

EXPLORING THE LINK BETWEEN CORPORATE STAKEHOLDER ORIENTATION AND QUALITY OF CORPORATE SOCIAL RESPONSIBILITY REPORTING

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ABSTRACT

Increased requests for transparent business operations as well as stakeholder pressures led to an increase in the number of corporate social responsibility (CSR) reports published by companies around the world. Still, the quality and quantity of these reports vary. As stakeholder orientation can be seen as a significant indicator of the quality of CSR reporting, the goal of this article is to explore the link between stakeholder orientation and quality of CSR reporting. Quality and stakeholder orientation were assessed from CSR reports retrieved from the GRI Database and from companies' official websites. Stakeholder orientation index included an analysis of orientation towards shareholders, suppliers, employees, local community and customers. The empirical analysis was done on a sample of 69 companies from 10 European countries. Research results indicate a positive link between the level of corporate stakeholder orientation and the quality of CSR reporting as well as the variable shareholders and employees to have a statistically significant positive influence on the quality of CSR reporting. Additionally, characteristics and quality of current CSR reporting among sampled companies are presented.

KEY WORDS

corporate social responsibility, stakeholder, stakeholder orientation, CSR reporting

CLASSIFICATION

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INTRODUCTION

In the context of modern economy and the role of corporation in modern society, the concept of sustainability and corporate social responsibility (CSR) takes a special role. Organizations are encouraged by stakeholders to embrace a more holistic social behavior [1] and balance between the need for profitability and need to contribute to local community, social equity and environmental protection [2]. A large public interest and initiatives for these corporate social activities as well as for transparency, led to development of a new form of reporting – a non-financial or corporate social responsibility (CSR) reporting. These reports go beyond the existing financial ones, providing insight into organizational corporate social activities oriented towards wellbeing of various stakeholders, and taking into account their different economic, social and environmental needs.

Stakeholders, especially investors and buyers have increased their requests for transparent business operations. Accordingly, there is an increase in the number of CSR reports published by companies around the world along with their financial statements (so called integrated reports). Still the quantity and quality of these reports varies [3], being influenced not just by the political, social, and cultural context (including historical legacy, cultural context and legislative environment [4], but also under the influence of company characteristics (industry, size, profitability, corporate governance mechanisms, stakeholder pressures and ownership structure) [5-6].

Therefore, many prior researches are oriented to a specific industry or sector [4, 7-10], provide country focus analysis [11-12], make comparative analysis of CSR report practices in several countries [13] or analyze influence of specific factor such as financial factors on the quality of CSR reporting [14].

Stakeholder theory emphasizes a specific role given to various organizational stakeholders and their influence on organizational social behavior. Moreover, as Lee [15] emphasizes organizational social behavior is under the influence of organization's relations to its stakeholders and the strength and direction of this relations is dependent on the degrees of resource dependence between organization and its stakeholders. As such, quality of CSR reporting is considered to be closely connected with the stakeholders to whom the reports actually refer. Still, it is necessary to emphasize that corporate social responsibility is driven by multiple and conflicting goals, and interdependencies among various stakeholders and their needs [16]. Capturing these various interests and balancing among them, makes the biggest challenge organizations face with their corporate social responsibility actions and reporting. Many authors [17, 18] emphasize different roles and importance given to various stakeholders, where requests of more powerful ones will dominate.

This study applies the stakeholder theory and as such emphasizes that stakeholder orientation can be seen as a significant indicator of quality of CSR reporting. Besides analyzing characteristics and quality of current CSR reporting, the goal of this article is to explore the link between stakeholder orientation and quality of CSR reporting. In this article, we analyze stakeholder orientation and its connection with quality of CSR reporting on a sample of 69 companies from 10 European countries. The CSR reports were retrieved from the GRI Database and from companies official websites. The GRI offers a unique framework and universal guidelines for preparing CSR reports and is one of the most applied model used by organizations to report on their CSR activities. Corporate stakeholder orientation is based on an adapted version of index of stakeholder orientation developed by Greenley and Foxall [19]. Each group of stakeholders, namely shareholders, suppliers, employees, local community and customers are analyzed through defined elements of stakeholder orientation index, based on

information from companies' reports. After introduction of certain EU directives, preparation of CSR report will become a major accounting challenge for companies affected by directives [20] and the question of quality of these reports will certainly emerge. This article contributes to the existing literature by providing overview of current quality of CSR reports among selected EU countries, as well as through examining roles of different stakeholders in the quality of these reports.

