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Linking sustainability-related stakeholder feedback to corporate sustainability performance: an empirical analysis of stakeholder dialogues

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Abstract: Based on a dataset of large German companies, this paper investigates the link between corporate sustainability performance and sustainability-related feedback by stakeholders. In the analysis, no a priori link between sustainability performance and related stakeholder feedback can be observed. Using stakeholder theory as a theoretical underpinning, we therefore statistically investigate whether the application of stakeholder dialogues can help companies to link their sustainability performance to stakeholder feedback. We find that stakeholder dialogues indeed help to establish such a link, as companies which improve their sustainability performance and simultaneously communicate with stakeholders using stakeholder dialogues are most likely to experience a decrease in sustainability-related stakeholder criticism.

Keywords: sustainability management; stakeholder feedback; stakeholders; stakeholder criticism; stakeholder dialogues; stakeholder theory; corporate social responsibility; CSR; corporate sustainability; corporate sustainability performance; business environment.

1 Introduction

Companies can only thrive economically if they are able to create value for their stakeholders (Freeman et al., 2010). With the growing importance of sustainable development as a societal goal, companies also increasingly need to consider aspects of sustainability in their value creation (Gao and Bansal, 2013; Schaltegger and Wagner, 2006). To address these two tasks simultaneously, companies are challenged to create value for their stakeholders through the consideration of sustainability (Hörisch et al., 2014a). For this purpose, multiple possible corporate measures exist, such as meeting customer demands by offering more sustainable products, implementing and supporting governmental regulations by reducing the amount of greenhouse gas emissions, improving occupational health and safety conditions or the overall employment situation to satisfy stakeholders such as employees or labour unions, or reducing the amount of waste to satisfy environmental non-governmental organisations (NGOs).

Stakeholder theory and sustainability management literature both propose that these kinds of value creation can be mutually beneficial for involved stakeholders as well as for the company itself (Freeman et al., 2010; Hörisch et al., 2014a). Sustainability management literature additionally identifies drivers which enable creating such business cases for sustainability, such as increasing revenue by promoting sustainable products, improving corporate reputation by communicating sustainability management activities, enhancing employee motivation and commitment due to an excellent corporate sustainability performance or realising higher levels of business model-innovation through the development of new sustainability-related business segments (Schaltegger et al., 2012b). However, creating mutual benefits poses two challenges: first, companies are expected to take effective sustainability management measures to improve their
sustainability performance which creates value for stakeholders. Second, with few exceptions such as improvements of production efficiency, these improvements are only likely to generate benefits for the company (such as increases in reputation, employee motivation or sales) if they are positively perceived by the business environment. This requires that they are effectively communicated to stakeholders. To create incentives for companies to increase their sustainability performance, it is essential that stakeholders value corporate improvements with regard to sustainability. If stakeholders do not realise or understand improvements in corporate sustainability performance or if they ignore or refuse to acknowledge them, stakeholder feedback cannot be linked with sustainability performance and thus important incentives for companies to improve their performance are missing.

The above considerations highlight the importance of linking corporate sustainability performance and stakeholder feedback from a stakeholder theory perspective. Based on data of a survey among large German companies, this paper therefore analyses whether improvements in a company’s sustainability performance lead to a decrease in the stakeholder criticism they face. By investigating whether specific improvements of environmental and social indicators such as energy use, workplace safety, etc. are related to changes of stakeholder feedback with regard to these environmental and social issues, we first examine whether an ‘automatic’ link between sustainability performance and stakeholder feedback exists.

Some authors (e.g., Medel et al., 2011; Wang and Juslin, 2013) expect stakeholder dialogues to be able to improve the communication between stakeholders and corporations on corporate social responsibility (CSR) issues. In a second step, this paper therefore examines in how far stakeholder dialogues support linking corporate sustainability performance with the development of related stakeholder criticism. In this context, we also analyse how stakeholder dialogues can help to turn effective sustainability management into positive stakeholder feedback. With this analysis we aim address the research question whether and how the use of stakeholder-dialogues can help companies with improved sustainability performance to positively influence stakeholder feedback on environmental and social issues.

To address this research question, Section 2 reviews the extant literature on stakeholder dialogues, sustainability performance and related stakeholder criticism. Section 3 describes the methodology and Section 4 displays the analysis as well as its results. Based on our findings, Section 5 discusses how the combination of good sustainability performance and stakeholder involvement can create mutual benefits for stakeholders and the corporation by linking stakeholder feedback to sustainability performance. The paper concludes with Section 6 by suggesting paths for future research and highlighting implications for business as well as for important groups of stakeholders.

