A number of theoretical perspectives have been developed across time to provide an understanding of the reasons for management’s decision to report information to stakeholders. For example, some stakeholder research is normative identifying how it is believed management should act towards stakeholders, whilst other stakeholder research is positive, seeking to explain and predict how management will react towards particular stakeholders. Each of these perspectives of “stakeholder theory” and aids to interpretation provide a partial, though often a complementary, explanation of the motivation for management to respond to stakeholder expectations or needs. The presence of these various theoretical perspectives has resulted in confusion as each provides only a part of the explanation for the motivation of firms to report information to stakeholders. In this study it was argued that a mixture of reasons drawn from the various theoretical perspectives influence the decision by management to report information to stakeholders.

The common link between the various theoretical perspectives about stakeholders is the stakeholder. Decision-making is the result of many interacting influences, and the analytical approach adopted should embrace those influences affecting the decision to report environmental information if a rich interpretation of management decisions is to result. Any approach must give recognition to the fact that people are different and firms develop a culture that includes a mixture of the different backgrounds and experiences each party brings to the relationship. As a result it is expected that management will interpret the importance of the various theoretical perspectives to decision-making differently, and could be expected to integrate both positive and normative considerations into their decision-making. Management’s decision to report to different stakeholders will fall somewhere between the two extremes, identified in figure three below, depending on the relative influence of positive considerations compared to the normative considerations impacting on management’s decision. In addition, the firm’s relationship with its stakeholders could be expected to change over time as the firm’s perception of its operating environment changes, decision makers within the firm change, and the perception of stakeholder demands
Figure One: Firm-Stakeholder Interaction – Perspectives

**POSITIVE PERSPECTIVES**

- Aids in Interpretation of Theory
  - Stakeholder Power
  - Agency Theory
  - Stakeholder Agency Theory
  - Instrumental Stakeholder Theory
  - Positive Accounting Theory: The Political Cost Hypothesis

**POSITIVE/NORMATIVE PERSPECTIVES**

- Theories
  - Legitimacy Theory
  - Feminist View
  - Principle of Fairness
  - Corporate Legitimacy
  - Fiduciary Stakeholder Principle

**NORMATIVE PERSPECTIVES**

- Aids in Interpretation of Theory
  - Theories
  - Descriptive Stakeholder Theory
  - Social Networks
  - Corporate Legitimacy
  - Fiduciary Stakeholder Principle
change. The characteristics that underlie each of the perspectives reflecting the reasons believed to motivate (positive) or should motivate (normative) the firm to report information to stakeholders are shown in Figure Two.

