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CREATING VALUE FOR CORPORATE SUSTAINABILITY: STAKEHOLDER ENGAGEMENT

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ABSTRACT

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The thesis aims to build a coherent view and understanding of stakeholder engagement's contribution to corporate sustainability value creation. Theory suggests that corporate sustainability relies on sustainable relationships between the firm and its multiple stakeholders. This study is qualitative and evidence is derived from integrative analysis of literature, secondary data and case study analysis. The findings from the interviews analysis supplement the framework developed as the results of the literature review. The results obtained throughout the thesis research imply that stakeholder engagement helps develop more thorough understandings of issues and alternative perspectives, which in turn facilitates the decision-making processes improvement. The improvement is also achieved through ethical analysis, by weighing the impact of firm's decisions on all relevant groups. Therefore, clear communication and exchange of information also improve the acceptance of sustainability initiatives amongst stakeholders both in terms of building trust and managing expectations. As practical implications, this thesis presents organizational practices that can be employed by companies to support effective engagement with stakeholders. The described practices could enhance processes such as partnership and co-creation resulting in greater sustainable development.

“And this, too, shall pass away.”

— Abraham Lincoln

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LIST OF ABBREVIATIONS

SD – Sustainable Development

CC – Corporate Citizenship

CS – Corporate Sustainability

CSR – Corporate Social Responsibility

CSV – Creating Shared Value

GRI – Global Reporting Initiative

EMS – Environmental Management System

ISO – International Organization for Standardization

NGO – Non-governmental Organization

SRM – Stakeholder Relations Management

1. INTRODUCTION

The aim of this introductory chapter is to provide an insight into the research area. Following the discussion of the background, the research gap is presented. In addition, the chapter discusses exclusions and level of analysis of the study as well as gives the outline of the thesis.

1.1. Background of the study

The concept of sustainability has gained considerable popularity in the literature over the past two decades (Hart, 1995; Elkington, 1998; Diesendorf, 2000; Neumayer, 2003, Goldsmith and Samson, 2005; Steurer et al., 2005; Russell et al., 2007; Benn and Dunphy, 2009; Baumgartner and Ebner, 2010). This high interest among academics can be explained by the fact that one of the greatest challenges that business face nowadays are growing society expectations upon firms' long-term social and environmental impacts.

Corporate sustainability relies on sustainable relationships between the firm and its multiple stakeholders. According to the study on sustainable value creation conducted by Hart and Milstein (2003) only effective integration of stakeholder thinking into strategy processes will create sustainable shareholder value. In this paper the term stakeholder relations attributes to any economic, environmental or social relationship between the firm and its stakeholders (Hillman and Keim, 2001).

This emerging paradigm shift is likely to result in creating shared value for both businesses and communities. The concept of shared value has been described my Porter and Kramer (2011) as "Creating economic value in a way that also creates value for society by addressing its needs and challenges. Businesses must reconnect company success with social progress" (p. 66). For instance, trusting relationships with stakeholders can give understanding of how to allocate limited resources while keeping stakeholders satisfied (Harrison et al., 2010). As a result this can lead to increased competitiveness, financial performance and

enhanced corporate image as well as help in avoiding legal suits and consumer boycotts (Heikkurinen and Bonnedahl, 2013).

To meet these growing societal expectations and demands for sustainable development, firms will need to develop new organizational practices and internal capabilities that will help support effective stakeholder engagement.

1.2. Research gap and the research questions of the study

Studies show that stakeholder engagement is critical in developing both semi-proactive and proactive attitudes towards sustainability (e.g. Factor, 2003). Therefore, the purpose of this study is to examine how stakeholder engagement contributes to corporate sustainability. Furthermore, the aim is to illustrate how corporate sustainability interaction activities can strengthen corporate reputation.

Previous literature has addressed various aspect of stakeholder management e.g. stakeholder identification (Freeman, 1984; Clarkson, 1995; Mitchell et al., 1997), prioritizing (Mitchell et al., 1997; Johnson and Scholes, 1999; Fassin, 2009), the role of stakeholder relations in firm's performance (Freeman, 1984; Mitchell et al., 1997; Preble, 2005). However, the engagement with stakeholders is considered as an under theorized area. Vast majority of studies focus on either on the attributes of firms or the attributes of stakeholders, while the attributes of the relationship between firms and stakeholders are rarely observed (Frooman, 1999; Greenwood, 2001). Far less has been done to explore stakeholder engagement within the context of corporate sustainability. The theory still lacks consensus in framework for incorporating stakeholder engagement into corporate sustainability practices. This study aims to contribute to filling this gap by exploring current stakeholder engagement practices of several sustainability proactive companies. Thus, the research intends to answer the question of

How can stakeholder engagement contribute to corporate sustainability value creation? (RQ)

To structure the thesis and help gather empirical evidence about the relationship between stakeholder engagement and corporate sustainability based on the

research objectives and theoretical review of existing literature the following sub-questions has been formulated:

- What are the drivers for stakeholder engagement? (SQ1)
- What are the organizational practices that support engagement with stakeholders? (SQ2)
- What are the levels of stakeholder participation and what are the related to these levels forms of interactions? (SQ3)

All the research questions, goals of these questions, methods and data used for collecting the answers to them are presented in the Table 1.

Table 1 Research questions, research goals, method and data

Research questions	Research goal	Method and data
The main research question: How can stakeholder engagement contribute to corporate sustainability value creation?	To explore the contribution of stakeholder engagement to corporate sustainability and develop a framework	Academic literature; secondary data; interview results
Research sub question 1: What are the drivers for stakeholder engagement?	To identify the motives of companies to interact with stakeholders	Academic literature; interview results
Research sub question 2: What are the organizational practices that support engagement with stakeholders?	To identify firm's practices that facilitate engagement with stakeholders	Interview results
Research sub question 3: What are the levels of stakeholder participation and what are the related to these levels forms of interactions?	To identify how stakeholders are prioritized and interacted with	Academic literature; secondary data; interview results

1.3. Exclusions and level of analysis of the study

For theory, two broad areas of literature (corporate sustainability and stakeholder theory) are selected for review in terms of their implications for this thesis. As this thesis is at the junction of two broad areas, third sub- chapter attempts to highlight

the importance of stakeholders as regards to achieving corporate sustainability.

Due to time limitation, the empirical part of this thesis focuses on some of the aspects underpinning stakeholder management process and views the stakeholder engagement from a managerial perspective, through lenses of three case companies. The research is also limited to view the above stated research questions within the large-scale companies and does not include small-scale business.

In addition, due to the fact academic literature has not yet found a consensus on the concepts of corporate sustainability, stakeholder and stakeholder engagement, this thesis is limited to the definitions of these terms given in the theoretical framework chapter.

1.4. Structure of the thesis

The structure of the thesis is illustrated on the following scheme (Figure 1). Study consists of six main chapters, references and appendixes.

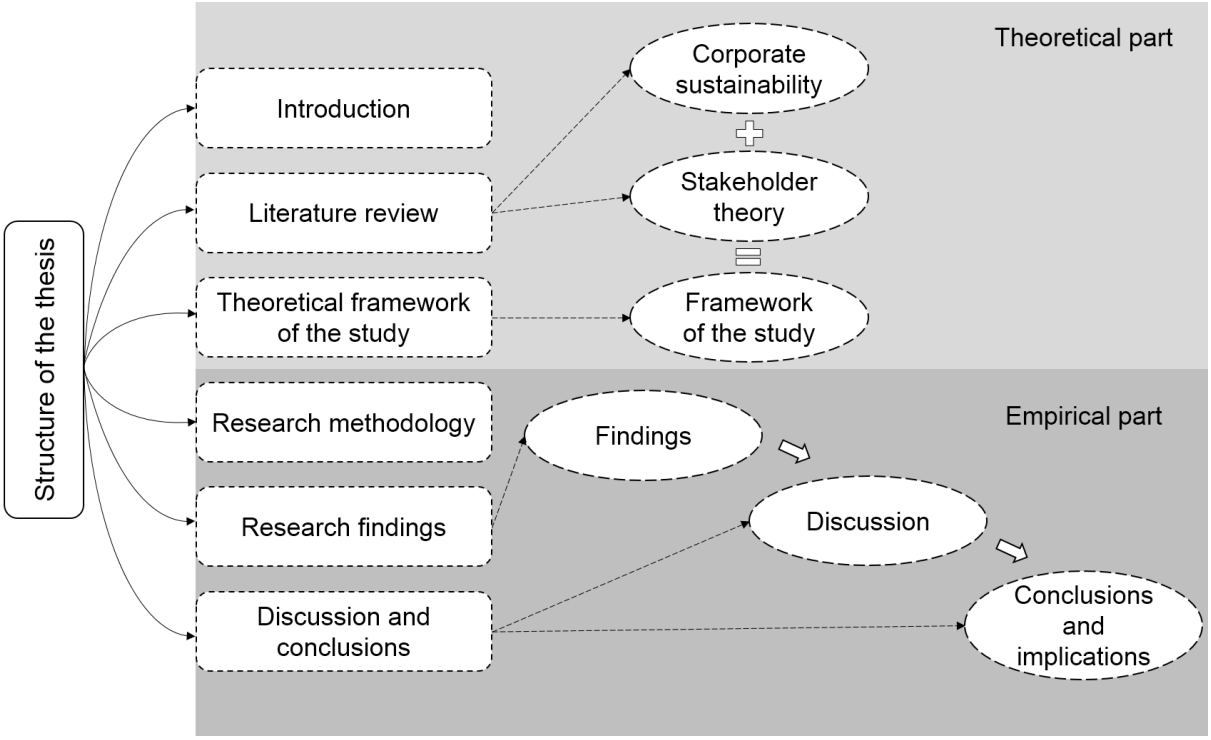

Figure 1 Structure of the study

The contents of the thesis represented in the two main parts theoretical and empirical. First part consists of introduction, literature review and theoretical framework of the study. Literature review includes comprehensive overview of the corporate sustainability and sustainable development as well as phenomenon of Corporate Social Responsibility (CSR). The study combines sustainability with stakeholder theory, therefore matters of stakeholder management and engagement of stakeholders covered in the second part of literature review. Finally, third part of the literature review is focused on the combination and relationship between corporate sustainability and stakeholders. As the result of the literature review the third chapter describes theoretical framework, and as the research continues, the framework is supplemented with the findings from the interviews analysis.

The empirical part of the study opens up with research methodology. This chapter reveals how the study is conducted and what research approach and methodology are applied to the case selection and data collection procedures. Main research findings and descriptions of case companies constitute the fifth chapter of the thesis. Last chapter embodies summary of the findings, discussion of the results, theoretical and managerial contributions as well as limitations and suggestions for future studies.

2. LITERATURE REVIEW

In order to answer the research question of this study, the relevant literature is reviewed. The literature review is seeking to identify the role of stakeholder engagement in corporate sustainability. There are two theoretical settings that are bound together in this study: stakeholder theory and the concept of corporate sustainability.

The first part of the literature review will be describing the terms of sustainable development and corporate sustainability. The second part will be focusing on stakeholder theory; including how stakeholders are identified and prioritized in the literature. This is followed by theory on stakeholder engagement. Finally, the third part of the literature review will combine the first two chapters and will be devoted to analyzing of stakeholder thinking in sustainability management.

2.1. Corporate sustainability

The literature has increasingly emphasized the importance of social responsibility. In addition, more and more, companies focus on pursuing goals that go far beyond earlier concern for reputation management (Elkington, 1998).

Currently, the concept of social responsibility is associated with ideas such as sustainable development, socio-environmental responsibility and sustainability (Bulgacov et al., 2015).

2.1.1. Sustainable development, weak and strong sustainability

The most commonly used definition of sustainable development is given in the report of the Brundtland Commission: ‘‘to meet the needs of the present without compromising the ability of future generations to meet their own needs’’ (WCED, 1987, p. 43). The four aspects that underpin the WCED’s definition are:

- Holistic planning and strategy making;
- Preservation of ecological processes;
- Protection of heritage and biodiversity;

- Development that can be sustained for future years.
  (From WCED, 1987)

There are many other interpretations to the definition of sustainable development. For instance, Goldsmith and Samson (2005, p. 5) provide the following definition for the sustainability practices: ‘‘sustainability practices are the ways to manage technology and social organization to make balanced and equitable progress on economic, environmental and social needs so that meeting these needs in the present does not compromise the ability of future generations to meet their own needs.’’ Correspondingly, sustainability is characterized as ‘‘the ability to ensure economic development is accompanied by progress towards social inclusion and does not take place at the expense of the natural environment’’ (Benn and Dunphy, 2009, p. 276–277).

Steurer et al. (2005) suggest that there are at least three paradigms of sustainable development: week sustainability, strong sustainability and balanced sustainability.

Weak sustainability implies that manmade or human capital can fully substitute for a decline of natural capital. “It does not matter whether the current generation uses up nonrenewable resources or dumps CO2 in the atmosphere as long as enough machineries, roads and ports are built in compensation” (Neumayer, 2003, p1). Therefore, weak sustainability assumes monetary reimbursements for environmental degradations.

Authors writing on strong sustainability claim that natural capital is non-substitutable by other forms of capital. The reasoning behind this conception of sustainability is that, first, there is a qualitative difference between manufactured capital and natural capital, as the consumption of natural resources is usually irreversible (Steurer et al., 2005). Second, “Today’s generation cannot ask future generations to breathe polluted air in exchange for a greater capacity to produce goods and services. That would restrict the freedom of future generations to choose clean air over more goods and services” (UNDP, 2011, p.17). Strong

sustainability proposes that there are “critical” elements (Ekins et al., 2003) in the natural capital that should be kept above certain thresholds of degradation.

In contrast, the balanced sustainability is a concept that mediates between the weak and strong sustainability. Steurer et al. (2005) assume that “a partial substitutability of (non-critical) natural capital and acknowledge physical limits to economic growth where critical forms of natural capital (such as the world climate) are seriously affected” (p. 269).

Thus, sustainable development is considered to be a societal guiding model, which focuses on a broad range of issues in the long term. Similarly, corporate sustainability is a corporate guiding model that addresses the short- and long-term social, economic, and environmental performance of firms.

2.1.2. Corporate sustainability

The concept of corporate sustainability is the term which meaning has been debated quite extensively in the literature (Russell et al., 2007). For instance, Diesendorf (2000) highlights that the term of corporate sustainability is most commonly perceived to be meaning a long-lived corporation which is not necessary contributes to ecological or social sustainability.

