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MANAGEMENT OF STAKEHOLDERS BASED ON THE GRI STANDARDS

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Abstract: In an increasingly competitive market, where sustainable development is gaining more and more prominence for the companies to employ it, it is necessary to understand and work with tools to progressively improve the image of the organization, especially considering stakeholders. First appearing in 2004, the term ESG can be summarized by practices adopted by companies in environmental, social, and governance aspects, always seeking to approach corporate sustainability. This article aims to understand how implement ESG criteria in the development of stakeholder management models for different types of companies and business sizes. As a main result, the paper presents how organizations should manage their stakeholders based on the GRI Standards and how they are executing the process based on sustainability reports.

Key words: *Sustainability report, Stakeholder Management, Materiality, GRI Standards, AA1000SES; Sustainability Strategies.*

1. INTRODUCTION

The term stakeholders is increasingly common in the business environment, both internally and externally. In his book ‘Stakeholder Management: Framework and Philosophy’,1984 Freeman defines stakeholder as ‘any group or individual who can affect or is affected by the achievement of the organisation's objectives’ [1] [2]. By applying a way of managing, working with, and considering stakeholders interests, companies can improve their results and even maximize their performance.

This idea is defended in the journal "Strategic Management Journal", where Choi and Wang [3] discuss the importance of stakeholder management, pointing out how the concept has the possibility of improving performance indicators, in particular in companies that are receiving non-satisfactory financial results [2] [3].

In 2004, a term emerged and revolutionized the way companies are evaluated, going beyond traditional metrics. This term is known as ESG, which stands for Environmental, Social, and Governance. The adoption of these practices not only promotes sustainability but also offers significant benefits for companies [4].

Organizations and socially responsible communities are increasingly embracing (ESG) reporting. 'Stakeholders and fund managers believe that firms with high ESG disclosures yield better operating performance, higher returns, and lower firm-specific risk' [4].

To embrace, these types of sustainable practices, companies can employ the worldly known GRI reports. GRI, standards for Global Reporting Initiative and is an independent, international organization that has developed a set of guidelines for sustainability reporting. According to the Consolidated GRI Standards ‘Stakeholders can also use an organization’s reported information to assess how they are affected or how they could be affected by the organization’s activities.’ [5].

Thus, this study aims to understand which requirements are important to carry out the management of stakeholders in companies that report their sustainability performance based on the GRI Standards. That is, to understand what the GRI considers as necessary in its standard to consult and/or managing stakeholders as an inclusion criterion for preparing sustainability reports.

2. RESEARCH DESIGN

To understand the connection between stakeholders and sustainability reporting, it is first necessary to conduct a literature review. The objective is not to analyze the sustainability reports published by companies, but to verify the requirements of the GRI Standards, which is the precursor and basis of these reports.

3. LITERATURE REVIEW

The literature review will be synchronized with the GRI (Global Reporting Initiative) reference document —Standards— for discussion purposes.

3.1 Fundamentals of Sustainability and Stakeholders

In the last decades of the 20th century, with the increasing expansion of issues related to the environment, society, and economy, along with the constant pursuit of balance among their needs, the United Nations General Assembly established the Brundtland Commission. Later, in 1987, the commission's Report was published and introduced the concept of sustainable development as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs' [6]. The concept remains highly relevant and widely used to this day.

According to Freeman´s Stakeholder theory, companies and organizations function in a network of stakeholders connections. Therefore, based on this concept, it is correct to state that, considering Freeman´s Stakeholder definition, various types of these important interested parts influence business processes and decisions, and are all interconnected, considering their interests and needs towards the company [1] [7]. 'Stakeholders are exhibiting a growing awareness of the impacts of business activities and the importance of the commitment of organizations to good business behavior' [8] [9].

Set in 2015, the Sustainable Development Goals (SDG´s), were established by the UN to adressing problems regarding social, economic, and environmental aspects, "Businesses can use the SDGs as an overarching framework to shape, steer, communicate and report their strategies, goals, and activities" [5] [10].

There have been studies, like the Yamane and Kaneko, that concluded that 'stakeholders support companies that contribute to the SDGs even when those companies economically benefit from such contributions [11].