After introduction, the article provides overview of corporate social responsibility and stakeholder orientation, followed by overview of CSR reporting. After theoretical part, empirical research is presented. Methodology of the research as well as the main findings of the analysis are given. At the end, discussion of results, as well as limitations of the research and future studies directions are provided.

CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE STAKEHOLDER ORIENTATION

Corporate social responsibility includes different stakeholder-oriented behaviors that go beyond just profit maximization for an organization and lead into improving other stakeholders' welfare [21]. One of the most emphasized definitions states that „social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” [22; p.500].

Organizations are increasingly accepting this new strategic agenda that encompasses inclusion of economic, environmental and social concerns in all aspects of business activities [23, 24]. Acting in this way enhances social well-being of those affected by organizational activities and contributes to organizational competitiveness, successful differentiation on the market and eventually financial performance [25-29].

Positioning stakeholders as a central figure in determining organizational activities, stakeholder theory has emerged as a dominant paradigm in CSR literature [29]. Understanding stakeholder needs and their influence on organization as well as how organization can influence on them becomes the central point. As such, the concept of corporate stakeholder orientation emerged describing a company's ability to attend to the interests of all its relevant stakeholders [30]. More precisely it can be defined as “a legitimacy signal consciously used by firms to demonstrate their shareholder and specific stakeholder orientations in the midst of multiple coercive, normative, and mimetic pressures that differ across industries” [31; p.716].

Benefits of strong relationships with key stakeholders are seen in creation of a relational capital that significantly increases organizational capacity to generate new technologies, create new products and enter new markets [29]. Quality of relations among company and shareholders can be seen a key factor that affects organizational efforts towards differentiation from competitors [27]. In the long run, benefits from stakeholder orientation materialize as organizations acquire intangible resources such as legitimacy, trust, and corporate reputation, that can lead to sustainable competitive advantage [32, 33].

Interestingly, organizations are more likely to send stronger signals to those stakeholders they perceive crucial for their social legitimacy and, as Jain et al. [31] emphasize, they will communicate this intent and orientation through corporate reporting. Similar is provided by De Villiers and Van Staden [17] stating that requests of more powerful stakeholders will dominate in defining CSR activities and reporting. In addition, for instance O'Dwyer and Owen [34] emphasize low stakeholder engagement in reports is influencing the quality of CSR reporting.

IMPORTANCE AND QUALITY OF CSR REPORTING

CSR reporting presents a systematic communication between organization, its stakeholders and general public about social responsibility activities including organizational social and environmental impacts, as well as corporate governance impacts, which are not covered by financial performance indicators [5, 35]. It is a mechanism through which organizational obligations related to their accountability in society may be released [7]. Benefits a company can realize by CSR reporting include creation of a positive image and reputation as well as greater market growth potential.

Previous literature focuses on the impact of company characteristics (e.g. size or industry), general contextual factors (e.g. national, social, political and economic context) on internal context (e.g. company chair identity or existence of social reporting committee) on CSR reports [36], as well as the level of stakeholder engagement in their preparation [37]. As there is no statutory form of reporting, reports differ greatly in terms of content, methodology, reporting intervals, distribution channels, and the quality and relevance of the information published in the report. However, to all corporate stakeholders, reports present an insight and an opportunity to evaluate non-financial business operations and socially responsible activities.

