Università
Ca'Foscari
Venezia

Master's Degree
In Languages, Economics and Institutions of Asia and North Africa

Final Thesis

STAKEHOLDER ENGAGEMENT FOR SUSTAINABILITY, EVIDENCE FROM CHINESE FIRMS

Supervisor
Ch. Prof. Daniele Brombal

Assistant supervisor
Ch. Prof. Livio Zanini

Graduand
Pietro Bernardelli
874743

Academic year
2019/2020

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前言

本论文立意在于对中国企业利益相关方参与的主要参与者、目的和方法进行分析。在分析中，特别强调利益相关方参与在实现社会和环境可持续发展目标中的作用。

利益相关方定义为可合理预期将受到组织的活动、产品或服务重大影响的实体或个人，或者可合理预期其行为将影响该组织实施其战略或实现其目标的能力（GRI）。利益相关者参与是指一个组织为了达成共同目标而参与利益相关者的过程（Accountability）。与利益相关方建立以信任和协作为基础的关系、透明的沟通、完整和透明的参与过程、共同的目标、及时和准确的回应，这些都是有效的利益相关方参与的主要特征。利益相关方参与是企业社会责任和可持续发展的一个支持部分。如果利益相关者的参与能够得到很好的实施，就可以提高组织的绩效，提高环境决策的质量和持久性，并导致更公平的社会发展。

鉴于气候变化、环境污染、社会不公正和不稳定等问题越来越普遍，社会正义、环境责任和经济发展都应该纳入公司目标。世界各地越来越多的公司将注意力集中在社会和环境趋势上，并对这些趋势带来的机遇和风险制定战略对策。然而，世界上大多数公司都没有参与可持续发展和企业社会责任相关的辩论。作为落实企业社会责任的必要步骤，利益相关方参与在这方面发挥了关键作用。通过利益相关方参与实现企业社会责任包括：企业在制定经济增长和可持续发展战略时，应考虑利益相关者的利益、知识和意见，应该为所有利益相关者创造价值，并以各种方式对他们负责，其中之一是报告有关其对可持续性的贡献的相关信息。

为了揭示自己对可持续发展的承诺，向利益相关方提供信息，并与利益相关方就其关注的问题进行对话，公司通过可持续发展报告传达相关内容。这种沟通渠道是利益相关者参与的主要机制之一。可持续性报告是对利益相关者负责的一个重要工具。世界上有若干报告标准和框架，通过创建报告和选择适当的披露内容来指导组织。全球最受欢迎的是《全球报告倡议》（GRI）。GRI 强调利益相关方的包容性、可持续性、重要性和完整性是报告必须遵循的原则，并要求透明性、准确性、可比性、及时性和可靠性，以确保报告质量。在本论文中，基于 GRI 的可持续发展报告被用作数据收集和内容分析的手段，以了解企业如何识别、管理和参与利益相关方。

本论文的第二个重点是中国的企业环境。在过去的三十年里，中国取得了极快的经济发展和社会转型，并在世界最具影响力的国家中赢得了经济实力的地位。为了实现这个目标，中国的经济增长是建立在利润最大化、财富创造、高能源投入和消耗的基础上，这

样造成了一系列的环境和社会问题。中国政府和企业界需要考虑和解决这些问题，以建设一个更可持续的未来。这些问题的出现促使政府将经济目标与“和谐社会”的愿景相结合，该愿景致力于推行支持环境、卫生、社会正义、教育、财富分配和其他发展方面的政策。因为企业部门在可持续发展中发挥着关键作用。中国公众和政府对中国企业的期望越来越高，希望它们能以负责任的方式为社会做出贡献，而不仅仅是经济上的贡献。因此，企业社会责任和利益相关方参与实践的势头越来越增强。中国的制度和法律框架，政府在公司运营中的独特作用和影响，以及最近对企业社会责任的认可，使得中国企业社会责任和利益相关方参与实践的发展可能与西方国家有所不同。本论文试图为这种发展提供一个详细的描述。

随着中国对企业社会责任日益受到重视，对企业可持续性披露的要求也越来越详细。截至目前，GRI 数据库共收录了近 5000 份报告，其中 40%以上的报告具体参考了 GRI 指南或符合 GRI 标准的要求。

为了本论文的目的，收集了 9 家在能源领域运营的中国国有企业在 2016 年至 2018 年期间根据 GRI G4 指南起草并发布的可持续性报告样本。之所以选择能源部门，是因为能源部门是现有报告数据库中代表性最强的部门之一，也是因为它在高度管制的市场中运作，涉及相当大的社会和环境风险，以及对许多内部和外部利益相关方的义务。为了填补这方面的知识和文献空白，本论文旨在发现和分析报告的主要利益相关方参与实践，并将其范围和质量与支持文献（中提出的最佳实践进行对比。

本论文的结构如下。第一章介绍了西方背景下利益相关者理论的发展及其与可持续发展相关的目的：讨论了企业与其他社会行动者的角色和责任，介绍了利益相关者理论、其合法性以及支持其在可持续性挑战中的重要性的理由。第二章通过描述参与的最佳做法来介绍利益相关方的参与：为什么、谁和如何参与。这些最佳做法是根据利益相关方理论和利益相关者管理的文献、国际标准和报告准则提出的。第三章介绍了中国可持续发展和利益相关方参与的主要历史、法律和规范背景，以呈现中国企业背景下这些问题的现状。基于这三章所界定的概念框架，第四章以可持续发展报告为案例进行分析，最后对研究结果进行讨论，为研究问题提供充分的答案。第四章将回答以下研究问题：

- 中国企业如何看待、构建和实施利益相关者参与？
- 这些做法是中国特有的，还是与西方的做法有明显的相似之处？
- 中国背景下的利益相关者参与是否符合可持续发展实践？

Introduction and definition of main concepts

The aim of this dissertation is to analyse the main actors, purpose, scope, and methods of stakeholder engagement practices employed within the Chinese corporate context, with emphasis on their role in the realisation of social and environmental sustainability goals. To introduce the study, the main concepts of this dissertation are presented briefly, followed by its purposes and detailed structure.

Organisations are groups of people with a shared purpose and which exist within broad economic, social, political, and environmental contexts, which extend further from single organisations' physical and financial entities, and strongly influence and are influenced by their operations (Martin, 2002; Garriga and Melé, 2004). These contexts consist of networks of converging and competing interests of different stakeholders, which direct organisations' actions towards specific goals. In order to identify, recognise, and integrate these interests, organisations should commit to engage with those stakeholders who express and represent them, and should become places of mediation through different types of collaborative and participatory approaches (Maon, Lindgreen and Swaen, 2010). A stakeholder is defined as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984, p. 46). Stakeholder theory attempts to create frameworks for identifying those individuals or groups who hold legitimate interests in an organisation, and for examining and understanding this network of stakeholders' interests and its connections to the organisation's operations; it then "recommends the attitudes, structures, and practices" which constitute stakeholder engagement (Donaldson and Preston, 1995, pp. 66–68). "Stakeholder engagement is the process used by an organisation to engage relevant stakeholders for a clear purpose to achieve agreed outcomes" (AccountAbility, 2015, p. 5). Trust-based and collaborative relationships with a wide scope of stakeholders, complete and transparent communication, clear and systematic participatory processes, mutual objectives, and timely and accurate responses define quality stakeholder engagement. If a stakeholder engagement process is carried out thoroughly, it is claimed to increase an organisation's overall performance, to enhance the quality and durability of environmental decisions, to build social capital, and to lead to more equitable social development (Reed, 2008; AccountAbility, 2015). This dissertation focuses on the corporate sector and on its role in environmental and social sustainability challenges. The above-mentioned definitions of stakeholder theory and engagement apply to firms, companies, and corporations as subsets of the more generally defined "organisations".

The processes that define quality stakeholder engagement and the outcomes it enables organisations to obtain confirm stakeholder theory as grounded mainly on its instrumental power and normative validity (Donaldson and Preston, 1995, p. 65). Its instrumental power allows organisations to achieve traditional corporate objectives such as growth, profitability, and to gain potential sources of competitive advantage. Therefore, it serves as the main justification for stakeholder theory in economic terms, mainly within strategic management literature (Freeman, 2010). Normative validity, according to Donaldson and Preston (1995), is the main core of stakeholder theory and posits that each stakeholder interest has intrinsic value and each stakeholder group is rightful "to be treated as an end in itself, and not as means to some other end" (1995, p. 73). Therefore, every organisation has moral obligations to all its stakeholders and participation in general benefits democracy and equity (Reed, 2008). In this dissertation, stakeholder engagement is considered in relation and in support to the wider concepts of Corporate Social Responsibility and of Sustainable Development. Corporate Social Responsibility refers to "voluntary activities which demonstrate the inclusion of social and environmental concerns in business operations and in interactions with stakeholders" (Van Marrewijk, 2003, p. 102) and sustainable development "seeks to meet the needs of the present without compromising the ability to meet the future generation to meet their own needs'' (Garriga and Melé, 2004, p. 61).

The private sector drives a great part of the world's social and environmental realities, and therefore has "the power to reverse negative megatrends and enforce positive trends" within them (UN Environment Programme (UNEP), 2019, p. 1). More and more companies are focusing their attention on these trends and creating strategic responses to the opportunities and risks they present. Nevertheless, the majority of companies around the world are not engaged in sustainability and CSR related debates (King and Bartels, 2015). Economic productivity, human and social development, and environmental responsibility should all be integrated in their operations and long-term objectives, especially in light of the more and more widespread issues of climate change, environmental pollution and degradation, social injustice and instability, and so on (Partridge *et al.*, 2005). To advance in this direction, stakeholder engagement plays a key role: on the basis of the normative claims supporting stakeholder theory, Matten (2003) describes stakeholder engagement as a "necessary process in the operationalisation of corporate social responsibility" and as a "necessary but not sufficient condition for social responsibility" (2003, pp. 110–111). The operationalisation of CSR through stakeholder engagement consists in the fact that firms should consider their stakeholders' interests, knowledges, and opinions when defining programmes and strategies for economic growth and sustainable development, should create value for all stakeholders, and should be accountable to them in various ways, one of which is disclosing relevant information regarding their contributions to sustainability, along with their financial performances (Bellucci and Manetti, 2019).

To disclose one's commitment to sustainability, to inform, and to create a dialogue with stakeholders on their interests and concerns, companies communicate relevant content through sustainability reports. This communication channel is one of the main mechanisms for stakeholder engagement (Herremans, Nazari and Mahmoudian, 2016; Torelli, Balluchi and Furlotti, 2020). Moreover, it provides useful data for research on stakeholder analysis. Sustainability reporting is an essential tool for measuring, disclosing, and being accountable to stakeholders for an organisation's actions and commitment towards sustainable development. There are several reporting standards and frameworks which guide organisations through the creation of reports and the choice of the appropriate content to disclose (Torelli, Balluchi and Furlotti, 2020). The most popular worldwide is the Global Reporting Initiative (GRI) (King and Bartels, 2015) which stresses stakeholder inclusiveness, sustainability, materiality, and completeness as the principles on which reporting must be based, and requires transparency, accuracy, comparability, timeliness, and reliability to ensure reporting quality (Boiral, Heras-Saizarbitoria and Brotherton, 2019). For this dissertation, GRI-based sustainability reports are used as means for data collection and for content analysis on how companies identify, manage, and engage stakeholders.

The second focus of this dissertation is the Chinese context. During the last four decades, China has achieved extremely rapid economic development and social transformation (Ip, 2009), and has earned its place among the world's most influential countries in terms of economic power, with the second highest GDP after the United States. In order to accomplish this result, China's economic growth was based extensively on profit-maximisation, wealth creation, and high energy input and consumption, which in turn have taken a heavy toll on the environment and have created a series of social problems (Xu and Yang, 2010, p. 322). The current environmental crisis, severe pollution, lack of consistent labour rights, high occupational risks, product safety issues (Ip, 2009, p. 212; Xu and Yang, 2010, p. 322) are some of the most prominent environmental and social impacts the Chinese government has to take into consideration and effectively tackle in order to build a more sustainable future.

Economic growth has been an important source of government legitimacy in China. However, the public's increasing social and environmental awareness poses a threat to a so-called "economic-based" legitimacy. The emergence of these issues has prompted the government to align economic targets with the vision of a "harmonious society" (Wong, 2009, p. 6), which commits to pursuing policies in support of the environment, health, social justice, education, distribution of wealth, and other aspects of development (Joshua, 2017, p. 55; Biggeri and Bortolotti, 2020, p. 1655). The concept of "harmonious society", grounded on Chinese history and Confucian tradition, was brought forward by President Hu Jintao as a value orientation for the betterment of Chinese society (Liu and Lee, 2019, p. 689) and was then integrated in the following three Five-Year Plans (2006-2020), along with the commitment to a "moderately prosperous" society (Joshua, 2017, p. 74). As mentioned above, the corporate sector plays a key role in sustainable development. The Chinese public and government have increasingly higher expectations of Chinese companies to contribute to society responsibly and not just in economic terms. Consequently, CSR and stakeholder engagement practices have been gaining momentum (Wang and Chaudhri, 2009). For Chinese companies to continue to exist and operate legitimately, they are necessary steps to implement (Xu and Yang, 2010). The introduction of CSR has also been driven by the presence of foreign firms operating in China and importing western standards, by China's role in the world economy after its admission into the WTO in 2001, and in general by globalisation processes (Kuo, Yeh and Yu, 2012). Chinese institutional and legal frameworks, the distinctive role and influence of the government in companies' operations, and the recent recognition and adoption of corporate social responsibility make the evolution of CSR and stakeholder engagement practices in China potentially different from western countries (Ip, 2009; Fornes *et al.*, 2019). The third chapter of this dissertation attempts to provide a picture of this evolution and to frame the current situation. As a consequence of increasing CSR attention and integration in China, sustainability disclosure requirements for firms are more and more detailed and structured as well (Ping An Digital Economic Research Center, 2020). In fact, between 2007 and 2010, the number of reports has started to significantly increase year by year, from the 77 reports published in 2007 to the 703 in 2010 (An, 2010) a trend was set. As of today, the GRI Sustainable Disclosure Database counts almost 5000 reports available, more than 40% of which make specific reference to GRI guidelines or meet the requirements set by GRI standards.

Objectives and structure

This study collects a sample of sustainability reports drafted in accordance with GRI G4 guidelines and published between year 2016 and 2018 by nine Chinese companies operating in the energy sector. The energy sector is chosen because it is the second most represented sector in the available reports, after the financial services sector, and because it operates in highly regulated markets and inherently involves considerable levels of social and environmental risks, as well as obligations to many stakeholders, both internal and external (Stocker *et al.*, 2020). To address the gaps in knowledge and literature on stakeholder engagement in this context, this study aims at finding and analysing the main stakeholder engagement practices reported and at benchmarking their scope and quality against best practices presented in the supporting literature, the international standard AA1000SES, and in the GRI guidelines.

The following research questions will be answered:

1. How is stakeholder engagement structured in practice by Chinese companies? Which purposes does stakeholder engagement serve? Which engagement methods stand out as the most widely employed? Which stakeholder groups are the most represented, ignored, or underrepresented?
2. Are the analysed stakeholder engagement practices peculiar to the Chinese context or are there noticeable similarities with those employed in western and international contexts?
3. Are the stakeholder engagement practices analysed mostly based on instrumental or on normative motives? Do these practices promote economic, social, and environmental sustainability?

A literature review of stakeholder theory and engagement sets the conceptual framework of this study. The first chapter presents the development of stakeholder theory within the western context and its purpose in relation to sustainable development: the position and the responsibilities of business in relation to other societal actors are discussed to introduce stakeholder theory, the assumptions on which its legitimacy is based, and the reasons supporting its importance in sustainability challenges. Stakeholder engagement is presented in the second chapter through the description of engagement best practices: why, who, and how to engage. Best practice is reported drawing from literature on stakeholder theory and stakeholder management, international standards, and reporting guidelines. The third chapter introduces the main historical, legal, and normative backgrounds for sustainability and stakeholder engagement in China, to present the state of the art on these issues in the Chinese corporate context. Based on the conceptual framework defined in these three chapters, the fourth chapter presents the analysis of sustainability reports as a case study, and finally a discussion of the results to provide adequate answers to the research questions.

Chapter one: Stakeholder Theory

In this section, an in-detail description of stakeholder theory is presented, from its development to its main descriptive, instrumental, and normative formulations.

1.1 The development of Stakeholder Theory

1.1.1 The development of Stakeholder Theory: Freeman (1984)

The term *stakeholder* first appeared in management research affiliated with the Stanford Research Institute in 1963 and 1964. It was coined to describe in general the groups of shareowners, employees, customers, suppliers, lenders, and parts of society to whom management needed to be responsive, in addition to stockholders (Freeman *et al.*, 2010). During the same period, issues inspiring the conceptualisation of stakeholders had already been and were being developed separately within Corporate Social Responsibility (see Carrol's Pyramid of CSR in 1.2.2), strategic planning, and organisation theory literatures. Strategic planning theory would exceptionally use the stakeholder concept to find generic groups of legitimate and friendly stakeholders to collect information from. Organisation theory would explore the relationships between organisations and their environment on the bases of resource dependency, positing the existence of interests groups dependent on a certain organisation's resources or upon whom an organisation was dependent (Friedman and Miles, 2006; Freeman *et al.*, 2010).

Drawing on these contributions, Edward Freeman is considered the first and most popular stakeholder theorist, thanks to his pivotal formalisation of the concept of the stakeholder in his book *Strategic Management: A Stakeholder Approach* in 1984. Freeman (1984) stresses the need for businesses to create and follow new strategic management models that take into account stakeholders' interests in order to be able to deal with pressing internal and external changes of the corporate environment of the time. *Internal changes* consisted in the emergence of demands for better performance by customers, employees, unions, stockholders, and suppliers, for better participatory approaches, and for management styles based on shared values instead of mere strategy. *External changes* described changes of the wider environment encompassing business operations: new groups, events and issues that could not be readily understood within existing models had required the creation of new relationships and the restructuring of existing ones. In fact, the government, political groups, the financial community, activist groups, customers advocate groups, trade associations, competitors and so on (1984, p. 25) had entered the scene and, depending on the circumstances, had started to influence business' relations with its internal actors.

Freeman defines stakeholders as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (1984, p. 46) and presents organisation-stakeholder relations as in Figure 1: the organisation occupies the central position, with direct bidirectional connections to all stakeholders. Whereas the traditional or *managerial* view of the firm would only focus on four of these connections (namely firm to suppliers, owners, customers, and employees) (1984, p. 6), Freeman suggests that a stakeholder approach be adopted instead, to ensure the better achievement of corporate goals.

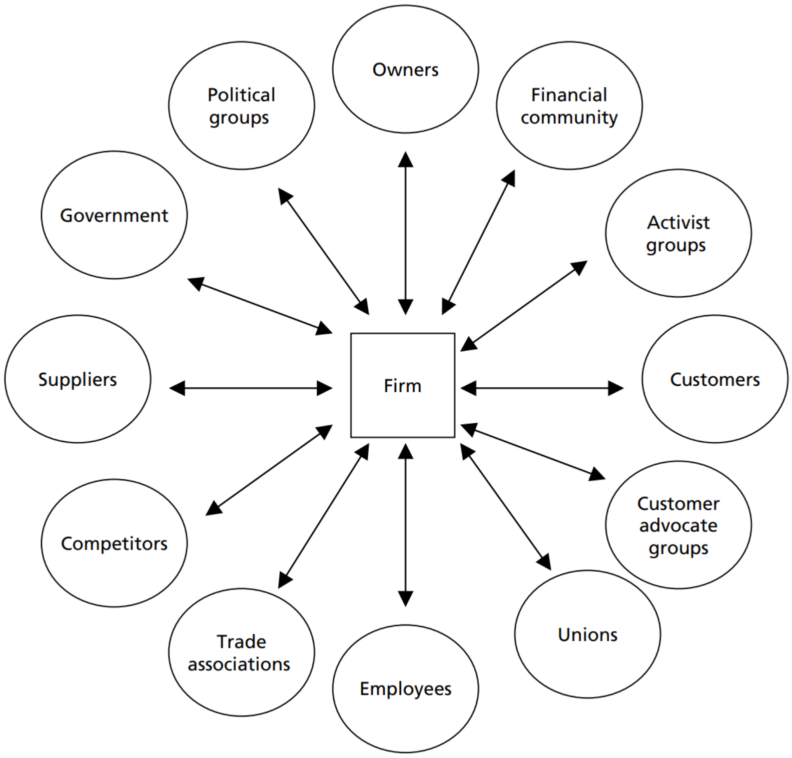

Figure 1: *Stakeholder Map of a Very Large Organisation (Freeman, 1984, p. 55)*

According to Freeman (1984), organisations need to map stakeholders and to analyse their behaviours and possible coalitions. Stakeholder mapping means developing expertise in understanding how stakeholder groups arise, especially non-traditional groups, the issues, and interests of each group, how they can affect the organisation in terms of challenges and opportunities, and how they are in turn affected. It is also necessary to study the environmental variables and their impacts on both the organisation and its stakeholders. Then, organisations should analyse stakeholders' perceptions of the organisation, their willingness to expend resources in either helping or harming operations, and spaces of coalition between them. On these grounds, generic and stakeholder-specific strategies need to be assessed or reformulated where needed, in order to reach desired goals and to avoid damages and losses.

