Stakeholder engagement in sustainability accounting and reporting: A study of Australian local councils

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Declaration

This thesis presents work carried out by myself and does not incorporate without acknowledgment any material previously submitted for a degree or diploma in any university; to the best of my knowledge it does not contain any material previously published or written by another person except where due reference is made in the text; and all substantive contributions by others to the work presented, including jointly authored publications, are clearly acknowledged.

..... 24 January 2014

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Publications and presentations

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Abstract

The importance of stakeholder engagement as an overall interactive mechanism and more precisely as a part of the sustainability accounting and reporting process has become increasingly critical in both the corporate and public sectors. However, the position of the public sector in this regard has been discounted, in spite of the indispensable need and scope for stakeholder engagement in public sector organisations. This is especially the case in the local government sector, which shares a close relationship with the community and other stakeholders. Therefore, this thesis explores the nature, extent and drivers of stakeholder engagement in the sustainability accounting and reporting process in Australian local councils.

A framework based on the sustainability accounting and reporting process, stakeholder theory and new institutional theory was developed to guide the research process for this study. This framework established criteria for identifying key stakeholders, examining engagement methods used to involve them, and assessing the extent and drivers of stakeholder engagement in the sustainability accounting and reporting process.

This study used the case study research strategy to obtain an in-depth understanding of the current state of stakeholder engagement in the sustainability accounting and reporting process. Three best practice local councils were selected as cases on the basis of a documentary analysis of 523 local councils and an unstructured interview with the divisional manager of a non-government organisation assisting local councils in Australia. The data collection methods included interviews with key personnel involved in the sustainability accounting and reporting process and stakeholder engagement, using documents related to the three councils' stakeholder engagement practices, and website monitoring on a regular basis. The use of these methods not only provided detailed information about the local councils' stakeholder engagement plans and programs but also enabled substantiation of the research findings. Data gathered from interviews, documents and websites were analysed for individual cases and then through cross-case comparisons.

The findings of this research identified the importance of stakeholder engagement in the development of strategic plans and sustainability indicators, the measurement of

sustainability performance and the preparation of sustainability reports. However, the key stakeholders, engagement methods and the extent of engagement varied depending on the purpose of engagement and the nature of the stakeholders. For instance, engagement techniques such as newsletters, annual reports, radio and television were used to create awareness about sustainability issues in the wider community. Besides these, advisory committees and precinct committees were created to empower community representatives.

The nature and extent of stakeholder engagement in the local councils were significantly influenced by external institutional factors such as regulations and the emergence of professional expertise. Along with these, internal factors such as management commitment were equally important to drive meaningful engagement. This study also uncovered issues and difficulties that undermine the effectiveness of stakeholder engagement in the sustainability accounting and reporting process. These issues and difficulties include political factors, unwillingness to participate and limited resources.

An evaluation of the three local councils highlights that social media is emerging as an engagement technique to facilitate continuous dialogue with stakeholders. Further research could assess the potential for using various social media in the sustainability accounting and reporting process in order to extend the explanatory power of the current study. This study also suggests an extension to institutional theory by recognising the effect of internal drivers because internal influences in the public sector play a critical role in driving stakeholder engagement. The study also contributes to the sustainability accounting and reporting and stakeholder theory literature by examining the nature, extent and drivers of stakeholder involvement in the sustainability accounting and reporting process.

As pressure is increasing on public sector agencies to disclose sustainability issues and to involve stakeholders in the accounting and reporting process as a means of transparency, the findings of this research are of use to policy makers and practitioners. The study provides information about the key stakeholders in local councils in relation to social and environmental issues, effective stakeholder engagement mechanisms and concerns of local councils regarding stakeholder engagement.

Table of contents

Declaration ..... **i**

Acknowledgements ..... **ii**

Publications and presentations ..... **iii**

Abstract ..... **iv**

Table of contents ..... **vi**

List of figures ..... **xi**

List of tables ..... **xii**

List of abbreviations and acronyms ..... **xiv**

Chapter One: Introduction **1**

1.1 Background 1

1.2 Research scope and justification 4

1.3 Research question and objectives 8

1.4 Theoretical framework 8

1.5 Methodology 10

1.6 Thesis outline 11

Chapter Two: Sustainability accounting and reporting and the state of the practice in Australian public sector **13**

2.1 Introduction 13

2.2 Sustainability accounting and reporting process 13

2.3 Sustainability accounting and reporting in Australian PSOs 20

2.3.1 Local government in Australia 20

2.3.2 Functions of local councils 21

2.3.3 Sustainability accounting and reporting practice in Australian PSOs 23

2.4 Summary 30

Chapter Three: The nature, extent and drivers of stakeholder engagement **31**

3.1 Introduction 31

3.2 Stakeholder theory 31

3.3 Stakeholder engagement 33

3.3.1 Stakeholder identification 34

3.3.2 Stakeholder engagement mechanisms 37

3.3.3 The extent of stakeholder engagement 38

3.3.4 The quality of stakeholder engagement 44

3.4 The purpose and scope of stakeholder engagement in the sustainability accounting and reporting process 46

3.5 Stakeholder engagement frameworks 48

3.6 Evidence of stakeholder engagement in practice 52

3.7 Drivers of stakeholder engagement 55

3.8 New institutional theory 56
3.9 Summary 60
Chapter Four: Research framework 61
4.1 Introduction 61
4.2 The nature and extent of stakeholder engagement 61
4.2.1 Who are the key stakeholders? 64
4.2.2 How are stakeholders engaged? 65
4.2.3 The extent of stakeholder engagement 66
4.3 Institutional influences on stakeholder engagement 68
4.4 Research framework 70
4.5 Summary 72
Chapter Five: Research methods 73
5.1 Introduction 73
5.2 Case study methodology 73
5.3 Research design 76
5.4 Research methods 77
5.4.1 Interviews 78
5.4.2 Document analysis 79
5.4.3 Website monitoring 80
5.5 Data collection 81
5.5.1 Data collection in the general research phase 82
5.5.1.1 Documentary analysis 82
5.5.1.2 Interviews 85
5.5.2 Data collection in the council specific phase 86
5.5.2.1 Interviews 86
5.5.2.2 Documentary analysis 92
5.5.2.3 Website monitoring 93
5.6 Data analysis 94
5.6.1 Analysis of interviews 95
5.6.2 Analysis of documents 97
5.6.3 Analysis of websites 98
5.7 Research validity and reliability 99
5.8 Case study compilation 101
5.9 Summary 102
Chapter Six: Disclosures on stakeholder engagement in sustainability reports in Australian local councils 103
6.1 Introduction 103
6.2 Overview 103
6.3 Analysis of statewide disclosures on stakeholder engagement 104
6.4 Analysis of the extent of disclosures on stakeholder engagement indicators 106
6.5 Discussion 110

6.6 Selection of cases 112
6.7 Summary 116

Chapter Seven: Stakeholder engagement in sustainability accounting and reporting in Council A 117
7.1 Introduction 117
7.2 Data sources 117
7.3 Contextual background 120
7.4 Sustainability planning, accounting and reporting 122
7.4.1 Sustainability planning 124
7.4.1.1 Stakeholder engagement in sustainability planning 125
7.4.1.2 Who are the key stakeholders? 126
7.4.1.3 How are stakeholders engaged? 129
7.4.2 Sustainability accounting 133
7.4.2.1 Stakeholder engagement in sustainability accounting 135
7.4.2.2 Who are the key stakeholders? 137
7.4.2.3 How are stakeholders engaged? 139
7.4.3 Sustainability reporting 140
7.4.3.1 Stakeholder engagement in sustainability reporting 141
7.4.3.2 Who are the key stakeholders? 143
7.4.3.3 How are stakeholders engaged? 144
7.5 The nature and extent of stakeholder engagement 145
7.5.1 Nature of stakeholder engagement 145
7.5.2 Extent of stakeholder engagement 147
7.5.3 Key issues and challenges in stakeholder engagement 149
7.6 Influences on stakeholder engagement 150
7.6.1 Coercive influences 151
7.6.2 Mimetic influences 151
7.6.3 Normative influences 152
7.6.4 Internal influences 152
7.7 Summary 153

Chapter Eight: Stakeholder engagement in sustainability accounting and reporting in Council B 155
8.1 Introduction 155
8.2 Data sources 155
8.3 Contextual background 158
8.4. Sustainability planning, accounting and reporting 160
8.4.1 Sustainability planning 161
8.4.1.1 Stakeholder engagement in sustainability planning 162
8.4.1.2 Who are the key stakeholders? 164
8.4.1.3 How are stakeholders engaged? 167
8.4.2 Sustainability accounting 170

8.4.2.1 Stakeholder engagement in sustainability accounting *171*
8.4.2.2 Who are the key stakeholders? *172*
8.4.2.3 How are stakeholders engaged? *174*
8.4.3 Sustainability reporting 174
8.4.3.1 Stakeholder engagement in sustainability reporting *176*
8.4.3.2 Who are the key stakeholders? *177*
8.4.3.3 How are stakeholders engaged? *178*
8.5. The nature and extent of stakeholder engagement 178
8.5.1 Nature of stakeholder engagement 179
8.5.2 Extent of stakeholder engagement 181
8.5.3 Key issues and challenges in stakeholder engagement 182
8.6. Influences on stakeholder engagement 185
8.6.1 Coercive influences 185
8.6.2 Mimetic influences 186
8.6.3 Normative influences 186
8.6.4 Internal influences 187
8.7. Summary 187

Chapter Nine: Stakeholder engagement in sustainability accounting and reporting in Council C 189
9.1 Introduction 189
9.2 Data Sources 189
9.3 Contextual background 192
9.4 Sustainability planning, accounting and reporting 194
9.4.1 Sustainability planning 195
9.4.1.1 Stakeholder engagement in sustainability planning *196*
9.4.1.2 Who are the key stakeholders? *197*
9.4.1.3 How are stakeholders engaged? *199*
9.4.2 Sustainability accounting 203
9.4.2.1 Stakeholder engagement in sustainability accounting *204*
9.4.2.2 Who are the key stakeholders? *206*
9.4.2.3 How are stakeholder engaged? *207*
9.4.3 Sustainability reporting 208
9.4.3.1 Stakeholder engagement in sustainability reporting *209*
9.4.3.2 Who are the key stakeholders? *210*
9.4.3.3 How are stakeholders engaged? *211*
9.5 The nature and extent of stakeholder engagement 212
9.5.1 Nature of stakeholder engagement 213
9.5.2 Extent of stakeholder engagement 215
9.5.3 Key issues and challenges in stakeholder engagement 216
9.6 Influences on stakeholder engagement 218
9.6.1 Coercive influences 218

9.6.2 Mimetic influences 218
9.6.3 Normative influences 219
9.6.4 Internal influences 219
9.7 Summary 220
Chapter Ten: Cross-Case analysis 222
10.1 Introduction 222
10.2 Stakeholder engagement in the sustainability accounting and reporting process 222
10.2.1 Sustainability accounting and reporting 222
10.2.2 Stakeholder engagement 224
10.3 How stakeholders are engaged 225
10.3.1 First research objective – key stakeholders 225
10.3.2 Second research objective – stakeholder engagement mechanisms 229
10.4 The factors affecting the nature and extent of stakeholder engagement 232
10.4.1 Third research objective – nature and extent of stakeholder engagement 232
10.4.2 Fourth research objective – key issues and challenges in stakeholder engagement 235
10.5 Fifth research objective – key influences on stakeholder engagement 236
10.6 Revised research framework 238
10.7 Summary 241
Chapter Eleven: Conclusion 243
11.1 Introduction 243
11.2 Significant research findings 244
11.2.1 First research objective – key stakeholders 245
11.2.2 Second research objective – stakeholder engagement mechanisms 246
11.2.3 Third research objective – nature and extent of stakeholder engagement 247
11.2.4 Fourth research objective – key issues and challenges in stakeholder engagement 247
11.2.5 Influences on stakeholder engagement in sustainability accounting and reporting 248
11.3 Research contributions 248
11.3.1 Theoretical contributions 249
11.3.2 Methods 250
11.3.3 Practice 251
11.3.4 Policy 252
11.4 Limitations of the research 253
11.5 Future research directions 254
11.6 Summary 255
References 257
Appendix 272

List of figures

Figure 2.1: An integrated framework for sustainability performance measurement and management 15

Figure 3.1: Arnstein's ladder of citizen participation 39

Figure 3.2: Friedman and Miles' ladder of stakeholder engagement 41

Figure 3.3: GRI–SSPA (2005) guidelines on stakeholder engagement disclosures 50

Figure 4.1: Stakeholder engagement in the sustainability accounting and reporting process based on Schaltegger and Wagner (2006) and AccountAbility (1999) 63

Figure 4.2: Stakeholder engagement extent and partcipative techniques 66

Figure 4.3: Overall research framework for the study 71

Figure 5.1: Interview questions for ICLEI–Oceania's ISS manager 85

Figure 5.2: The first interview questions 88

Figure 5.3: The second interview questions 89

Figure 5.4: The final interview questions 91

Figure 5.5: Checklist for evaluating the potential online media for stakeholder engagement 93