In order to provide certain guidelines and ensure a universal tool for reports several CSR reporting models have been developed, such as EMAS, the ISO 14000 series, SA8000, AA1000, the Global Reporting Initiative, and the Copenhagen Charter [38]. Global Reporting Initiative (GRI) are the first and most widely adopted global standards for sustainability reporting, as 93 % of the world's largest 250 corporations report on their sustainability performance by using GRI [39]. It provides universal methodology, process of creating reports, and set of indicators that enable presentation of results gained by given organizations [40]. Reporting framework outlines key performance indicators that organizations can monitor, measure, and report in accordance with the sustainability reporting principles which are all related to economic, environmental, and social impacts and risks of organizations [4].

GRI also defines principles of quality CSR reporting and those include: (1) *balance* as report should contain positive and negative aspects of performance and CSR activities; (2) *comparability* as reports should contain information that are selected, compiled, and reported consistently to enable stakeholders to compare with other companies over time; (3) *accuracy* as reported informations need to be sufficiently accurate and detailed in order for stakeholders to assess the reporting organization's performance; (4) *timeliness* assuring reporting on a regular schedule and available information in time for stakeholders to make informed decisions; (5) *clarity* as reports need to be understandable and accessible to stakeholders using the report; and (6) *reliability* in order for methods used to prepare the report can be verified by a third party who checks the quality of reporting [40]. The quality and quantity of CSR reporting according to Schreck [5] directly affects organizational performance and indirectly financial performance as the company will prepare and publish reports if it has certain advantages of it.

METHODOLOGICAL FRAMEWORK

In order to analyze the link between corporate stakeholder orientation and quality of CSR reports an empirical research was designed and conducted. Beside analyzing current level of CSR reporting and quality of reports from selected European companies, our goal was to carefully examine if there is a positive link between what is being communicated through reports and orientation towards different stakeholders. As information were retrieved from existing CSR reports, we used content analysis to make an assessment of relevant data. This is a method widely accepted as it allows repeatability and valid conclusions from data according to their context (Krippendorff as cited in [37]).

SAMPLE CHARACTERISTICS

Sampled companies originating from Austria, Belgium, Croatia, France, Germany, Italy, Netherlands, Sweden, Switzerland and United Kingdom were selected from the list of Fortune 500 largest companies or they were registered in the GRI databases. The sample included 69 companies. Table 1. provides distribution of companies by headquarters countries. Table 2. provides distribution of samples companies according to an industry sector they belong to.

Table 1. Number of companies by their headquarters country.

Country	Number of companies	Structure, %
Austria	4	5,80
Belgium	2	2,90
Croatia	3	4,35
France	8	11,59
Germany	14	20,29
Italy	10	14,49
Netherlands	2	2,90
Sweden	7	10,14
Switzerland	5	7,25
United Kingdom	11	15,94
Total	69	100,00

Table 2. Number of companies by industry sector.

Industry sector	Number of companies	Structure, %
Real estate business	9	13,04
Computer services	10	14,49
Energy	5	7,25
Financial and insurance activities	13	18,84
Food product and beverage manufacturing	4	5,80
Production, processing and supply of petroleum products and gas	7	10,14
Production and sale of pharmaceutical products	4	5,80
Wholesale and retail trade	3	4,35
Telecommunication services	8	11,59
Provision of tourist services	3	4,35
Production of soaps and detergents, cleaning and polishing agents	3	4,35
Total	69	100,00

RESEARCH INSTRUMENT

Corporate stakeholder orientation in this article was analyzed with the help of CSR reports that were retrieved from the GRI Database or from the companies' official websites. Appendix 1 provides overview of independent variables.

We employed a previously developed and validated corporate stakeholder orientation index [42]. This is a modified version of index of stakeholder orientation developed by Greenley and Foxall [19] and it includes three segments: i) understanding interests, needs and expectations; ii) the level of stakeholder involvement in shaping the company's goals and strategies; iii) the extent to which the value of organizational culture promotes the values of the stakeholders and supports their joint strategic planning. Each group of stakeholders, namely shareholders, suppliers, employees, local community and customers were analyzed through defined elements of stakeholder orientation index, based on information from companies' reports.

