Radboud Universiteit

Stakeholder representation in sustainability reports

An analysis of eighteen Dutch companies' sustainability reports

Master Thesis Economics: Accounting & Control

Volkan Konuk

s3052451

Date: January 2017

Supervisor: Dr. Max Visser

Preface

I wrote this thesis to achieve my Master of Economics Accounting & Control degree at Radboud University Nijmegen. Due to a major setback in self-confidence, I didn't start until November 2016, but I managed to finish in January 2017. In this thesis, I investigated which stakeholder groups appear to be the most important in sustainability reports of eighteen Dutch companies listed on the Dow Jones Sustainability Index 2016. Research included a content analysis of the sustainability reports to investigate how often stakeholder groups are mentioned, followed by an interpretive analysis to explain the results and differences.

I would like to thank my supervisor Dr. Max Visser, second reader Prof. dr. Ed Vosselman and study advisor Drs. Hatice Günenç. Drs. Hatice Günenç helped me a lot to get my self-confidence back and advised me with the steps I needed to take in order to get me back on track. Dr. Max Visser freed up his valuable time in his busy time schedule and didn't withhold his supervision. Also, I want to thank Dr. Albert de Vaal and the other members of the exam commission for granting me the postponement of the deadline, which I needed very hard to successfully finish my thesis. Last but not least, I want to thank my family for believing in me and supporting me at all times.

Abstract

In the past four decades, organizations report non-financial information along with the mandatory financial report. These non-financial, sustainability reports contain information about economic, social, and environmental activities of the organization. By reporting about sustainability issues, organizations try to be transparent and sustainable to the stakeholders. Organizations release information that stakeholders demand and consider as important. However, stakeholder groups have different needs and wants from the organization, also concerning sustainability. These groups can have competing demands. It is hard to meet every stakeholder group and demands equally, so the organization needs to decide which groups and demands are more important (Mitchell et al., 1997). The aim of this thesis is to investigate which stakeholder group is prioritized. All eighteen Dutch companies listed on the Dow Jones Sustainability Index 2016 are chosen as research object. Analyzing the sustainability reports of these organizations, will give insight in which stakeholder groups are most represented. A content analysis will be used to investigate this matter. Thereafter, an interpretative analysis will be applied to get more insight in why some groups are prioritized versus other stakeholder groups.

Content

Introduction

In 1987, the United Nations World Commission for Environment and Development published a report 'Our Common Future', which is more known as the Brundtland Report. The commission headed by Gro Harlem Brundtland, ex-prime minister of Norway, introduced the 'sustainable development' concept. Sustainable development is defined as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs' (UNWCED, 1987). In 1992, the concept was debated on the United Nations Conference on Environment and Development in Rio de Janeiro. This event brought the Agenda 21 document, which resulted in being adopted by many countries around the world (United Nations, 1992). This event was ten years later held again in Johannesburg. It was a recapture of the developments from 1992 to 2002.

The upcoming interest for social responsibility in the last few decades, led firms to give more attention to non-financial information. Sustainability reporting began with minor additions to traditional financial reports in the 1970's. In the 1980's, environmental issues like waste generation and emission got more attention. After the 1990's, firms began more and more aware of the importance of sustainability and started to publish sustainability reports alongside with financial reports (Kolk, 2010). The traditional financial reporting has regulation and laws for a long time, but with sustainability reporting that's not the case. The first step towards regulation was the Global Reporting Initiatives guidelines, published in 2000. The most recent updated version of GRI number 4 was published in 2013. GRI guideline is prominent as the global standard and is widely used around the world. Since 2014, large multinational corporations are obliged to report non-financial information in the European Union. These implements aim is to increase transparency and environmental performance.

With these developments, publishing non-financial data became more important to organizations. This is reflected in sustainability reports. The society and stakeholders expect organizations to act socially responsible. Activities of an organization could have a huge impact on the company itself, the environment and the people (Garriga & Melé, 2004). Until this development, profitability was the main concern. The demand for social responsibility by the society, stimulated the attention for sustainability reporting. Some organizations publish sustainability information in their financial reports, and others in a separate sustainability report. Sustainability reports are also called corporate responsibility reports, citizenship reports, triple bottom line reports (Elkington, 1997). The people who demand sustainability

information, differ in needs and wants. Stakeholders, as it captures most of the people, vary in sorts and thus needs. Examples of stakeholders are employees, customers, suppliers, governments, shareholders, non-governmental organizations, local communities et. (Kolk, 2004).

Stakeholders have competing interests, which organizations need to meet. However, it is impossible to meet all stakeholders demands(equally). Organizations have to choose which stakeholders and demands are the most important. Mitchell et al. (1997) outlined stakeholder attributes of power, legitimacy and urgency. Stakeholder groups could be prioritized, because they possess more attributes than other groups. The goal of this thesis is to investigate which stakeholder groups are the most important, which reflects managers priority to stakeholder groups. Research is based on all eighteen Dutch companies listed on the Dow Jones Sustainability Index 2016. By investigating the representation of stakeholders in sustainability reports, more insight on the importance of different groups will be provided. Identifying which groups are more important, why and how this is represented in the reports.

