

SUSTAINABLE CORPORATE GOVERNANCE AND STAKEHOLDER ENGAGEMENT: ANALYZING THE ROLE OF STAKEHOLDER INTEGRATION IN ESG REPORTING

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Aim: This research paper focuses on the identification and comparison of stakeholder reporting in practice. It covers the recognition of key stakeholders, identification of channels of dialogue, and the integration of stakeholder interests into corporate governance. **Methodology:** A content analysis methodology has been used to conduct research on stakeholder reporting by selected companies. Based on the research results, a comparative analysis has been carried out to examine which ESG reporting areas contain the most detailed stakeholder-related disclosures and to what extent companies include the interests of their key stakeholders in their corporate governance. **Findings:** Based on the research results, it can be concluded that companies include the interests of key stakeholders in the process of sustainable management and corporate governance. The inclusion of key stakeholders is particularly evident in terms of their identification, the gathering of information, and the formation of groups of key activities relevant to the company. **Value:** The main value of this research paper lies in gaining additional insights into the inclusion of key stakeholders in corporate governance and sustainability reporting in practice. It provides further understanding of the areas related to key stakeholder engagement and offers potential recommendations for the continued inclusion of stakeholders.

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1 Introduction

Stakeholder engagement has become a key component of corporate governance, particularly in the context of sustainability reporting and compliance with regulatory changes, such as the Non-Financial Reporting Directive (hereinafter NFRD), Corporate Sustainability Reporting Directive (hereinafter CSRD), and Taxonomy or Corporate Sustainability Due Diligence Directive (CSDDD). Managing stakeholders represents one of the essential aspects that help companies identify and manage key risks and opportunities in the field of sustainability. Companies must integrate the interests of key stakeholders into their governance to align corporate management with stakeholder expectations and ensure sustainable and long-term business success (Primec & Belak, 2022). Care for the environment, society, governance, biodiversity, climate change, etc. has become an increasingly significant factor in the management of business entities. The concern for sustainable areas is increasingly being integrated into corporate governance, and companies are striving to change the management and leadership process in a way that influences long-term sustainable operations (Staudt et al., 2023).

With global initiatives, the need to align the needs of key stakeholders with the interests of the company has grown even more, leading to the need for the development of strategies and increasing efforts toward coordinated and integrated sustainable operations, both at the individual level and at the organizational level. At the EU level, in recent years, numerous measures have been observed through which the EU has sought to promote sustainability, sustainable development, sustainable governance, and transparent information reporting. These measures have encouraged business entities to gain a better understanding of their key stakeholders and to report broader information related to the environment, society, and governance transparently. One of the key aspects of governance from a sustainability perspective is also the inclusion of external and internal stakeholders in the management and leadership process of the company. In doing so, companies build trust and reduce risks, which strengthens trust between the company, key stakeholders, and the surrounding environment in the long run (Čufar & Primec, 2022; Čufar et al. 2024, Nygren & Hallan, 2024).

The purpose of this paper is to examine the identification of key stakeholders by companies in practice. Based on the research findings, we expect to gain additional insights into the procedures and the integration of key stakeholders' interests into the management and corporate governance of the companies in the field of sustainability.

2 Theoretical Background/Literature Review

The stakeholder theory in connection with corporate governance can be found in various publications and literature. According to the original concept developed by Freeman, the theory is used to understand the relationships and frameworks between a company and its stakeholders (Freeman, 1984). In the context of corporate governance, such relationships contribute to a better understanding of the needs and interests of key stakeholders and their consideration in the company's management process. In the governance process, companies do not focus solely on the interests of narrow stakeholder groups but strive to align their actions as closely as possible with stakeholder expectations. The stakeholder theory facilitates the development and foundation for distinguishing broader social issues from the concerns and needs of individual stakeholders (Harrison et al., 2015). Compared to shareholder theory, stakeholder theory advocates for and expands corporate responsibility to a broader range of key stakeholders, such as employees, customers, the community, suppliers, and the environment. The theory serves as a crucial tool for corporate management in the business environment. In connection with socially responsible management and sustainability reporting, stakeholder theory provides a foundation that enables companies to disclose a broader range of information and risks, addressing and informing a wider group of stakeholders. By disclosing more sustainability-related information, companies can gain stakeholder support more easily, thereby improving their business performance (Clarkson, 1995; Reverte 2009).