3.2 Stakeholders Management

Harrison, J. S., Wicks, A. C., & Langrafe, L. [2] [12] state that 'Stakeholder management has been recognized as being as important as growth and competitive strategies for explaining the creation of value and the performance of organizations..

The GRI Standards approach demonstrates the application of stakeholder management: 'the process of determining material topics is informed by the organization's ongoing identification and assessment of impacts. The ongoing identification and assessment of impacts involves engaging with relevant stakeholders and experts and it is conducted independently of the sustainability reporting process' [5].

In this way, the definition of materiality favors stakeholder management and cleaner production [13]. 'With a careful and well-planned materiality analysis, company management can detect which interests and issues are dear to company stakeholders, and which have a significant impact on the company in addition to those stemming from the company itself that have an external impact' [14].

3.3 ESG and GRI Reporting

According to Ngu and Amran [15] sustainability reporting has a future-oriented perspective and seeks to safeguard and ensure the availability of resources for future generations.

The purpose of this type of reporting is to enhance understanding of the value generated by businesses and their ability to sustain their operations over time.

In his published work 'Environmental, social, and governance (ESG) practice and firm performance: an international evidence', Shaikh states that 'ESG is the non-financial score that tracks the company's sustainability practice in terms of environment, social, and governance reporting' [4].

'Environmental, Social, and Governance (ESG) reporting has gained more popularity among organizations and socially responsible communities. Stakeholders and fund managers believe that firms with high ESG disclosures yield better operating performance, higher returns, and lower firm-specific risk' [4].

Companies can embrace ESG practices and showcase them through GRI reporting. GRI said that 'The GRI defines material topic as the "topic that reflects a reporting organization's significant economic, environmental and social impacts; or that substantively influences the assessments and decisions of stakeholders [5].

3.4 Strategy

The result of the materiality matrix can enable organizations to prioritize sustainability strategies. Furthermore, they provide different levels of stakeholder management in a strategic process. The interpretation of the matrix is straightforward and simple: the higher the degree, the better. For instance, a stakeholder with all three attributes at a higher level should be considered more significant than a stakeholder with two attributes at a higher level and one attribute at a medium level. This approach emphasizes the importance of considering the combination and intensity of stakeholder attributes in determining key parties [16] [17] [18]. The terms addressed earlier serve as the foundation for understanding those highlighted in this chapter. Materiality, sustainability, management, and stakeholder theory should be applied within the context of GRI reporting and ESG practices as important strategies for building a stakeholder management model. 'Stakeholders and fund managers believe that firms with high ESG disclosures yield better operating performance, higher returns, and lower firm-specific risk' [4].

In their study, Adib et al., [8] developed a stakeholder prioritization model. 'The matrix is based on an intensity scale of the three attributes and classifies the stakeholders of the company into groups, based on three different levels of each attribute (low, medium and high)'.

In their study 'The role of multi-stakeholders in market orientation and sustainable performance,' Stocker et al. [2] discuss Marketing Orientation - MO and Stakeholder Orientation - SO, and their role in sustainable corporate performance. It was discovered by the authors that MO is connected to business performance. And, SO also helps in the strategic positioning of the business, influencing business performance. Therefore, such elements must be incorporated into ESG management.

For Freeman and Phillips [1] 'as its main attribute, stakeholder management requires simultaneous attention to the legitimate interests of all relevant stakeholders, both in the establishment of organizational structures and policies and in decision-making.

By completing the research, Stocker et al. [2] concluded that correlated to the theories that emphasize the importance, for value creation and competitive advantage, of multiple stakeholders engagement, the results of the study were that the Stakeholder Orientation adoption has various benefits, such as: improves strategic positioning, enhances market intelligence efforts and plays a fundamental role in achieving exceptional performance, that can be demonstrated by ESG practice results. Therefore, companies that actively involve their stakeholders and prioritize sustainability engage in more meaningful dialogues, with greater strategic responsiveness, competitive advantage, and overall corporate performance in economic and sustainable terms.