Figure 7.1: Council A's Integrated Planning and Reporting Framework 123

Figure 8.1: Council B's Integrated Planning and Reporting Framework 160

Figure 8.2: Council B's strategic plan's structure 162

Figure 8.3: Council B's stakeholder consultation process 163

Figure 9.1: Council C's Integrated Planning and Reporting Framework 194

Figure 10.1: Stakeholder engagement in sustainability accounting and reporting 223

Figure 10.2: Stakeholder engagement extent and partcipative techniques 233

Figure 10.3: Overall revised research framework for the study 239

List of tables

Table 3.1: AccountAbility's levels of engagement 43

Table 3.2: Pre-engagement activities 43

Table 3.3: The quality of stakeholder engagement 45

Table 3.4: The Environment Council's stakeholder engagement criteria and themes 49

Table 3.5: AccountAbility's stakeholder engagement assessment criteria 51

Table 5.1: Interview methods 78

Table 5.2: Data collection overview 81

Table 5.3: Stakeholder engagement index 83

Table 5.4: Terms that could be identified from the interview data 97

Table 6.1: Local councils reporting on stakeholder engagement in sustainability reporting 105

Table 6.2: Detailed analysis of stakeholder engagement indicators and their sub-components 107

Table 6.3: The position of 23 local councils on the basis of Arnstein's ladder 112

Table: 6.4: An overview of local councils selected for the case studies 115

Table 7.1: Council A interviewee profiles 118

Table 7.2: Council A documents 119

Table 7.3: Stakeholders and engagement methods 132

Table 7.4: Roles of stakeholders in the sustainability accounting and reporting process 146

Table 8.1: Council B interviewee profiles 156

Table 8.2: Council B documents 157

Table 8.3: Council B presentations overview 158

Table 8.4: Sustainability performance data providers in Council B 172

Table 8.5: Roles of stakeholders in the sustainability accounting and reporting process 180

Table 8.6: Levels of engagement in Council B 181

Table 9.1: Council C interviewee profiles 190

Table 9.2: Council C documents..... 191

Table 9.3: Comparison of community consultation exercises 200

Table 9.4: Roles of stakeholders in the sustainability accounting and reporting process ... 214

Table 10.1: Key stakeholders involved in the sustainability accounting and reporting..... 226

Table 10.2: Stakeholder engagement methods used by the three councils..... 230

List of abbreviations and acronyms

ACCA	Association of Certified Chartered Accountants
ARA	Australasian Reporting Awards
CEO	Chief Executive Officer
DLG	Division of Local Government
GRI	Global Reporting Initiative
PSO	Public sector organisation
IAP2	International Association for Public Participation
ICLEI	International Council for Local Environment Initiatives
IP&R	Integrated Planning and Reporting
ISS	Integrated Sustainability Services
KPI	Key performance indicator
LGMA	Local Government Managers Australia
NESB	non-English speaking background
NGO	Non-government organisation
NSW	New South Wales
QLGA	Queensland Local Government Act
SBSC	Sustainability Balance Scorecard
SoE	State of the Environment
SSPA	Sector Supplement for Public Agencies
UNEP	United Nations Environmental Programme

Chapter One: Introduction

1.1 Background

One of the most urgent challenges that organisations, including the public sector, are facing is to operate in an environmentally, socially and economically sustainable manner (Hopwood et al. 2010). Sustainability issues such as global warming, depletion of natural resources, hazardous waste generation, pollution, deforestation, population, unemployment and poverty have attained considerable international and national attention in advancing the notion of sustainable development.

The increasing concerns about the social and environmental impacts of organisational activities have raised the need to measure and to disclose environmental and social performance (Gray 1992; Gray et al. 1997; Lamberton 2005; Guthrie & Farneti 2008; Beck et al. 2010). This need has resulted in the emergence of a sustainability accounting and reporting which is considered necessary to manage and to communicate sustainability performance as traditional financial statements are not sufficient for providing a complete description of the social, environmental and economic impacts of an organisation's operations (Ball 2005b; Guthrie & Farneti 2008; Ball & Osborne 2010).

Sustainability performance encompasses activities other than those financial measures used in the financial accounts such as natural resource conservation and emission levels, environmental activities and initiatives, aspects of employment, occupational health and safety, community relations, stakeholder involvement and the economic impact of the organisation (Hoque & Adams 2008). Sustainability accounting enables the systematic identification and interlinking of the social, environmental and economic costs and benefits of organisational strategies and actions, and embeds these considerations into organisational decision making (Hopwood et al. 2010). Subsequently, sustainability reporting serves as 'a vehicle to assess the economic, environmental and social impacts of the organisation's operations, products, and services, and its overall contribution to sustainable development' (GRI 2004, p.20).

Although sustainability issues have been recognised and addressed in the corporate sector with sustainability reports increasing in both size and complexity (Gray et al. 2001; Gray 2005; Adams & McNicholas 2007; Bebbington et al. 2009), considerable

criticism still focuses on what these corporations have achieved (Milne & Gray 2007). Some criticisms are: a lack of corporate attention to social and environmental issues, a failure to relate core business operations to sustainable development, reporting merely to legitimate their relationship with stakeholders rather than actual management of the organisation's social and environmental issues, and an insufficient linkage of organisational activities with its wider sector through benchmarking (Milne & Gray 2007; Unerman et al. 2007; Ball & Bebbington 2008). Moreover, the question has been raised whether social and environmental issues and the planet are safe in the hands of corporations, whose prime aim is to earn profit and maximise shareholders' wealth (Friedman 2007).

On the contrary, public sector organisations (PSOs) exist to deliver public policy and to promote social welfare (Ball & Grubnic 2007) and have roles and responsibilities that are more explicitly linked to the sustainability agenda than those of the corporate sector (Ball 2002). The public sector is larger than the private sector in terms of size, influence and economic activity, and consequently has significant impact on the environment, society and the economy (Ball & Grubnic 2007). It should be accountable to the community and stakeholders and needs to account for and report on the social and environmental impacts of its operations (Leeson et al. 2005). Moreover, the public sector is facing pressure from both inside and outside governments to demonstrate leadership not only by forming policies but also through actions to advance sustainable development (GRI 2004).

Of all the PSOs, local government, being closest to people, is in the position to understand and respond to the social and environmental issues of the local community and stakeholders. This raises the need for accountability towards them (Lewis 2000; Lewis 2008). Local government shares an established relationship with the environment and have an extensive involvement in the social and environmental activities – for example, health services, infrastructure management, salinity control, community care and waste management (Douglass 1996). The responsibility of local government authorities towards society and the environment leads to expectations from the community that they will manage their social and environmental impacts, promote sustainable development (Douglass 1996; Williams et al. 2011) and disclose their initiatives to stakeholders through external reporting Burritt (Burritt & Welch 1997a;

Ball & Grubnic 2007). If local authorities do not report on sustainability issues, it would be difficult to assess how they contribute to sustainable development (Ball et al. 2006).

The extant literature indicates that sustainability and accounting reporting in the PSOs, including local government, is still in its infancy and has been relatively less explored than for the private sector (Ball 2004; Dickinson et al. 2005; Ball & Grubnic 2007; Guthrie & Farneti 2008; Burritt et al. 2009). The studies in sustainability accounting and reporting in the Australian public sector have focused on the federal sector (Burritt & Welch 1997a, 1997b; Lodhia et al. 2012; Lodhia & Jacobs 2013), state government departments in New South Wales (Gibson & Guthrie 1995; Frost & Toh 1998b, 1998a; Frost & Seamer 2002a) and Victoria (Moore 2008), local councils in Queensland (Ryan et al. 2002; Herbohn & Griffiths 2008), coastal regions (Sciulli 2009), Victoria (Douglass 1996) and throughout Australia (Dickinson et al. 2005; Jones et al. 2005; Williams et al. 2011).

The majority of the studies in the area of sustainability accounting and reporting in local government are descriptive in nature as to what, how and why they report. These research studies reveal that local government authorities in Australia are not reporting comprehensively on social and environmental issues (Jones et al. 2005; Guthrie & Farneti 2008; Sciulli 2009). Moreover, stakeholders, especially those who are external to the organisation, are not being engaged by the majority of local authorities in sustainability accounting and reporting processes (Herbohn & Griffiths 2008; Frost et al. 2012), although stakeholder engagement is regarded as critical to these processes (AccountAbility 1999; Gao & Zhang 2001, 2006; Unerman 2007; GRI 2011; Brown & Hicks 2013). These considerations motivate this research study that explores the role that stakeholder engagement can play in encouraging comprehensive sustainability accounting and reporting practices in the local government sector, in particular, and the public sector, in general.

Stakeholder engagement in sustainability accounting and reporting is specifically of interest because it is an important tool for identifying and understanding material concerns, issues, perceptions, needs and expectations of stakeholders in relation to sustainability issues (AccountAbility 1999, 2005; GRI 2011). Quality stakeholder engagement in the sustainability reporting and accounting process increases responsiveness, transparency and accountability (Brown & Hicks 2013) and addresses

the problem of determining the extent of accountability of local councils by placing boundaries on the reporting (Herbohn & Griffiths 2008).

Moreover, since the early 2000s stakeholder perceptions have changed dramatically from 'inform me' to 'engage me' to incorporate dynamic stakeholder needs and expectations in decision making (Cummings 2001; Andriof et al. 2002). This shift requires organisations to understand and to address their concerns through proactive engagement approaches such as partnerships and collaborations (Andriof et al. 2002, 2003). Therefore, organisations should engage with their stakeholders in formal processes to align mutual interest and to advance social and environmental performance, including incorporating the views of stakeholders in the compilation of reports (Lingenfelder & Thomas 2011). Adams and McNicholas (2007, p.385) argue that:

> stakeholder engagement, an important aspect of many organizations' sustainability reporting process, has the potential to be a particularly powerful driver for change, because its purpose is to challenge the company's role in social and environmental sustainability.

Due to political sensitivity, the public sector attracts a disproportionate share of scrutiny from its stakeholders (Frost & Seamer 2002b) and faces greater pressure to disclose social and environmental information than the corporate sector (Lynch 2010). In order to address the needs and concerns of the stakeholders, it becomes critical for the PSOs to identify the information required by different stakeholders before reporting on social and environmental issues. Stakeholder engagement processes can support PSOs and their stakeholders in identifying trends and targets, embedding change in management systems and working towards sustainability outcomes (AccountAbility 1999).

1.2 Research scope and justification

Sustainability accounting and reporting aims to reflect organisational transparency and accountability towards stakeholders (Beck et al. 2010). It assists organisations in assessing and communicating their cumulative social and environmental impacts. Generally, the scope of sustainability accounting and reporting is restricted to a communication process involving disclosing the organisation's social, environmental and economic performance to stakeholders. However, it goes beyond being a mere communication tool to becoming a functional part of organisational strategy development and implementation (Schaltegger et al. 2003; Porter & Kramer 2011). Schaltegger (2012, p.183) argues that:

> If sustainability reporting has to go beyond mere rhetoric and an isolated communications project, then it has to involve the whole organisation and its stakeholder environment to be developed strategically by assigning responsibilities, involving all departments and stakeholders to establish a process of organisational network learning and development.

This argument implies that sustainability reporting should be a collaborative process between an organisation and its stakeholders and regarded as a learning and development process. In response to this call, the emphasis of this research is on understanding how stakeholders are engaged in the sustainability accounting and reporting process in the public sector.

Public sector activities account for 40% of total economic activity worldwide (Ball & Grubnic 2007). As a significant employer, provider of services and consumer of resources, PSOs have a significant impact on national and global progress towards sustainable development (GRI 2004). Consequently, stakeholders expect that PSOs will manage public resources in a sustainable manner while performing their operations (Lynch 2010). Due to the level of impact PSOs have on the environment and society, calls have been made to researchers to 'make contributions of a fundamental nature, which help in understanding the nature of SD [sustainable development] accounting and accountability in PSOs whose core tasks have to do with social welfare and justice' (Ball & Grubnic 2007, p.257). The growing concern over responsibilities of organisations towards sustainable development have raised demands for detailed information on the social and environmental impacts of an organisation's activities (Burchell & Cook 2006). In response to these demands, PSOs account for their social and environmental impact by including sustainability reporting in their traditional reporting framework (Farneti & Guthrie 2009). Sustainability accounting and reporting not only serves as a medium of facilitating accountability, but it also provides a platform for organisations to engage in stakeholder dialogue on sustainability issues leading to a trust and relationship building process (Owen et al. 2001).

