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**MANAGERS' PERCEPTIONS ON STAKEHOLDER POWER IN
RELATION TO ESG REPORTING**

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Abstract

Environmental, social and governance (ESG) issues are becoming everybody's concern not only to companies, but also for a large stakeholder group. ESG is important for stakeholders because it could be a risk management concern which impacted their decision making. For companies, it has become an emerging part of competitive strategy and lead to corporate sustainable development. The objective of the study is to investigate managers' perceptions of stakeholder power across different stakeholder groups in relation to ESG reporting by Malaysian companies. The data are obtained using questionnaire survey. There are sixty eight questionnaires collected from top managers of Malaysian public listed companies. The stakeholder theory underpinned this study. Employing analysis of variance, the result report a significant difference in managers' perceptions of stakeholder power across different stakeholder groups. Employees, shareholders and the government are perceived to have more power than customers, community and media in relation to ESG reporting. The findings help to provide a better basis for understanding on how managers' perceived on stakeholder power of different stakeholders with regard to ESG reporting.

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1. Introduction

Companies engage with environmental, social and governance (ESG) practices in their business strategy as they believe this to be the way forward and that there is benefit in promoting improvement in their overall corporate performance (Ferrero-ferrero et al., 2016). ESG factors reflect risk and opportunities (Kocmanová & Dočekalová, 2012), which would help not only companies, but also shareholders and stakeholders at large in business decision-making (Eccles & Viviers, 2011). Commonly, the ESG term is employed in socially responsible investment (SRI) (Eccles & Viviers, 2011) and also in corporate social responsibility or sustainability (Buallay, 2018; de la Cuesta & Valor, 2013). Companies recognise that engaging in ESG reporting is the way forward in fulfilling the various stakeholder expectations of ESG information from companies around the world. Moreover, ESG reporting meets stakeholders' heterogeneous expectations and demands for information (Van der Laan et al., 2008).

This study is motivated by an awareness of the importance of stakeholders of a company with regard to ESG factors. The existence of a social contract with stakeholders results in the companies' responsibility to report multiple interests of various stakeholder groups. Furthermore, ESG information is important not only to shareholders but also to a wide variety of stakeholders. Stakeholder theory highlights creating value to stakeholders as an essential matter to ensure the success of a company, because stakeholders influence a company's survival (Freeman et al., 2010; Freeman, 1984). The application of stakeholder theory helps corporate managers identify which stakeholders actually count to companies in relation to ESG reporting. From the perspective of stakeholder identification and salience theory, stakeholder power identifies stakeholders that have an ability to influence companies' behaviour, direction, process or outcomes (Mitchell et al., 1997). Moreover, stakeholders' power relatively influences companies in meeting their demands (Clarkson, 1995). In fact, stakeholder power over a company motivates and results in its disclosure of environmental information (Gallego-alvarez et al., 2017). Corporate managers are motivated to disclose in order to overcome the pressure they receive from powerful stakeholders. Hence, ESG information is disclosed for strategic reasons and for certain incentives to indicate that companies are supporting and conforming to various particularly powerful stakeholders (Gray et al., 1996).

2. Problem Statement

Most of the past studies discussed ESG in the investment field, which focuses merely on the interest of shareholders. For example, studies on the impact of ESG information on firm valuation (Bassen & Kovacs, 2008) and influence of institutional investors (Boerner, 2007). However, ESG information is related to multiple stakeholders that may also have a vested interest. Therefore, managers should find ways to satisfy the claims of multiple stakeholders simultaneously, and it should not only be limited to fulfilling the shareholders' needs.

With regard to ESG reporting, companies engaged with main stakeholder groups rather than addressing stakeholders on a single basis, which included internal stakeholders, transient stakeholders, professional bodies, local communities, and regulators (Kaur & Lodhia, 2018). Thus, this present study examines a wider group of stakeholders which include shareholders, employees, customers, government, and community, the commonly examined stakeholder groups (Freeman, 1984) with the addition of media groups (Blanc et al., 2017; Deegan & Islam, 2014; Eljido-Ten, 2011; Gillet-Monjarret, 2015; Manetti &

Bellucci, 2016). Media is included because of their important role in disseminating information, especially in the development of information and communication technology nowadays.

