Stakeholder Diversity vs. Stakeholder General View: a theoretical gap in sustainability materiality conception

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Research Issues

- Wide application of materiality in sustainability reporting and management

- Current materiality conception: take all stakeholders as a whole; an issue is material = it is material to all stakeholders. (see GRI G3; AA1000; Zadek and Merme 2004)

- Research question: how the diversity of stakeholders affects the materiality assessment of sustainability issues?
Sustainability, Corporate sustainability and stakeholder

- The concept of sustainability: a synthesis of ecological social and economic goals

- Corporate sustainability: to ‘shift organizations’ focus form an exclusively financially orientated perspective and respond to the challenge of sustainable development’ (Lamberton 2000)

- Stakeholder management for corporate sustainability: an organization behaves in such as way as to satisfy the needs and expectations of its stakeholders (Garvare & Jhansson 2010; Foley 2005)
Diversity in Stakeholders (I)


- But essentially normative (Donaldson & Preston 1995; Flak et al. 2000): every organization has a variety of stakeholders, and it has moral and ethical duties to know and respect the interests of the various stakeholders.

- Diversity also on classification. Shareholders, employees, customers, suppliers, governments, etc. (e.g., Freeman 1984; Brenner & Cochran 1991; Hill & Jones 1992; Clarkson 1995; etc.)

- Primary (strong influence) and secondary stakeholders (weak); internal and external stakeholders.

- Stakeholder salience: the degree to which managers give priority to competing stakeholder claims (Mitchell et al. 1997); power legitimacy and urgency.
Diversity in stakeholders

- Conflict of interests between different stakeholders as a major contention of stakeholder theory (e.g., Ogden & Watson)
- Interests of stakeholders are wide and diverse, and failure by companies to address these interests may be detrimental to their performance (Clarkson 1995; Freeman 1984)
- Freeman (1984)’s stakeholder map: a wide and diverse range of interests; each stakeholder has its own unique set of expectations, needs and values.
New materiality

- Financial materiality: influence of financial information on investors (FASB; SEC)
- New Materiality (of nonfinancial information): significant economic environmental and social impacts that substantively influence the decisions of stakeholders (GRI; AA 1000)

- In financial materiality conception, investors /financial statement users are considered as one whole group;
- similarly in the new materiality conception, all stakeholders are taken as a whole (see CGA 2006; Zadek & Merme 2003; GRI G3; AA 1000; Forstater et al 2006)
Organizational sustainability is achieved by satisfying the requirements of stakeholders;

Stakeholder diversity is the basic assumption of stakeholder theory. It reflects on the divergent and conflicting interests, values and expectations of stakeholders.

Like financial materiality, new materiality on sustainability context is conceptualized based on taking all stakeholders as a whole. Current definitions cannot recognized stakeholder diversity, the basic assumption in stakeholder theory. That is the theoretical gap.
Materiality complexity hierarchy: interpreting the diversity issue

- Three situations of consensus
  - situation one (simple): general consensus.
    - High concerns, similar view; high concerns, conflicting view; low concerns
  - situation 2 (complex): stakeholder consensus
    - High concerns and similar view in one particular stakeholder;
    - High concerns and conflicting view in one particular stakeholder;
    - Low concerns in this stakeholder
  - situation 3 (too complex): stakeholder nonconsensus
Hierarchy of materiality complexity

- Level 1: high concerns & similar view in general stakeholders; low concerns in general.
  Judge it as general material/immaterial (can use traditional model).

- Level 2: high concerns & negative/positive/conflicting views in different stakeholders. Introduce ‘negative/positive/conflicting material’ concepts to traditional materiality model; judge it as positive/negative/conflicting material to the general.

- Level 3: high concerns & similar or conflicting views in one stakeholder (but not the general). Traditional model cannot be applicable in this level.
  Introduce ‘stakeholder materiality’
  Judge it as positive /negative/conflict material to this stakeholder. If little concern, judge it as immaterial to this stakeholder. (but not the general)

- Level 4: an issue cannot be judged as material or immaterial to the stakeholder; nor judged as negative or positive on the stakeholder.
Traditional, new conception & the hierarchy

- Traditional materiality conception can interpret level one;

- Traditional materiality conception incorporated with ‘negative/positive/conflict’ can interpret level two;

- The new conception ‘stakeholder materiality’ can interpret level three, however traditional model cannot;

- Neither traditional nor the new model cannot interpret level three.
Conclusion

- Theoretical gap. Stakeholder diversity is the basic assumption of stakeholder theory; however current sustainability materiality definitions/models do not address this issue, but take all stakeholders as a whole.

- The hierarchy of materiality complexity reveals the limitations of current materiality conception,

- the new conception forwards our understandings and knowledge by incorporating the concepts of negative, positive, conflicting, and stakeholder materiality.