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## STAKEHOLDER PRIORITIZATION IN EUROPEAN COMPANIES

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### Abstract

The objective of this paper is to analyse stakeholder prioritization in European companies. In this respect, an interpretative content-based analysis of the social and environmental information is used. The sample encompasses twenty-six large companies with available sustainability reports for 2018 drawn up in accordance with Global Reporting Initiative - GRI (2013). The indicators from the GRI Context Index were associated with the interests of four groups of stakeholders (employees, customers, environment and society). We considered that these indicators reflect the interests and the expectations of stakeholders that are associated with them. The obtained results highlight a link between this prioritization and the industry to which the company belongs or the country where it is domiciled. Stakeholders who hold power have a high level of their interests being met.

### Keywords

stakeholder prioritization; sustainability reports; GRI; Euro Stoxx 50; industry, country

### JEL Classification

G30, M41, Q01

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### Introduction

Over the past decades, increasing attention has been paid to environmental issues, looking at their impact both from a social and economic point of view, as well as from a political point of view. The environmental components of different products and services are appreciated by the company (Owen and Scherer, 1993). As a result, companies are trying to better respond to the expectations of more and more green consumers and more environmentally-minded investors.

From environmental concern, a number of international regulations (ISO 14000, EMAS), European directives (Directive 2013/34/EU, Directive 2014/95/EU) and national legislation have emerged over time. Some of these regulations set obligations for certain companies to publish information about the environmental matters, social and employee related matters and

respect for human rights, as well as a description of the policies followed by the enterprises in relation to these aspects.

In this context, reporting of environmental and social information represents often a challenge for entities to cope with. The requirements on this line come from different sources and cannot be ignored even though they are often complex. In the conditions in which the entity's resources are limited, it appears the issue of stakeholder prioritization.

Stakeholder prioritization is discussed in the literature from two perspectives. In the first perspective, managers assess how they respond to different categories of stakeholders, taking into account the attributes they possess. It should be noted, however, that "management may view one stakeholder as inconsequential or minor one day; but find that same group demanding their full attention the next day " (Stephens et al, 2011). In order to identify stakeholder relevance, Mitchell et al. (1997) proposed stakeholder salience theory. Stakeholder salience is the degree to which stakeholders are visible, vocal and important to an entity, and is determined by three attributes of stakeholders: power, legitimacy and urgency. In the second perspective, the prioritized stakeholders are those who receive the highest level of fulfilment of their interests. Some studies showed that there are differences between the perception of the importance of stakeholders and the level of meeting their interest (Vazquez-Brust et al., 2010). Other studies found that the allocation of resources to priority stakeholders is linked to the company's financial performance (Michelon et al., 2013). However, there are not conclusive results to support this link in all areas of corporate social responsibility.

The objective of this paper is to analyse stakeholder prioritization in European companies and to determine whether it differs depending on the industry it belongs or on the country where the company is domiciled. In order to attained this objective, we formulated two hypotheses: H1: The level of fulfilment of stakeholders interests is affected by the industry to which the entity belongs.

H2: The level of fulfilment of stakeholders interests is affected by the country where the company is domiciled.

The results confirmed the both hypotheses. In other words, the stakeholders from some countries and/or some industries exert more pressure on the companies to have their interests met and the managers are trying to better respond to their expectations.

The remainder of the paper is structured in five parts. The next part presents the background literature on the concept of stakeholders and on the stakeholder prioritization framework. The third part explains the methodology used: sample, grid and data collection. The fourth part quantify the impact of two determinants (country and industry) on the prioritization of stakeholders. The last one draws conclusions and directions for future research.

### **Literature Review on stakeholder prioritization**

The organizational performance of an entity can be analyzed and assessed, to a certain extent, on how managers interact with its stakeholders (Clarkson, 1995). The academic research has reserved a special place for stakeholders, even though this concept becomes vague when it is broken by the American cultural context (Damak-Ayadi et al, 2005). Thus, according to Freeman (1984), the stakeholder is "any group or individual who can affect or is affected by the achievement of the organization's objectives". For Mercier (1999), stakeholders are "all the agents for whom the company's development and good health are of prime concern". Donaldson and Preston (1995) consider that stakeholders are "persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity". Similarly, Clarkson (1995) speaks of groups or individuals holding "ownership, rights or interests" in an organization. The definition proposed by Bryson (1995) is, however, the most comprehensive one: "a stakeholder is defined as any person, group, or organization that can place a claim on an organization's position, resources or output or is affected by that output."