Stakeholder engagement is a critical component of the sustainability accounting and reporting process. It plays a critical role in ensuring that the outcomes of the accounting and reporting process are relevant to stakeholders and reflects their key issues, aspirations and concerns (Olesson et al. 2012). A meaningful stakeholder engagement demonstrates organisational accountability towards stakeholders and ensures that the organisation's decisions are based on an accurate and full understanding of

stakeholders' aspirations and needs (AccountAbility 1999). Stakeholders can be invited to participate in an array of accounting and reporting activities including establishing the purpose and scope of stakeholder engagement in sustainability accounting and reporting, measuring sustainability performance, planning the engagement processes, identifying key sustainability indicators and targets, validating the information to be presented in reports and determining strategies for improving sustainability performance (Owen et al. 2001; Brown & Hicks 2013).

The literature has emphasised the critical importance of stakeholder engagement in the development of sustainability reports. During the preparation of a sustainability report, stakeholders' reasonable expectations and interests become the key reference point for many of the decisions such as the scope, boundary, application of indicators and assurance (GRI 2011). Failure to engage and meet stakeholders' expectations could undermine the credibility and suitability of reports (Unerman 2007; GRI 2011) and more adversely threaten the organisation's licence to operate (Lawrence 2002). International accountability standards such as the AccountAbility (1999) and Global Reporting Initiative (GRI; 2011) place a major emphasis on stakeholder engagement as the primary means for developing sustainability accounting and reporting structures. A number of academic studies have also advocated that organisations should consider the interests and concerns of their stakeholders in decision making for ethical reasons (Freeman 1984; Donaldson & Preston 1995) and/or for the achievement of strategic and sustainability objectives (Jones 1995; Rowley 1997).

Although stakeholder engagement and dialogue is a critical aspect of sustainability accounting and reporting, there is a lack of evidence as to whether such engagement and dialogue is actually happening currently (Gao & Zhang 2001; Unerman 2007). Little research has been undertaken on the issues related to essential aspects of stakeholder engagement such as the means used by organisations to build relationships with stakeholders, the approaches adopted by organisations to engage stakeholders, the extent of engagement that is actualised in the sustainability accounting and reporting process (Gao & Zhang 2001; Unerman 2007), the impact of engagement on the strategic planning and reporting process (Burchell & Cook 2006) and drivers of such stakeholder engagement (Lawrence 2002). This study aims to respond to this gap in the literature by examining stakeholder engagement practices in the sustainability accounting and reporting processes in local councils.

Local councils are the focus for studying stakeholder engagement in sustainability accounting and reporting for two reasons. First, this level of governance is closest to people and therefore has a critical role in educating and responding to the local community for promoting sustainability in the local area (Agenda 21 1993). Key components of the concept of local area sustainability management are community consultation and participation (Agenda 21 1993). Local government's approachability to its local community justifies the need and scope of stakeholder engagement in local councils in relation to social and environmental issues. Second, local government has been acknowledged as a focal point for the implementation of Local Agenda 21, which is part of the primary policy document that emerged from the Rio conference on sustainable development (Gray 2001). Agenda 21 (1993) recognised that environmental issues and solutions have their roots in local activities and encouraged local governments to advance social, environmental and economic sustainability by transforming sustainable development principles into strategies. In line with this, the change in performance expectations of local governments has extended their accountability from mere compliance with spending mandates to overall performance reporting (Ryan et al. 2002). This reasoning implies that local governments are expected to report on their significant social and environmental impacts as sustainability reporting is a key tool for demonstrating the role of PSOs in advancing sustainable development (Lamprinidi & Kubo 2008).

The Australian public sector has been selected for this study because it has shown a steady increase in sustainability accounting and reporting practices in recent years in comparison to public agencies in the USA, UK, Canada, Hong Kong (Lamprinidi & Kubo 2008) and Japan (Burritt et al. 2009). Sustainability reporting in Australian local councils is influenced by both mandatory and voluntary reporting practices. For example, local councils in New South Wales (NSW) are required to prepare mandatory State of the Environment (SoE) reports under section 428(c) of the Local Government Act 1993. The local councils in other states make voluntary disclosures on social and environmental issues. Considering that stakeholder engagement is critical to sustainability accounting and reporting in local councils, the primary objective of this research study is to explore the mechanisms and drivers of this stakeholder engagement. This focus involves seeking information on the factors that can accelerate the

sustainability accounting and reporting process and stakeholder engagement practices in local councils in particular and in the public sector in general.

1.3 Research question and objectives

This research aims to establish the nature and extent of stakeholder engagement in the sustainability accounting and reporting process. It will identify the key stakeholders of local councils and stakeholder mechanisms used to engage them. The emphasis is on determining the factors that drive engagement in the sustainability accounting and reporting process. The central question of the research study is:

> *How do best practice local councils engage with their stakeholders in sustainability accounting and reporting processes, to what extent do these engagements take place and what drives them to engage with stakeholders?*

The objectives of this research study are:

1. To identify the key stakeholders and their role in the sustainability accounting and reporting process;
2. To examine the mechanisms adopted by local councils for stakeholder engagement during the sustainability accounting and reporting process;
3. To explore the nature and extent of stakeholder engagement in the sustainability accounting and reporting process in Australian local councils;
4. To identify key concerns and challenges faced by Australian local councils while engaging with stakeholders; and
5. To investigate what drives Australian local councils to engage stakeholders in their sustainability accounting and reporting process.

1.4 Theoretical framework

The theoretical perspectives that inform this study are those provided by sustainability accounting and reporting (Schaltegger & Wagner 2006), stakeholder theory (Freeman 1984; Andriof et al. 2002, 2003) and new institutional theory (Meyer & Rowan 1977; Zucker 1977; DiMaggio & Powell 1983) to address how stakeholder engagement takes place in the sustainability accounting and reporting process, to what extent it takes place and what drives local councils to engage with their stakeholders.

The integrated framework for sustainability accounting and reporting of Schaltegger and Wagner (2006) establishes the sustainability accounting and reporting process for this study. The framework specifies the various stages involved in the sustainability

accounting and reporting process and, therefore, is useful in examining the nature, extent and drivers of stakeholder engagement at each stage of the process.

Stakeholder theory provides a theoretical lens to identify stakeholders, anticipate the stake they have and justify the need for stakeholder engagement in the sustainability accounting and reporting process. Stakeholder identification and prioritisation is critical to stakeholder engagement as it enables an organisation to identify stakeholders likely to be affected by its decisions (Freeman 1984; Mitchell et al. 1997). This understanding is necessary to determine the interests and contributions of different stakeholder groups in the process.

Stakeholder engagement frameworks suggested by Arnstein (1969), Friedman and Miles (2006) and AccountAbility (2011) are used to examine the nature and extent of stakeholder engagement in the process. These frameworks describe different levels of engagement, ranging from informing to empowering, that can be exercised by organisations to involve stakeholders. Therefore, stakeholder theory offers an explanatory framework to understand the 'whom, how and what' of stakeholder engagement in a local council context.

In order to explore the 'why' of stakeholder engagement, the new institutional theory (DiMaggio & Powell 1983) is used. This framework provides the theoretical lens to analyse the external environment pressures on local councils to engage with their stakeholders in the sustainability accounting and reporting process. Mimetic, coercive and normative influences have been considered to examine the drivers of stakeholder engagement.

The combination of sustainability accounting and reporting framework, stakeholder theory and new institutional theory is appropriate to the analysis in this study because together they provide a framework to explain the whom, how, what and why of stakeholder engagement in the sustainability accounting and reporting process. The theoretical frameworks are explained in detail in the next two chapters. The frameworks are then applied in three local council case studies to address the central objectives of this research.

1.5 Methodology

The case study approach (Gomm et al. 2000; Yin 2009; Swanborn 2010) is the research strategy in this study because it allows the use of different sources of data to develop an in-depth understanding of issues surrounding a particular phenomenon.

The research was undertaken in two phases. The first phase, referred to as the general phase, aimed at identifying contextually rich Australian local councils through an analysis of the state and extent of stakeholder engagement in sustainability reporting. An in-depth understanding of the stakeholder engagement practices of the selected councils was sought in the second phase, which is referred to as the local council specific phase.

An initial understanding of stakeholder engagement in sustainability accounting and reporting in Australian local councils was sought in the general research phase through documentary evidence and an interview with the Integrated Sustainability Services (ISS) manager of ICLEI–Oceania[1]. Document analysis comprised content analysis of annual/SoE/sustainability reports of 523 Australia local councils for the financial year 2009–10. The reports were analysed in relation to stakeholder engagement initiatives disclosed by the local councils. Twenty-three local councils were found to be reporting on stakeholder engagement. As disclosure on stakeholder engagement is a voluntary practice in Australian local councils, an interview with the ICLEI–Oceania's manager uncovered an additional three local councils with efficient sustainability accounting and reporting processes and stakeholder involvement therein.

Three best practice local councils were selected for the second phase study. These local councils were located in metropolitan areas with high population density and several sustainability issues. Two of these local councils were located in NSW and the third in Queensland.

The data collection method included documents, interviews and website monitoring. Documentary analysis in this phase was extended to council strategies, plans and policies. Semi-structured interviews were held with sustainability managers and

[1] ICLEI–Oceania is an international, not-for-profit association of local governments and local government organisations that has made a commitment to sustainable development. It offers a range of technical support to local government bodies, including the development of sustainability reports and stakeholder engagement.

coordinators, and community engagement personnel. Website monitoring included analysis of contemporary social media such as Facebook, blogs, Twitter and online forums and website disclosures. Use of these data sources provided an opportunity to observe on-going stakeholder discussions and interactions.

1.6 Thesis outline

Chapter One sets the research agenda to be investigated in this study and its scope. It provides the necessary background about why research is needed into the sustainability accounting and reporting process in Australian local councils. The chapter introduces theoretical and methodological perspectives to address the central research question.

Chapter Two discusses the different steps involved in the sustainability accounting and reporting process. This chapter also presents the current state of sustainability accounting and reporting practices in the Australian public sector, including the nature of disclosures, drivers behind disclosures, and issues and challenges. The chapter identifies gaps in the existing literature, particularly the lack of research on stakeholder engagement in the sustainability accounting and reporting process.

Chapter Three reviews the theoretical framework used in this research. Stakeholder theory is discussed in relation to stakeholder engagement approaches and models appropriate to the sustainability accounting and reporting process are discussed. Institutional theory is reviewed with a particular focus on institutional isomorphism.

Chapter Four draws upon current sustainability accounting and reporting literature, stakeholder theory and new institutional theory to develop the research framework to guide the research process. This chapter is based on the assumption that stakeholders play different roles in the sustainability accounting and reporting stages. Chapter Five provides a description of the research strategy and methods used to address the central research question and the study's objectives. It presents the case study approach, sources of data, data analysis and the development of stakeholder engagement index.

The next four chapters present the findings of this study. Chapter Six examines the state and extent of stakeholder engagement disclosures made by Australian local councils, and focuses on the identification and selection of appropriate local council cases. Chapters Seven to Nine present findings of the three case studies undertaken to explore

the nature, extent and drivers of stakeholder engagement in the sustainability accounting and reporting process.

Chapter Ten provides a cross-case analysis to address the research question and objectives. It draws critical comparisons on the basis of the research framework and extant research studies.

Chapter Eleven presents the major conclusions about the central research question and the study's objectives, highlights contributions for practitioners and policy makers, and identifies possible limitations and avenues for further research.

Chapter Two: Sustainability accounting and reporting and the state of the practice in Australian public sector

2.1 Introduction

This chapter provides a review of the literature in relation to sustainability accounting and reporting and raises the importance of stakeholder engagement therein. Section 2.2 discusses the three-stage sustainability accounting and reporting process. The aims of this section are to review the association and connectedness of the various stages and to establish an integrated sustainability accounting and reporting approach. Section 2.3 highlights the sustainability accounting and reporting practices in the Australian public sector, including the nature of sustainability disclosures and the drivers behind the disclosures, sustainability reporting frameworks in use, the state of stakeholder engagement in the development of sustainability reports, and issues and challenges faced by Australian PSOs. This section also identifies the gaps in the literature in order to justify the need for the current research.

2.2 Sustainability accounting and reporting process

Sustainability accounting and reporting is a process of measuring and communicating sustainability performance and of being accountable to internal and external stakeholders for an organisation's social, environmental and economic performances (GRI 2011). However, 'sustainability accounting' and 'sustainability reporting' are usually regarded as two distinct and disconnected practices. Generally, sustainability accounting is described as an information management and accounting method that aims at creating and providing high quality information to demonstrate the progress of an organisation towards its sustainability goals. Sustainability reporting is described as a formalised means of communication to disclose the organisation's sustainability performance.

In defining and examining both practices, the linkage between the two is generally overlooked. Sustainability accounting and reporting together form an effective accountability system that captures information about sustainability performance and communicates this information to stakeholders. Reporting the performance depicts the outcomes attained against stakeholders' expectations and allows organisations to

evaluate their sustainability outcomes against sustainability goals. Schaltegger and Wagner (2006) argue that the linkage of sustainability accounting and reporting is critical for two reasons. First, linking makes the information influential and thereby ensures it contributes to sustainable development. Second, the linkage would avoid superficial reporting of sustainability performance as only information will be disclosed that is backed by actual performance.

