC and HiPT), the firm will adopt a defend strategy to avoid the competitive threat from these stakeholders.	<b>Grid 4:</b> Hold Stakeholders—If a stakeholder group is classified as hold stakeholders (LoPC and LoPT), the firm will adopt a strategy that holds the current position of these stakeholders in place.

Source. Adapted from Freeman (1983, 1984)

**Phase 3B—Stakeholders' Point-of-View.** To address the question "how will the stakeholders try to get what they want from the firm?" Frooman (1999) formulated a typology of resource relationships and influence strategies. Drawing from resource dependence theory, a firm's need for resources provides opportunities for others to control it. Resource dependence is the starting point to understand stakeholder influences because power is a central theme in the argument. For example, to know whether A has power over B, one must know that both B is dependent on A, and that A is not dependent on B. From this power relationship, two types of resource control strategies are identified: (a) withholding strategies—where stakeholders discontinue providing resources to a firm with the intention of making the firm change a certain behavior; and (b) usage strategies—where stakeholders continue to supply a resource, but with specified conditions attached. Likewise, two types of influence pathways are introduced: (a) direct—where stakeholders directly manipulate the flow of resources to the firm; and (b) indirect—where stakeholders who do not have a direct relationship with the firm have to work in concordance with other stakeholders who have formal relationships with the focal firm. Both types of influence pathways could use either withholding or usage strategies. From this, Frooman (1999) provides a typology of resource relationships based on the power-dependence relationship between the stakeholder and the firm. Four types of relationships were observed: (a) low interdependence—when neither the firm nor the stakeholder are dependent on each other; (b) high interdependence—when both the firm and the stakeholder are dependent on each other; (c) stakeholder power—when the firm is dependent on the stakeholder; and (d) firm power—when the stakeholder is dependent upon the firm. The last two relationships show power asymmetry. Appealing to these characterizations, four propositions emerge as shown in Table 2.

**Table 2** Typology of Resource Relationships and Influence Strategies

Is the firm depended on the stakeholder?	Is the stakeholder dependent on the firm?	
	NO	YES
NO	<b>Proposition 1 (P1):</b> When the relationship is one of low interdependence, the stakeholder will choose an indirect withholding strategy to influence the firm.	<b>Proposition 2 (P2):</b> When the relationship is one of firm power, the stakeholder will choose an indirect usage strategy to influence the firm.
YES	<b>Proposition 3 (P3):</b> When the relationship is one of stakeholder power, the stakeholder will choose a direct withholding strategy to influence the firm.	<b>Proposition 4 (P4):</b> When the relationship is one of high interdependence, the stakeholder will choose a direct usage strategy to influence the firm.

Source. Adopted from Frooman (1999)

This typology can provide useful insights in research investigating how stakeholders can influence companies to provide ESG disclosures. In order to look beyond ESG disclosures and to examine the thought processes involved in management's disclosure decisions, a quasi-experimental approach can be used with the aid of hypothetical vignettes featuring social/environmental events developed from Phase 2b. Using in-depth interviewing method, participants may be asked to take the role of the management and then later take the role as a stakeholder representative. A structured questionnaire with some open-ended questions can be designed to incorporate the possible strategies proposed in Freeman (1984) and Frooman (1999) models. The rich insights gathered from studies conducted using this stakeholder research framework open up opportunities to look beyond ESG disclosures in order to understand the interplay between the management and various stakeholder groups.<sup>4</sup>

### Concluding Comments

Amidst increasing criticisms surrounding ESG disclosures, the challenge for researchers to look beyond the narratives in corporate reports becomes more important. This challenge provides the impetus for this paper. As corporate actions, including the provision of ESG disclosures, are driven by stakeholder demands, a stakeholder research framework that considers the normative, instrumental, and descriptive facets of the theory is developed in this paper. The stakeholder framework introduced enables the implicit embedding of the normative core (ethical/moral aspects) into the managerial perspective (descriptive and instrumental facets) of the theory, thereby allowing greater insights to emerge from the thought processes involved in the decision to provide/not provide ESG disclosures. This would facilitate an in-depth understanding of the interplay between various stakeholders and corporate management enabling us to look beyond ESG disclosures provided by various reporting entities.

### References

Anonymous. (2022, July 23). In need of a clean-up. *The Economist*, 444(9306), S3–S4.