In the conditions in which stakeholder reporting requests are complex and the entity's resources are limited many studies attempted to achieve the stakeholder prioritization. This studies deals with the topic of stakeholder prioritization under two different perspectives. The most adopted perspective is linked to the manager's perception of the importance of every group of stakeholders. Thus, Freeman (1984) believes that managers should identify all stakeholder groups, should determine the importance of each group and the extent to which their requirements are currently met by the entity and, based on the results obtained, should modify the entity's policies in order to take into account requirements remained unsatisfied. Similarly, Pedersen (2011) states that managers need to identify the different groups with which the entity has relationships, take into account their legitimate interests, and develop channels of communication between themselves and the organization, the role of the channels being to allow a dialogue where the needs of the various parties can be genuinely negotiated (Morsing, Schultz, 2006). In their turn, Mitchell et al. (1997) proposed the theory of stakeholder salience which "must explain to whom and to what managers actually pay attention". They have identified three attributes of stakeholder salience: the power that a stakeholder group is perceived to have, the legitimacy that it is considered to have and the perceived urgency for its requirements.

Power is defined as the ability of stakeholders to influence the organization's decisions and the distribution of value (Mitchel et al, 1997). The use of power as an element of the stakeholder salience is also supported by the neo-institutional theory that coercive pressure strongly influences managers' decisions. Legitimacy is the generalized perception that a group's actions are appropriate in the context of the social system (Morsing, Schultz, 2006). Legitimacy is often connected with power, because normally a manager will not pay attention to a strong actor that he does not considered to be legitimated. The third attribute is the urgency and represents the extent to which a group of stakeholders believe that its claims are time sensitive or critical (Mitchel et al, 1997).

The level of salience varies according to the number of attributes that stakeholders have (Gao and Zhang, 2006). Generally speaking, it is considered that the level is low when the stakeholders have only one attribute, moderated when they have two attributes, respectively high when they have all three attributes. And, obviously, managers pay the greatest attention to the stakeholder groups that have the highest level of salience (Dooley and Lerner, 1994). Many authors used the conceptual framework created by Mitchell et al (1997). Thus, Agle et al. (1999) demonstrated empirically that there is a positive relationship between the number of attributes held by a stakeholder group and stakeholder salience. Ryan and Schneider (2003) investigated, based on archive information, salience for six categories of institutional investors and recommended that managers be queried about their perception of power, legitimacy and urgency. Magness (2008) studied the reactions of shareholders and managers in the context of two environmental accidents in the mining industry, and pointed out that the stakeholder status is determined by the decision-maker. Parent and Deephouse (2007) highlighted the importance of urgency, stating that, in principle, stakeholders that have the urgency of being the most important attribute are groups of activists, but they concluded that power and legitimacy are more important attributes for the salience stakeholder. Harvey and Schaefer (2001) highlighted that special requirements made by governmental organizations are considered urgent, but government's salience also comes from power and legitimacy. Ullmann (1985) conceptualized the relationship between stakeholders' attributes and the entity's social performance, demonstrating that entities that conduct an active policy of influencing relationships with key stakeholders achieve greater social performance.

Mitchell et al. (1997) suggested that the stakeholders' attributes are variable and that the peculiarities of managers moderate the relationship between these attributes and salience. Rowley (1997) pointed out that the influence of the stakeholders is not only determined by their attributes, but also by how different groups interact and form a network. He

demonstrated that entities that are the focus of several stakeholder groups are willing to show higher social performance if those groups coordinate their efforts. Winn and Keller (2001) consider that stakeholder salience is not just about the number of attributes held, but about the degree to which a stakeholder possesses those attributes. Introducing different degrees for the three attributes leads to a more differentiated stakeholder salience image. In addition, this concept is flexible in the sense that, over time, some attributes are lost, others are acquired, and there is the possibility of migrating from one category of stakeholders to another.