Shareholders as Stakeholders includes five subvariables (SHARE_RG4.4, SHARE_RG4.12, SHARE_RG4.13, SHARE_RG4.14, and SHARE_RG4.17) (Cronbach alpha 0.819); *Suppliers as Stakeholders* includes two subvariables (SUP_HR2 and SUP_EC6) (Cronbach alpha 0.688); *Employees as Stakeholders* have nine subvariables (EMP_LA4, EMP_LA5, EMP_LA6, EMP_LA7, EMP_LA8, EMP_LA9, EMP_LA10, EMP_LA11, and EMP_LA12) (Cronbach alpha 0.807); *Local Communities as Stakeholders* has four subvariables (LOC_SO1, LOC_SO3, LOC_SO4, and LOC_SO5) (Cronbach alpha 0.735); and *Customers as Stakeholders* has seven subvariables (CUS_PR1, CUS_PR2, CUS_PR3, CUS_PR4, CUS_PR5, CUS_PR6, and CUS_PR7) (Cronbach alpha 0.839). Concerning reporting, all independent variables were assessed by a mark in the range of 1 to 3 (1 – fully, 2 – partially and 3 – not reporting).

Source of data for the quality of CSR reporting is GRI’s CSR report database. Table 3. shows the dependent variable Quality of CSR Reporting which refers to the level of application of the GRI framework for nonfinancial reporting with modalities of Levels A and A+, Levels B and B+, as well as Levels C and C+, where Levels A and B are high levels and Levels C are low levels.

Table 3. Dependent variable Measure of Quality of Socially Responsible Reporting.

Variable Name	Variable Description	Modalities	Variable Measurement
Quality of CSR Reporting	level of application of the GRI framework for nonfinancial reporting	high levels (Levels A, A+, B and B+)	high levels – coded as 1
		low levels (Levels C and C+)	low levels – coded as 2

DESCRIPTIVE ANALYSIS

Table 4. shows descriptive statistics of independent variables of corporate stakeholder orientation.

Out of the five independent variables pertaining to the Shareholders, the highest average rating has an independent variable Share_rg4.13 (1.435). Out of the two independent variables pertaining to the Suppliers, the higher average rating has an independent variable Sup_hr2 (1.844). Out of the nine independent variables pertaining to the Employees, the highest average rating has an independent variable Emp_la6 (2.232). Out of the four independent variables pertaining to the Local Community, the highest average rating have the independent variables Loc_so1 and Loc_so4 (1.739). Out of the seven independent variables pertaining to the Customers, the highest average rating has an independent variable Cus_pr4 (2.449).

Table 5 shows the number of companies in regard to the quality of nonfinancial reporting. It can be noticed that the largest number of companies achieved status B and B+.

Out of a total of 69 companies, 48 are categorized as companies reporting on social responsibility at Levels A and B, while 21 companies are categorized as companies reporting on social responsibility at Levels C.

Table 4. Descriptive statistics of independent variables of corporate stakeholder orientation. All items are assessed using scale: 1 – fully reporting, 2 – partly reporting and 3 – non-reporting.

