

Book Review

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Stakeholder engagement and sustainability reporting

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by Laura Mazzola* and Massimo Contrafatto**

This essay offers a review of the book ‘*Stakeholder engagement and sustainability reporting*’ (2018), written by Marco Bellucci and Giacomo Manetti. The purpose of this review is to provide a theoretical background to the book in the context of the Social and Environmental Accounting Literature (hereafter SEAL). As it clearly emerges from the title, the book focuses on the “stakeholder engagement-related issues”, which arguably represent an important area of research in the SEAL. In particular, the book seeks to provide a more organic, structured and theoretically-grounded explanation of the nature, role and features of the stakeholder engagement in the processes of sustainability accounting and reporting. The analysis of the issues related to the stakeholder engagement in the context of the sustainability accounting and reporting has clear relevance for the ongoing debate about the problematic challenges (e.g. sustainable development; global warming; social instability; un-ethical behavior, etc.) that our society is currently facing. As emphasized by Gray (2013), these problematic challenges could be related to the (unsustainable) way of organizing society and business and the role that organizations, and in particular companies, play in this regard. Given the vast power that companies hold and the role that they play in ‘regulating’ the relationships between environment and society (Gray & Milne, 2004), expectations and pressure for wider forms of responsibilities are increasingly growing.

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As observed by many commentators (Contrafatto & Signori, 2012), there is now a larger consensus about the fact that companies have wider responsibilities that go beyond the sole economic/financial ones. From this perspective, therefore, companies are required to provide evidence of the way in which these “multiple responsibilities” (economic, social, environmental) are carried out (Deegan, 2002).

In response, companies seem to be increasingly more prone – for different reasons – to show commitment to the expectations, needs and demands of their stakeholders (not just those of their shareholders) and their aspiration to create shared value (not only value for shareholders). The disclosure of relevant information is a key element of this process through which the companies seek to “respond” to the demands/expectation/needs of stakeholders. One of the main ‘instruments’ through which companies communicate with their stakeholders which they engage with, is the social and environmental reporting (SER). The SER was described, in one of the first definitions offered by Gray et al. in 1995, as a ‘textual space’ that offers a ‘window into the organization’ (Gray, Kouhy, & Lavers, 1995), that is the channel through which organizations provide the quantitative and qualitative information about the social and environmental effects of their operations and activities. From this perspective therefore, the SER could be seen as a potential powerful mechanism through which to discharge wider information to their stakeholders about the “responsibilities” that companies hold (Contrafatto, 2009; Gray, Owen, Adams, 1996).

As emphasized by this book, this attention to the issues related to the “disclosure of responsibilities-related information” has gained relevance also within the agenda of national and international policy makers. For instance, the European Union issued a relevant directive, the Directive No. 2014/95/EU, which requires large companies (i.e. those with an average number of 500 employees) to prepare a non-financial statement that contains information related to policies, risks and outcomes regarding the environmental, social and employee-related aspects and the human rights, anti-corruption and bribery matters.

Over the last decades, a wide range of social and environmental accounting and reporting models and tools have emerged. For instance, the well-known triple bottom line (TBL) approach (Elkington, 1997) offers a reporting framework through which to discharge social (people), environmental (planet) and financial (profit) information. The TBL framework, among others, emphasizes the importance of considering a broader set of stakeholders (than the sole shareholders) which are involved and have an influence on, and are impacted by, corporate actions.

As emphasized by Bellucci and Manetti, it is important that companies

have a clear understanding, and guidelines, of the most relevant information that they wish to disclose when preparing a sustainability report. The *selection* of this is a key decision-making process that has potential wider strategic implications for the relationships between companies and their stakeholders. A pivotal support for this process of selection is provided by the concept of materiality (AccountAbility, 2015; Global Reporting Initiative, 2016; IIRC, 2013). According to this, the material aspects are those aspects that reflect an organization's significant economic, environmental and social impacts or that substantively influence stakeholders' assessments and decisions. The materiality principle, as explained by Bellucci and Manetti, provides guidelines for the process of identifying the impacts or outcomes that need to be reported, based on their relevance for the organization's overall operations (Unerman & Zappettini, 2014).

As it is often impossible or very difficult to set thresholds for non-financial or non-market aspects to assess their materiality, Bellucci & Manetti highlight the centrality of the stakeholder engagement in the process of information relevance assessment. An analysis of the stakeholders' interests, in fact, can help define the spectrum of financial, social and environmental aspects for which the organization must be accountable. The main thesis of the authors of this interesting book is that stakeholder engagement can be considered among the most effective tools for the materiality assessment of information in sustainability reporting and for supporting the orientation of strategies and decision making in light of stakeholders' expectations.

