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WHO OR WHAT REALLY COUNTS IN A FIRM'S STAKEHOLDER ENVIRONMENT: AN INVESTIGATION OF STAKEHOLDER PRIORITIZATION AND REPORTING

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Abstract

Following the line of thinking that a firm is a nexus of contracts between stakeholders, with managers as "the central node" (Hills and Jones, 1992), this study examined how managers prioritize stakeholder relationships and to what extent firms engage in voluntary disclosure with the stakeholder group they deem to be important. Data was simultaneously collected from two different national business contexts, Italy and the US. Results of the study show that the power, legitimacy, and urgency that managers associate with various stakeholder groups cumulatively determine how they go about prioritizing competing stakeholder claims. The results also provide evidence to the effect that the more importance a firm attaches to a stakeholder group, the greater the level of interaction between the firm and the stakeholder group, as evidenced in the information reported by the firm in its disclosures.

KEYWORDS: Stakeholder management, voluntary disclosures, cross-cultural differences, stakeholder engagement, prioritizing stakeholder claims, stakeholder dialogue.

JEL: M14, M41

Introduction

Stakeholder management is generally viewed as a partnering between the firm and who the firm considers to be its stakeholders, and involves "communicating, negotiating, contracting, and managing relationships" (Freeman, 2004: 237). It is commonly accepted that managers of a firm play a somewhat unique role in stakeholder management, often being the only group to make strategic decisions involving the allocation of the limited resources of the firm in a manner that they perceive to be consistent with the stakeholder claims (Greenlay, Hooley, Broderik and Rudd, 2005; Hills and Jones, 1992). But while most scholars accept the pragmatic reality that in this "partnering", managers cannot attend to all of the actual and potential claims of all the stakeholders (Harrison and St John, 1994), the issue of to "whom or what" do managers pay attention and how do they go about making this determination,

continues to be debated (e.g. Bowie, 1988; Clarkson, 1995; Cornell and Shapiro; 1987; Freeman and Reed, 1983; Freeman, Wick and Parmar, 2004; Greenley, Hooley, Broderick and Ruud, 2004; Hills and Jones, 1992; Jones, Felps and Bigley, 2007; Nasi, 1995; Polonsky and Scott, 2005; Unerman and Bennett, 2004).

Freeman's definition of a stakeholder as "any group or individual who can affect or is affected by the achievement of the organization's objectives" is largely agreed and widely cited, however it offers an extremely wild field on the possibility as to who or what really counts prioritizing stakeholder claims and designing the relational strategy.

More recently, Mitchell, Agle, and Wood (1997) proposed a theory of stakeholder salience to explain the conditions under which managers pay attention to certain classes of stakeholders and how they prioritize stakeholder relationships. They posit that stakeholder identification and salience is a function of managers' perceptions of stakeholders as possessing one or more relationship attributes: the stakeholders' power to influence the firm, the legitimacy of stakeholders' relationship with the firm, and the urgency of stakeholders' claim on the firm. The stakeholder salience theory, as such, attempts to explain the dynamics inherent in the complex considerations that determine to whom and to what managers actually pay attention when managing their stakeholder groups (Agle, Mitchel and Sonnenfeld, 1999). Accordingly, stakeholders groups are here discussed referring to salient key stakeholders which contribute to the company's long term and sustainable competitive advantage (Epstein, 2000).

Developing an understanding of why managers pay attention to certain stakeholder groups also sets the stage for an examination of how and to what extent firms engage with various stakeholder groups. It appears logical that the more importance a firm attaches to a

stakeholder group, the higher will be the level of interaction between the firm and the stakeholder group and the more will be the stakeholder dialogues addressing the interests of the group. Although firms employ a variety of communication mechanisms in their attempt to reach and engage stakeholders, voluntary disclosures are a cornerstone of stakeholder dialogue largely emphasized by stakeholder reporting literature (Lev, 1992; Epstein and Birchard, 2000; Preston, Donaldson and Brooks, 1999,) as well as by international regulators and professional bodies (GRI, 2006; ISEA, 1999, FASB, 2000, OECD, 2001) . As such, numerous and prestigious research reports encourage firms to make increased efforts to communicate their engagement initiatives, through voluntary disclosures, toward the stakeholder groups that they consider to be salient.

Objectives of This Study

Following the line of thinking that a firm can be viewed as a nexus of contracts between stakeholders, with managers as “the central node” (Hills and Jones, 1992), this study first examines the extent to which the power, legitimacy, and urgency that managers associate with various stakeholder groups, determines how managers go about prioritizing competing stakeholder claims. Next, the study examines if and to what extent firms engage in a dialogue with the stakeholder group they deem to be important, as reflected in the voluntary disclosures made by the firm. The Financial Accounting Standard Board (FASB, 2000) describes “voluntary disclosures” as “information primarily outside of the financial statements that are not explicitly required by accounting rules or standards.” Recent guidelines provided by FASB have encouraged companies to engage in disclosures in excess of the requirements

including accounting and other information that managers of a company deem relevant to the needs of various stakeholder groups (Meek et al., 1995).