Conversely, corporate sustainability is often referred as application of sustainable development on the corporate level (Steurer et al., 2005): “It can be concluded SD is commonly perceived as societal guiding model, which addresses a broad range of quality of life issues in the long term, CS is a corporate guiding model, addressing the short- and long-term economic, social and environmental performance of corporations” (p.274). Steurer et al. (2005) claim that if one accepts this understanding of corporate sustainability, the microeconomic framework of sustainable development can also be read as a framework of corporate sustainability.

Similarly, Baumgartner and Ebner (2010) claimed that when sustainable development is incorporated by firms it is called corporate sustainability. Figure 2 illustrates the link between sustainable development and corporate sustainability suggested by the authors.

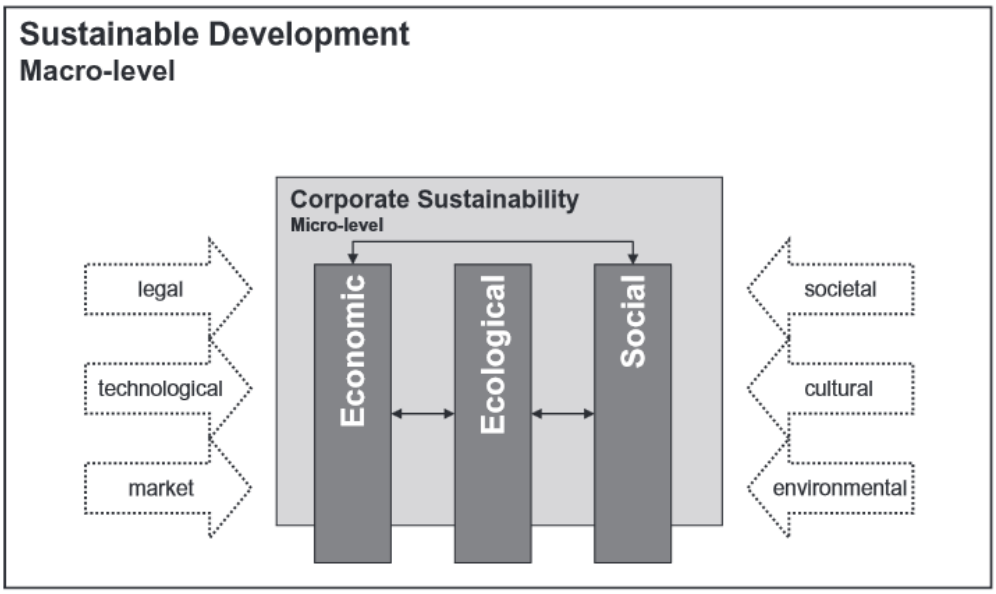

Figure 2 Corporate sustainability and its interdependences (Baumgartner and Ebner, 2010, p. 77)

Russell et al. (2007) summarized various understandings of corporate sustainability extracted from different theoretical conceptions of corporate sustainability presented in other literature. The authors came up with four basic understandings of corporate sustainability:

- a corporation working towards long-term economic performance;
- a corporation working towards positive outcomes for the natural environment;
- a corporation that supports people and social outcomes;
- a corporation with a holistic approach.

This thesis will follow the view of those authors who claim that the term of corporate sustainability refers to the triple bottom line and to the long-term profitability of organizations (e.g., Bansal, 2002; Dyllick and Hockerts, 2002; Baumgartner and Ebner, 2010). This also can be understood as integration of

ecological, social and economic challenges to an organization (Schaltegger et al., 2013). Thus, corporate sustainability will be considered as a model that aims at integrating of economic, social and environmental issues in all levels of corporate strategies in the both short- and long-term perspectives (Steurer et al., 2005).

Economic dimension

The term corporate sustainability in the traditional strategy and management literature is often refers to economic performance, growth and long-term profitability of organizations (e.g. Porter, 1985). Steurer et al. (2005) for the corporate context identified economic issues as follows:

- the financial performance of a company (described with indicators like cash-flow, shareholder value, profits, profitability, debt-equity ratio and liquidity.;
- the company's long-term competitiveness;
- and a company's economic (i.e. financial) impact on stakeholder groups.

The major assumption behind the long-term competitiveness is that sustainable development has a long-term focus. Therefore, it becomes the main goal for management of the company to secure or improve firm's market share in order to maximize the wealth of its owners (Fowler and Hope, 2007). As for the firm's economic impact on stakeholder groups, Steurer et al. (2005) highlight that "a corporation is only sustainable when it pays taxes to public authorities, adequate prices to its suppliers and wages to its employees, interests to its creditors and (at least at a certain point in time) dividends to its shareholders" (p. 271).

Environmental dimension

Environmental sustainability is the understanding of corporate sustainability that is based on the premise that firms are located and operate within the natural environment (e.g., Sharma, 2003). According to Steurer et al. (2005) the key issues of environmental protection within the environmental dimension are:

- resource exploitation;
- emissions; and
- environmental damages and risks.

In other words, different activities conducted by organizations have a significant impact on the environment they are working on, e.g. waste and pollution emissions or the exploitation of natural resources (Stead and Stead, 2004). On the other hand, environment where company operates might also impact the business activities of the company, for example through changes in climate. Current discussion in this area shifts from pollution control and prevention to benchmarking and strategic thinking for the sake of solving existing environmental challenges. Of course, minimization of resource use and ecological footprint are still on the table of environmental sustainability, but the evolution of the views is in place and seen as a good sign by many researchers (e.g., Hart, 1995; Sharma, 2003).

Social dimension

Today's megatrends in socio-economic development such as globalization brought social aspect of corporate sustainability to the table. Nowadays it is required from businesses to assume wider sets of responsibilities towards various stakeholder groups and the social environment in which they operate (Dunphy et al., 2003). Since late 1970s topics such as business ethics, occupational health and safety, corporate philanthropy and stakeholder demands started to arise in academic literature. Recently "corporate social responsibility" (CSR) or "corporate social sustainability" concepts became so common, that majority of publicly traded companies today have positions of Sustainability officers or CSR departments. In general, social sustainability means three basic aspects: an organization

- pays attention to its employees' development,
- establish proactive approach in relationship with its community and
- engages with various stakeholders.

It is to be noted that Elkington (1998, 2004) suggests that the three dimensions of sustainability are closely tied together and influence each other in various ways.

Thus, it is impossible for a modern corporation to completely differentiate between its economic social and environmental sustainability. Likewise, Baumgartner and Ebner (2010) underline that: “For a comprehensive corporate sustainability strategy, it is necessary to consider all dimensions, their impacts and their interrelations” (p. 77).

Parrish (2005) in exploring the motivation of sustainable entrepreneurs described the two types of entrepreneurs: opportunity-driven and sustainability-driven. The goal of the opportunity-driven entrepreneurs is to exploit opportunities to make profit, while the goal of sustainability-driven entrepreneurs is not only to maximize profits but also to solve sustainable issues. Similarly, Heikkurinen and Bonnedahl (2013) argued that corporate responsibility and sustainability should be examined from sustainable development orientation (SDO).

In order to achieve better results both financially and in sustainability, company should embrace the concept and translate sustainability approach to stakeholders via its vision as well as integrate sustainable practices on multiple levels of organizational system. The commitment to sustainability needs should start from the top starting from management and vision of the organization, which reflects that company has incorporated sustainable approach into its strategy (Fisher, 2011) (Figure 3).

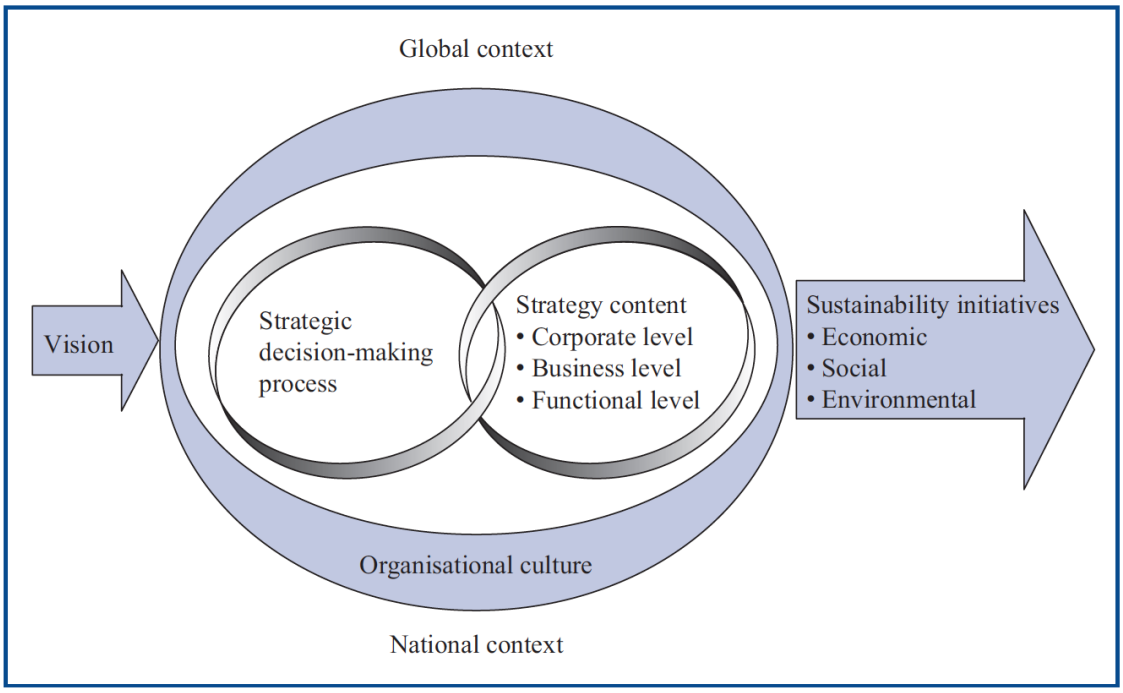

Figure 3 Sustainability as an integral part of strategy (Fisher, 2011, p.6)

According to Hallstedt et al. (2010) sustainability has to be an integral part of company's goals, internal incentives and decision support systems. At the same time, sustainability should not end up on the support from senior management, research of Lauring and Thomsen (2009) shows that without accepting sustainability into day-to-day practices initiatives are likely to fail. Connection to organizational strategy is also among important factors of success for sustainability initiatives Michelon et al. (2013).

2.1.3. CSR, corporate citizenship and corporate sustainability

In both business world and academics there is no consensus concerning the issue of how Corporate Social Responsibility (CSR) should be defined. Carroll (1999) in his literature review of CSR definitions in academic literature dates the first formal definition of CSR to Bowen (1953). Howard Bowen proposed the CSR definition as "the obligations of business to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of the objectives and values of our society" (Bowen, 1953). Dahlsrud (2006) analyzed 37 definitions of Corporate Social Responsibility and concluded that available definitions of CSR

are consistently referring to five dimensions: environmental, social, economic, stakeholder and voluntariness (actions not prescribed by law).

Nevertheless, according to a commonly accepted definition of CSR (World Bank), CSR follows the concept of the “triple bottom line” and is the firm’s commitment to managing and improving the social, environmental and economic aspects of its activities.

Corporate citizenship (CC) is a term developed by practitioners that emerged in the late 1990th. Valor (2005) explains the emergence of this new concept by absence of a single and clear definition of CSR, and CSR’s focus on externalities and academic origin. In addition CSR is being criticized for its narrowness (Birch, 2001) and at the same time broadness (Marrewijk, 2003) in terms of its content. CC intends to overcome these difficulties and serve as a framework for integration of CSR and stakeholder management. However, the main criticism of CSR also applies to CC: the ambiguity of the concept. There is no clear definition for CC in literature (Matten et. al., 2013). Andriof and Marsden (undated) argued that CC should be defined as “understanding and managing company’s wider influences on the society for the benefit of the company and the society as a whole”.

When comparing CC and CSR it should be noted that some authors claim that CSR “presents more advantages to advancing the social control of companies and should be considered a superior theory vis-à-vis achieving social control of companies” (Valor, 2005, p. 205). They believe that a system change can be achieved by exploring and spreading the normative basis for CSR.

As for the difference between SD/CS and CSR, Steurer et al. (2005) argue that all three terms address the integration of economic, social and environmental aspects. However, the authors underline that “SD can be regarded as the normative societal concept behind the other two, CS as the corporate concept and CSR as the management approach”.

This thesis will follow the views of those authors who claim that in recent years CS

and CSR concepts have mingled to very similar terms so that ‘‘many consider CS and CSR as synonyms’’ (Marrewijk, 2003, p. 102). This is done to avoid occurring of any possible differences in terminology given by interviewees during the empirical phase of research, as the aim of this thesis is not to study differences and the phenomena of sustainability or corporate responsibility as such but rather to study the research questions within the context of it.

2.1.4. Shared value

The concept of shared value is an emerging concept that has not been yet widely discussed and researched in academic literature. Porter and Kramer (2011) describe this term as “Creating economic value in a way that also creates value for society by addressing its needs and challenges. Businesses must reconnect company success with social progress” (p. 66). According to the authors shared value leads to a stronger and more sustainable value chain.

Porter and Kramer (2011) state that companies create shared value (CSV) in three ways:

1. Reconceiving products and markets, which includes improved serving existing markets, finding new ones, or creating innovative products.
2. Redefining productivity in the value chain, which includes the quality, quantity, cost improvements as well as production, and distribution in a sustainable manner.
3. Enabling local cluster development, which implies development of a strong competitive context.

Overall, shared value is created by leveraging the firm’s unique resources and expertise. It is a new way to achieve economic and social value. In this sense, in order to achieve a sustainable shared value chain firms need to consider and adopt ways to engage stakeholders (Dunphy et al., 2007).

The fundamental distinction between SCR and CSV in that the former focuses on performing activities separate from the business, while the latter aims at changing

how the core business operates and tries to integrate social and environmental impact into the business in order to drive economic value (Porter, 2012).

Next, the main aspects of stakeholder theory are reviewed. The chapter starts by defining the term of stakeholder, after which theories on stakeholder identification and prioritization processes are presented. Finally, stakeholder engagement theory is reviewed.

2.2. Stakeholder theory

Although some authors (e.g. Andriof et al., 2002) underlined that the concept of stakeholder involvement is a contemporary characteristic of more modern companies, in the last decade, a rising number of diverse research studies dealing with utilization of stakeholder theory in contemporary organizations have been published (e.g. Clarke, 2005; Baron and Diermeier, 2007; Harrison et al., 2010). Thus, stakeholders are taking up a more central role in the organizations. Clement (2005) attributes this expanded role to the increased pressures on organizations to acknowledge different stakeholder group interests. Wood (1991) connects it to the fact that firms that meet the expectations of multiple stakeholders enhance their reputation and, therefore, experience a positive impact on its bottom line. In opposite, firms that fail to satisfy the needs of various stakeholders experience a negative financial impact (van der Laan et al., 2008).