2 Literature review: sustainability performance, stakeholder feedback and stakeholder dialogues

An important body of sustainability management literature deals with corporate sustainability performance (e.g., Bennett et al., 1999; Clarkson et al., 2008; Collison et al., 2003; Henri and Journeault, 2010; Schaltegger and Burritt, 2010). Less is known, however, on how the communication of this performance influences stakeholder critique.
Numerous authors highlight the importance of linking sustainability performance with sustainability-related stakeholder feedback as this can positively affect business success (e.g., Costa and Menichini, 2013; Kansal and Joshi, 2014; Rodrigue et al., 2013). Kansal and Joshi (2014) stress that better perceptions of stakeholders with regard to a corporation’s CSR performance can create benefits to corporations such as higher levels of investor confidence or higher stock prices. Besides such tangible advantages, improved corporate sustainability performance can also be an important intangible asset (cf. Toms, 2002). However, Toms (2002) emphasises the importance of stakeholder recognition of this performance as otherwise its value cannot be realised. More specifically, Costa and Menichini (2013) regard one specific intangible asset, i.e., customers’ loyalty, as an important business return from stakeholder perceptions of a company’s social behaviour. Similarly, Fombrun and van Riel (1997) as well as Brammer and Pavelin (2006) highlight the relevance of linking sustainability performance to corporate reputation. Establishing such a link may even be of growing importance in the future if stakeholders increasingly expect companies to behave in environmentally and socially responsible ways. Sustainability performance and CSR are expected to become increasingly important factors for corporate reputation (Brammer and Pavelin, 2006; Hillenbrand and Money, 2007; Lewis, 2003). Most radically, Costa and Menichini (2013, p.150) fundamentally question the value of CSR if it is not widely recognised, by asking “if a company has a strong CSR commitment but nobody recognises it, does it produce any benefits?”.

Thus, there is a broad agreement in the extant literature that the company’s actual sustainability performance (or CSR performance) should be linked to stakeholder perceptions. However, no consensus can be found in the conceptual and empirical literature on the issue whether or not an ‘automatic’ link between these two concepts actually exists.

Some authors assume that sustainability performance ‘automatically’ influences stakeholder perceptions of this performance and related concepts such as corporate reputation (e.g., Brammer and Pavelin, 2006; Lewis, 2003; Ramos et al., 2007). Ramos et al. (2007) for example use a case study on reef restoration in Portugal to examine stakeholder perceptions of environmental management measures. They find a rather positive, direct stakeholder feedback on the environmental management measures taken in their case study.

By contrast, other authors disagree (e.g., Jones et al., 1998; Rodrigue et al., 2013; Wang and Juslin, 2013). Zyglidopoulos’ (2001) analysis for example does not reveal a systematic link between corporate social performance and corporate sustainability reputation. Similarly, Jones et al. (1998) highlight that not only environmental performance itself influences stakeholder perceptions of the companies’ environmental performance, but also the mode how (and whether) this performance is communicated to stakeholders. Wang and Juslin (2013) add that stakeholder perceptions of CSR performance also depend on how companies deal with stakeholders (e.g., whether or not they give their interests high priority) and on the ethical values of the stakeholders. Rodrigue et al. (2013) even find for their sample of large firms in environmentally sensitive industries that most mechanisms of corporate environmental governance are rather ‘symbolic’, i.e., they aim at improving stakeholder perception without substantially improving sustainability performance (similar assessments have been made by e.g., Dowling and Pfeffer, 1975; Neu et al., 1998). However, Rodrigue et al. (2013) do not
address the question whether this is sufficient and whether these symbolic measures indeed positively influence stakeholder perceptions. In this view, social and environmental disclosure can even be seen as a tool used by firms to obtain, maintain and repair their legitimacy status (Deegan, 2002; O’Donovan, 2002; Patten, 2002).

As the literature review documents, based on the existing studies, it has not yet been answered whether good sustainability performance is sufficient to create positive perceptions among stakeholders. However, no matter how well the communication is designed, it can be expected that stakeholder feedback will only improve if the stakeholders consider the company’s sustainability performance improvements to be sufficient and not marginal. Otherwise, stakeholders may not acknowledge the efforts in spite of some improvements made. Similarly, reputation may not be secured if stakeholder expectations increase disproportionately to improvements in corporate sustainability performance (Morsing and Schultz, 2006).

To transform good sustainability performance to improved stakeholder perception of this performance, companies can take different measures. In the sustainability management literature, many investigations deal with reporting (e.g., Bhattacharyya et al., 2009; Clarkson et al., 2011; Herzig and Schaltegger, 2006; Kolk, 2003). However, from this literature we also know that sustainability reports are frequently not read by many groups of stakeholders (Herzig and Schaltegger, 2006). Furthermore, reporting does not entail reciprocal communication. For these reasons, this research focuses on a less frequently addressed possibility to link corporate sustainability performance with stakeholder feedback, i.e., stakeholder dialogues (cf. Medel et al., 2011, Wang and Juslin, 2013).

Stakeholder dialogues can be defined as an organised and structured exchange of opinions which supports the communication between different parties (Habisch et al., 2011; Mathur et al., 2008; van Huijstee and Glasbergen, 2008). Besides its function in communicating achievements to stakeholders (Medel et al., 2011), it can also help a company to understand whether its “sustainability objectives are on the right track” [Flynn, (2009), p.28]. Furthermore, it can strengthen the corporation’s ability to generate innovations or may serve to get an idea about stakeholder demands and expectations (Agudo-Valiente et al., 2013; Blum-Kusterer and Hussain, 2001; Flynn, 2009). Indeed, most research focuses on these latter functions and not on its potential to communicate with stakeholders about corporate sustainability achievements. As an exception, Wang and Juslin (2013, p.141) recommend the use of stakeholder dialogues to “improve communication between stakeholders and corporations on CSR issues” and to finally create value for stakeholders based on sustainability. However, Wang and Juslin (2013) do not examine whether stakeholder dialogues are really able to fulfil this task.