Yamane and Kaneko [11] suggest in their study titled 'The Sustainable Development Goals as new business norms: a survey experiment on Stakeholders' Preferences' that the dissemination of information can play a significant role in cultivating a sustainable mindset among stakeholders and bringing stakeholders and businesses closer together.

Jadoon et al. [19] declare that 'The quality of sustainability reporting plays an instrumental role in the value relevance of corporate governance dimension because it was perceived as an alternative corporate governance mechanism by investors'.

4. DISCUSSION

This theoretical paper synchronized results of articles with guidelines and requirements of the GRI Standard to contemplate and manage stakeholders in a sustainability report.

When analyzing the GRI Standard, it was possible to observe that the document requires the inclusion of stakeholders for the preparation of a sustainability report. In other words, this premise guarantees that a sustainability report prepared by a company includes different audiences that influence or may influence its business. Both from the perspective of corporate sustainability (ESG perspective) and from the point of view of business continuity.

n addition, this inclusion of stakeholders for the preparation of a sustainability report, in addition to generating engagement between the parties, provides risk management. These risks, addressed in a classic stakeholder management perspective, can be observed within a sustainability report at different times, including in the materiality process.

The definition of materiality becomes a correct guideline for the preparation of a sustainability report, and the success of its definition depends on the inclusion of stakeholders. Therefore, organizations that publish or wish to publish the sustainability report must comply with the principles of inclusion of stakeholders presented in the GRI Standard.

Before the report, it is necessary to know who the company's stakeholders are, what are the limits, what are the boundaries of influence, what is the size of the influence and, above all, to understand the relevance of the business issues in its perspective. These topics are called material topics by the GRI Standard but could be called strategic business issues, according to the results of this paper.

The set of these material topics form materiality. To build materiality, it is necessary, in addition to consulting the management of stakeholders. Steps are taken to verify the relative importance of each material topic, between the stakeholders and the company (board).

Only after this definition can companies choose the indicators to be included in their GRI sustainability report. As the GRI Standard is constantly updated, there have been some changes in this process. Among them, there is Sector Standard. The GRI identified that different business sectors have different demands and stakeholders. However, a specific sector may have the same stakeholders. Thus, the GRI advises that currently sectors such as Oil and Agriculture use the material topics created by the GRI itself in a multistakeholder construction process. The inclusion of other business sectors will be carried out gradually.

With the GRI Standard, it is possible to notice the importance and ways of managing the stakeholders for the construction of a report.

5. CONCLUSION

By analyzing papers about stakeholder management, it was possible to understand that by integrating sustainability and business strategies, and stakeholder management together, organizations can identify opportunities for creating shared value, that can result in positive outcomes [2] [12]

To achieve this, materiality assessment is crucial for accurately identifying relevant issues and topics [13] [14] taking into account each organization's unique characteristics and circumstances. The GRI Standards Published documents [5] provides a detailed guide on how to identify material topics, outlining a step-by-step process.

The initial step involves gaining a deeper comprehension of the organization's context, including its purpose, values, activities, business relationships, and sustainability context. This also entails identifying the stakeholders connected to the organization.

The second step entails recognizing the most significant and up-to-date impacts, both positive and negative, that affect the company. The third step involves assessing the significance of these impacts and understanding their implications and consequences. Lastly, in the fourth step, the organization prioritizes the most critical impacts, determining which ones require immediate attention and action.

Firstly, it is necessary to identify the key stakeholders of the organization. While various perspectives advocate for considering multiple stakeholder groups [19] it is not always necessary to give equal attention to all of them. Each organization should determine which stakeholders are most relevant to consider based on their specific peculiarities and characteristics. ‘

The organization should identify the stakeholders whose interests have to be taken into account in connection with a specific activity [5].

This can be achieved through materiality analysis within companies, which involves identifying the material topics that influence their operations and directly or indirectly impact their stakeholders or correctly using a prioritization model, such as the prioritization matrix [8].

Another important theory to consider in this model is the implementation of SO and MO when talking about the stakeholder management model. This discussion occurred in Stocker et al. [2] published article ‘The Role of multi-stakeholders in market orientation and Sustainable performance,’ which concluded that SO presents multiple benefits for companies. ESG practices and GRI standards need to be incorporated into stakeholder management.