The second perspective used in the studies on the topic of prioritization is associated to meeting stakeholders' interests. The studies in this category are few and many of them investigated the link between the corporate performance and the allocation of resources to priority stakeholders (Michelon et al., 2013) or the relationship between the perception of the importance of stakeholders and the way in which the stakeholders are treated by the management (Vazquez-Brust et al., 2010).

**Methodological Aspects: sample, grid and data collection**

The objective of this paper is to analyse stakeholder prioritization in European entities and to determine whether it differs depending on the country where the entity is domiciled or on the industry it belongs.

The sample is formed by the companies included in the index Euro Stoxx 50. It was verified that these entities have available sustainability reports in English. To obtain a homogenous sample, we decided to eliminate financial and insurance companies, thus the final sample consists of 26 large French, Spanish, German, Dutch, Belgian, Italian, Irish and Finnish companies from 14 super-sectors. We selected large companies because they had an obligation to use the 2014/95/EU Extra-financial Directive from 2017, January, 1<sup>st</sup>. We collected data for 2018 because we wanted to observe the situation after the transposition of the Directive in all selected countries.

Data collection from the annual reports was conducted in relation to the interests of stakeholders, while taking into account the requirements of the GRI (2013). Version 4 (G4) of the GRI Content Index has seventy-nine indicators. Sixty-six of these indicators could be associated with the interests of four groups of stakeholders: employees, customers, environment and society (Table no. 1).

**Table no. 1 The indicators associated with the interest of stakeholders**

Stakeholder groups	Indicator code	Number of indicators	Aspects covered
Employees	EC3, EC5, EC6, LA1, LA2, LA4 – LA13, LA16	16	Economic performance, market presence, employment, labour/management relations, occupational health and safety, training and education, diversity and equal opportunity, equal remuneration for women and men, supplier assessment for labour practices, labour practices grievance mechanisms
Customers	PR1 – PR4 – PR6 - PR9	8	Customer health and safety, product and service labeling, marketing communications, customer privacy
Environment	EN1 – EN13, EN15 – EN26 EN28 – EN29, EN32 – EN34	30	Materials, energy, water, biodiversity, emissions, effluents and waste, products and services, transport, overall, supplier environmental assessment, environmental grievance mechanisms
Society	EC7, SO1 – SO11	12	Indirect economic impact, local communities, anti-corruption, public policy, anti-competitive behaviour, supplier assessment and grievance mechanisms for impact on society

*Source: authors, based on G4*

In this paper, we consider that GRI indicators reflect the interests and the expectations of stakeholders that are associated with them. To measure the level of fulfilment of stakeholders interests we carried out content analysis by developing a scale. The indicators were analysed one by one, assigning 1 point for reporting, and 0 (zero) points for not reporting.

### Results and discussion

After data collection, we calculated, for the four stakeholders individually, the frequency of indicators reported in relation to the total indicators associated with each stakeholder. This reporting frequency reflects the level of meeting stakeholders' interests. The results are found in Table no. 2.

**Table no. 2 The frequency of indicators reported in relation to the total indicators**

Stakeholders groups	Indicators reported	Total indicators associated	Indicators reported / Total
Employees	252	416	60%
Customers	115	208	55%
Environment	467	772	60%
Society	186	312	60%

*Source: authors, based on research*

Our results show that there are no major differences between the four categories of stakeholders in terms of level of meeting their interests. Even a level of 60% can only be considered satisfactory, in fact this level may be higher because in case of some companies, some indicators do not apply. Not all companies informed in their report what indicators do not apply, so we couldn't exclude them.

Previous studies have emphasized that stakeholders' pressure differs from industry to industry, as each industry focuses on different social issues (Weber and Marley, 2010). Thus, industries that establish direct contact with consumers are attentive to their needs, industries with strong trade unions or employing more specialized employees focus on the needs of employees while industries that are more dependent on natural resources in their activities, consider the environment the most prominent stakeholder.

The results for our sample are presented in Table no. 3 and confirm the hypothesis that the level of fulfilment of stakeholders interests is affected by the industry to which the company belongs.