Since its first popularisation by Freeman, the stakeholder concept has gained momentum in a variety of contexts: cross-discipline debate on the purpose of stakeholder theory and on the very definition of the word *stakeholder* has led to the emergence of a great number of related academic contributions and to a wide acceptance of its plausibility. In general, contributions to stakeholder theory contrast the more traditional, or *neoclassical*, view of business which presents it as an independent entity with the purpose of profit maximisation and with limited liability. American economist Milton Friedman's argument (1982) on the role of the corporation is often cited as an example: he states that "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits, so long as it stays within the rules of the game, which is to say, engages in free and open competition, without deception or fraud" (1982, p. 133). This view is characterised by a concept of success tied to wealth creation for shareholders/stockholders, who are considered as the only important stakeholder group and whose interests need to be prioritised. It is also characterised by the exclusion of questions of values and ethics, and by an overall lack of systematic consideration and sense of responsibility towards other stakeholder groups (Friedman and Miles, 2006). Stakeholder theory has contested this view by underlining that profit maximisation requires stakeholder engagement processes and by challenging the assumptions that profit maximisation is the only goal:

> "In order to maximize profits, companies need great products and services that customers want, solid relationships with suppliers that keep operations on the cutting edge, inspired employees who stand for the company mission and push the company to become better, and supportive communities that allow businesses to flourish […] Trying to maximize profits is counterproductive, because it takes attention away from the fundamental drivers of value – stakeholder relationships. Profitable firms have a purpose and values beyond profit maximization" (Freeman *et al.*, 2010, p. 11).

1.1.2 The development of Stakeholder Theory: Donaldson and Preston (1995)

The development of stakeholder theory has shown the complexity and breadth of stakeholder relationships: a multifaceted, multi-objective, complex phenomenon (Steurer *et al.*, 2005, p. 266). Several different theories revolving around the stakeholder concept have been formulated, for different purposes and with different validity criteria and implications. This has led to confusion about its main nature and purpose, and to criticism regarding its vagueness and openness to different arbitrary interpretations (Donaldson and Preston, 1995; Friedman and Miles, 2006). In response to these arguments, Donaldson and Preston's contribution (1995) has been pivotal: to make sense of what they call a "muddling of theoretical bases and objectives", they argue that different contributions to stakeholder theory can be categorised according to their intended use. There are descriptive, instrumental, normative, and managerial uses of stakeholder theory, each of which clarifies and justifies the content and significance of the stakeholder concept differently. In detail:

- **Descriptive**. Stakeholder theory describes what the corporation is: a constellation of co-operative and competitive interests possessing intrinsic value (1995, p. 66). It also explains the patterns of corporate behaviours regarding stakeholders. It calls for a stakeholder-inclusive shaping or reshaping of the nature of the firm, of management styles, and of internal and external relations. Descriptive justifications of the value of stakeholder theory imply that the concepts explored in the theory correspond to reality and, consequently, can be observed in the external world (1995, p. 74). The *Stakeholder Map of a Very Large Organisation* by Freeman shown in Figure 1 serves as an example: internal, external changes, and new emerging stakeholders have required a rethinking of the traditional picture of the firm.
- **Instrumental**. Stakeholder theory establishes a framework for examining the connections, if any, between the practice of stakeholder management and the achievement of various corporate performance goals (profitability, stability, growth, etc.) (1995, p. 67). Instrumental justifications assume that if certain practices are carried out, then certain results will be obtained. Freeman's initial contribution to stakeholder theory falls into this category: stakeholders are means by which the firm can achieve its ends, usually tied to economic performance. Descriptive and instrumental justifications have had the credit of proving the validity and the potential of stakeholder theory in its early diffusion stages, responding to the most pressing needs of business.
- **Normative**. Normative stakeholder theory identifies moral, ethical, or philosophical principles that should guide corporate operations and on which the very purpose of these operations should be founded on. There are two ideas standing at the basis of normative stakeholder theory: first, stakeholders are individuals or groups with legitimate interests in procedural and/or substantive aspects of corporate activity. Stakeholders are identified by their interests in the corporation, whether the corporation has any corresponding functional interest in them. Second, the interests of all stakeholders are of intrinsic value. That is, each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some other group, such as the shareowners (1995, p. 67). As an example, Freeman's instrumental and

strategic justification to stakeholder theory has evolved on more normative grounds in his later works: as elaborated by Evan and Freeman (1988, p. 103), the corporation should be managed for the benefit of its stakeholders. Stakeholders' moral rights and, in particular, the right to taking part in decisions which could affect them must be ensured. Moreover, management bears fiduciary duties, such as those of honesty, care, transparency, and trust to stakeholders and to the corporation as an abstract entity. Management needs to act in their long-term interests and safeguard their survival. In sum, the stakeholder becomes an end in itself, instead of being means to other ends, and must participate in determining the future direction of the firm in which it has a stake (1988, p. 97).

These approaches can be mutually supportive and are often combined: Freeman's examples are representative of how the same theory can be developed to contain all three. Donaldson and Preston (1995) clarify the concurrence of descriptive, instrumental, and normative by representing the three approaches as nested within each other: the descriptive aspect is the outer and "visible" layer, as it presents and explains practice. Instrumental and normative aspects provide support to the descriptive accuracy of stakeholder theory: instrumental value through predictive power, at the second level, and normative value at the core, considering that the fact that all stakeholders' interests have intrinsic value provides stakeholder theory and related practice with epistemological justification (1995, p. 76).

Lastly, Donaldson and Preston also stress the importance of stakeholder theory from a managerial point of view. Descriptive, instrumental, and normative approaches recommend attitudes, structures, and practices that constitute stakeholder management (1995, p. 67). It is then the responsibility of managers (or of other entities with control and/or governance related tasks) to select activities and to direct resources to obtain benefits for stakeholders. If creation of value is not limited to profit maximisation for a single group, but is expanded to the satisfaction of the simultaneous interests of all the actors involved, who also become crucial actors for reaching business objectives, then managers of organisations are required to develop methods for understanding each stakeholder group and the dynamics that exist between them, and to adjust or create organisational processes able to put this understandings into practice: the issues each group prioritises and the groups to prioritise, and the ways they could potentially do help or harm (Freeman, 1984; Donaldson and Preston, 1995).

Donaldson and Preston's categorisation of different stakeholder approaches has been pivotal as it has set a fundamental framework for stakeholder analysis. The definitions of stakeholders and the theories presented in the next subchapters all refer to either descriptive and instrumental (often combined as "analytical" or "strategic") categories, to normative categories, or to both.

1.1.3 Multiple definitions of the term *stakeholder*

As mentioned above, the earliest use of the word *stakeholder* is attributed to the Stanford Research Institute and dates back to 1963. Stakeholders were first defined as "those groups without whose support the organization would cease to exist" (Freeman, 1984, p. 31). The most popular definition to this day of stakeholders was then provided by Freeman: "any group or individual who can affect or is affected by the achievement of the organization objectives" (1984, p. 46). Including these two, Friedman and Miles (2006, pp. 5–8) have collected fifty-five different definitions of the term *stakeholder* from related research published between 1963 and 2003 and have developed a model to analyse and differentiate them. Stakeholder definitions usually explain:

- who is considered a stakeholder,
- the reasons for engagement,
- and the nature of the connection between organisations and stakeholders.

Definitions can be organised on two dimensions as on a Cartesian diagram: the first one indicates how broad or narrow the scope of who is considered a stakeholder is; the second one specifies whether stakeholders are included in the definition on strategic (instrumental in Donaldson and Preston) or on normative grounds. The Stanford Research Institute's and Freeman's definitions are both strategic, as they consider stakeholders in terms of their role in the organisation's survival and in the achievement of objectives. However, Freeman's definition is very broad and opens its scope to virtually any group or individual with the power or influence to affect the organisation or with a legitimate claim on it, deriving from being affected by its operations. Therefore, legitimate stakeholders are also those who might not be willing to contribute to reaching a particular goal and instead have the power to hinder it, or might simply suffer from the direct or indirect consequences of certain operations (Mitchell, Agle and Wood, 1997). These kinds of groups or individuals would not be recognised as stakeholders within SRI's narrower definition. In general, strategic definitions that only include those stakeholders who are critical for success or survival are the narrowest: they imply that resources and time are limited, and therefore only direct relevance to economic interests should be factored into stakeholder inclusion. Increasingly broader definitions include stakeholders in terms of their power, influence, and ability to affect the organisation, and/or in order to conform to legal or institutional requirements. This requires a much higher level of complexity and broad knowledge of the organisation's environment (Mitchell, Agle and Wood, 1997; Friedman and Miles, 2006). On the other side of the diagram, the inclusion of stakeholders in normative definitions is guided by absolute or time- and place-dependent moral principles, values, and observed norms. At their broadest, they can include all living and non-living entities. Starik's (1995, p. 216) definition is the most representative in this case: a stakeholder is "any naturally occurring entity that affects or is affected by organizational performance". This implies that humans, animals, plants, objects, entire environments and systems, future generations, as well as abstract concepts such as love or community, all have the potential to affect or be affected by organisations and should therefore be considered stakeholders. Narrower normative definitions limit their scope to stakeholders who are considered legitimate as in agreement with certain values or norms or to those who hold moral claims and are owed significant responsibility by the organisation (Friedman and Miles, 2006). Two examples: Philips (2003) defines stakeholders as those "for whose benefit should the firm be managed" and Wicks, Gilbert and Freeman (1994, p. 483) as those who "interact with and give meaning and definition to the corporation".

Contributions to stakeholder theory and stakeholder definitions guide businesses in the process of identifying possible stakeholder groups, of choosing which ones to engage, and how. The groups that are crucial for the achievement of objectives are the most common to be considered stakeholders, as they have a precise and distinguishable relationship with the firm: shareholders, customers, suppliers and distributors, employees, and local communities. From a narrow perspective on stakeholder theory, these are considered "primary" stakeholders. Broader definitions also include "secondary stakeholders", who are not strictly necessary for survival but need to be taken into consideration to ensure that value is created for their benefit as well (Friedman and Miles, 2006; Freeman *et al.*, 2010). Into this category there can be: stakeholder representatives such as trade unions or trade associations of suppliers or of distributors, NGOs or 'activists' that can be considered individually or as stakeholder representatives, competitors, government(s), regulators, and other policymakers, financiers other than stockholders (creditors, bondholders, debt providers), the media, the public in general, non-human aspects of the Earth, the natural environment, business partners, academics, future generations, past generations (in particular the memory of founders of organizations), archetypes or 'memes' (Friedman and Miles, 2006, p. 14).

These stakeholder categories are an oversimplification of reality: within any broad or narrow category there may be several individuals or subgroups with different identities, claims, or interests that would require special attention or ad-hoc strategies. Actually, it can be argued that each normative or strategic stance of an organisation faces a unique set of stakeholders, as it intersects with factors of power, influence, legitimacy, urgency, as well as different mechanisms for action and levels of interconnectedness (Friedman and Miles, 2006). These implications raise exponentially the degree of complexity of stakeholder theory and of the engagement practice.

1.1.4 Perspectives of Stakeholder Theory

In response to Donaldson and Preston's categorisation of stakeholder theories, several challenges and critiques to their claims have emerged, calling for different degrees of integration between the descriptive, instrumental, and normative theories, for different prioritisation choices between the three, and for decentring stakeholder theory and its focus on management agency (Friedman and Miles, 2006). Steurer *et al.* (2005) and Friedman and Miles (2006) argue that although the stakeholder concept is by nature corporate-centric, as it has mainly been developed to address the ways corporations ought to interact with internal and external actors, a corporate-centric perspective fails to address the whole range of issues and concerns pertaining to stakeholder theory. A stakeholder-focused perspective or a conceptual perspective can further clarify and make sense of the stakeholder concept and of its diverse formulations. Freeman's Stakeholder Map (see Figure 1) clearly epitomises the corporate-centric perspective: the corporation is put at the centre of the map and its stakeholders are revolving around it. In the same way, Donaldson and Preston underline the importance of stakeholder theory mainly from a managerial point of view. Conversely, arguments supporting the decentring of stakeholder theory suggest that stakeholders are not simply the environment of organisations and that organisation-stakeholder relationships and decision processes depend on both management and stakeholders' agencies. Moreover, the stakeholder concept is often addressed in relation or support to other theories or ideas (conceptual perspective), such as Corporate Social Responsibility or Sustainable Development, instead of adopting solely a corporate or stakeholder perspective.

A stakeholder perspective allows to examine the question of how stakeholders address corporations instead of the other way around, and to gain a thorough understanding of their strategies and claims regardless of corporate performance. From this perspective, descriptive, instrumental, and normative uses of stakeholder theory differ from Donaldson and Preston's original description. A descriptive approach concerns stakeholder behaviour towards the corporation, in terms of how stakeholders try to satisfy their own claims and expectations. An instrumental approach analyses the connections between stakeholders' strategies and their ability to meet them. A normative one interprets the function and legitimacy of stakeholders and their claims. Correspondingly, a conceptual perspective analyses the descriptive, instrumental, and normative characteristics of the organisation-stakeholder relationships in relation to a particular concept (Steurer *et al.*, 2005). This is explored in chapter two, which presents the extent to which Corporate Social Responsibility practices and sustainability goals can be achieved through stakeholder engagement.

1.1.5 Instrumental and Normative Contributions to Stakeholder Theory

Instrumental theorists analyse what impact stakeholder engagement can have on the financial performance and on the degree of competitiveness of the corporation. As already described above, Freeman (1984) is the first to propose an instrumental stakeholder theory, focused on the most functional strategies to enhance stakeholder management capabilities. Here summarised is another representative example of a corporate-centric instrumental theory.

Jones (1995) argues that developing stakeholder relationships governed by ethical principles and formalised in contracts, and consequently building a positive reputation in an industry can be a potential source of competitive advantage for corporations and can lead to greater success in the market. If "firms contract (through their managers) with their stakeholders on the basis of mutual trust and cooperation, then these firms will have a competitive advantage over firms that do not" (1995, p. 422). The source of competitive advantage consists in the reduction of those costs associated with opportunistic behaviour on both the management's and the stakeholders' side, with attempts to reduce such opportunism, with lack of communication and information on the quality of contracting parties and of the resources they own. Jones, Harrison and Felps (2018) develop Jones's argument (1995) and suggest that firm-stakeholder relationships characterised by high levels of trust, cooperation, and sharing of information and which rely on relational contracting, instead of explicit and temporal contracts, are likely to bring about a competitive advantage that is also sustainable in time. In fact, fostering the desire in all parties to cooperate for mutual gain and maintain reciprocal loyalty creates *close relations* and commitment bonds which are extremely valuable, rare, and difficult to imitate. This kind of relation enables effective value creation processes grounded on better coordination, knowledge sharing, lower costs to curb opportunism, motivation, and thus bring additional economic value to the firm which can last in the future. The feasibility of these strategical arguments is not straightforward and may require higher or lower costs depending on the capabilities of the firm to build close relations with stakeholders.

Mitchell, Agle, and Wood (1997) develop a slightly more stakeholder-centric theory, proposing a model of stakeholder identification and salience based on three attributes: the stakeholder's power to influence the firm, the legitimacy of the stakeholder's relationship with the firm, and the urgency of the stakeholder's claim on the firm. These attributes combined characterise stakeholders in terms of their expected behavioural patterns regarding the firm (1997, p. 863), and guide managers in the choice of who to prioritise. A stakeholder has power if they have access to coercive, utilitarian, or normative means to impose their will on the relationship with the firm. They are legitimate if their actions and claims are appropriate within a socially constructed system of norms and values. Stakeholder claims are urgent if they demand immediate or prompt attention from the firm. The most salient stakeholders are those who hold all three attributes at the same time. Alternatively, stakeholders may have the power to affect operations but lack a legitimate claim or vice versa.

Normative stakeholder theories interpret the functions of the corporation and of stakeholders with regards to the wider society they exist in (Steurer *et al.*, 2005). Normativity refers to the norms or standard practices of society as it exists. These consist in what people ought to do and are mainly based on moral and ethical principles that guide the way one would live in an ideal "good" society. Moral norms are principles to which everyone could agree and are potentially universal in nature. By contrast, ethical norms relate to particular understandings of what is "good". Within stakeholder theory, normativity is also based on religious and philosophical values (Reed, 2002; Friedman and Miles, 2006; Palthe, 2014). There are three kinds of normative theories: theories that propose that business should be managed for the benefit of stakeholders (see mentions of Evan and Freeman (1988) and Starik (1995) in the previous subchapters), theories that require changes in the existing laws and institutions of society to ensure greater corporate responsibility, and theories that maintain that managers should at least take into account stakeholders' interests, as required by the existing legal and institutional frameworks (Friedman and Miles, 2006, p. 39). The last kind often pertains to management literature and overlaps with instrumental justifications.

One of the most representative normative theories of the second kind is the feminist reinterpretation of stakeholder theory by Wicks, Gilbert, and Freeman (1994). They argue that the meaning and purpose of corporations are widely expressed in "masculine" terms: corporations are *autonomous* entities, separate from their environment which needs to be *controlled* for specific and *objective* purposes; *competition* and *conflict* characterise management processes; *power* and *authority* establish clear chains of command and clearly define roles, duties, and functions. Reimagining these concepts in more normative terms helps altering rigid discourses and logics dominating the business sphere. The word *feminist* is used in reference to the ethics of care, a normative theory developed within feminist scholarship which identifies relationality, care, vulnerability, and responsibility as the essential values guiding moral action. A feminist reinterpretation of the stakeholder concept can better express the meaning and purpose of a corporation, improve its adaptability and responsiveness to its environment, and change the language and those widely used expressions that shape people's understandings of business.

> "Stakeholder management, understood in feminist terms, is about creating value for an entire network of stakeholders by working to develop effective forms of cooperation, decentralizing power and authority, and building consensus among stakeholders through communication to generate strategic direction. In this context, it is imperative that managers are able to sustain networks of communication, share decision making authority with workers, and help tap into the creativity of workers and suppliers" (Wicks, Gilbert and Freeman, 1994, p. 493).

This is not meant to completely oppose the traditional view of business and the corporation, but instead to show that matters of business and of ethics can be mutually reinforcing in a corporate environment. The extension of these normative concepts into the business discourse calls for their systematic integration and ultimately for institutional change.

1.2 Stakeholder Theory and Sustainability

In this section, stakeholder theory is approached in relation to Corporate Social Responsibility and Sustainable Development. The significance and applicability of the above-mentioned descriptive, instrumental, and normative characteristics of stakeholder theory in the promotion and achievement of sustainability are presented, to complete the first conceptual framework of this dissertation.

1.2.1 Corporate Social Responsibility and Sustainable Development

Stakeholder theory addresses the questions of how business and other actors in society interact, and of how these interactions should be managed to operate in a way that juxtaposes the traditional role of business with matters of responsibility, ethics, and sustainability (Freeman *et al.*, 2010, p. 5). As mentioned above, the initial formulations of stakeholder theory appeared within strategic management literature as frameworks for managers to cope with new emerging pressures by internal and external actors threatening the achievement of corporate goals (Freeman, 1984). It has since become part of broader discourses and literatures devoted to the definition of more humane, ethical, and transparent ways of doing business, which analyse the relations that exist between business and society beyond economic and legal responsibilities, try to answer the question of *whom* a business organisation has and should have responsibilities towards and why, and promote transformations towards sustainability through the achievement of normatively defined goals concerning society, the economy, and the environment (Van Marrewijk, 2003; Scoones, 2016). Along with literatures on business ethics, corporate citizenship, and the Triple Bottom Line, contributions from Corporate Social Responsibility and Sustainable Development theories have particularly supported stakeholder theory and provided solid bases for its normative development. In turn, stakeholder theory has provided practice guidelines for their implementation.

Corporate Social Responsibility calls for "voluntary activities which demonstrate the inclusion of social and environmental concerns in business operations and in interactions with stakeholders" (Van Marrewijk, 2003, p. 102). These concerns "extend inside and beyond the boundaries of the organisation" and their inclusion must be "driven by the organisation's understanding and acknowledgement of its moral responsibilities regarding the impacts of its activities and processes on society" (Maon, Lindgreen and Swaen, 2010, p. 10). In sum, CSR can be considered a voluntary management approach in which stakeholders play a prominent role. Its adoption is one of the many vehicles or proxies of business for stimulating and supporting sustainable development.

Sustainable Development introduces a qualitative model of development that encompasses a wide range of economic, social, and environmental advancements, and opposes the widespread and often unchallenged quantitative definition of progress, which is bound to continuous economic growth. In fact, the concept of sustainability implies that natural capital cannot be substituted by manmade or human capital, and that there are limits to economic growth (Steurer *et al.*, 2005). It was first defined in a 1987 report by the World Commission on Environment and Development (WCED, 1987) as "development that seeks to meet the needs of the present without compromising the ability to meet the future generation to meet their own needs'' (1987, p. 8). It embraces three dimensions: economic, social, and environmental. The economic dimension pushes businesses to operate in a way that can potentially continue for an indefinite time, by securing profits, competitiveness, and by dealing with their impacts on stakeholder groups' economic status. The social dimension involves contributing to the well-being of society and individuals in the present time and in the future. The environmental dimension calls for maintaining natural capital to a certain degree, by using resources responsibly, avoiding emissions, damages, and risks (Steurer *et al.*, 2005). Moreover:

> "Sustainable development is not a fixed state of harmony, but rather a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are made consistent with future as well as present needs. We do not pretend that the process is easy or straightforward. Painful choices have to be made. Thus, in the final analysis, sustainable development must rest on political will" (1987, p. 9).