As a consequence, whereas sustainability reports have been discussed intensively in the extant literature, it remains unclear what impact stakeholder dialogues have on stakeholder feedback and how this impact can be measured (Mahon, 2002). We address this research gap by examining whether and how improved sustainability performance and the use of stakeholder dialogues can positively influence stakeholder feedback. To do so, we analyse corporate sustainability performance, corporate communication with stakeholders through stakeholder dialogues and the development of stakeholder criticism on environmental and social issues.

Our study adds to the literature by empirically examining whether a link between sustainability performance and related stakeholder feedback a priori exists and how stakeholder dialogues can help to establish such a link. This analysis fills a gap of
investigating the application of stakeholder communication activities (in this case stakeholder dialogue) as a missing link between increasing sustainability performance and its effect on stakeholder feedback.

3 Methodology

3.1 Data collection

This paper builds on data from a survey on the sustainability management of large German companies (Hörisch et al., 2014b; Schaltegger et al., 2012a). To gain a sample of sufficient size, the 500 largest companies, 50 largest banks and 30 largest insurance companies (by revenue) in Germany were identified using the top 500 online database (Welt Online, 2011). Additionally, all companies listed in the two most important German stock indices (DAX, MDAX) were included in the basic population.

In a first step, these companies were contacted by phone to identify a qualified contact person. Sustainability managers were chosen as the preferred contact persons as they can be expected to have a good overview of sustainability-related stakeholder criticism and the company’s stakeholder management. After this first step, all subsidiaries which do not manage their sustainability management independently were excluded from the sample to avoid double-counting of responses. In a next step, the remaining 384 companies were provided with an individual access code to an online survey. Of these 384 companies, 152 completed the questionnaire between February and April 2012 (response rate: 39.6%). The database thus clearly meets the criteria Bartlett et al. (2001, p.50) set up for conducting meaningful statistical analyses based on “reliable, valid and generalisable results”. The response rate is furthermore above the average Baruch and Holtom (2008) identify for surveys among organisations published in high-quality academic journals.

3.2 Operationalisation of measures

The questionnaire, inter alia, surveyed three key elements of sustainability management: stakeholder criticism, approaches to manage stakeholder relationships and sustainability performance. Firstly, the respondents were asked to evaluate the development of stakeholder criticism over the two years preceding the survey. They were provided with a list of 13 environmental and social issues (including energy consumption, water consumption, material consumption, emissions/waste water/waste, biodiversity and transport as environmental issues; workplace/employment, occupational safety and health, training/development, diversity and equal opportunity, consumer protection, child labour/forced and compulsory labour as well as freedom of association as social issues). For each issue the sustainability managers indicated whether the related stakeholder criticism had increased, had remained unchanged or had decreased. For the analysis in Section 4, all sustainability issues are considered jointly. To be able to isolate companies which do not deal with specific environmental and social issues at all (e.g., it can be assumed that some banks and insurances do not face any criticism concerning water consumption), the participants could also indicate that no criticism had occurred at all concerning a specific issue. Surveying stakeholder criticism on an issue-specific basis
does justice to the fact that measuring stakeholder criticism and corporate reputation as a whole is often insufficient (cf. Walker, 2010).

Secondly, the questionnaire surveyed the application of sustainability management tools. In this section the sustainability managers were asked to reveal whether or not their companies make use of stakeholder dialogues for their sustainability management activities.

Lastly, the respondents were provided with the same list of 13 environmental and social issues used to assess stakeholder criticism and indicated whether their company measures its impact on these issues. In case a company measured its impact on an issue, the respondents were asked to document the results of this measurement by stating the relative (per unit produced/per € revenue) and absolute (total numbers) development of this impact over the last two years, i.e., whether the impact had improved, worsened or remained unchanged. On the one hand, focusing on those companies which measure the examined environmental and social issues reduces the sample size. On the other hand, it increases the reliability as well as the accuracy of the results.

Besides these key variables, further variables were included to control for possible intervening effects. Since previous findings document that firm size may influence stakeholders perception of corporate sustainable performance (e.g., Brammer and Pavelin, 2006), the changes in firm size between 2010 and 2012 (operationalised as the percentage of changes in annual revenue) were researched using the Top 500 database (Welt Online, 2013). In the very few cases where the Welt Online (2013) database did not provide information on the revenue, data gained from the company’s annual report or data provided by the German Federal Gazette (2014) was used. Lastly, the participants were asked to state their company’s core business, as industry affiliation or industry-specific events may affect the perceived sustainability performance (Brammer and Millington, 2004; Brammer and Pavelin, 2006). Based on these statements, the participating companies were categorised into four groups of industries according to their major sustainability challenges. While companies from the commodities, auxiliary materials, energy, chemical and pharmaceutical industry can be expected to be primarily affected by sustainability issues connected with their direct environmental impacts (e.g., energy consumption, emissions/waste; Sæverud and Skjærseth, 2007), consumer goods, trade and logistics companies are mainly challenged to manage issues related to consumer protection and transportation (emissions). Industry, capital goods and building companies are more concerned with business-to-business-related challenges (Fischer and Schot, 1993; Steger et al., 2007). Lastly, the direct environmental effects of most finance and service companies are relatively small. However, their management of internal social issues as well as their societal function and indirect effects on other businesses are frequently discussed (Steger et al., 2007).