<table>
<thead>
<tr>
<th>Stakeholder Perspective</th>
<th>Underlying Notion</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instrumental Stakeholder Theory</td>
<td>To assess whether there are any connections between traditional goals such as profit maximisation and the management of stakeholders.</td>
<td>Wealth Generation. Survival.</td>
</tr>
<tr>
<td>Agency Theory (Stakeholder- Agency Theory (Hill and Jones, Jones))</td>
<td>Presence of a contract between the firms represented by management, and the stakeholders that impact on the firm. Agency theory concentrated on the shareholder-firm, debt-holder-firm relationship while stakeholder agency theory envisaged a wider group of “powerful” stakeholders. The claims of stakeholders with power to affect the success of the firm are attended to.</td>
<td>Power Relationship.</td>
</tr>
<tr>
<td>Stakeholder Power (for example, Ullmann)</td>
<td>The influence a stakeholder group has on a firm will depend on their ability to influence the success of the firm. Stakeholders are prioritised by level of importance to the firm.</td>
<td>Power to Influence.</td>
</tr>
<tr>
<td>The Political Cost Hypothesis (PCT)</td>
<td>Reaction of the firm to the possibility of intervention by regulators, and other interest groups who might be able to affect firm wealth. The firm takes action to provide information with the intention of offsetting regulatory attention to offset any</td>
<td>Regulatory Wealth Effects.</td>
</tr>
<tr>
<td>Normative Stakeholder Theory</td>
<td>To prescribe the nature of the moral guidelines by which the firm operates. The firm accepts stakeholders have legitimate rights, and have intrinsic value.</td>
<td>Stakeholders Legitimate Rights Stakeholders Intrinsic Value.</td>
</tr>
<tr>
<td>Principle of Fairness (for example, Phillips)</td>
<td>Offers a basis to distinguish between those who are and those who are not stakeholders of the firm - the firm owes an obligation over and above that due to all other humans. A relationship based on co-operation, often a team approach may be identified. For example, this can be found by identifying whether the individual is a member of a co-operative scheme.</td>
<td>Cooperation/relationships with Stakeholders. Management-Stakeholder Team.</td>
</tr>
</tbody>
</table>
| Feminist View  
(for example, Wicks et al. 1994) | Replaces the notion of individual with that of community. The idea is the individuals in the community work together to their common good. The firm and the stakeholder are seen as one. The community is seen as a network of relationships. For example, work together to achieve a common purpose. | Cooperation/ relationship with Stakeholders. Recognition of Interdependence, Networks of Stakeholders. |
<table>
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<tr>
<td>Social Networks (for example, Rowley 1997)</td>
<td>Undertook a social networks analysis approach to firm-stakeholder analysis. Developed a notion of a relative power balance between the firm and the stakeholder. Recognition of Interrelationships. For example, the development of relationships between the firm and stakeholders, perhaps coalitions, alliances.</td>
<td>Relationship with Stakeholders.</td>
</tr>
<tr>
<td>Principle of Corporate Legitimacy</td>
<td>Firms may not violate the legitimate rights of others to determine their own future.</td>
<td>Co-ordination of stakeholder interests with those of the firm. The rights of stakeholders are respected.</td>
</tr>
<tr>
<td>Stakeholder Fiduciary Principle</td>
<td>Firms are responsible for the effect of their actions on others.</td>
<td></td>
</tr>
<tr>
<td>Descriptive Stakeholder Theory$^3$</td>
<td>To describe and to explain the interaction between the firm and the stakeholder.</td>
<td>Description of the interaction of the firm with stakeholders.</td>
</tr>
<tr>
<td>Legitimacy Theory$^4$</td>
<td>A contract exists between the firm and the stakeholder. The terms of the contract refer to the acceptability of activities undertaken, and the “licence to operate.” Acceptance that the firm operates under a social contract, and there is a willingness to demonstrate that the activities of the firm are acceptable to the community.</td>
<td>Demonstration to Stakeholders that Firm Operations Are Acceptable.</td>
</tr>
</tbody>
</table>

This notion is illustrated in Figure Three, based on the information derived from column three, Figure Two, in which A-I are possible combinations of positive and normative influences in the decision to report environmental information. Each point reflects a possible combination of positive and normative characteristics and identifies reasons for the responsiveness of the firm to stakeholders.
The influence of both positive and normative characteristics will depend on the attitudes of management and the environment in which management must work.
In the final decision both positive and normative characteristics are expected to play a role in determining the environmental information to report. That is to say, a trade off between the different characteristics is to be expected because of the different pressures faced by management and the values that they bring to decision-making. While the normative argument would suggest all stakeholders should be informed, but the provision of full information may be impractical. By way of example, the firm may present a market argument that this would put the firm at a competitive disadvantage. On the other hand, legitimacy arguments would suggest sufficient information should be provided so that the community can assess whether or not the firm’s activities are acceptable. Each of these cannot be fully satisfied. As a result in the “real world” complex interrelationships and trade offs are to be expected, and an understanding of this is implicit to understanding the relationship between the firm and the stakeholder.

The discussion above leads to the following research question that it is intended to answer in this paper:

*Do each of the variables that underlie the various theoretical perspectives that seek to offer a reason for management’s decision to report environmental information to stakeholders contribute to an understanding of the interaction between the firm and the stakeholder?*

This study adopted a postal questionnaire, looked for reasons for the disclosure of environmental information and was based on environmentally sensitive firms. It is believed that management in these industry groups would have considered environmental issues and the reporting of this information to stakeholders. Environmental disclosure was adopted since it remains largely a voluntary area of disclosure offering maximum flexibility to management in the decision what to report to stakeholders, there has been a growth in interest in environmental reporting and many firms now take a proactive approach to addressing stakeholder information needs. For example, many firms report on the internet as well as provide environmental reports.

Statistical tests were undertaken to assess whether the responses to the questions, when tied to the positive and normative stakeholder theoretical perspectives they represented, identified reasons for the decision by management to report environmental information to stakeholders. The tests of the individual stakeholder perspectives indicated that all provided reasons for the decision by management to report environmental information. The t-tests were significant, positive correlations between the questions related to each of the theoretical perspectives were found, and the Cronbach alpha’s indicated that the measures were reliable.

