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Theories and Approaches adopted when responding to Stakeholder Needs

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Abstract

Purpose: The purpose of this study was to explore existing theories and approaches underlying corporate social and environmental responsibility. It also explored methods adopted by corporates in identifying and classifying stakeholders.

Methodology: Documentary research approach, which consists of reviewing, analysing and examining information was adopted. The sources included journal articles, books, magazines, websites, frameworks and guidelines.

Findings: The results of the study indicated that social and environmental stakeholders are now a force to reckon with. Old literature classifies social and environmental stakeholders as the negligent type but recent developments have realised that neglecting social and environmental stakeholders can be costly.

Originality/Value: Guidelines and frameworks need to revise the classification of social and environmental stakeholders.

Introduction

The World Business Council for Sustainable Development (WBCSD) (2012) and Androniceanu (2019:503) describe social and environmental responsibility (SER), also known as corporate social responsibility (CSR), as a commitment by businesses to behave ethically and to improve living conditions of all stakeholders. To this regard, businesses decide voluntarily to commit to a better society and a cleaner environment. Erbschloe (2018:129) reviews social and environmental responsibility as a subject that has not been universally defined because it was conceived after much debate. Research by Delmas, Etzion & Nairn-Birch (2013:255); Diener (2013:1); Flammer (2013:758); and Jasinenko, Christandl and Meynhardt (2020:290) attempted to define CSR as corporate management's effort, commitment or culture to protect, promote, and voluntarily contribute to the welfare and well-being of stakeholders and society at large. Corporate social responsibility is regarded by Mäkinen and Kourula (2012:650); Carroll and Brown (2018:43), as corporates' ethical actions of giving out to the community for the benefit of both corporates and society. Society and corporates, as citizens of a country, have a right to natural resources surrounding them, and if a company utilises those resources, it is an implicit covenant for the company to reimburse or plough back into the community through social initiatives (Akindele, 2011:114; Ewah Igbaji & Iyang, 2019:285). This implicit covenant has brought the need for a company to account for the value it has created for social and environmental stakeholders. Social and environmental stakeholders (SE) are, in this study, those non-contractual, non-reciprocal external stakeholders that get affected by a company's operations. Examples are civil society or local community, civil society organisations which are non-governmental and community based, the regulators, and the media. A closer look at the benefits derived from corporate social responsibility generates an argument on whether or not society should really benefit from all corporate endeavours. Brennan and Merkl-Davies (2014:605) as well as Breuer- Vasco (2016:163) reiterate that social initiatives that ignore SE involvement are likely to window-dress and conceal some abusive practices. In South Africa, there is a loud cry by host communities of "nothing

for us without us" (Ryder, Rostas & Taba, 2014:523; Zhang, 2017:1098). Communities are not being consulted before approval of projects that concern them. Inclusive community dialogue and participation are important matters for consideration in empowering society. Corporate social responsibility, therefore, is not merely providing philanthropic gifts but it is a process of engaging with the aim of creating shared value. Social and environmental reporting encompasses reporting on how a company is using and replenishing its natural, social and relation capital (GRI, 2013). Natural capital, which is also environmental capital, is considered an externality while social and relation capital is implicit.

The International Integrated Reporting Committee (IIRC, 2013) has defined social and relationship capital as relationships between individuals or groups and the resulting ability to secure or obtain resources, knowledge, and information. It focuses on the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being (Acqaah, Amoako-Gyampah & Nyathi, and 2014:3). Researches like Belaisch (2018:15) argue that social capital or investment is not a philanthropic activity. The argument implies that any social investment injected in the community should not be a donation, where companies pay out millions without any immediate or long term economic returns. It is not yet known if companies are yielding any returns from social investment.

Social and environmental reporting ensures the availability of information regarding the conduct of business enterprises (Beelitz & Merkl-Davies, 2012:113; Buffa, Franch & Rizio 2018:658). In a study conducted by De Villiers and Van Staden (2011:441), shareholders express that social and environmental reports should convey information on how corporate governance is identifying negative impacts or risks, and mitigating them. Other stakeholders, as outlined by Diener (2013:1); Flammer (2013:772); and Hąbek (2017:2322) would want authenticated or audited social and environmental reports, and reports prepared using accepted guidelines. Without guiding principles and external assurance, social and environmental reporting can be manipulated to yield different results depending on the business model employed

(Adams, 2008:366; Stubbs & Higgins, 2018:492). Social and environmental reporting also entails dealing with environmental and social risks that can deplete value created or expected from environmental, social, and relationship capital.

Research Methodology

I have located the research of this paper within a qualitative approach (Gay 1992; Babbie 1998; Leedy & Ormrod 2013). This decision was informed by the fact that this paper is not interested in the quantification of data. But its main interest lies in the painting of qualitatively rich picture of the phenomena being studied within the context of limited respondents (Hall 2007; Maserumule 2011; Baugh & Guion 2016). To this end, the problem of this study is explained descriptively and theoretically. In terms of data collection, the author sourced and reviewed literature on the topic.

3. Theories and Approaches Social and Environmental Responsibility

Several researchers have analysed different behaviours of companies to establish why they report on social and environmental reporting. These analyses have brought out two major theories, namely, legitimacy and accountability. The study has viewed both theories as below.