Relatively little research exists on the managers' attitude toward voluntary disclosure related to stakeholder groups (Core, 2000; Healy, 2001). It has been frequently discussed that techniques such as the "identification of key stakeholders" (E&Y, KPMG and PWC, 1999; GRI, 2003) should be performed in order to guide voluntary disclosure practices of companies. But in absence of empirical evidence to support these assertions, voluntary disclosure practices of companies continue to be studied largely from the perspective of disclosed information (output) rather than investigating the process that managers adopt in designing the institutional dialogue toward stakeholder groups.

In this paper it is argued that since companies are known to treat stakeholder reporting as the key to building, sustaining and continually refining stakeholder engagement (Ruth and York, 2004; E&Y, KPMG and PWC, 1999; Roberts, 1992), the greater the salience attached to a stakeholder group, the greater the effort the firm will make to address the demands of the stakeholder group and communicate its efforts via voluntary disclosures. Such an approach is based on past literature that indicates that voluntary disclosures are an important part of the dialogue between management of the firm and its stakeholders (Ballou, Heitger, Landes and Moss, 2006; Hooks, Coy and Howard, 2002; Verrecchia, 2000; Guthrie and Parker, 1990;).

Finally, in examining these relationships, the study acknowledges the fact that stakeholder attributes, like the ones examined in this study, are social perceptual phenomena (Palmer and Quinn, 2005; Smith, Adhikari and Tondkar, 2005) which are socially constructed, not objective reality, and are influenced by a manager's value systems. Also, researchers have also tried to account for the differences observed in voluntary disclosures

across different national contexts (Boesso and Kumar, 2007; Brennan, 2001; Zazeski, 1996) . The extant literature is equivocal of the effects of legal and competitive environments on disclosure practices of company, while little and mixed evidence is provided about the influence of factors such as the managers' value system. Accordingly, it seems imperative that factors identified the stakeholder prioritization process are examined in more than one national context to ascertain their applicability across countries.

Since this study aims to analyze the general implementation of stakeholder theories, the choice of managers from Italy and the US appeared particularly appropriate as the regulators bodies of both countries support voluntary disclosures and the Geert Hofstede cultural indicators show only little differences among the two countries. While the common emphasis on transparent communication is clear referring to the national legislation for the listed companies (recently Sarbanes-Oxley Act in the US and the so called "Saving Law" in Italy), common cultural effect is a multi-dimensional and complex construct. However, the Hofstede indicators are widely adopted in stakeholder reporting research (Smith et al, 2005; Wall, 2005) as valid proxy for the influence of cultures on management behavior. As such, the stakeholder management framework proposed in this study is tested across two different country contexts, Italy and the United States trying to validate the general applicability of the stakeholder salience and the stakeholder reporting theories.

Theoretical Framework for the Study

More than two decades after the publication of the landmark work of Freeman, "Strategic Management: A Stakeholder Approach" (1984), scholars are still debating some of

the fundamental questions related to stakeholder theory. Who is a stakeholder? What is a stake? And which groups of stakeholders deserve management attention and which do not?

The Broad and the Narrow View of Stakeholders

There is much disagreement on what kind of entity can be considered as a stakeholder. One of the broadest definition in the literature is the now classic definition by Freeman (1984:46) which defines stakeholders of an organization as, “any group or individual who can affect or is affected by the achievement of an organization’s objectives.” The rationale behind such a comprehensive identification of stakeholder is to enable managers to recognize and effectively respond to a disparate set of entities. Such broad view of stakeholders is firm-centered, in the sense that managers might want an exhaustive list of stakeholders in order to evaluate various claims and interests with the purpose of firm’s survival, economic well being, damage control and taking advantage of opportunities (Atkinson A., 1997; Savage, Nix, Whitehead and Blair, 1992).

The narrow view of stakeholders also defines stakeholders in terms of their necessity for the firm’s survival, but defines the groups in terms of their “direct relevance to the firm’s core economic interest” (Clarkson, 1995; Brenner, 1993). This view of stakeholder management is based on the practical reality of resource and time limitations and cognitive constraints faced by managers in dealing with disparate demands from the environment. While the narrow view of stakeholder looks at these groups in terms of their direct relevance to the firm’s core economic interests, the broad view is based on the reality that firms interests can be affected by almost anyone who can affect or is affected by the objectives of a firm.

Stakeholder Salience Theory

Although stakeholder theorists continue to differ considerably on whether to take a broad or a narrow view of the firm's stakeholders (Freeman et al, 2004: Sundaram and Inkpen, 2004), Mitchell et al (1997) offer a "bridging concept" to overcome the situation. They suggest that "the broad concept of stakeholder must be better defined in order to serve the narrower interests of legitimate stakeholders" (p. 862). From their review, they conclude that while the broad view emphasizes the stakeholders' power to influence the firm's behavior, the narrow view emphasizes the claim's legitimacy based upon contract, exchange and at-risk status.