One common thread among Corporate Social Responsibility, Sustainable Development, and Stakeholder Theory is the premise that business cannot be considered as an entity which is independent from the political, social, and natural environment where it operates. In fact, to operate sustainably, both in terms of its own long-term survival and in terms of contributing positively to the rest of society, business must adapt and adjust itself to changing circumstances and needs to be held accountable for its actions and impact on others (Van Marrewijk, 2003). This can happen on different levels: from compliance to existing regulations and economic duties to an increasingly wider integration and balance of social, ethical, and ecological aspects and for the benefit of a higher and higher number of stakeholders. The highest, or holistic, sustainability ambition level for business sees sustainability as "fully integrated and embedded in every aspect of the organization, aimed at contributing to the quality and continuation of life of every being and entity, now and in the future" (Van Marrewijk, 2003, p. 102,103). In sum, Corporate Social Responsibility, Sustainable Development, and Stakeholder Theory focus on business actions that go beyond simple compliance. They try to fill a "normative vacuum" (Friedman and Miles, 2006, p. 19) that the traditional way of doing business has caused by focusing only on its economic and legal responsibilities.

1.2.2 Stakeholder Engagement as A Tool for CSR And Sustainable Development

To analyse the multiple reasons why companies should draw practice guidelines from stakeholder theory and perform stakeholder engagement as a process towards the incorporation of questions of ethics, responsibility, and sustainability in business, this section will:

- Start from an outline of the four main responsibilities of business, drawing from Carroll's contribution to Corporate Social Responsibility theory (1991) and describe how stakeholder engagement fits into these responsibilities;
- Frame business in the wider context in which it operates, by presenting its relations with other societal actors and institutions.

- Highlight the links between stakeholder engagement and sustainability: normativity, participation, and integration of economic, social, and environmental concerns.

Carrol’s Pyramid Of Corporate Social Responsibility (1991) is one of the founding models that frame business responsibilities in CSR literature. It maintains that businesses have essentially four kinds of responsibilities, which constitute CSR and can be represented in a pyramid shape. From bottom to top: economic, legal, ethical, and philanthropic (1991, p. 40). The economic responsibility requires that corporate performance result in the maximum possible profit, that this profit be consistent, and that a competitive position and a high level of efficiency be maintained. It stands at the basis of the pyramid as the primary and most fundamental responsibility, without which business would cease to exist. Economic duties are to be carried out within the framework of the law, hence the second layer of the pyramid, which always coexists with the first and provides it with regulative legitimacy (1991; Palthe, 2014). Although CSR theorists address all four responsibilities to guide business in its operations, as all are concurrent and integral to a company’s success, the ethical responsibility is at the core of their discourse. Ethical responsibilities are on the third level: they “embody those standards, norms, or expectations that reflect a concern for what consumers, employees, shareholders, and the community regard as fair, just, or in keeping with the respect or protection of stakeholders' moral rights”. More in detail they include:

- performing in a matter consistent with expectations of societal mores and ethical norms;
- recognising and respecting new or evolving ethical and moral norms adopted by society;
- preventing ethical norms from being compromised in order to achieve corporate goals;
- recognising that corporate integrity and ethical behaviour go beyond compliance with laws and regulations (1991, p. 41)

Ethical and legal responsibilities exist in a dynamic interplay: in time, if companies systematically take on ethical responsibilities, pressure can be exerted on the scope of legal responsibilities to expand and to include and formalise them, bringing about institutional change. Philanthropic responsibilities occupy the fourth layer and deal with business actions that go beyond ethical responsibilities, are desired by society but not necessarily expected, such as contributions to local communities, humanitarian programs, education, culture and so on. In general, ethical and philanthropic responsibilities raise expectations and require overall better standards of performance from companies than those required by law or economic targets. Thus, to meet these responsibilities is another crucial source of corporate legitimacy and a guarantee for future survival. Drawing on organisational and institutional theory, the bases for legitimacy for any organisation, including businesses, are in fact not limited to conformity to laws and regulations: adhering to or sharing societal norms (normative legitimacy) and values (cognitive legitimacy) is also essential (Palthe, 2014). According to Scott (1995, 1981), as cited by Palthe (2014, p. 62), survival for an organisation is dependent on its "ability to accommodate institutional expectations (regulative, normative, and cognitive), even when these expectations have little or nothing to do with the technical aspects of performance accomplishment".

In light of these concepts, legitimacy and prospects of survival appear to be strictly linked with all four business social responsibilities. However, as opposed to economic and legal duties, the boundaries of ethics and philanthropy are not easily defined due to their normative nature. Since they consist of social obligations which are mostly informal, voluntary, and context dependent, they are often difficult and confusing for businesses to integrate, whereas market forces, rules, and laws are usually explicit and formal. In terms of why and to what extent companies should voluntarily get involved in society, what the very practical actions that should be taken are, and towards whom one should be responsible, ethical and philanthropic responsibilities are open to different interpretations and critiques (Matten, Crane and Chapple, 2003; Palthe, 2014). To solve these issues, stakeholder engagement, informed by descriptive, instrumental, or normative motives in each different situation, can be considered as a "necessary process in the operationalisation of corporate social responsibility" (Matten, Crane and Chapple, 2003, p. 111). As described above, ethical responsibilities require that business performances be consistent with evolving social expectations and ethical norms. Stakeholder analysis guides businesses in the process of understanding these expectations and norms, by identifying which societal actors express them and how they intersect with specific business operations. Then, it selects the actual groups and individuals which the business should be responsible for and accountable to and calls for the legitimisation and prioritisation of their interests in business decisions. Another ethical responsibility is preventing ethical norms from being compromised in order to achieve corporate goals: to ensure this, stakeholder theory benchmarks appropriate and inappropriate corporate behaviour in terms of how stakeholders are engaged. (Matten, Crane, and Chapple, 2003; Campbell, 2007).

Corporate social responsibility is a management approach which guides the pursue of sustainable development in the corporate context, among its many purposes. Sustainable development is a wider societal concept, which addresses a broader range of economic, social, and environmental issues in the long term (Steurer *et al.*, 2005). As reported above, even though it is applied in the corporate context, stakeholder theory is not exclusively tied to management issues. Therefore, to analyse how and why business can bring about or contribute to changes towards sustainability through stakeholder engagement, it is useful to contextualise business' role and position in its wider social system and in relation to other actors and institutions. Relations are a central matter in the sustainability discourse: change depends strongly on the agency of multiple and diverse actors and on their interactions, whereas separate and independent structures have often failed to bring about sustainable changes (Scoones, 2016). The environment in which business exists and operates comprises the government and civil society along with itself as the three main societal actors, each with its own institutions. Conventionally, the government is seen as the place of legitimate political aggregation of collective interest, it addresses public policy issues, provides public services, and regulates and supports business activity; business is seen as the provider of goods and services and creator of wealth, it also contributes to civil society and government through the creation of jobs and payment of taxes; civil society is composed of actors or groups of actors that articulate and carry norms and values, that are citizens, voters, and consumers, and it supplies workforce to business and taxes to the government (Midttun, 2005, p. 161). Government, business, and civil society are dynamic and mutually dependent: their distinct roles and complex relations change continuously in time, mainly through processes of institutional transformations and shifts in power structures (Van Marrewijk, 2003; Midttun, 2005; Scoones, 2016). According to Palthe (2014, p. 63): "organisations develop along with changes occurring in their context: […] no organisation is self-sufficient, they all depend for survival on the types of relations they establish with the larger systems of which they are a part. […] Many processes may in fact be a result of social construction processes whereby external entities influence the creation and implementation of practices that come to attain a level of legitimacy". However change occurs, new social circumstances call for new coordination mechanisms and new overlapping responsibilities between social actors (Van Marrewijk, 2003). From the point of view of business actors, stakeholder engagement is a powerful tool for understanding how relations affect their operations and for participating in and managing these interactions (Freeman *et al.*, 2010).

According to Van Marrewijk (2003), Carroll (1991), and to Friedman's distinction between the responsibilities of the government and those of business (2007), the roles of the government and of business have traditionally been considered dichotomous: the former would create and maintain legislation, address public policy issues, and be accountable to society through the electoral system. The latter would produce goods and services, participate in the market, create wealth, and be accountable to shareholders. Their impact on civil society could be neglected overall. Nonetheless, this division has not been reflective of actual practice:

governments have increasingly been shaping and protecting business activities through regulations and incentives and, in turn, business has profoundly been shaping public policy (Moon and Vogel, 2009). Businesses and especially large enterprises and corporations have been growing to the point where their power and influence have started to overlap with those of the government (Matten, Crane and Chapple, 2003), as they often surpass entire countries in terms of revenue, employment, logistical capabilities, and global presence (Bellucci and Manetti, 2019, p. 7). Moreover, processes of globalisation and liberalisation, in particular deregulation of business activities and privatisation of public systems, have extended commercial freedom for business and limited the regulatory power of governments: a situation of fragmented authority and control has emerged[1], where traditionally governmental roles are instead embedded in business and civil society actors (Midttun, 2005; Scoones, 2016). By virtue of democratisation processes and through collective action and participation, civil society has been gaining greater and greater importance and has been able to propose and institutionalise its own norms and values. This has also been catalysed by the exponential growth in the availability of information to the public and by its exposure and representation in the media. Consequently, business and governments have had to respond to new societal issues and create new strategies to legitimate their operations (Carroll, 1991; Van Marrewijk, 2003). Midttun (2005) suggests that a new socio-economic model (tentatively named *embedded-relational* model) incorporating features from both liberal and welfare state traditions can be used to describe the direction these most recent institutional developments seem to be taking. Where neoliberalism would promote pluralism and push business to minimise its responsibilities to compliance to regulations and the welfare state model would "institutionalise these responsibilities through government led regulation or negotiation" (Midttun, 2005, p. 165), this new model is characterised by the expanding roles of both business and civil society and by their strong interplay in incorporating social and environmental concerns within business activities and governance, and hence in developing processes towards corporate social responsibility and sustainability. The role of governments is placed alongside new informal and non-political structures brought forward by non-state actors: direct civil society intervention and voluntary business measures increasingly precede state mandated regulations.

In light of these relations and their development, there are several motives and methods for business to bring about or contribute to changes towards sustainability. Campbell argues

[1] These social dynamics mostly pertain to western contexts and may or may not be representative of other institutional realities. Chinese institutional frameworks are substantially different and will be explored in the following chapter.

that a necessary condition for corporate responsible behaviour is a healthy economic environment with the right amount of competition: extreme competition puts economic survival at stake and too limited competition paves the way for opportunistic behaviour with limited accountability. Once these conditions are met, companies are more likely to operate sustainably and institutional conditions and relations with other societal actors come into play. The role of non-market actors and institutions is actually necessary to ensure that businesses be responsive to the interests of others, beyond economic performance (2007). Strong rules and strong enforcement capacity from the government increase the probability that companies engage in sustainable practices. Nonetheless, deregulation of business activity and fragmentation of governments' authorities have resulted in weaker central control and in emerging non-state regulatory processes. Industries establish new self-regulatory mechanisms to have better control on their operations and attempt to create a balance between self-regulation and the state legal institutions to ensure government support. Hence, business operates mostly with "softer" rules tailored to its needs instead of mandatory state measures, with the government playing more of a partnering and facilitating role, often endorsing responsible business practice. Stakeholders can monitor the effectiveness of state regulation and self-regulation: civil society organisations, including NGOs, social movements, activists, communities, unions, employees, the media, and so on establish norms of responsible conduct and pressure business to act upon them, not just through political engagement with the government, but through their direct relations with business. Consequently, in response to social expectations, companies choose to engage in new non-mandatory activities and to incorporate stakeholder participation in their business strategies to gain legitimacy, improve branding and reputation, create competitive advantages, and increase their profits (Midttun, 2005; Campbell, 2007). Palthe states: normative change drivers are a sense of duty and moral obligation, for which organizational members feel they *ought to* change even if they do not identify with the rationale for the change or believe in its success. Subsequently, for genuine organizational change to be generated and sustained, the premises of change would need to be internalized and valued (on the cognitive level) by organizational members (2014, p. 61). The more these norms become internalised and valued by managers and other business actors, the more companies will be willing to behave sustainably. Moreover, the institutionalisation of norms and values in academic studies, professional publications, education, as well as in national or international standards and goals strongly contributes to their integration. Lastly and most importantly, it is essential to engage in institutionalised dialogue and cooperation with all stakeholders: the creation or expansion of spaces of mutual communication and collaboration between companies, their stakeholders, and central authorities, and the improvement of stakeholder representation help create shared standards, targets, and measures to guide companies towards sustainability and also help reduce hostilities, create collective identities, and drive innovation (Midttun, 2005; Campbell, 2007). This last condition is fundamental for business to operate sustainably and is supported by a normative, instead of instrumental, understanding of stakeholder engagement, as it goes beyond the creation of strategies to achieve the above-mentioned pragmatic goals of legitimacy, competitive advantage, and profit. It allows to shift the focus from socially and environmentally responsible behaviours bound to managerial willingness and tied to economic goals onto endeavours to sustainability rooted in the broader involvement of a diversity of actors organised and connected in networks (Wicks, Gilbert and Freeman, 1994).

For this shift of focus to be viable, it requires a rebalancing of the power structures underlying the above-mentioned socio-political relations and of those internal to business entities (Wicks, Gilbert and Freeman, 1994; Scoones, 2016). Critiques to Midttun’s model underline its failure to recognise power inequalities and sources of contention among societal actors in terms of priorities and objectives (Fairbrass and Zueva-Owens, 2012). Challenging existing power imbalances between actors is actually essential because power structures, deriving from different patterns of profit and resources accumulation and from different forms of governance, drive consensus over what is regarded as legitimate and justifiable knowledge and practice for sustainability (Scoones, 2016). Notwithstanding the impact external institutions can have on business practices, business itself has undoubtedly become a key driver of change, arguably the most powerful and influential in neoliberal and capitalist settings, with companies holding considerable economic and political power above the average citizen, citizen groups, and several regulatory processes. Goals concerning society, economy, and the environment are susceptible to reflecting corporate actions and agendas (Matten, Crane and Chapple, 2003; Bellucci and Manetti, 2019). Therefore, if corporate actions and agendas fail to include wider societal interests and stakes and fail to open spaces for participation, collaboration, or contention, only limited change can be brought about, inevitably influenced by possibilities to increase profits, indifferent to wider consequent negative impacts, and unchallenged. For example: if change is widely amenable to managerial control and intended for market or technological advancement, it risks reinforcing the existing power structures that created the very problems sustainable development seeks to solve in the first place. On the contrary, market and technological progresses must be juxtaposed with changes rooted in normative, political, and moral choices (Scoones, 2016). Scoones (2016) claims that effective transformations to sustainability emerge from the intersection of all technological, market, state, and citizen interests and are constructed by networks and alliances that connect diverse actors. If market transformations are joint with state interventions in the shape of regulative and coordinating mechanisms, financing and public investment, and forms of accountability, better results can be achieved. However, governments might not have the economic capacity or the willingness to commit to sustainable development. This might be due to power fragmentation and lack of authority, or power concentration in structures that prioritise other issues and interests, along with other reasons. At the same time, businesses might also not show willingness to cooperate with states, as patterns of deregulation demonstrate. To go over these limits and to ensure legitimate and long-lasting sustainable development, broader spaces for civil society participation must be ensured. Civil society can propose solutions that uncover and oppose patterns of unsustainability deriving from such power imbalances. Organised movements, incidental collective action, and day-to-day practices, both at transnational and local levels, hold the power to initiate grassroot change and to pressure or support business- and government-led efforts. As mentioned above, from the point of view of business actors, stakeholder engagement is a strategy for understanding how social relations are structured and how they can affect their operations, and for actively managing and participating in these relations (Freeman *et al.*, 2010). From the point of view of other actors and in its most normative understanding, stakeholder engagement potentially comes to represent a space of participation, collaboration, or contention *within* business institutions, where representation of local knowledges and practices is ensured, as well as the inclusion of values and norms pertaining to issues of identity, race, gender, rights, environmental and social justice, livelihoods, and so on. This way, there is no unilateral or universal consensus on the legitimate and justifiable knowledges and practices for sustainability driven by singular entities holding the most power, but instead sustainability practices which are rooted on greater equity, social justice, accountability, and democracy, agreed on by a wider plurality of voices, and tailored to local needs can guide people's agency. Therefore, the more businesses engage diverse stakeholders in systematic, formalised, and inclusive ways and the more ethical norms, distinctive kinds of expertise and necessities, and common objectives are incorporated into their practices, the more likely they will bring forward sustainable development. In sum, it can be argued that stakeholder engagement contributes to flattening wide scale power imbalances in society. Nonetheless, in more instrumental terms, the very process of engagement often replicates the same power structures on a smaller scale, whereby powerful, influential stakeholders and those that are more critical to a company's success or survival are prioritised and trade-offs are necessary (Friedman and Miles, 2006).

Lastly, in addition to the right institutional context and to balancing power structures, time is another essential dimension to consider in the path towards sustainability. Palthe argues that institutional structures are highly resistant to change (2014, p. 63) and that normative and cognitive restructuring take place incrementally and with substantial initial integration of the prior and emergent institutional structures (2014, p. 64). Therefore, although business' new position in society has urged it to redefine its role and relationships with others, and to create new strategies to function in areas that were traditionally ignored or left to other actors (Van Marrewijk, 2003, p. 101), this process is inherently slow and difficult to undertake. Corporate disclosure on websites and sustainability reports shows evidence of an increasingly more widespread adoption of the stakeholder concept. Nonetheless, businesses worldwide that at the present day actively engage or have the possibility to engage stakeholders or to undertake sustainable activities are only a minority. The 2017 KPMG survey on corporate responsibility reporting (Blasco and King, 2017) shows that it is an accelerating trend for the world's largest companies[2] to identify and acknowledge social and environmental issues and to report their consequent actions: more than 60% of the world's largest companies issue their corporate responsibility reports to inform and engage stakeholders. Nonetheless, the same report shows that only about 40% of these reports connect corporate responsibility activities to the UN sustainable development goals[3]. This example shows a positive upward trend for large corporations, who can possibly set powerful examples for other smaller companies and facilitate a more and more widespread adoption of responsible corporate practices. However, it also underlines how complex and gradual changes towards sustainability are, considering that even large companies in developed countries that operate in environments which potentially offer economic stability and all the institutional preconditions for sustainability struggle in formulating, adhering, or achieving sustainable goals, be it voluntarily or involuntarily.

In conclusion, stakeholder engagement and sustainable development can be considered two mutually reinforcing concepts (Steurer *et al.*, 2005). To be viable, sustainable development requires transformations, built on normative foundations, of business and of its relations with the social and natural environment. It relies on participation and on the integration of economic, social, and environmental issues. As described above, the underlying normative core of

[2] This survey is based on two samples: the G250 which comprises the world's 250 largest companies by revenue on the Fortune 500 in 2016; and the N100 which refers to a sample of 4900 comprising the top 100 companies by revenue in 49 countries (Blasco and King, 2017, pp. 52–54).
[3] SDGs: a set of 17 goals to end poverty, protect the planet, and ensure prosperity for all as part of a new global sustainable development agenda (Blasco and King, 2017, p. 39). Available at: https://sdgs.un.org/goals (last access: 20/12/2020).

stakeholder theory and its possible translations into concrete actions of engagement can reinforce these transformations: at the corporate level by operationalising corporate social responsibility guidelines and at a wider societal level by proposing and ensuring fair and inclusive participation processes and the reconciliation of wider social and environmental issues with corporate interests.

Chapter two: Stakeholder Engagement

Drawing on literature on stakeholder theory, international standards, and sustainability reporting guidelines, this chapter provides a description of stakeholder engagement practice. In particular, an overview of best engagement practices is presented, with a focus on why (purpose and scope of engagement), who (actors involved), and how (level and methods) to engage.

> "Stakeholder engagement is the process used by an organisation to engage relevant stakeholders for a clear purpose to achieve agreed outcomes. It is now also recognised as a fundamental accountability mechanism, since it obliges an organisation to involve stakeholders in identifying, understanding and responding to sustainability issues and concerns, and to report, explain and answer to stakeholders for decisions, actions and performance" (AccountAbility, 2015, p. 5).

Stakeholder theory, as reviewed in the previous chapter, has highlighted that stakeholder engagement is a valuable tool for companies, leading and improving value creation, profit maximisation, and avoidance of costs and risks. It also promotes coordinated efforts in finding sustainable solutions to tackle economic, social, and environmental issues, which in today's circumstances cannot be possibly solved by single and independent entities. This way, value can be created for everyone who is involved, and knowledge is increased and shared. The dynamics behind stakeholder engagement practice are complex and vary according to numerous factors. Accordingly, the choice of engagement quality criteria and the very assessment of the quality of engagement practices strongly depend on time- and place-dependent social, environmental, and economic circumstances. Notwithstanding its complexity, international standards, sustainability reporting guidelines, and academic contributions have provided comprehensive frameworks and guidelines for organisations to tailor stakeholder engagement to their goals and to their environment or to improve existing practices, and for stakeholders to push for specific participatory processes, benchmark organisations' activities, and hold organisations accountable for their actions. In particular, the good quality practices reported in this chapter are adapted from:

- The *AA1000 Stakeholder Engagement Standard* 2015, an international standard which establishes a benchmark for good quality stakeholder engagement and provides guidelines for assessing, designing, implementing, and communicating the engagement process (AccountAbility, 2015).
- The *GRI Sustainability Reporting Standards*, a set of standards to be used by organisation to report their impacts on the economy, society, and the environment in

order to inform stakeholders and engage them in decisional processes (Global Reporting Initiative, 2016a).