3.1 Legitimacy theory

Legitimacy theory, as explained by Adams, Potter, Singh and York (2016:288); as well as van Zijl, Wöstmann and Maroun (2017:74) state that firms seek legitimacy or approval from their relevant publics by ensuring that the firms' value system is congruent (or at least appears to be) with the values of the society within which it operates. van Zijl *et al.*, (2017:75) identified four strategies that a business can employ to improve its image and gain legitimacy. Firstly, a business may inform the public the actual changes in their behaviour. Secondly, a business can change the perceptions of the public instead of changing the company's actual behaviour. Thirdly, a business can decide to manipulate perceptions, thereby deflecting attention from an issue of concern to another issue, and fourthly, a business can greenwash or change its public appearance or external expectations of its behaviour without totally changing its systems. Brennan and Merkl-Davies (2014:608) outline

that if an analysis is run through a report that is greenwashing, the use of verbal remedial strategies, such as excuses, apologies, and justifications, will be stemmed out. A business either apologises but continues with the behaviour or it justifies why it had to do what it did. The business may also try to separate itself from the negative event. Wöstmann and Maroun (2017:74) propound that businesses seek to be approved by their communities in other ways besides change of bad behaviour if the change process is costly. In the same context, Beelitz and Merkl-Davies (2012:106) differentiate real changes in procedures and processes, and superficial changes of a reacting corporate. Superficial changes make the corporate appear as if it is responding to social pressures exerted by the community, yet in a real sense, it is not. To describe the same processes, Beelitz and Merkl-Davies (2012:107) explain that these changes can either be proactive or reactive. Along similar lines, Rasmussen (2010:586) settles on the same view that a corporate decision to undertake a legitimating strategy can be reactive or proactive.

Reactive action results in social responsibility, while proactive action yields social responsiveness. According to Smith *et al*. (2019:224), social responsibility implies that a business waits for stakeholders concerned to rise up. It reacts or takes action only when the stakeholders affected raise their concerns. Social responsiveness is anticipatory and preventative; the business adopts a proactive culture oblivious of any occurrence of a crisis (Porter & Kramer, 2019:347). Understanding reactive and proactive action assists in establishing business behaviour and identifying the type of collaboration that exists between a business and its stakeholders Legitimacy theory as outlined by Adams, Potter, Singh and York (2016:288); as well as van Zijl, Wöstmann and Maroun (2017:74) provides some of the major elements from which proactive and reactive response can be measured. The major elements that may be used in the analysis and measurement of the type of response are as follows;

i. The rate of response in accepting and attending to grievances.
ii. Type of strategies developed. Some strategies aim to change minds of grieved stakeholders instead of addressing the grievances. Another issue may be

addressed with the aim of diverting focus from the real issue at hand. Strategies may also address the issue in a superficial way.

iii. The time of responding to stakeholder concerns is also one of the measurement of responsiveness.

The three elements above determine whether the response is proactive or reactive.

3.1.1 Legitimacy in a reactive way

Legitimacy theory typically suggests that firms use disclosure to manage their image when faced with a legitimacy crisis i.e. when there is a negative change in the public's perception of the firm (Zijl *et al.* 2017:76). In other words, firms conceal important information that will eventually affect stakeholders. There are instances when a business approaches its stakeholders with the aim of providing information that legitimises its behaviour, thus influencing stakeholders' perceptions without necessarily changing its behaviour (Abrahamsson Englund & Gerdin, 2011:347; Beelitz & Merkl-Davies, 2012:106; De Juan and Wegner 2019:45) Businesses that legitimise behaviour instead of changing it are in conflict with the shared value creation model. Some ways of influencing stakeholder perceptions is, for example, donating food parcels, providing entertainment activities and involvement in projects that are not sustainable. All this is done with the intention of brainwashing the affected stakeholders to accept or overlook negative impacts that arise from business processes.

Legitimacy activities, whether reactive or proactive have the same aim of bringing a good image and reputation to a business. However, legitimacy gained in a superficial way is likely to create short-term value through share price increase, easy access to capital markets, attraction of investors, better credit ratings, and lower interest rates (Merkl-Davies & Brennan, 2011:334). Furthermore, short-term value created does not benefit all but shareholders only. The assumption made here is that firms are motivated to release social and environmental information in detail when responding to negative events associated with a firm or industry giving rise to a legitimacy crisis (Brennan & Merkl-Davies, 2014:606). Legitimacy crisis is taken to indicate that the disclosures are used by firms to manage their image and to appease

stakeholders by paying lip service to stakeholder concerns about the firm's social and environmental performance. The practice does not resonate with the IIRC 2013's value creation model. The conclusion is that firms disclose information in a way that will eventually affect stakeholders. Mining companies listed on the JSE market and Municipalities seem to be responding reactively because of the rate at which social and environmental stakeholders are protesting as evidenced by Kelley (2018:54).

O'Higgins (2010:168); De Juan and Wegner (2019:45) posits that firms consider corporate disclosures to be predominantly for the purpose of corporate spin and improving corporate image. O'Higgins (2010:171); and van Zijl *et al.,* (2017:76) establish that disclosures are detailed or improved when a crisis emerges, which appears to support the ideas of the reactive legitimacy theory.