Agle et al (1999) argue that the prioritization that managers accord to the interests of various stakeholder groups will be based on managerial perceptions of power, legitimacy and urgency. Resource dependency theory suggests that the power differential among stakeholders is the outcome of the fact that power accrues to those groups who control resources required by the firm (Pfeffer, 1981). Hence, the more critical the resource controlled by a stakeholder group, the greater the importance the firm will accord to that group. In particular, it is assumed that stakeholder power exists where one social actor, A, can get another social actor, B, to do something that B would not have otherwise done (Agle at all, 1999). Legitimacy is, "a generalized perception or assumption that actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, and beliefs" (Suchman, 1995). Finally, urgency is "the degree to which stakeholders' claim calls for immediate attention". It includes time sensitivity—the degree to which managerial delay in attending to stakeholder is unacceptable—and criticality—the importance of the claim to stakeholder. It is the managers of a firm who determine which stakeholder groups

are salient to the firm (those who will be accorded high prioritization by the firm), and this evaluation is based on managers' perception of the degree to which stakeholder groups possess the aforementioned attributes (Agle et al, 1999).

Stakeholder Reporting Theory

Although stakeholder management is complex mix of different strategic approaches (communicating, negotiating, contracting and managing the relationship), the demand for enhanced disclosures, better communication and improved stakeholder dialogue has been fueled by the increasing popularity of the stakeholder approach that has resulted in a widespread realization that the interactions of a company are not limited to just shareholders. European research centers such as the Organization for Economic Co-operation and Development (OECD, 2001), the Association of Chartered Certified Accountant (ACCA, 1999) and the Institute for Social and Ethical Accounting (ISEA, 1999) have each attempted to develop voluntary disclosure frameworks as they relate to corporate governance structure, social accounting and stakeholder reporting. Similarly, the Center for Social and Environmental Accounting Research (CSEAR), the Global Reporting Initiative (GRI) and the Institute for Social and Ethical Accountability (ISEA) have also examined the relationship between corporate voluntary disclosure and sustainable development of a company's business activities. The Triple Bottom Line (TBL) reporting framework (ISEA, 1997) has proposed integrated reporting in terms of three different measures of value added, economic, environmental, and social. Also, the Business School of Copenhagen in collaboration with Ernst & Young (1999), KPMG and other auditing firms, has developed a management guide to stakeholder reporting focusing on interest and influence of each group. Hence, voluntary disclosures should be designed according to stakeholder claims and be viewed as part of the

more general stakeholder management strategies. Furthermore, the above mentioned literature supports and/or proposes techniques of stakeholder "mapping" and stakeholder "matrix" in order to better define which groups should be targeted by the company institutional reports. Only "key salient stakeholder" are highlighted as important by the framework presented and they emerge among the many as the stakeholder better connected with the long term and sustainable competitive advantage of the company.

Hypothesis

Who Counts in a Firm's Stakeholder Environment

As noted above, the stakeholder salience theory proposes that the degree to which managers give priority to competing stakeholder claims is dependent on the managerial perception of the possession of the attributes of power, legitimacy and urgency. The determination of a stakeholder possessing these attributes is, as such, a socially constructed and not objective reality. The stakeholder salience theory does not argue that managers should pay attention to a certain stakeholder group, it simply posits that because of perceptual factors managers do pay certain kinds of attention to certain kinds of stakeholders (Mitchell et al, 1997). It is therefore hypothesized that:

H1: There will be a difference in the managerial perceptions of power, legitimacy and urgency associated with various stakeholder groups.

The salience that a firm's managers associate with a stakeholder group is a matter of multiple perceptions since stakeholder salience—the degree to which managers give priority to competing stakeholder groups—is the result of cumulative stakeholder attributes of power,

legitimacy and urgency perceived by managers to be present. In addition, these attributes create greater salience in combination than based on their individual presence. For example, a stakeholder group may possess the power to impose their will upon a firm but if they do not possess legitimacy or urgency, the overall saliency will remain inconsequential in eliciting response from the firm. But when power is combined with legitimacy, the stakeholder group becomes capable of forming coalitions and makes its influence on the firm felt in a much more pronounced way. Similarly, power when combined with urgency can create a stakeholder group capable of using coercive means to gain management attention. Managers will, therefore, perceive a group with combination of attributes to be more salient and would want to achieve certain ends and pay particular kinds of attention to these stakeholder groups. It is therefore hypothesized that:

H2: The greater the managers perception of the presence of power, legitimacy and urgency in the demands of a stakeholder group the greater will be the salience associated with the stakeholder group.

What Counts in A Firm's Stakeholder Environment

Manager's perceptions of stakeholders' attributes not only form the critical variables in dictating stakeholder salience, they are also crucial in determining organizational resource allocation in response to stakeholder claims (Agle et al, 1999). It is the managers' responsibility to reconcile divergent interests by making strategic decisions to allocate resources in a manner that is most consistent with the claims of various stakeholder groups (Hills and Jones, 1992:134). Thus the stakeholders that win the management's attention will be only those that the managers perceive to be highly salient.

Viewing the identification of key stakeholders as a strategic plan by a firm to manage stakeholder relations (Roberts, 1992), one can expect management of a firm to target only specific groups and selected claims. Studies that have examined voluntary disclosures made by companies unequivocally show that companies direct their dialogue and reporting efforts towards "key stakeholders"—those stakeholders that are perceived to be important and have influence on firm activities (Smith, Adhikari and Tondkar, 2005; Core, 2000). Researchers have also noted differences in the disclosure policies, disclosure patterns and disclosure choices of companies, based on their identification and prioritization of various stakeholder groups (Eccles , Herz, Keegan, and Philips, 2001; Epstein and Birchard, 2000). Stakeholder dialogue, as such, is the cornerstone of stakeholder engagement (Unerman and Bennett; 2004). It is therefore hypothesized that:

H3: The greater the perceived salience of a stakeholder group by a firm, the greater will be the firm's stakeholder engagement effort directed at that group (as evidenced in the voluntary disclosures made by the company).