To test for the existence of a common method bias, the common marker technique (Grant and Campbell, 2007; Lindell and Whitney, 2001; Sendjaya et al., 2008) was used. To this end, an additional marker variable was included in the questionnaire which can be expected to be theoretically unrelated to the variables of interest. For this purpose, a marker on the respondents’ perceived need to develop additional social management tools for the strategic planning department was used. No significant statistical connection between the marker and any of the variables of interest could be observed. It can thus be assumed that the data is not affected by a common method variance to a relevant degree.
3.3 Sample description

Tables 1 and 2 display descriptive statistics on key characteristics of the sample.

**Table 1 Industry affiliation**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry, capital goods and building</td>
<td>28</td>
<td>18.4</td>
</tr>
<tr>
<td>Consumer goods, trade and logistics</td>
<td>36</td>
<td>23.7</td>
</tr>
<tr>
<td>Finance and services</td>
<td>50</td>
<td>32.9</td>
</tr>
<tr>
<td>Commodities, auxiliary materials, energy, chemical and pharmaceutical industry</td>
<td>38</td>
<td>25.0</td>
</tr>
<tr>
<td>Total</td>
<td>152</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Table 2 Company size**

<table>
<thead>
<tr>
<th>Annual revenue/total assets/gross premiums (in million Euros)</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 50, up to 500</td>
<td>10</td>
<td>6.6</td>
</tr>
<tr>
<td>More than 500, up to 1,500</td>
<td>19</td>
<td>12.5</td>
</tr>
<tr>
<td>More than 1,500, up to 2,500</td>
<td>32</td>
<td>21.1</td>
</tr>
<tr>
<td>More than 2,500, up to 5,000</td>
<td>31</td>
<td>20.4</td>
</tr>
<tr>
<td>More than 5,000, up to 50,000</td>
<td>40</td>
<td>26.3</td>
</tr>
<tr>
<td>More than 50,000</td>
<td>20</td>
<td>13.2</td>
</tr>
<tr>
<td>Total</td>
<td>152</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 1 shows that the sample reflects the general structure of the German economy, which includes a large variety of industries with a particularly high share of the service industry (cf. Statista, 2014; The Economist, 2009). The survey focused on large companies (Table 2) as they are generally assumed to be more strongly publicly exposed than small and medium-sized companies, to have more resources to deal with sustainability issues (Darnall et al., 2010; Marsden, 2000) and to be of systemic importance for societal sustainability transitions (Geels, 2011). Furthermore, the survey was restricted to German companies to control for possible effects of specific societal or political events (e.g., the German laws on the energy transition following the nuclear disaster in Fukushima, Japan) which might drive stakeholder attention to particular national issues (such as energy consumption).

Most survey respondents were affiliated with the sustainability/CSR department (50.7%). 18.4% of the respondents belonged to the PR/communications department and 21.6% to other departments (e.g., investor relations, marketing). The remaining 9.2% did not state their departmental affiliation.

The analyses were performed using SPSS and are documented in the following section.
4 Analysis

In a first step of the empirical analysis, the existence of a direct link between a company’s performance with regard to each of the 13 considered specific environmental or social issues and the related stakeholder criticism was tested. To do so, the absolute changes in performance for the thirteen investigated environmental and social issues as measured by the companies were contrasted with the development of stakeholder criticism relating to these issues, using a Spearman rho correlation. Overall, 735 observations from 152 companies could be considered for this step of analysis.

Table 3 Spearman rho correlation for performance and stakeholder critique

<table>
<thead>
<tr>
<th></th>
<th>Spearman rho</th>
<th>n</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dev. of stakeh. criticism * Δ performance</td>
<td>-0.061</td>
<td>713</td>
</tr>
</tbody>
</table>

Notes: **p < 0.01; *p < 0.05

All responses indicating ‘no criticism’ concerning an issue were treated as missing values.

As Table 3 reveals, the correlation coefficient is close to zero and not significant. Therefore, Table 3 suggests that no a priori ‘automatic’ link between changes in sustainability performance and changes in stakeholder criticism exists in our sample. This means that even if a company improves its sustainability performance with regard to a specific environmental or social issue, the stakeholder critique concerning this issue is not automatically decreasing.