In order to establish the linkage between strategy, accounting and reporting this study uses the integrated framework for sustainability accounting and reporting of Schaltegger and Wagner (2006) . This framework positions sustainability reporting beyond mere rhetoric and an isolated communication process by linking it to strategic planning and accounting. Moreover, the sustainability accounting and reporting process is recognised as a process of organisational network and learning wherein an organisation engages with its stakeholders in various phases of accounting and reporting. An understanding of the sustainability accounting and reporting process is important in this study for observing key stakeholders and their role in each stage of the process. Figure 2.1 summaries the linkage between strategic planning, sustainability accounting and sustainability reporting.

According to Schaltegger and Wagner (2006), sustainability accounting and reporting commences with the identification of sustainability issues and analysing their strategic compatibility with sustainability goals. This is followed by linking the sustainability targets with organisational strategy. The linkage of sustainability goals to the organisational strategy is important to align the sustainability outcomes with overall performance outcomes and to ensure the availability of funds to pursue sustainability objectives. After setting sustainability indicators, an accounting system is established to capture data on actual performance to communicate outcomes to stakeholders. Schaltegger and Wagner (2006)’s framework suggests an integrated framework for sustainability performance measurement linking three overlapping groups of approaches: sustainability balance scorecard, sustainability accounting and sustainability reporting.

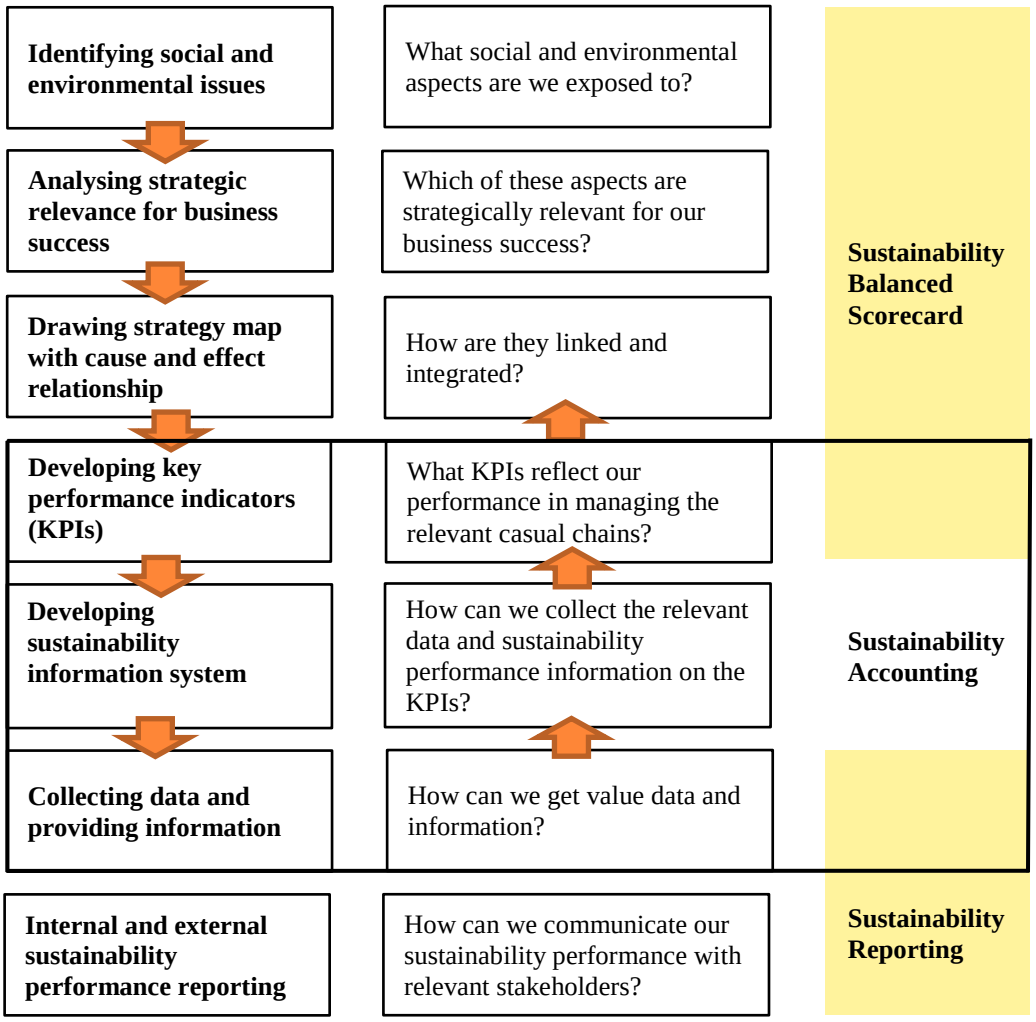

Figure 2.1: An integrated framework for sustainability performance measurement and management (Schaltegger & Wagner 2006, p.685)

Sustainability balanced scorecard

The sustainability balanced scorecard (SBSC) emphasises the strategic planning aspect of integrated accounting and reporting. It aims at incorporating social, environmental and economic issues in sustainability measurement and management (Schaltegger & Wagner 2006).The SBSC involves the identification of social and environmental issues and analysing their strategic relevance, sketching the strategic plan with cause and effect chains, and the development of key performance indicators (KPIs).

The SBSC commences with the identification of material social, environmental and economic issues to assess the extent of their impact on an organisation's activities. The identification of issues can be facilitated by stakeholder engagement (Figge et al. 2002). Having identified sustainability issues, organisations scrutinise social and environmental

issues to establish their strategic relevance. Organisations are likely to focus on the issues that have a significant impact on their legitimacy and survival.

Mapping a strategic plan integrating sustainability issues is the essence of the SBSC approach. Strategic planning (Bryson 1988, 2011) focuses on identifying and resolving issues and concerns through an assessment of the environment outside and inside the organisation. It is emerging as an important tool to embed sustainability in an organisation's goals and objectives. It has the ability not only to change internal accountability practices but also to change relationships with external stakeholders and to enhance stakeholder engagement practices (Baxter et al. 2010). In the case of local government, a community strategy reflects the long-term aspirations and needs of the local community and serves as the apex of an authority's framework for performance (Ball 2002).

The development of a strategic plan is followed by the development of sustainability KPIs. The term 'indicator' means 'to disclose' or 'point out' or 'make publically known'. Sustainability indicators are also alternatively known as 'liveability', 'quality of life', 'wellbeing' and 'quadruple bottom line' indicators. Such indicators have been perceived as an extension of more traditional econometric measures of progress, aiming to provide broader insights into progress relating to community wellbeing and quality of life (Olesson et al. 2012).

Sustainability indicators highlight what an organisation has or has not achieved in respect of its sustainability objectives. The use of sustainability indicators and targets as the primary tool for developing a community strategy can embed sustainability into the heart of the performance management system (Ball 2002). The development of sustainability indicators assists in the measurement and communication of progress towards sustainability goals (Khalili 2011). In case of local government, community indicators inform regulatory compliance reporting, strategic decision making and policy direction, measure policy outcomes against targets and provide a measure of accountability on service delivery performance with local communities (Olesson et al. 2012).

A sustainability indicator suite consisting of qualitative and/or quantitative measuring techniques can enable organisations to evaluate the current state, direction and changes in sustainability goals (Lawrence 1998). The development of sustainability indicators requires policy attention to all three interacting social, environmental and economic

pillars of sustainability (Khalili 2011). In reality, social, environmental and economic sustainability indicators are rarely separate from each other (Schaltegger & Burritt 2000; Khalili 2011). For example, counting species or listing endangered species have biodiversity implications as well as a challenge to measure social equity in environmental exposures. The interactions among the three are critical and must be addressed while developing a sustainability indicator suite.

A range of national and international sustainability indicator suites offer guidelines for acknowledging and addressing sustainability issues. Commonly used sustainability indicators include the GRI, the International Standards Organisation, the World Business Council for Sustainable Development, AccountAbility, the United Nations Environment Programme's Global Compact, Social Accountability 8000, the Sustainability Integrated Guidelines for Management project and the International Integrated Reporting Council (Adams & Narayanan 2007; Lodhia 2012b). In Australia organisations report on mandatory as well as voluntary sustainability indicators suites. The Department of Sustainability, Environment, Water, Population and Communities monitors the Australian Government's policies to protect the environment and heritage, and to promote a sustainable way of life.

However, indicators will only be as good as the data that supports them because even the most objective indicators based on solid science can have subjective aspects (Lawrence 1998). Various decisions related to the measurement of indicators – what to measure, how to measure and how to describe the results – involve some level of subjectivity. The deliberate choice of data sources through stakeholder dialogue can assist in selecting appropriate data sources as this enables an organisation to acknowledge the risks associated with different choices (Lawrence 1998).

The identification and selection of appropriate indicators depends on an array of determinants such as the industry, the level of public concern, the strictness of national regulations, stakeholder expectations and feedback, and an organisation's size (Schaltegger & Wagner 2006). The aspirations and needs of the community could be referred as a base for determining sustainability targets and indictors (Ball 2002). The involvement of stakeholders, especially the local community, can assist an organisation in understanding their needs for sustainability information, selecting appropriate measuring techniques and addressing subjectivity issues in sustainability indicators

(Lawrence 1998). Moreover, it provides an opportunity for community empowerment which can reduce the risk in decision making and drive strategic success (Lawrence 1998; Epstein & Roy 2001; Fraser et al. 2006; Schaltegger & Wagner 2006). Lawrence (1998) argues that stakeholders should be encouraged to include their emotions in deciding the value of sustainability data to advance meaningful change. The combination of both quantitative and qualitative sustainability indicators can create information which is relevant and meaningful for the users.

Once the SBSC has been developed by an organisation, the next challenge is to establish an accounting system for integrating the sustainability performance measurement system with the internal and external communication and reporting systems.

Sustainability accounting

Sustainability accounting and reporting is a subset of the accounting and reporting practice that deals with activities, methods and systems to capture and record, analyse and report social and environmental information (Burritt et al. 2002). Schaltegger and Wagner (2006) consider sustainability accounting as an important bridge between the SBSC and sustainability reporting. Sustainability accounts provide valuable information for strategic planning and offer mechanisms to express organisational identity and sustainability performance (Brown & Hicks 2013).

An efficient system of integrated sustainability accounting and reporting is dependent upon internal information and reporting systems that ensure accurate, timely and quality information against the KPIs identified in the SBSC approach (Möller & Schaltegger 2005). This system assists organisations in assessing success and failure in their sustainable development goals. The adoption and implementation of integrated sustainability accounting and reporting requires a substantial change in traditional accounting systems. This change can be introduced by developing sustainability KPIs and thereafter orienting the existing accounting system towards the provision of the necessary data to measure these indicators (Schaltegger & Wagner 2006). Such an approach goes beyond an accounting approach that merely tries to measure overall sustainability performance. The challenge in this approach is to link business success and value creation with social and environmental considerations. This link can be established by determining sustainability KPIs with the SBSC and orientating accounting systems towards the provision of the necessary data for the indicators.

Establishing such accounting will focus on the provision of those strategic and operational indicators which have been identified as critical for the organisation's success (Schaltegger & Wagner 2006). The use of such a sustainability accounting system allows organisations to record strategic, monetary and non-monetary, and quantitative and qualitative information.

Sustainability reporting

Sustainability reporting is tool to demonstrate sustainability performance against an organisation's values, objectives and targets. It aims at communicating sustainability information on social, environmental and economic performance to stakeholders (GRI 2011). Sustainability reporting when linked with the SBSC approach and a sustainability accounting system serves as a useful tool to demonstrate the actual performance of organisations against their sustainability goals and performance indicators. In such a case, the reporting reflects the material issues and concerns of stakeholders and provides information about the organisation's efforts to improve its social and environmental footprints. Moreover, sustainability reporting can assist organisations to legitimise their activities and operations, enhance their reputation, and increase transparency and accountability (Herzig & Schaltegger 2006).

Organisations can use a range of media to communicate their sustainability performance to stakeholders. The choice of media can involve a combination of web-based reporting and paper reports (GRI 2011). This combination facilitates detailed sustainability disclosures through websites and an executive summary of performance in paper form.

One of the challenges for creating sustainability reporting as a practical means of internally measuring and externally communicating sustainability KPIs is to balance the diverse informational needs and expectations of stakeholders (Schaltegger & Wagner 2006). This challenge can be addressed through stakeholder engagement (GRI 2011).

The use of Schaltegger and Wagner (2006)'s framework in this study provides an outline to observe the sustainability accounting and reporting process in Australian local councils and to explore the nature and extent of stakeholder engagement therein. The framework is useful to explain the association between strategic planning, sustainability accounting and sustainability reporting in the local councils. The identification of sustainability KPIs and establishing a community strategy provide a window for

thinking about what ‘performance’ means in the context of local government (Ball 2002). In this situation sustainability accounting and reporting would become more meaningful as they would account for and report on the sustainability indicators embedded in the performance management system.