- *The Stakeholder Engagement Manual* series, edited by AccountAbility, the United Nations Environment Programme, and Stakeholder Research Associates (Kirk *et al.*, 2005; Partridge *et al.*, 2005)
- Literature on stakeholder theory and engagement (Jones, 1995; Friedman and Miles, 2006; Reed, 2008; Freeman *et al.*, 2010; Bellucci and Manetti, 2019).

According to the AA1000SES (AccountAbility, 2015), at the basis of quality stakeholder engagement stand three main principles: inclusivity, materiality, and responsiveness.

- **Inclusivity** calls for the engagement or consideration of all stakeholder groups, at all levels and at all stages of a process, and for accountability to those whom an organisation has an impact on and who have an impact on it. This includes stakeholders who are "voiceless", such as the environment and future generations. Commitment to the inclusivity principle is necessary for the achievement of the following two.
- **Materiality** determines the issues that are most significant and relevant for the organisation and its stakeholders. This principle mostly guides the first stages of engagement: defining who stakeholders are, identifying risks and opportunities, defining strategies and objectives, gaining in-depth knowledge about stakeholders, their claims, and their relationships with the organisation, and developing an engagement plan. Issues can be considered material for strategic and normative reasons: issues that have short-term financial impacts, that are addressed according to policy statements or formalised commitments to key stakeholders, and that competitors, industry associations, and other similar organisations focus on are material, as far as the organisation's operations and strategies are concerned. On more normative grounds, material issues are those that internal and external stakeholders consider important to act on and those that are considered social norms and standards, regulations, international agreements, voluntary codes, and so on. These distinctions imply that materiality is often organisation- or stakeholder-specific: issues and concerns deemed material by a certain group may not be important to others.
- **Responsiveness**: The responsiveness principle informs the last engagement stages: implementation, review, and communication. Responsiveness calls for decisions, actions, and performance that effectively tackle material issues through the engagement

of stakeholders, and for their complete and transparent communication. The ability to respond to a certain issue depends on the organisation's resources. Consequently, the prioritisation of certain issues over others at all engagement stages is often inevitable.

Committing to the materiality and responsiveness principles in an inclusive way means designing and implementing an engagement process which is comprehensive and balanced, which prioritises issues consistently with both organisational strategies and most stakeholders' interests, and which is transparent and accountable.

Stakeholder engagement not only must be founded on these three principles but must also be embedded and integrated into the organisation's culture and core functions, in particular into governance and into strategies and operations. The integration of stakeholder engagement into governance allows decision-making processes and the definition of roles and responsibilities to be inclusive and informed by material issues. Moreover, as stakeholder engagement and performance improvements are claimed to be strictly linked, strategies should be shaped on the bases of engagement outcomes: organisations' goals and aspirations, criteria for measuring progress, and resources allocation can all be defined through processes of engagement. This way, in time stakeholder engagement becomes systematic and increasingly more efficient and can serve to the simultaneous achievement of broader economic, social, and environmental sustainability goals and objectives, in addition to the creation of value for the single organisation and success in the business environment. On the other hand, if the organisation lacks a receptive culture or does not have the capabilities and resources to embed stakeholder engagement in its operations, engagement practices can often become performative and undervalued by managers (Partridge *et al.*, 2005; AccountAbility, 2015). In the long run, neglecting or disregarding stakeholders and their claims will damage the organisation, in terms of its reputation, legitimacy to operate, and sustainability.

2.1 Why to Engage

Chapter one has introduced some of the drivers for the development of stakeholder theory and its purpose in the form of contributions to corporate social responsibility and sustainable development. This section presents a more in-depth description of the drivers that, in parallel with the emergence of related theory, have pushed for the adoption of stakeholder engagement practices by businesses in recent years. Then, a business case and a sustainable development case for engagement are presented, to highlight its purposes and goals in reaching corporate objectives and wider sustainability goals.

Societal actors have become mutually dependent in time and have started to rely on collaborating and sharing knowledge to achieve their goals. Whereas governments have slowly lost the ability of tackling social, economic, and environmental issues by themselves, the influence of civil society has strengthened, and the business sector has grown to play a powerful and leading role. In parallel, the negative impacts of business activity have started to be recognised both on a local and a global scale and demands to use its power for shared and sustainable objectives have emerged (Kirk *et al.*, 2005). Within this framework, stakeholder engagement has advanced as a powerful tool. Partridge *et al.* (2005, pp. 16–18) divide the development of stakeholder engagement into three time frames: the Awareness Era in the 1980s, the Attentive Era in the 1990s, and the Engagement Era from the beginning of the 21st century. During the Awareness Era, stakeholder engagement was employed as a reactive risk management mechanism, whereby a few leading companies operating in sectors with easily identifiable social and environmental impacts would attempt to minimise risks of losing operation legitimacy, of boycotts, and of litigations by cultivating community and public relationships only after being made aware of the existence of problematic issues. Public scrutiny and critical events are the main drivers pushing for the creation of engagement processes in this Era: more and more people have become interested in the conduct of business, often as a reaction to major incidents (Kirk *et al.*, 2005). In fact, growing consumer and environmental concerns, made evident by growing mistrust in business, NGOs and activist pressures, negative media coverages and boycotts, started to pressure corporations to respond to external actors' claims, even though limited to ad-hoc and unstructured methods. In any case, the majority of companies would still deny or avoid the environmental and social problems emerging from their operations.

The Attentive Era saw companies shifting from a solely reactive approach to a more proactive attitude. An increasingly globalised, informed, and sophisticated understanding of the potential negative impacts of industrial development made it harder for businesses to ignore external requirements for responsibility and accountability. Therefore, external knowledge and expertise became crucial for the improvement of decision-making processes, and companies started to develop systematic and formalised engagement practices, among which the drafting and publishing of social and environmental reports, now realising the benefits of creating a broad and ongoing dialogue with stakeholders, not just for the purpose of risk management needs but also to create opportunities to learn and increase knowledge (Kirk *et al.*, 2005).

Lastly, in the Engagement era, tackling local and global sustainability challenges has become the main purpose for engagement: the aim is to develop new solutions to simultaneously meet stakeholder and sustainability expectations, benefit the company, and ensure its survival. Large corporations have developed sophisticated ways to address environmental and social issues within their operations, but it has become clear that wider sustainability goals can only be reached in collaboration with governments and civil society organisations, through engagement methods such as multi-stakeholder dialogue, industry associations, and partnerships with governing bodies, international agencies, and NGOs, and so on (Kirk *et al.*, 2005).

During the two last Eras, in addition to public scrutiny and major critical events, new societal expectations, new obligations, new technologies, and globalisation trends have been the major drivers for engagement. Public scrutiny, magnified by the internet, has evolved from few groups of people into a wider social awareness, whereby society as a whole increasingly expects businesses to contribute and be part of the solution to social, economic, and environmental issues, especially as a consequence to the reduction of state capacity in tending to these problems. Transparent information disclosure, accountability, and stakeholder engagement have become legal obligations or formalised and structured voluntary measures in many cases. Technological advancements have raised several ethical concerns in terms of what the acceptable levels of risk are and whether limits should be imposed on progress, concerns which cannot be solved by companies alone and require dialogue with stakeholders or the whole society. Finally, globalisation trends have allowed companies to expand in new developed or emerging markets: the need to gain knowledge on new consumers, workers, communities, and their interests and claims has pressured business to engage with them (Kirk *et al.*, 2005).

As companies are developing expertise in engaging stakeholders through different approaches, one-way channels of communication (from company to stakeholders) typical of early engagement practices are shifting towards interactive tools for consultation and dialogue, and then towards partnerships, and multi-stakeholder alliances. In other words, instead of just asking for stakeholder trust or showing positive attitudes and results in carrying out activities, stakeholders are becoming the centre of attention, their claims are heard, and they get involved in decision-making processes and to find solutions (Partridge *et al.*, 2005, p. 21). Notwithstanding these last positive developments, there is still much progress needed to reach the above-mentioned parameters of inclusivity, materiality, and responsiveness within existing engagement practices, and to fully align business activity with sustainable development at all levels. Moreover, the development phases of stakeholder engagement described with the three Eras apply almost only to large corporations, which operate within the right circumstances and possess the appropriate amount of resources, whereas nowadays, the vast majority of smalland medium-sized companies around the world are still not engaged in these debates or find themselves at the development stage of either one of the previous two Eras. Regardless of how advanced or underdeveloped stakeholder engagement practices have become for specific companies in specific circumstances, the potential progresses that can be achieved are driven the same factors: public scrutiny, globalisation and expansion towards new markets, societal expectations, legal and ethical obligations, critical events, and new technologies (Kirk *et al.*, 2005).

2.1.1 Business case for stakeholder engagement

Stakeholder engagement serves many purposes for companies. In instrumental terms, it mainly contributes to two broad categories of purpose: the definition and development of strategies and the identification and improvement of on-going operational issues (AccountAbility, 2015). Within these two categories, there are several specific reasons why companies devote resources to engagement:

- **Long-term profit maximisation**. As the early instrumental contributions to stakeholder theory suggest (Freeman, 1984; Jones, 1995; Friedman, 2007), stakeholder engagement is most frequently adopted as a strategy for management to maximise the economic value created by the company and to ensure its long-term and sustainable survival.
- **Risk management**. Engaging stakeholders at the right time and in appropriate ways can reduce costs associated with companies' unethical patterns of behaviour and the long-term outcomes of such conduct. In fact, negative outcomes such as critical events, deterioration of relationships, conflicts, lawsuits, loss of social and operational licenses, boycott movements all require mitigation, with consequent financial damages and losses which might have huge impacts on the sustainability of companies' operations. In the same way, engaging positively with regulatory institutions allows to attain legislation that facilitates business activity (Friedman and Miles, 2006).
- **Building trust and positive reputation**. Stakeholder support is critical for long-term operational success: engagement helps in building the trust of groups and individuals who can provide support and consequently in building trust-based and mutually beneficial relationships. Transparency and accountability about processes and objectives strongly increase stakeholder trust. This kind of relationship also creates a positive public image of the company and what it does, thus improving its reputation (Partridge *et al.*, 2005).

- **Learning**. In order to manage risk and reputation, it is necessary to fully understand the company’s operating environment: developing close relationships with stakeholders provides valuable information on external events and changes, market conditions, technological advancements, consumer trends. This way companies can effectively identify new strategic opportunities, anticipate risks and external changes, and respond to existing issues. Engagement also enables to learn from stakeholders: insights and knowledge of consumers, workers, communities, and so on are useful sources of innovation, enabling product, and process improvements (Friedman and Miles, 2006; AccountAbility, 2015).
- **Pooling of resources**. A close stakeholder network fosters collaboration and the creation of partnerships, which in turn allow for the pooling of diverse resources: sharing knowledge, money, technology, and engaging people strongly increases a company’s capacity to operate and to reach its objectives, which might not be achievable by the company alone. This is another important source of innovation, in order to address complex challenges or to develop new business activities (Kirk *et al.*, 2005).
- **Competitive advantage**. All the above-mentioned purposes of engagement create valuable sources of competitive advantage for companies, and might be crucial to secure a strategic positioning or a leadership role in a particular sector, and the overall sustainability of operations (Jones, 1995).
- **Informing, educating, and influencing stakeholders**. Finally, stakeholder engagement can be used specifically to inform the preparation of performance and sustainability reports, as it helps in determining material issues and in understanding stakeholders’ information needs (Global Reporting Initiative, 2016a). Reports are some of the main mechanisms for communicating with stakeholder (Herremans, Nazari and Mahmoudian, 2016; Torelli, Balluchi and Furlotti, 2020). In addition to providing information, the process of engagement can educate and influence stakeholders on specific issues so that their decisions and actions align with the interests and objectives of the company.

2.1.2 Sustainable development case for stakeholder engagement

As already discussed in the previous chapter, stakeholder engagement not only brings about economic benefits for companies but can also lead to systemic change towards sustainable development (AccountAbility, 2015). The business sector holds a great amount of power and influence over how sustainability is perceived and implemented: through good quality stakeholder engagement it has the power to achieve the following purposes.

- **Equity and inclusivity**. Stakeholder engagement provides those who have a right to be heard the opportunity to be considered in or to contribute to decision-making processes. This way, it reduces the likelihood that groups or individuals at the periphery of decision-making or society are marginalised (Reed, 2008, p. 2420) and thus promotes equitable and sustainable social development, based on active citizenship and participation.
- **Social learning and collaboration**. The creation of diverse and inclusive stakeholder networks enables internal and external members to learn from each other, fostering creativity, and innovation both within and outside the boundaries of business operations. The gradual establishment of common grounds and of trust in company-stakeholder and stakeholder-stakeholder relationships can reduce contention and adversarial stances and increase collaboration.
- **Empowerment of stakeholders**. As already mentioned above, to acquire and to utilise knowledge of economic, social, and ecological environments is a crucial prerequisite for companies in any sector. Engagement creates spaces for the exchange and the co-generation of knowledge, in which stakeholders not only are consulted in matters pertaining to their specific expertise, but are also empowered to develop such expertise, strengthening their knowledge and their influence on decisions as a result. In turn, the company will have access to ever-increasingly complete and high-quality information inputs, informing decision-making and operations.
- **Better decision-making**. Business decisions that recognise the complexity of the socioeconomic and ecological environment and account for diverse knowledges, practices, norms, and values are more likely to be perceived as holistic and fair by the majority of stakeholder groups. Such high-quality decisions allow stakeholder needs and priorities to be successfully met in time, avoiding unexpected outcomes for both parties. Moreover, if decisions are shared by the majority of stakeholders, a sense of ownership over processes and outcomes may be created, enhancing long-term support and enhanced implementation of strategies (Reed, 2008; AccountAbility, 2015).
- **Technological adaptation**. Transformations to sustainability also rely on technological solutions to a certain extent: Scoones (2016, p. 299) reports that an accountable and democratised development of technology happens in contexts which are socially embedded and located in communities or workplaces. Engaging stakeholders informs

and facilitates this process, as it pushes companies to advance technological solutions that can be adapted to local socio-cultural and environmental conditions (Reed, 2008).

When considering why the business sector should commit to engage stakeholders and what role this process plays within wider transformations to sustainability, the instrumental and strategic purposes of engagement described in the business case need to be reinforced and broadened by the more normative arguments in the sustainable development case, that push for the inclusion of society as a whole and of the environment.

2.2 Who to Engage

Stakeholder theory does not provide a single and unambiguous definition of the word *stakeholder,* due to the breadth of its scope of application. The simplest way of classifying and selecting stakeholders is to take into consideration those groups with a distinguishable relationship with the company, such as shareholders, customers, suppliers and distributors, employees, and local communities (Friedman and Miles, 2006). These are “primary” or “definitional” stakeholders, or the groups without whose support the business would cease to be viable and towards whom the process of value creation should be primarily directed (Freeman, 2010, p. 26). Their most important stakes are:

- **Shareholders, investors, and owners** have a financial stake (investments, stocks, bonds, etc.) in the business and expect a financial return from its operations.
- **Employees** have their jobs and livelihoods at stake. Their relationship with the business is usually formalised in contracts and they expect security, wages, benefits, and meaningful work in return for their labour. Employees can also be investors or shareholders and can be part of decision-making processes.
- **Customers, suppliers, and distributors** seek dependable business partners and exchange resources for the products and services of a business and in return expect the benefits of such products and services.
- **Local communities** provide the company with legitimacy and permits to operate in a certain place and expect benefits deriving from economic and social contributions that the company can offer, as well as responsibility and accountability.

The development of stakeholder theory has shown that stakeholder identification is a much more complex process, as the term stakeholder is not just limited to those entities that are crucial for the achievement of corporate objectives but extends to define the relationships between the company and broader and diverse groups of people, society as a whole, and the environment. The strategic, normative, broad, and narrow stakeholder categories discussed in the previous chapter serve to make sense of this multiplicity of individuals and groups, connecting the engagement of specific stakeholders to specific purposes (Friedman and Miles, 2006).

"A stakeholder in an organization is (by definition) any group or individual who **can affect or is affected** by the achievement of the **organization's objectives**" (Freeman, 1984, p. 46).	"Stakeholders are those individuals, groups of individuals or organisations that **affect and/or could be affected** by an **organisation's activities, products or services and by the associated performance with regard to the issues addressed by the engagement**" (AccountAbility, 2015, p. 17).	"Stakeholders are defined as entities or individuals that can reasonably be expected to be significantly **affected** by the reporting **organization's activities, products, or services**; or whose actions can reasonably be expected **to affect** the ability of the organization to **implement its strategies or achieve its objectives**. This includes, but is not limited to, entities or individuals whose rights under law or international conventions provide them with **legitimate claims** vis-à-vis the organization" (Global Reporting Initiative, 2016a, p. 8)

Table 1: Stakeholder definitions

Accordingly, the AA1000 Stakeholder Engagement Standard and the GRI reporting guidelines choose the following definitions of stakeholders (see Table 1), using the same structure as in Freeman's original definition but widening its scope. Stakeholders are defined in relation to the company's objectives and strategies, activities, products, services, engagement objectives, and legitimate claims.

These definitions call for the consideration and inclusion of several other groups of so-called *secondary* stakeholders. As they affect or are affected by the company, they have reasons to expect or to demand that the company act in a responsible manner towards the satisfaction of their claims (Freeman, 2010).

The relationships between a company and its primary and secondary stakeholders are not necessarily linear and direct: within complex networks there are individuals, groups, and organisations that act as intermediaries (mediators, facilitators, coordinators, campaigners, influencers), supporting stakeholders to influence the company or vice-versa. Several groups of secondary stakeholders can both act as direct stakeholders and as intermediaries (Friedman and Miles, 2006). The most common secondary stakeholders and intermediaries are:

- **Competitors and peers.** They expect fair competition within the industry sector. Competitor-competitor relationships can be crucial sources of information, as they deal with similar issues and with similar groups of stakeholders. Competitors' practices can also serve as benchmarks for the company wishing to improve its operations (Kirk *et al.*, 2005).
- **Trade and industry organisations.** Fair and effective forms of collaboration and dialogue between peers and competitors become structured in entities such as trade and industry organisations and chambers of commerce. These act as intermediaries between peers and competitors mostly through forms of self-regulation established to ensure that fair practices, product quality, safety, and other standards are followed systematically and extensively (Campbell, 2007). Moreover, they can act in the interest of companies as intermediaries with the government and civil society (Friedman and Miles, 2006).
- **Government, regulators, and policymakers.** Regulatory stakeholders expect adherence to existing regulations**.** Fostering relationships with these stakeholder groups allows to go beyond compliance and into public-private partnerships, multi-stakeholder policy dialogues, with the purpose of creating or securing policy frameworks that are supportive of responsible competitiveness (Partridge *et al.*, 2005, p. 19) and of sustainable performance. Moreover, these relationships can help transform individual commitments to reach social and environmental objectives into shared performance targets, codes of conduct, and agreements at the industrial sector, national, or international level (Kirk *et al.*, 2005).
- **NGOs and pressure groups.** They act both as intermediaries in business-civil society and government-civil society relations, claiming to represent those affected by private sector or government actions, and as stakeholders. Sustainable development strongly depends on the interconnections between diverse actors at every level (global, sectorial, regional, and issue-specific) and on how local knowledges and practices are valued and represented throughout the process. Engaging with NGOs, as powerful representatives of civil society, can lead to the achievement of many of the purposes described above

in the "sustainable development case". NGOs, as well as trade organisations, trade unions, and other stakeholders' representative organisations, are also actual stakeholders: as social entities they develop structures, cultures, and needs that may or may not always be consistent with the stakeholder groups they claim to represent (Friedman and Miles, 2006; Scoones, 2016).

- **Labour unions** demand good working conditions for workers and the recognition of their rights as such, in order to establish balanced relationships of mutual dependence between employers and employees (Friedman and Miles, 2006). Similarly to NGOs, they are both stakeholders and intermediaries between the company and its employees.
- **Opinion leaders** are other kinds of stakeholder representatives, such as community leaders, advocacy organisations and interest groups. Their role as representatives can be both formal and informal (Kirk *et al.*, 2005).
- **The media.** Friedman and Miles (2006) argue that media outlets act almost exclusively as intermediaries in company-stakeholder relationships instead of being stakeholders in themselves. The media affect the flow of information regarding a certain issue by facilitating communication and the creation of supportive and opposing opinions. Establishing and maintaining engagement with media outlets allows companies to get their desired message across to a variety of stakeholders and to influence their decisions and views. At the same time, the media does not necessarily represent the company's or stakeholders' interests and cannot be controlled by either side: for example, media coverage on a particular critical event can strongly impact a company's reputation and legitimacy to operate. Moreover, stakeholder organisations are able to mobilise and attract media attention on issues of their interest.
- **Research institutions, academia, and the scientific community.** Engaging these stakeholders provides crucial opportunities for learning and allows for the co-generation of knowledge, which in turn will benefit performance levels. Moreover, the institutionalisation of examples of sustainable corporate behaviour in academic publications and other educational programmes pushes for a more widespread implementation of sustainable practices. Engagement gives companies access to such knowledge (Campbell, 2007).
- **The natural environment.** Due to the huge impact business activity can have on the ecological environment, both locally and globally, and due to the inadequate representation of the environment by other stakeholder groups, normative stakeholder theories include it as an actual stakeholder that requires systematic consideration from

companies. Starik (1995) argues that the explicit inclusion of the natural and non-human environment in stakeholder engagement processes would enhance the sensitivity of the business sector to the relationships it has with non-human nature. More in detail, businesses would be more capable of perceiving and interacting with the natural environment in its full complexity and widen their decision perspectives, they would prioritise environmental issues and confer them a political status and "voice". In general, this would push the business sector toward a more sustainable and socially and environmentally responsible role.