The research is done by conducting a content analysis and an interpretive textual analysis. By analyzing CSR reports or if so, the sustainability section integrated in a financial report. A content analysis will provide hard data on how frequent different stakeholders are mentioned in reports. With the interpretive textual analysis, the data obtained from the content analysis will be interpreted by the three stakeholder attributes outlined by Mitchell et al. (1997). By this way, the thesis will present which stakeholders are represented more frequent and why. Examining the differences between organizations.

The theories used in this thesis will be stakeholder theory and legitimacy theory, which both find their roots in political economy theory (Gray et al, 1996). Gray explains in these theories why and how organizations regard the needs of stakeholder groups and society in their activities. Mitchell et al. (1997) identified three stakeholder attributes of power, legitimacy and urgency. Stakeholders could possess these attributes which makes them more important than other stakeholder groups. These theories and concept are helpful in examining how organizations chose which stakeholders are most important and what kind of information is published in reports.

The thesis will be structured as follows. The next chapter will start with a review of literature about corporate social responsibility. It will answer why companies report sustainability next to financial reports. Further, it will outline the stakeholder and legitimacy theory of Gray (1996), and the stakeholder attributes, power, legitimacy and urgency, of Mitchell et al. (1997). Chapter three will handle the research methodology and method used in

this research. This chapter will also include the company selection of this research. Chapter four is used for research findings and research results, where the results are thoroughly unfolded. Finally, the thesis will be concluded by a conclusion, discussion and future research possibilities.

2. Literature review

Firms decided to take part into the sustainability reporting, because the general public and especially the stakeholders demanded that. Stakeholders pursue different economic, environmental and social interest, that determines the success of an organization (Buchholz and Rosenthal, 2005; Laplume et al., 2008). Sustainability reporting is the way that firms use to meet those demands from stakeholders (Lozano and Huisingh, 2011). The underlying reasons to do that have been discussed in literature. Herzig and Schaltegger (2006) for example summed up the goals and benefits: increasing transparency and accountability; increase corporate reputation and brand value, legitimation of corporate activities; comparison and benchmarking against competitors; signaling competitiveness; establishing and supporting employee motivation and supporting corporate internal information and control processes.

There are efforts to explain sustainability practices in theory, but the most prolific theories are stakeholder theory and legitimacy theory, whereas signaling theory and institutional theory are less used in sustainability field. Stakeholder theory explains why and how firms disclose sustainability information. Stakeholder theory suggests that firms' stakeholders interest have to be taken into account when strategy for operating is set (Freeman, 1984). Legitimacy theory states that a company needs to have legitimacy to have a "license to operate" (Deegan, 2002). This license to operate creates a greater acceptance by the society to operate business. Signaling theory suggests that firms try to reduce information asymmetry by disclosing sustainability information, in order to 'signal' that they are operating environmental friendly. Stakeholder and legitimacy theory, which are called socio-political theories, are the relevant theories for this thesis and these will be outlined in the following section.

2.1 Legitimacy theory
Legitimacy theory is closely related to stakeholder theory and both find their origin in political economy theory (Gray et al., 1996). Legitimacy theory broadens stakeholder perception by the whole society. Firms need a "license to operate" as Deegan (2002) stated.

Organizations need to legitimate their activities by getting the approval of the society. Organizations need to respond to changing norms and values over time, by legitimating their selves. The society has an expectation and the organizations need interact by meeting the expectations of the society, in order to survive (Deegan, 2002). The difference between legitimacy theory and stakeholder theory is that legitimacy concerns about the whole society, whereas stakeholder theory only concerns about a specific group (stakeholders) within the society (Deegan, 2002). Various groups of stakeholders have different expectations from organizations. Organizations in fact, legitimate their selves by meeting those expectations. But, the management has to make decisions to choose which stakeholders are most important. Those groups' expectations are more likely to be met.

2.2 Stakeholder theory

Stakeholder theory is a broadening theory of the narrower shareholder theory. As Friedman (1970) outlined, shareholder theory concerns the maximization of shareholder value in order to maximize economic profitability and surviving competition. Considering the existence of shareholder theory in perspective of the time, it is understandable that shareholders were the main focus. As time evolved, other stakeholders got more attention by firms. With the emergence of social responsibility, focusing on other stakeholders was inevitable. In 1984, Freeman developed the stakeholder theory. Freeman states that the emergence of social responsibility reflects on the shift from internal to external stakeholders. The stakeholder theory emphasizes that managers should act in interest of all stakeholders, instead of only shareholders. Laplume et al., (2008) also confirm this: "organizations should be managed in the interest of all their constituents, not only in the interest of shareholders". So, firms have to take various demands of wide group of stakeholder into consideration in order to survive on the long term.