This raises the question of whether the management of stakeholder relations may contribute to help establishing a positive link between improving sustainability performance and decreasing stakeholder critique. To address the question of whether a link exists between sustainability performance, the application of stakeholder dialogue and stakeholder critique, two multinomial logistic regression models were performed which examine the effects of the application of stakeholder dialogues and of absolute changes in performance on the development of stakeholder criticism. For these analyses, changes in stakeholder criticism served as dependent variable and the category ‘no change in criticism’ were selected as the reference category for the multinomial logistic regression. Thus, the effects of the independent variables on the probability of belonging to the group of companies which experience ‘increasing criticism’, ‘decreasing criticism’ or ‘no criticism’ instead of ‘no change in criticism’ are analysed. To control for the effects of industry affiliation and changes in firm size (operationalised as change in annual revenue), these variables were also included in the models. As change in annual revenue (‘Δ revenue’) is a metric variable, the normal distribution of the variable and of its error terms were tested and confirmed using histograms and QQ-plots. The results of the first multinomial logistic regression model are displayed in Table 4.

Overall, the model included 1,016 observations from 152 companies. The model is found to be significant (p < 0.01) and the value for the adjusted R² (0.102) demonstrates that it is also able to explain a relevant share of the variation in stakeholder criticism (cf. Cohen, 1992). Furthermore, using stakeholder dialogues has a significant overall impact (chi² = 25.609**) and a significant impact on each of the categories of the dependent variable (‘change in stakeholder criticism’). The highest positive coefficient can be found for the group of ‘decreasing criticism’ (1.158**) and ‘no criticism’ (0.597**). Surprisingly, the regression coefficient is also positive (but to a lower extent) for
‘increasing criticism’. This provides indication that a company using stakeholder dialogues is more likely to experience an increase in criticism than a company not applying this tool. However, a decrease in criticism is the most likely outcome of conducting stakeholder dialogues.

Table 4  Multinomial logistic regression for the effects of stakeholder dialogues and sustainability performance on stakeholder criticism

<table>
<thead>
<tr>
<th>Test of likelihood quotients (chi²)</th>
<th>Stakeholder dialogue</th>
<th>Δ performance (abs.)</th>
<th>Δ revenue</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>25.609**</td>
<td>19.161**</td>
<td>3.922</td>
<td>50.642**</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Increasing criticism vs. no change in criticism</th>
<th>Decreasing criticism vs. no change in criticism</th>
<th>No criticism vs. no change in criticism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeholder dialogue</td>
<td>0.458**</td>
<td>1.158**</td>
</tr>
<tr>
<td>Perf. worsened</td>
<td>0.481</td>
<td>-0.411</td>
</tr>
<tr>
<td>Perf. unchanged</td>
<td>-0.250</td>
<td>-0.795**</td>
</tr>
<tr>
<td>Perf. improved</td>
<td>rc</td>
<td>rc</td>
</tr>
<tr>
<td>Δ revenue</td>
<td>-0.544</td>
<td>0.970</td>
</tr>
<tr>
<td>Industry 1</td>
<td>-0.342</td>
<td>0.615</td>
</tr>
<tr>
<td>Industry 2</td>
<td>-0.984**</td>
<td>1.800**</td>
</tr>
<tr>
<td>Industry 3</td>
<td>-0.325</td>
<td>1.974**</td>
</tr>
<tr>
<td>Industry 4</td>
<td>rc</td>
<td>rc</td>
</tr>
</tbody>
</table>

Notes: **p < 0.01; *p < 0.05

Besides tool application, a significant chi²-value can also be found for the influence of sustainability-related performance (chi² = 19.161**). The results of the parametric rating for sustainability performance are significant for the case of ‘unchanged performance’ and ‘decreasing criticism’ (−0.795**), indicating that companies with no change in their sustainability performance are less likely to experience decreases in the related stakeholder criticism when organising a stakeholder dialogue than companies with improved performance (which were used as the reference category). For the other categories of change in criticism (i.e., decreasing criticism and no change in criticism) and performance (performance worsened), no significant effect could be observed in this first model (Table 4).

Significant effects can also be found for ‘industry affiliation’ but not for the other control variable ‘change in firm size’.

The model displayed in Table 4 was also performed using the relative changes in performance instead of the absolute changes (Annex). However, no significant results could be observed for the relative changes in performance (chi² = 9.747).
To test the interaction effect between sustainability performance and the application of stakeholder dialogues, the model displayed in Table 5 includes an interaction variable. This variable denotes cases which combine improvements in sustainability performance regarding a specific environmental or social issue (in absolute terms) with the application of stakeholder dialogues.

**Table 5**  Multinomial logistic regression for the effects of stakeholder dialogues and sustainability performance on stakeholder criticism including the interaction effect of performance and stakeholder management