- **Future and past generations and other non-living entities.** Similar to the natural environment, future and past generations and non-living entities can affect and be affected by corporate activities. When environmental impacts are considered, future generations are often brought into discussion as their survival and well-being depends on today's decisions. Legacies and traditions passed on by past generations may affect the company's culture or ways of operating.

Once the owners of the engagement process have established the purpose of engagement and the material issues to be addressed, they shall identify those stakeholders who are relevant to such purpose and issues. Inclusivity calls for an unbiased and comprehensive selection of stakeholders, which ensures that all relevant parties are represented. In order to achieve this principle, a systematic methodology for stakeholder identification must be developed (AccountAbility, 2015). Nonetheless, stakeholder groups can be very diverse and dynamic, raising the complexity of the identification process. To divide stakeholders into primary and secondary is not enough if other factors are not taken into account, such as: the interrelationships between different stakeholder groups, their power and influence, the differences and similarities that exist within the same stakeholder group, the abilities, competencies, mindsets, and cultures of both stakeholders and companies, and the potential changes of the external environment and of these dynamics in time (Partridge *et al.*, 2005).

To deal with this complexity, the identification process can be guided by stakeholder attributes. As reported in the previous chapter, this method was first brought forward by Mitchell, Agle, and Wood (1997, p. 864) in stakeholder theory literature, who state that in order to understand which stakeholders to engage, actual and potential stakeholder-manager relationships must be evaluated in terms of the presence or absence of these attributes: power, legitimacy, and urgency. A stakeholder has power if they have access to coercive, utilitarian, or normative means to impose their will on the relationship with the firm. Stakeholders are legitimate if their actions and claims are appropriate within a socially constructed system of norms and values. Stakeholder claims are urgent if they demand immediate or prompt attention from the firm. Within and in addition to these attributes, there are other more particular dimensions to consider. The AA1000SES, Partridge *et al.* (2005), and Kirk *et al.* (2005) include the following:

- **Dependency (power)**: stakeholders who are dependent on the company's activities, performance, products, or services and stakeholders whom the company is dependent on to operate. For example: employees can be dependent on the salary the company provides and vice-versa the company is dependent on their labour. Governments can be dependent on the company for the creation of job opportunities and for taxation, while the company is dependent on legislators to ensure legitimacy of operation.
- **Influence (power)**: stakeholders who can have an impact on the ability of the company to achieve a certain goal, by supporting or impeding performance. Stakeholders can exert their influence both formally, through actual participation in decision making processes, and informally, by setting positive examples, through pressure, and so on. It is not necessary to have a legitimate claim on the company to have influence over its operations. Trade organisations, NGOs and other powerful stakeholder representatives can be examples of influential stakeholders.
- **Responsibility (legitimacy)**: stakeholders who are or will be owed legal, commercial, operational, ethical, and moral responsibilities by the company, whether formalised in regulations, contracts, and codes of practice or informal. As discussed in the previous chapter, responsibility is one of the underlying concepts of CSR and sustainable development, and the normative core of stakeholder engagement. In this sense, it is particularly important for companies to assume responsibility and engage with those stakeholders who are most negatively impacted but may not bring any benefit to business operations, such as communities, minorities, disadvantaged groups, the environment, and so on.
- **Diverse perspectives (legitimacy)**: stakeholders who can bring forward new and different views in order to gain a better understanding of a particular situation and to seize opportunities that would not occur without their inclusion. Competitors, local communities with their specific knowledges, and practices, and other stakeholder representatives can be sources of diverse perspectives.
- **Representation (legitimacy)**: stakeholders who are entrusted to represent the interests of specific individuals or groups by regulations, customs, culture, or reputation. This

includes stakeholders representing people or entities who are voiceless, such as future generations and the environment.

- **Tension (urgency)**: stakeholders who need immediate attention from the company to solve financial, economic, social, and environmental issues.
- **Proximity (legitimacy and urgency)**: stakeholders with whom the company interacts the most and builds long-standing relationships. Proximity can also be geographical and define those stakeholders who are affected because they live close to where a company operates. Mitchell, Agle, and Wood (1997) argue that the urgency attribute shows the dynamism of power and legitimacy in stakeholder-company relationships, which in fact are not static but exist and transform in time and space.

These attributes and dimensions overlap according to the company's type of activities, its impacts, general corporate goals and engagement objectives. Figure 2 shows an example of their possible intersections. Internal knowledge of the company, of the issues that require an engagement process, and of its purposes, as well as external sources of information, such as research studies, peer analyses, national or international guidelines all provide bases for an initial identification of stakeholders. As engagement progresses, it may be necessary and appropriate to review the identification process according to stakeholder inputs (AccountAbility, 2015, p. 17).

Figure 2: Example of the intersection of stakeholder attributes (Kirk *et al.*, 2005, p. 25)

2.3 How to Engage

With the establishment of the purpose of engagement, the issues to be tackled, and the stakeholders to include, the engagement process starts to take place. It can be represented as a cycle, divided in four main stages: planning, preparation, implementation, and review (AccountAbility, 2015).

2.3.1 Plan

During the first stage, the company collects the necessary information and develops a plan of action for quality engagement based on a clear understanding of stakeholders, their interests, claims, and expectations, of the company's own expectations, of previous successful or unsuccessful engagement practices, and of the resources needed to successfully implement the process (Kirk *et al.*, 2005).

The first step is stakeholder mapping. The owners of the engagement should develop a methodology to identify (as already explained above), profile, and map relevant stakeholders. Once relevant stakeholder groups have been identified, stakeholder profiling consists in determining the following characteristics for each stakeholder group and its representatives: knowledge of the issues associated with the engagement, expectations, current relationships with the company and with other stakeholders, degree of dependence and influence, willingness to engage, capacity to engage, legitimacy and representation, cultural context, possible impacts. Each of these characteristics can be used to map and visualise potential stakeholder-company relations. For example: stakeholders could be mapped using willingness to engage as a variable against degree of influence, in order to gain useful insights on which engagement levels and methods may be the most suitable for highly influential stakeholders with little will to participate or vice-versa (AccountAbility, 2015).

The second step is the choice of one or more engagement levels and methods for each stakeholder. Engagement levels and methods define the nature of the relationships that the owners of the engagement wish to develop with their stakeholders and should be selected to best meet stakeholders' needs, capacity, and expectations (AccountAbility, 2015, p. 20). The "Ladder of Citizen Participation" by Arnstein (1969) has been one of the fundamental models guiding stakeholder theorists in the distinction of engagement levels and methods: it consists of eight degrees of participation and citizen power starting from non-participation (manipulation of citizen) at the bottom, on to tokenism (informing, consulting, and placating citizens), to citizen power at the top (partnerships, delegated power, and citizen control).

Although this model is intended to guide public policy processes, it has provided a useful framework for the analysis of stakeholder engagement practices (Friedman and Miles, 2006), which can be effectively represented as continuums from a completely passive or disconnected role of the stakeholder, to an increasingly active participation in the company's operations and management. Different theories and approaches to this matter have used different terms to describe macrolevels, such as *consultative*, *functional*, *empowering*, and *transformative* by Bigg (1989) and Lawrence (2006), or *communication*, *consultation*, and *participation* by Rowe and Frewer (2000), as reported by Reed (2008, p. 2419). Table 2 shows the differentiation of engagement levels and methods provided in the AA1000 Stakeholder Engagement Standard (AccountAbility, 2015).

MACRO-LEVEL	LEVEL OF ENGAGEMENT	METHODS OF ENGAGEMENT	GOALS
Low level of engagement, no communication, short-term nature of relationship	**Remain Passive** No active communication	• Stakeholder concern expressed through protest • Letters, Media, Websites etc.	No goal. No engagement.
	Monitor One-way communication: stakeholder to organisation	• Media and internet tracking. • Second-hand reports from other stakeholders possibly via targeted interviews.	Monitor stakeholders' views.
	Advocate One-way communication: organisation to stakeholder	• Pressure on regulatory bodies • Other advocacy efforts through social media • Lobbying efforts	Monitor stakeholders' views.
	Inform One-way communication: organisation to stakeholder, there is no invitation to reply	• Bulletins and letters • Brochures • Reports and websites • Speeches, conferences, and public presentations	Inform or educate stakeholders.

Medium level of engagement, limited communication, medium-term nature of relationship	**Transact** Limited two-way engagement: setting and monitoring performance according to terms of contract	• 'Public- Private partnerships' • Private Finance Initiatives • Grant-making • Cause-related marketing.	Work together in a contractual relationship where one partner directs the objectives and provides funding.
	Consult Limited two-way engagement: organisation asks questions, stakeholders answer	• Surveys • Focus groups • Meetings with selected stakeholder/s • Public meetings • Workshops	Gain information and feedback from stakeholders to inform decisions made internally.
	Negotiate Limited two-way engagement: discuss a specific issue or range of issues with the objective of reaching consensus	• Collective bargaining with workers through their trade unions	Reach consensus.
High level of engagement, diverse communication, long-term nature of relationship	**Involve** Two-way or multi-way engagement: learning on all sides but stakeholders and organisation act independently	• Multi-stakeholder forums • Advisory panels • Consensus building processes • Participatory decision-making processes • Focus groups • Online engagement tools	Work directly with stakeholders to ensure that their concerns are fully understood and considered in decision making.
	Collaborate Two-way or multi-way engagement: joint learning, decision making and actions	• Joint projects • Joint ventures • Partnerships • Multi-stakeholder initiatives	Partner with or convene a network of stakeholders to develop mutually agreed solutions and joint plan of action.

		• Online collaborative platforms	
	Empower New forms of accountability; decisions delegated to stakeholders; stakeholders play a role in shaping organisational agendas	• Integration of stakeholders into governance, strategy, and operations of the organisation	Delegate decision-making on a particular issue to stakeholders.

Table 2: Levels and Methods of engagement (Kirk et al., 2005, p. 60; AccountAbility, 2015, p. 22)

The first levels (see *Low level of engagement* in table 2) describe situations in which there is no bidirectional communication between the organisation/company and its stakeholders: the company informs non-defined stakeholders on decisions that have already been made and advocates for its own interests, while stakeholders express concerns which may remain unnoticed or ignored. The middle levels (see *Medium level of engagement*) involve token engagement practices: stakeholders are consulted and asked to express their concerns before decision-making processes take place but without assurance that these will impact the results; the company responds to stakeholder unrest relating to a certain issue in order to reach consensus. The highest levels (see *High level of engagement*) actively or responsively empower stakeholders in decision-making processes, generation of knowledge, collaborations, and alliances (Friedman and Miles, 2006).

Friedman and Miles (2006) build a similar model of stakeholder engagement: it is also based on Arnstein's "Ladder of Citizen Participation" (1969) and comprises 12 levels of engagement, which overlap with the levels reported in Table 2 with only minor differences. This model presents useful additional information, as specifies the level of influence stakeholders are able or are given the possibility to exert (knowing about decisions, being heard before a decision, having an influence in decisions, and forming or agreeing to decisions). In Table 3, these levels of influence are adapted to the levels of engagement described in the AA1000 Stakeholder Engagement Standard (AccountAbility, 2015) and shown in Table 2.

Level of engagement	Stakeholders' level of influence
Remain Passive	Knowing about decisions
Monitor	
Advocate	
Inform	
Transact	Being heard before a decision
Consult	
Negotiate	Having an influence in decisions
Involve	
Collaborate	Forming or agreeing to decisions
Empower	

Table 3: Levels of engagement and relative levels of influence

The third step is the development of the engagement plan, which will formally specify the purpose and scope of the engagement, the owners and the identified stakeholders, each with their roles and responsibilities, the amount of resources dedicated to the process, the engagement levels and methods, the boundaries of disclosure of information regarding the main issues, other kinds of activities performed in support of the engagement process, and whether there are factors that may impede the engagement of certain stakeholders (such as accessibility, timing, availability of information, culture-specific or religion needs, language, and so on). Lastly, qualitative and quantitative indicators to measure engagement quality and the potential impacts of the engagement process must be established, in order to demonstrate the value created to all stakeholders (AccountAbility, 2015).

2.3.2 Prepare

After the planning stage has been completed, the owners of the engagement shall ensure that both the company and the stakeholders have the resources, the capacity, and the organisational systems necessary for the whole process to be effective and productive. Moreover, risks and barriers that may prevent engagement on both sides must be identified and possibly dealt with. The preparation stage aims at ensuring that all parties are ready to begin the engagement process (Kirk *et al.*, 2005; AccountAbility, 2015).

The first step is the mobilisation of resources: the financial, human, and technological resources required by both the company and the stakeholders, and documented in the engagement plan, shall be selected and committed to the engagement process (AccountAbility, 2015). Successively, the owners of the engagement shall build or strengthen the skills and capacities needed by all parties to ensure that the engagement be effective. On the company's side, stakeholder engagement requires a strong organisational system, broad knowledge of the issue, and good internal skills. An effective organisational system is characterised by management commitment to the issue, supporting internal policies, definite performance indicators and targets, clear assignment of responsibilities to competent staff members, and effective review and learning processes. In addition, internal knowledge and awareness of the issue, of the stakeholders involved, their local culture and politics, as well as internal skills such as project management, suitable patterns of behaviour, advanced engagement techniques, and credibility are relevant and beneficial to the process. Moreover, as diverse groups with different levels of expertise, confidence, and experience regarding the issue are involved, building and strengthening each stakeholder's capacity to engage is another necessary step. The owners of the engagement shall consider stakeholders' availability of financial resources, time and willingness to participate, and access to information in order to enable them to engage at their full capacity (Kirk *et al.*, 2005; AccountAbility, 2015).

Another step of the preparation stage is the identification, assessment, and management of potential engagement risks: stakeholder risks include unwillingness to engage, unrealistic expectations, unbalances of power between different stakeholder, disruptive behaviour, conflict, and so on. Organisational risks include damage to reputation, waste of resources, conflict of interest, internal disagreements or non-compliance with legal and internal policies and standards (AccountAbility, 2015, p. 26). Risk management enables better quality decisions, reduces negative outcomes, and promotes positive relationship building.

2.3.3 Implement

During the implementation stage, the company shall carry out the designed engagement process, document it accurately, record the engagement outputs, and provide a coherent response to the issues, expectations, and concerns expressed by stakeholders in the form of an action plan.

To set-up the engagement process, the owners of the engagement shall provide stakeholders with the appropriate general information (purpose, scope, timelines, benefits, responsibilities, logistics) in advance and send out invitations to participate. In addition to these pieces of information, comprehensive and balanced briefing materials should be made available to participants and pre-meetings, conversations, and trainings should be organised to prepare them in case of need. At the beginning of the engagement process, procedural and behavioural ground rules should be set and agreed on by all participants. Ground rules may include respect of confidentiality or anonymity, respect for all inputs, to set balanced amounts of space for participants, to avoid stating wrong or offensive assumptions about other members, to avoid digressions. Moreover, the potential emergence of unexpected but relevant claims that are not in the scope of engagement, as well as of any negative issue such as distrust, rivalries, intimidation, or unbalanced participation shall be immediately identified and addressed by the owners of the engagement or by facilitators. In fact, the use of facilitators is also recommended, in order to add a neutral party who doesn't have a stake in the outcomes of engagement and who can provide guidance, better clarity and problem-solving (Kirk *et al.*, 2005; AccountAbility, 2015).

A record shall be kept of all the engagement phases, of its participants, and of its outputs in order for the company to analyse the process and develop an action plan as a response to the various outputs, and for the stakeholders to receive consistent feedback. Each engagement output (new learning, insights, agreements) should be translated into decisions, policies, and action plans (e.g., development or change of governance and management commitments, of relevant policies, of strategies, objectives, targets, and performance indicators, of operational practices, of responsibilities, as well as review, learning, and improvement processes) and a transparent explication of the reasons behind each response should be provided. The action plans should also define roles and responsibilities, set realistic time frames, and ensure that future decisions will take into account stakeholder concerns and expectations.

2.3.4 Act, Review, Improve

Once the implementation stage has been completed, the company and its stakeholders shall evaluate the quality of the engagement process, both as a whole and of each stakeholder group specifically. The degree of commitment to the inclusivity, materiality, and responsiveness principles, the initial and/or revised purposes and scopes, the level of stakeholder participation, every stage of the process, and its outputs and outcomes shall all be monitored and evaluated, as they are crucial sources of learning and improvement for the company. The evaluation shall also account for unexpected new material issues that may have emerged from stakeholder claims and that require consideration, in order to be able to provide more adequate and comprehensive responses in the future. The insights obtained from the evaluation should be formalised, integrated, or also institutionalised in future strategies, operations, and engagement processes. The relationships that have been created or reinforced during the engagement process should also be secured, to maintain an ongoing dialogue. As mentioned at the beginning of this section, the four stages of engagement develop in a cycle: the insights, the new issues, and the new relationships that have been acquired through an engagement process will inform the planning, preparation, and implementation stages of the following engagements (AccountAbility, 2015).

Finally, the company shall report on its stakeholder engagement and on its outcomes through dedicated reports, to give additional feedback to the stakeholders who participated, or through other forms of public organisational reporting, such as sustainability reports, annual and financial reports, websites, and social media. Public reporting is an essential tool to demonstrate the overall value created through all the engagement activities and to remain accountable to stakeholders and to the public (Kirk *et al.*, 2005; AccountAbility, 2015). Sustainability reports are further analysed in the next subchapter.

2.4 Sustainability Reports

Sustainability and CSR reports[4] are published to communicate relevant information about corporate performance and actions with respect to the interests of stakeholders and society, as well as the corporate intention to create shared value, to remain accountable, and to increase the level of sustainability of every part of business (Torelli, Balluchi and Furlotti, 2020). As reporting is usually considered either as an integral part of CSR and sustainable development or as strongly affiliated with these two concepts, it represents another important tool that serves companies in moving beyond compliance to legal and business requirements towards a more proactive and responsible approach (Bini and Bellucci, 2020). Throughout the world, an increasing number of companies are publishing sustainability and CSR reports (Blasco and King, 2017): the growing attention paid to stakeholders' interests and claims, to business ethics, and to corporate social responsibility and sustainable development have highlighted the need to develop accounting methods that effectively address these topics. In this endeavour, both national and international, as well as market-, industry-, or community-specific, institutional and regulatory requirements, standards, and guidelines have had a pivotal role in the promotion

[4] "Sustainability report" and "CSR reports" are not the only terms available to define non-financial reports: "environmental report", "social and environmental report", "Integrated Report", and "Triple Bottom Line report" all present specific features and focuses, as well as different levels of interaction with economies, societies, ecological systems, resources, and different levels of ambition (Bini and Bellucci, 2020). For the purpose of this dissertation, the terms "sustainability reporting" and "CSR reporting" will be used, even though their descriptions may overlap with the features of the other terms, as "sustainability report" can be considered comprehensive of these features and "CSR report" is widely used in the Chinese context.

of non-financial disclosure, reinforcing the original voluntary and individual motivations behind it. Moreover, the number of potential readers and recipients of sustainability reports has increased to include all internal and external stakeholders, thus making reporting even more essential: in general, stakeholder engagement has enabled companies to question and challenge unethical and unsustainable practices and the action of reporting has provided one of the possible tools for the improvement of such practices (Bellucci and Manetti, 2019; Bini and Bellucci, 2020).

Stakeholder engagement and sustainability reporting are strictly linked and mutually reinforcing practices. Sustainability report disclosure is considered an engagement method within the "inform" level of engagement (see Table 2): the company wishes to keep stakeholder informed and updated on particular issues but does not necessarily provide them with the opportunity to respond and state their ideas and opinions. Bellucci and Manetti (2019, p. 91) argue that if its purpose is limited to one-way information disclosure, sustainability reporting may be misused as a mere legitimisation device, whereby companies opportunistically report on activities and on engagement for the purpose of curbing external pressures, of reaching the social consensus needed for economic success, and of reducing external costs, without actually acting upon stakeholder interests. Instead:

> "A primary goal of reporting is to contribute to an ongoing stakeholder dialogue. Reports alone provide little value if they fail to inform stakeholders or support a dialogue that influences the decisions and behaviour of both the reporting organisation and its stakeholders'' (Global Reporting Initiative, 2016a).

In fact, the drafting and disclosure of sustainability reports is mentioned above as one of the very purposes of stakeholder engagement: two-way dialogue with stakeholders and higher levels of engagement are essential to defining the materiality of the issues to be addressed and reported on (AccountAbility, 2015). The materiality principle not only informs good-quality stakeholder engagement but also supports the overall relevance, credibility, and accessibility of sustainability reports, which in turn will enable the company to inform internal and external stakeholders thus allowing them to form opinions and to make informed decisions on issues that matter to them and on sustainability in general (Global Reporting Initiative, 2016a, p. 3)

Finally, the preparation of reports is included as a step in the last phase of the stakeholder engagement process. Whether integrated in sustainability reports or as stand-alone reports, information on engagement shall include (AccountAbility, 2015, p. 32):

- a detailed description of the stakeholder groups engaged,
- the approaches and methods chosen to engage,
- the frequency of engagement,
- the issues and concerns raised in the process,
- the organisation response to engagement outcomes.

These pieces of information can be particularly useful for researching stakeholder engagement and for assessing its quality: several studies have carried out qualitative and quantitative analyses of stakeholder engagement practices described in annual sustainability reports (Manetti, 2011; Moratis and Brandt, 2017; Stocker *et al.*, 2020; Torelli, Balluchi and Furlotti, 2020). Nonetheless, stakeholder engagement disclosure in sustainability reports remains understudied to this day, especially with regards to non-western contexts. This dissertation specifically uses GRI-based sustainability reports as the main source of empirical data for the analysis of engagement practices in China (see chapter 4).