3. Research Questions

How do managers perceive stakeholder power across different stakeholder groups (i.e. Shareholders, employees, customers, government, local community and media) in relation to ESG reporting?

4. Purpose of the Study

The main aim of the study is to obtain how managers' perceptions of stakeholder power differ for different stakeholder groups in relation to ESG reporting.

5. Research Methods

5.1. Research Design

This study employs questionnaire survey to obtain the managers' perceptions of stakeholder power in relation to ESG reporting. O'Donovan (2002) described the appropriateness of survey methods in order to determine the decisions made by managers to report on environmental information since it is managers who decide on the reporting and preparation of documents. A total of 559 questionnaires were distributed to the top management of companies listed on the main board of Bursa Malaysia which centrally located in urban location, Klang Valley. Only one manager responded per company in the sample, and no companies were double counted. The respondents include members in the management group such as the Chief Executive Officer (CEO), Chief Financial Officer (CFO), CSR/Sustainability Managers and Managers of Corporate Communications. The opinion from this group of respondents is assumed as fit and consistent as they are involved directly in management decisions and have the appropriate qualifications (Wilmschurst and Frost, 2000). Likewise, the manager is regarded as an important person making decisions pertaining to the issue of social and environmental reporting (Elsakit & Worthington, 2012), and in fact it has been suggested that what manager actually reported is strongly influenced by their perceptions (Lindrianasari & Adriyanto, 2010). After all the indispensable actions have been engaged, only sixty eight usable questionnaires were collected, giving a response rate of 12.2 percent. This response rate is notably low and is considered as the limitation of this study.

Data on the stakeholder power were obtained from statements proposed by Mitchell et al. (1997), Agle et al. (1999) and Boesso and Kumar (2009). There are three statements used to measure stakeholder power as shown in Table 01.

Table 01. Statements to Measure Stakeholder Power

Power	Description
P1	This stakeholder group has an ability (whether used or not) to apply a direct economic impact (e.g. money, goods, services, etc.) to obtain its will (i.e ESG reporting)
P2	This stakeholder group has an ability (whether used or not) to apply a physical force (e.g. gun, lock, sabotage, etc.) to obtain its will (i.e ESG reporting)
P3	This stakeholder group has an ability (whether used or not) to apply a social influence (e.g. reputation, prestige, via media, etc.) to obtain its will (i.e ESG reporting)

Managers were required to state the degree to which their companies are addressing the concerns for each statement based on a five-point Likert scale: 1 for strongly disagree, 2 for disagree, 3 for partly agree, 4 for agree and 5 for strongly agree. The Likert scale is one of the most implemented scales which addresses responses to a series of attitudinal magnitudes (Brace, 2004). Managers were required to express their levels of agreement on each statement for six different stakeholders. The stakeholder groups selected are generic stakeholders: shareholders, employees, customers, government and community (Freeman, 1984). In addition, media groups is included because of their important role in disseminating information, especially in the development of current information, and communication technology. Media is also regarded as an important player in addressing certain issues, in particular social issues (Blanc et al., 2017).

5.2. Stakeholder Theory

Generally, the notion of the stakeholder suggests that numerous stakeholder groups do have an interest in a corporation's activities and behaviours. One of the key managerial tasks is defining the purpose of a company and discerning how the interests of the stakeholders align in order to achieve the objective of both parties (i.e. company and stakeholder). Hence, it is crucial and fundamental in stakeholder theory to identifying who are the corporate's stakeholders, what their interests are and what the basis of their claims on the corporation is. As well, stakeholder theory highlights creating value to stakeholders as an essential matter to ensure the success of a company, because stakeholders influence a company's survival (Freeman et al., 2010; Freeman, 1984).