In brief, stakeholder theory is considered to be drawn on four of the social sciences: sociology, economics, politics and ethics (Mainardes, Raposo, 2012, p. 1862) and “Strategic Management: A Stakeholder Approach” written by Freeman (1984) is generally accepted as the theoretical landmark.

This chapter reviews the key aspects of stakeholder theory relevant for this study. After introducing various definitions to stakeholders, the key steps of stakeholder management process are presented. Later on such steps as stakeholder identification and prioritization are reviewed. Finally, the chapter introduces the main aspects of stakeholder engagement.

2.2.1. What is stakeholder

First of all, the clarification of the term "stake" should be given. According to Savage et al. (1991) there is a need for differentiation between groups that have a claim on the company and groups that have an ability to influence the company's strategy. Therefore, there are two attributes that help in identification of a stakeholder: a claim and an ability to influence a company. Some other authors (e.g. Starik (1994)) state that the indicated attributes are either/or components.

Table 2 shows that there are various definitions to stakeholders in the literature.

Table 2 Stakeholder definitions

Authors	Definition
Freeman (1984, p. 46)	"any group or individual who can affect or is affected by the achievement of the organization's objectives'"
Cornell and Shapiro (1987, p. 5)	"claimants" who have "contracts"
Alkhafaji, (1989, p. 36)	"groups to whom the corporation is responsible"
Nutt and Backoff (1992, p. 439)	"all parties who will be affected by or will affect [the organization's] strategy"
Clarkson (1995, p. 106)	"have, or claim, ownership, rights, or interests in a corporation and its activities"
Harrison et al. (2010, p. 60)	"groups and individuals who can affect, or are affected by, the strategic outcomes of a firm"

From the table with sample definitions it is clear that definitions differ in how inclusive they are. It is to be noted that broad views on stakeholders' definition are often limited to "considering only humans or human institutions" (Clifton and Amran, 2011, p. 127). Therefore, some researchers pay special attention to distinguishing between narrow and broad definition of stakeholders.

Mitchell et al. (1997) made a sorting of rationales for stakeholder identification

based on the literature analysis. In order to view rationales the author focus on such aspects as whether a relationship exists, what happens if a stakeholder has power over a firm and vice versa in both cases when there is a stakeholder dominant and firm dominant, how does mutual power-dependence relationship turn out. Special attention is paid to the basis for legitimacy of relationship. Mitchell et al. (1997) defined four possible basis for stakeholder-firm relationships:

- the firm and stakeholder are in contractual relationship;
- the stakeholder has a claim on the firm;
- the stakeholder has something at risk; and
- the stakeholder has a moral claim on the firm.

Overall, based on the analysis the authors suggest that “scholars who attempt to narrow the definition of stakeholder emphasize the claim's legitimacy based upon contract, exchange, legal title, legal right, moral right, at-risk status, or moral interest in the harms and benefits generated by company actions and that, in contrast, scholars who favor a broad definition emphasize the stakeholder's power to influence the firm's behavior, whether or not there are legitimate claims” (Mitchell et al., 1997, p. 862).

Hence, the decision about how to define stakeholders affects who and what counts (Mitchell et a1. 1997). For the purpose of this study the definition given by Nutt and Backoff (1992) is adopted as it considers stakeholders as broader array of people, groups or organizations, which also includes nominally powerless groups.

2.2.2. Stakeholder management process

Stakeholder management approach is generally considered as a part of stakeholder theory. (e.g. Mitchel et al. 1997, Preble 2005). From a managerial point of view, an ongoing stakeholder management process is one of the key factors that define corporate success (Werhane and Freeman, 1999).

Some of the stakeholder management process models proposed by scholars in the literature are summarized in Table 3.

Table 3 Stakeholder management process models

Authors	Stakeholder management process
Karlsen (2002)	Identification of stakeholders; analyzing the characteristics of stakeholders; communicating and sharing information with stakeholders; developing strategies, following up
Preble (2005)	Stakeholder identification, general nature of stakeholder claims and power implications, determine performance gap, prioritize stakeholder demands, develop organizational responses, monitoring and control
Young (2006)	Identifying stakeholders; gathering information about stakeholders; analyzing the influence of stakeholders
Walker et al. (2008)	Identifying stakeholder; prioritizing stakeholders; visualizing stakeholders; engaging stakeholders; monitoring effectiveness of communication

From the table it can be seen that that there is no consensus on the best model. Nevertheless, these studies identified and proposed a range of approaches that were or are used to manage stakeholders. As there is not a universally accepted approach each firm decides itself the stakeholder management process should look like.

The aim of this study is to identify how stakeholder engagement contributes to corporate sustainability. Therefore, the most important step from the process models is the step of engaging stakeholders. Nevertheless, as stakeholder identification and prioritization are steps that build supporting research questions they also will be assessed in the next subchapter.

2.2.3. Stakeholder identification and prioritization

Stakeholder relations are rated among key strategic priorities for firms according to numerous researchers (e.g. Bansal, 2005; Stubbs and Cocklin, 2008). Stakeholder identification is a key issue in stakeholder management. One of the crucial issues

in stakeholder management is how to deal with all stakeholders simultaneously. According to Fassin (2009), concurrent management is unworkable; therefore, it is a theoretical requirement to utilize criteria for prioritizing stakeholders.

Stakeholder theory describes a network of stakeholders. There are many ways academics have been identifying stakeholders. The most cited study on stakeholder identification and management is the Freeman's (1984) work (e.g Mithcell et al 1997, Frooman 1999, Preble 2005). Freeman urges firms to consider a broad range of internal and external groups and individuals as their stakeholders regardless the impact that those stakeholders might or might not have. He presented his model as a map in which the company has a central role and interacts with the surrounding stakeholders. In this model, company-stakeholder relationships are binary and mutually self-reliant (see Figure 4).

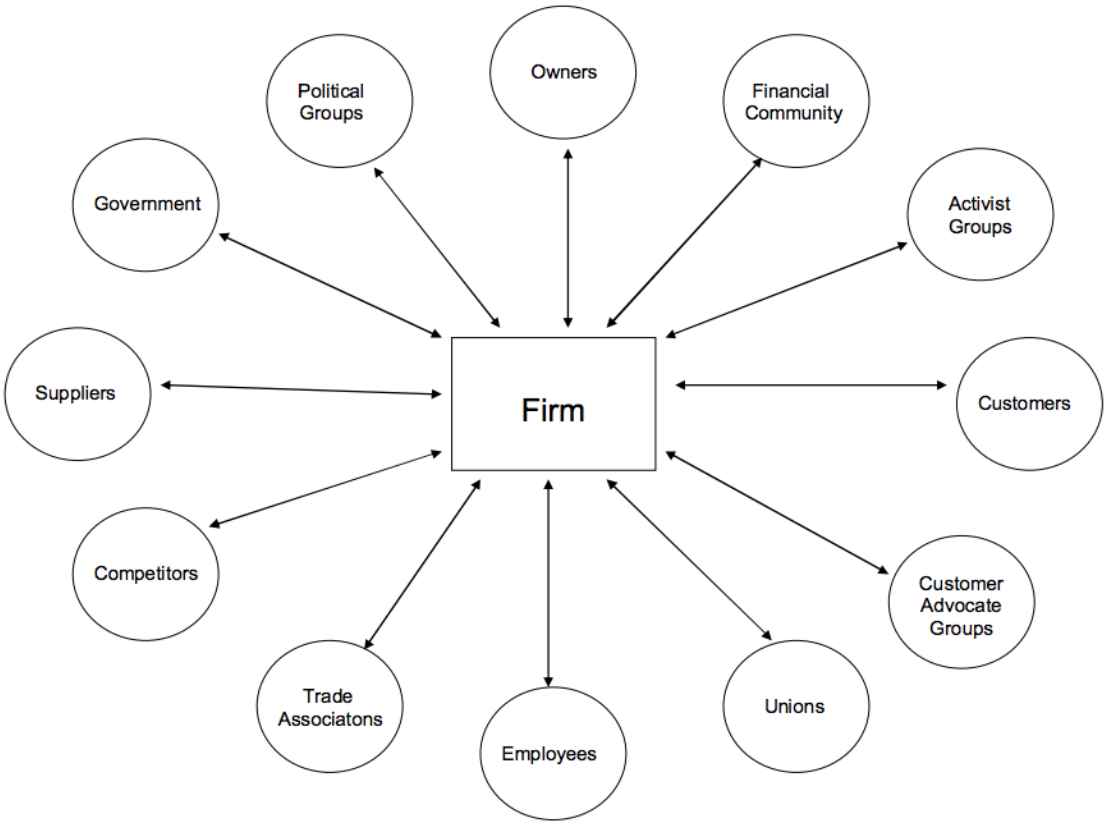

Figure 4 A stakeholder map of a very large organization (Freeman, 1984)

Another way of identification typology that is commonly referred to in the literature is to distinguish between primary and secondary stakeholders. According to Clarkson (1995), primary stakeholders (e.g. customers, shareholders, employees, suppliers and regulators) are those who have a direct interest in the firm, while secondary ones (e.g. academic institutions, NGOs and social activists) are those who can affect, or are affected by the firm, although they are not engaged in transactions. Primary stakeholders are claimed to more likely have similar 'interests, claims or rights'. In contrast, secondary stakeholders may have different goals (Clarkson, 1995).

Additionally, stakeholder identification can be performed through distinguishing between internal and external stakeholders. For instance, Cavanagh and McGovern (1988) recognize communities, customers, government and environment as external stakeholders, while employees, managers and stockowners – as internal ones. Some other typologies include: actors or those acted upon; those existing in a voluntary or an involuntary relationship with the firm; as risk-takers or influencers (Mitchell et al. 1997, p. 854).

However, as individuals that form stakeholder groups might belong to and interact with more than one group stakeholder groups cannot be considered as either homogeneous or stable (Winn, 2001). Similarly, Crane and Livesey (2003, p. 41) noted that: "Stakeholders are understood not to be just related to the firm but are also recognized to be related in many ways to each other, whether by exchange, communication or whatever other form of interaction. Thus, just as firms have relationships with diverse stakeholders, so too do those stakeholders have relationships with their own stakeholders, and these stakeholders in turn have relationships with a further set of stakeholders and so on". Therefore, stakeholder identification becomes more problematic in terms of both methodology and rationality and the need for businesses to build networks of stakeholders emerge.

As firms do not possess sufficient resources to address simultaneously all stakeholders and their multiple interests, the need for stakeholder prioritization emerges.

A dynamic stakeholder analysis and categorization model offered by Mitchell et al. (1997) focuses on stakeholder-manager relationships in terms of the relative absence or presence of all or some of the attributes:

(1) power;
(2) legitimacy;
(3) and/or urgency.

According to the authors, “a party to a relationship has power, to the extent it has or can gain access to coercive, utilitarian, or normative means, to impose its will in the relationship” (Mitchell et al., 1997, p. 865). It is also emphasized that the power itself is transitory: it can be acquired as well as lost. For the notion of legitimacy the authors use the definition given by Suchman (1995): "legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (p. 574). Urgency is believed to help move the model from static to dynamic and defined as “the degree to which stakeholder claims call for immediate attention” (Mitchell et al., 1997, p. 867). However, why stakeholders assess their relationships with firms as critical is not specified.

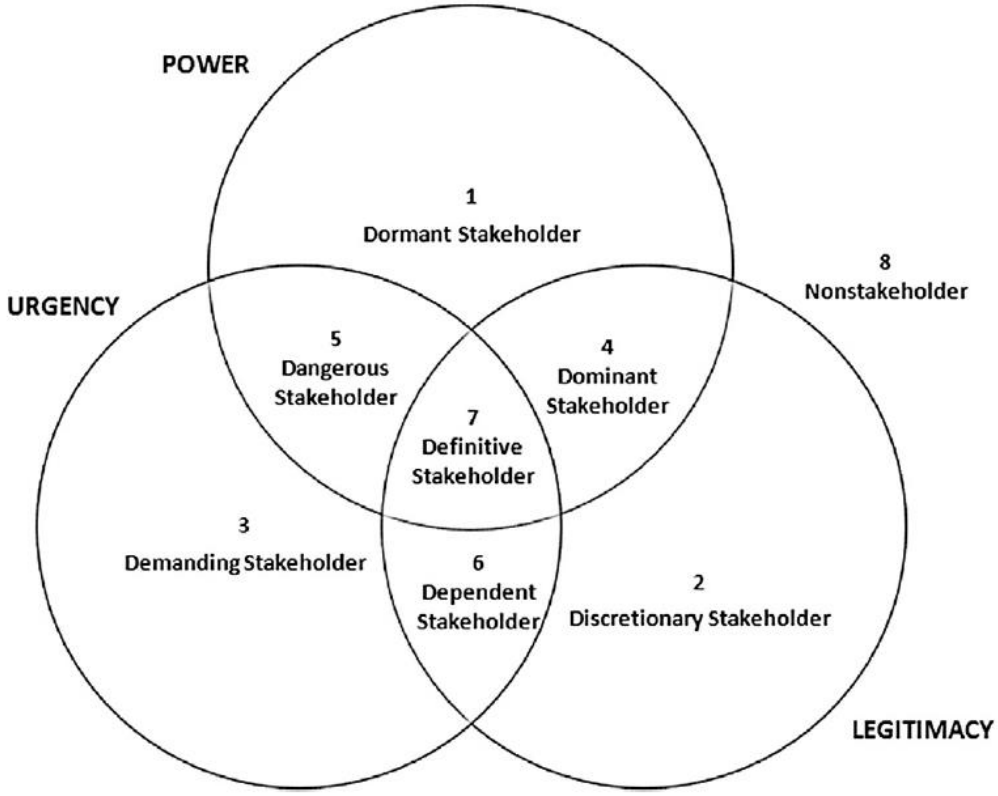

Figure 5 The triple circle stakeholder typology (Mitchell et al.,1997, p. 874)

This classification results in eight types of stakeholders (see Figure 5). Stakeholders that pose at least two or more of attributes are supposed to attract greater managers' attention if compared to stakeholders holding only one attribute. Thus, the more attributes the stakeholder has, the greater its salience. Mitchell et al. (1997) defined stakeholder salience as ''the degree to which managers give priority to competing stakeholder claims'' (p. 854). The identification typology also emphasizes the role of managers as interpreters of stakeholder influence and helps explain dynamism systematically.