Deegan and Unerman (2006) divide stakeholder theory into ethical (moral) or normative branch, and a positive (managerial) branch. The ethical branch states that all stakeholders have the equal right to be treated fair by the firm. This branch gives the stakeholders the intrinsic rights (e.g. good working conditions) to stakeholders which have to be met. This right should not be influenced by power of the stakeholders. In terms of sustainability, the stakeholders have the right to be informed on how the activities impacting them, even if they don't use this information. The positive branch of stakeholder theory states that more powerful stakeholders are more likely to be met in their demands. The relationship between the powerful stakeholders is more prioritized than stakeholders who are less

powerful. This is in contrary with the ethical branch, which states that all stakeholders have intrinsic rights, no matter the level of power. Firms use the information disclosure to meet demands of stakeholders. Gray calls this branch 'organization-centred' (Gray et al., 1996).

2.3 Stakeholder salience

The management choses to meet the needs of the stakeholder groups that are the most important to them. Mitchell et al. (1997) describes this as stakeholder salience; the degree in which managers give priority to stakeholder demands. Stakeholders could possess three attributes which make more salient than other stakeholder groups. These attributes are named power, legitimacy, and urgency. These attributes will lead the content analysis and will be used to explain why and how firms focus on specific stakeholder groups that resulted in being more salient in comparison to other stakeholder groups. The stakeholders are also divided in three categories by Mitchell et al. (1997): latent, expectant definitive stakeholders. Latent stakeholders possess only one attribute, expectant stakeholders possess two attributes and definitive stakeholders possess three attributes.

This figure of Mitchell et al. (1997) gives a clear picture on the various types of stakeholders.

Figure 1: stakeholder types

2.3.1 Power

Power is the attribute that the stakeholder can influence the organization to do something that it wouldn't do otherwise. In this case meet sustainability demands. This attribute can exist from intrinsic abilities or from the legislative processes of society (Gray et al., 1997). Organizations probably will manage the powerful stakeholders. Power could be expressed in terms of access to influential media, ability to legislate against the organization, ability to

influence the consumption of the organization's goods and services, and command of limited sources (Deegan and Unerman, 2006). Already stated, a stakeholder who possesses only one attribute is called latent. A stakeholder that only possesses the power attribute is called a 'dormant' stakeholder. This group of stakeholders can only use their power to impose their will on the organization. However, their power is useless, because they don't have the legislative relationship or an urgent claim.

2.3.2 Legitimacy

Legitimacy is about how legitimate the claim of a stakeholder group is. An example is the attention for environmental friendly policy of an organization. Legitimacy can be described as an assumption that actions of organizations are socially acceptable in terms of norms, values and beliefs (Suchman, 1995). Legitimacy will in turn be useless if the stakeholder group has no power to impose on the organization. A stakeholder could possess a legitimate claim, but due to the lack of power the management would not consider them as salient. Michell et al. (1997) typifies this group as discretionary stakeholders, and are mostly NGOs. Discretionary stakeholder are thus stakeholders with absence of power, and urgent claims, who could not get the management to meet their demands. The expectant stakeholder groups who possesses power and legitimacy attributes are called 'dominant' stakeholders. These stakeholder groups have a legitimate claim and the power to be salient for the management. A perfect example of dominant stakeholders are shareholders. This group of stakeholders are considered as 'the' stakeholders (Mitchell et al., 1997).

2.3.3 Urgency

Urgency is defined by Mitchell et al. (1997) as: "the degree to which stakeholder claims call for immediate attention". Urgency adds dynamic to the stakeholder-manager relationship. A claim is urgent if two conditions are met: (1) when a relationship or claim is of a time-sensitive nature and (2) when that relationship or claim is important or critical to the stakeholder (Mitchell et al., 1997). A latent stakeholder who possesses only urgency is called 'demanding' stakeholder. A demanding stakeholder who has not a legitimate claim and the power to impose on the management, their urgency will not be sufficient to be considered by the management. Urgency adds an extra dimension to the dominant stakeholders, who then have a claim that needs immediate attention. A stakeholder who possesses all three attributes are called definitive. An example is a shareholder who's share prices drop significantly and demands immediate answers and explanation by the company.

3. Methodology

In this thesis, both qualitative and quantitative research methodologies are applied. Quantitative research has the advantage of giving hard and objective evidence, however there is no room for opinions. Quantitative research often uses mathematical models, theories, hypotheses, which are measurable by numbers. Quantitative research methods can be a survey, experiment, statistics, observation and content analysis. They all have advantages on each other, but the general advantage is that datasets are used. The main critics about quantitative research ignores the context, because the study is not conducted in the natural setting. Another critic is that the meaning cannot be discussed. Qualitative research is done to get a deeper understanding of things that cannot be done by quantitative methods. Qualitative data is obtained in words and examples are case studies and interviews. In opposition to quantitative research methods, qualitative research methods are less structured. In quantitative research the study is structured and designed before the data is collected. With qualitative research, the structure and design can change and be adapted to the research subject. A disadvantage of qualitative research is that the researcher can be subjective. This could affect the reliability and validity of the research.