Meanwhile, the managerial branch of stakeholder theory emphasises the interaction between companies and stakeholders. Ullmann (1985) stated the need for a company to manage particular stakeholder groups who are powerful in terms of controlling the supply of necessary resources. The managerial perspective of stakeholder theory expects that corporate reporting is determined by the level of power or control that the specific group of stakeholders has over the company's resources. This managerial perspective suggests that the expectations of the various stakeholder groups impact a company's operating and reporting policies (Deegan & Unerman, 2011). Consistent with this managerial branch of stakeholder theory, corporate reporting is a way of demonstrating conformity with the expectations of important stakeholder groups (Dong et al., 2014; Eljido-Ten et al., 2010). Stakeholder demands include the providing of information about the activities of an organization and, thus, CSR disclosure is expected to be demand-driven (Deegan, 2006) and used as the company's strategy to respond to their stakeholders.

Following Etzioni (1964), Mitchell et al. (1997, p. 865) defined power based on three basic properties: first, coercive power, which refers the use of physical power, force and threat of using them; second, utilitarian power, which is the use of material means for power, e.g., financial resources, goods and services; and, third, social power, which is concerned on symbolic resources and does not constitute a physical threat but uses reputation and appreciation, or love and acceptance. Miles (2017) classified the nature of power from managers' perceptions based on formal/economic/political power (Freeman & Reed, 1983) and utilitarian/normative/coercive power (Mitchell et al., 1997). Stakeholder power has also been associated with network structures, which explains multiple, interdependent stakeholder demands and predicts how companies respond to multiple stakeholders.

5.3. Hypothesis Development

Stakeholder theory proposes that managers need to address their concerns on the natural relationship of company to various stakeholder groups that have interests and/or are affected in order to create value and achieve long-term survival (Freeman et al., 2010). Managers are central to the theory as their position allows them to establish a contractual relationship with their various stakeholders. This can be translated into different perceptions of stakeholder power in an area of the company's activities relevant to various stakeholder groups, noting that different managers' characteristics affect their perceptions of different stakeholders (Crilly & Sloan, 2012; Mitchell et al., 1997). The relevant area investigated in this present study is ESG reporting.

Differences exist in managers' perceptions of stakeholder power across different groups of stakeholders, as evidenced in prior literature (Boesso & Kumar, 2009; Dong et al., 2014; Gago & Antolin, 2004; Mishra & Suar, 2010; Mitchell et al., 1997). Companies focus their consideration on important stakeholders like shareholders, employees and customers (Agle et al., 1999) and direct their communication to this group because of their influence on the company's activities. Different perceptions and responses given by a manager to various interests of numerous stakeholder groups are also based on their different expectations from each stakeholder group towards a positive impact on companies. For instance, Severgnini and Moraes (2018) showed managers' expectations of employees related to motivation at work, efficiency and quality in the services provided; from suppliers they expected improvement of sales; and from the government, payment of taxes and fees. Nyahas et al. (2018) found the most powerful stakeholder groups as perceived by managers in relation to voluntary disclosure practices are the financial community, employees and customers. It is expected that managers may have different perceptions of the power of different stakeholder groups and, thus, the hypothesis is developed as follows:

Hypothesis. There is a significant difference in managers' perceptions on stakeholder power across different stakeholder groups (i.e. shareholders, employees, customers, government, local community and media) in relation to ESG reporting.

6. Findings

Table 02 reports a significant difference in managers' perceptions on stakeholder power across different stakeholder groups (i.e., shareholders, employees, customers, government, local community and media) in relation to ESG reporting with F value 4.762 and thus, supports the hypothesis developed.