Support was found for a metaphoric approach to stakeholder theory. A mixture of positive and normative reasons were found to influence the decision to report environmental information with no particular perspective taking dominance. The mix of positive and normative influences are expected to vary between firm’s as managers will bring different views and life experiences to the reporting process, the pressures facing business today and the firm in particular. The objective is not to seek generalisability in the sense that all firms will adopt each of the identified
characteristics but to produce an approach, with sufficient flexibility to allow a discussion of the characteristics underlying the decision process as relevant to each firm. It is most likely, in actual decision making, that they might not all be found, and each firm may not weight each characteristic equally, but the story of the firm-stakeholder interaction identifying the firm’s decision to report environmental information can be told.

The study concludes that a metaphoric approach to stakeholder theory combining the positive and normative perspectives provides a more complete approach to the exploration of, and explanation for the firm-stakeholder interaction in the decision by management to report environmental information than existing approaches each offering a part of the reasoning for the interaction that takes place between management and the stakeholder.

Endnotes

1. That is, as the views of management change, or management itself changes new ideas are introduced and changes to the approach taken to the reporting of information are to be expected. In addition the attitude of management can be expected to change in response to changing expectations external to the firm.

2. A number of the perspectives offer guidance to interpretation rather than being independent theories in their own right. This is the case for stakeholder power, the principle of fairness, the feminist view, social networks, the principle of corporate legitimacy and the stakeholder fiduciary principle. The political cost hypothesis is derived from positive accounting theory. As a result the more generic term perspective will be adopted rather than theory when discussing the reasons or motives underlying both theories and ways identified to interpret the relationship management has, or should have with stakeholders.

3. This theoretical perspective envisages a description of the firm-stakeholder relationship as it is. This may include positive and normative perspectives both play a role in the decision by management to report information.

4. Legitimacy theory arguably includes elements of both perspectives adding confusion to the analysis of the firm-stakeholder relationship. This confusion is the result of different researchers approaching the analysis of the firm-stakeholder interaction from either a positive or a normative perspective and an overlap of perspective’s that often goes unrecognized. For example, legitimacy theory exemplifies this overlap. This theory identifies a particular expectation about the firm’s anticipated response to stakeholders. Legitimacy arguments put forward the view that the firm operates in society at the behest of the community. For the firm to continue to operate within the society the firm, it is argued, will provide sufficient information to stakeholders to demonstrate that the activities they undertake are acceptable to the community. The argument suggests that if a firm’s activities are not acceptable then the community may take action to withdraw the firm’s right to continue to operate. While legitimacy theory appears to offer support as a normative variant of stakeholder theory in that it has a broad concept of stakeholder in terms of community, it reflects a positive variant of stakeholder theory in that the reason for demonstrating that activities are acceptable is to enhance the likely success of the firm in achieving the goals it has set and
achieving financial success/survival. This suggests that information is reported to the community in so far as the community has the power to affect the firm and that there is a close link between actions relating to the survival of the firm and the right of stakeholders to be informed. To concentrate on positive, or normative perspectives alone will result in the failure to consider an important part of the story identifying why the firm chooses to report information to stakeholders.

5. The measure of environmental sensitivity adopted was that developed in Deegan and Gordon 1996.

References


Currently the author is involved in a project with Gary O’Donovan and Jeffrey Faux in which they are seeking to discover what individuals understand by the Triple Bottom Line, think about the Triple Bottom Line and whether Triple Bottom Line Issues are considered in decision-making. The project involves an online survey that would take no more than 10 minutes to complete. The researchers would be most appreciative if you could go the website below and complete the questionnaire: http://www.staff.vu.edu.au/faux

For further information contact Trevor at Trevor.Wilmshurst@utas.edu.au

MANAGERIAL ATTITUDES TOWARD STAKEHOLDER PROMINENCE WITHIN A SOUTHEAST ASIAN CONTEXT

Dr. Lorne Cummings, Lecturer in Accounting and Finance, Department of Accounting and Finance, Macquarie University

This paper presents the results of an international study on attitudes toward stakeholder prominence. The objective of the study was to examine the perceived prominence of selected stakeholders by a group of respondents, predominantly organisational managers and managerial students in Australia, China and Indonesia, who represent current and future primary decision-makers within an organisation. For the purposes of this study, the 6 stakeholders chosen for analysis were Customers (CUST), Employees (EMP), Environmental Groups (ENVGP), Government (GOVT), Investors (INV), and Suppliers (SUPP).