Australian Society of Certified Practising Accountants (ASCPA). (1999). *Accounting for the Environment*, ASCPA and Society of Management Accountants of Canada. Melbourne.

Bowie, N. (1991). New directions in corporate social responsibility. *Business Horizons*, 34(4), 56–65.

Carroll, A. B. (1989). *Business and society: Ethics and stakeholder management*. South Western.

Carroll, A. B. (1991). The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders. *Business Horizons*, 34(4), 39–48.

Carroll, A. B., & Nasi, J. (1997). Understanding stakeholder thinking: Themes from a Finnish conference. *Business Ethics*, 6(1), 46–51.

Clarkson, M.B.E. (1991). Defining, evaluating, and managing corporate social performance: A stakeholder management model. In J.E. Post (Ed.), *Research in corporate social performance and policy* (pp. 331–358). JAI Press.

Deegan, C. (2002). The legitimising effect of social and environmental disclosures—A theoretical foundation. *Accounting, Auditing and Accountability Journal*, 15(3), 282–311.

<sup>4</sup> For published examples of how Phases 3A and 3B are conducted, see Elijido-Ten (2008), Elijido-Ten, et al. (2010), Elijido-Ten (2011b) and Yunus, et al. (2020).

Deegan, C., & Blomquist, C. (2006). Stakeholder influence on corporate reporting: An exploration of the interaction between WWF-Australia and the Australian minerals industry. *Accounting, Organizations and Society*, 31(4–5), 343–372.

Dodd, E. M. Jr. (1932). For whom are corporate managers trustees. *Harvard Law Review*, 45(7), 1145–1163.

Donaldson, T. (1989). *The ethics of international business*. Oxford University Press.

Donaldson, T. (1999). Making stakeholder theory whole. *Academy of Management Review*, 24(2), 237–241.

Donaldson, T., & Preston, L. E. (1995). The stakeholder theory of corporation: Concepts, evidence and implications. *Academy of Management Review*, 20(1), 65–92.

Dowling, J., & Pfeffer, J. (1975). Organisational legitimacy: Societal values and organisational behaviour. *Pacific Sociological Review*, 18(1), 122–136.

Elijido-Ten, E. (2007). Applying stakeholder theory to analyze corporate environmental performance: Evidence from Australian listed companies. *Asian Review of Accounting*, 15(2), 164–184.

Elijido-Ten, E. O. (2008). The case for reporting pro-active environmental initiatives: A Malaysian experiment on stakeholder influence strategies. *Issues in Social and Environmental Accounting*, 2(1), 36–60.

Elijido-Ten, E. O. (2009). Can stakeholder theory add to our understanding of Malaysian environmental reporting attitudes? *Malaysian Accounting Review*, 8(2), 85–110.

Elijido-Ten, E. O., Kloot, L., & Clarkson, P. (2010). Extending the application of stakeholder influence strategies to environmental disclosures: An exploratory study from a developing country. *Accounting, Auditing and Accountability Journal*, 23(8), 1032–1059.

Elijido-Ten, E. O. (2011a). *Beyond environmental reporting decisions: Developing a stakeholder framework*. LAP Lambert Academic Publishing.

Elijido-Ten, E. O. (2011b). Media coverage and voluntary environmental disclosures: A developing country exploratory experiment. *Accounting Forum*, 35(3), 139–157.

Elijido-Ten, E. O., & Clarkson, P. (2019). Going beyond climate change risk management: Insights from the world's largest sustainable corporations. *Journal of Business Ethics*, 157, 1067–1089.

Freeman, R. (1983). Strategic management: A stakeholder approach. *Advances in Strategic Management*, 1, 31–60.

Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Pitman, Marshfield.

Freeman, R. E. (1999). Divergent stakeholder theory. *Academy of Management Review*, 24(2), 233–236.

Freeman, R. E., Wicks, A. C., & Parmar, B. (2004). Stakeholder theory and “The corporate objective revisited”. *Organisation Science*, 15(3), 364–369.

Freeman, R. E., Harrison, J. S., Wicks, A. C., Parmar, B. L., & DeColle, S. (2010). *Stakeholder theory: The state of the art*. Cambridge University Press.

Friedman, M. (1970). The social responsibility of business is to increase its profits, in GA Steiner (Ed.), *Issues in Business and Society*. Random House.

Friedman, A. L., & Miles, S. (2002). Developing stakeholder theory. *Journal of Management Studies*, 39(1), 1–21.