However, this efficient system would require external and internal stakeholder input at the planning, accounting and reporting stages, including setting sustainability KPIs, developing measurement tools, monitoring and measuring the indicators, structuring sustainability reports to reflect stakeholder expectations and refining the reports on a continuous basis (Schaltegger 2012). Sustainability accounting and reporting practices in Australian PSOs are discussed in detail in Section 2.3.3.

2.3 Sustainability accounting and reporting in Australian PSOs

This section discusses the current state of sustainability accounting and reporting practice in Australian PSOs. The nature and functions of Australian local government are also described to establish the context of this study. PSOs are the entities that are controlled by government and aim to produce, deliver and allocate utilities and services to the community (Broadbent & Guthrie 1992). These entities include national government agencies, regional government authorities, local government, health care providers, emergency services providers, public corporations and trading funds, and research and educational institutions (Ball & Grubnic 2007). As discussed in Section 1.2, the focus of this study is local government.

2.3.1 Local government in Australia

In Australia there are three levels of governance: federal, state and local. Local government is the third tier of government. It determines and executes matters – social, environmental and economic – at a community level (Barber 1972). Local governments’ naming conventions vary across Australia. The term ‘local government’ is often used synonymously with ‘local council’, ‘municipality’ and ‘shire’. The term ‘municipality’ generally refers to councils governing urban areas and ‘shire’ to councils governing rural areas. There are 563 local governing bodies in Australia accountable to a diverse range of metropolitan, regional, rural, and Indigenous communities. In this study the terms ‘local council’ and ‘local councils’ are used inclusively to describe all forms of local government and the names thereof.

Local councils raise revenue from three main sources – taxation (rates), sale of goods and services, and grants and subsidies from federal and state governments. Other income sources include investment interest, dividend, and parking fee and fines (Department of Regional Australia, Local Government, Arts and Sports 2012b). Rates account for about 35% of total revenue and about one-third of total local government revenue comes from user charges. The federal government provides financial assistance grants to local councils which are distributed to them via state grants commissions. In 2009–10 local councils in Australia had a net worth of $312.4 billion, with assets worth $327.9 billion and liabilities worth $15.5 billion. Local councils spend more than $20 billion each year providing an increasingly broad range of infrastructure, economic and community services to residents. In total, local councils employed around 185,400 people (almost 10% of the total public sector) and earned revenue of $32.4 billion which accounted for about 2.5% of Australia's gross domestic product.

2.3.2 Functions of local councils

The federal government's Local Government (Financial Assistance) Act 1995 defines the term 'local governing bodies' as body whose 'sole or principal function is to provide a particular service, such as the supply of electricity or water'. However, the roles and responsibilities of local councils in Australia have evolved dramatically in the past three decades. Traditionally, local councils' roles were limited to being the provider and maintainer of a physical infrastructure works system. They now assume a wide range of services for their communities. Local councils in Australia have emerged as a sphere of government that has increasing responsibility for their residents' wellbeing and quality of life (ALGA & ICL Australia 1989). Consequently, sustainability considerations of local communities are regarded as an important responsibility of local councils alongside physical infrastructure considerations.

The powers and functions of local councils in Australia vary depending on the state or territory and the local needs but the primary roles of local councils are advocacy, governance, planning, community development, service delivery, asset management and regulation. Examples of local council functions and services are (Department of Regional Australia, Local Government, Arts and Sports 2012a, p.4):

- engineering (public works design, construction and maintenance of roads, bridges and footpaths, drainage, cleaning, and waste collection and management);

- planning and development approval;
- building (inspection, licensing, certification and enforcement);
- administration (aerodromes, quarries, cemeteries, parking stations and street parking);
- recreation (golf courses, swimming pools, sports courts, recreation centres, halls, kiosks, camping grounds and caravan parks);
- health (water sampling, food sampling, immunisation, toilets, noise control, meat inspection and animal control);
- community services (child care, aged care and accommodation, refuge facilities, meals on wheels, counselling and welfare);
- cultural/educational (libraries, art galleries and museums);
- water and sewerage (in some states); and
- other (abattoirs, saleyards, markets and group purchasing schemes).

Additionally, they have an extensive involvement in social, environmental and economic activities (ALGA & ICL Australia 1989; Douglass 1996). Due to the nature and versatility of local councils' functions in Australian society, the local councils embrace several important sustainability roles (Douglass 1996, p.22):

- Managing the sustainability effects of their own activities on the local environment and community;
- Recognizing and responding to the sustainability impact of their activities on the wider environment and society;
- Regulating and monitoring the sustainability impacts of internal third-party (suppliers, and regional and international partners) activities on the local and wider environment and society; and
- Monitoring and collaborating on the sustainability impacts of external stakeholder (local community and businesses) activities on the local sustainability.

Local councils in Australia are close to their communities and have a unique insight to local and community needs. The elected representatives (councillors) are more accessible to the local community than state and federal politicians. This allows local residents to become more directly involved in the local council's activities (Brasch 2007). The legislative requirements for community engagement differ in each state and territory. Legislation ensures a minimum level of engagement and there are specific requirements to consult with landholders, residents, government agencies and others in

particular situations. Nevertheless, the ways in which local councils engage with their communities vary considerably and are to a large extent determined within the organisations (Herriman 2011).

2.3.3 Sustainability accounting and reporting practice in Australian PSOs

Sustainability accounting and reporting in PSOs is regarded as:

> A public account of an organisation's sustainability performance achieved through a combination of: leadership; strategic partnering; stakeholder engagement; policy outcomes; and the management of the organisation's impacts on the local environment, social well-being and economic prosperity (Ball 2005b, p.4).

The research studies into the sustainability accounting and reporting process of the Australian public sector emerged in the mid 1990s. Since then numerous studies have explored the process, the trends in sustainability reporting and influences on sustainability reporting in Australian PSOs. This section of the study aims at highlighting the findings of prior studies in order to identify gaps in the existing literature.

In order to study the state of environmental disclosures, Gibson and Guthrie (1995) examined the annual reports of 25 NSW government departments using content analysis and compared them with the environmental disclosures made by the private sector in regard to frequency, style, location and topic. They found similarities in the frequency of disclosures in both sectors. However, qualitative information disclosures were much more extensive in the private sector. The overall comparison indicated that public sector environmental disclosure lagged behind the private sector.

To explore environmental accounting practice, Douglass (1996) studied the financial and non-financial information systems of a local council in Victoria. He found that the local council relied on an internal data management system as well as external sources of information. The external sources included the Australian Bureau of Statistics, technical references, industry associations, and publications and reports issued by government bodies. The study also revealed that the local council disclosed its environmental performance through a range of media such as annual reports, annual budget media releases, municipal publications and public announcements.

Another study to analyse the environmental disclosure practices of 60 Australian federal departments over the 1984–93 period was undertaken by Burritt and Welch (1997a). They found a significant increase in the environmental reporting practices within budget

entities and non-budget entities[2]. However, budget entities showed a greater volume of environmental disclosure in comparison to non-budget entities. They found an insufficiency of environmental performance standards to conduct an assessment of the current environmental performance for future planning and directions. Therefore, Burritt and Welch (1997b) in their subsequent research paper attempted to develop an environmental performance accountability framework for the federal sector. The main aim in developing this framework was to facilitate an understanding for stakeholders of the actions of PSOs and the consequences of these actions on ecological systems, and so place stakeholders in a position where they could promote change when environmental performance was not acceptable. They identified the key stakeholders of federal agencies to determine the scope of accountability. Moreover, they insisted that considering the political nature of PSOs the information should be freely available and a broad range of stakeholders should be involved in the decision-making process to enhance the transparency and accountability of these institutions.

Frost and Toh (1998a) in their study of environmental accounting procedures in the NSW public sector observed that these procedures are motivated by the perceived importance of environmental issues by key internal stakeholders. Along with this, they observed no influence of environmental reporting on the development and adoption of environmental accounting procedures. Frost and Toh (1998b) in their survey of NSW PSOs found limited inclusion of environmental issues for internal reporting purposes. They revealed an insufficiency of government policy to support environment management and accounting systems of the PSOs. Frost and Seamer (2002b) examined the annual reports of 35 NSW PSOs to ascertain an association between the development of internal environmental management practices and the level of environmental disclosures in annual reports. The findings of their study revealed that the environmental disclosures in annual reports were more closely associated with the management system than the accounting system, questioning the role of accounting in external reporting.

[2] Budget entities are directly accountable to parliament through an appropriate minister whereas the accountability requirements for non-budget entities are scattered through numerous enabling Acts, company memoranda and articles.

To explore the quality of reporting in local councils, Ryan et al. (2002) examined the accountability disclosures of 18 Queensland local councils and found that the quality of their reports was heterogeneous and focused more on financial disclosures than the non-financial disclosures of corporate governance and social issues. They found a positive correlation between the size of the local council and the quality of disclosure.

Dickinson et al. (2005) conducted an international research survey on sustainability reporting practices in PSOs. The PSOs included local, state/regional and federal authorities in Australia, New Zealand, Europe, North America and Asia. They found a lack of comprehensive sustainability reporting practices and an insufficient uptake of the GRI public sector supplement on sustainability reporting. The study found that the majority of sustainability reporting practices was internally driven and the main reason for reporting in these organisations was performance monitoring. In relation to key elements included in sustainability reporting, the researchers found that 57% of respondents included disclosures on stakeholder engagement. This finding indicates that although sustainability reporting is internally driven, PSOs are engaging with their stakeholders. However, it is still not clear how and to what extent this engagement is taking place in the PSOs.

To examine sustainability performance and reporting practices in the Australian public sector, Jones et al. (2005) undertook a comprehensive study which examined a range of PSOs, including 17 federal agencies and state business enterprises and 33 local councils, in NSW, Northern Territory, Queensland, South Australia, Tasmania and Western Australia. The study found diversity in reporting practices in terms of scope, timeliness and format, and in the extent of external auditing. The study also revealed that some local councils operating in small communities did not report at all on sustainability issues. Jones et al. (2005) raised the need to develop more accessible approaches and guidelines to enable entities to discharge a broader accountability than is currently reflected in reporting practices.

In order to explore the motivations for preparing sustainability reports, Herbohn and Griffiths (2008) conducted interviews with three local councils in Queensland. They concluded that their sustainability initiatives are internally motivated. The key reasons for delivering sustainability reports by the local councils are concerns about climate change and population growth, high level of interest in sustainability issues within the

councils, and national and international pressures. The study observed a lack of pressure from external stakeholders to undertake sustainability reporting: only one of the local councils engaged with their stakeholders in reporting on sustainability issues.

Guthrie and Farneti (2008) explored social and environmental disclosures in 7 PSOs including federal, state and local government bodies. The study revealed that these organisations 'cherry picked' the GRI indicators they wished to disclose and their reports lacked complete disclosure on social, environmental and economic impacts of organisational activities. Relatively similar findings were made by Sciulli (2009) in an examination of sustainability disclosures in local councils in six coastal regions. He found an overall low level of disclosure on sustainability issues and recognised stakeholders' needs as an influence for disclosure on social and environmental issues.

In a further interview-based empirical investigation of seven Australian PSOs, Guthrie and Farneti (2009) explored issues such as the motives behind public sector sustainability reporting, how sustainability issues are communicated, the personnel responsible for sustainability reporting and the framework used for sustainability reporting. The findings suggested that sustainability reports were mainly driven by internal stakeholders. The information on sustainability issues was collected and used for internal purposes only, and usually this information was not reported externally. Moreover, the information provided to external stakeholders had little utility. Regarding the use of sustainability frameworks, the study revealed that the organisations have moved from triple bottom line and balanced scorecard approaches to the GRI reporting framework.

In a study comparing sustainability accounting practices between local councils in Australia and Japan, Burritt et al. (2009) found that Australian local councils provided more information on economic, social, environmental and cultural issues than those in Japan. They also found that Australian local council sustainability reports were relatively in line with the GRI's public agencies sector supplement.

To explore environmental disclosure in Australian state PSOs, Lynch (2010) examined the annual reports of 18 government departments in four Australian states over the period from 2000–01 to 2007–08. She found an increase in sustainability reporting practices in Victoria. In four of the five agencies studied in Western Australia, there was a reduction in environmental disclosure in the areas of waste paper recycling and energy consumption. This was attributed to the Western Australian Government's review of

public sector reporting, which relieved agencies of several reporting requirements (Lynch 2010). Further, the study of two departments in Tasmania stated a stable rate of environmental disclosure over the period. In South Australia two of the three departments responsible for environmentally sensitive areas provided a reduced number of disclosures. Moreover, she noticed a low level of stakeholder participation in sustainability reporting, as there were few stakeholder comments in the reports and enquiries were received only occasionally. The author emphasised that lack of disclosure in some of the agencies may be due to a lack of pressure from external stakeholders because unless external pressures exists, the agencies may not see the benefits of reporting.