<table>
<thead>
<tr>
<th>Model summary</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pseudo R²</td>
<td>0.136</td>
</tr>
<tr>
<td>Sign.</td>
<td>0.000</td>
</tr>
<tr>
<td>N</td>
<td>1016</td>
</tr>
<tr>
<td>Stakeholder dialog</td>
<td>19.933**</td>
</tr>
<tr>
<td>Δ performance (abs.)</td>
<td>15.433*</td>
</tr>
<tr>
<td>Interaction (perf. * SHD)</td>
<td>15.276**</td>
</tr>
<tr>
<td>Δ revenue</td>
<td>6.428</td>
</tr>
<tr>
<td>Industry</td>
<td>63.130**</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Parametric rating</th>
<th>Increasing criticism vs. no change in criticism</th>
<th>Decreasing criticism vs. no change in criticism</th>
<th>No criticism vs. no change in criticism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeh. dialogue</td>
<td>0.563*</td>
<td>0.657</td>
<td>0.523</td>
</tr>
<tr>
<td>Perf. worsened</td>
<td>−0.026</td>
<td>0.134</td>
<td>−0.186</td>
</tr>
<tr>
<td>Perf. unchanged</td>
<td>−0.679**</td>
<td>0.265</td>
<td>−0.154</td>
</tr>
<tr>
<td>Perf. improved</td>
<td>rc</td>
<td>Re</td>
<td>rc</td>
</tr>
<tr>
<td>Interact. (perf. * SHD)</td>
<td>−0.556</td>
<td>1.244*</td>
<td>−0.523</td>
</tr>
<tr>
<td>Δ revenue</td>
<td>−0.480</td>
<td>1.865</td>
<td>0.329</td>
</tr>
<tr>
<td>Industry 1</td>
<td>−0.488</td>
<td>0.501</td>
<td>0.542*</td>
</tr>
<tr>
<td>Industry 2</td>
<td>−1.037**</td>
<td>1.741**</td>
<td>−0.321</td>
</tr>
<tr>
<td>Industry 3</td>
<td>−0.443*</td>
<td>1.850**</td>
<td>−0.202</td>
</tr>
<tr>
<td>Industry 4</td>
<td>rc</td>
<td>Re</td>
<td>rc</td>
</tr>
</tbody>
</table>

Notes: **p < 0.01; *p < 0.05

As displayed in Table 5, the explanatory power of the model increases if the interaction effect of performance and tool application is included (pseudo R² = 0.136). The likelihood quotient of the interaction effect is found to be highly significant (15.276**). Analysing the parametric rating, the significant positive regression coefficient of the interaction variable for the case of ‘decreasing criticism’ (1.244*) provides clear indication that companies which involve stakeholders through stakeholder dialogues and simultaneously improve their sustainability performances are likely to experience a decrease in sustainability-related stakeholder criticism. For the cases ‘increasing criticism’ and ‘no criticism’ no significant regression coefficients could be observed for the interaction effect.
The likelihood quotients of changes in sustainability performance and of applying stakeholder dialogues remain significant if the interaction effect of both variables is included in the model. However, with the exception of the category ‘increasing criticism’, no significant regression coefficients can be found for the parametric rating (neither for stakeholder dialogues nor for changes in sustainability performance).

5 Discussion

Some prior studies suggest that sustainability-related performance has a direct influence on stakeholder criticism or related concepts such as corporate reputation (cf. Brammer and Pavelin, 2006; Lewis, 2003; Ramos et al., 2007). In contrast, other authors (Jones et al., 1998; Wang and Juslin, 2013; Zyglidopoulos, 2001) state that corporate sustainability performance does not automatically relate to improvements in stakeholder feedback. The extant literature has however not yet analysed the combination of stakeholder dialogues with changes in sustainability performance. This paper has thus analysed whether improving sustainability performance alone can reduce stakeholder critique and what effect combining the improvement of sustainability performance with stakeholder dialogues has.

The analysis for this paper confirms the view that improving sustainability performance does not automatically lead to reduced stakeholder critique, as our analysis does not reveal an automatic link between a company’s sustainability performance and the sustainability-related stakeholder criticism for the case of large German companies.

One possible explanation for the lacking automatic link between performance and reputation for most other environmental and social issues might be that stakeholder relations are not yet as well established for sustainability topics as in other fields of corporate activity, such as shareholder relations (cf. Marcoux, 2003). Whereas large companies have well-established relationships to their shareholders for decades, communication with other stakeholders is still growing in importance (Lorenz et al., 2011; Runte and Basil, 2011). Our results suggest that stakeholder dialogues can be an important element in establishing closer ties to stakeholders interested in corporate sustainability performance.

Furthermore, it could be argued that most of the improvements which the companies measure are only incremental or at least perceived as insufficient by stakeholders (Morsing and Schultz, 2006). Interestingly, with regard to this second possibility, no systematic link between sustainability performance and related criticism could be observed in the regression analysis if stakeholder feedback was contrasted to relative changes in performance (see Annex). This could indicate that stakeholders frequently do not perceive relative improvements as sufficient but expect companies to achieve absolute improvements in their sustainability performance. For the environmental issues investigated, stakeholders thus seem to require that companies also improve eco-effectiveness, not only eco-efficiency (cf. Schaltegger and Burritt, 2005). However, while a large share of the surveyed companies achieved relative improvements for many issues (e.g., 83% for energy consumption), absolute improvements are observed less frequently (50%).
Following Toms’ (2002) as well as Holzer’s (2007) argumentation, this paper finds that a lack of stakeholder involvement maybe an additional reason why sustainability performance does not per se influence sustainability-related stakeholder feedback. As the regression analyses demonstrate, stakeholder dialogues indeed seem to contribute to reducing stakeholder criticism. However, the first regression analysis revealed that, while a decrease in stakeholder criticism is the most likely outcome of using stakeholder dialogues, applying this management tool also increases the probability of experiencing intensified criticism. At second glance this is less surprising, because dialogues expose the company to stakeholders and increase their awareness of the company’s impacts and activities (cf. Habisch et al., 2011; Mathur et al., 2008; van Huijstee and Glasbergen, 2008).