The term corporate social responsibility has evolved over the years, gaining an increasingly broader meaning. In the EU, the concept of CSR was initially implemented voluntarily where companies incorporated social, environmental, and governance indicators into their operations on their initiative. However, with ongoing crises and the collapse of organizations, it became evident that voluntary reporting was insufficient for integrating CSR into corporate governance systems.

Consequently, the EU introduced legislation, such as the NFRD, CSRD, CSDDD, and the EU Taxonomy to ensure that companies incorporate sustainability indicators into their management processes and inform key stakeholders about the risks and opportunities extending beyond financial performance. Thus, stakeholder management represents a key measure through which companies ensure the sustainable integration of CSR into their governance while considering the interests of their stakeholders. Additionally, it provides stakeholders with opportunities and communication channels for exchanging information (Primec & Belak, 2018; Staudt et al., 2023).

One of the first legislations in the field of sustainability reporting and the reporting of key stakeholder information in sustainability reporting is the NFRD. The directive required companies to report information related to environmental impacts, social aspects, and corporate governance. The reporting obligation applied to all public interest entities that had more than 500 employees on the balance sheet date. Although such reporting applies only to a certain scope of companies, the legislation and regulatory measures represent one of the key measures that encourage the integration and inclusion of key stakeholders in the corporate governance process. Based on the review of the NFRD, numerous shortcomings were identified, which represented deficiencies in reporting and the comparability of reported data. To address these shortcomings, the EU adopted the CSRD, which more precisely defines sustainability data reporting. It is expected that, as a result, the reporting of information in line with the integration of key stakeholder interests will improve in the future and become more detailed and transparent at the corporate level.

3 Methodology

As part of the research, a multiple case study was used to analyze the sustainability reports of selected companies. This method enables a detailed definition of the studied phenomenon within real-life circumstances and the context of the chosen company. It allows for the examination of the phenomenon in a specific environment using multiple data sources and analyses. The analysis facilitates the acquisition of information and its interpretation in a way that thoroughly explains the reasons and circumstances behind specific activities related to the studied phenomenon (Paolone et al. 2023; Lina et al., 2023; Voss et al., 2008).

The method of content analysis was used for data collection and analysis. The content analysis method was chosen because it has already been used for analyzing similar research and qualitative studies. The selected method is suitable for the present analysis because it allows for the examination of qualitative reporting by companies and its interpretation. The sample on which the research was conducted includes six companies from Slovenia, operating in the sectors of manufacturing, insurance, and banking. For each of these companies, the study examined whether the company (Paolone et al. 2023; Lina et al., 2023; Voss et al., 2008):

- identifies their key stakeholders in their sustainability reports,
- specifies communication channels,
- identifies the information received from key stakeholders, and
- indicates how this information is implemented in their management and leadership process.

The analysis was conducted based on the annual report or a separate sustainability report published by the selected business entities for the chosen reporting year. The reports were analyzed for the period of 2023.

4 Results

The research results indicate that all selected companies report data on their key stakeholders in their annual or sustainability reports for the year 2023. More specifically, all analyzed companies implement their key stakeholder groups. However, differences arise in the identification and formation of individual groups. It can be observed that companies that identify their key stakeholders in more detail—for example, by specifying exact stakeholders rather than grouping them into broader categories—tend to provide more detailed information on how key stakeholders influence the company and how the company impacts its key stakeholders.

Based on the information obtained from annual or sustainability reports, the extent to which companies report on communication channels with their key stakeholders was examined. Evidently, that reporting varies among companies. Some companies, particularly those in the insurance and banking sectors, provide more detailed

reports on the communication channels they have established with key stakeholders and how they obtain and utilize the information received from them. Such reporting offers a more detailed insight into how companies establish contact with their key stakeholders and how different stakeholder groups can engage with the company. It is also noticeable that some companies report detailed information on when they had contact with specific stakeholder groups during the reporting year.