In comparison, a comprehensive study by GRI (2010) examined the state of sustainability reporting in the PSOs in Asia, Europe, Latin America, North America and Oceania. The findings suggested that although there has been an increase in sustainability reporting practice, the public sector's sustainability reporting is still in its infancy when compared to private sector reporting practices. The study found that the public agencies were diverse in reporting on the GRI's sector supplement for public agencies indicators, but the majority of the reports were descriptive in nature, disclosed little quantitative information on sustainability performance and provided narrative disclosure on stakeholder engagement. The study revealed that city local councils were more successful in disclosing environmental issues than other PSOs.

To explore the state of sustainability reporting practice, Williams et al. (2011) surveyed local councils across Australia. The findings suggested that the highest level of reporting in local councils is of social reporting while sustainability information is made available publicly by annual SoE reports, strategy documents, operational plans, council minutes and publicly available scorecards. Williams et al. (2011) also indicated that the reporting practices are in their infancy. Two key reasons as to why local councils do not report are an insufficiency of resources and a lack of regulatory pressure. The authors raised the need for careful planning and partnership with the community to address the local economic, social and environmental sustainability issues.

In an in-depth study of a local council, Frost et al. (2012) highlighted the use a wide array of sophisticated information systems to capture sustainability performance data. They identified a range of stakeholders interested in the council's sustainability reports.

Key stakeholders included residents, businesses, investors, state and federal government agencies, academic and non-government organisations (NGOs). Although stakeholders are engaged exclusively in the budgetary process, very little external engagement with stakeholders exists in the development of the sustainability reports.

To study the influences on sustainability reporting, Lodhia et al. (2012) undertook a documentary analysis of 19 Australian PSOs. They found little impact of the GRI sustainability reporting guidelines on the federal government's reporting. They questioned the utility of the GRI sustainability indicators in PSOs as they fail to recognise the importance of public sector specific issues, including educational awareness, which are central to many departmental programmes on the environment. The study also indicated the lack of correlation between the level of disclosure and the size and mission of the agencies that were subject to legitimacy drivers. Instead, Lodhia et al. (2012) highlighted that internal policy requirements and internal stakeholders drove the reporting practices in the agencies. Similar findings were made by Lodhia and Jacobs (2013) in an interview-based study of two federal agencies. They found that the reporting practices were internally driven and concluded that the internal organisational practices and internal stakeholders provided a more powerful explanation for the actual production of sustainability reports than the notion of external legitimacy.

A review of the literature indicates gaps in our current understanding of sustainability accounting and reporting in PSOs. The majority of the studies have examined the nature of sustainability reporting and the drivers behind it and paid little attention to the internal sustainability accounting and reporting process. An understanding of internal processes can highlight factors that support or undermine the sustainability accounting and reporting practice.

Prior research suggests that although the uptake of the sustainability accounting and reporting process in Australian PSOs has increased, the process is still not comprehensive to meet stakeholders' needs and expectations. However, previous studies have not explored elements that can accelerate the process among PSOs. Hence, there is a need to step back and study the key elements in the sustainability accounting and reporting process. As discussed in Section 1.2, one crucial element is stakeholder engagement (AccountAbility 1999; Zhang et al. 2003; Gao & Zhang 2006; Unerman 2007; Manetti 2011). Although stakeholder engagement is critical to the process, the

previous studies have examined it in a limited manner. A study could examine if low-level stakeholder engagement could be the reason for the low level of sustainability disclosures on the presumption that PSOs have not yet managed to identify the information needs and expectations of their stakeholders and have reported accordingly. An in-depth study is required to explore the current state of stakeholder engagement in sustainability accounting and reporting by PSOs. This research study aims to examine how stakeholder engagement mechanisms work in the sustainability accounting and reporting process, to what extent stakeholder engagement takes place and what drives local councils to engage with their stakeholders.

Schaltegger (2012) indicates a lack of studies focusing on the internal process of establishing and developing sustainability reports beginning with strategic planning. A similar problem was observed in the extant literature which has primarily examined the sustainability reporting practice. Internationally, research studies have been undertaken to explain the nature and role of public sector sustainability accounting in advancing the notion of sustainable development (For example, Ball 2002, 2004; Ball & Seal 2005; Ball et al. 2006; Ball 2007; Ball & Craig 2010). Only a few studies in Australia (For example, Douglass 1996; Frost & Toh 1998b; Frost & Wilmshurst 1998; Frost et al. 2012) have examined the back-end processes, including strategic planning and sustainability accounting, that support the development of sustainability reports. Therefore, this study, as suggested by Schaltegger and Wagner (2006) focuses on the integrated planning and reporting process – sustainability planning, accounting and reporting – to examine the nature, extent and drivers of stakeholder engagement.

Previous studies have focused on the disclosure of environmental issues; the disclosure of social issues have not been explored in detail. This study will consider stakeholder engagement in the disclosure of social and environmental issues because social issues are almost as critical as environmental issues in the case of local councils.

The existing literature highlights the initiatives of local councils in the uptake of sustainability accounting and reporting practices. However, there is a lack of research about the leading councils in Australia in sustainability reporting. The identification of leading practice councils can lay a foundation for in-depth studies for understanding the factors that can accelerate sustainability accounting and reporting practices in local councils. The findings of the majority of extant Australian studies are based on the state

of sustainability reporting in a specific region. Such findings are too specific to provide meaningful data for another region. Considering these gaps in the literature, the current study identified and focused on contextually rich local councils in the sustainability accounting and reporting process in Australia rather than local councils in a particular state or territory. This approach uncovered a more comprehensive state of sustainability accounting and reporting and stakeholder engagement in Australian local council.

2.4 Summary

This chapter has discussed different stages involved in the sustainability accounting and reporting process. It proposes sustainability planning, accounting and reporting as an integrated approach. The framework of Schaltegger and Wagner (2006) emphasised merging sustainability issues and concerns into core objectives and creating an accounting and reporting system that measures and discloses the actual sustainability performance. The framework also indicated the importance of stakeholder input in various stages of the integrated reporting process.

A review of the literature highlighted the state and nature of sustainability accounting and reporting in Australian PSOs. A wide range of reporting media, including annual reports, SoE reports, strategic documents, websites and internal training documents, disclose sustainability issues and performance. Although the reports are mainly directed to external stakeholders, internal sustainability processes and decisions were influenced by internal stakeholders. The theoretical framework for stakeholder engagement will be discussed in the next chapter.

Chapter Three: The nature, extent and drivers of stakeholder engagement

3.1 Introduction

The previous chapter discussed current issues surrounding the sustainability accounting and reporting process and raised the need of stakeholder engagement in the process to create a report that is relevant to stakeholders. This chapter provides insights into the notion of stakeholders and stakeholder engagement to support the importance and pragmatism of involvement of stakeholders in the sustainability accounting and reporting process. This chapter also presents new institutional theory to identify influences and pressures on Australian local councils to adopt stakeholder engagement mechanisms in the sustainability accounting and reporting process.

Section 3.2 describes stakeholder theory and its application to this research. Section 3.3 discusses the key issues related to stakeholder engagement – the identification and prioritisation of stakeholders, engagement techniques, levels of engagement and factors affecting stakeholder involvement – to establish an efficient engagement process.

Section 3.4 emphasises the need and scope of stakeholder engagement in the sustainability accounting and reporting process. Section 3.5 presents different stakeholder engagement frameworks to capture the extent and nature of stakeholder engagement in the process. The following section discusses extant studies on stakeholder engagement in sustainability accounting and reporting.

Section 3.7 discusses the drivers of stakeholder engagement and the next section justifies the use of the new institutional theory to examine influences on stakeholder engagement in Australian local councils. The emphasis is on the nature of institutions, distinct institutional approaches and a part of new institutional theory that focuses on examining different types of external pressures that force organisations to adopt a new set of policies and structures.

3.2 Stakeholder theory

Stakeholder theory asserts that organisations should consider the concerns of individuals and groups that can affect or are affected by their activities while making

decisions and achieving organisational goals (Freeman 1994; Gibson 2000). Organisations are expected to do so because they are responsible and accountable to a broader range of stakeholders for their activities than just shareholders. Stakeholder theory recognises the existence of a dynamic and complex relationship between organisations and their stakeholders (Gray et al. 1996) and emphasises the management of these relationships (Friedman & Miles 2006). The discussion in stakeholder theory revolves around identification, prioritisation and management of stakeholders (Alam 2006). Stakeholder theory is significant for understanding the stakeholders' influences on organisations' actions and how organisations respond to these influences.

Modern stakeholder theory is an expansion of Freeman's seminal work *Strategic Management: A Stakeholder Approach* (1984). Until this, theorists were struggling to establish the duties and responsibilities that an organisation has towards other groups and individuals besides shareholders, suppliers, customers and employees (Shankman 1999). Stakeholders can be defined as 'any group or individual who can affect or are affected by the achievement of the organisation's objectives' (Freeman 1984, p.46). This definition indicates the existence of a two-way impact relationship between an organisation and its stakeholders. First, stakeholders can affect organisational goals which implies that organisational performance can benefit from the activities and participation of its stakeholders (Gao & Zhang 2001). This impact legitimises stakeholder engagement in decision making to achieve the best possible organisational performance. Second, stakeholders are affected by the achievement of organisational goals and this impact legitimises a stakeholder's right for stakeholder engagement (Gao & Zhang 2001). The pressure to communicate more proactively and more frequently with stakeholders demands an engagement with a diverse range of stakeholders through enhanced inclusiveness, partnership and dialogue (Crane & Livesey 2003).

In explaining how organisations respond to stakeholders' pressures and expectations, Donaldson and Preston (1995) recognise descriptive/empirical, instrumental and normative as the three distinct but supportive features of stakeholder theory. The descriptive/empirical aspect of stakeholder theory is used to describe what organisations actually do to manage their relationships with stakeholders (Jones 1995) and whether or not stakeholder interests are taken into account by organisations (Gibson 2000). Instrumental stakeholder theory has been used to explain that 'the predicted outcomes are contingent on behaviour of certain type' (Jones & Wicks 1999, p.208). It

emphasises the role of management to achieve a balance between the interest of all stakeholders (Shankman 1999). Normative stakeholder theory is used to explain moral and philosophical principles to state how an organisation should deal with its stakeholders (Donaldson & Preston 1995).

This research study used the descriptive/empirical aspect of stakeholder theory to observe the actual behaviour of local councils in responding to stakeholders' concerns about social and environmental issues. The descriptive/empirical aspect of stakeholder theory will also be useful in exploring how councils engage with their stakeholders while reporting on social and environmental issues and to what extent this engagement takes place.

3.3 Stakeholder engagement

In recent years the focus of stakeholder theory has shifted from a stakeholder management approach towards the network-based, relational, process-oriented and two-way communication approach of stakeholder engagement (Andriof & Waddock 2002). 'Stakeholder engagement exercises, where organisations and stakeholders interact, are promulgated as processes enabling stakeholders to have a 'say' in organisational decisions impacting on their lives' (O'Dwyer 2005, p.28). The two-way communication not only allows organisations to listen, share and consult with their stakeholders on critical issues (Cummings 2001) but also contributes to education as well as training and information in relation to internal and external stakeholders involved (Brown & Hicks 2013). Constructing and implementing successful dialogues encourages both organisations and stakeholders 'to engage more often in the difficult, but productive, task of listening to and learning from each another' (Lawrence 2002, p.199). Different stakeholder groups such as NGOs, community groups and PSOs possess knowledge and technologies beyond the reach of an organisation and engaging with such groups assists the organisation to gain knowledge previously unavailable to it (Burchell & Cook 2006).

Organisations are embracing stakeholder engagement to enhance trust, transparency and accountability, to understand stakeholders' expectations, to generate creative solutions, and to provide better communication on their activities and impacts (Lawrence 2002). According to Andriof and Waddock (2002, p.42) stakeholder engagement is a 'trust based-collaboration between individuals and/or social institutions with different objectives that can only be achieved together'. Advancing sustainable development is

one such goal that needs the trust-based collaborative effort of the organisations and their stakeholders to ensure its success (Andriof & Waddock 2002; Gao & Zhang 2006).

While pursuing sustainable development objectives, organisations realise that they cannot act alone to prepare sustainability accounts and reports (Isenmann & Kim 2006). Organisations require the cooperation of their stakeholders to identify the social and environmental issues as perceived by the stakeholders. Sustainability accounting and reporting can provide a basis for managing complex stakeholder relations and shifting towards more sustainable operations (Ball 2002). For example, a research study by Yau (2010) on waste recycling in Hong Kong, where landfill space is becoming scarce, suggested that in order to promote waste recycling behaviour in the community it is necessary to understand what encourages people to act in a particular manner before formulating policies and schemes. If policies and schemes do not agree with community expectations and needs, all the efforts to promote such initiatives will be ineffective, especially in matters where the direct and active participation of stakeholders is a must for the success of a project (Yau 2010).

Successful engagement depends on understanding who to engage with (stakeholders), why engage (purpose), for what to engage (scope) and how to engage (stakeholder engagement techniques) (Gao & Zhang 2001; Andriof et al. 2002; AccountAbility 2011). Moreover, the extent of engagement determines the level of power delegated to stakeholders in the engagement program (Gao & Zhang 2001). Therefore, this study aims to address these issues to understand the role of stakeholder engagement in the sustainability accounting and reporting process.