3.1 Research method

A content analysis will be conducted to find out which stakeholder groups are the most salient in sustainability reports of the selected companies. Content analysis is defined by Abbott and Monsen (1979, pp 504) as "a technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales of varying levels of complexity". This can be translated to codifying content(text) into selected categories. Main characteristic of content analysis is that the data should be collected objectively, systematic and reliable (Gray et al., 1995). Objectivity concerns about identifying the data as relevant for the research. For example, which information can be classified as stakeholder disclosure. Systematically means that if another person would analyze the data, he/she also categorizes the data into the same category. I.e. which information belongs to a specific stakeholder group. Reliability concerns the data codification process done by researchers. Codification done by more than one researcher adds reliability to the research. However, in this thesis research is restricted by one researcher. One possible way to increase reliability is to define and categorize the groups as clear as possible. That will be elaborated detailed in section 3.2.

After a content analysis, an interpretive analysis will be conducted. This will give more insight and understanding of which stakeholder groups are more salient in sustainability reports, and explain why. By digging deeper into the data, the meaning of the results will be presented. This analysis will look at how the organization represents stakeholder groups in their sustainability reports. The analysis should also take into account why and for who the sustainability report is published. This can be of substantial value for the interpretive analysis outcome. The combination of content analysis and interpretive analysis gives us the insight of which stakeholder groups are more salient. Also, the difference between companies in stakeholder representation will be clear. The interpretive analysis will explain the differences between the companies.

3.2 Structure of the analysis

First, all reports of the selected companies are carefully read. In order to investigate which stakeholders are represented in the reports, stakeholders need to be categorized into groups. The number of different stakeholder categories are too much to include and also not every category is salient enough in the reports to include in the analysis. By carefully reading, the stakeholders groups will be chosen as salient from all categories available. Stakeholder groups as science research institutes, NGOs, government, society, investors and communities are far less salient. Customers, employees and suppliers are the most salient groups for all firms reports. So, the groups that are almost not mentioned in the reports are not included in the analysis, in order to concentrate on the most important groups.

The sampling units for this research are the sustainability reports plus the non-financial disclosures in the financial report. The context units are the narrative sections in the sustainability reports. Forewords, chairman's words, and appendices are not included in the analysis. The recording units are the stakeholder groups that are categorized and represented in the sustainability reports of the companies. The enumeration units are the categorized stakeholder groups. These groups are used to measure stakeholder representation in the reports. However, there is need to be aware of shared meanings. The groups can be named differently, for example investors for shareholders, clients for customers etcetera. To get a clear overview of the shared meanings see Table 1 on the next page.

Groups	Shared meanings
Customers	Consumers, clients
Employees	Colleagues, workforce, people, associates, personnel
Suppliers	Contractors

Table 1: shared meanings stakeholder groups

The interpretive analysis will outline why some stakeholders are more represented and others less. Every stakeholder group will be outlined for every company. The results from the content analysis will be used to interpret the information from the reports. Differences between companies will also be described. Some stakeholders could only be salient for one (or more) company, whereas not for the rest. On the basis of the three attributes of Mitchell et al. (1997), the stakeholder groups will be assigned with the attributes they possess. Quotes from the reports will give clarification why the certain attribute(s) applies to the specific stakeholder group. Lastly, the stakeholder groups will be divided into the latent, expectant and definitive stakeholders.

The ability to influence the firm to get things done, is the main characteristic of the power attribute. In the sustainability reports, this attribute can be noticed by the specific acknowledgement of the management. Most of the time, power of stakeholder groups will be admitted and mentioned in the reports. For example, when customers demand for more sustainable products as a reason to produce more sustainable products and that they will buy from the competition if this demand is not honored. Finding the power attribute is harder when it's not specifically mentioned, but not impossible. By carefully reading the context and understanding the underlying reason why the stakeholder groups is getting attention. For example, a new collective labor agreement as a result of the presence of power (and legitimacy) of employees. Using media and labor unions will help in the enforcement of power. In the report, labor unions or media could also be mentioned specifically or in the context.

Stakeholders possess the attribute of legitimacy when they have a legitimate claim, which they can impose on the company. The management will make sure if the claim is legitimate, and if so honor it. Most of the time, the claims the stakeholders make are explicitly mentioned in the reports. It doesn't always need to be the case that a claim is made by stakeholders, as it can be noticed from the following example. The management acknowledges the moral obligations to provide safe and healthy working conditions for employees, so employees possess the legitimacy for good working conditions. Most of the

time, the management will give in and mention specifically if a there is a case of legitimacy. If that's not the case, you will have to dig deeper in the context. This is why a careful reading is necessary to understand the text.

Urgency is an attribute that enforces immediate action by the management. Time sensitive claims are easy to notice in the reports. The management will specifically mention the time manner claim and make sure the stakeholder groups claims aren't unnoticed. For example, claims of firms to their suppliers to be sustainable. Firms set specific criteria that have to be met within a specific time frame. The deadline is a clear sign of urgency, and if the supplier doesn't improve or try to improve significantly, they will end the partnership. Other example could be the regulation by the government which have to abided within the time frame set.

Concluding, the combination of the content analysis and interpretive analysis will help us provide the answers we try to find. First, which stakeholder groups are most represented in the reports and which are more salient than others. Second, why these stakeholders are more salient than others. Thirdly, how important the stakeholder groups are, based on the three attributes power, legitimacy, and urgency of Mitchell et al. (1997). The latent, expectant, definitive stakeholder groups are going to be identified, if possible. Lastly, an answer will be given what the company does to make stakeholders more important than others, with respect to other companies.