In the past two decades, stakeholder dialogue and engagement have played an increasingly important role in defining the contents of integrated and sustainability reporting (Fasan & Mio, 2017; Manetti, 2011) in accordance with the principle of materiality and relevance of information disclosed (Global Reporting Initiative, 2016). Stakeholder engagement can represent a powerful tool for dialogic communication and accounting (Bebbington, Brown, Frame, & Thomson, 2007; Brown & Dillard, 2014; Contrafatto, Thomson, & Monk, 2015; Bellucci, Simoni, Acuti & Manetti, 2019) and a channel for interactive mutual learning that is capable of promoting transformative action and social change (Bebbington et al., 2007; Bellucci & Manetti, 2017). Moreover, stakeholder engagement is a milestone policy in social and environmental accounting because it allows an organization to interact with its stakeholders in a two-way dialogue in which the engager and the engaged mutually learn from this cooperation and potentially revise their expectations, strategies and behaviors (Manetti & Bellucci, 2016; Manetti, Bellucci, & Bagnoli, 2016).

From this perspective, the present book, '*Stakeholder engagement and sustainability reporting*' provides a valuable contribution to the SEAL by

adding theoretical and empirical insights about the features of stakeholder engagement and the role that this plays in the process of sustainability reporting. Bellucci and Manetti's book is organized in six chapters, which are structured as follows. After a general introduction of the main topic and the debate within which the work is contributing to, the second chapter discusses the evolution of the role of corporations in contemporary society. The chapter highlights how corporations' responsibilities have gone well beyond the sole financial aspects and explains how the subjects *on whom* (and *from whom*) have an influence or impact on have extended above the sole shareholders. In parallel with the 'evolution' of the role of organizations in society, the authors also introduce the 'evolution' of the reporting practices by discussing how the set of information that companies are expected to discharge have widely increased. In particular, Bellucci and Manetti, explain that the historical conventional function of accounting and reporting has been rethought in light of a broader and multi-dimensional set of objectives. By a detailed review of the literature, Bellucci and Manetti describe the evolution of the corporate reporting practices that have moved from the disclosure of information through a single report (e.g. sustainability reporting and social and environmental reporting) to an integrated approach (e.g. integrated reporting), which is able to provide a clearer image of the linkages between the organization's strategy, governance and financial performances and the social, environmental and economic context within which a company operates (IIRC, 2011). Although they are similar in the overall purpose, the authors emphasize that theoretical differences between social and environmental reporting, sustainability reporting and integrated reporting do exist. They argue that sustainability reporting could be considered as the most complete and transparent statement where *to assess* 'how' an organization contributes to- or, more likely, diminishes- the sustainability of the planet (Gray, 2010; Gray & Milne, 2002).

In support of this thesis, in the third chapter, a detailed literature review on sustainability reporting is undertaken, with particular attention to the definition, motives and criticalities of the reporting processes. Along with the concept of sustainability reporting, the third chapter introduces the concepts of materiality and stakeholder engagement, which is the ultimate focus of the book.

The fourth chapter defines the theoretical framework of the analysis undertaken. In particular, Bellucci and Manetti, describe the main approaches to stakeholder theory (positive, instrumental and normative). It is through these different views and perspectives that the authors introduce the concept of stakeholder engagement and related issues. In particular, the importance of the principle of inclusiveness and the process of materiality assessment

are emphasized. The authors of the book see the stakeholder engagement as a pivotal component of the process of identifying the material topics and impacts. In particular, they provide an interesting analytical framework to examine the stakeholder engagement process, which would involve: 1) stakeholder identification and analysis, 2) interaction with stakeholders and 3) evaluation and reporting. As a result of their analysis, the authors conclude that committed, genuine, and quality stakeholder engagement represents a fundamental step for organizations which genuinely are committed to disclose truly relevant sustainability reports and to formulate their strategies to meet the interests of their stakeholders.

The fifth chapter reports on the empirical analysis undertaken, which is intended to provide an empirical contribution to the literature which is concerned with the properties of the information about stakeholder engagement policies and practices that are included in the sustainability reporting (Manetti, 2011). In particular, the aim of the analysis is to identify: 1) how sustainability reports address the topic of stakeholder engagement, 2) the features of this involvement process and 3) the role of stakeholder engagement in assessing materiality and defining contents.