Another type of stakeholder categorizing models is two dimensional grid. The first of such model was proposed by Mendelow (1981) who used power and dynamism as two axes. Eden and Ackerman (1998, p. 349) presented a matrix grid with four groups of stakeholders (Figure 6). The approach underlines the importance of identifying the degree of interest of each stakeholder group is in impressing its expectations on the firm's choice of strategies and analyzing whether a group has the power to do so.

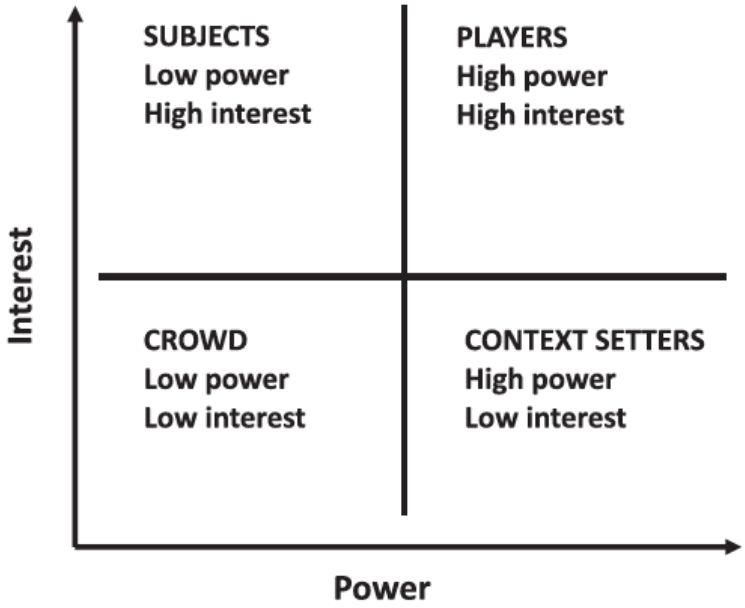

Figure 6 Power Interest grid (Eden and Ackerman, 1998, p.122)

The category of ‘Subjects’ has less power, however, is very interested. In contrary, ‘Context setters’ poses high power, but are not so interested in the firm. ‘Crowd’ has both low power and low interest, while ‘Players’ not only interested in the firm, but they also have power to influence the corporate strategy development.

Johnson and Scholes (1999) adapted the power and interest matrix to help in understanding of stakeholder influence on the development of strategy by a firm (see Figure 7). The authors especially pointed out “how managers handle relationships will depend on the governance structures under which they operate and the stance taken on corporate responsibility” (Johnson, Scoles and Whittington, 2008, p. 156).

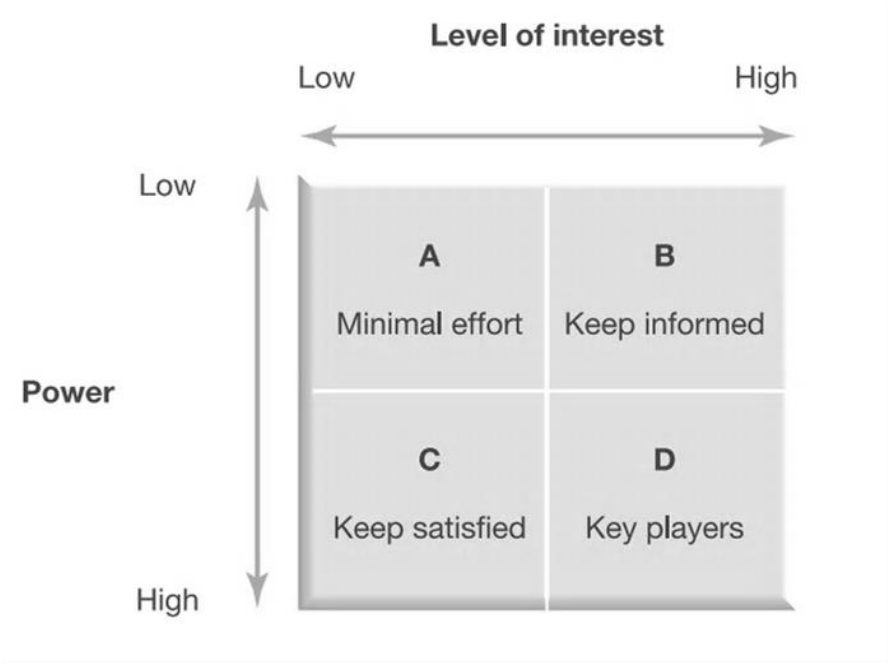

Figure 7 Stakeholder mapping: the power/interest matrix (Johnson, Scoles and Whittington, 2008, p. 156)

Fassin (2009) introduced a new terminology that clearly distinguishes three categories of stakeholders: ('real') stakeholders, "stakewatchers" and "stakekeepers".

The first category of the 'real' stakeholders in the narrow approach are considered to be classic dedicated stakeholders with a real interest in the organization, i.e. 'real' stakeholders have a concrete stake in the company. Stakewatchers are stakeholders who act as intermediaries as they do not really have a stake themselves. This group protects the interests of real stakeholders (pressure groups). Some of the examples of stakewatchers are: unions, consumer associations, investor associations, etc. Stakekeepers represent the independent regulators, who as stakewatchers have no stake in the organization but who impose external control and regulations on the organization.

In terms of power and influence, 'real' stakeholders possess a legitimate claim, therefore, power and influence are reciprocal. Stakewatchers acquire their power from the representation of the interests of the real stakeholders and are not

controlled by firms. Similarly, firms do not have power over stakekeepers who can indirectly and externally demand obligations.

Overall, the approaches to stakeholder prioritization can be summarized as follows:

Table 4 Summary of the overviewed approaches to stakeholder prioritization

Authors	Classification/Criteria used
Mitchell et al. (1997)	Power, urgency and legitimacy
Eden and Ackerman (1998)	Power-interest grid: subjects, players, crowd, context setters
Johnson and Scholes (1999)	Power-level of interest grid: minimal effort, keep informed, keep satisfied, key players
Fassin (2009)	Classical stakeholders, stakewatchers, stakekeepers

2.2.4. Stakeholder engagement

In recent years in stakeholder theory the stakeholder engagement approach has alternated the approach of stakeholder management (Andriof and Waddock, 2002). Some of the reasons why firms move towards stakeholder engagement is to increase trust, accountability and transparency as well as to enhance communication between a firm and its stakeholders (Burchell and Cook, 2006).

There are various definitions to stakeholder engagement. For instance, it has been defined as “practices that the organization undertakes to involve stakeholders in a positive manner in organizational activities” (Greenwood, 2007). The ISEA (1999, p. 91) defines stakeholder engagement as “the process of seeking stakeholder views on their relationship with an organization in a way that may realistically be expected to elicit them”. According to Andriof and Waddock (2002, p.42) stakeholder engagement can be defined as a “trust-based collaboration between individuals and/or social institutions with different objectives that can only be achieved together”.

Considering the variety of firm stakeholders, engagement practices may present in many areas of organizational activity, including public relations, customer service, supplier relations, management accounting and human resource management (Greenwood, 2007). Therefore, engagement may be used as a mechanism for control, co-operation, governance and enhancing trust as well as a form of employee involvement and participation. In addition, stakeholder engagement can help in understanding of different stakeholders' e expectations and interests (ISEA 1999).

The engagement of stakeholders is considered as an under theorized area. Vast majority of studies focus on either on the attributes of firms or the attributes of stakeholders, while the attributes of the relationship between firms and stakeholders are rarely observed (Frooman, 1999; Greenwood, 2001). However, Greenwood (2007) highlight that theories regarding stakeholder engagement may be drawn from various literature on business ethics, social accounting and human resource management.

The engagement of stakeholders does not ensure the responsible treatment of stakeholders. Greenwood (2007) defined the responsible treatment of stakeholders as "acting in the interests of legitimate stakeholders" (p. 321). Therefore, to explore the possible relationship between: the engagement of stakeholders and stakeholder agency the author presented the following model (Figure 8):

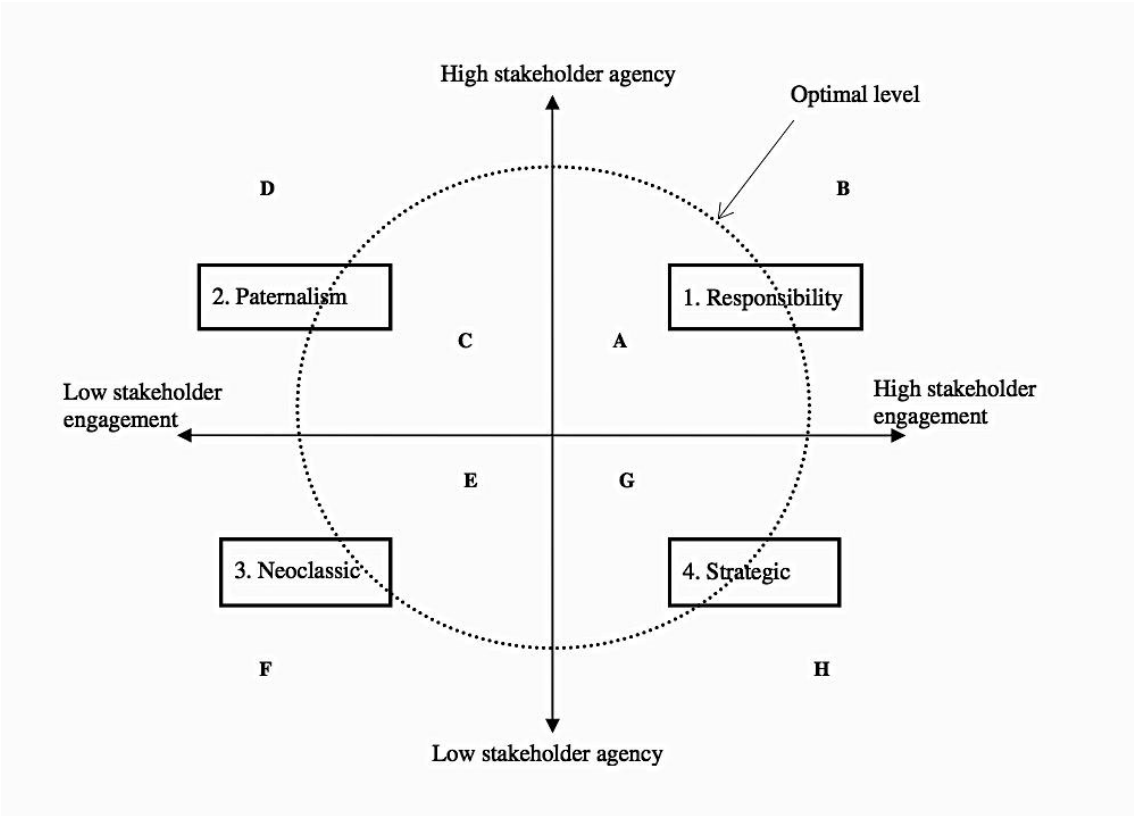

Figure 8 A model of stakeholder engagement and the moral treatment of stakeholders (Greenwood, 2007, p. 322).

In the model, the x-axis represents Stakeholder engagement - a process of consultation communication, dialogue and exchange. High stakeholder engagement implies diverse and plentiful engagement activities that are also of high quality. On the other hand, low stakeholder engagement is the opposite of high engagement. The y-axis of the model is defined as Stakeholder agency - a proxy for the responsible treatment of stakeholders. It represents single or multiple consideration depending on the quantity of stakeholder groups in whose interest the firm acts.

Thus, the model is divided into four quadrants. There are eight segment in total: four segment within the optimal level and for outside of it. Greenwood (2007) explains the existence of optimal level for the constructs of engagement and moral treatment of stakeholders based on the concept of optimal trust (Wicks et al., 1999).

Quadrant 1 is labelled ‘responsibility’. It represents high stakeholder engagement combined with high stakeholder agency. Segment A forms the foundations of stakeholder theory, while segment B either involves disproportionate stakeholder participation, or involve stakeholder who might not have a genuine moral claim.

Quadrant 2 is labelled ‘paternalism’. The quadrant shows low stakeholder engagement while having high stakeholder agency. This means firms acting in the interests of stakeholders without necessarily engaging with them, based on the perceived interests. There are two segments within this quadrant: limited paternalism – C (no stakeholder engagement) and strong paternalism - D (little stakeholder engagement).

Quadrant 3 or ‘neoclassical’ is the quadrant, where a firm does not act in the interest of legitimate stakeholders, while there is also little (E) or absent stakeholder engagement (F). Segment F can be labeled as illegal as it often includes fraud, theft, and abuse of human rights.
Quadrant 4 is labelled ‘strategic’. Response to the needs of stakeholders is associated with the firm’s goals fulfillment. Engaging stakeholders is an instrument for reputation enhancement (G). Irresponsibility (H) appears when there is an excessive engagement without accountability or responsibility towards stakeholders.

Greenwood (2007) also underlines that the possibility of melding and overlapping of these segments is high. Hence, a firm “may be characterized by more than one (or possibly all) engagement types across its various divisions and/or over time” (p. 324). Stakeholder engagement may correspond to the moral treatment of stakeholders, but it also may be directed opposite to moral behavior.

This chapter presented different definitions of stakeholders and summarized some of the approaches to stakeholder management process. It also assessed theory on stakeholder identification and prioritization as well as engagement. Next chapter will focus on the role of stakeholders within the concept of sustainable

development. It will also discuss stakeholders' role in obtaining management system certification and statistics in sustainability reporting.

2.3. Merging corporate sustainability and stakeholder theory

Stakeholder relationships have been studied from different perspectives including the sustainable practices point of view. In this paper the term stakeholder relations attributes to any economic, environmental or social relationship between the firm and its stakeholders (Hillman and Keim, 2001).

The role of stakeholder relations in firm's performance was first studied by Freeman (1984) who described the issue as a "multifaceted, multiobjective, complex phenomenon". Nowadays, the stakeholder approach is commonly used to support corporate sustainability (Dyllick and Hockerts, 2002). Studies show that stakeholder engagement is critical in developing both semi-proactive and proactive attitudes towards sustainability (e.g. Factor, 2003).

2.3.1. Relationship between corporate sustainability and stakeholders

Corporate sustainability relies on sustainable relationships between the firm and its multiple stakeholders. According to the study on sustainable value creation conducted by Hart and Milstein (2003) only effective integration of stakeholder thinking into strategy processes will create sustainable shareholder value.