However, as discussed above, there is difficulty in distinguishing between attempts to gain legitimacy and genuine reasons for disclosure. The interaction between management and organisational audiences is determined by a variety of factors, which among others, include:

i. the nature of the legitimacy-threatening event (i.e. anticipated/unanticipated and arising from managerial failure to comply with audience expectations regarding performance/values) (Beelitz & Merkl-Davies, 2012:109);
ii. the perceptions management and organisational audiences have of the event (i.e. congruent/incongruent) (Beelitz & Merkl-Davies, 2012:109); and
iii. the organisation's stance towards its audiences (i.e. instrumental/normative stakeholder orientation) (Beelitz & Merkl-Davies, 2012:109).

The legitimacy-threatening event can be either anticipated or unanticipated. Unanticipated events are very difficult for top managers to disentangle because they immediately place the company's image or reputation at stack. O'Higgins (2010:171) argues that a legitimacy crisis caused by unanticipated events can be successfully restored by using field experts who can communicate logically and technically using field-technical jargon, thus playing out the minds of the dissatisfied stakeholders. O'Higgins (2010:172); De Juan and Wegner (2019:45) further elaborates that a legitimacy crisis caused by anticipated events can be successfully restored because

pre-assumptions of a negative reaction allow the company to prepare for dialogue with the affected stakeholders. There is time to review and to consider the views of dissatisfied stakeholders. Knowledge of anticipated and unanticipated events enable the researchers to analyse and evaluate the level of responsiveness and unresponsiveness of businesses.

Events that threaten company legitimacy arise from a number of elements such as: a company's failure to fulfil stakeholders' expectations on performance, violation of values of the disgruntled group of stakeholders, and failing to consult or involve stakeholders in matters that concern and affect them (Brennan & Merkl-Davies, 2014:605; Erbschloe, 2018:129). Municipalities in South Africa have experienced the most performance-related legitimacy threats according to research conducted by Kelley (2018). The research alludes that service delivery protests constituted 60% of the total protest from 2012 to 2018 in South Africa. A firm reacts to its stakeholder dissatisfaction in relation to the culture it adopted. The firm culture adopted impacts on strategies chosen by management in restoring legitimacy (Erbschloe, 2018:136).

3.1.2 Legitimacy in a proactive way

Through the discussions of accountability and stakeholder dialogue, researchers have concluded that firms are currently not using disclosures to account to stakeholders (van Zijl *et al.*, 2017:74). The arguments appear to suggest that firms predominantly consider corporate disclosure for improving corporate image. However, the difficulty within this line of thought is to distinguish between attempts to gain legitimacy and genuine reasons for disclosure.

More effort is needed to explore the ultimate reasons for disclosure. For example, the same disclosures may be understood to show a firm using disclosures to counteract negative exposure to events that may harm its reputation. It may also be construed as a company releasing information because it sees crisis as a good opportunity to remind their stakeholders that they are aware of their social and environmental responsibilities. Both explanations account for the disclosures though differing views of corporate motivations for disclosing the information exist. By engaging with the

firms and obtaining their views, researchers can begin to account for the complexities of corporate motivations for social and environmental reporting.

Researchers such as Beelitz and Merkl-Davies, (2012:101); and Smith *et al.* (2019:223) have attempted to engage with organisations through questionnaires and interviews. Beelitz and Merkl-Davies (2012:101) analysed:

*"*Managerial discourse in corporate communication during a 6-month period following a legitimacy-threatening event in the form of an incident in a German nuclear power plant. The accident in the Fukushima nuclear power plant in Japan re-ignited the public debate on nuclear power in Germany. Wide-spread anti-nuclear protests forced the German government to revoke its plans to extend the life span of Germany's seventeen nuclear power plants by an average of 12 years. An incident in a German nuclear power plant thus constitutes an interesting context to examine the strategies adopted by management to restore organisational legitimacy during a public controversy*".*

The example given above shows proactive responsiveness of the German government resulting from an incident that happened in another country. The German government did not wait for the same incident to occur in the country for it to respond. The proactive approach aims at preventing a legitimacy gap, as opposed to attempting to narrow such a gap. In the same case above, an incident that happened in Japan ignited protests in Germany and thereby forced management of German plants to proactively seek legitimacy. In South Africa proactive approaches have not gained more popularity compared to reactive approaches and it is still to be known why the municipalities and firms wait to react after pressure from the affected stakeholders. Despite getting less attention, van Zijl *et al.* (2017:78) reiterate that the proactive approach appears to fit instinctively with the logical understanding that if companies are good social and environmental performers, they will report detailed social and environmental performance information ordinarily other than wait for a crisis to descend. However, an increase in social and environmental report is not always a result of a reactive response but may result from requirements of new policies and guidelines

Brennan and Merkl-Davies (2014:605), while undertaking a reactive legitimacy study on disclosure by the management of the Krummel plant, discovered signs of proactive legitimacy. This might mean crisis occurred where the firm was already exercising a proactive approach. De Villiers. Low and Samkin (2014:53) investigated the relationship between firm performance and environmental disclosure. The results show that social and environmental disclosures are disassociated from performance. In fact, the study establishes a relationship between social and environmental disclosure assurance and legitimacy threats (de Villiers *et al.,* 2014:53). Firms with negative social and environmental issues have a tendency of obtaining external assurance on their disclosures. Rossouw (2015:124); and Madlala and Govender (2018:1) found that if a firm takes stakeholder concerns and interests into consideration, it could improve relationships. In support of the idea, Martinez *et al.* (2019:903) outline that improvement in relationships removes antagonism and leads to stakeholder participation. Improvement in relationships, through collaboration, results in the generation of better ideas for improving products and services that address stakeholder needs (Porter & Kramer, 2019:332). Improved products allow the firm to reduce costs and maximise value. Established firms have a tendency and willingness of collaborating with stakeholder-oriented firms that are perceived to be less hostile to local values and existing ways of operating (Fauver & Fuerst, 2007:21; Fisher, 2019:282).