Method

The sample for this study consisted of 244 managers. 133 of the managers were from the US and 114 were from Italy (Appendix). The decision to collect data from two different country contexts was prompted by the fact that differences in the social perceptual phenomena like power, legitimacy, and urgency (which form the core of the stakeholder saliency theory) are more pronounced in a cross-country context and societal value systems could influence the importance a firm attaches to the claims of different stakeholder groups. In addition, voluntary disclosures, which are used in the study to examine managerial response to each of

the stakeholder groups, is known to vary across country contexts (Boesso and Kumar, 2007; Smith, Adhikari and Tondkar, 2005, Palmer and Quinn, 2005). Furthermore, testing the framework created for this study in two similar national business context will contribute to the robustness of findings of the study.

The choice of Italy and the US was based on the fact that both are economically developed countries that, according to the well known Hofstede cultural dimensions (Hofstede, 1998), show high levels of individualism (Italy: 76 vs. US: 91) and uncertainty avoidance (70 vs 62) and a low level of power-distance (inequality) score (50 vs 40). As such, both cultures seem to show appreciation for individual rewards and policies; rules and clarity and equal opportunity to discuss different opinions. The only arguable difference in their societal values is represented by the masculinity index which is slightly higher in Italy (75 vs 46). In relation to voluntary disclosure this means that a focus on discussing the performances without taking into account the well-being of the actors concerned can work counter-productive (Waal, 2005) because the core value of a masculine society is winning, while low masculinity implies an emphasis on equality, solidarity and consensus.

Data was collected in form of an anonymous questionnaire, which was administered while these managers were attending management programs. In each of the two country settings, the managers who responded to the survey represented samples across multiple industries. Collecting data from more than one industry allowed us superior generalizability of the findings of the study.

Data was collected in reference to five different stakeholder groups that are common to most companies in most industries. In making the choice of stakeholder groups, the study followed the framework suggested by Clarkson (1994) who has conceptualized two broad

categories of stakeholders. Voluntary stakeholders are those that bear some form of risk as a result of having invested some form of capital, human or financial, or something of value in a firm. Involuntary stakeholders are those who may be placed at risk as a result of firm's activities, but without the element of risk. Expanding the generic stakeholder groups proposed by Freemans (1984) and adopted by Agle at all (1999): Financial community, labor union and customer groups were used as representatives of the first groups, while, environmental advocacy groups and professional industry groups were included as representatives of the second group.

To measure the salience of various stakeholder groups, managers were asked to evaluate the pressure that their company faced from each of the five stakeholder groups on a 7 point Likert type scale. As previously operationalized by Mitchell at all. (1997) and Agle at all. (1999) multiple items were developed for measuring each of the salience theory constructs trough survey prototypes and CEO interviews. The list of the proposed items is available in the appendix of their published research and the actual items used for this paper were picked by that list and presented to managers together with the following recommended examples. Power: the stakeholder group has the ability to apply a high level of direct economic reward or punishment and management perceives this pressure. Legitimacy: the group's claim are viewed by the management team as proper and appropriate and accordingly treated as a threat or an opportunity for the company. Urgency: the group is active in pursuing claims – demands or desires – that are perceived as very important by the company which is actively engaged with the group. Finally, managers were asked to indicate the extent to which their firms was addressing the concerns of each stakeholder group as evidenced in the voluntary disclosures made by firms.

In designing the questionnaire particular attention was paid to the potential for bias resulting from response artifacts (Podsakoff and Organ, 1986). First, the order of questions was randomized to avoid any response-order biases. Second, variation was made in the wording and anchors associated with the scale used to measure different constructs.

Results

Data was analyzed in three separate stages. First the correlation of all variables was calculated. The correlation matrix was closely examined for any evidence of multicolinearity. This was a potential concern since all of the data for the study was collected from the same source. However, there was no evidence of multicolinearity, as all the variables that were correlated were meaningfully related and there was no significant correlation among unrelated variables. Table 1 presents the complete correlation matrix. The upper diagonal of the matrix presents the results of the US sample while the Italian sample is presented in the lower diagonal.

-- Insert Table 1 here --

Next, Analysis of Variance was employed to examine the differences in the managerial perceptions of power, legitimacy and urgency across the five different stakeholder groups. Separate analysis was conducted for the US and the Italian sample. Significant differences were found in the managerial perceptions of power, legitimacy and urgency across the five stakeholder groups for both the US (Table 2) and the Italian (Table3) sample. This confirmed hypothesis 1, which predicted that differences will exist in the managerial perceptions of power, legitimacy and urgency across different stakeholder groups.

