

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 from 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 a way as to satisfy the needs and expectations of its stakeholders (Garvare & Jhansson 2010; Foley 2005)

Diversity in Stakeholders (I)

- Stakeholder theory in descriptive, instrumental and normative terms (Donaldson & Preston 1995; Weiss 1995; Freeman 1984,1991).
- 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)

Literature Highlights and the theoretical gap

- 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 recognize 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
- situat 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.