Table 02. Stakeholder Power across Different Stakeholder Groups

Stakeholder Power	Minimum	Maximum	Mean	Std. Deviation	F
Shareholder	1.67	5.00	3.765	.73546	4.762*
Employee	2.33	5.00	3.770	.66760	
Customer	2.00	5.00	3.705	.64732	
Government	2.00	5.00	3.745	.76658	
Community	2.00	5.00	3.411	.69158	
Media	1.67	4.67	3.368	.70121	

*significant $p < 0.05$

Based on the mean score, employees (3.770), shareholders (3.765), the government (3.745) and customer (3.705) were among the most powerful stakeholders as perceived by the managers. This finding is consistent with past studies, which found that the employees (Neville et al., 2011), shareholders (Lu & Abeyssekera, 2014) and government (Elijido-Ten, 2009; Gago & Antolin, 2004; Liu & Anbumozhi, 2009) were among the most powerful stakeholders. These groups were perceived to have power in corporate disclosure for several reasons. For instance, employee power can be derived in part from the ability of employees to apply force on a corporation with the support of a trade union (Neville et al., 2011). For shareholders, their power is based on their ability to have a direct economic impact on corporations, as they constitute a substantial entity being in most cases the crucial provider of capital (Elijido-Ten, 2009). For government, the information is reported to minimize government interference and at the same time satisfy government needs. Meanwhile for customers, they were seen as powerful drivers of corporate social activities (Belal & Owen, 2007). It has been evidenced that customers expect information related to ESG to reassure them that the company is responsible, has no main liabilities, and, most importantly, the products have no essential litigation risk (Azzone et al., 1997).

The least powerful stakeholder was found to be media (mean score 3.368) and community (mean score 3.411). In the same way, Henriques and Sadosky (1999) found that managers perceive all stakeholders except the media as important. However, their findings were limited to companies that were considered proactive or leaders in the environmental field, and corporate management regard environment as an important business function. Consistently, the community is not seen as a powerful group in influencing reporting related to ESG due to lack of strength, participation and consultation regarding ESG (Dong et al., 2014).

Table 03 shows the descriptive statistics for the stakeholder power based on the three items relating to how managers perceived the stakeholder power of six selected stakeholder groups. With regard to P1, the first item measuring power, managers perceived that shareholders have the highest ability to apply a direct economic impact to obtain their will (i.e. ESG reporting); this item had the highest mean score of 4.03. For P2, the second item that measures power, managers perceived that employees have the highest ability to apply a physical force to obtain their will (i.e. ESG reporting) with the highest mean score of 3.59. Customers are perceived to have the highest ability to apply a social influence to obtain their will (i.e. ESG reporting) with the highest mean score of 3.81. In terms of the least power possessed by stakeholder groups, managers perceived that media has the least power for both P1 and P2, with mean scores of 3.37 and 2.97 respectively, and community is perceived to have the least power for item P3, with a mean score of 3.6.

Table 03. Descriptive Statistics for Stakeholder Power

Power		Shareholder	Employee	Customer	Government	Community	Media
P1	Mean	4.03	3.94	3.99	3.93	3.38	3.37
	SD	.863	.710	.763	.852	.898	.879
P2	Mean	3.47	3.59	3.32	3.53	3.25	2.97
	SD	1.099	1.040	1.112	1.099	.983	1.051
P3	Mean	3.79	3.78	3.81	3.78	3.60	3.76
	SD	.907	.912	.833	.912	.933	1.024

Based on descriptive statistics, managers perceived that shareholders' power exists most in their ability to apply direct economic impact (P1). Shareholder power can be assessed in various forms, such as the use of formal shareholder rights through resolution and provision or withdrawal of capital (Gifford, 2010). This is consistent with Eljido-ten (2009), who stated that shareholders' power is based on their capacity to have a direct economic impact on companies in their crucial role as provider of capital. In a later study, Eljido-Ten et al. (2010) suggested an interdependent relationship between shareholder and company. This interdependent relationship is constituted by shareholders' power to threaten company survival by virtue of their investment that depends on corporate performance for capital growth; at the same time, the company is equally dependent on shareholders for funding. ESG information is also found to be important for shareholders in their investment decision process (Boerner, 2007; Sultana et al., 2017), and ESG practices impact corporate value that attracts shareholders (Crifo et al., 2014). This is consistent with Peiris and Evans (2010), who revealed that shareholders or potential investors accept the impact of ESG factors on their investment return.