-- Insert Table 2 here--

Before proceeding with further data analysis it was felt important to determine the similarities and differences in the results of the two samples. If no significant differences were to exist between the two samples, they could be combined for further data analysis. Despite the overall communalities highlighted by the Hofstede cultural indexes, T-tests conducted to compare the perceptions of power, legitimacy and urgency reported by the US and the Italian managers across the five stakeholder groups showed significant differences for several stakeholder groups. For example, while the Italian managers perceived labor unions to be possessing the greatest power and urgency and professional and industry groups to be possessing greatest legitimacy, the US managers perceived financial community to be possessing the greatest power and, professional and industry group to be possessing the greatest urgency and the greatest legitimacy. These results are not reported because they are beyond the objectives of this study, but they did confirm the need to proceed with further data analysis with two separate samples and highlight a new potential research line investigating the reasons of these differences.

Next, salience of each stakeholder group was calculated by multiplying the reported attributes of power, legitimacy and urgency. Calculating salience in this manner closely follows the stakeholder salience theory framework, which conceptualizes these attributes to be interacting with each other in determining the firm's response to the stakeholder groups (Agle et al, 1999). Analysis of variance tests were then conducted to examine differences in the salience associated with the five stakeholder groups. In the US, managers reported financial community as the most salient stakeholder group (mean=70.56) and the labor union as the least salient stakeholder group (mean=18.19). The Italian managers, as well, perceived the financial community as the most salient stakeholder group, but their saliency was not as

strong as the US (mean 44.58 vs. 70.56). Customer advocacy group was perceived as the least salient stakeholder group (mean=16.53) by the Italian managers. Results of the tests (for both the US and the Italian sample) presented in Table 4 show that managers are quite discriminating in the salience they associate with various stakeholder groups. These results served as confirmation of hypothesis 2.

-- Insert Table 3 and Table 4 here--

Next, to examine the relationship between stakeholder salience and firm's response to the five stakeholder groups, two subgroups were created for each stakeholder group by splitting the sample based on the median salience score. The group with higher than the median salience score were labeled as high salience group, and those with below median salience score were labeled as low salience group. Finally, ten sets of Analysis of Variance tests were done, one for each of the five US stakeholder groups and one for each of the five Italian stakeholder groups. The dependent variable was voluntary disclosures. Hypothesis 3 had predicted that managers would pay more attention to and attend to a highly salient stakeholder group as opposed to groups with low saliency, as evidenced by the stakeholder engagement efforts reported in the voluntary disclosures made. Results of ANOVA generally confirmed the hypothesis. However, there were some exceptions in the results of both the Italian and the US sample, possible explanations for which are discussed in the following section.

--Insert Table 5 and Table 6 here--

The last step in the data analysis was aimed at a closer examination of why managers respond to each stakeholder group the way they did. As noted several time in this study, the potential relationship between a firm and a group of stakeholder is dependent on stakeholder

salience, which is the outcome of the managerial perception of the power, legitimacy and urgency associated with the stakeholder group. Given the time, energy and resource constraints, managers may well do little or even nothing about stakeholders they perceive to be possessing only one of these attributes. However the combination of two attributes (as noted earlier in the paper) leads to a changed dynamics with a corresponding increase in firm's responsiveness to the stakeholder group (Mitchell et al 1997).

Following the above reasoning stakeholder attributes were examined in combination in terms of their effect on the level of engagement between firm and the stakeholder groups. Results presented in Table 7 and Table 8 show that the combination of power and legitimacy is the strongest predictor (as indicated by the standardized coefficient of the variable in the regression equation) of the level of engagement between firm and the stakeholder, while the combination of legitimacy and urgency is the weakest. This is generally true about most of the stakeholder groups, both in Italy and in the US. More detailed discussion relating to these findings and their implications are discussed in the next section.

--Insert Table 7 and Table 8 here--

Discussion

The aim of this study was to empirically examine the extent to which the stakeholder salience and the stakeholder reporting theories determine prioritization of competing stakeholder claims in two national context. Furthermore, the study investigated if and to what extent stakeholder salience was crucial in determining the firm behavior with respect to various stakeholder groups. Results of the study confirm that across Italy and US the prioritization accorded by a company to the demands of various stakeholder groups is based

on managers' perception of three stakeholder attributes—power, legitimacy and urgency. However, results also showed that more important than the possession of one or the other attribute is the cumulative effect of the possession of attributes in determining how managers prioritize stakeholder relationships. The results also provide evidence to the effect that the more importance a firm attaches to a stakeholder group, the more is the level of interaction between the firm and the stakeholder group, as evidenced in the levels of engagement reported by the firm in its voluntary disclosures.

The most obvious conclusion that one can draw from this study is that managers of a firm do not accord all stakeholders the same level of importance. This is evident from the significant differences in the power, urgency and legitimacy that they associate with various stakeholder groups and the relative salience they attach to each of the stakeholder groups. However, considering the fact that the two national context analyzed presented similar legal & cultural framework but report different key stakeholders, in the prioritization accorded by a firm to the interests of various stakeholder groups, the perspective of managers seems to play a critical role. To the extent that managers are known to vary in their environmental scanning (Daft, Sormunen and Park, 1995) and their values (Frederick, 1995; Hambrick and Mason, 1984), these managerial characteristics act to moderate the stakeholder-firm relationships. With manager at the center of the nexus to effect reconciliation among stakeholders (Hills and Jones, 1992), decisions about which groups of stakeholders to address also seems to be dependent on the individual managers' behavior. Differences in the salience that Italian and US managers associate with different stakeholder groups are perhaps indicative of the cultural and behavioral aspects of a particular orientation toward each stakeholder group rather than referring to the overall national culture framework as reported by Hofstede indexes.