To summarise the above, it has been noted that most companies in high-risk industries such as mining legitimise their negative impact as a response to civil society dissatisfaction. Justifying unethical action instead of improving, has led to greenwashing reporting. This practice can only be uprooted if influential stakeholders, like the media, continue to expose these acts. Eventually, firms will move from the reactive approach towards the proactive approach, which is what this study is advocating.

3.2 Accountability theory

The Institute of Directors Southern Africa (IoDSA) (2016) asserts that accountability is derived from delegation of responsibility. Accountability is a feeling of responsibility, an obligation or as Vance, Lowry and Eggett (2015:350) outline, is the need to justify one's actions to others or to oneself. In other words, before one takes an action, one needs to have a reason for taking that action. According to King IV (2016), governing boards will be held accountable for building trust and relationships with all stakeholders (King IV, 2016: part 5.5- principle 16). The governing board is vested with the power to make decisions on behalf of all stakeholders (King IV, 2016: part 5.1-principle 2), which compels the governing body to not only account for financial performance but also for social and environmental impact**.** Vance *et al*. (2015:351) further expound that accountability revolves around four stages, namely, the inquiry stage, the accounting stage, the judgement stage. and the sanction stage. Management of JSE-listed companies need to know that responsibility can be delegated but not accountability.

In the first stage, the inquiry stage, behavioural standards are set for all parties that are expected to give an account in the future. Each party formulates an expected behaviour using the standards laid down. Vance *et al.* (2015:356) support Hill and Crombie (2010:3) that individuals perceive behavioural standards and anticipate the need to explain and justify future behaviour. In the inquiry stage, Hill and Crombie (2010:7) say that individual perceptions of accountability are formed as a result of perceptions of external requirements. After the inquiry stage, there is the accounting stage. In this stage, actors that are to be evaluated account for their past behaviour, justifying and giving all possible reasons why they acted the way they did. Vance *et al*. (2015:350) explain that this stage leads to evaluation and judgement of behaviour. In the judgement stage, the prescribed and perceived behavioural standards are matched with the actual behaviour that has been accounted for. Validity is proved, and judgement is passed. Hill and Crombie (2010:7) conclude that the judgement stage ends with a reward or punishment from the party that expected the result.

Publicly listed companies in South Africa are governed by the King IV (2016). The King IV (2016: part 5.3-principle 6) explains that the perceived behavioural standards guide a governing body on who to account to and what to account for. King IV (2016: part 5.1- principle 1d) brings to the fore that governing bodies are expected to account for their decisions and actions to all stakeholders, knowing that they can delegate responsibility but not accountability. According to IoDSA (2016:26) shareholders no longer have pre-determined precedence over other stakeholders. King IV (2016) has cleared the ambiguity associated with transparency, ethics and accountability, as it was not clear in King I and King II. King IV (2016: part 5.5-principle 16) has also explained that if shareholders and other stakeholders' interests conflict with the firm's need to be ethical, moral and sustainable, then the governing body will act in the best interest of the firm. It is submitted that King IV (2016), in collaboration with the new Companies' Act (2008), hold the governing body accountable for financial, social, and environmental performance. However, Mongalo (2003:173), cited in the *King II (2002:* part 5.1- principle 2) refutes the idea of a governing body accounting to all stakeholders as this will result in the body not accounting to anyone at all. This view is argumentative, but clarification made in King IV (2016: part 2- principle 1) on how integrated thinking can assist the body to account to each type of stakeholder and leaves no room for doubting the effectiveness of a stakeholder inclusive approach.

Accountability theory is relevant in guiding this study to evaluate whether Codes, framework and guidelines are adequate enough to guide management on how actions of subordinates can affect them. Accountability theory is the basis for evaluating the content in King IV (2016), GRI (2013). The following Accounting theory procedures or steps will be referred to when company management's transparency to stakeholders, prioritisation of stakeholders and collaboration levels with stakeholders is evaluated.

i. The standard or guide on what management and its stakeholders are expected to behave in the collaboration process are established
ii. With a standard or measure, the actual behaviour of both parties is compared.

iii. Judgement on whether behaviour met the standard set or not is passed to improve transparency to stakeholders, prioritisation of stakeholders and collaboration levels with stakeholders

This study thus draws inferences from both the accountability and legitimacy theories and puts emphasis on both theories.

4.0 Approaches To Corporate Social And Environmental Responsibility

Corporates' responsibilities to stakeholders is a subject that has been debated for centuries and up until now, there has been no universally accepted approach to corporate social responsibility (Carroll & Brown, 2018:39). This does not go without mentioning Friedman (1970:1) who argued that companies are established to make maximum profit for shareholders and have no responsibility to the society and environment since all natural resources are free and available for everyone including artificial persons. Friedman's (1970:1) argument is a part of the background of the shareholder approach discussed in section 2.4.1.