3.3 Company selection

All eighteen Dutch companies listed on the 2016 Dow Jones Sustainability Index are selected and analyzed. This index is the first and is the most important index for sustainability performance of companies worldwide. DSJI provides indexes which are very useful for objective benchmarking and portfolio setting. DSJI selects the companies who are the top 10% of economic, environmental, and social criteria from the Dow Jones Global Index. The companies are evaluated on various criteria like climate change strategies, energy consumption, human resources development, knowledge management, stakeholder relations and corporate governance. The DSJI contains eighteen Dutch companies, which can be seen in Figure 2.
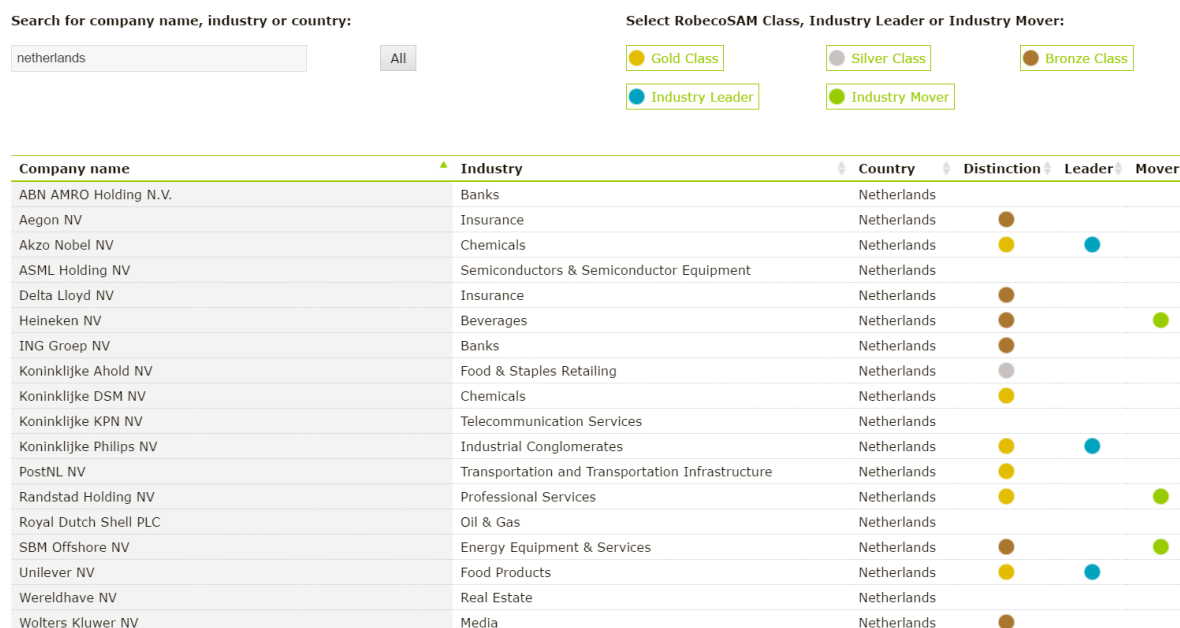
Company name	Industry	Country	Distinction	Leader	Mover
ABN AMRO Holding N.V.	Banks	Netherlands			
Aegon NV	Insurance	Netherlands	●		
Akzo Nobel NV	Chemicals	Netherlands	●	●	
ASML Holding NV	Semiconductors & Semiconductor Equipment	Netherlands			
Delta Lloyd NV	Insurance	Netherlands	●		
Heineken NV	Beverages	Netherlands	●		●
ING Groep NV	Banks	Netherlands			
Koninklijke Ahold NV	Food & Staples Retailing	Netherlands	●		
Koninklijke DSM NV	Chemicals	Netherlands	●		
Koninklijke KPN NV	Telecommunication Services	Netherlands			
Koninklijke Philips NV	Industrial Conglomerates	Netherlands	●	●	
PostNL NV	Transportation and Transportation Infrastructure	Netherlands	●		
Randstad Holding NV	Professional Services	Netherlands	●		●
Royal Dutch Shell PLC	Oil & Gas	Netherlands			
SBM Offshore NV	Energy Equipment & Services	Netherlands	●		●
Unilever NV	Food Products	Netherlands	●	●	
Wereldhave NV	Real Estate	Netherlands			
Wolters Kluwer NV	Media	Netherlands	●		

Figure 2: Dutch companies listed on the Dow Jones Sustainability Index 2016 (DSJI, 2016)