Frooman, J. (1999). Stakeholder influence strategies. *Academy of Management Review*, 24(2), 191–205.

Gray, R., Kouhy, R., & Lavers, S. (1995). Corporate social and environmental reporting. *Accounting, Auditing and Accountability Journal*, 8(2), 47–77.

Halal, W. E. (1996). *The new management: Democracy and enterprise are transforming organisations*. Berrett-Koehler Publishers.

Handy, C. (1995). *The empty raincoat*. Arrow Books.

Jensen, M., & Meckling, W. (1976). Theory of the firm: Managerial behaviour, agency costs, and ownership structure. *Journal of Finance Economics*, 3(4), 305–360.

Jones, T. M. (1995). Instrumental stakeholder theory: A synthesis of ethics and economics. *Academy of Management Review*, 20(2), 404–437.

Jones, T. M., & Wicks, A. C. (1999). Convergent stakeholder theory. *Academy of Management Review*, 24(2), 206–221.

KPMG (2021). Corporate reporting trends. KPMG.com.au.  
<https://assets.kpmg/content/dam/kpmg/au/pdf/2021/asx200-corporate-reporting-trends-2021-report.pdf>

Lokuwaduge, C. S., Smark C., & Mir, M. (2022). The surge of environmental, social and governance reporting and sustainable development goals: Some normative thoughts. *Australasian Accounting Business and Finance Journal*, 16(2), 3–11.

Mitchell, R. K., Agle, B. R., & Wood, D. J. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of Management Review*, 22(4), 853–886.

Pfeffer, J., & Salancik, G. (1978). *The external control of organisations: A resource dependence perspective*. Harper and Row.

Phillips, R. A., Freeman, R. E., & Wicks, A. C. (2003). What stakeholder theory is not. *Business Ethics Quarterly*, 13(4), 479–502.

Porter, M., & Kramer, M. (2011, January–February). Creating shared value: How to reinvent capitalism and unleash a wave of innovation and growth. *Harvard Business Review*, 1–17.

Shaik, I. (2022). Environmental, social and governance (ESG) practice and firm performance: An international evidence. *Journal of Business Economics and Management*, 23(2), 218–237. <https://doi.org/10.3846/jbem.2022.16202>

Svendsen, A. (1998). *The stakeholder strategy: Profiting from collaborative business relationships*. Berrett-Koehler Publishers.

Trevino, L. K., & Weaver, G. R. (1999). The stakeholder research tradition: Converging theorists–Not convergent theory. *Academy of Management Review*, 24(2), 222–227.

Ullmann, A. (1985). Data in search of a theory: A critical examination of the relationship among social performance, social disclosure and economic performance of U.S. Firms. *Academy of Management Review*, 10(3), 540–577.

Wilmshurst, T. D. (2004). Stakeholder theory - one grand theory or multiple perspectives? Some Australian evidence. *Proceedings of the 4<sup>th</sup> Asia Pacific Interdisciplinary Research in Accounting Conference (APIRA)*, July 4–6, 2004; Singapore. [https://www.researchgate.net/profile/Trevor-Wilmshurst/publication/267806492\\_STAKEHOLDER\\_THEORY\\_ONE\\_GRAND\\_THEORY\\_OR\\_MULTIPLE\\_PERSPECTIVES\\_SOME\\_AUSTRALIAN\\_EVIDENCE/links/546322760cf2837efdb02714/STAKEHOLDER-THEORY-ONE-GRAND-THEORY-OR-MULTIPLE-PERSPECTIVES-SOME-AUSTRALIAN-EVIDENCE.pdf](https://www.researchgate.net/profile/Trevor-Wilmshurst/publication/267806492_STAKEHOLDER_THEORY_ONE_GRAND_THEORY_OR_MULTIPLE_PERSPECTIVES_SOME_AUSTRALIAN_EVIDENCE/links/546322760cf2837efdb02714/STAKEHOLDER-THEORY-ONE-GRAND-THEORY-OR-MULTIPLE-PERSPECTIVES-SOME-AUSTRALIAN-EVIDENCE.pdf)

Yunus, S., Elijido-Ten, E. O., & Abhayawansa, S. (2020). Impact of stakeholder pressure on the adoption of carbon management strategies. *Sustainability Accounting, Management and Policy Journal*, 11(7), 1189–1212.