The variation in salience — the relative degree of importance that managers attach to different stakeholder groups — also appears to dictate the level of interaction between a stakeholder group and the firm. Firms generally seem to be making greater efforts to reach out and engage in dialogues with stakeholder groups to whom they accord high salience. However, results also show occasional incongruence between the salience that managers associate with a stakeholder group and the level of engagement effort that they report as being devoted to that group. For example, despite the higher salience associated with the Professional industry group, Italian managers reported giving relatively low managerial attention to this group. Similarly, the US managers reported relatively good levels of engagement aimed at the Customer group, despite the fact that they accorded lower salience to this group. Such differences are perhaps indicative of the fact that managers have "limited ability to attend to all problems simultaneously," (Cyert and March, 1963:43). In addition to that, one could asserts that professional and institutional bodies' recommendations on the importance of the "individuation of key stakeholders" prior to the voluntary disclosure exercise are somewhat largely distended by the practitioners that perceive the salience of specific groups without disclosing.

Finally, results of this study also seem to suggest that to whom and to what managers pay attention in managing different groups of stakeholders is a pragmatic exercise. Stakeholder demands are in a variable and not steady state, and so are the stakeholder attributes. The circumstances which determine a firm's level of engagement toward a stakeholder group appear to be strongest when all of the three attributes—power, legitimacy and urgency—are present. The presence of power and legitimacy and power and urgency together also appears to elicit greater stakeholder dialogue aimed at addressing the interests of

a group. Professional and institutional bodies could build on these results better coordinating their reporting framework with the stakeholder salience's determinants.

As for the limitations of this study, perhaps the most major limitation of this study stems from the manner in which data was collected. Self-report measures, although widely used in behavioral and strategy research, raise doubts about the findings. While the use of self-reported measures for managerial perception about stakeholder salience is justified, one would have ideally liked to collect data about stakeholder dialogue and engagement efforts through archival or other sources.

Contributions of this Study and Future Research Directions

The main contribution of this study lies in empirically testing and extending an inferential theory of stakeholder management. To the extent that this study highlights the unique role that managers play in managing firm-stakeholder relationships, future study need to more closely and systematically examine the moderating role of managerial values, attitudes and beliefs in managing stakeholder relationships. The study also presents some evidence to the effect that the attributes outlined in the stakeholder salience theory are liable to vary across cultures. As such, further test of the theory in cross-cultural situations is desirable. Finally, managerial actions and behaviors, as reflected in the stakeholder management efforts reported in voluntary disclosures, is an essential and important aspect that this study has added to the stakeholder salience theory. Future researchers could focus on examining this specific aspect utilizing a variety of measures. This is particularly important because in recent years stakeholder dialogue employing means of communication, such as

voluntary disclosures, has been deemed to be the cornerstone of effective stakeholder management (GRI, 2006; Unerman and Bennett, 2004).

Managerial Implications

Findings of this study have major implications for the practice of effective stakeholder management. In an era when firms are increasingly relying on the commitments of various stakeholder groups to create value, focusing attention on management-stakeholder relationship holds the key to more effective management. The stakeholder salience theory as tested in this study offers some practical insights into the understanding of which stakeholders do really matter and why. Furthermore, in relating stakeholder salience to a firm's stakeholder engagement efforts, this study highlights the limitations that managers may face because of their own cognition, values and beliefs in determining a particular orientation toward a stakeholder group. It is only when managers are able to systematically evaluate which groups of stakeholders deserve or require management attention can they formulate effective strategies to bring a core group of stakeholders together and allocate the limited resources of the firm in a manner most consistent with the demands of various stakeholder groups.