In this context, it is important to note that under some circumstances stakeholder criticism does not necessarily constitute a reputational danger for companies. On the contrary, stakeholder criticism may also increase a company’s ability to innovate and to improve its performance if the articulation of criticism by stakeholders enables the company to address pending environmental and social issues earlier and more effectively than competitors (cf. Hansen et al., 2009).

Remarkably, Toms (2002) found that publishing an environmental report is not significantly related to corporate environmental reputation, where as the general level of environmental disclosure had a significant influence. With regard to our results, which show significant effects for using stakeholder dialogues, this highlights interesting differences between stakeholder dialogues and sustainability reporting. Firstly, it could be argued that sustainability reporting has become common among large firms with the effect that publishing such reports is no longer acknowledged by stakeholders as a sufficient or even exceptional activity. Secondly, one might conclude that stakeholders demand more than just being informed by reports. Thus, pure disclosure measures serving to provide stakeholders with information but not allowing any interaction or critical inquiries might be perceived as insufficient. In addition to being informed, stakeholders increasingly expect to be involved in corporate activities and decision making, e.g., through more participative means such as stakeholder dialogues.

Another possible explanation for not finding an automatic link between stakeholder feedback and sustainability performance might be that stakeholders do not appreciate improvements with regard to some environmental and social issues (e.g., occupational health and safety), as these issues are always associated with ‘bad information’ (e.g., less accidents are still accidents). This can be explained by the fact that these aspects of corporate sustainability rather require ‘avoiding bad’ than ‘doing good’ (Lin-Hi and Müller, 2013). Thus, it is currently not beneficial for companies to communicate such issues, since they raise negative associations even if companies improve by doing ‘less bad’. For example, communicating a decreasing number of deadly injuries caused by corporate activities is unlikely to result in a decrease in criticism on occupational health and safety. Instead, it will probably draw stakeholder attention to this aspect and might result in increased criticism. Stakeholders are challenged to gain new perspectives and to learn to value corporate improvements with regard to these ‘all-negative’ aspects. Otherwise, no societal and market incentives exist for companies to improve their performance and to transparently communicate these environmental and social issues.

The regression analysis including the interaction effect of both aspects (stakeholder dialogues and sustainability performance) suggests that reducing stakeholder criticism
Linking sustainability-related stakeholder feedback

can only be achieved effectively if companies both improve their sustainability performance and involve stakeholders. The results highlight that companies realising improvements in their performance and additionally involving stakeholders through stakeholder dialogues are significantly more likely to experience a decrease in criticism than other companies. However, even if the interaction effect is included in the analysis, the isolated effects of performance and using stakeholder dialogues are still significant (at least for some environmental and social issues). This indicates that in some cases (i.e., for some sustainability issues) applying stakeholder dialogues per se might also be able to contribute to decreasing criticism, regardless of the actual performance. This result of our analysis on the effects of stakeholder dialogues as an interactive measure is partially in line with earlier publications focusing on disclosure and reporting which find that poor performers tend to disclose more with regard to sustainability (e.g., Deegan, 2002; Neu et al., 1998; O’Donovan, 2002; Patten, 2002). At the same time our analysis contrasts these earlier papers, as the combination of improving sustainability performance with stakeholder dialogues proves to be most effective in reducing stakeholder critique.

Furthermore, it has to be emphasised that participation and interaction between different societal groups are frequently considered as an important aspect of sustainable development (United Nations, 1992). Similarly, Székely and Knirsch (2005) emphasise in the context of corporate sustainability that identifying and addressing expectations of stakeholders is itself part of corporate sustainability. Therefore, the positive effect of stakeholder dialogues on stakeholder critique seems less surprising. If this finding is compared to earlier works which found that solely informing stakeholders via sustainability reporting does not influence corporate reputation (Toms, 2002), it can be concluded that impression management through sustainability reports without taking any substantive action and without allowing critical questions is in many cases likely to be insufficient to reduce stakeholder critique. In times of social media, active NGOs and investigative journalism, it is furthermore unlikely that pure green washing activities (i.e., only communicating on sustainability without taking substantive action) can create benefits for companies in the long run. Therefore, the positive influence of stakeholder dialogues should not be mixed up with one-way disclosure or reporting activities and should not be interpreted as a recommendation for companies to only use stakeholder dialogues without taking substantive sustainability action, as this might rather result in an increase of stakeholder criticism.