3.3.1 Stakeholder identification

Stakeholders have the potential to benefit and harm organisations (Gibson 2000). Therefore, organisations should recognise and address stakeholders' concerns to ensure their survival and to accomplish their goals. In order to recognise and address stakeholders' needs and expectations, Clarkson (1995) categorises stakeholders into primary and secondary stakeholders. The primary stakeholders are those individuals and groups who have formal, official or contractual relationships and whose support is essential for the survival of an organisation. Secondary stakeholders are those individuals and groups who affect or are affected by the activities of an organisation.

Whether the stakeholders are primary or secondary, they can be referred as key stakeholders if the issue is salient to them (Mitchell et al. 1997).

An organisation can have an array of stakeholders. Examples of stakeholders specific to PSOs include citizens, taxpayers, employees, service users, interest groups, trade unions, media, suppliers, future generations, financial community, business community, councillors, management team, political parties and the different tiers of government (Gomes et al. 2010; Bryson 2011). Different stakeholders can possess decision-making powers in different contexts. For example, in a cross-cultural analysis of stakeholder identification Gomes et al. (2010) found that councillors in England and the management team in Brazil were primarily responsible for the decision-making processes.

The broad range of stakeholders with different interests means it is not possible for organisations to address the issues of all stakeholders. Therefore, the identification of stakeholders that are most salient for achieving organisational goals becomes essential. Stakeholder salience has been defined as 'the degree to which managers give priority to competing stakeholder claims' (Mitchell et al. 1997, p.854). In the absence of identifying stakeholders, the effectiveness of stakeholder engagement becomes questionable or doubtful (Belal 2002).

Several stakeholder attributes have been proposed for identifying stakeholders (Freeman 1984; Mitchell et al. 1997; Gomes et al. 2010). Freeman (1984) suggests two dimensions to identify organisational stakeholders: interest (stake) and power. The interest dimension looks at the perceived interests of multiple stakeholders. Stakes in an organisation can be categorised as owner (equity stake), customer (market stake) and government (Freeman 1984). The power dimension focuses on three types of power (voting, economic and political) to understand the source of power. Voting power is exercised by individuals or groups who have voting rights in the organisation and their votes are necessary to support managerial operations and critical decisions, for example, owners (Gomes 2004). Economic power is possessed by customers and suppliers who can exert financial implications on the organisation through supply sanctions and price rise. Political power is exercised by a government for passing legislation, writing new regulations or taking legal actions.

Another criteria for identifying and prioritising stakeholders includes the attributes of power, legitimacy and urgency, and the stakeholders' ability to affect or be affected by

the organisation's actions (Mitchell et al. 1997; Rowley 1997). Power is the ability to influence outcomes of an organisation in a desired manner. A stakeholder is said to be in power when s/he controls the supply of critical resources required by an organisation or holds a principal position to control, reward and disregard the actions of an organisation (Mitchell et al. 1997). According to the criteria of power, a stakeholder is able to influence an organisation through control over resources, technical skill and a body of knowledge as well as power stemming from legal prerogatives (Gomes 2004).

The legitimacy attribute is used to explain that only a legitimate stakeholder's claims will be addressed by an organisation. However, without power the legitimate stakeholders have no serious impact on the decisions and behaviour of the organisation. The urgency attribute of the stakeholder theory is 'the degree to which stakeholder's claims call for immediate attention' (Mitchell et al. 1997, p.867) by an organisation in respect of their legitimate demands. The existence of one, two or the three attributes in a stakeholder contributes to stakeholder salience. Organisations usually pay regard to the matters of those stakeholders who have power in relation to the organisation, are deemed legitimate and have urgency for consideration of claims (Laplume et al. 2008).

Furthermore, Gomes et al. (2010) suggest two types of stakeholder attributes – technical and institutional – in relation to local government. Technical stakeholders include the groups and individuals associated with the operational processes and institutional stakeholders involve groups and individuals who are related to the legitimacy processes.

AccountAbility (2011) prescribes five attributes of stakeholders to guide the identification process: dependency, responsibility, tension, influence and diverse perspective. The dependency attribute denotes groups and individuals who are directly or indirectly dependent upon the organisation's performance, product and services, and activities, or upon whom the organisation is dependent for the successful achievement of its objectives. The responsibility attribute stands for groups and individuals for whom the organisation has legal, commercial, operational or ethical/moral responsibilities. Tension could become an important determinant of a stakeholder where groups or individuals need immediate attention from the organisation with regard to financial, wider economic, social or environmental issues. The influence attribute considers groups and individuals who can have impact on the organisation's or stakeholder's strategic or operational decision making. Finally, diverse perception targets those

groups and individuals whose different views can lead to a new understanding of the situation and the identification of opportunities for action that may not otherwise occur.

Stakeholder identification and prioritisation were critical for this research study to understand and explain how and why the interest of a particular stakeholder group is included or excluded in reporting on social and environmental issues. The key stakeholders of local councils in the context of social and environmental reporting can be quite different from corporations, due to the range of stakeholders that local councils have and the level of impact of their activities on the environment and society. The existence of numerous stakeholder groups and individuals with different information needs can make the whole sustainability reporting process quite complex. Therefore, the identification and prioritisation of stakeholders is essential to recognise significant disclosure claims in local councils. Moreover, clarity about the key stakeholders can assist an organisation to select an appropriate engagement technique to maximise engagement outcomes.

3.3.2 Stakeholder engagement mechanisms

An array of media is available to engage stakeholders in organisational activities. Some of the commonly used engagement techniques are questionnaires, telephone interviews, face-to-face interviews, media releases, magazines, internet bulletin boards, public meetings, round-table discussions, community forums, seminars, corporate advisory panels, conferences, workshops and briefing sessions (Cummings 2001; Belal 2002; Gable & Shireman 2005; Thomson & Bebbington 2005; Lingenfelder & Thomas 2011).

A survey is the most commonly used consultation technique. However, its results could be influenced by the design of the survey and can thus be misleading because stakeholders do not participate in defining the issues or in developing the survey (Gao & Zhang 2001). Moreover, organisations tend to use surveys to add colourful histograms to sustainability reports rather than a using it as a consultative technique (Owen et al. 2001). Such forms of communication with stakeholders can negate the effectiveness of stakeholder engagement in providing accountability and enhancing transparency. In order to overcome such issues, the media of stakeholder engagement has evolved beyond traditional channels to include internal television channels and social media such as Facebook (Beck et al. 2010). The use of such social media can broaden the scope of engagement and reduce the cost burden on organisations.

In addition to the direct engagement of organisations with their stakeholders, meetings can be facilitated by an independent party (Burchell & Cook 2006). This allows free expression of opinions and promotes meaningful engagement (Belal 2002). Such stakeholder initiatives not only provide an opportunity for stakeholders to voice their environmental concerns but also allow organisations to collect real information about their stakeholders in an effective manner (Grafé-Buckens & Hinton 1998).

Organisations can use more than one method in an engagement, concurrently or sequentially. Before selecting an engagement method, the relative merits of collective and individual consultation within stakeholder groups should be considered. For some groups (for example, workers), providing views in a collective forum independent of management such as a trade union is essential to maintain anonymity for individuals and to enhance their capacity for influence (AccountAbility 2011).

The selection of the appropriate engagement method is dependent on the geographical location, resource availability, the relevant issue and the nature of stakeholders to be involved (Cummings 2001; Belal 2002). Organisations would select the methods that best meet the needs and expectations of the relevant stakeholders (AccountAbility 2011). Nevertheless, the choice of method will also be affected by the capacity of the organisation's financial resources, staff resources and management systems, and by the capacity of its stakeholders (AccountAbility 1999). An adequate consideration should be paid by the organisation while selecting an engagement technique because various engagement techniques allows different levels of stakeholder participation (Cummings 2001; Gao & Zhang 2001).

3.3.3 The extent of stakeholder engagement

The relationship between an organisation and its stakeholders is often complex because of competing, multiple and interrelated interests of various stakeholder groups and individuals (Gao & Zhang 2001). For example, a group or an individual can be listed in different stakeholder categories because of multiple stakes in the organisation. An employee of a supermarket can be a customer, a shareholder and a community member at the same time. However, the employee's interest would be different and possibly in competition with various stakeholder groups. Therefore, Gao & Zhang (2001) suggest considering different forms and levels of stakeholder engagement while developing a stakeholder engagement program.

Stakeholder engagement can take place in different forms ranging from manipulation to citizen power (Arnstein 1969; Friedman & Miles 2006; AccountAbility 2011) depending upon the purpose and scope of engagement. The determination of the extent of engagement enables organisations to define the nature of the relationship they want to have with their stakeholders (AccountAbility 2011) and therefore it can be useful to understand the organisation's commitment to meaningful stakeholder engagement. For instance, if an organisation is merely using newsletters and corporate reports to communicate with stakeholders, it is trying to manipulate or mislead stakeholders to change their expectations based on the information provided. This form of engagement does not allow space for stakeholders' feedback and opinions. But if the organisation involves its stakeholders in critical decisions, it is trying to incorporate stakeholders' views and opinions into the core organisational activities.

Arnstein (1969) suggests different forms of stakeholder participation techniques through eight rungs of a Ladder of Citizen Participation: 1. Manipulation, 2. Therapy, 3. Informing, 4. Consulting, 5. Placation, 6. Partnership, 7. Delegated power and 8. Citizen/stakeholder control (Figure 3.1).

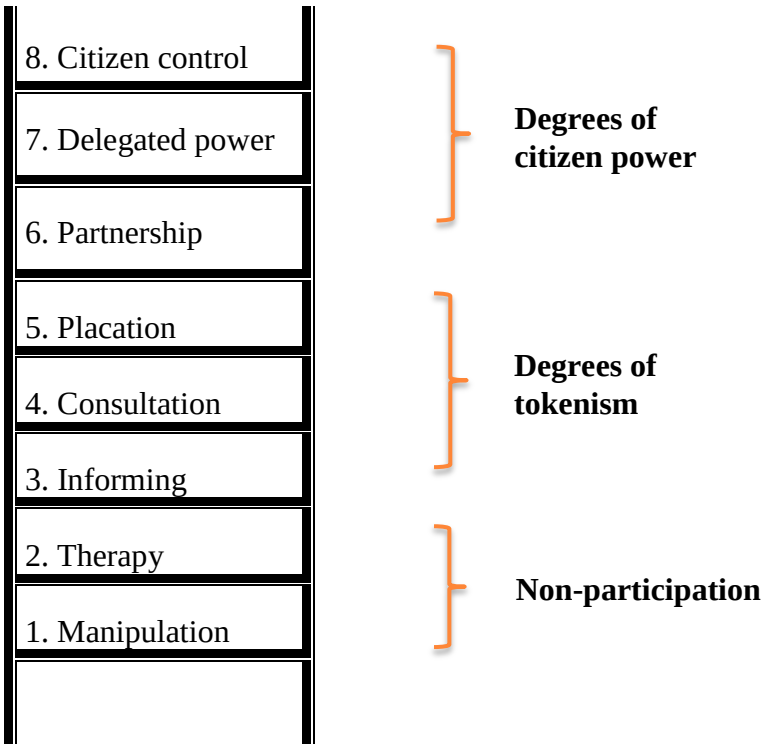

Figure 3.1: Arnstein's ladder of citizen participation (1969, p.217)

The bottom two rungs of the ladder, manipulation and therapy, describe levels of 'non-participation' that can be contrived by organisations to substitute for genuine participation. These rungs do not enable a stakeholder to participate in planning or conducting programs, rather they allow power holders to 'educate' or 'cure' the stakeholders. Informing, consulting and placation are regarded as the first steps to participation but it is a one-way communication process wherein stakeholders have a voice and can be heard but the decision and veto lies with the power holders (Cummings 2001). The partnership form of participation enables participants to negotiate and trade off with traditional power holders (Arnstein 1969). In the top rungs, delegated power and citizen/stakeholder power, stakeholders possess full managerial power and can make decisions at their own capacity.

Furthermore, Friedman and Miles (2006) provide an extended ladder of stakeholder engagement to understand the nature and extent of engagement exercised by organisations (Figure 3.2). They suggest an additional four rungs of engagement, including explaining, negotiation, involvement and collaboration.

Similar to Arnstein's participation model, the lower levels of engagement – manipulation, therapy and informing – exist when an organisation is merely informing stakeholders about decisions that have already taken place and lack stakeholder participation. Friedman and Miles (2006) distinguish the lower two rungs from the third by referring to them as cynical, that is, attempts are contrived to appear to be indicative of true participation but in reality they are merely attempts to change stakeholder expectations.