Table 1
Correlations

U.S. Italy	lu_P	fc_P	ecg_P	cag_P	pig_P	lu_U	Fc_U	ecg_U	cag_U	pig_U	lu_L	fc_L	ecg_L	cag_L	pig_L	lu_D	fc_D	ecg_D	cag_D	pig_D
lu_P	**1**	.24[B]	.18	.11	.01	.05	.04	.01	.04	.11	.11	.07	.05	.04	.12	.50[B]	.15	.10	.03	.02
fc_P	.00	**1**	.16	.09	.10	.07	.09	.10	.01	.10	.03	.19[B]	.08	.07	.07	.09	.66[B]	.10	.18	.09
ecg_P	.10	.13	**1**	.13	.10	.01	.10	.09	.14	.05	.02	.13	.12	.07	.09	.14	.10	.69[B]	.20[C]	.10
cag_P	.02	.16	.13	**1**	.10	.05	.11	.07	.04	.01	.09	.01	.05	.28[B]	.15	.12	.14	.11	.66[B]	.13
pig_P	.14	.01	.01	.13	**1**	.04	.04	.01	.10	.27[B]	.04	.01	.06	.10	.31[B]	.09	.14	.14	.12	.63[B]
lu_U	.06	.02	.12	.03	.08	**1**	.07	.02	.07	.05	.17	.11	.12	.08	.06	.11	.12	.09	.01	.01
fc_U	.05	.13	.09	.06	.08	.10	**1**	.12	.02	.05	.13	.19[C]	.16	.11	.07	.06	.11	.07	.15	.03
ecg_U	.05	.00	.02	.05	.11	.11	.12	**1**	.16	.13	.02	.05	.13	.04	.11	.11	.03	.07	.05	.14
cag_U	.05	.08	.02	.12	.05	.12	.16	.17 [C]	**1**	.11	.04	.08	.04	.04	.10	.12	.01	.12	.08	.13
pig_U	.06	.03	.04	.12	.21[C]	.11	.10	.12	.13	**1**	.10	.09	.15	.01	.32[B]	.16	.05	.11	.03	.21[C]
lu_L	.06	.14	.05	.06	.02	.25[B]	.16	.10	.12	.07	**1**	.13	.11	.05	.00	.24[B]	.02	.02	.11	.04
fc_L	.11	.03	.01	.11	.08	.06	.03	.12	.05	.02	.02	**1**	.13	.15	.11	.01	.35[B]	.03	.06	.09
ecg_L	.12	.01	.24[C]	.04	.02	.12	.02	.17	.03	.02	.12	.06	**1**	.14	.13	.07	.11	.18[C]	.12	.09
cag_L	.09	.03	.04	.19[C]	.10	.12	.04	.17	.10	.03	.19[C]	.15	.10	**1**	.13	.04	.12	.10	.19[C]	.02
pig_L	.14	.04	.07	.08	.20[C]	.15	.07	.17	.06	.01	.09	.10	.15	.15	**1**	.12	.14	.03	.08	.20[C]
lu_D	.12	.08	.18	.04	.12	.05	.03	.14	.03	.15	.20[C]	.06	.05	.16	.01	**1**	.16	.14	.18[C]	.11
fc_D	.18	.50[B]	.16	.04	.03	.04	.04	.16	.00	.01	.11	.26[B]	.09	.09	.04	.01	**1**	.12	.13	.11
ecg_D	.06	.10	.37[B]	.06	.07	.05	.01	.10	.17	.02	.07	.07	.10	.07	.04	.05	.13	**1**	.16	.11
cag_D	.03	.04	.17	.49[B]	.18	.00	.16	.01	.04	.15	.12	.02	.02	.15	.14	.13	.09	.14	**1**	.12
pig_D	.06	.02	.13	.18	.49[B]	.05	.10	.13	.04	.02	.15	.00	.02	.16	.24[C]	.08	.11	.02	.11	**1**

P: Power, **U**: Urgency; **L**: Legitimacy, **D:** Disclosure
lu: labor union; **fc:** financial community; **ecg**: environmental and community groups; **cag**: customer advocate groups; **pig**: professional industry groups.
B: $p<0.01$; **C**: $p<0.05$

Table 2
Differences in Attributes across Stakeholder Groups (U.S. n=130)

Perceptions		STAKEHOLDER GROUPS					
		Labor unions	Financial community	Environmental & community groups	Customer advocate groups	Professional industry groups	F
Power	Mean	2.508	5.046	3.738	3.585	3.631	26.71 ***
	Std. Dev.	(2.04)	(2.06)	(1.99)	(2.07)	(1.76)	
Urgency	Mean	2.938	4.338	4.185	4.053	4.769	23.22 ***
	Std. Dev.	(1.55)	(1.75)	(1.68)	(1.57)	(1.49)	
Legitimacy	Mean	2.938	4.615	4.261	4.338	4.800	20.50 ***
	Std. Dev.	(1.91)	(1.80)	(1.96)	(1.82)	(1.72)	

*** p<0.001; ** p<0.01; *p<0.05.

Table 3
Differences in Attributes across Stakeholder Groups (Italy n=114)

Perceptions		STAKEHOLDER GROUPS					
		Labor unions	Financial Community	Environmental & community groups	Customer advocate groups	Professional industry groups	F
Power	Mean	5.219	4.316	2.403	2.193	2.579	66.57 ***
	Std. Dev.	(1.65)	(2.01)	(1.94)	(1.54)	(1.63)	
Urgency	Mean	3.105	2.053	2.421	2.737	2.263	2.90 *
	Std. Dev.	(2.88)	(2.29)	(2.56)	(2.73)	(2.46)	
Legitimacy	Mean	2.000	4.667	2.912	2.930	4.702	49.59 ***
	Std. Dev.	(1.17)	(1.90)	(1.89)	(1.97)	(1.99)	

*** p<0.001; ** p<0.01; *p<0.05.

Table 4
Differences in Salience of Stakeholder Groups (U.S. and Italy)

Salience		STAKEHOLDER GROUPS Labor unions	Financial community	Environmental & community groups	Customer advocate groups	Professional industry groups	F
Salience U.S (n=130)	Mean	18.185	70.554	44.570	35.692	54.492	8.90 ***
	Std. Dev.	(29.02)	(101.86)	(76.51)	(60.15)	(87.08)	
Salience IT (n=114)	Mean	28.798	44.579	18.333	16.526	30.351	5.10 ***
	Std. Dev.	(35.63)	(75.17)	(44.10)	(37.56)	(62.05)	

*** p<0.001; ** p<0.01; *p<0.05.

Table 5
Differences in Voluntary Disclosures across Stakeholder Groups (U.S. n=130)