2.5 Global Reporting Initiative

According to the 2015 and 2017 KPMG Surveys of Corporate Responsibility Reporting (King and Bartels, 2015; Blasco and King, 2017), the Global Reporting Initiative (GRI) Sustainability Reporting Standards is the most widely adopted voluntary reporting set of standards in the world. First released in 1999, it has been created and developed to guide organisations in the preparation of good-quality and comprehensive sustainability reports. The most adopted version of the GRI standards is the G4 version, released in 2013. In 2016, its latest version called "GRI Standards" has been published (Bini and Bellucci, 2020). GRI standards include "universal"[5] and topic-specific[6] guidelines, informing the structure, content, quality, and use of sustainability reports. "Universal" guidelines present the founding principles on which the reporting process must be based and the fundamental content to be included in every report: general disclosures (organisation's profile, strategy, ethics and integrity, governance, stakeholder engagement, reporting practice) and the management approach to the material topics considered. Topic-specific standards guide the disclosure of each material topic in detail (e.g.: biodiversity, emissions, occupational health, child labour, security, etc.).

[5] GRI 100 Series, comprised of the following standards: GRI 101: Foundation, GRI 102: General Disclosures, and GRI 103: Management Approach.
[6] GRI 200, 300, and 400 Series. GRI 200 Standards are focused on economic topics, GRI 300 on environmental topics, and GRI 400 on social topics.

The GRI Reporting Principles define (Global Reporting Initiative, 2016a):

- **report content**: the choice of the report content must be based on stakeholder inclusiveness, sustainability, materiality, and completeness. In other words, the report content shall specify the relationship between sustainability and the organisation's strategy and performance and shall cover material topics, which reflect the organisation's economic, environmental, and social impacts, as well as stakeholder interests and expectations. Moreover, the content shall be sufficient to provide a comprehensive picture of the organisation and its past and future impacts to all stakeholders, without omitting relevant information.
- **report quality:** quality must be assessed on the bases of accuracy, balance between positive and negative aspects, clarity and accessibility, comparability in time and/or with other organisations' reports, reliability, and timeliness of the reported information.

2013	**2016**	**Disclosure title**	**The reporting organization shall report the following information:**
G-24	102-40	List of stakeholder groups	A list of stakeholder groups engaged by the organization.
G-25	102-42	Identifying and selecting stakeholders	The basis for identifying and selecting stakeholders with whom to engage.
G-26	102-43	Approach to stakeholder engagement	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.
G-27	102-44	Key topics and concerns raised	Key topics and concerns that have been raised through stakeholder engagement, including: o how the organization has responded to those key topics and concerns, including through its reporting; o the stakeholder groups that raised each of the key topics and concerns.

Table 4: Stakeholder Engagement Disclosures (Global Reporting Initiative, 2016b)

Disclosure on stakeholder engagement falls into the category of "General Disclosures": the GRI standard provides a structured framework for organisations to draft a detailed and precise report on the matter. Similar to the points reported above from the AA1000 standard,

Table 4 presents the GRI requirements for disclosure, with reference to the identification codes of each disclosure in the 2013 G4 version (the sustainability reports analysed in Chapter 4 follow this version) and in its 2016 updated version. These disclosure guidelines potentially cover the entire engagement process presented in this chapter.

Chapter three: Stakeholder Engagement for Sustainability in China

As previously stated, the aim of this dissertation is to research stakeholder engagement practices in the Chinese corporate context: this chapter provides an overview of the evolution of Chinese trends and discourses reflecting the concepts of corporate social responsibility and sustainable development and of how stakeholder engagement practices has developed in parallel. More in detail, this chapter provides a review of the historical, legal, and normative factors and motivations that push or require Chinese companies to engage in sustainable management of their activities and to engage stakeholders. In the first chapter, in order to highlight the links between stakeholder engagement and sustainability, business' responsibilities and roles are explored as characteristics which are strictly dependant on the context in which operations take place. Considering that the theory, institutional contexts, and social dynamics presented in the previous chapters mainly pertain to western systems, it is necessary to provide a China-specific perspective in order to effectively analyse how engagement is potentially carried out by Chinese companies. This is the main objective of the overview provided in this chapter, which serves as a complementary framework for the research carried out in the last chapter.

3.1 The establishment of a Moderately Prosperous Society and a Harmonious Society

Since the start of the Economic Reform Era in 1978, China has witnessed an extremely rapid economic development which has led the Country to become one of the largest and most powerful economies in the world. Through several structural transformations, China's economy has gradually moved from autarchic to globalised, from subsistence/peasant to industrialised, and from planned to market-oriented. The term *developing economy* is no longer completely accurate to describe today's China: even though there are still areas and issues which remain underdeveloped, China is emerging as a world leader in several sectors and is expected to have an ever-increasingly dominant and influential role on global developments. In order to achieve this enormous transformation, China has until recently been pursuing economic policies directed at profit maximisation and economic growth "at any cost" (Joshua, 2017) which in the long-run have impeded a sustainable economic and social development and have caused major environmental problems (Ip, 2009; Xu and Yang, 2010). As a response, from the 11th Five-Year Plan [7] (2006-2010) on, a significant number of policies guided towards a sustainable

[7] Five-Year Plans are all-encompassing social and economic development plans issued during the National Congress of the Chinese Communist Party every five years. The first was implemented in China between 1953 and 1957. The concept originated from the former Soviet Union as part of the socialist doctrine of centralised

development “with Chinese characteristics” have shifted the direction of economic and social growth towards the achievement of a “moderately prosperous” and “harmonious society” (Joshua, 2017).

The opening up of the economy, foreign direct investment attraction, the creation of joint ventures by Chinese and foreign companies, the establishment of Special Economic Zones (SEZs), the privatisation or reform of many state-owned enterprises, and pushes for technological developments are some of the most successful policies which have allowed the Chinese market to grow extremely quickly since 1978. Ip (2009) states that the above mentioned economic reforms have created and then have been reinforced by a “culture of profit” which was almost completely new to China at the time. As a response to the detrimental effects of the later years of Mao’s rule, and in particular to the Great Leap Forward and the Cultural Revolution, profit gain and wealth maximisation were explicitly endorsed by Deng Xiaoping, the main initiator of the Economic Reform Era, who encouraged people to unashamedly pursue wealth with his famous slogans “to get rich is glorious” and “never mind whether the cat is black or white, so long as it catches mice”. This endorsement was made at the expense of social and environmental policies and has led to an overall disruption in norms and values: the sudden rejection of old values and their replacement with new incentives for profit accumulation without the prior establishment of new shared acceptable norms of behaviour have set the ground for several negative effects. The reform of the state-owned enterprises (SOEs) system pushed for the wide privatisation of SOEs and for the elimination of the smallest and non-profitable ones, especially in labour-intensive sectors, causing high unemployment levels. Inequality between different regions and social classes and the urban-rural divide grew drastically due to the unequal distribution of the benefits of the economic reforms. Ethical violations, corruption and cronyism, injustice, lack of integrity, and other kinds of amoral behaviour have led the business sector to also widely and systematically undermine both society and the environment (Ip, 2009; Joshua, 2017). In terms of impacts on stakeholders:

> “the unscrupulous merchants and mangers, often with the collusions and co-operations with corrupted officials whom they regularly bribed, produced harms to all stakeholders and society – harming the interests of employees (slave labour, unsafe workplace, underpayment, abuse), customers (unsafe food and fake products, harmful commodities, deceptive and dishonest advertisement and marketing, false contracts), communities

and planned economy. Since 1953, China has fully implemented 13 Five-year plans. The current Five-year plan (14th) will cover the years 2021-2025 (Chen, Li and Xin, 2017).

> (destroying neighbourhood, massive layoffs), competitors (intellectual property rights violations, copycats, anti-competitive practices), the environment (air, water, and land pollution, wasteful use of energy and natural resources), and the nation (cheating on tax return, bribing government officials, SOEs' officials looting state property, laundering national resources)" (Ip, 2009, p. 214).

These are some of the most prominent environmental and social impacts the Chinese government has had and still has to take into consideration and to effectively tackle in order to build a more sustainable future. Moreover, China's reputation on the global level has also been severely damaged. (Ip, 2009; Xu and Yang, 2010).

The emergence of these issues has gradually pushed the Chinese government to re-examine its direction and goals, to re-balance economic growth, and to develop a new vision of a more *harmonious* society. The Reform Era was focused on creating a good economic base for China: economic growth not only would bring China to be as powerful at the global scale as it is today, but would also ensure "performance legitimacy" to the government and to the Chinese Communist Party (Gow, 2017). The concept of performance legitimacy guides the strategies of the Chinese Government in time, whereby the achievement of concrete goals, including economic growth, social stability, national power, governing competence, attains and maintains domestic support (Zhu, 2011). The new directions and visions of the government emphasize values as constitutive elements of social stability, and thus performance legitimacy, and are oriented towards the increase of the overall quality of life of the people, through the gradual achievement of social equity and of environmental sustainability (Gow, 2017). Ethics and morality regain the centre of attention as guiding principles, after being rejected and ignored during the economic reform Era, with the intention of constructing shared beliefs and bring both the government and the people to an agreement on the justification and lawfulness of the Communist Party's governance (Zhu, 2011). In 2012, General Secretary of the Chinese Communist Party and President of the People's Republic of China Hu Jintao proclaimed that twelve Core socialist values should be cultivated and fostered at all levels (government, society, and citizen): the promotion of prosperity, democracy, civility, and harmony at the national level; the uphold of freedom, equality, justice, and rule of law as societal values, and the advocacy of patriotism, dedication, integrity, and friendship at the citizen level (Gow, 2017). These concepts and values have been taking shape in the pursue of a "harmonious society" (*hexie shehui*), of a "moderately prosperous society" (*xiaokang shehui*), and of the "Chinese dream" (*Zhongguo meng*) as core components of the current and future Chinese development strategies (Joshua, 2017).

The vision of a "harmonious society" was first introduced by Hu Jintao during his administration (2002-2012) and from the 16th plenary session of the Chinese Communist Party's Central Committee in 2006 it was incorporated into national policy (Ip, 2014) as an holistic and inclusive approach to social and economic development, targeting environment, health, energy, education, demography, among other issues, as well as balanced progress across provinces (Biggeri and Bortolotti, 2020, p. 3). Hu's definition of a harmonious society draws on the Confucian concept of harmony and proposes six characteristics for society: democratic and constitutional rule of law, trust and social justice, vitality, order and stability, harmony with nature, and honesty. On more concrete terms, the main strategies to implement in order to construct a harmonious society are (Joshi, 2012, p. 177):

- Economic dimension: rapid economic growth, rural and urban development, save energy resources, environmental and ecological protection.
- Politics dimension: expand people's sovereignty, base-level democracy, service-oriented government, and guarantee people's rights.
- Culture dimension: harmonious culture, develop a core socialist value system (see above).
- Society dimension: improving people's welfare, reform social system, expand public services, improve social management, promote social equality and justice.

It can be argued that "harmonious society" represents both a stage of development and a possible future end-state for China, whose achievement depends on the prior reaching of a "moderately prosperous society" (Joshi, 2012) based on overall common prosperity and reduced inequality by the year 2021, the 100th anniversary of the Chinese Communist Party. Reaching a so-called moderately prosperous society involves increasing living standards for the vast majority of the public, narrowing the income and wealth gap between the rich and the poor and between urban and rural communities, creating prosperity and social equity, bringing China to world average consumption levels, and balancing economic growth with the natural environment (Joshua, 2017). The 11th Five-Year Plan (2006-2010) has provided the first guidelines for its achievement by 2021. In the meantime, Xi Jinping has succeeded Hu Jintao as General Secretary and President of the PRC: Xi's leadership (2012-) has continued to promote a broad and inclusive concept of development, described using the new formulation "Chinese dream", an umbrella term encompassing the current and future political ideology of the CCP, which shares and widens the "harmonious society" goal (Gow, 2017; Biggeri and Bortolotti, 2020). The aim of the "Chinese dream" calls for China to become a "moderately prosperous society" by 2021 and a fully developed nation by 2049, the 100^{th} anniversary of the founding of the PRC (Joshua, 2017).

3.2 Harmonious Society and Sustainable Development

Although a broad and international consensus has been reached over the definition, the scope, and the implications of sustainable development, it is essentially a development framework which remains culturally determined and multidimensional. In light of the recent global shifts in economic power and influence towards China and other East Asian Countries, the historically western approach to sustainability needs to be juxtaposed with its different conceptualisations in order to be fully representative of current world trends (Li *et al.*, 2016).

The development of a "Harmonious Society" and Sustainable Development have many points, premises, and goals in common: they were both formally established as responses to growing social and environmental crises[8] and as guiding frameworks to address the economic, social, and environmental issues of the time to achieve long-lasting improvements both in the present and in the future. There are also several important differences to mention (Joshi, 2012; Li *et al.*, 2016):

- The "harmonious society" preserves Chinese society's collectivistic approach and consists in social harmony instead of individual empowerment. Moreover, the concept of harmony has a greater spiritual dimension, founded on specific and common traditional and socialist values, whereas the western Sustainable Development concept can be considered more "material", even though it is mostly normative (see chapter one).
- Their executions do not take place in the same way, thus reflecting the different socio-political environments in which they are constructed. As mentioned in chapter one, neoliberalism has notably reduced the role and power of the state in favour of private corporations and civil society organisations in the west. On the contrary, the Chinese Government aims at retaining its role and power in controlling and fostering sustainable growth, as well as politics and culture, mainly as a source of legitimacy. In this light, it can be argued that the implementation of a "harmonious society" and of a "moderately prosperous society" may be focused more on achieving stability, continuing wealth accumulation, and maintaining the Chinese Communist Party sovereignty than on the purposes listed above.

[8] Although the concept of a harmonious society derives from and recalls Chinese Confucian culture and other traditional philosophies, its re-emergence with Hu Jintao was mainly brought about for these reasons.

- Sustainable Development relies on transformational politics (grassroot mobilisation, redefinition of power structures, democracy, and participation), which are usually discouraged in the name of harmony and social stability by the Chinese Government.
- The “Harmonious Society” goal does not have specific national or regional indices or benchmarks for citizens to monitor progress in a systematic way: it is often flexible and ambiguous to appeal to the widest possible majority. Sustainable Development, on the other hand, is more transparent and formalised (e.g.: the 2015 Millennium Development Goals and The 2030 Agenda for Sustainable Development of the UN).

3.3 The development of CSR in China

The introduction of the “Harmonious Society” and the departure from a “profit at all costs” economic development model also share common features and objectives with Corporate Social Responsibility. Considering CSR and sustainable development as mutually reinforcing concepts and, more practically, CSR as a vehicle for the achievement of sustainable development goals in western contexts, the growing attention paid to CSR guidelines and practices within the Chinese corporate context and by the Chinese Government institutions could suggest that a similar dynamic links CSR and the “harmonious society” (Wong, 2009). Similar to Sustainable Development and “harmonious society” being embedded in context, the recognition of the value of CSR, as well as its performance, depend on the socio-political and cultural environment in which they are developed: in fact, China’s conceptualisation of CSR presents some differences when compared to its western adoption (Xu and Yang, 2010). If it can be argued that “Harmonious Society” and western Sustainable Development are in some way equivalent concepts with their own different histories and socio-political scopes of application, there is no exclusively Chinese equivalent of CSR: CSR was initially an imported concept, which later developed and acquired some uniquely Chinese characteristics.

The initial drivers of CSR adoption have been foreign multinational companies operating in China in the late 1990s: in order to meet home consumers’ demands, international organisations’ standards, and NGOs’ concerns (e.g.: on pollution and labour conditions), MNCs would demand Chinese suppliers, distributors, and subsidiaries to comply with their own national and/or international CSR requirements. The economic reforms in the 1980s and 1990s had in fact attracted a large number of foreign businesses in joint ventures and through foreign direct investment in China; China had quickly become the “world’s factory”, offering cheap labour to foreign companies as a tool to boost the economy. Soon, solving pressing issues, such as poor labour conditions and other kinds of unethical behaviour, and the possibility to maintain these business operations (manufacture and trade) had become increasingly more tied together: the Chinese Government began to take interest in CSR as a response, in order to ensure that development would continue smoothly and in line with international expectations. In the same way, China's admission in the World Trade Organisation in 2001 and its later participation in the UN Global Compact in 2007, among other similar events, have required better and wider adherence to international regulations, values, and norms and the consequent evolution of CSR practices (Ip, 2009; Wong, 2009; Lam, 2014). In this light, the will to uphold a positive international reputation and to deflect criticism has been a central driver for CSR adoption (Moon and Shen, 2010).

From the years 2005 and 2006, in parallel with the promulgation of the "harmonious" and "moderately prosperous society", Chinese CSR has witnessed a more "internal" development, not just driven by foreign economic and institutional forces but in line with national policy and national objectives. Moreover, CSR implementation has expanded from only concerning companies operating with foreign businesses and markets to also receiving the attention of private and state-owned enterprises (SOEs) operating at the national or regional level (Wong, 2009), as well as of industry organisations (Ip, 2009). The Chinese Government has played and still plays a central role in CSR advocacy, regulation, and implementation. The amended Company Law of the People's Republic of China, enacted in 2006, first explicitly required companies to fulfil social responsibilities (Ip, 2009, p. 215) in one of its articles (which is still present in the latest version of the Company Law, issued in 2018):

> "Article 5: When conducting business operations, a company shall comply with the laws and administrative regulations, social morality, and business morality. It shall act in good faith, accept the supervision of the government and general public, and bear social responsibilities" (Ministry of Commerce of The People's Republic of China, 2006)[9].

Several other landmark events have supported this trend: a growing number of local, national, and international CSR-related conferences and summits began to take place since, among which the 2005 Global Compact Summit held in Shanghai; the state-owned enterprise State Grid Corporation of China (SGCC), the largest electric-utility corporation in China (counting 1,5 million employees in 2005) and in later years of the whole world, issued its first CSR report in

[9] The English translation is available online at: (Last visited on: 20/03/2021). http://mg2.mofcom.gov.cn/article/policy/China/201910/20191002905610.shtml

2006, thus setting an extremely powerful example for the whole business sector; in the same year, the China Textile Industry Association issued the first industry-level CSR report; the China Construction Bank, China Mobile, PetroChina followed accordingly in 2007; the Shenzhen Stock Exchange published its *"Social Responsibility Guidelines for Listed Companies"* in 2006, requiring listed companies to abide by set standards of business ethics and to commit to the protection of stakeholder rights and of the environment, and was later followed by the Shanghai Stock Exchange in 2008 (Ip, 2009; Wong, 2009). Another important CSR standard, The *Chinese Academy of Social Sciences Guidelines on Corporate Social Responsibility Reporting for Chinese Enterprises* (CASS-CSR), was published in 2009. CASS-CSR has provided a performance-indicators-based set of guidelines for CSR, whereas the other standards were mostly descriptive and did not clearly define how to structure and assess CSR implementation. Today, CASS-CSR is the most widely used domestic set of reporting guidelines in China (Pirovska *et al.*, 2019).

In 2008, the State-owned Assets Supervision and Administration Commission of the State Council (SASAC)[10] issued the "*Guidelines for Social Responsibility Implementation for the Stated-Owned Enterprise*" to inform and lead SOEs' CSR interpretation and application. The 2008 SASAC Guidelines stress the importance of CSR in the promotion of a "Harmonious Society", in the realisation of sustainable development, and in the implementation of China's "new ideas about economic development, social progress, and environment protection". CSR becomes the mission and responsibility of SOEs, it is expected and required by the government and the public, and it promotes a "responsible public image" for Chinese enterprises and for the Chinese nation (State-owned Assets Supervision and Administration Commission of the State Council, 2011). SOEs account for a great part of the Chinese economic system and figure among the main vehicles for the implementation of the Government's economic and social policies (Fornes *et al.*, 2019). The Government, as the major shareholder, is able to act as a direct agent in directing and shaping their management and operations, and not only as an institutional factor. For these reasons, See (2009) considers CSR development trends to be much more concentrated in the public sector than among private enterprises, and that CSR practices reflect the priorities of the government instead of emerging from individual or reactive forces.

[10] The State-owned Assets Supervision and Administration Commission (SASAC) is a special commission of the PRC. It fulfils the shareholder role for large and important SOEs on behalf of the central government and reports directly to the central government (Lin *et al.*, 2020, p. 39).

Non-state-owned enterprises in China have witnessed a different pace of development with regards to CSR. According to the Chinese Academy of Social Sciences, CSR performance levels were substantially higher in SOEs than in private enterprises between 2009 and 2013 (Zheng and Zhang, 2016, p. 436). Zheng and Zhang (2016) have analysed related research and have identified three factors that may have hindered the ability of private enterprises to adopt CSR to the same level and as early as SOEs: the relatively narrow sense of responsibility among private owners, the smaller size of private enterprises in comparison to SOEs and the consequent lower availability of resources to devote to CSR implementation, and the little public attention and lack of supervision over their activities. In addition, the lack of a clear and effective regulative system for the enforcement of CSR adoption and for economic, social, and environmental accountability have led to confusion about the purposes and advantages of CSR for private enterprises and about how to actually execute the Government's normative pressures for CSR (Fornes *et al.*, 2019). Zheng and Zhang (2016) argue that this situation is changing and that CSR recognition and adoption in private enterprises is reaching SOEs's levels. Fierce market competition has increased private enterprises' ability to develop competitive advantages in the form of product quality improvement, attention to consumers interests, and other socially responsible actions. Moreover, private enterprises are gradually accumulating the power and capital necessary to afford CSR engagement, which most SOEs have had available for a longer time.