6 Conclusions

Analysing the sustainability performance of large German companies, their use of stakeholder dialogues and the development of the criticism companies face reveals several interesting results. First, an improvement in sustainability performance does not automatically lead to a decrease of stakeholder criticism. Stakeholder criticism can, however, be reduced through the combined use of stakeholder dialogues and improved sustainability performance. To reduce stakeholder critique on environmental and social issues, a company thus has to both improve their performance and communicate these efforts to stakeholders. The analysis also suggests that the involvement of stakeholders through more participatory tools such as a stakeholder dialogue shows more promising results than less participatory tools such as sustainability reports (cf. Toms, 2002). Furthermore, with regard to social and environmental performance, stakeholders seem to
evaluate absolute improvements higher than relative ones. In conclusion, to reliably reduce stakeholder critique requires improved sustainability performance, and vice versa, without communicating with stakeholders, good sustainability performance may be worth little for a company to reduce stakeholder critique.

Analysing these findings from a practitioner’s perspective reveals several implications. First, companies are challenged to substantially improve their sustainability performance in absolute terms and not only in relative terms. Second, the results highlight possibilities for companies to realise benefits (e.g., improved reputation, increased sales) through involving stakeholders. For this purpose, managers are challenged to communicate and discuss their company's improvements with relevant stakeholders in order to avoid negative feedback despite improved performance.

Furthermore, the results can inform stakeholder theory, which highlights the necessity of creating mutual interest between and value for stakeholders (Freeman et al., 2010). As a first step, creating mutual interests requires that stakeholders are sufficiently informed about relevant corporate sustainability issues, that they are involved, and that they are empowered to contribute to developing solutions. In this context, stakeholder dialogues are important means. Our results suggest, however, that stakeholder dialogues are not only important for creating mutual interests. They are also capable of supporting value creation, as they link improvements in corporate sustainability performance with reducing stakeholder critique and thus set incentives for improving sustainability performance. This in turn helps creating economic benefits and competitive advantages for stakeholder-involving and sustainability performance-improving companies and can foster improvements in the quality of life of stakeholders alike.

Besides these theoretical and practical implications, some limitations of this paper should not go unmentioned. First, for some benefits of sustainability management measures, it is not a prerequisite to communicate these measures to stakeholders in order to realise any benefits. For example, improvements of internal processes (e.g., process innovations which reduce energy costs) may not require external stakeholders to be broadly informed or involved. However, even for these measures additional benefits such as improvements in reputation may be realised if adequately communicated to stakeholders. Second, we investigated issue-specific sustainability performance and stakeholder feedback (cf. Walker, 2010), but we did not differentiate between different types of stakeholders such as NGOs, consumers, suppliers and employees, since such detailed questions go beyond the constraint of a standardised questionnaire. However, for future research it maybe interesting to differentiate between different stakeholder groups, e.g., inside and outside the company, and to examine differences in their expectations and reactions to a company’s behaviour (cf. Walker, 2010). The results of such an analysis may help companies to tailor communication efforts on sustainability issues, which increasingly affect a company’s reputation and consumer decisions.

References

Linking sustainability-related stakeholder feedback


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Notes
1 In two of the 152 cases, data on the revenue was not available for the year 2012, neither from the ‘Welt Online’ database nor from the annual reports. In these cases, the change in revenue from 2010 to 2011 was used as an indicator for changes in firm size.

Annex

Multinomial logistic regression on the effects of stakeholder management and sustainability performance (relative) on stakeholder criticism

<table>
<thead>
<tr>
<th>Model summary</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pseudo R²</td>
<td>0.109</td>
</tr>
<tr>
<td>Sign.</td>
<td>0.000</td>
</tr>
<tr>
<td>N</td>
<td>1016</td>
</tr>
<tr>
<td>Test of likelihood quotients (chi²)</td>
<td>Stakeholder dialog 21.719**</td>
</tr>
<tr>
<td></td>
<td>Δ performance (rel.) 9.747</td>
</tr>
<tr>
<td></td>
<td>Δ revenue 7.157</td>
</tr>
<tr>
<td></td>
<td>Industry 70.170**</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Parametric rating</th>
<th>Increasing criticism vs. no change in criticism</th>
<th>Decreasing criticism vs. no change in criticism</th>
<th>No criticism vs. no change in criticism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeh. dialog</td>
<td>0.229</td>
<td>1.183**</td>
<td>0.526**</td>
</tr>
<tr>
<td>Perf. worsened</td>
<td>0.206</td>
<td>–0.504</td>
<td>0.070</td>
</tr>
<tr>
<td>Perf. unchanged</td>
<td>–0.424*</td>
<td>–0.302</td>
<td>0.044</td>
</tr>
<tr>
<td>Perf. improved</td>
<td>rc</td>
<td>rc</td>
<td>rc</td>
</tr>
<tr>
<td>Δ revenue</td>
<td>–0.376</td>
<td>1.899</td>
<td>0.544</td>
</tr>
<tr>
<td>Industry 1</td>
<td>–0.347</td>
<td>0.763</td>
<td>0.679**</td>
</tr>
<tr>
<td>Industry 2</td>
<td>–0.981**</td>
<td>1.851**</td>
<td>–0.265</td>
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<tr>
<td>Industry 3</td>
<td>–0.346</td>
<td>2.076**</td>
<td>–0.025</td>
</tr>
<tr>
<td>Industry 4</td>
<td>rc</td>
<td>rc</td>
<td>rc</td>
</tr>
</tbody>
</table>

Notes: **p < 0.01; *p < 0.05