**Table no. 3 The level of meeting stakeholders' interests by industry**

Industry / Stakeholders	Employees	Customers	Environment	Society
Aerospace	78%	62%	55%	50%
Automotive industry	87%	92%	69%	94%
Chemicals	94%	100%	73%	100%
Chemistry	94%	100%	88%	79%
Construction and materials	94%	25%	73%	33%
Electric utility	56%	56%	69%	75%

Industry / Stakeholders	Employees	Customers	Environment	Society
Food and beverage	23%	33%	53%	42%
Goods and Services	87%	25%	60%	42%
Personal and household goods	34%	25%	40%	21%
Petroleum	62%	75%	83%	75%
Pharmaceutical industry	37%	44%	63%	71%
Real estate	75%	37%	61%	65%
Retail	56%	62%	60%	62%
Technology	40%	33%	36%	36%

Source: authors, based on research

Although some results may be considered surprising (reduced attention paid to clients in sectors such as Goods and Services or Food and beverage), it is clear that each sector has particular characteristics and managers take these characteristics into account when directing resources to stakeholders.

The results presented in Table no. 4 confirm the hypothesis that the level of fulfilment of stakeholders interests is affected by the country where the company is domiciled.

**Table no. 4 The level of meeting stakeholders' interests by country**

Country / Stakeholders	Employees	Customers	Environment	Society
Belgium	31%	37%	39%	67%
Finland	68%	50%	67%	58%
France	45%	37%	57%	45%
Germany	77%	70 %	66%	72%
Ireland	94%	62%	73%	67%
Italy	62%	62%	87%	92%
Netherlands	42%	47%	43%	42%
Spain	87%	100%	90%	100%

Source: authors, based on research

We could observe that the level of fulfilment of interests is high for all four groups of stakeholders in Spain and it is low in France and Netherlands. The low level in France is surprising considering that in this country there are several national environmental regulations (as New Economic Regulations or Grenelle Laws). But probably the lack of penalties determines companies not to disclose in environmental and social information. In the other countries there is a prioritization of the interests of some stakeholders. For example, in Germany the employee stakeholder presents a higher level than other groups. This result can be explained by the fact that in German unions are strong and the employees are involved in the decision making process in companies. Moreover, the German companies included in our sample are from more dynamic and high technology industries that use more specialized employees. The environment stakeholder presents second highest score in Finland. Such a

result seems normal for a country known for its value system built on respect for the environment.

### **Conclusions**

In the context in which corporate, social and environmental reporting is a major challenge for accounting practice and research, our study investigates the stakeholder prioritization in European companies. In order to achieve this, we proceeded to content analysis for a sample of companies included in the index Euro Stoxx 50. We selected large companies because they are expected to be more attentive to the requirements of stakeholders than smaller ones, and they had an obligation to use the 2014/95/EU Extra-financial Directive. Data collection from the annual reports focused on GRI indicators associated with the interests of four stakeholder groups: employees, customers, environment and society.

In this study, we did not intend to judge corporate sustainability reporting for sample entities, nor to describe how they managed the divergent interests of stakeholders, but only to understand the variables that determine stakeholder prioritization. Moreover, given that all companies in the sample have applied GRI, we believe that the differences in the level of meeting stakeholders' interests and sustainability reports are related to the managers' ability to take advantage of specific relations rather than to the external reporting guidelines applied.

The results indicate: (1) that globally there are no major differences between the analysed categories of stakeholders in terms of level of meeting their interests; (2) level of fulfilment of stakeholders interests is affected by the industry to which the company belongs; and (3) that the level of fulfilment of stakeholders interests is affected by the country where the company is domiciled.

Taken as a whole, our study contributes to the analysis of the industry and country in stakeholder prioritization and emphasize the importance of this factors to understanding the stakeholder management and the corporate social responsibility.

Several paths of research could be proposed as complementary to this paper. Firstly, the current study could be extended by resorting to a larger sample and by conducting a multiple financial exercise analysis. Alternative research methods could also be used, such as conducting interviews with different stakeholder categories to test how they perceive organizational activities.

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