3.4 Chinese and western CSR dimensions

Xu and Yang (2010, pp. 328–330) have collected and analysed western and Chinese dimensions of CSR to pinpoint the commonalities and differences that characterise the two approaches. The common dimensions are listed in Table 5 below.

Common dimensions	**Features within common dimensions that are either:** • **unique to Chinese CSR;** • **common but particularly emphasised in Chinese CSR and not covered in western CSR.**	**Features within common dimensions that are unique to western CSR**
Economic responsibility	• Promotion of national and local economic development.	/

	• Emphasis on technology and innovation.	
Legal responsibility	• Tax payment.	/
Environmental protection	• Resource conservation and resource usage improvement.	/
Responsibility for employees' safety, occupational health, and interests	• Ban on child and forced labour. • Employees' legitimate interests, welfare, and insurance. • Union and human rights.	• Staff promotion. • Meaning and satisfaction of work.
Responsibility for customers	• Genuine goods at fair prices	• Provide no false ads and make information publicly known.
Charity undertakings	/	/

Table 5: Common dimensions of western and Chinese CSR, adapted from Xu and Yang (2010)

Many features that are unique or emphasized in Chinese CSR but within common CSR dimensions can be arguably considered reactions to the impacts on stakeholders cited in subchapter 3.1 (Ip, 2009, p. 214): "cheating on tax return", "wasteful use of energy and natural resources", "slave labour", "abuse", "unsafe food and fake products", among others have sparked widespread attention and concerns, and may have potentially driven the emergence of these particular CSR practices. Moreover, Xu and Yang's results (2010) identify three unique dimensions of Chinese CSR: good faith, employment, and social stability and progress. To operate in good faith mainly consists in complying with business ethics and honouring contracts: although good faith has similarities with the ethical responsibilities defined by Carroll (1991) (see chapter 1.2.2), Xu and Yang (2010) argue that this dimension is particularly underlined in Chinese CSR as another response to the negative issues and outcomes of the profit-at-all-costs economic development of the previous decades. The second unique dimension is employment: to increase job opportunities and to ease China's employment pressure are considered two necessary actions that the Government and the business sector need to implement in order to ease the pressing unemployment problems resulting from SOEs restructuring and the overall market transformation that has taken place. The third unique dimension is social stability and progress: in line with the "harmonious society", CSR includes the pursue of social stability, harmony, and national prosperity, as well as the requirement to serve society, support culture, science, and education, the promotion of progress and patriotism.

Moon and Shen (2010) and Kim and Moon (2015) argue that the western approach to CSR has been strongly influenced by its strategic value for gaining competitive advantages and for improving corporate performance, and has been widely based on institutions of regulation and organisation (2015, p. 365). On the other hand, CSR in China and generally in Asia has been highly dependent on its ethical foundations (culture, religion, and society) and pushed by normative institutions (Bai and Chang, 2015). The above-mentioned CSR attention devoted to operating in good faith and reaching social stability, with its broader conceptualisations (such as Harmonious society, Chinese dream, as presented above) reinforce this argument. These peculiarly Chinese dimensions of CSR are also reflected into stakeholder engagement practices, as explored in the next subchapter.

3.5 Stakeholder engagement in China

The concept of stakeholder engagement has appeared very recently in China as a direct consequence of CSR adoption. Whereas the initial theorisations of the stakeholder concept in western contexts belonged to strategic management literature and engagement practice was mainly justified on its instrumental purposes (Freeman *et al.*, 2010), the development of CSR as a normative concept in China has been the main driver of academic research on engagement and for enterprises to understand the importance of adopting a stakeholder focus to meet responsibility expectations (Lu and Abeysekera, 2017). Moon and Shen (2010) investigate the development of academic literature on CSR in China between 1993 and 2007 and find that, initially, major significance has been attached to its ethical role and purpose, whereas a focus on more specific and practical forms of responsibility concerning social and environmental issues has only appeared in later years. More precisely, among the practical forms of responsibility, a stakeholder focus within CSR research is found for the first time between 2005 and 2007, in concomitance with the first wave of widespread adoption of CSR in China. This indicates that stakeholder-focused management models have also only been developed and implemented in practice very recently and suggests that they are mostly founded on normativity, considering their close connection to CSR, instead of on strategic and instrumental purposes (Moon and Shen, 2010). Notwithstanding an increasingly larger attention on the topic within Chinese CSR literature, to this day there is still very little systematic research on stakeholder engagement and participation as independent research topics in China, in particular on how engagement practices take place at different levels and for different stakeholder groups. For this reason, the information presented in this section is mainly based on CSR research and on CSR standards (Gao, 2009; Davis and Moosmayer, 2014; Bai and Chang, 2015; Kim and Moon, 2015; Quan *et al.*, 2018; Fornes *et al.*, 2019).

Stakeholder engagement is recognised as one of the main constituents of CSR within the CASS-CSR Guidelines. Customers, the Government, and investors are listed as the stakeholders who exert the highest degree of influence on the company and who receive the highest degree of attention from the company. These are followed by employees, communities, NGOs, and suppliers with a medium degree of influence and various degrees of attention. Competitors, trade organisations, trade unions, and the media are listed last, as the least influential and least deserving of corporate attention (Chinese Academy of Social Sciences, 2014). These degrees of stakeholder salience are confirmed by Gao's analysis on the corporate social performance of Chinese companies (2009, p. 31): Gao argues that Chinese companies, both state-owned and private, are mainly focused on the interests of customers (good quality products and service provision), of the government (profit and taxation), and of stockholders (mainly profit turnover) when operating. More in detail:

- **Customers**: Chinese customers perceive CSR as a legitimate corporate behaviour, whereby the company voluntarily considers their concerns and prioritises them over profit accumulation, respects their rights, and enhances accurate and clear communication. The 2008 Sanlu milk scandal, as a major critical event, as well as other safety issues in several sectors have caused high degrees of customer distrust and thus raised their expectations exponentially on the quality of services and products. Consequently, the importance of the customer as a stakeholder was particularly reinforced (Bai and Chang, 2015).
- **Government**: the role of the Chinese Government as a major stakeholder for Chinese companies is evident, considering its influence, which permeates very significant parts of society and of the economy, its function in market regulation, as a major purchaser, as major shareholder for SOEs, and as main promoter of CSR and ethical systems. Positive engagement with the government enables companies to gain legitimacy, access to resources, preferential tax payments, among other benefits (Quan *et al.*, 2018). From the government's perspective, as SOEs represent important vehicles for the

implementation of economic and social policies, and the entire corporate sector for reaching economic goals, engagement with these entities is crucial (Fornes *et al.*, 2019).

- **Stockholders and investors**: legitimacy and resource availability also depend on the engagement of stockholders and investors, in particular for providing proof of profit-turnover and of the protection of their rights and for ensuring that investment decisions will benefit the engaging company (Gao, 2009).

CASS-CSR describes employees, communities, NGOs, and suppliers as stakeholders with medium influence on the company and with various degrees of attention from the company. This categorisation is not always in line with the literature analysed: Bai and Chang (2015) and Kim and Moon (2015) argue that employees and communities are instead to be considered key stakeholders of fundamental importance for operating in a socially responsible way.

- **Employees**: in response to the widespread violations of labour and employee rights committed for the sake of profit creation and economic development, the general public's awareness on working conditions and labour ethics has increased. Therefore, employees engagement is crucial to create common grounds on the protection of employees' rights and interests, on adequate remuneration systems, as well as on the company's contributions to welfare, occupational health, community employment, and career development (Bai and Chang, 2015).
- **Communities**: cooperation and respect for harmony in community relationships are central values in China: in line with the strong connection between CSR and social stability and harmony, the engagement of communities as stakeholders and the company's direct involvement in such communities are necessary and integral obligations for companies, whose participation in the construction of a "harmonious society" cannot be only based on economic contributions (Kim and Moon, 2015). Community engagement should inform both the company and the community members of the possible social and environmental impacts, and collect local governments', enterprises', and residents' suggestions and ideas on such issues. Moreover, companies should engage in charity and provide contributions to community welfare (Chinese Academy of Social Sciences, 2014).
- **NGOs**: although the Chinese Government has strongly limited bottom-up citizen involvement, NGO activity, and NGO legitimacy, in recent years non-adversarial NGOs have been playing increasingly prominent roles in the promotion of CSR and sustainability and have begun to influence corporate practice. Engagement with NGOs

can be in fact useful and influential to better align business activities with the social and environmental issues they advocate for, but their role as stakeholders is less acknowledged and less explored in comparison to others (Davis and Moosmayer, 2014).

With regards to suppliers and to the least influential stakeholders: the engagement of suppliers and competitors is not addressed specifically in the analysed literature, except for the basic matters of their interests, i.e.: ensuring good long-term relationships and fair competition. The same applies for trade unions and trade organisations.

In addition to providing empirical data on which stakeholder groups are engaged in practice and on their interests and claims, the empirical research presented in chapter four aims at providing additional information on the actual methods of engagement employed in each case.

3.6 Sustainability reporting in China

After the State Grid Corporation of China disclosed its first CSR report in 2006, CSR reporting started gaining momentum in China led by the largest SOEs (China Mobile, PetroChina, as mentioned above). The 2008 SASAC Guidelines (State-owned Assets Supervision and Administration Commission of the State Council, 2011) included building a CSR information disclosure system as one of the main measures for the implementation of CSR. Such a system would provide regular information and updates on CSR performance and on sustainable development, as well as on plans, strategies, and measures for their implementation. Along with the Government, China's capital markets also played a central role in the development of CSR disclosure: the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE) have encouraged listed companies to commit to this practice and published their own reporting guidelines, respectively in 2008 and 2006, and have developed an incentive system for companies choosing to implement CSR reporting. Government agencies, and non-governmental organisations (especially GoldenBee Corporate Social Responsibility Consulting and SynTao) have also taken part in this endeavour (Noronha *et al.*, 2013). CSR disclosure has witnessed a rapid growth but remains mostly voluntary, bringing about issues such as unbalanced disclosure, missing information, low comparability, and low credibility (Yu and Rowe, 2017). The KPMG's 2015 and 2017 surveys (King and Bartels, 2015; Blasco and King, 2017) on CSR reporting state that China still doesn't reach global standards of report quality.

Today, the Global Reporting Initiative and the CASS-CSR guidelines for sustainability reporting are the most adopted by Chinese companies. According to two reports on voluntary disclosure of CSR data by Chinese companies published in 2019 by SynTao, among the constituents of the China Securities Index 100 (CSI100)[11], 93 companies disclosed a sustainability report in 2018, almost 70% of which referred to the Global Reporting Initiative framework as their main reporting guideline. The GRI Guidelines are followed by the CASS-CSR Guidelines, whose reference was present in almost 50% of the reports (SynTao, 2019). With regards to the CSI300, 82% of the constituent companies released CSR reports, 43% of which based on the Shanghai Stock Exchange Guidelines, 41% on the GRI Guidelines, and 29% on CASS-CSR Guidelines (Pirovska *et al.,* 2019).

In 2017, the 4th and most recent edition of CASS-CSR was released. The Global Reporting Initiative has published several linkage documents between its guidelines and CASS-CSR, in order to recognise the co-existing global and local natures of sustainability reporting and to better support Chinese companies in reporting on both dimensions in one report. Considering the central role China has developed to play in the global scene and the consequent economic, social, and environmental impacts that have emerged and can potentially emerge, the adoption of a global common language for reporting becomes essential. In this case, the high percentages of adoption of the GRI Guidelines in China may represent a trend towards global reporting harmonisation (Global Reporting Initiative, 2016a). The sustainability reports analysed in the next chapter either refer uniquely to the GRI Guidelines, or to both GRI and CASS-CSR (2.0, 3.0, and 4.0).

[11] The Chinese Security Index is a stock market index based on the top 300 (CSI300), 200 (CSI200), and 100 (CSI100) companies listed in the Shanghai Stock Exchange and in the Shenzhen Stock Exchange (Pirovska *et al.*, 2019).

Chapter four: Empirical Research on Stakeholder Engagement

The empirical research presented in this chapter is based on a content analysis of nine annual sustainability reports published between 2016 and 2018 by Chinese SOEs operating in the energy sector in China. The aim of this research is to analyse the stakeholder engagement practices implemented and reported, and to assess their characteristics and quality in relation to the concepts presented in the previous three chapters. More in detail, this research attempts to provide an answer to the following questions:

1. How is stakeholder engagement viewed, structured, and implemented by Chinese companies?

As presented in chapter 2, stakeholder engagement is a complex process that involves a large number of different actors for different purposes and through different methods. In particular these sub-questions will be addressed:

a. Which is the purpose of stakeholder engagement for the company?
b. Which stakeholder groups are engaged? Which stakeholder groups are the most represented or the most underrepresented? What are their most urgent claims?
c. Which engagement methods stand out as the most widely employed, both in general and specifically for the most represented stakeholder groups? Which level of engagement do they refer to?

This research question aims at finding common and representative trends and characteristics, as well as differences, exceptions, and peculiarities between the nine engagement processes analysed, as well as at finding the general attitude shown towards the engagement process itself.

2. Are the analysed stakeholder engagement practices peculiar to the Chinese context or are there noticeable similarities with those employed in western and international contexts?

The description of the stakeholder engagement process presented in chapter 2 was mainly based on the instructions and guidelines provided by AccountAbility in the AA1000 Stakeholder Engagement Standard (2015) and in *The Stakeholder Engagement Manual* series (Kirk *et al.*, 2005; Partridge *et al.*, 2005), by the Global Reporting Initiative in its international standard for sustainability reporting (Global Reporting Initiative, 2016a), and by literature on stakeholder theory. These sources present stakeholder engagement either from a western or from a wider global perspective. Therefore, it is likely that the analysis of Chinese sustainability reports will provide results that do not correspond entirely to the content presented in these sources or that differ completely. Chapter three has described the commonalities and differences between the western and Chinese concepts of sustainable development, "harmonious society", and corporate social responsibility. Accordingly, stakeholder engagement practices are also likely to be strongly influenced by the local environment in which they are implemented. This question attempts to shed light on these differences.

3. Are the stakeholder engagement practices analysed mostly based on instrumental or on normative motives? Do these practices promote economic, social, and environmental sustainability?

Stakeholder engagement is defined by Matten, Crane, and Chapple (2003, p. 110) as a "necessary process in the operationalisation of corporate social responsibility", which in turn is an essential driver of sustainable development (Steurer *et al.*, 2005). Instrumental and normative stakeholder engagement approaches can both serve sustainability goals, even though to different extents and through different methods. A number of internal and external factors guide the engaging company in the choice of which direction to pursue. As presented in chapter three, business activity in China is both guided by the need to enhance economic development and by wider social and ethical norms. The results of this analysis will provide more precise data on which to base an assessment of the priorities that guide stakeholder engagement in China.

Since stakeholder engagement in the Chinese corporate context remains widely understudied to this day, this research will contribute to stakeholder and CSR literature by providing useful insights on how engagement is viewed, structured, and implemented in China.

4.1 Research sample

The sample of this research comprises nine large state-owned enterprises operating in the energy sector in China. For the purpose of this analysis, the latest available sustainability report drafted fully in accordance with the GRI G4 Standards was collected for each enterprise from the GRI Sustainability Disclosure Database[12] website. The reports were published between 2016 and 2018 and reference to the years 2015,2016, and 2017. Seven reports are in Chinese, one is in English, and one is both in Chinese and English. Essential data on the selected companies is presented in table 6 below.

[12] Available at https://database.globalreporting.org/ (Last visited on: 20/03/2021). All the specific links to each report are available in the appendix.

	Name	Size	Type	Year	Language
1	China Huaneng Group	Large	State-owned	2015	Chinese
2	China National Nuclear Power	Large	State-owned	2016	Chinese
3	China National Offshore Oil Corporation (CNOOC) - China	Large	State-owned	2015	English
4	China National Petroleum Corporation (CNPC)	Large	State-owned	2017	Chinese
5	China Resources Power	Large	State-owned	2017	Chinese
6	China Shenhua Group Corporation	Large	State-owned	2016	Chinese
7	Energy China Group	Large	State-owned	2016	Chinese and English
8	Guangzhou Development Group	Large	State-owned	2016	Chinese
9	State Power Investment Corporation	Large	State-owned	2016	Chinese

Table 6: Research sample

This sample was chosen on the following bases:

- The energy sector is the second most represented sector among the available reports published by Chinese companies, after the financial services sector. Moreover, it operates in highly regulated markets and inherently involves considerable levels of social and environmental risks, as well as obligations to many stakeholders, both internal and external (Stocker *et al.*, 2020).
- The reports were filtered according to full compliance to GRI G4 standards in order to allow for better comparability of the reported information, resulting in a total of 27 reports published between 2015 and 2018 by 13 companies, among which 9 SOEs, 2 private companies, and 2 subsidiaries. As mentioned in the previous chapters, the GRI G4 guidelines require a comprehensive level of disclosure on stakeholder engagement, thus fitting the requirements of this research.
- Considering the limited size of this selection and the higher SOEs representation, in order to avoid data unbalance and to allow for comparability, the 9 SOEs were selected to form a relatively homogeneous research sample. The most recent report published by each SOEs was finally collected for the analysis.

4.2 Research method

The method adopted for the purpose of this study is based on two research publications on stakeholder engagement: "Stakeholder engagement and sustainability reporting" by Bellucci and Manetti (2019) and "Stakeholder engagement in sustainability reporting: A classification model" by Stocker *et al.* (2020). These publications have provided useful examples for the selection of the research sample, the identification of the research questions, and the data collection process of this study. Both publications carry out content analyses of GRI sustainability reports to assess the disclosed stakeholder engagement practices. Content analysis is a research method used to examine the content of different kinds of communication media, such as documents, articles, annual reports, and others, for the purpose of making inferences on the bases of specific characteristics and predetermined categories. It enables both the quantitative and the qualitative analysis of data, in order to be better tailored to the research subject (Bryman and Bell, 2015).

In detail, Bellucci and Manetti analyse a sample of 211 GRI G4 sustainability reports published by companies operating in various sectors throughout the world. They provide an answer to several research questions, among which the following are also addressed in this study and have been used to guide the selection and collection of relevant data (2019, p. 134):

- "Has a specific section been devoted to stakeholder engagement in the report?"
- "What is the claimed role (aims and objectives) of stakeholder engagement for this organisation?"
- "Which stakeholder groups have been engaged?"
- "What is the reported degree of stakeholder involvement?"
- "Does the report explicitly claim that stakeholders have been directly involved in providing materiality checks for the reporting process?"

Stocker *et al.* (2020) analyse 119 reports published by English, Spanish and Portuguese companies operating in the energy sector to identify the "quality", "focus", and "extent" variables of each engagement process. In the research article (2020, p. 2076), engagement "quality" consists in "the number of actions, the most cited engagement actions, and the most cited stakeholder groups for each engagement level" [13]. "Focus" is "the frequency of

[13] Although Stocker *et al.* (2020) cite different sources and use different terms, the engagement "actions" and "levels" to which they refer correspond to the "methods" and to "low, medium, and high levels of engagement" presented in chapter two (see Table 2) reported from Friedman and Miles (2006) and AccountAbility (2015).

stakeholders group in each report, and the number of actions per level of engagement and per stakeholder". "Extent" reveals the number of stakeholder groups for each engagement level. Although these variables and the research method employed by Stocker *et al.* are not used in this study, they provided examples on how to raise the complexity of the first research question and sub-questions of this study, and how to carry out a more complete analysis.

Research data has been collected and organised as follows:

1. Each report has been read thoroughly to find direct and indirect mentions of stakeholder groups and of the corresponding stakeholder engagement process inside and outside of the specific stakeholder engagement section.
2. A list of the stakeholder groups mentioned in each report has been compiled.
3. For each stakeholder group in each report, the specific issues to be addressed through engagement and the engagement methods implemented have been collected and organised in tables for better visualisation.

Consequently, the collected data has been analysed to answer the research questions: the first question is based on the collected data and on the literature review on stakeholder engagement in China presented in the third chapter, the answers to the second and to the third questions compare the research data with the conceptual frameworks presented in all the previous chapter.

4.3 Research limitations

Methodological limitations of this research mainly concern its sample and data. Although the selected sample of enterprises can be considered representative of Chinese SOEs' approaches to stakeholder engagement, a larger and multi-sector sample, comprising also of other kinds of enterprises, would surely provide more accurate results in terms of representation. Moreover, compliance to the GRI G4 Guidelines ensures that data on such approaches are available and presented in detail, are of high quality, and are easily comparable but further limits the research sample to companies who possess the necessary resources and experience to engage in high-level sustainable reporting. In light of this, a sample of reports drafted in accordance with different standards would allow for the research of more particular engagement practices employed at the sector, local, regional, or national levels and that are not included in international standards parameters for disclosure.

4.4 Data

Which is the role of stakeholder engagement for the company?