Voluntary Disclosures (VD)		STAKEHOLDER GROUPS Labor Unions	Financial community	Environmental & community Groups	Customer advocate groups	Professional industry groups
VD with low salience	Mean	1.901	4.526	2.789	3.280	2.798
	Std. Dev.	(1.27)	(2.13)	(1.76)	(2.03)	(1.51)
	N	91.	93.	95.	93.	89.
VD with high salience	Mean	3.700	6.105	4.611	3.316	4.476
	Std. Dev.	(2.15)	(1.45)	(2.13)	(2.05)	(1.93)
	N	39.	37.	35.	37.	41.
F		35.52 ***	17.45 ***	24.81 ***	0.00	29.39 ***

*** p<0.001; ** p<0.01; *p<0.05;

Table 6
Differences in Voluntary Disclosures across Stakeholder Groups (Italy n=114)

Voluntary Disclosures (VD)		STAKEHOLDER GROUPS Labor Unions	Financial community	Environmental & community Groups	Customer advocate groups	Professional industry groups
VD with low salience	Mean	3.872	3.471	2.620	1.720	1.840
	Std. Dev.	(1.81)	(1.82)	(1.87)	(1.26)	(1.16)
	N	77.	69.	78.	74.	68.
VD with high salience	Mean	4.243	4.867	3.278	2.550	2.956
	Std. Dev.	(1.36)	(2.01)	(1.52)	(1.60)	(1.49)
	N	37.	45.	36.	40.	46.
F		1.22	14.89 ***	3.41 *	9.36 **	20.32 ***

*** p<0.001; ** p<0.01; *p<0.05.

Table 7
Determinants of Voluntary Disclosures (U.S. n=130)

Independent Variables		Dependent variable (VOLUNTARY DISCLOSURE) Labor unions	Financial community	Environmental & community groups	Customer advocate groups	Professional industry groups
Power*Legitimacy	Coefficients	.44 ***	.67 ***	.65 ***	.45 ***	.50 ***
	Std. Error	(5.72)	(8.96)	(8.66)	(5.90)	(5.48)
Power*Urgency	Coefficients	.19 *	.28 *	.29 ***	.43 ***	.36 **
	Std. Error	(2.38)	(2.34)	(2.92)	(4.28)	(2.47)
Legitimacy*Urgency	Coefficients	.03	.31 *	.34 ***	.28 ***	.36 **
	Std. Error	(.41)	(2.48)	(3.51)	(2.90)	(2.64)
Adj. R^2		.25	.44	.45	.36	.31
F		15.74 ***	34.67 ***	35.92 ***	24.82 ***	20.17 ***

*** p<0.001; ** p<0.01; *p<0.05.

Table 8
Determinants of Voluntary Disclosures (Italy n=114)

Independent Variables		Dependent variable (VOLUNTARY DISCLOSURE) Labor unions	Financial community	Environmental & community groups	Customer advocate groups	Professional industry groups
Power*Legitimacy	Coefficients	.24 *	.55 ***	.26 *	.42 ***	.48 ***
	Std. Error	(2.39)	(6.29)	(2.53)	(4.60)	(4.94)
Power*Urgency	Coefficients	.21	.02	.30 *	.10	.15
	Std. Error	(1.60)	(.24)	(2.29)	(1.01)	(1.27)
Legitimacy*Urgency	Coefficients	.09	.13	.30 *	.10	.25 *
	Std. Error	(.74)	(1.10)	(2.29)	(1.02)	(2.29)
Adj. R^2		.04	.25	.09	.17	.24
F		2.58 *	13.78 ***	4.58 **	8.93 ***	12.83 ***

*** p<0.001; ** p<0.01; *p<0.05.

Appendix

Survey:

Surveys' respondents	**ITALY**		**US**	
	Number	**% of total**	**Number**	**% of total**
> 10 years of work experience	21	18.42	24	18.46
> 7 years of work experience	34	29.82	34	26.15
> 4 years of work experience	33	28.95	51	39.23
> 2 years of work experience	26	22.81	21	16.16
Tot.	**114**	**100**	**130**	**100**
Financial services industry	17	14.91	21	16.15
Industrial manufacturing	45	39.47	64	49.23
Information and communication	18	15.79	20	15.38
Public Utilities	34	29.83	25	19.24

Sample questions:

This stakeholder group has the ability, whether used or not, to apply a high level of direct economic reward or punishment (money, goods, services, etc.) to obtain its will:

(1=very little, 3=somewhat, 5= quite a bit 7= a lot) **1, 2, 3, 4, 5, 6 ,7**

This stakeholder group is active in pursuing claims (demands, desires) which it feels very important:

(1=very little, 3=somewhat, 5= quite a bit 7= a lot) **1, 2, 3, 4, 5, 6 ,7**

The claim of this particular stakeholder group are viewed as proper and appropriate by managers operating in our industry:

(1=very little, 3=somewhat, 5= quite a bit 7= a lot) **1, 2, 3, 4, 5, 6 ,7**

This stakeholder group receive high priority in the stakeholder engagement efforts (such as dialogue and voluntary disclosure) of the companies operating in our industry:

(1=very little, 3=somewhat, 5= quite a bit 7= a lot) **1, 2, 3, 4, 5, 6 ,7**

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