Based on the literature analyzed by Heikkurinen and Forsman-Hugg (2011) the researchers suggested that organizations use two alternative strategies in stakeholder management: responsive and beyond responsive approaches. Responsive approach focuses on reacting to current stakeholder demands and anticipation of forthcoming changes on the market. Beyond responsive approach, on the other hand, defines behavior that exceeds external expectations for sustainable development.

Firms are motivated to implement various sustainable management practices if their stakeholders have a higher demand for sustainable management (Bansal, 2005).

Similarly, Kourula and Halme (2008) stated that firms could not only handle existing business operations more responsibly but rather adopt new business models for dealing with social and environmental problems. Such strategy can lead to increased competitiveness, financial performance and enhanced corporate image as well as help in avoiding legal suits and consumer boycotts (Heikkurinen and Bonnedahl, 2013).

In addition, trusting relationships with stakeholders can give understanding of how to allocate limited resources while keeping stakeholders satisfied (Harrison et al., 2010). This might be helpful when deciding on how many resources are used for sustainability practices in general as well as which environmental and social activities are more important or of higher priority at a certain time period.

Another point of view represent Seuring and Müller (2008) who claim that in many cases motivation for corporate sustainability initiatives comes as a result of external pressures from stakeholders. Hill (2001) emphasized that if firms do not respond to these pressures ‘‘society could place increasing costs on unsustainable business practices, and customers may not choose to purchase associated products and services. Ultimately, this process may alienate the company from the rest of society, resulting in reduced reputation, increased costs, and decreasing shareholder value through erosion of its license to operate’’ (p. 32).

Kaltoft et al. (2007) emphasized that better results are achieved when a mix of top-down approach and bottom-up approach is adopted. Thus, the organizations provide knowledge and direction, while stakeholders suggest practical improvements. In the literature it is also argued that the attributes of one approach compensate the disadvantages of the other.

Steurer et al. (2005) claim that the approach that focuses on describing the interactions between sustainability issues and stakeholder relations is the Sustainable development – Stakeholder relations management approach (SD-SRM). The approach shows how SD and SRM relate to each other. The research

is based on consideration that sustainable development can be achieved in many different ways and stakeholder relation management is one of those ways.

Steurer et al. (2005) concluded that the SD-SRM approach has a triple typology of perspectives to understand the link between SD and stakeholders:

- The normative perspective – focuses on the question “what issues of SD should firms and stakeholders take into account?”
- The descriptive perspective – examines the question “which issues of SD are taken into account by firms or stakeholders and in what way?”
- The instrumental perspective – concentrates on the question “to what extent can SD be achieved through SRM?”

2.3.2. Stakeholders and management systems

Sustainable development policies are imposed by governments and, thus, imply regulatory force. Management systems, on the other hand, are practiced more or less voluntarily by a firms’s management. Therefore, stakeholders have a certain influence on firms in getting sustainability standards certifications (Steurer et al., 2005).

Kassinis and Vafeas (2006) in their study on stakeholders’ influence on firms’ environmental performance suggest two stakeholder groups – regulatory (governmental organizations) and community (non-governmental organizations). Qi et al. (2013) extended this research and identified the third stakeholder group – organizational stakeholders. Organizational stakeholders include those “directly related to an organization with the ability to impact the firm’s bottom line directly” (Qi et al., 2013, p. 1988). The authors studied the impact of these three stakeholder groups on firms’ decisions regarding obtaining sustainable management system certifications. The Figure 9 represents economic, environmental and social pillars of sustainable management practices and corresponding to them three international standardized management systems.

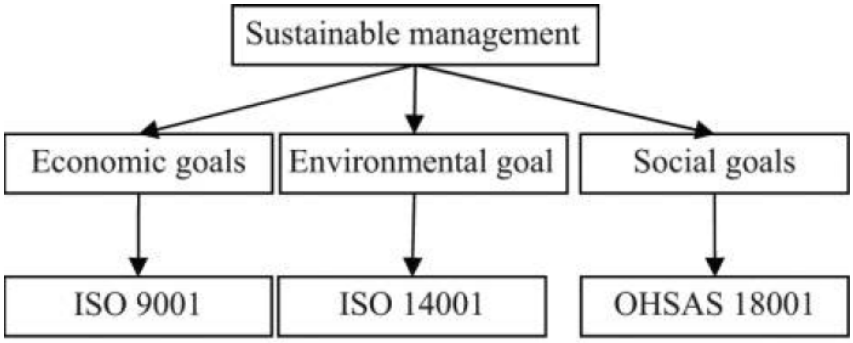

Figure 9 Relationship between sustainable management concept and practical implementation at organizational level (Qi et al., 2013, p. 1989)

The ISO 9001 quality management system was first published in 1987. It provides a systematic framework to administer a systematic control of organization's processes to ensure that the needs and expectations of firm's customers are being met or exceeded. This quality system is based on eight quality management principles (SGS, 2015):

- Customer focus;
- Leadership;
- Involvement of people;
- Process approach;
- System approach;
- Continual improvement;
- Fact-based decision making, and
- Mutually beneficial supplier relationships.

ISO 9001 is often considered as a basement for firm's sustainable economic success (Matias and Coelho, 2002).

The ISO 14001 environmental management system was issued by International Organization for Standardization in 1996. This standard provides for elements of an effective environmental management system that addresses organization's immediate and long-term environmental impacts and can be integrated with the other management systems of an organization. However, ISO 14001 does not provide any real measure of environmental performance, therefore, stakeholders may not understand the advantages of this environmental management system.

Delmas (2001) suggests that external stakeholders have to be actively involved in the design of EMS in order to be able to see value in it. Another advantage of stakeholder involvement is a developing organizational capability, which is hard to be copied by other firms.

OHSAS 18001 was formulated by international certifying bodies based on British Standard 8800 (BSI, 1999). BS OHSAS 18001 is a framework for an occupational health and safety management (OH&S) system and is a part of corporate social responsibility as it helps firms eliminate or minimize OH&S risks to employees and other interested parties. In October 2016 OHSAS 18001 will be replaced by new ISO standard, ISO 45001. New standard will provide framework to improve employee safety, reduce workplace risks and create better, safer working conditions, all over the world (ISO.org, 2015).

Although each of the three goals of sustainable management has a different focus Zwetsloot (2003) suggests that firms can integrate them together. In addition, describes the principle of continuous improvement and innovation that presupposes continuous organizational learning processes. The author highlights that for learning in organizations two important elements are necessary: “involvement or participation (of key people), and co-operation and communication” (Zwetsloot, 2003, p. 205).

However, as mentioned by Qi et al. (2013) in practice firms often favor one certification standard and do not pursue others. In their study the authors utilized a survey of 1,268 industrial enterprises in China. Qi et al. used a logistic regression model to investigate how various stakeholders impact firm’s certification decisions regarding ISO 9001, ISO 14001, and OHSAS 18001.

Descriptive statistics showed that percentage of firms with each of certification as follows: ISO 9001 – 63,35%, ISO 14001 – 16,16% and OHSAS 18001 – 8,6%. Firms that certified with all three management standards only account for 4.45 percent of the surveyed firms.

When observing organizational stakeholders, the empirical results proved that

foreign customers are significant drivers for firms to certify with quality management system. Foreign customers are of less importance when it comes to the management of employee health and safety or environmental management system they do not have a significant impact. Thus, foreign customers pay more attention to the quality pillar rather than to the social and environmental pillars of sustainable management. Foreign investors, on the other hand, have no significant impact on ISO 9001 and OHSAS 18001 corporate certifications, but have greater impact on ISO 14001 certification. If compared to community stakeholders poor regions those who live in wealthy regions pay more attention to quality and environmental issues (ISO 9001 and ISO 14001). However, prosperity of surrounding community does not have any impact on the corporate management practice towards obtaining OHSAS 18001 certification. The research also states that in general, stakeholders are less concerned with corporate OH&S issues than with quality and environmental issues. As for regulatory stakeholders, the results suggest that there is no significant impact of regulatory stakeholders on any of the three certifications. This means that when facing regulatory pressures firms may implement its own functional management system to improve its sustainability performance. Nevertheless, according to the research publicly listed firms are more likely to acquire ISO 14001 and OHSAS 18001 certifications.

2.3.3. Stakeholders and sustainability reporting

Nowadays, as it has already been discussed general public is becoming increasingly concerned about corporate impact and behavior. One of the ways in which firms can demonstrate corporate social responsibility is a social or environmental report (Bendell, 2003). According to the NEF (1996) disclosure of a companies' social performance enables those companies to build organizational values and corporate image.

In 2013, KPMG published the Survey of Corporate Responsibility Reporting. The study assessed Corporate Responsibility reporting among the 100 largest companies in 41 countries: 4,100 companies in total.

It is to be noted that KPMG highlighted that there is difference in the use of terminology (Figure 10). Most commonly used terms for reports appeared to be and ‘sustainability’ report (43%), ‘corporate social responsibility’ report (25%) and ‘corporate responsibility’ report (14%) (KPMG, 2013, p. 5).

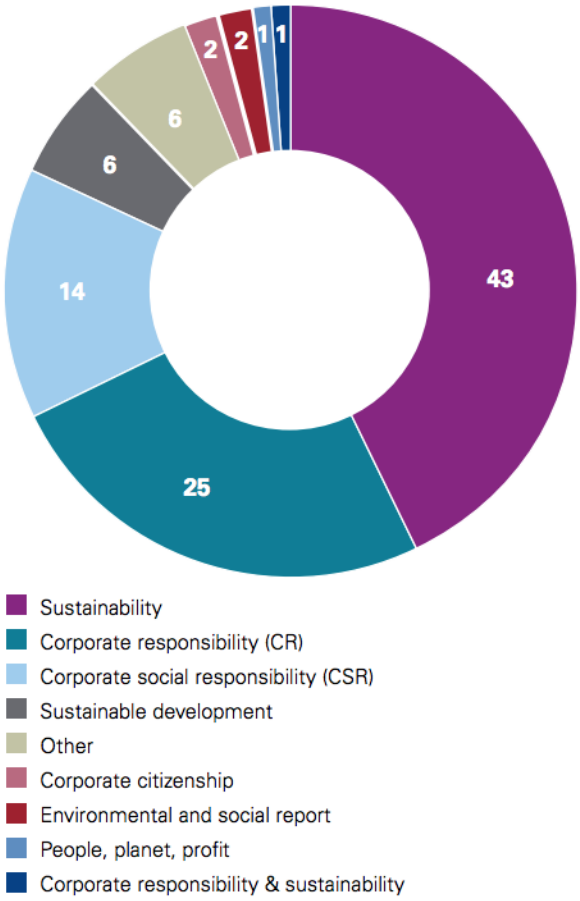

Figure 10 Corporate responsibility reporting terminology (KPMG, 2013, p. 5)

The KPMG’s research shows that among 4100 surveyed companies CR reporting is undertaken by almost three quarters (71%). If compared to 2011, the CR reporting rate increased by 7 percentage points. What is more, among the world’s largest 250 companies, the CR reporting rate is 93%.

Various recommendations and guidelines for sustainability reporting have been published during recent years. One of the most widely used guideline is the Global Reporting Initiative (GRI). GRI was founded by the Coalition for Environmentally

Responsible Economies (CERES) and the United Nations Environmental Programme (UNEP) in 1997, although guidelines were published in 2000.

The idea behind GRI guidelines is to present a framework for comparable sustainability reporting that integrates environmental, social, and economic impacts of business. The framework defines content and quality of a sustainability report and sets report boundaries. In addition, GRI, as it advocates reporting that "provides stakeholders with reliable information that is relevant to their needs and interests and that invites further stakeholder dialogue and inquiry" (GRI, 2002, p. 1).

As reported by KPMG, 78% of reporting companies use GRI as the guideline for corporate responsibility reporting (rise of 9 percentage points if compared to the 2011 survey).

It is to be noted that the Global Reporting Initiative (GRI) also encourages organizations to disclose information about engaging stakeholders. G4 highlights four key areas for disclosing stakeholder engagement initiatives (GRI, G4 Sustainability Reporting Guidelines, pp. 29-30):

G4-24 Provide a list of stakeholder groups engaged by the organization.

G4-25 Report the basis for identification and selection of stakeholders with whom to engage.

G4-26 Report the organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.

G4-27 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. Report the stakeholder groups that raised each of the key topics and concerns.

Similarly, KPMG (2013) highlights that companies should “identify stakeholders in their reports, explain the process used to engage with stakeholders, and the actions taken in response to their feedback” (p. 7). However, based on the KPMG’s research only 31% of top 250 companies include stakeholder comments in their corporate responsibility reports. This means that although corporate responsibility reporting is undertaking by the majority of companies, information on stakeholder engagement practices is still lacking.

3. THEORETICAL FRAMEWORK OF THE STUDY

There are many ways to approach the subject of corporate sustainability. Based on the literature review it can be concluded that stakeholder engagement is considered to be one of the ways of how to facilitate the shifts towards sustainability as it "draws together the values, issues and indicators relevant to stakeholders" (NEF, 1996, p. 84) and helps with management of complex issues. However, as firms have limited resources, considering every stakeholder group equivalently can present a tough challenge. Therefore, firms need to define approaches to stakeholder engagement in order to prioritize their stakeholders and best satisfy the expectations and interests stakeholders have.

Literature review on stakeholder theory and the concept of sustainability have provided the key concept does develop a framework in this thesis. Table 5 summarizes the working definitions of main phenomena related to this study.

Table 5 Working definitions of central concepts, related subtopics and key authors

Concept/ topic	**Working definition**	**Related problems/ subtopics**	**Related literature by key authors**
Corporate sustainability	Application of sustainable development on the corporate level; a corporate guiding model, addressing the short- and long-term economic, social and environmental performance of corporations	Sustainability; Sustainable Development; Corporate Social Responsibility	Russell et al. (2007); Diesendorf (2000); Steurer et al. (2005); Baumgartner and Ebner (2010); Bansal (2002); Dyllick and Hockerts (2002); Dunphy et al. (2003); Elkington (1998, 2004); Heikkurinen and Bonnedahl (2013); others
Stakeholder	All parties who will be affected by or will affect [the organization's] strategy	Stakeholder management process; Stakeholder identification; Stakeholder prioritization	Freeman (1984); Cornell and Shapiro (1987); Alkhafaji, (1989); Nutt and Backoff (1992); Clarkson (1995); Harrison et al. (2010)
Stakeholder engagement	Practices that the organization undertakes to involve stakeholders in a positive manner in organizational activities	Motivation to engage; Stakeholder agency	Greenwood (2007); Andriof and Waddock (2002); Burchell and Cook (2006); Greenwood (2007); Frooman (1999)

The literature reviewed how stakeholder engagement could contribute to corporate sustainability. Yet, the theory still lacks consensus in framework for incorporating stakeholder engagement into corporate sustainability practices. In this study an approach was developed based on a synthesis from the ideas emerged from literature review and research on firms sustainability activities. The theoretical framework answers the basic problem of this study: “How can stakeholder engagement contribute to corporate sustainability value creation?” The framework is presented in Figure 11.