Item	N	Minimum	Maximum	Mean	Std. deviation
SHARE_RG4.4	69	1	3	1.333	0.679
SHARE_RG4.12	69	1	3	1.377	0.769
SHARE_RG4.13	69	1	3	1.435	0.795
SHARE_RG4.14	69	1	3	1.072	0.312
SHARE_RG4.17	69	1	3	1.420	0.775
SHARE_total	69	1	3	1.328	0.526
SUP_EC6	69	1	3	1.739	0.885
SUP_HR2	69	1	3	1.884	0.916
SUP_total	69	1	3	1.812	0.786
EMP_LA4	69	1	3	1.812	0.928
EMP_LA5	69	1	3	2.087	0.951
EMP_LA6	69	1	3	2.232	0.926
EMP_LA7	69	1	3	1.739	0.779
EMP_LA8	69	1	3	1.812	0.912
EMP_LA9	69	1	3	2.217	0.921
EMP_LA10	69	1	3	1.739	0.852
EMP_LA11	69	1	3	1.739	0.869
EMP_LA12	69	1	3	1.638	0.857
EMP_total	69	1	3	1.890	0.558
LOC_SO1	69	1	3	1.739	0.902
LOC_SO3	69	1	3	1.710	0.859
LOC_SO4	69	1	3	1.739	0.885
LOC_SO5	69	1	3	1.536	0.850
LOC_total	69	1	3	1.681	0.653
CUS_PR1	69	1	3	1.986	0.915
CUS_PR2	69	1	3	2.420	0.864
CUS_PR3	69	1	3	1.942	0.922
CUS_PR4	69	1	3	2.449	0.850
CUS_PR5	69	1	3	1.841	0.933
CUS_PR6	69	1	3	1.797	0.948
CUS_PR7	69	1	3	2.203	0.948
CUS_total	69	1	3	2.091	0.651

Table 5. Number of companies by quality of nonfinancial reporting.

Level of application of the GRI framework	Number of companies	Structure, %	Cumulative, %
A	5	7,25	7,25
A+	19	27,54	34,78
B	15	21,74	56,52
B+	9	13,04	69,57
C	16	23,19	92,75
C+	5	7,25	100,00
Total	69	100,00	

LOGISTIC REGRESSION MODEL AND ANALYSIS

Table 6 shows the estimated values of logistic regression parameters with binomial dependent variables (1 – A and B, high level GRI; 2 – C, low level GRI) and independent variables (level of stakeholder orientation). Results indicate that two independent variables: Shareholders with a probability level of 1% (p-value = 0.004) and Employees with a probability level of 5% (p-value = 0.021) have statistically significant positive influence on the dependent variable. Control variables industry and country don't have a statistically significant influence.

Table 7 shows indicators of regression model representativeness with binomial dependent variable (1 – A and B, high level GRI; 2 – C, low level GRI) and independent variables (level of stakeholder orientation). Based on the Nagelkerke R Square indicator, it can be concluded that the model is representative since the 50,2 % variable dependent variation can be interpreted by variations of independent variables.

Table 6. Estimated values of logistic regression parameters.

Parameter	B	S.E.	Wald	df	Sig.	Exp(B)
SHARE	2,391	0,819	8,519	1	0,004**	10,922
SUP	-0,267	0,644	0,172	1	0,678	0,766
EMP	2,406	1,046	5,287	1	0,021*	11,085
LOC	-0,068	0,694	0,010	1	0,922	0,934
CUS	0,288	0,687	0,176	1	0,675	1,334
Industry	0,017	0,110	0,024	1	0,876	1,017
Country	-0,124	0,142	0,768	1	0,381	0,883
Constant	-8,581	2,228	14,830	1,000	0,000	0,000

*statistically significant at 5 %

**statistically significant at 1 %

Table 7. Indicators of regression model representativeness.

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	54,527	0,355	0,502

Logistic regression model showed high representativeness as well as the variable Shareholders and Employees to have a statistical significant positive influence on the quality of nonfinancial reporting. Therefore, a positive link between the level of corporate stakeholder orientation and quality of CSR reporting can be confirmed.

DISCUSSION AND CONCLUSION

Organizations need to demonstrate that their business activities create the lowest possible level of negative externalities to the commons [4]. Results of previous empirical and meta-analytic studies [25, 29] demonstrate that integrating a social perspective with core business strategies can help enhance financial performance and create shareholder value.

Under these pressures, organizations are also increasingly issuing CSR reports, independently or as a part of their financial reports, to provide information on their business practices and activities related to various environmental, social and economic issues. CSR reporting is a form of increased transparency that implies providing relevant and timely information to all interested users in order to optimize understanding and decision making and ensure more transparent and efficient business.