4.1 Shareholders approach

The shareholder approach, also known as market capitalism, has some claims that distinguish it from other approaches. Firstly, it alludes that a business activity is economical not social (Friedman, 1970:1; Walters, 1977:42; Mäkinen, 2012:660; Freeman 2017:451). In other words, it means businesses have been established for the one and only purpose of making money. Any social activity that does not maximise profits is undesirable. Secondly, shareholder approach proponents argue that the society has its own political leaders elected to fulfil the mandate of basic service provision using taxes collected from businesses. In addition to this, people and businesses work for others only if they are rewarded or punished (Mäkinen, 2012:651; Freeman, 2017:451). This claim reveals that social and environmental responsibility is dependent upon ethics and morals. Working for the society is not a legal obligation but a moral activity where moral labour is voluntarily provided (Mäkinen, 2012:651; Carroll & Brown, 2018:48). In South Africa, according to the Companies Act of 2008, social and environmental responsibility is not mandatory but King IV (2016) and JSE compels JSE-listed companies to report social and

environmental issues as a listing requirement (Goldengate Handbook, 2012:9; JSE listing requirements, 2011:143). King IV (2016, part 5.4 principle 14.29(b) compels JSE-listed companies to acknowledge all stakeholders and observe or adopt the triple bottom line (TBL) approach. In other words, as firms pursue economic gains, people and the environment should be taken care of (people, plants, and profits). In addition to listing requirements, JSE-listed companies are compelled or legally required, by the Broad-Based Black Economic Empowerment (BBBEE Act 46 of 2013) to give procurement preference to historically disadvantaged members of society who are economically active (BBBEE Act 46 of 2013:37271). However, the shareholder approach has not been totally condemned but criticised widely as it does not conclude on who should be responsible for restoration or mitigation of environmental damage caused by a company. Some of the weaknesses the shareholder approach posits are subsequently discussed.

The shareholder approach encourages management to choose the most profitable social initiatives, overlooking society's most needful basic needs (Yan, 2019:79). The proponents of the shareholder approach have not been able to distinguish social activities that yield or not yield maximum profits (Walters, 1977:42; Freeman, 2017:451). Without that distinction, the shareholder approach lacks direction for management to make decisions on choosing profitable social initiatives. In the same vein, most of all corporate social initiatives, as asserted by Yan (2019:80), have been found to yield direct and indirect benefits in both the short- and long-run. In addition to this, opponents of the shareholder approach argue that businesses have the capacity to operate more cheaply and efficiently to solve societal problems and, therefore, should be responsible for social and environmental management (Monsen, 1972:138; Adams, 2008:369; Hodgson, 2019:345; Langevoort, 2019:378). With all these weaknesses of the shareholder approach, researchers like Freeman (2010) have proposed the stakeholder approach, which is discussed in section below.

4.2 Stakeholders approach

Freeman (2010:24); Baumfield (2016:31); Freeman, Phillips and Sisodia (2020:216) reveal that the stakeholder approach emerged out of management practice. In a competitive environment, management would devise strategies to outwit competitors and research concludes that the devised strategies show that the success of a firm depends on its relationships with the external world, not just customers and investors, but also employees, regulators, politicians, activists, non-governmental organisations (NGOs), the environment, and technology (Rushworth, 2017:57). This awakening has prompted more researchers like Abo-Murad and Abdullah (2019:13); Stocker, Arruda, Mascena and Boaventura (2020:9) to discover that the central task in the stakeholder approach is to manage the business environment, relationships, and promotion of shared interests. It becomes, therefore, imperative to understand stakeholders' relationships and how maximisation of shareholders' wealth can be affected if stakeholder's relationships are not managed well.

The stakeholder approach does not refute maximisation of shareholders' profits but rejects maximisation of it as a single objective function. As a result, the interests of all stakeholders are classified and valued accordingly. While classification of stakeholders, for easy management, has been a debateable issue, it has been an integral part of stakeholder management. Continuous improvement of the stakeholder approach has led to development of shared value model that are in the process of being improved. The coming sections will detail classification, interests, and roles of stakeholders.

5.0 Stakeholder identification and classification

Stakeholders are an integral part of any business organisation. Before the twentieth century, companies assumed that the key objective of business is maximisation of profit for the investor, and management was only accountable to investors or shareholders. This assumption and approach has long been discovered to not bring sustainable development, hence, the involvement of all stakeholders. This section is describing how researchers identify and classify stakeholders. JSE-listed companies classify stakeholders with the guidance of King IV (2016), IIRC (2013) and GRI

(2013). Neglecting stakeholders' concerns is always at the peril of the company. Buch and Damle (2019:148) support the notion that stakeholders have power to gain access to coerce, impose or communicate views to the organisation. Stakeholders can exercise greater pressures on managers and organisations in stressing the urgency of their claims, especially where grievances have not been addressed for a very long time. They have the power to shift the focal point of a firm. Firms need to manage such power by developing relationships with all stakeholders. Developing and maintaining relationships with stakeholders, builds and sustains a firms good name and generates positive feedback from stakeholders.