Figure 11 Research framework

As discussed earlier, stakeholder engagement is one of the elements or concepts included in corporate sustainability model, there are other concepts (e.g. corporate communications, corporate governments) that also contribute to corporate sustainability. However, they are not covered in this study.

The framework presented in this study aims to link firm-stakeholder communication activities to outcomes that can be beneficial for sustainable development, and therefore, contribute to corporate sustainability. From the figure it can be seen that basically, there are certain starting conditions that define motivation or intention to engage with stakeholders. Then in order to engage with stakeholders the company should be able to define and prioritize these stakeholders. In this process, stakeholders are approached at different levels. Finally, there is a functional endpoint that represent value created for corporate sustainability.

The next step is to find answers concerning of what are the key drivers for stakeholder engagement, what are the levels at which stakeholders are engaged and as a result answer to the research question of how stakeholder engagement contributes to corporate sustainability. The framework will be applied to case companies chosen for this study. Methodology of the study and case companies is introduced in the following chapter.

4. RESEARCH METHODOLOGY

This research seeks to answer the question of how do stakeholder engagement leverages to corporate sustainability. The research is not focused on one particular industry; instead, case companies represent three different types of industries. However, all three companies are considered as companies with a strong focus on sustainability.

The purpose of this chapter is, first, to present research methodology and justify the methods for performing the research. Second, to describe the methods for case companies selection and data collection. Third, to explain data analysis method and, finally, to interpret the reliability and validity of the research.

4.1. Research approach and method

The research questions are open-ended questions and aim at answering “how” and “what” questions, therefore, the research method utilized is qualitative. Qualitative research method is usually used when information is difficult to obtain through more quantitatively oriented methods of data collection (Guest et al. 2013). It is also used in order to better understand any phenomenon about which little is yet as it supports discovery of new information (Strauss and Corbin, 1990).

Based on the exploratory nature of the research questions, an inductive approach has been chosen (Patton, 1987). The inductive approach first focuses on data collection and then develops empirical generalizations based on the data. Exploration helps to develop concepts more clearly and to improve the final research design (Cooper and Schindler, 2011, p. 143).

As the approach to collecting and using qualitative data case study method was used. A case study is defined as “an empirical enquiry that investigates a contemporary phenomenon within its real life context, especially when boundaries between phenomenon and context are not clearly evident” (Yin, 2003). The key advantage of case study method is that it examines a phenomenon within its real-life context. Case studies are also beneficial in explaining a given phenomenon in

situations in which the excising theory is insufficient (Yin, 1994).

Case studies entail either single or multiple cases. In this thesis the multiple-case study approach has been applied. This approach is in line with Ogbonna and Wilkinson (2003) study that recommends this type of a case design for the study of contextual information. Due to the fact that researches focus on the case's special attributes, the sample sizes are small, usually one to several cases (Guest et al. 2013). However, each of the selected case companies has its own network of stakeholders and sustainability strategy.

According to Yin (2003), multiple case studies follow either literal replication or theoretical replication basic logic. For this thesis the logic of literal replication was followed as the aim of the thesis is to get understanding of an identical phenomenon in different organizations.

The cases were selected by means of theoretical rather than statistical sampling (Yin, 2003). The cases selected in this study are firms that vary in size and belong to different industries but all share strong focus on sustainable development and have proactive stakeholder relationships. Although, due to differences in firms' industries variations were found, it still was possible to find similar patterns among all of them.

4.2. Selection of case companies and data collection

The study aims at analyzing stakeholder engagement practices and finding similarities in firms' approaches to it. As it has already been noted, all of the case companies follow proactive approach towards sustainable development and have sustainability thinking incorporated in all business operations. In addition, selected companies utilize sustainability reporting guidelines and standards.

The interviews formed a significant part of this thesis. The data for each case has been collected through several semi-structured in-depth interviews. In-depth interviews qualitative research method is considered to be optimal for collecting data on firms' own practices and experiences, particularly when sensitive topics

are being explored (Guest et al. 2013). The interviews were voice recorded with permission of the interviewees and audio files transcribed. The transcriptions were used in coding and analyzing.

As the data should add to a better understanding of a theoretical framework (Bernard 2002), the choice of informants was made with theoretical sampling. Thus, the qualifications that the informants should posse are following:

- Preferably a sustainability or environmental manager: OR an expert with a relevant experience;
- A decision maker in regard to sustainability issues.

Thus, the aim was to get a wider representation of stakeholder management practices regarding sustainability issues by conducting interviews primarily with informants that have relevant knowledge and experiences.

There were 5 interviews in total. Out of these 5 interviews, three were conducted at the interviewee place of work and two interviews were conducted via telephone. The order of the interviews and interviewee's details are provided in Table 6.

Table 6 Interviewees and interview method

No	Company	ID	Job Title	Years of experience	Interview method
1	Delta	D1	Senior sustainability manager	10	In-person
2	Delta	D2	Stakeholder coordination manager	8	In-person
3	Echo	E1	Environmental sustainability manager	15	Phone
4	Echo	E1	Communications and external relations manager	10	In-person
5	Foxtrot	F1	CSR manager	6	Phone

In this thesis, the companies' names and the names of the interviews are not

relevant, therefore, companies are referred as Delta, Echo and Foxtrot, while the interviewees are referred to with their ID number, e.g. the first expert, senior sustainability manager from Delta is cited as “D1”.

The interview questions were drawn from the literature review on stakeholders, engagement, corporate responsibilities, and sustainability performed during the first phase of conducting this research study. As the interview was semi-structured, additional clarifying questions were asked where the initial answer was not clear or full. The questions were designed in a way to assess interviewees’ views about the hypothesized causal link between stakeholder engagement and corporate sustainability. Preliminary questions were used to explore interviewee’s background and the key values and goals of the companies. The second part of the interviews focused on specific questions (related to research questions), i.e. directly on companies’ stakeholder management practices in regard to sustainability. The interviewees were encouraged to disclose how the companies they work for identify stakeholders and how they engage with them. Examples of questions included: what methods of stakeholder engagement are employed; how would you describe this stakeholder; what types of communication processes and systems are used as a means of engagement? The list of questions is provided in the Appendix.

In addition to interviews and site visits, secondary data sources were used to get a complete view on the phenomena analyzed. Necessary for the study data was retrieved from journal articles, companies’ sustainability (corporate social responsibility) and annual reports and their websites.

4.3. Data analysis

Bogdan and Biklen (1982) characterize qualitative data analysis as “working with data, organizing it, breaking it into manageable units, synthesizing it, searching for patterns, discovering what is important and what is to be learned, and deciding what you will tell others” (p. 145). Miles and Huberman (1984) claim that analysis involves processes of data reduction, data display, and conclusion drawing or

verification. For this thesis iterative model of data analysis presented by Miles and Huberman was utilized.

The first stage of the analysis was the identification of the themes emerging from the raw data. In the literature this process is usually referred to as “open coding” (Strauss and Corbin, 1990). The collection and coding of initial data were guided by initial theoretical framework.

During the second stage of analysis the presence of themes in each of the cases was evaluated. All the data were divided into several categories based on its relevance. Irrelevant to the investigated questions data, including descriptive details of the phenomenon itself, was omitted. Data reduction was performed from the very beginning to end of the research project.

As terminology used by interviewees or in firms’ reporting varies between companies, all similar words and phrases, e.g. sustainability, sustainable development, corporate social responsibility, etc. were grouped into the same category. Then sufficiency of excising data was evaluated. In cases when the data was not enough in order to support interpretation, additional data was acquired through secondary sources. To do this a compilation of relevant material for each company was made based on the information obtained from corporate responsibility reports.

Then, tables and schemes were drawn to analyze all written and transcribed data. According to Miles and Huberman (1984) an “organized assembly of information permits conclusion drawing and action taking”

Finally, the cross-case data comparison based on analytic induction (Wilson, 2004) was used to compare information across cases. The data comparisons were “intra” (interviewees from same firm) as well as “inter” (interviewees from different firms). The resulting patterns from interview analysis formed a conceptual framework for stakeholder engagement within the context of sustainable

development. However, as these processes are interactive and cyclical, after each additional stage of data collection the activities were repeated (Figure 12).

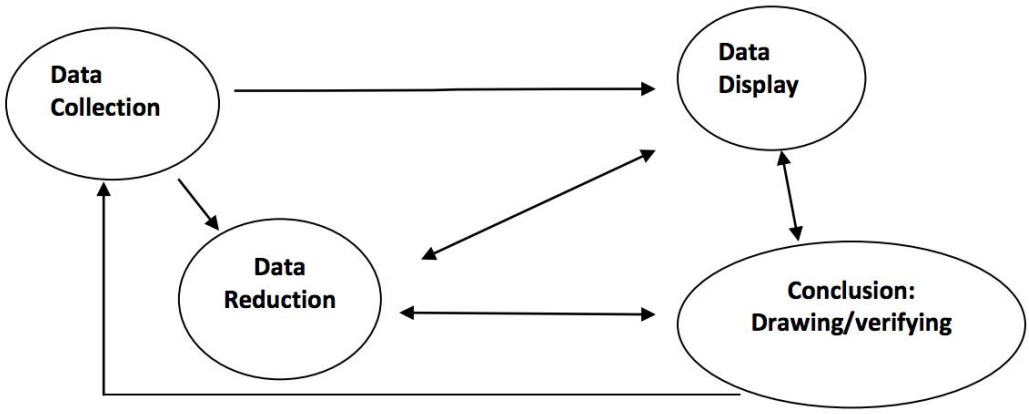

Figure 12 Data analysis process (Adapted from Miles and Huberman, 1984, p.12)

In order to address research questions findings were organized based on three subtopics formed by research questions and analyzed against theoretical framework. They also were discussed against findings from the literature review.

4.4. Reliability and validity

Validity and reliability should be taken into consideration as two factors when judging the quality of the study. In the qualitative studies reliability is a consequence of the validity (Patton, 2001).

According to Flick (2009) the question of validity in qualitative studies can be altered with a question of "*whether the researchers see what they think they see*" (p. 387). There might appear three types of errors (Kirk and Miller 1986, pp. 29-30):

- a researcher may see a relation in a case when this relation (or principle) is not correct (type 1 error);
- a researcher may reject a relation or a principle when they are correct (type 2 error);
- a researcher may ask the wrong questions and, therefore, obtain wrong answers (type 3 error).

Hence, one of the key challenges when assessing the validity of qualitative research lies in drawing the link between the relations to be studied and the version of them provided by the researcher (Flick, 2009). In this regard, Hammersley (1992, pp. 50-52) suggests the position of a "subtle realism" which is based on the three premises: the validity of knowledge cannot be examined with certainty, phenomena also exist independently of external claims and research aims at presenting reality.

Thus, the collection of the data becomes a starting point for judging the validity of qualitative research. Another point for judging validity is the presentation of phenomena itself.

To ensure validity in qualitative research it is crucial to examine trustworthiness (Seale, 1999). In this study, part of the validity derives from the competency and reliability of interviewees in the area being studied. Therefore, the knowledge and skill of the interviewees were paid special attention to when doing sampling, as inappropriate informants contribute to obtaining meaningless and invalid data (Godambe 1982). However, there is still a possibility of biases (Seidler 1974). Interviewees may provide inaccurate data either consciously or unconsciously due to several reasons: they may want to please, they may have hidden purposes and intentions or they may have their own viewpoints and principles (Alexiades, 1996). Reliability of interviews is higher for objective data rather than for subjective data (Seidler 1974). Nevertheless, in the cases when several informants refer to the same fact or give similar answers, the information can be considered relatively reliable (Alasuutari, 1995).

In this thesis, interviewees were not encouraged to draw their own definitions of sustainable development, corporate sustainability or corporate social responsibility. If mentioned all of the three terms for the purpose of study were considered as one. The framework and research questions were developed based on the literature review.

In regard to construct validity, to verify possible inconsistencies in data multiple sources of evidence were utilized. In addition to interviews with multiple firms, secondary sources of data, including firms' websites and officially published reports, were used. Analysis of the data obtained was performed against theoretical framework drawn during the first phase of research.

As for reliability and the external validity, in this thesis there is little basis for scientific generalization, because the purpose is to generalize to theoretical propositions. As a result, the intent of this thesis is to provide an in-depth exploration of stakeholder relations management practices such as stakeholder engagement, and generalize the data to existing theories. Nevertheless, to achieve external validity, the research tests theory by replicating the methods and results across more than one case study.

5. RESEARCH FINDINGS

This chapter presents the findings according the interviews. Cases in this thesis were given names “Delta”, “Echo”, and “Foxtrot”. First, the selected companies are shortly presented. However, due to anonymity of companies, more detailed descriptions cannot be provided. Second, research questions are answered by analysis of stakeholder relation practices in all three firms. Thus, the second part of the chapter is divided into three sections based on the research question being analyzed.

5.1. Description of case companies

Table 7 presents the basic information of the selected firms. All of the selected companies operate internationally and employ more than five thousand employees.

Table 7 Background information of the selected firms

Company	Main industry	Number of interviews	Interviewees’ job titles and IDs
Delta	Natural resources engineering	2	Senior sustainability manager (D1) Stakeholder coordination manager (D2)
Echo	IT and consulting	2	Environmental sustainability manager (E1) Communications and external relations manager (E2)
Foxtrot	Apparel retailer	1	CSR manager (F1)

5.1.1. Delta

Delta is a company that is engaged in providing metal processing solutions for the mining and metallurgical industries. It also offers technologies and services for renewable and conventional energy production as well as solutions for the treatment of industrial process and wastewaters. The company operates in Africa, the Americas, Asia Pacific, Australia and Europe.

Delta has a strong focus on sustainability and is included in the Dow Jones Sustainability Index. The company holds ISO 14001 (Environment), OHSAS 18001 (Health and Safety) and ISO 9001 (Quality) certificates. Delta's sustainability report is compliant with the GRI G4 guidelines in accordance with the core level and is checked by a third party.