While some of the previous papers analyzed whether stakeholder engagement in sustainability reporting is present [37], this article provides analysis of impact and level of

their influence on quality of CSR reporting. By analyzing corporate stakeholder orientation on the basis of CSR reports, employees and shareholders have shown to have a positive impact on the quality of CSR reporting. Many authors state organizations encounter different institutional pressures from multiple stakeholders and intensity of such pressures depends upon the industry they belong as well as upon national and cultural specific context [30]. Still, our results showed that neither country nor the industry have a statistically significant impact on the quality of CSR reporting. The findings of this study therefore draw attention to the important role of stakeholders for the quality of CSR reporting.

Still it is necessary to emphasize certain research limitations. One of the limitation of this article is derived from a sample characteristic as it includes only companies from a limited number of countries or approximately similar countries in the context of CSR application. Conducting research on a larger sample of companies from many countries, or companies from completely different political and economic frameworks would provide more concrete and more specific results on which more general conclusion could be made. Furthermore, this research analyzed only a direct causal link between the dependent and independent variables. In this way, the influence of other variables on CSR was neglected. It would be interesting for instance to analyze whether the influence of IT development among companies affects this relation. Results show IT to have an important role on information sharing and CSR reporting, but at the same time results imply differences in IT adaption among companies [43, 44] which can affect CSR reporting. Additionally, in this research we used a cross-sectional approach in this research, where data was observed only in one period. Using a longitudinal approach would overcome this limitation and provide even better insight into causal relations.

APPENDIX: DECIPTION OF CODES

Table 8. Research instrument – independent variables (continued on p.299). All items were assessed using scale 1 – fully reporting, 2 – partly reporting and 3 – non-reporting.

Code / Segment		Description
Shareholders as stakeholders		
SHARE_R G4.4	III.	Report processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body.
SHARE_R G4.15	III.	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.
SHARE_R G4.16	III.	List memberships of associations (such as industry associations) and national or international advocacy organizations
SHARE_R G4.24	II.	List of stakeholder groups engaged by the organization.
SHARE_R G4.27	II.	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.
Suppliers as stakeholder		
SUP_HR9	I.	Total number and percentage of operations that have been subject to human rights reviews or impact assessments
SUP_EC6	III.	Proportion of senior management hired from the local community at significant locations of operation

Table 8. Research instrument – independent variables (continued from p.298). All items were assessed using scale 1 – fully reporting, 2 – partly reporting and 3 – non-reporting.

Employees as stakeholders		
EMP_4.12	III.	Report the percentage of total employees covered by collective bargaining agreements.
EMP_LA4	III.	Minimum notice periods regarding operational changes, including whether there are specified in collective agreements
EMP_LA5	I.	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs
EMP_LA6	I.	Type of injury and rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities, by region and by gender
EMP_LA7	I.	Workers with high incidents or high or high risk of diseases related to their occupation
ZAP_LA8	I.	Health and safety topics covered in formal agreements with trade unions
EMP_LA9	II.	Average hours of training per year, per employee by gender, and by employee category
EMP_LA10	II.	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings
EMP_LA11	II.	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category
Local community as stakeholder		
LOC_SO3	I.	Total number and percentage of operations assessed for risk related to corruption and the significant risks identified
LOC_SO4	II.	Communication and training on anti-corruption policies and procedures
LOC_SO5	II.	Confirmed incidents of corruption and action taken
LOC_SO9	III.	Percentage of new suppliers that were screened using criteria for impacts on society
Customers as stakeholders		
CUS_PR1	I.	Percentage of significant products and services categories for which health and safety impacts are assessed for improvement
CUS_PR2	I.	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes
CUS_PR3	II.	Type of product and service information required by the organization's procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements
CUS_PR4	II.	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes
CUS_PR5	II.	Results of surveys measuring consumer satisfaction
CUS_PR6	III.	Sale of banned or disputed products
CUS_PR7	III.	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes

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