4. Analysis

In this chapter, the results of the content analysis will be discussed and interpreted further. The stakeholder groups of respectively employees, customers and suppliers are the three most salient from reports analyzed (see table 2 & 3 on the next two pages). Employees have been mentioned 1052 times, customers 820 and suppliers 459, with respectively 35,7%, 27,8% and 15,6% of the total mentions. Community was the only one of the rest 'non-salient' groups, which was significantly more salient. However, this was mostly the result of Ahold, Shell, and Wolters Kluwer, who mentioned community 172 times in the total of 272 (63%). Especially Shell, who mentioned community 90 time. Shell experienced a major oil leak in 2012, which brought Shell into a problematic situation in the society. The salience of community in their report is due to their oil leak disasters related history. Governments came out as the fifth salient stakeholder group. However, this was mostly due to the representation of governments in the report of Shell, contributing 50% (45 out of 90 in total). Shell tries to increase their sustainability by preventing oil leaks in the future and working together with local governments. This is represented as we can see in their sustainability report. The representation of society (87 times and 3%) and investors (78 times and 2.6%) are quite low for their status. Investors are categorized as one of the most important stakeholders, but in sustainability reports they are not prioritized. Society is an important factor to be sustainable, but they are not explicitly mentioned. Partners (38 times and 1.3%), NGOs (37 times and 1.3%), and science/research institutes (16 times and 0.5%) are the rest on the list.

Company	employees	customers	suppliers	communities	governments	society	investors	partners	NGOs	science	Total
ABN Amro	48	12	2	0	0	2	1	0	0	0	**65**
Aegon	6	56	3	8	1	3	14	5	0	0	**96**
Ahold	55	61	39	41	4	4	7	4	3	1	**219**
AkzoNobel	65	38	63	14	2	9	4	6	5	1	**207**
ASML	92	66	55	16	1	1	4	4	0	4	**243**
Delta Lloyd	69	73	9	4	1	2	5	0	1	1	**165**
DSM	97	63	41	11	13	13	8	0	1	5	**252**
Heineken	26	22	25	8	3	1	3	4	7	0	**99**
ING	54	82	1	1	1	5	2	1	1	0	**148**
KPN	38	48	24	2	0	4	0	4	1	0	**121**
Philips	79	29	110	12	6	4	3	0	6	1	**250**
PostNL	44	21	8	1	0	5	5	0	0	00	**84**
Randstad	87	92	12	4	4	8	5	0	3	1	**216**
Shell	70	6	24	90	45	7	3	1	5	1	**252**
SBM	67	25	11	9	3	3	4	7	2	0	**131**
Unilever	24	29	4	4	5	7	6	1	1	0	**81**
Wereldhave	29	22	3	6	0	1	0	1	0	0	**62**
Wolters Kluwer	102	75	25	41	1	8	4	0	1	1	**258**
Total	**1052**	**820**	**459**	**272**	**90**	**87**	**78**	**38**	**37**	**16**	**2949**
Percentage	**35,7**	**27,8**	**15,6**	**9,2**	**3,1**	**3**	**2,6**	**1,3**	**1,3**	**0,5**	

Table 2: representation of stakeholder groups in sustainability reports

Company	employees	customers	suppliers	communities	governments	society	investors	partners	NGOs	science
ABN	73,8	18,5	3,1	0	0	3,1	1,5	0	0	0
Aegon	6,25	58,3	3,1	8,3	1	3,1	15	5,2	0	0
Ahold	25,1	27,9	18	18,7	1,8	1,8	3,2	1,8	1,4	0,5
AkzoNobel	31,4	18,4	30	6,8	1	4,3	1,9	2,9	2,4	0,5
ASML	37,9	27,2	23	6,6	0,4	0,4	1,6	1,6	0	1,6
Delta Lloyd	41,8	44,2	5,5	2,4	0,6	1,2	3	0	0,6	0,6
DSM	38,5	25	16	4,4	5,2	5,2	3,2	0	0,4	2
Heineken	26,3	22,2	25	8,1	3	1	3	4	7,1	0
ING	36,5	55,4	0,7	0,7	0,7	3,4	1,4	0,7	0,7	0
KPN	31,4	39,7	20	1,7	0	3,3	0	3,3	0,8	0
Philips	31,6	11,6	44	4,8	2,4	1,6	1,2	0	2,4	0,4
PostNL	52,4	25	9,5	1,2	0	6	6	0	0	0
Randstad	40,3	42,6	5,6	1,9	1,9	3,7	2,3	0	1,4	0,5
SBM	51,1	19,1	8,4	6,9	2,3	2,3	3,1	5,3	1,5	0
Shell	27,8	2,38	9,5	35,7	18	2,8	1,2	0,4	2	0,4
Unilever	29,6	35,8	4,9	4,9	6,2	8,6	7,4	1,2	1,2	0
Wereldhave	46,8	35,5	4,8	9,7	0	1,6	0	1,6	0	0
Wolters Kluwer	39,5	29,1	9,7	15,9	0,4	3,1	1,6	0	0,4	0,4

Table 3: percentages stakeholder groups of the total mentions.

Employees

Employees appear to be the most salient stakeholder group, being mentioned 1052 times of 2993 in total (35.1%). This is due to the fact that employees are dominant stakeholders that possesses power and legitimacy. As it's the case in the report of Akzo Nobel, employees are a legitimate stakeholder group and given the power to interact with the sustainability agenda of the firm. They are asked for their feedback and opinion about the business: from working conditions to product quality, customer service etcetera. Firms acknowledge the fact that employees are vital to their success and reaching their goals.