For this study the sustainability management unit was interviewed. In addition, the company's sustainability report and supplementary documentation were used.

5.1.2. Echo

Echo is a technology and consulting company, which provides a range of IT consulting services, computer hardware and software. The company has a global presence across Americas, Europe, Middle East, Africa and Asia Pacific.

Echo holds ISO 14001, OHSAS 18001 and ISO 9001 certificates. The company has self-declared a GRI G3 application level of A.

This case provided information on how a company that produces mainly intangible output manages its stakeholder relations.

5.1.3. Foxtrot

Foxtrot is a retailer of fashion apparel, shoes and accessories. The company also offers its products through Internet and on a franchise basis. Foxtrot's

merchandises are created by in-house designers, while the manufacturing is outsourced to independent suppliers.

During the last audit the company was confirmed to retain ISO 9001:2008 Quality Management Standard, OHSAS 18001 Health and Safety Standards and ISO 14001 Environmental Management Standards. Foxtrot published last year's sustainability report in accordance with new GRI G4 framework. In accordance to previous GRI G3 framework the self-disclosure level against it used to be B.

5.1.4. Stakeholder identification by case companies

All analyzed companies distinguish between two types of stakeholders. Therefore, companies apply internal and external engagement practices when managing stakeholder relations. However, identification practices and the ways in which companies group stakeholders vary.

For instance, although Delta's approach to identifying key stakeholders is based on determination of stakeholders most and least affected by its actions (primary and secondary stakeholders), the company classifies all stakeholders as small independent group units.

During the interview D1 highlighted such stakeholder groups as:

- customers,
- investors (owners),
- employees,
- local communities,
- universities,
- suppliers (subcontractors),
- environment,
- media,
- and banks (analysts, rating agencies).

The same approach is also utilized by Foxtrot. The groups that the company identifies are somewhat similar to the groups mentioned by Delta with minor differences in titles, e.g. Delta's group 'employees' is called 'colleagues'.

Echo, on the other hand, classifies stakeholders based on four aspects of the company's sustainability activities that are of particular interest to its stakeholders:

> *"First of all, our stakeholders are interested in our support of employees. They are concerned about the impact of our activities on the environment, the management of our supply chain and about integrity and ethics of our company. Therefore, Echo defined each of these four areas into four groups of stakeholders, namely employees, environment, supply chain and NGOs" (E1, Echo).*

These four groups of stakeholders are:

- Environment
    - Environmental NGOs
    - Socially responsible investors
    - Communities
    - Clients
    - Governments
- Supply chain
- Employees
- Relationships with NGOs

All in all, the primary aim of stakeholder identification is to determine also those objects that should acquire a stake in a management process. Findings from the interviews show that there is no universal way for that.

5.2. Key findings with-in cases

In this part the empirical findings are first divided into two major sections based on the research sub-questions: practices for stakeholder engagement and levels of stakeholder participation. This is done in order to gather information needed to

answer the main research question of how stakeholder engagement contributes to corporate sustainability. Therefore, the third part of the findings gathers the most important results obtained from the two previous sections that leverage stakeholder engagement into corporate sustainability.

5.2.1. Identified drivers and practices for stakeholder engagement

There was no difference in case companies concerning importance of stakeholder engagement. All interviewees highlighted that effective communication and stakeholder trust are essential links between the company and value created. Stakeholder engagement has been considered to be an imperative to building sustainability.

The key drivers for stakeholder engagement named by interviewees were:

- Reputation;
- Clear communication and exchange of information;
- Improvement of sustainability of any initiatives;
- Creating shared value.

Another important finding from the interviews was that for effective engagement with stakeholders a company should integrate certain practices into its business strategy. During the interviewees participants named quite a few practices that should be employed by a firm in order to facilitate better engagement with stakeholders. These practices are presented in Table 8.

Table 8 Key practices for effective stakeholder engagement mentioned during the interviews

Practice	D1	D2	E1	E2	F1
Staff empowerment	x		x	x	x
Incentive and reward	x		x	x	
Top management support	x	x		x	x
Understanding clients need		x	x		
Being proactive / opennes to change	x	x	x	x	x

Effective communication	x	x	x	x	x
Partnership				x	
Team work	x				x
Reactiveness					x
Flexibility	x		x		
Knowledge and learning		x	x		
Appropriate feedback		x	x		x
Transparency	x		x	x	

Thus, key identified stakeholder engagement practices that support stakeholder engagements were: staff empowerment, effective communication, being proactive, and top management support.

Staff empowerment was acknowledged as a form of internal practices. All three case companies pay special attention to the role of employees in managing sustainability issues as "*they represent the firm's brand, show the firm's values and drive its success*" (E2, Echo). Similarly, F1 noted that:

> "*Each of employees must take responsibility to analyze and understand differences in culture and business requirements where the company operates as well as reflect the personal needs of other stakeholders: customers, clients and the communities*" (F1, Foxtrot).

Likewise, E1 pointed out that:

> *"It is crucial to, first of all, prioritize which stakeholders to engage. Secondly, the company must be aware of what issues are important to each group of stakeholders. What is important is that vulnerable and marginalized groups should never be left behind. It this sense, firm's employees might be a good link to that as well as for managing any other stakeholders" (E1, Echo).*

The observed companies employ different approaches for staff empowerment such as encouragement of constant feedback and continues trainings. This

practice can be a major game changer because employees are often those who deal with external stakeholders such as clients.

The interviewees also reported effective communication as an important stakeholder engagement practice as continuous dialogue with key stakeholders aims at enhancing transparency. From the interviews, it became clear that companies tend to utilize different communication channels to reach different stakeholder groups. Some of the companies' communication channels include: Internet websites (which are used for all stakeholder groups), round tables, questionnaires, media, and analyst presentations.

However, some companies go beyond simple communication, they facilitate intense stakeholder dialogue by establishing advisory units consisting of key stakeholder representatives. For instance, in order to better engage with stakeholders Delta recently has established Sustainability Advisory Council, which consists of representatives from such stakeholder groups as customers, suppliers, academics, investors and NGOs. D1 argued that existence of stakeholder councils assists in adding value and integrity and improving the ethical structure of firms.

> *"That is the way in which we try to gather information and perspective from our stakeholders. Naturally, things that are discussed during Sustainability Advisory Council meetings are then taken to our top management, and then taken into consideration when we make decisions related to the sustainability issues" (D1, Delta).*

Regarding the stakeholder groups' difference in difficulty of communication, F1 named employees as the easiest group to interact with and local communities as the most challenging one:

> *"Employees might be rather easy to engage with sustainability issues because you have different channels how you communicate with your employees. With customers it is a little bit more difficult in both how to communicate with them and how to collect feedback. So, we have customer*

satisfaction surveys. As for the local communities, difficulties arise from the fact that we manufacture clothing and accessories. Even though we guarantee job security and equal opportunities, there is always a risk that there might be misunderstanding and intolerance from local people and NGOs. Therefore, we have to continuously be engaged in two-way communication and consultation with the community on non-governmental organizations" (F1, Foxtrot).

Other interviewees could not determine the hardest stakeholder groups to engage with. This might be due to specifics of industries within which the companies operate.

Being proactive is associated with understanding clients/customers and other stakeholders' needs and foreseeing upcoming possible issues or opportunities. In general, it is organizational ability to predict the change and position the firm to meet it. Delta's and Echo's representatives noted that proactive engagement approach increases the likelihood for diminishing possible conflicts with stakeholders.

Another identified stakeholder engagement practice was top-level support**,** which helps achieve staff empowerment, proactiveness and effective communication practices mentioned previously. Ability of a company to allow information exchange between different levels is unanimously reported to be a major instrument for stakeholder engagement.

All of the interviewed companies have independent organizational units that work on sustainability strategies and manage business operations related to sustainability issues, including relations with stakeholders.

5.2.2. Identified levels of stakeholder participation

Stakeholder mapping and analysis are the imperative parts of stakeholder management process. The level of engagement is primarily determined in regard with the stakeholder's level of influence and interest. For example, the model Echo

uses is based on weighted variables. Among variables are willingness to engage, innovation, credibility, and influence.

Interviews showed that companies distinguish between those stakeholders who require only receiving information, those who needs to be consulted, those who should be engaged in constant dialogue and those who directly influence a firm's strategy and should be engaged in a proactive manner.

It is to be noted that although interviewees implied same categories and approaches, there were differences in terminology. Therefore, it was decided to name the approaches that companies employ as 'passive', 'listening', 'dialogue' and 'partnership' based on the nature of relationship (Figure 13). In addition, these groups are considered to be not exclusive. This means that stakeholders approached through partnership are also interacted with through forms of passive approach. For instance, D1 emphasized that regardless the stakeholder importance, Delta claims to provide "*equal access for all stakeholders to the company information*". However, those stakeholders that belong to passive approach group (e.g. media) usually are not interacted with via dialogue channels.

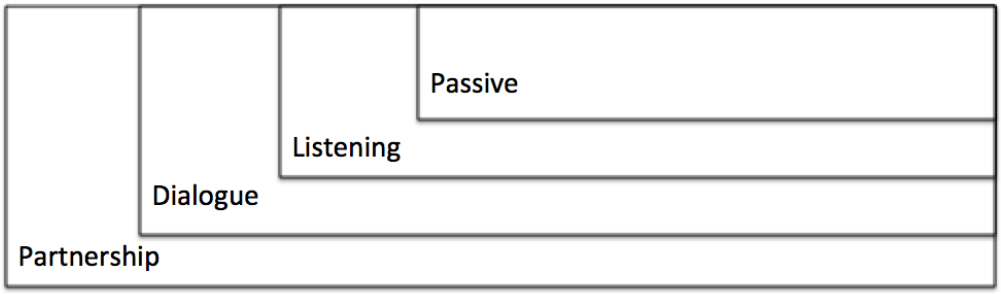

Figure 13 Approaches to stakeholder engagement

It is also to be noted that interviewees differentiated between dialogue and consultation as latter does not involve search for win-win situations and exploration of interests and needs. Alternatively, dialogue focuses on building relationships rather than on issues, which is crucial in shared values creation within the context of sustainable development.

During the interviews case companies' representatives were prompted to name forms of interactions associated with each approach to stakeholder engagement. In addition, companies' corporate responsibility reports were utilized. Bases on the results obtained the following table has been formed (Table 9):

Table 9 Engagement approaches and associated with them forms of interaction

Engagement approach	Forms of interaction
Passive approach	Internet websites Reporting Press releases Annual general meeting Marketing and advertising
Listening	Questionnaires Satisfaction surveys Intranet Online brainstorming Web-based feedback Audits Analyst presentations
Dialogue	Meetings Forums Direct contacts Workshops Consultation committees
Co-innovation	Projects Master's thesis work Research collaboration Joint venture

What was acknowledged to be crucial when defining levels of engagement with stakeholders was the fact that engagement should be performed according to

current relationship between a stakeholder group and a company. For instance, D2 noted that:

> *"The purpose of stakeholder engagement is to keep supportive stakeholders satisfied, while try to acknowledge neutral- and negative-minded stakeholders".*

E1 emphasized that:

> *"Stakeholders' relationships with the company may change over time. So there is need for continuous monitoring of current state of relationship status".*

Overall, the results show that it is practically impossible for firms to engage every single stakeholder in the decision-making process. Stakeholders themselves might belong to and interact with more than one group stakeholder. Therefore, boundaries among identified approaches to managing stakeholder engagement are subtle rather than rigid.

5.2.3. Leveraging stakeholder engagement for corporate sustainability

The results from the interview analysis revealed that the three analyzed companies leverage their stakeholder engagement practices to support corporate sustainable development strategies. For instance, F1 emphasized that:

> *"Stakeholder engagement is essential in the sense that the company does not have all the expertise and knowledge that are necessary to address complex sustainable development issues. We must partner and collaborate with others. So stakeholders are placed in the forefront when solving issues and developing sustainability strategies".*

Partnership (has also been named as 'collaboration' by two of the interviewees) and dialogue have been recalled as the most important approaches in achieving desired results in managing sustainability issues:

> *"We consider dialogue to be very valuable because it allows us to share ideas and get new perspectives on different issues by integrating different expertise. Thus, it helps hasten new solutions to various sustainability issues" (E2, Echo).*

> "*As partnership implies achieving a goal within a collaborative arrangement, we utilize it to enhance the relationship between stakeholder engagement, value creation and sustainable development" (F1, Foxtrot).*

All interviewees strongly agreed that stakeholder engagement enhances reputation and directly improves financial performance. In addition, stakeholder engagement enables firms to learn from stakeholders and identify areas in which the firm can become more efficient, which results in process and product improvements.

The results show that in practice all case companies employ a wide variety of programs and ways in which they communicate and engage with stakeholders. These programs are mainly based on stakeholder's expectations. Companies tend to draw group of 'stakeholders-key issues -how to engage' tables. Thus, they identify what are the expectations or worries of stakeholders and try to match engagement practices to those needs. For instance, during the interview E2 mentioned that:

> *"As employees expect well being at work, employee satisfaction survey, training and employee development are the most efficient forms of interaction. For customers and suppliers, on the other hand, the critical factor is trust; therefore, it is crucial to engage these groups via meetings and direct contacts" (E2, Echo).*

Case companies seek to understand and act upon stakeholders' expectations and concerns regarding sustainability issues. Such forms of stakeholder engagement as sustainability reporting, websites and press releases (i.e. instruments for

information disclosure) help in building trust between a company and its stakeholders as all information becomes transparent. In addition, there are other forms of interaction with stakeholders that were mentioned earlier. These forms help in improving relations and fulfill various expectations of stakeholders such as (mentioned by interviewees):

- Information on environmental impacts and sustainable business practices;
- Sustainability funds – fulfilling sustainability requirements;
- Improved competitiveness (environmentally sound business practices);
- Efficient and clean technologies;
- Competence sharing;
- Well-being at work; ongoing learning and development opportunities;
- Cooperation;
- High quality products and services, competitive pricing;
- Open communication with management;
- Fair business conduct, etc.

All in all, it can be seen that these stakeholder expectations represent economic, social and environmental necessities. The fulfillment of these needs contributes to triple bottom line of corporate sustainability.

6. DISCUSSION AND CONCLUSIONS

This chapter summarizes the findings from interviews and secondary data that were discussed in the previous part. Where applicable the results of the study are analyzed against the theoretical setting introduced in literature review. In addition, theoretical and managerial contributions are discussed. Finally, the chapter discusses the limitations of the study along with recommendations for future research.