Stakeholders have been defined as individuals and groups who can affect the firm's performance or who are affected by a firm's actions (Freeman & Reeds, 1983:89). In the GRI (2013), stakeholders are defined as entities or individuals that significantly affect or are affected by the organisation's activities, products and services and whose actions result in the organisation failing to successfully implement its business strategies and achieve its objectives. Stakeholders can be entities or individuals who have the rights under law or moral rights that provide them with legitimate claims upon the organisation. Stakeholders can include those who are invested in the organisation (such as employees, shareholders, and suppliers) and have contractual agreements as well as those who have other relationships with the organisation, such as vulnerable groups within local communities and civil society (GRI, 2013). In South Africa, all stakeholders seem to be noticed as key stakeholders if their dissatisfaction continually affect the firm's ability to create value.

Stakeholders are groups or individuals that have the legal right to claim a financial or non-financial interest in the organisation (Benn, O'Leary & Abratt, and 2016:5). An argument arising from Freeman and Reeds' (1983:89) definition is that, for an individual or a group of people to be affected or affect a company, there should be a reciprocal relationship. Laplume (2008) reviewed 179 definitions while Miles (2012) reviewed 435 definitions of stakeholder; and concluded that most of the definitions are an expansion of Freeman's definition. In Freeman and Reeds' (1983:89) definition, a stakeholder can be affected or affect a firm without necessarily

contributing financial or non-financial input. This realisation has led to an exploration of stakeholder approaches, identification, and classification of stakeholders. JSE-listed companies are guided by IIRC (2013), King IV (2016) and GRI (2013) in identifying and classifying stakeholders into primary and secondary, internal and external, key and minor stakeholders, and material and immaterial stakeholders.

5.1 Identification and classification of stakeholders based on relationships

Lindblom and Ohlsson (2011:5) classify stakeholders into primary and secondary stakeholder groups. Primary stakeholders are those that a firm has made a contractual relationship with, for example, employees, suppliers, and governments. These groups have a direct influence on managerial decisions (Benn *et al.,* 2016:2). A primary stakeholder is one whose continued participation is essential to the corporation's survival (Hult, Mena, Ferrell & Ferrell, 2011:49; Fassin, 2012:84). Due to a contractual agreement that exists between primary stakeholders and a firm, no firm can survive without primary stakeholders. It is worthy to identify each stakeholder's interest so that the best value can be given to improve and maintain the reciprocal relationship. Secondary stakeholders are not engaged in transactions with a firm and are supposedly not essential for its survival. In South Africa, JSE-listed companies' integrated reports for 2014-2016, did not feature social and environmental stakeholders as key stakeholders. This could mean companies classified SEs as a negligible group. From 2017 -2020, SEs are commonly classified as key stakeholders. This could be a response to social unrests and dissatisfaction experiences from the SE group from the period 2014 to 2017. Fassin (2012:83) states that little has been written about reciprocity in secondary stakeholder relationships. Previously, this group had been classified as a group that wants to reap where it had not sown until recently when firms accepted that if secondary stakeholders are not managed effectively, they could be costly to a firm. Secondary stakeholders are not engaged in transactions with a firm, and Fassin (2012:84) describes them as not essential for company survival. Tullberg (2013:131) remarks that neglecting SE stakeholders is just the same as neglecting the internal or primary

stakeholders. Instead, Tullberg (2013:131) suggests that stakeholders be classified according to attributes as follows.

5.2 Identification of social and environmental stakeholders based on roles

It is crucial to understand the role of social and environmental stakeholders and the kind of pressures that are exerted on companies to comply and improve social and environmental performance. Baranova and Meadows (2017:118) allude that studies that explore the role taken by stakeholders in influencing a firm's' environmental strategies appear to identify pressure as the key issue. It is widely accepted that companies are facing pressure from all but mostly social and environmental stakeholders (Ramanathan, Poomkaew & Nath, and 2014:171). Social and environmental stakeholders, in this study, and according to Banorova and Meadows (2017:115), are stakeholders whose main mission is to care for the community and the planet; failure of which will result in poor living conditions and depletion in natural resources. Social and environmental stakeholders view firms as the major culprits of social and environmental deterioration, yet Friedman (1972:1) believes that firms are not socially and environmentally responsible. However, firms draw resources from the environment and, therefore, should be held accountable for the effects resulting from operational activities. This reluctance by firms to accept responsibility has initiated social and environmental stakeholders (CSOs) as watch dogs of companies. Social and environmental stakeholders are not classified in one category because they are established to fulfil other purposes besides watching companies. To this note, Baranova and Meadows (2017:116) argue that it is time to re-consider the groupings of social and environmental stakeholders that are in existence. JSE-listed companies seem to have regrouped social and environmental stakeholders as key players.

The existing literature places social and environmental stakeholders at the periphery, classifying them as negligible stakeholders (Ramanathan *et al*., 2014:172) but firms are now realising the economic impact emanating from social and environmental stakeholders' strikes, protests, and property vandalism. According to Stocker *et al.* (2020:9), firms are beginning to group social and environmental

stakeholders as primary stakeholders. Some of the groupings are explained in sections 2.5.3.1 and 2.5.3.2.