Information on the general purpose of stakeholder engagement for each company is presented in several sections of the analysed reports: in particular, they are found within the descriptions of the companies' visions for sustainable development and commitments to CSR and transparency, within the introductory statements of CEOs and board directors, and within statements on materiality and on the nature of sustainability reporting. The specific sections dedicated to stakeholder engagement tend to include more stakeholder-specific purposes. Stakeholder engagement is reported to be used mainly to strengthen communication and cooperation between the company and its stakeholders in order to provide mutual benefits and "win-win situations". This purpose is stated in each of the nine reports. The second most cited purpose (present in 8 reports) is to lay the foundations for and to promote a sustainable development that is comprehensive of all stakeholders as well as the company. The third (present in 6 reports) is to collaborate to define the contents of CSR and sustainability reports and to improve the overall reporting process and quality. The fourth (also present in 6 reports) is to publicise and raise stakeholder awareness on the benefits and impacts of corporate activities in order to build public trust, as well as to show corporate concerns on social and environmental issues. Other purposes are mentioned in 3 or fewer reports: collection of stakeholder concerns to inform corporate decisions, improvement of the engagement process itself, enhancement of corporate transparency, risk avoidance, to provide adequate responses to stakeholder concerns, to respect stakeholders' rights and interests, to promote honesty, positive interactions, and equality, and to avoid conflict.

Which stakeholder groups are engaged? Which stakeholder groups are the most represented or the most underrepresented? What are their most urgent claims?

All the reports include a list of the stakeholders who have been engaged in a dedicated section of the report, either as an independent section or within the social responsibility section. These sections are mostly structured in the following way: for each stakeholder group, the issues to be addressed and the method of engagement are listed. Table 7 shows the stakeholder groups mentioned in the analysed reports and the number of reports containing specifically each stakeholder group. The most represented stakeholder groups are customers, employees, communities, the Government, and business partners, mentioned in every report, shareholders and investors (8 mentions), and NGOs (6 mentions). The most underrepresented are the media, employee organisations, charity organisations, and industry organisations.

Stakeholder groups	**Number of reports**
Clients and customers	**9**
Employees	**9**
Communities	**9**
The Government and regulatory authorities	**9**
Business partners, suppliers, and distributors	**9**
Shareholders and investors	8
NGOs and society organisations	6
Competitors	4
The SASAC (State-owned Assets Supervision and Administration Commission of the State Council)	3
The environment	2
Creditors	2
Industry associations	1
Charity organisations	1
Employee organisations and trade unions	1
The media	1

Table 7: Stakeholders groups mentioned in reports.

For each of the most represented stakeholder groups, the main issues to be addressed through the engagement are presented below (this list includes the issues mentioned at least three times in all reports and sorted from the most to the least mentioned):

- **Clients and customers**: supply of green and safe energy, as well as of other high-quality services and products.
- **Employees**: employee health and work safety, prospects of career development, protection of employees' rights, salaries and benefits, understandings of employees' human needs.
- **Communities**: environmental protection, public welfare, community harmony and stability, community employment, general health and safety of the community.
- **The Government**: operating in accordance with laws and regulations, reduction of energy consumption and energy conservation, economic development, employment creation, technological innovation.
- **Business partners, suppliers, and distributors**: mutual benefits and win-win situations, strategic and long-term cooperation, share experience, knowledge, and resources, ensure fair competition.

- **Shareholders and investors**: return on investment, protection of shareholders' and investors' rights, transparency and timely disclosure of relevant information, increase the market and stock value of the company.
- **NGOs and society organisations**: corporate social responsibility and sustainable development, environmental protection, social harmonious development.

Which engagement methods stand out as the most widely employed, both in general and specifically for the most represented stakeholder groups? Which level of engagement do they refer to?

For each stakeholder group, the four most mentioned engagement methods in the analysed reports are collected in Table 8. The appropriate engagement level and macro-level is attributed to each engagement method, according to the classification presented in Table 2 in chapter 2.3.1 and on the degree of stakeholder influence presented in Table 3.

Stakeholder Group	Engagement method	Engagement level	Macro-level
Clients and customers	Satisfaction surveys	Consult	Medium
	Customer service	Consult	Medium
	Client visits to the company	Inform	Low
	Consultations, interviews, discussions	Consult	Medium
Employees	Hold staff congress	Consult	Medium
	Support trade unions	Negotiate	Medium
	Hold meetings with staff representatives	Consult	Medium
	Provide training to employees	Inform	Low
Communities	Take part in community building activities	Transact	Medium
	Contribute to social welfare activities	Transact	Medium
	Community visits to the company	Inform	Low
	Information disclosure (sustainability reports)	Inform	Low

Government	Information disclosure (performance report)	Inform	Low
	Participate in industry research	Collaborate	High
	Allow government inspections and supervisions	Involve	High
	Advisory panels	Involve	High
Business partners	Communication via different channels	Inform	Low
	Cooperation	Collaborate	High
	Integration of resources and experience sharing	Collaborate	High
	Negotiations	Negotiate	Medium
Shareholders and investors	Information disclosure (performance report)	Inform	Low
	Shareholder and investor meetings	Involve	High
	Communication via different channels	Inform	Low
	Company website	Inform	Low
NGOs	Participate in projects and activities	Transact	Medium
	Regular communication	Inform	Low
	Meetings	Consult	Medium
	Direct response to public inquiries	Inform	Low

Table 8: Engagement methods

4.5 Discussion

The above-mentioned results on the purpose of engagement show that the analysed companies primarily consider stakeholder engagement as a normative tool. Nonetheless, its practical execution appears to be fairly limited if compared to the purposes that are attributed to it by the engaging companies. As mentioned in chapters 3.1 and 3.2, Chinese society is highly collectivistic: shared interests are prioritised over individual ones and the collective becomes the “basic unit of analysis”, instead of the individual (Joshi, 2012, p. 180). The concept of a “harmonious society” is obviously in line with collectivism: social stability and social harmony are the final goals to be reached through economic, cultural, political, and social improvements and through the promotion of common values. CSR, in turn, aligns economic and corporate activity to these wider societal goals. The definition of normative stakeholder engagement fits perfectly into these concepts: as described in chapter 1.1.5, normative stakeholder engagement practices focus on the wider society as the main recipient of corporate actions and impacts (Steurer *et al.*, 2005), and are guided by moral and ethical principles (Donaldson and Preston, 1995), whereas instrumental practices are mainly concerned with the financial performance of the company and its degree of competitiveness in the market. Therefore, it can be argued that stakeholder engagement in China is generally considered in its normative use, as it serves the same final purposes of CSR and, on a higher level, of the “harmonious society”.

The two main purposes of engagement, as shown by the research results, confirm this argument: they are the achievement of win-win situations for both stakeholders and the company, and the achievement of collective sustainable development goals. These wider purposes are reflected in the specific stakeholder issues to be addressed and dealt with through stakeholder engagement: the selected and reported economic issues (high-quality services and products, economic development, increase market value), social issues (employee health and work safety, public welfare, community harmony and stability, employment creation), and environmental issues (green energy production, energy conservation, and environmental protection) consist of widely shared interests whose resolution would create “win-win” situations and prove that all three dimensions of sustainability deserve and receive the consideration of the company in the process of engaging stakeholders. The majority of the engagement purposes that are mentioned only in fewer reports are also normative: enhancement of corporate transparency, providing adequate responses to stakeholder concerns, respecting stakeholders’ rights and interests, promoting honesty, positive interactions, and equality.

The third and fourth most cited engagement purposes are more instrumental in nature, namely: collaborating in the reporting process and raising awareness on the benefits and impacts of corporate activities. They suggest that engagement is also considered a tool for gaining legitimacy, building stakeholder and public trust, and for maintaining such legitimacy and trust by educating stakeholders and influencing their views on the company and their consequent decisions and behaviours. Less mentioned instrumental purposes include informing corporate decisions on stakeholder concerns, improving the engagement process, risk and conflict avoidance. Considering the Chinese rapid economic development and the major social and environmental problems it has caused to all kinds of stakeholders (Ip, 2009), as well as the fairly recent adoption of CSR practices and of stakeholder engagement, matters of legitimacy and public trust are still very urgent for Chinese enterprises. Moreover, the achievement of a "harmonious society" by the year 2049 requires the prior achievement of a "moderately prosperous society" by 2021, founded mainly on economic equality and prosperity (Joshua, 2017). Therefore, notwithstanding the greater significance of the normative implications of stakeholder engagement, it is unlikely that Chinese companies would stop being concerned about corporate financial performance, profit accumulation, and other purposes achievable through instrumental stakeholder engagement practices. In fact, the research results show that the highest-level engagement methods appear to be mainly employed with those stakeholders that directly contribute to the company's economic development, as discussed below.

The stakeholder groups that are the most cited in the reports correspond to those mentioned in the stakeholder categorisation on the bases of stakeholder salience presented in chapter 3.5: clients and customers, employees, communities, the Government, business partners, suppliers, and distributors, shareholders and investors, and NGOs and society organisations are in fact mentioned in at least 6 of the 9 analysed reports. Their interests also correspond to the description provided in chapter 3.5 but based on the engagement methods that are actually employed in practice, the degrees of salience appear to be slightly different. As mentioned in chapter 2.3.1, engagement methods and levels can be organised in three "macro-levels": the low level of engagement involves only unidirectional types of communication, the middle level includes token engagement practices and bidirectional types of communication but not the actual inclusion of stakeholders in decision-making processes, and the high level consists in the inclusion of empowered stakeholders in decisions, collaborations, and alliances (Friedman and Miles, 2006). Considering the average between the macro-levels of engagement for each stakeholder group, The Government and business partners present the overall highest levels of engagement among all stakeholders, followed by employees, customers, and shareholders with medium average engagement levels, and lastly by communities and NGOs with the lowest. More in detail:

- **The Government**: considering that the research sample is entirely comprised of SOEs, the role of the Government as the most important stakeholder is particularly evident from the research results. The analysed companies and the Government mainly engage in collaborations in the form of joint research projects on the energy industry and on the possible technological advancements and improvements that are implementable in the short- and long-term. Moreover, the government is involved in decision-making processes and carries out inspections and supervisions on corporate activity to inform such decisions. In addition, the companies disclose relevant information in the form of performance, financial, and sustainability reports. Except for information disclosure, the other engagement methods are high-level, and the government exerts a powerful influence on the company overall.

- **Business partners, suppliers, and distributors**: the analysed companies engage with business partners through partnerships and joint projects, in which they share resources and relevant experiences in order to ensure long-term cooperation and mutual benefits. At lower levels, the companies conduct negotiations with business partners in order to reach consensus on industry related issues and on fair levels of competition. Lastly, they engage in frequent communication for the purpose of information disclosure. Business partners exert a significant influence on the companies' decisions.
- **Employees**: employees are mainly engaged through consultation processes (medium-level), in the form of organised workers' congresses and of meetings with staff representatives. The analysed companies state their support for employees' participation in trade unions and carry out negotiations (medium-level) for collective bargaining on the issues raised. Moreover, at a lower level of engagement, companies provide training programmes to employees to promote career development. Employees are enabled to influence decision-making through negotiation but, in other cases, are only engaged for the purpose of knowing what their concerns are, without the assurance that relevant responses will be provided.
- **Clients and customers**: customers are also mainly engaged through consultation processes. The most mentioned engagement method is surveys, conducted on different customer samples and for different information requirements (i.e.: customer satisfaction surveys). Other types of consultation are carried out by providing customer service systems and through interviews and discussions. In order to inform and educate customers on products and on the impacts of activities, visits to the companies' premises or related locations are organised. Similar to employees, customers are engaged mainly to gain insights on their opinions, and on attitudes towards the companies and toward operations, with no specific additional commitment from the company's side.
- **Shareholders and investors**: the analysed companies regularly organise meetings with shareholders and investors to provide relevant and transparent information on financial

performance and to offer reassurance on the protection of their interests. As highly influential financial providers, they are involved in decision-making processes but are only reported to be engaged through meetings. The other engagement methods consist in different kinds of information disclosure (low-level).

- **Communities**: communities are engaged mainly through information disclosure in the form of sustainability reports and through organised community visits to the companies' premises (both are low-level). In addition, the majority of the analysed companies report their contributions to social welfare and their participation in "community building" activities, consisting in community work directed by the government and aimed at improving community services, at solving community problems, and at promoting community development in terms of health, culture, environment, and other aspects of society. Although these engagement methods can be associated with the "transact" engagement level (medium), communities appear to exert no influence on companies' decisions and their concerns are not necessarily considered.
- **NGOs and society organisations**: similar to community engagement, the analysed companies report their participation in projects and activities promoted or organised by NGOs. Moreover, NGOs are consulted in meetings on the implementation of CSR and sustainable practices, they are regularly informed through different communication mechanisms on concerns of their interest and on inquiries they have advanced. NGOs appear to be able to exert little influence on the companies: they are engaged to inform companies on public concerns and, in turn, to be informed of companies' sustainability practices, there is no guarantee that the arguments they raise will be included in corporate decisions.

As mentioned in chapter 2.2, the stakeholder attributes of power, legitimacy, and urgency guide companies through the stakeholder identification process, by providing specific reasons on which to base the selection (Mitchell, Agle and Wood, 1997; AccountAbility, 2015). The above-mentioned results show that different stakeholders are enabled to take part in increasingly higher forms of engagement according primarily to the amount of power and influence they are able to exert on the engaging company. Moreover, power and influence appear to be attributed to those stakeholders that directly contribute to the company's economic development. In this case, the Government, business partners, and shareholders and investors appear to be the most powerful stakeholders. On the other hand, stakeholder legitimacy, which is more based on normative grounds, seems to be connected to lower levels of engagement. The engagement of communities, who are legitimate stakeholders in terms of the responsibilities they are owed, and NGOs, as representatives of diverse public perspectives, is in fact very limited. With regards to power and legitimacy, employees, and customers are in between, but no significant high-level methods of engagement are employed for their participation. Overall, the results include very few high-level engagement methods (6 out of a total of 28), which are employed for a limited number of stakeholder groups (3 out of 7), and an even number of medium-level (11 out of 28, for 5 stakeholder groups) and low-level methods (11 out of 28, for 7 stakeholder groups). The most widely adopted engagement methods are information disclosure, which is found for every stakeholder group, and consultations, primarily employed for customers and employees. Transactions, negotiations, and collaborations each appear three times, whereas involvement appears two times in the results.

These findings suggest three main implications: as suggested by the related literature, stakeholder engagement is still in its early development phase in China; the main purposes of stakeholder engagement are to enhance stakeholder dialogue, to acquire corporate legitimacy, and to build trust, instead of contributing to the achievement of sustainability goals; normativity, in relation to stakeholder engagement, has different implications in China in comparison to its western conceptualisation.

Chapter 2.1 presents the development of stakeholder engagement practices in the western context by dividing it into three eras: the Awareness era, the Attentive era, and the Engagement era (Partridge *et al.*, 2005). Based on the results of this research, if the development of stakeholder engagement in China and in western countries are compared using the three Eras as benchmarks, the Chinese development can be placed at the beginning of the attentive stage. The attentive stage is in fact characterised by a proactive approach to engagement, whose practice is based on informed and sophisticated understandings of the impacts caused by corporate operations and is carried out in increasingly more systematic and formalised ways. Creating and maintaining an ongoing dialogue with stakeholders, particularly through sustainability reports, and creating opportunities for knowledge sharing are the main priorities of this phase. Progressively, the shift from the Attentive to the Engagement era occurs with the prioritisation of local and global sustainability challenges, as well as with the implementation of high-level engagement methods for the majority of stakeholders (Kirk *et al.*, 2005). Although the analysed reports present the achievement of sustainability as one of the two main purposes of stakeholder engagement, the analysis of the actual engagement process shows that it is mainly used to gain legitimacy and trust through stakeholder dialogue. As mentioned above, legitimacy and trust are usually considered instrumental goals of stakeholder engagement (Partridge *et al.*, 2005).

This does not mean that stakeholder engagement for the analysed companies does not contribute to sustainable development in any way. Accordingly, the prioritisation of instrumental goals is not in opposition to the normative nature of stakeholder engagement in China. As mentioned above, the specific material issues of each stakeholder group guiding the analysed engagement processes are mostly normative. In chapter 1.2.2, the western concept of stakeholder engagement normativity is associated, at its best, to a shift of focus from socially and environmentally responsible behaviours bound to managerial willingness and tied to economic goals onto endeavours to sustainability rooted in the broader involvement of a diversity of actors organised and connected in networks (Wicks, Gilbert and Freeman, 1994). It is also associated with challenges to power structures and grassroot and collective action (Freeman, 2010; Scoones, 2016). Therefore, if the engagement practices described in chapter two as "best practices" are taken as benchmarks for Chinese stakeholder engagement quality, considering the very limited nature of the reported engagement methods shown in the research results and the significant focus put only on powerful stakeholders, then it could be argued that it is unlikely that these engagement processes would be considered normative and could bring about real sustainable advancements. However, this argument is not relevant and not applicable to the Chinese context: the Chinese socio-political environment is characterised by the central role of the Government as the main promoter of norms and values, such as social harmony and stability, of sustainable growth, and of corporate social responsibility, and by very limited spaces for the transformational politics (Joshi, 2012) that define normativity in western stakeholder engagement conceptualisations. SOEs figure among the main vehicles for the implementation of the Government's economic and social policies (Fornes *et al.*, 2019), thus they naturally replicate the same socio-political characteristics within the corporate context and in the process of engaging stakeholders. If compared to western stakeholder engagement normativity, normative stakeholder engagement practices in China equally focus on the wider society as the main recipient of corporate actions and impacts and are equally guided by moral and ethical principles, as mentioned above. The main difference is that whereas the western approach is mainly bottom-up, the Chinese approach is top-down. The engagement methods reported for communities can serve as an example: the analysed companies state their participation in "community building" activities and in the promotion of social welfare. These can be considered normative purposes of engagement, which successfully enhance and promote sustainability, and which are implemented through a uniquely top-down and unidirectional approach. In fact, such approach does not allow for the same degree of participation of community members in the companies' operations and in decision-making processes.

Conclusions and directions for future research

This dissertation has provided a fairly comprehensive overview on stakeholder theory and engagement in the western and in the Chinese corporate contexts and an empirical research on the engagement practices implemented by Chinese SOEs operating in the national energy sector and reported in sustainability reports.

The theoretical foundations for this study have been set through a literature review of stakeholder theory, in chapter one, of stakeholder engagement, in chapter two, and of corporate social responsibility and stakeholder engagement in China, in chapter three. More in detail: the emergence of stakeholder theory as a research field in strategic management literature and within corporate social responsibility and sustainable development discourses has been presented, complemented by a detailed account on the role of business in western societies and on its relations with other societal actors. Then, stakeholder engagement practice has been described on the bases of international engagement and reporting standards, as well as of relevant academic literature. Lastly, the same topics have been presented from China's point of view: major similarities and differences between the Chinese and western concepts of corporate social responsibility, sustainable development, and stakeholder engagement have been underlined.

The literature review has served as the conceptual framework for the empirical research presented in chapter four. A sample of annual sustainability reports drafted in accordance with the GRI G4 guidelines for sustainability reporting and published between 2016 and 2018 has been collected and analysed, in order to provide answers to several research questions. The main results are summarised as follows:

- Stakeholder engagement practices in China are still in a medium development phase, characterised by a proactive and increasingly systematic approach to engagement.
- The main purpose of engagement is to gain legitimacy for corporate operations and to build public trust.
- The Government and business partners are the most influential stakeholders, and their inclusion is carried out through high-level methods of engagement. Customers, employees, and shareholders and investors are engaged through mid-level methods of engagement. Communities and NGOs are engaged through low-level methods of engagement and exert no direct influence in decision making.
- The main difference between western and Chinese stakeholder engagement practices is the concept of normativity, whereby western normative stakeholder engagement calls

for top-down approaches to sustainability and Chinese normative stakeholder engagement is carried out with a top-down approach and limited spaces for grassroot participation.

- If compared to western standards of engagement, the analysed practices appear to be instrumental in nature and to not contribute to sustainability in an effective way.
- On the other hand, if the Chinese concept of normativity for stakeholder engagement is considered, the analysed practices can be considered normative.

This dissertation has described stakeholder engagement as a complex and multi-faceted process, which accounts for countless variables in its execution. With regards to stakeholder engagement complexity, to the empirical research carried out in this study, and to its methodological limitations, several recommendations can be offered to inform future research on stakeholder engagement in the Chinese corporate context:

- A similar sample size could allow for in-depth case studies on each of the reporting companies in order to complement the reported data with more detailed information, collected through field visits, structured interviews, and other field research methods.
- A similar research method could be applied to a larger sample of sustainability reports, in order to raise the accuracy and the statistical validity of the collected data. Larger samples can be selected according to several independent and dependent variables, such as the industry sector, the size, the ownership pattern, and the financial performances of companies, as well as the companies’ media and internet presence, involvement in critical events or in specific sustainability practices.
- Stakeholder engagement could also be researched without the support of sustainability reports as data sources, especially in order to study the engagement process fully from the stakeholder’s point of view. Sustainability reports have specific purposes and specific structures which cannot allow for a completely transparent and multi-perspective disclosure of information. How stakeholders perceive engagement practices, their own role as stakeholders, as well as which conditions they deem necessary for quality engagement could all be useful topics of research.

List of Figures and Tables

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Appendix

Name	Available at: (Accessed on 10/04/2021)
China Huaneng Group	https://database.globalreporting.org/reports/38583/
China National Nuclear Power	https://database.globalreporting.org/reports/53700/
China National Offshore Oil Corporation (CNOOC) - China	https://database.globalreporting.org/reports/38710/
China National Petroleum Corporation (CNPC)	https://database.globalreporting.org/reports/59411/
China Resources Power	https://database.globalreporting.org/reports/58883/
China Shenhua Group Corporation	https://database.globalreporting.org/reports/47454/
Energy China Group	https://database.globalreporting.org/reports/60901/
Guangzhou Development Group	https://database.globalreporting.org/reports/53716/
State Power Investment Corporation	https://database.globalreporting.org/reports/50352/