From the analysis of the reporting of data obtained from key stakeholders, it can be observed that some companies provide information in a generalized manner, consolidating multiple stakeholder information into a single group. In such cases, a detailed explanation is missing regarding which specific stakeholder group provided the information what information was received, and what criteria were used for its assessment. The information is presented in a cumulated form, and the company does not establish a clear link between the implemented measures within the company and the information received from key stakeholders (Čufar & Primec, 2022; Čufar et al. 2024; Primer & Belak, 2018).

In contrast, some companies provide more detailed disclosures on the specific information obtained from key stakeholders and how this information was used for future assessments of material topics and the development of sustainability management strategies. This type of reporting provides companies and their key stakeholders with more detailed insights into which stakeholder groups are relevant to the company and how the information from individual stakeholder groups has been utilized to adjust strategies and planning in the field of sustainability.

5 Discussion

Based on the research findings, regarding the identification of key stakeholders, it can be summarized that the analyzed companies strive to report data on key stakeholders, engage in their identification, and define them within their annual reports. Evidently, all companies have at least some information about the key stakeholders they identify within their company. However, fewer companies provide detailed reports on specific types of key stakeholders and the impact they have on the company or vice versa (Čufar & Primec, 2022; Nygren & Hallan, 2024).

In the analyzed reports, some companies provided a detailed description of their key stakeholders, precisely identifying their level of importance for the company. From the perspective of reported data in annual reporting, the results indicate that companies are increasingly committed to integrating the interests of key stakeholders with those of the company, thereby co-shaping strategies and the management and leadership process in the field of sustainability (Freeman, 2010).

When examining questions related to communication channels, it can be observed that while some companies report information in detail, others provide more general information at the level of individual stakeholder groups. Information on how key stakeholders communicate with the company and the specific communication channels used enhances transparency and the content of reported information, providing greater insight into the exchange of information between the company and its key stakeholders. To ensure the transparency of reported information, some companies explicitly specify the time period in which they were in contact with key stakeholders and the outcomes of the information exchange (Freeman, 2010; Čufar & Primec, 2022).

Within the reported data, the information that companies disclose in their annual reports depends on whether they report on their key stakeholders in a general manner or define them in detail at an individual level. Companies that provide more detailed reporting on their key stakeholders also tend to report more specifically on which information they received from which key stakeholders and how the data exchange took place. Companies that identified key stakeholders at a surface or group level typically only reported the information obtained through communication but did not specify in detail which key stakeholders provided the information or for which key stakeholders the information was relevant. This type of reporting reduces transparency regarding communication and the information that the company reports concerning its key stakeholders. In the context of implementing information into sustainability strategies and plans, it can be observed that companies that reported key stakeholders in detail also provided more specific information on how the interests of key stakeholders were integrated into their strategies and management processes. This type of reporting enhances transparency and provides an overview of the measures taken by the company based on the information received from key stakeholders (Čufar et al., 2024).

6 Conclusions

Key stakeholders play a crucial role in the integrated and comprehensive approach to the implementation of sustainable strategies within the management and leadership processes of a company. Stakeholder management is essential for effective corporate sustainability reporting and sustainable corporate governance. For comprehensive and detailed information disclosure, legislation on key stakeholders provides a framework that companies follow to ensure the reporting of complete and transparent information. By integrating innovative practices and regulatory requirements, companies are encouraged to achieve long-term sustainability and competitiveness. In the future, research could focus on analyzing key stakeholders based on data reporting over a longer period (several years) and the CSRD requirements, which will come into effect in the near future, and has already been implemented into Slovenian legislation. Based on the results, it will be possible to determine in more detail the impact of the legislation on the reporting of information about key stakeholders, how companies have reported information about their key stakeholders over time, and whether their interests have been integrated into the company, its strategies, and plans, contributing to a sustainable management and leadership process.

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