5.2.1 Social and environmental stakeholders (NGOs, CBOs, and media)

Social and environmental stakeholders include, but are not limited to organisations that are separate from the legislative, administrative, and judicial power of the state. Non-governmental organisations (NGOs), community-based organisation (CBOs), and the media adhere to rules of conduct and distinctive customs that enhance fulfilment of the mandate (Weaver, O'Keeffe, Hamer & Palmer, 2019:18). Examples of such organisations are labour unions, religious groups, cultural and educational associations, sport clubs, student groups, political parties and ethnic groups, and pressure groups. According to Weaver *et al*. (2019:18) non-governmental organisations (NGOs) and community-based organisations (CBOs) are intermediaries between civil society and the state or between civil society and companies, whose role is to understand local realities and enhance power and legitimacy of societal voices. Leonard (2014); Banorova and Meadows (2017); and Matebesi and Marais (2018) conducted research on roles of NGOs and CBOs in South Africa of which the findings are outlined below.

i. Leonard (2014:371); Banorova and Meadows (2017:116) allude that in South Africa, the well-established NGOs have developed a collaborative relationship with the government, subcontracted to work as partners in addressing legacies of the past. This can be interpreted to mean that the government has captured the NGOs to an extent where NGOs can no longer hold the government accountable.

ii. Weaver *et al.* (2019:18) support Banorova and Meadows (2017:116) and Leonard (2014:371), that long-established NGOs and CBOs have shifted from the role of being a watchdog, of effectively engaging with the government for the benefit of the poor communities, into integrating with the government.

iii. The case being so, pressure groups have illegally sprouted to take over the mandate of the long-established NGOs. However, Weaver *et al*. (2019:19) posit that in practice, the pressure groups rarely have an impact on policy

makers and political authorities due to lack of funding and capacity to engage meaningfully.

iv. In this same vein, Matebesi and Marais (2018:373) outline that NGOs and CBOs, through community trusts and traditional leaders, do not give pressure to the government only but also to firms. In the same regard, Matebesi and Marais (2018:373) postulate that CBOs, together with the community trusts and community leaders, have been captured by firms and are now advancing their own goals at the expense of the community.

v. A conclusion can be made that pressure groups are now posing as NGOs that represent the societal voice. The government does not seem to fund pressure groups and their concerns and petitions are not making any impact.

Nevertheless, according to Asuelime (2017:52) the Government of South Africa has enacted policies that aim to protect historically disadvantaged and vulnerable communities. This literature is important in establishing the current practices on the roles that social and environmental stakeholders are assuming.

5.3 Identification and classification of stakeholders based on their attributes

Tullberg (2013:128) suggests that stakeholders should be classified according to the type of influence and the strength of that influence toward management decisions. In the same vein, Szwajkowski (2000:382) explains that the strength of influence is situational. Each scenario positions stakeholders according to the level of impact they will have if their demands are not met. Tullberg (2013:128) classifies stakeholders into two classes, namely, the influence group or the qualified claimant group, and less powerful group. He continues to explain that the qualified claimant group comprises important stakeholders who can exert much pressure on a firm even though some of them may not have any legal connection with the company.

Tullberg's (2013:128) study is supported by Benn *et al.* (2016:2) who propound that the qualified claimant group can cause a firm to consider what it initially had rejected. This group includes those that can exert pressure upon a firm on behalf of another group, for example, the media and NGOs. These groups have influential power over a firm, and can upset operations to a point where legitimate claims would

be disregarded (Benn *et al.,* 2016:3). The second class, the less powerful group, is vulnerable to firm actions. It has no leverage over the firm's actions and can do little to change decisions made (Tullberg, 2013:129). If the less powerful groups get support from the media, they become powerful. Tullberg (2013:129) agrees that almost everyone can be indirectly affected by a firm, but considers this effect as insufficient for one to be classified in any group of stakeholders, especially if the individual or group is not contributing to or has no role in a firm.

Crane and Ruebottom's (2011:79) classification is developed from reviewing Mitchell Agle and Wood's (1997); and Clarkson's (1995) research where stakeholders are identified' based on power, legitimacy, and urgency. In the power category, Crane and Ruebottom (2011:81) explain that the stakeholder who has a power relationship causes a firm to do what it did not initially want to do. Crane and Ruebottom (2011:81) further explain that a stakeholder may not possess that power all the time. Some conditions can affect the degree of power a stakeholder may have over a firm at some point in time. For example, the media may possess more power to support a certain group of stakeholders if a firm has a culture of using a reactive approach compared to a firm that uses a proactive approach. Certain prevailing conditions may dilute the power. If the stakeholder has a legal, financial or moral right to claim but cannot enforce the claim, then the stakeholder has no power and, therefore, no legitimacy (Benn *et al.,* 2016:3). Management does not notice them. They can only have their interests addressed in a case where the concerns and interests have become valuable to the firm or when the interests have to be prioritised because a firm aims to achieve certain goals. If stakeholders have the power to distract a firm's operations, their claim becomes urgent (Szwajkowski, 2000:382).