> *Employees are routinely involved in delivering many aspects of our sustainability agenda, such as improving energy or resource efficiency at our sites, developing and selling eco-premium solutions to customers, managing all areas of safety and assessing the sustainability aspects of investments. (Akzo Nobel, p. 224)*

However, there are exceptions to the fact employees are dominant. This quote shows that employees can also be discretionary stakeholders, who only possess legitimacy, but power is not present.

> *We have a moral obligation to provide safe and healthy working conditions for our employees while minimizing our impact on the environment. (ASML, p 22).*

The stakeholder group employees at Aegon is not even salient at all. This can be explained by the fact that Aegon is a service company, who does not have many employees in comparison to other firms. The employees of Aegon is a small group of professionals. However, if you compare Aegon with other (financial) service providers as ABN Amro, Delta Lloyd, ING, Randstad and SBM, this is not the case. In fact, Aegon is the only firm that has two of the three stakeholder groups (employees, customers and suppliers), that are not salient. The only salient group is customers. In their report, they handle customers, investors, business partners, local communities, and employees. Their strategic objective is showing their customer centrism. Like the following quote and their strategic objectives, employees are shown as important. However, this is not reflected in their report as so.

> *In 2010, we set out our strategic objectives: to strengthen customer loyalty, pursue operational excellence, empower our employees, and optimize our portfolio. (Aegon, pp 22).*

PostNL (52,4%), ABN Amro (73,8%) and SBM (51,1%) show significant higher results for employee representation. PostNL is a mail delivery company who relies heavily on their

employee performance and their service depends on quality work of delivery personnel. Customer satisfaction starts with employee performance, which brings us again back at employees. Being sustainable for PostNL is mostly about creating safe working conditions and low emission rates. The absence of a supplier plays also a subsequent role in this result. ABN Amro's mentions employees the most of all firms in the analysis. Being a financial service provider, the low result for customer (18.5%) and the absence of suppliers are the main reasons. They have a separate chapter named 'our people' where they concentrate on their employees. Employees are the key stakeholder group to reach their goals.

> *Making a difference for our clients now and in the future requires a talented and committed workforce" (ABN Amro, pp 108).*

> *In 2012 we introduced our Top Class Employer strategy, which consists of three building blocks: providing a meaningful corporate identity, creating a culture of excellence and offering the best place to work. This people strategy is part of the bank's strategic priority 'Invest in our future'(ABN Amro, pp 108).*

SBM Offshore's result is not surprising, considering their business activities. Producing oil platforms and tanks is a very risky business. Employees have a very strong power and legitimate claim for safe working conditions, as the job has high risks.

Customers

Customers is the second most salient stakeholder group in the reports, mentioned 820 times in total (27%). Like employees, customers are also dominant stakeholders. Customers demand more sustainable products from the firms. This legitimate call from customers has also power to ensure the firm to answer. Firms have to be sustainable, otherwise they will lose customers to the competition. Akzo Nobel, Ahold and Unilever stated the urge of customers as follows:

> *Our customers are increasingly looking for products and solutions that will make their business more sustainable. (AkzoNobel, pp. 197)*

> *Our customers are increasingly interested in healthy eating, product quality, food safety and food security (access to nutritious food for all). They look to us for nutritious and affordable products, sourced with respect for people, animals and the environment, and for clear and simple food labeling. (Ahold, pp. 12)*

> *However, a sustainable business requires a sustainable world and consumers are increasingly demanding that business plays its part. More of our brands are meeting that demand and delivering stronger and faster growth. (Unilever, pp. 32)*

Firms mention the importance of customers to their business and their will to have more sustainable products. Considering that they are dominant stakeholders, firms are forced to comply to their wills and needs. There are also firms who don't mention customers that often, in comparison to the rest. Philips (11,6%), ABN Amro (18.8%) and Shell (2.4%) are well below the average of 28% customer representation. As stated in the employee section, ABN Amro concentrates heavily on their employees and doesn't have important suppliers.

Due to the supplier salience, Philips has a low customer representation. Philips is a production firm, who relies heavily on supplier input. If their suppliers are sustainable, the end product is already a huge part sustainable. Therefore, Philips concentrates more on their suppliers and mention them more often. Philips is not the only firm that takes supplier sustainability serious, but their supplies are sustainability sensitive, consisting of conflict minerals for example. Being sure of supplier sustainability is thus very important for Philips.

> *"We have developed a number of strategic programs to help our suppliers improve their sustainability performance. These programs cover the assessment of supplier sustainability performance (audits), management of regulated substances, conflict minerals and other responsible sourcing initiatives" (Philips, pp 26).*

Employees, community and government are the salient stakeholder groups at Shell. As they are an oil company with oil spills and human right controversies, their focus on community and collaboration with governments is understandable. Oil and gas products are distributed via various distributors, so Shell hasn't customers comparable to other products. The society and community can be considered as 'customers', as every single human being is in the end a consumer of either oil or gas.

Aegon (58,3%), Delta Lloyd (44,2%), ING (55,4%) and Randstad (42,6%) show all significant higher customer salience than the average (27,8%). All of them are financial service providers, which means they have no suppliers. Financial service providers depend highly on their customer satisfaction. This shows high customer centrism in their reports supported by high skilled employees.