6.1. Summary of the main findings

The objective of this thesis has been to explore the contribution of stakeholder engagement to corporate sustainability. This paper presents evidence on stakeholder engagement from three different case companies.

SQ1, SQ 2 and SQ3 were

- What are the drivers for stakeholder engagement?
- What are the organizational practices that support engagement with stakeholders?
- What are the levels of stakeholder participation and what are the related to these levels forms of interactions?

The questions were answered by the means of an empirical study analysis. However, it is to be noted that initially SQ1 and SQ3 were studied against the theoretical frames derived from earlier scientific discussions analyzed in the literature review part and then applied to summarize the results obtained through empirical analysis.

The main research question of “How can stakeholder engagement contribute to corporate sustainability value creation?” (RQ) was answered by means of the above sub-questions. In order to answer the main research question the concepts of SD and CS as well as stakeholder theory were reviewed, stakeholder engagement in case companies was explained, and the framework for stakeholder engagement within the context of corporate sustainability was developed.

Overall, findings show that firms realize that meeting stakeholder expectations is a necessary condition for sustainability. There was a high degree of consistency from the analysis of the interview data; therefore, in order to answer on the main research question and based on the analysis of statements alongside with analysis of literature on stakeholder management process the following model of stakeholder engagement has been developed (Figure 14).

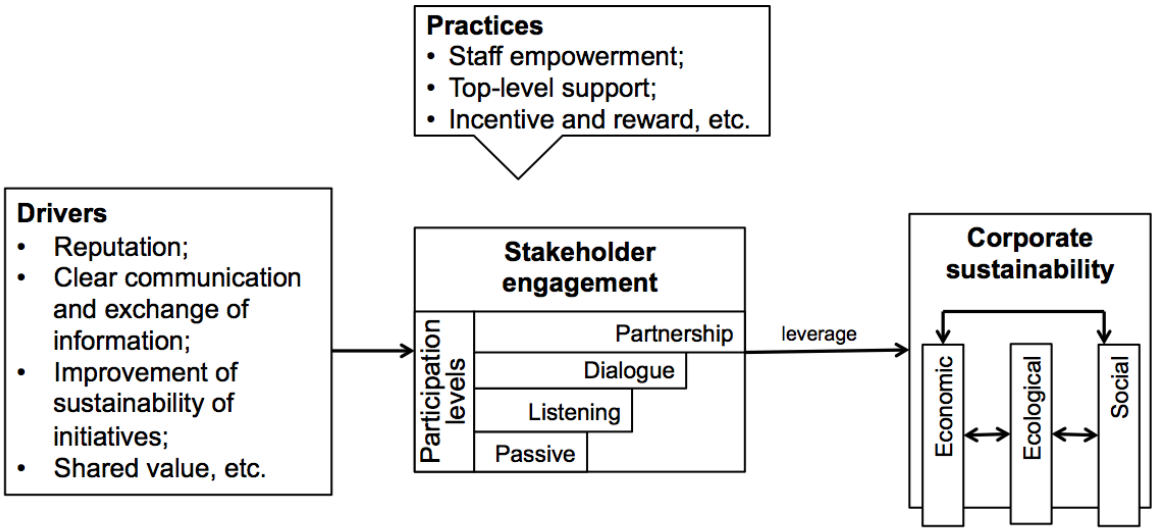

Figure 14 Model of stakeholder engagement

Drivers (SQ1)

The framework suggests that a firm may engage their stakeholders to enable clear communication and exchange of information, improve sustainability of its initiatives by improving their acceptance amongst stakeholders, create shared value, and to either avoid reputational risk or enhance corporate image by obtaining stakeholder trust. These are the key internal drivers for stakeholder engagement.

In addition, as discussed stakeholder engagement is performed in order to fulfill various stakeholder expectations related to environmental, social and economic sustainability.

Practices (SQ2)

The results of the interviews revealed that in order to facilitate engagement and corporate sustainability strategy all three case companies use their internal practices (resources). These practices are also essential in sustaining competitive advantage. The practices that were named by interviewees most frequently are staff empowerment, effective internal communication, being proactive and top management support.

Stakeholder engagement (SQ3 and RQ)

The essential parts of stakeholder management process are identification of who stakeholders are, what are their expectations, concerns and motivations. It is a starting point and key element for developing a comprehensive corporate sustainability strategy. Findings indicate that any possible stakeholder group can be involved in stakeholder management. Therefore, there is no strict list of stakeholders that should be included or omitted.

Literature review revealed that there are various ways of how to identify and prioritize stakeholders. Two of three analyzed case companies create full list of stakeholders. This approach corresponds to the approach suggested by Freeman (1984), who urged firms to consider a broad range of internal and external groups and individuals as their stakeholders. The third case company has a different approach and classifies stakeholders based on aspects of the company's sustainability activities that are of particular interest to its stakeholders. These areas of stakeholders' concerns are: environment, supply chain, relationships with employees and relationships with NGOs. Stakeholders that are interested in environment most are environmental NGOs, socially responsible investors, communities, clients, and governments. Stakeholders for other three areas of particular interest are determined based on the similar principle.

Corporate sustainability reporting covers the key issues related to the firm that are of a concern to the stakeholders. Analysis of case companies' sustainability reporting practices showed that sustainability information is industry dependent. There is difference in the type of sustainability information each company provides. For instance, Delta (natural resources engineering) especially reports information oriented to communities (including the environment), customers and employees. Foxtrot (apparel retailer) pays special not only to customers and employees but also to suppliers and their employees and social activists while information on other stakeholders is reported less fully and frequently (e.g., information oriented to investors). On contrary, Echo (IT and consulting) in its sustainability reporting acknowledges employees, supply chain and investors more broadly than any other stakeholder group.

This observation is supported by Adams et al. (1998) who observed the relationship between the country, industry and size factors and corporate responsibility reporting practices across Western European companies and suggested that differences may be consequences of social and political factors that are specific to a particular industry.

Stakeholder analysis helps identify whether stakeholders can influence and have power over a focus firm or they are only affected by a firm's decisions. Findings show that case companies engage stakeholders at different levels (passive, listening, dialogue and partnership) depending on the stakeholders' power and interest. This can be explained by the fact that for instance, some of the stakeholders are only interested in receiving information, therefore, companies employ passive approach with such means of interaction as providing information on websites, by press releases and corporate responsibility reporting and during annual general meetings. On the other hand, other stakeholders that have higher interest in a firm and posse external knowledge and expertise should be approached through listening, dialogue or partnership to get access to important information and unique expertise. These findings partly align with the Eden and Ackerman's (1998) power-interest grid who presented a matrix grid with four groups of stakeholders namely crowd (low power, low interest), subjects (low

power, high interest), context setters (high power, low interest), players (high power, high interest). Nevertheless, it should be noted that regardless the level of stakeholder participation, engagement results in enhancing reputation capital, which is a one of the core drivers for firms to adopt sustainability into their business strategies.

The practice of stakeholder engagement occurs through various forms of interactions such as corporate responsibility reporting (discussed earlier), stakeholder dialogue, etc. The importance of having stakeholder initiatives that enable stakeholders to voice their concerns, expectations and interests and assist in collecting information has been emphasized by numerous authors (e.g. Grafé-Buckens and Hinton, 1998; ISEA, 1999). In this regard it is to be noted that the selection of appropriate forms of interactions is firm depended. However, the summary of the most commonly named forms of interactions and corresponding to them approaches (levels) of engagement was presented in the previous chapter.

Stakeholder engagement outcomes / Corporate sustainability value created (RQ)

It appears that the key intentions or drivers of stakeholder engagement are also the desirable outcomes that assist the progress for achieving corporate sustainability.

From communications standpoint, stakeholder engagement helps develop more thorough understandings of issues and alternative perspectives, which in turn facilitates the decision-making processes improvement. The improvement is also achieved through ethical analysis, by weighing the impact of firm's decisions on all relevant groups. Therefore, clear communication and exchange of information also improve the acceptance of sustainability initiatives amongst stakeholders both in terms of building trust and managing expectations.

What is more, increasing awareness of stakeholders through interaction and communication strengthens the firm's reputation and license to operate.

Consecutively, reputation links such elements as employee motivation, customer loyalty, corporate image, financial performance, etc. and can act as a strategic driver of success of the firm. This finding is supported by various authors, e.g. Fombrun and Shanley (1990) who state that firms with strong reputation have a competitive advantage within their industries.

In addition, findings highlighted that companies fulfill economic, social, and environmental stakeholder claims, which also aligns with the research conducted by Steurer et al. (2005).

Thus, stakeholder expectations to receive appropriately distributed socioeconomic benefits are associated with the economic dimension of sustainability. Support of stakeholders is performed on both local and regional levels.

The social dimension deals with expectations of respect for the cultural authenticity and tolerance. Sustainability is also achieved by providing development of human capital through education, mentoring and training as well as through creation or participation in sustainability related activities for local communities.

Finally, the environmental dimension represents stakeholder expectations for the firm's optimal use of environmental resources. Effective stakeholder engagement into activities related to environment may eventually help with decreasing any possible skepticism and overcoming related to it problems.

To develop and build strong lasting stakeholder relationships cooperation is one of the key elements to consider. Findings show that constant dialogue and partnership are named by interviewees as the most important approaches in creating value for corporate sustainability. Among other benefits, cooperation enables the firms to develop opportunities for competitive advantage. These results align with Porter and Kramer's (2011) propositions who claim that partnership and co-creation improve shared value between firms and the communities which in turn helps enter new markets or facilitate current branding.

6.2. Theoretical and managerial contribution

From scientific perspective the main theoretical contribution of this thesis is to give insights into and show the importance of stakeholder engagement for contributing to corporate sustainability. The theoretical framework developed in this thesis provides a better insight between sustainability and stakeholder theory. Further research on it was performed by Heikkurinen and Bonnedahl (2013) who proposed that stakeholder engagement is as the source to “increased competitiveness, financial performance and enhanced corporate image as well as help in avoiding legal suits and consumer boycotts”. In this regard, the empirical findings suggest that all analyzed case companies believe that effective communication and stakeholder trust are essential links between the company and value created, therefore they try to handle existing business operations more responsibly by engaging stakeholders into their activities.

Moreover, the study contributes to an improved understanding of the relationship between companies and their stakeholders. The theory suggests that effective stakeholder engagement depends on stakeholder prioritization. Findings revealed that case companies engage with stakeholders based on four different levels of engagement (passive, listening, dialogue, partnership). Therefore, this thesis partly follows the models suggested by Mendelow (1981) and Eden and Ackerman (1998) propositions for considering stakeholder power and influence. However, the results indicate that in practice, regardless the initially indicated levels of engagement companies tend to apply multiple forms of interaction.

In addition, the study contributes to stakeholder theory by discussing drivers for stakeholder engagement. In this sense drivers are considered as desirable outcomes that assist the progress for achieving corporate sustainability. The results show that case companies are motivated by willingness to build clear communication and exchange of information, improve sustainability of any initiatives, create share value, etc. This adds up to the Seuring and Müller’s (2008) point of view who claimed that in many cases motivation for corporate sustainability initiatives comes as a result of external pressures from stakeholders.

From the managerial point of view, this thesis shows that there are practices that can be employed by companies to support stakeholder engagement. Special attention was paid to such practices as staff empowerment, proactiveness and top management support. Other vital issue to consider is the importance of providing equal access for all stakeholders to the company information. As seen from the cases, Internet websites and corporate responsibility reporting are essential tools to prevent problems arising from neglecting the stakeholders. It is also extremely important for managers to pay attention to stakeholder identification and prioritization process, which is crucial for recognizing and addressing stakeholder interests. Managers should also take into consideration the dynamic nature of the firm-stakeholder relationships.

6.3. Limitations and future studies

This thesis neither covers all areas in stakeholder engagement nor in corporate sustainability. Instead, it explores stakeholder engagement through lenses of the three case companies. This means that in the study stakeholder management process has been summarized from the viewpoints of the observed companies. In this regard, drivers and practices that support stakeholder engagement, for example, are presented as the case companies' representatives see them. There is a possibility that interviewees could provide inaccurate data either consciously or unconsciously. Furthermore, although the information was considered relatively reliable only in the cases when several informants referred to the same fact or gave similar answers, the sampling is relatively small. Thus, the limitation arises from the scarcity of data: rather small sample size and the limited number of interviewees. Future studies could adopt the framework proposed in this thesis with larger sample cases and interviews to analyze the applicability of it.

Another limitation is that the case companies were selected by means of theoretical rather than statistical sampling. The cases selected in this study are firms that vary in size and belong to different industries but all have international presence, share strong focus on sustainable development and have proactive stakeholder relationships. Therefore, further research could be carried out to

investigate relationship between the country, industry and size factors and stakeholder engagement practices.

Due to the exploratory nature of this thesis it did not focus on specific stakeholders. Further research could study not only the levels of the stakeholder engagement, but also empirically define stakeholders that could belong to each stakeholder group and, thus, could be addressed by various forms of interactions associated with these levels. A longitudinal study could provide understanding of how stakeholder engagement evolves with the time. The data collection technique could be complemented with adding data collected from stakeholders themselves. Stakeholders' perspectives could enhance the findings of the future research by providing understanding of how stakeholders and firms communicate and work with each other as well, i.e. information about interpersonal aspects. I will also help develop a more precise operational model for engaging with stakeholders.

Finally, due to the fact academic literature has not yet found a consensus on the concepts of corporate sustainability, stakeholder and stakeholder engagement, this thesis is limited to the definitions of these terms given in the theoretical framework chapter.

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APPENDIXES

Appendix 1 Interview guide

- Introductory questions to assess the researched firm's commitment to sustainable development
  - Could you tell about your firm's sustainability strategy and goals?
  - Do you have systems in place for incorporating sustainability in decision-making?
  - In your mind, what is the impact of sustainability on the business model?
  - What are the top drivers for sustainability? Why companies do it?
- Stakeholders' role in corporate sustainability?
  - Is there any specific issues that drive your stakeholder management practices?
  - Motivation to engage in stakeholder management?
  - What is the impact of stakeholder management on the achievement of corporate sustainability?
  - How the company has benefitted from its stakeholder management policy?
- How stakeholder engagement is actually performed?
  - How does stakeholder management process organized in your company?
  - How does your company identify key stakeholders? How do you decide which stakeholder is important in a given situation?
  - What are the key firm capabilities needed for effective stakeholder engagement?
  - What approaches to stakeholder engagement are employed?
  - What forms of interactions are used in relation to these stakeholder engagement approaches?
  - How trust is developed and maintained?