Urgency, as defined by Neville *et al.* (2011:358), is not an attribute of stakeholders but a condition of the claim whereby stakeholders' concerns, inputs or interests are prioritised. Parmar *et al*. (2010:405) suggest a systematic way of analysing stakeholders. This analysis will identify material interests of stakeholders. Soriano *et al*. (2012:1863); Hult *et al.* (2011:50); and Parmar, *et al.* (2010:405) categorise stakeholders into classes by means of stakeholder analysis. The classes recognise key

stakeholders as those that contribute some input to the company in a contractual agreement, and they become part of its output – thereby creating a reciprocal link with the company (Soriano *et al.,* 2012:1863). The company cannot survive without them. Customers, suppliers, employees, and shareholders fall into this category. The second class is for negligible stakeholders. Negligible stakeholders are those that are non-influential or the inoffensive (Hult *et al.,* 2011:50). Civil society holds as much as 65% of the world's land but are the most vulnerable and negligible group (Hillenbrand, Money & Ghobadian, and 2013:140). It is negligible because of the level of knowledge it has, yet it is the most affected by the company's actions.

To give an example, in 2015, in South Africa, negligible stakeholders in public establishments became costly when emotions rose up and resulted in a "#fees must fall" campaign. In South Africa, higher education students' grievances were not given attention until 2015 up to 2016 (Chabalala, 2017). The South African Higher Education authority delayed to find a solution to the students' "**# FEES MUST FALL CAMPAIGN"** until vandalism costs accumulated to levels high enough to provide free higher education to about 3 000 poor students for the whole year (Chabalala, 2017). The students were negligible stakeholders for all these past years until they decided to take up arms with the government. Negligible stakeholders can be costly if not managed correctly as indicated in Table 1.

Table 1: Estimated costs of damages from negligible stakeholders

Institution	Estimated cost of damage
University of Stellenbosch	R 352 000.00
North-West University	R 612 000.00
University of Limpopo	R 1 786 294.52
University of Johannesburg	R 345 000.00
University of the Western Cape	R 46 544 446.00
Walter Sisulu University	R 351 287.19
Tshwane University of Technology	R 5 073 747.73
University of KwaZulu-Natal	R 82 000 000.00
Cape Peninsula University of Technology	R 689 850.14
University of Cape Town	R 1 415 693.14
University of Zululand	R 4 500 000.00
Rhodes University	R 250 000.00
University of Witwatersrand	R 1 410 223.00
Total	R 145 330 541.72

Source: Department of Higher Education (2017:24)

The Department of Higher Education (2017:24) indicated that these costs exclude costs that were yet to be established on the recurrence of the same campaign in October 2016 to January 2017. Delaying to address stakeholder concerns has become costly. Boycotts and strikes reflect badly on the efficiency of top management in managing stakeholder interests and concerns. Natifu and Zikusooka (2011:215), in a media article, '*Students should be consulted before university fee increment*', outlined the importance of stakeholder engagement and cited a Makerere University strike that emanated from an announcement about a fees increase. Negligible stakeholders may not be as negligible, as Hult *et al.* (2011:50) and Parmar *et al*. (2010:405) assume. From the above example negligible stakeholders caused financial losses that will affect other stakeholder types. In the final analysis classification of stakeholders does not seem to make meaning since each type of stakeholders has the potential to cause economic effects on a company. In the above example, the government of South Africa has been reluctant to make decisions concerning university free education and the struggle seems to continue. The national and local government seems to take action only when social and environmental stakeholder have burnt tyres. In light of this, JSE-listed companies seem to be accommodating social and environmental stakeholders since they are now classifying them as key stakeholders.

5.3.1 Government and other regulators

Ramanathan *et al.* (2014:172) outline that pressure from regulatory stakeholders through changes in regulation and regulatory changes, non-compliance penalties, and product elimination affect, directly or indirectly, a company's decision making process. Regulatory control results in some companies devoting more resources to social and environmental management. The Companies Act 71 of 2008 does not compel companies to engage in CSR activities. However, Goldengate Handbook (2012:9); along with Weaver *et al. (*2019:16) allude that in South Africa, government policies and King IV (2016: Part 5.4-principle 14.29b) address the need for companies to consider stakeholders and also to adopt the triple bottom line approach. The triple bottom line approach asserts that management should develop strategies that incorporate social, environmental, and economic goals to care for

people and plants in the process of seeking profit. For JSE-listed companies, compliance with King IV (2016) is a mandatory listing requirement. Besides complying to King IV (2016), companies are expected to comply to the BBBEE Act 46 of 2013, to give procurement preference to historically disadvantaged members of society who are economically active (BBBEE Act 46, 2013:37271). In conclusion, the above statement generates arguments on whether companies engage stakeholders voluntarily or forcibly. If regulations become associated with rewards or penalties it becomes difficult to establish if compliance is driven by the urge to improve reporting or motivation to get rewards. In South Africa, Accounting and Audit firms like Ernest and Young, Nkonki, offer JSE-listed companies some rewards and positions for improving social and environmental reporting. Awards are likely to push greenwashing reporting or artificial compliance making it difficult for researcher to evaluate authentic performance.

6. Conclusion

Past researchers have developed legitimacy and accountability theories in an effort to explain the reasons for social and environmental reporting. The debate on whether corporates should be reporting and be responsible for social and environmental stakeholders is fast weakening because frameworks and guidelines have shifted from the shareholder approach to the stakeholder approach. Negative impacts caused by neglected social and environmental stakeholders has brought a new mind-set. Corporates have eventually accepted social and environmental stakeholders as part of the key stakeholders that should be involved in the decision making process. Involving social and environmental stakeholders in matters that affect them has been discovered as an important move

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