Managers perceived that employees have the highest power in regard to their ability to apply a physical force (P2) to obtain their will. This confirms the conclusion of Neville et al.'s (2011) that employee power can be derived in part from their ability to apply force on a company with support of trade unions. Mallin et al. (2012) reported a significant positive relationship between employees' performance and the extent of disclosure. In particular, employees are most relevant to social issues such as safety and health at work, development of employees' skills, well-being and satisfaction of employees, quality of work and social equity.

Government power is also ranked as among the highest power compared to other stakeholders. This is consistent with Liu and Anbumozhi (2009) and also with Gago and Antolin (2004), who rank government power first. From the descriptive statistics, the highest government power is perceived in its ability to apply direct economic impact (P1) by intervening via regulation and penalising companies that fail to comply (Eljido-Ten, 2009; Gago & Antolin, 2004; Liu & Anbumozhi, 2009). Amran and Devi (2008) highlight government power in the form of economic and financial support, especially to government-linked companies in Malaysia whereby companies are highly reliant on the government in terms of jobs, market protection and financial support.

Customers' power is perceived to be lower than employee, shareholder or government power; this is consistent with Nyahas et al. (2018). Descriptive statistics show that the highest customer power is perceived to be in form of their social influence (P3). However, this ability is limited in a market where customers possess a certain level of awareness of ESG factors (Goettsche et al., 2016). The communication of a company's commitment to ESG may enhance its reputation and brand value, which can improve the positioning of its products (services). In turn, customers' power may be derived from their intention to purchase products (Sen et al., 2006) and even influence an increase in sales. Therefore, customer power may also exist in form of direct economic impact.

Local community is perceived to rate low in their power. Following Kaur and Lodhia (2018), local community is regarded as a generic term that includes, for example, ratepayers, indigenous people, residents and local businesses. From descriptive statistics, local community power is perceived higher in terms of social influence (P3) than in terms of direct economic (P1) and physical force (P2). Dong et al. (2014)

reported similar findings and revealed that low community power is indicated by the weakness of local community demands regarding ESG matters

For media, their power are perceived to be lower than that of other stakeholders. Similarly, Henriques and Sadorsky (1999) revealed that managers perceive all stakeholders except the media as important. However, their findings were limited to companies that were considered leaders in the environment and corporate management. Following Yusoff et al. (2018), media includes several different forms, such as print media (e.g. newspapers and corporate bulletins), electronic media (e.g. television and radio) and the internet (e.g. company websites). Descriptive statistics reveals that the highest form of power is perceived in the form of social influence (P3), in particular related to a company's reputation and image. Media's power is seen to lie in its role of disseminating information about companies (Deegan & Islam, 2014; Eljido-Ten, 2011) and it may be an influential player in addressing aspects of certain social issues (Blanc et al., 2017); the attention given by the media to certain issues increases community concerns and influences corporate activities. Although media is perceived to have low power, it can be significant.

7. Conclusion

The results have important practical implications for corporate managers and stakeholders at large. For managers, the results provide insights into how they perceived their stakeholder power in relation to ESG reporting. As asserts by stakeholder theory, managers should responsible and accountable to multiple stakeholders. For stakeholder, the efforts should be apply to improve their power towards ESG matters. For example, the need for a government initiative to transform local communities into powerful stakeholder and become an important players in ESG reporting. This will contribute to a better situation if companies and communities work hand in hand concerning a sustainable livelihood. The public sector considers all types of government agencies, should responsible in inculcating awareness to the communities about their rights in order to be an effective change agent relating to the responsibility of companies operating within their areas. Clearly, managers play a unique role in stakeholder relations and are involved in decisions to communicate relevant information to the company's stakeholders in the manner they perceive about stakeholder power on their claims on ESG information.

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