According to the GRI official consolidated document [5] the Standards allow organizations to report on the significant effects of their activities and business.

This type of reporting is essential for financial reporting and creating value. By providing information on sustainability, companies can identify financial risks and opportunities associated with their impacts.

The GRI standards document, specifically in its general premises, defines stakeholders. According to the report, 'In the GRI Standards, an interest (or 'stake') is something of value to an individual or group, which can be affected by the activities of an organization.' [5].

The standard emphasizes that engagement with stakeholders can help the organization manage its impacts, whether negative or positive.

This document is widely referenced in the literature due to its comprehensive guidance on identifying, managing, and reporting various types of impacts, stakeholders, and their related effects., ' The GRI Standards enable an organization to publicly disclose its most significant impacts on the economy, environment, and people, including impacts on their human rights and how the organization manages these impacts.

This enhances transparency on the organization's impacts and increases organizational accountability. The Standards contain disclosures that allow an organization to report information about its impacts consistently and credibly.

This enhances the global comparability and quality of reported information on these impacts, which supports information users in making informed assessments and decisions about the organization’s impacts and contribution to sustainable development.' [5].

Considering all these topics mentioned above, a model, more so ever, a “step-by-step” model, can be pointed out.

Figure 1 simplifies the compilation of arguments used in conclusion, where for organizations to manage their stakeholders well, they must consider the topics highlighted in the model.

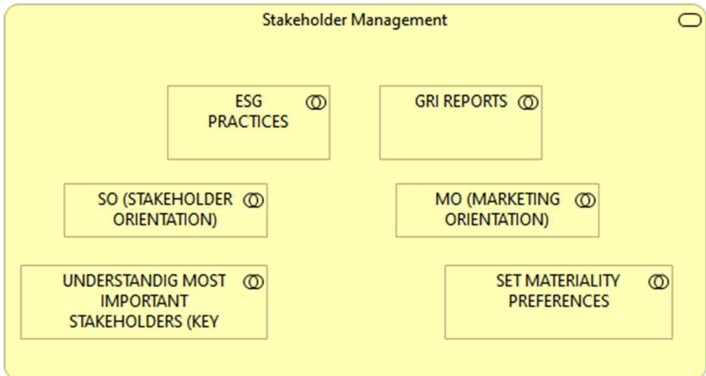

Fig 1. Steps for Stakeholders management model creation, the authors

With this, it is concluded that: organizations and companies cannot simply adopt a model of stakeholder management that follows a general and standardized step-by-step. As highlighted by several authors cited in this study and by the GRI standards themselves, before even trying to manage stakeholders, companies first need to look "inside themselves" and understand what is, in fact of value to them.

What are the really relevant material principles? What should be highlighted, and what should be discarded? What are the groups of stakeholders present and which are the ones that deserve attention considering the activities and characteristics of the organization.

After this understanding, the application of concepts such as SO and MO and GRI reports considering ESG practices should be considered.

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MANAGEMENTUL PĂRȚILOR INTERESATE PE BAZA STANDARDELOR GRI

Într-o piață din ce în ce mai competitivă, în care dezvoltarea durabilă capătă din ce în ce mai multă importanță pentru companiile care o folosesc, este necesar să se înțeleagă și să se lucreze cu instrumente care să îmbunătățească progresiv imaginea organizației, luând în considerare mai ales părțile interesate. Apărut pentru prima dată în 2004, termenul ESG poate fi rezumat prin practicile adoptate de companii în aspecte de mediu, sociale și de guvernanță, căutând mereu să abordeze sustenabilitatea corporativă. Acest articol își propune să înțeleagă modul în care se implementează criteriile ESG în dezvoltarea modelelor de management al părților interesate pentru diferite tipuri de companii și dimensiuni ale afacerii. Ca rezultat principal, lucrarea prezintă modul în care organizațiile ar trebui să-și gestioneze părțile interesate pe baza standardelor GRI și modul în care execută procesul pe baza rapoartelor de sustenabilitate.

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