Suppliers

Suppliers are discretionary stakeholders, who only possess the attribute of legitimacy and they have no power or urgency to push on the firm as supplier. Firms check their suppliers for sustainability, and if the supplier is not sustainable, the partnership is ended or they try to improve sustainability wise.

> *DSM uses its Supplier Code of Conduct (SCoC) and carries out assessments and*
> *audits to check suppliers' compliance with the norms and values for doing business*
> *with DSM. In cases where risks or breaches are identified, DSM engages with the*
> *supplier to set up and execute an improvement plan. Should the breach or non-*
> *conformity persist, DSM will take measures to mitigate the risks or ultimately*
> *terminate the relationship with the supplier in question. (DSM, pp 33)*

Firms are the customers of their suppliers. As normal customers are dominant stakeholders, firms are also (at least) dominant stakeholders or could even be definitive stakeholders. In this case, suppliers deal with 'customer firms' that are definitive stakeholders with power, legitimacy and urgency to push for sustainable products, as it can be deducted from the quote above of DSM's annual report. Suppliers have to be or become sustainable, otherwise they will lose their customers and struggle to keep doing business.

Suppliers were not salient at ABN Amro, Aegon, Delta Lloyd, ING, PostNL, Randstad, Shell, SBM, Unilever, Wereldhave and Wolters Kluwer. This is mainly due to most of them are service providers. However, the fact that at Unilever suppliers are not salient is a bit surprising. They produce a lot of product which need raw material. Their focus is on customers, society, our people (employees) and shareholders. When you look at the data, society and shareholders aren't represented as they claim.

AkzoNobel (30%), ASML (23%), Heineken (25%), and Philips (44%) show significantly higher results on supplier representation, especially Philips boosts the average of 15,6% a lot. Actually, Philips contributes for almost the quarter (24%) suppliers result of all firms. Without Philips' high score, the average would have been 12,3%. Suppliers are mentioned 110 times, which is the most mentioned stakeholder group of all firms. These high scoring firms are production based and rely heavily on suppliers. They need raw products which they obtain from their suppliers. Having sustainable suppliers is a key way to be sustainable for yourself in the end.

Conclusion

In the past four decades, organizations report non-financial information along with the mandatory financial report. In this thesis, the non-financial information in the reports of eighteen Dutch companies that are listed on the Dow Jones Sustainability Index 2016 is analyzed. These companies are from various industries. The main goal of this research was to find out which stakeholder groups are more salient in the report and whether it can be related

to the stakeholder attributes described by Mitchell et al. (1997). A content analysis is conducted to obtain hard data and the results are used to apply an interpretive analysis.

Employees, customers and suppliers were the most salient stakeholder groups in the sustainability reports of the selected companies. From the results, at 9 of the 18 companies' employees were the most salient stakeholder group. At 7 companies, customers were the most salient stakeholder group. At Philips, suppliers were the most salient and at Shell, the community. Only at Ahold, Shell and Wolters Kluwer, community were salient in contrary to the rest. Government showed only salient results at Shell. Other than these different results from the rest, there were no other results that came forward. Shareholders being not salient for all companies was a surprise in general. Almost all companies explicitly state that shareholders are among the most important stakeholder groups, however this isn't reflected in their reports. It could be the case that companies mention shareholders mostly in their financial information and give other stakeholders more attention in their non-financial information. There could also be a changing trend in this phenomenon.

The results from this research could have various implications for academic literature and practice. Managers could use the basis of this analysis to conduct a similar analysis on the sustainability report of the company they are employed by. The results they gather can be used to check whether it is in line with the intentions of the reports. For example, shareholders are often stated as one of the most important stakeholders, but in the sustainability reports this seems not the case. Managers could reflect upon this case and ask themselves whether it is compatible with the purpose of the report. If they intended to represent shareholders as important, they could improve by mentioning them more often in future sustainability reports.

Prior research focused mostly on relevancy, transparency, quality and so on of sustainability reports. This research adds specific knowledge about stakeholder salience in sustainability reports. Future research could shift away from the mainstream focus of sustainability research to this subject. Attributes of stakeholder salience could be reviewed and the set of attributes could be expanded.

This research is limited to Dutch companies listed on the Dow Jones Sustainability Index 2016. Therefore, the results could not be generalizable. Although, multinationals included in this research probably would not suffer so much from this problem. This research could be expanded by more companies in Europe or other continents to get a more complete overview of stakeholder salience. Thereafter, results obtained can be compared to investigate the differences between countries or continents. Also, an analysis of differences between industries could provide us with interesting results. Another interesting subject is to

investigate whether regulation or change in guidelines(GRI) of sustainability reporting has an influence on the stakeholder salience of stakeholder groups. This study uses only the attributes of Mitchell et al. (1997), which is a limitation. Other sets of attributes can be used in future research to get a different analysis perspective on stakeholder representation. This study includes only reports from 2016, which is also a limitation. Future research could avoid this limitation by adding more sustainability reports from previous years. This could provide the literature an interesting insight in changing trends in sustainability reports of companies or between companies or industries.

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Appendix

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