A mixed methodology drawn on content analysis was used. Authors analyzed 211 sustainability reports published, in compliance with the GRI G4, in 2016 by organizations operating in 8 sectors (Chemicals, Energy, Food and Beverage Products, Forest and Paper Products, Mining, Textiles and Apparel, Tobacco, and Waste Management). The choice of the sectors was made because the organizations operating in these sectors have high social and environmental impacts. The sample includes 180 private companies, 17 state-owned companies and 14 subsidiaries, located in Europe (82), Asia (56), North America (27), Latin America and the Caribbean (19), Oceania (14) and Africa (13).

The empirical analysis provides the following main results. With regard to 1) 'how sustainability report addresses the topic of stakeholder engagement', almost the majority (79.62%) of the organizations of the sample provided a specific section in their report illustrating the stakeholder engagement process. The rest of the organizations of the sample (20.38%) failed to discuss this information or opted for disseminating stakeholder engagement information throughout the whole report instead of providing a specific section. On the other hand, with regard to 2) the 'Features of stakeholder engagement process', it emerges that the most commonly used methods were: meetings, surveys, social media and interviews. In addition, the most common level of engagement was the 'consultation' of stakeholders with only rare cases of practices that were capable of supporting forms of dialogic accounting (such as stakeholders answering to other stakeholders'

questions on critical topics, or multi-stakeholder initiatives). The evidence provided sheds light on the ‘limited form’ of practical engagement within stakeholders. Finally, with regard to 3) ‘The role of stakeholder engagement’, the analysis shows that the main role was to support the process of formulating the organization’s strategies and the content of sustainability reports. In particular, the majority of sample organizations claimed, that stakeholders were directly involved in providing materiality checks in the reporting process and that the most frequent groups of stakeholders that were engaged have been employees, communities, shareholders, consumers and governments.

The final chapter provides a summary of authors’ contribution, supplementary comments on the main results and practical implications of their study. Based on this, several important strands for further research about stakeholder engagement and social and environmental reporting are suggested. Authors contend that stakeholder engagement can truly affect organizations’ understanding of decision-making and have an impact on the strategies’ orientation and the assessment of the materiality of information for sustainability reporting. On the other hand, authors recognize how the ‘transformative’ potential of stakeholder engagement still needs to be completely unveiled. Authors identify two main factors limiting the potential of stakeholder engagement for being effectively transformative: a) the willingness of organizations to take risk due to the possible need to cope with agonistic or adversarial feedback and connected to this (the fear of adverse publicity they could receive); b) the limited use of technologies. With regard to a), the authors argue that stakeholder engagement provides opportunities for change precisely through the combination of different, and sometimes opposing, points of view. Concerning b), i.e. limitation of the use of technologies, the authors suggest that the existing new technologies, particularly web-based technologies, could play an important role in supporting organizations in reaching a broader set of stakeholders. For instance, Bellucci and Manetti, emphasize that social media could be seen as powerful mechanisms for reaching a large number of stakeholders, thus guaranteeing interactive dialogue with them at very low costs. In particular, the authors have already begun to explore the use of social media as an instrument for stakeholder engagement in sustainability reporting viewing its potential in the capability of identifying, creating dialogues with, and engaging the largest possible number of the organization’s stakeholders while also considering their opinions and expectations (Bellucci & Manetti, 2017; Manetti & Bellucci, 2016; Manetti, Bellucci, & Bagnoli, 2016). This topic is increasingly relevant and has many practical implications, as social media are becoming one of the main channels through which organizations

promote their activities and communicate with customers, users, communities, and other primary stakeholders.

Finally, with regard to the future research avenues, the authors recognize three main areas: 1) the role of stakeholder engagement in sustainability reporting, 2) the motivations underlying sustainability reporting and stakeholder engagement and 3) the legitimization processes behind the voluntary disclosure of non-financial information. In particular, the authors call for studies which examine, through case studies methodologies, the following issues: a) the significance of stakeholder engagement in the context of sustainability reporting and sustainable development; b) the main motivations behind stakeholder engagement and; c) the extent to which stakeholder engagement have an impact on strategies and performances (the transformative role of stakeholder engagement). Moreover, Bellucci and Manetti suggest also a possible quantitative approach for the analysis of sustainability reports. Authors argue that software-assisted content analysis could be useful to study the manifest content of a broad set of sustainability reports.

As a final comment on this interesting book, we strongly believe that this book offers important insights for understanding and examining the potential role that stakeholder engagement processes have for enhancing the organizations' efforts and attitudes towards greater accountability.

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