The middle levels of stakeholder engagement offer a token gesture of participation where stakeholders have the opportunity to voice their concerns prior to the decision being made. However, there is no assurance that their concerns will have impact on the outcome. The fourth rung 'explaining' include an organisation's initiatives to educate and inform stakeholders using two-way communication processes such as workshops. The fifth level, placation, is applied to respond to stakeholder unrest, which requires some form of appeasement in order to defuse the situation. Organisations can also seek advice from stakeholders through consultation mechanisms (sixth rung), reserving decision making power in their own hands.

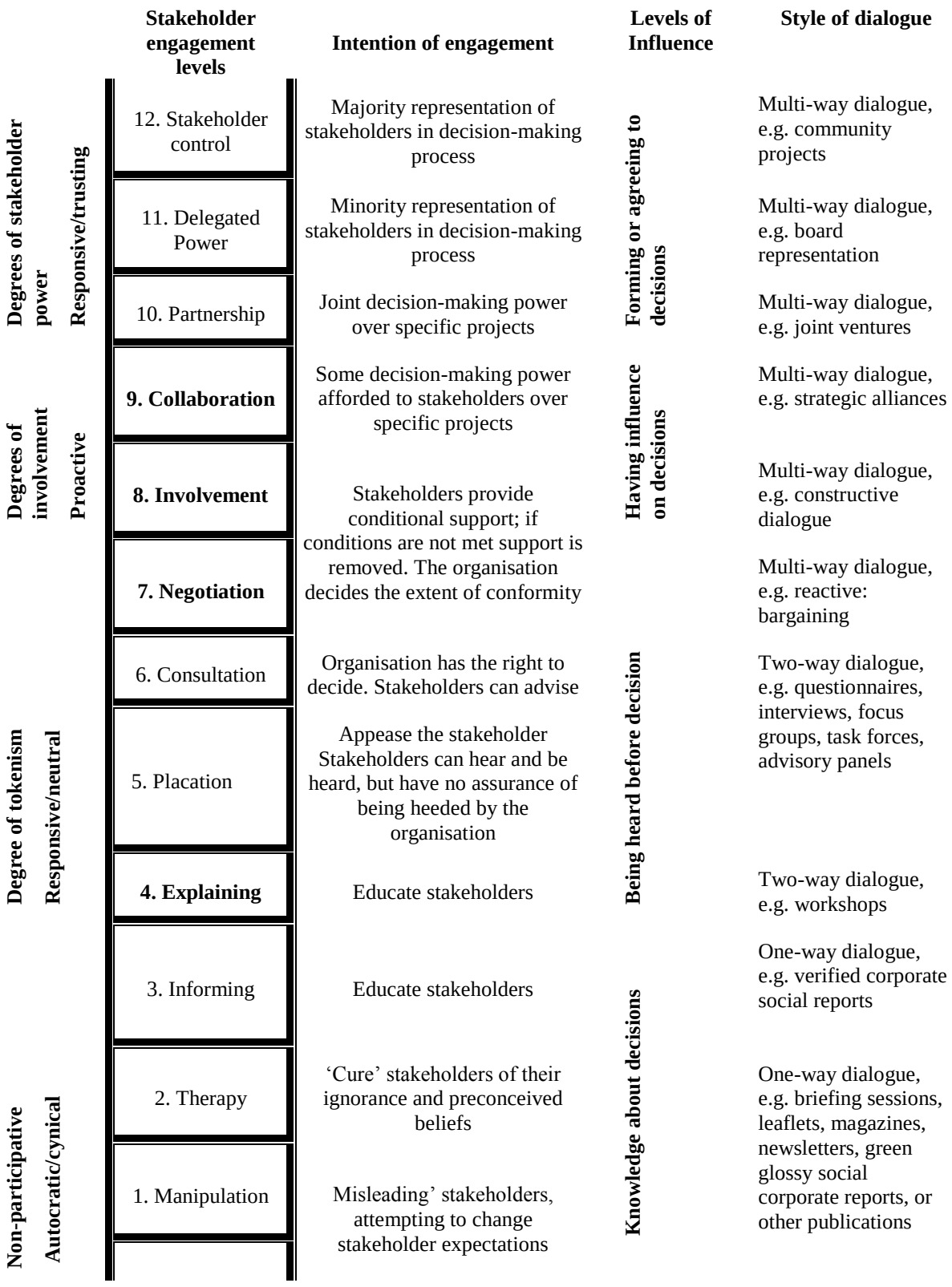

Figure 3.2: Friedman and Miles' ladder of stakeholder engagement (2006, p.162)

The final category of tokenism is negotiation wherein organisations respond defensively to stakeholder demands through multi-dialogue processes such as bargaining due to the fear of losing stakeholder support. For example, organisations negotiating with workers on strike to increase wages. Friedman and Miles (2006) consider negotiation as the first category of engagement in which the stakeholder group has a tangible possibility of influencing the decision-making process.

Similar to Arnstein (1969), they also characterise the highest levels of engagement by proactive or responsive attempts aiming at empowering stakeholders in decision making. The eighth level – involvement – exists where an organisation willingly engages with stakeholders over common issues. This can be in response to stakeholder actions (reactive) or organisation actions (active). For example, in the case of local councils, the involvement of local community groups in developing sustainability indicators to gain an understanding of local social and environmental issues. Although the involvement level has a real ability to influence decisions, it does not guarantee inclusion of stakeholder's opinions as a whole.

Organisations can also collaborate with stakeholders for specific projects leading to a collaborative style of engagement. Collaboration would be essential in projects requiring stakeholder co-operation for accomplishing certain goals. While exercising collaboration, stakeholders have a degree of power over the outcome but ultimate control rests with the organisation, for example, a strategic alliance (Freidman & Miles 2006). Partnerships can be regarded as similar to collaborations other than those implying joint decision making between the organisation and its stakeholders, as in the case of a joint venture. However, again, the extent of stakeholder control is restricted to the remit of particular projects.

Friedman and Miles (2006) argue that organisation-wide control can only be evident in situations of delegated power and stakeholder control. This is the most influential form of stakeholder engagement as it involves the renouncement of power by the organisation to its stakeholder groups to reduce top-level management's influence to minimal in decisions. This form of engagement is exceedingly rare but some examples can be found in community projects.

Furthermore, AccountAbility (2011), an internationally recognised standard for stakeholder engagement, prescribes five levels of engagement (Table 3.1). It does not

recognise manipulation, therapy and informing as forms of active engagement but considers them as pre-engagement activities (Table 3.2). These activities aim to create education and awareness, track information and obtain unsolicited information.

Table 3.1: AccountAbility's levels of engagement (2011, p. 27)

Levels of engagement	Methods of engagement
Consult Limited two-way engagement: organisation asks questions, stakeholders answers	Surveys Focus groups Meetings with selected stakeholder/s Public meetings Workshops Online feedback mechanisms Advisory committees
Negotiate	Collective bargaining with workers through their trade unions
Involve Two-way or multi-way engagement: learning on all sides but stakeholders and organisations act independently	Multi-stakeholder forums Advisory panels Consensus building processes Participatory decision making processes Focus groups Online feedback schemes
Collaborate Two-way or multi-way engagement: joint learning, decision making and actions	Joint projects Joint ventures Partnerships Multi-stakeholder initiatives
Empower New forms of accountability; decisions delegated to stakeholders; stakeholders play a role in governance	Integration of stakeholders into governance, strategy and operations management

Table 3.2: Pre-engagement activities (AccountAbility 2011)

Pre-engagement activity	Pre-engagement methods
Receiving unsolicited information	Protests, letters, media, websites and advocacy
Tracking information	Media tracking, Internet tracking, social network tracking, and second hand reports
Creating awareness	Bulletins, newsletters and brochures; websites; speeches and conference presentations; road shows; press releases; advertising and other public displays; and lobbying

Consultation is regarded as the lowest level of engagement and is limited to asking questions of stakeholders and receiving answers. Negotiation lifts the extent of engagement to the next level by allowing collective bargaining to certain stakeholders. In line with Freidman and Miles (2006), involvement allows multi-way engagement resulting into knowledge sharing and creation. Collaboration allows collective decision

making in specific projects and at the empowerment level, the organisation delegates decision-making power to stakeholders.

Organisations depending on the purpose of engagement can engage with the same stakeholder groups at different times at different engagement levels (Friedman & Miles 2006). Moreover, AccountAbility (2011, p.25) indicates that:

> Engagement may take place at more than one level. The owners of the engagement may choose to engage with the stakeholders in one segment of its stakeholder map at one level and with stakeholders in another segment of the stakeholder map at another. The level of engagement may also change over time as relationships deepen and mature.

The use of appropriate engagement techniques and level of engagement can enhance the quality of the engagement process and the outcome (Gao & Zhang 2001). The factors affecting the quality of engagement are discussed in the next section.

3.3.4 The quality of stakeholder engagement

Quality stakeholder engagement can enhance strategic and operational performance, create a knowledge base, build stronger relationships characterised by accountability, transparency and trust, and enable risk and reputation management (AccountAbility 1999). AccountAbility (1999, pp.28-29) identifies seven essentials of quality and meaningful engagement:

a) Allow stakeholders to assist in the identification of other stakeholders;

b) Ensure that stakeholders trust the social and ethical accountant (internal or external) that is collecting and processing the findings of the engagement;

c) Be a dialogue, not a one-way information feed;

d) Be between parties with sufficient preparation and briefing to make well-informed decisions;

e) Involve stakeholders in defining the terms of the engagement. The terms will include, but are not limited to, the issues covered, the methods and techniques of engagement used, the questions asked, the means of analysing responses to questions and the stakeholder feedback process;

f) Allow stakeholders to voice their views without restriction and without fear of penalty or discipline. However, stakeholders must be aware that if their opinions are taken seriously and acted upon, this will have consequences upon them and other stakeholder groups; and

g) Include a public disclosure and feedback process that offers other stakeholders information that is valuable in assessing.

The quality of the engagement outcome depends on the extent of involvement, the method of engagement, adequate representation of stakeholder groups and the interest perceived by stakeholders (Gao & Zhang 2001). Table 3.3 summarises the association between these elements.

Table 3.3: The quality of stakeholder engagement (Gao & Zhang 2001, p.14)

Level of engagement	Stakeholders are merely given information (Passive)	Stakeholders are consulted (Listening)	Stakeholders engage in dialogue (Two-way process)	Management is driven by stakeholders (Proactive)
Stakeholder engagement approach	➢ Inform stakeholders via public media ➢ Publish reports ➢ Policy and product documents	➢ Listen to stakeholders through formal meetings or suggestion boxes ➢ Hear stakeholder views via questionnaires and interviews ➢ Have a complaint process	➢ Hold focus group discussions ➢ Provide feedback to stakeholder ➢ Use stakeholder driven performance measures and reports	➢ Set up a stakeholder council ➢ Allow stakeholder representation ➢ Ask for stakeholder verification of social report
Number of stakeholder participants	➢ Mass stakeholders and wide society	➢ Selected stakeholders	➢ Limited number of key stakeholders	➢ Very limited number of key stakeholders (e.g., stakeholder representation)

Measuring the quality could be extremely complex because stakeholder engagement can mean different things in different contexts (Gao & Zhang 2001). In terms of the method of engagement, surveys can assist if the purpose of engagement is to gain perception about organisational performance. However, if the purpose is to gain perceptions on a critical environmental issue, a survey would not serve as an efficient engagement tool because it will not allow debate and two-way discussion of the social and economic implications involved in resolving the issue.

The number of stakeholders engaged would also affect the quality of engagement. However, it is not feasible for organisations to involve all stakeholders in decision making because of limited resources. Therefore, selecting appropriate representatives from different community groups and securing an adequate number of representatives

can be problematic in practice. In order to ensure quality, meaningful engagement, Gao and Zhang (2001) argue that the stakeholder engagement process should be undertaken as a genuine process of sharing views and perceptions for improving organisational performance and enhancing organisational accountability.

Stakeholder engagement is often not comfortable. Sometimes it can raise complex issues for organisations, especially when the interests of stakeholders and the organisation are contradictory (Thomson & Bebbington 2005). Unerman (2007) identifies the key complexities that can affect the quality of stakeholder engagement and dialogue processes. These include contradictory heterogeneous stakeholders' views and expectations, the difficulty in identifying and prioritising stakeholders, and the impossibility of direct interaction with certain stakeholders such as the natural environment and future generations.

To summarise, this section highlighted the importance of stakeholder engagement. It has also discussed issues related to an effective engagement process, including the identification of stakeholders, engagement techniques, the extent of engagement and factors affecting the quality of engagement. In addition to these considerations, AccountAbility (2011) recognises the scope of engagement as an important determinant of successful engagement. Therefore, Section 3.4 discusses the scope of engagement, especially in relation to the sustainability accounting and reporting process

3.4 The purpose and scope of stakeholder engagement in the sustainability accounting and reporting process

AccountAbility (2011) indicates that no stakeholder engagement exercise should be initiated without defining its purpose. The 'reason or why' structures the whole engagement program such as whom to engage, methods, extent and frequency of the engagement. Therefore, it becomes important to determine the purpose and scope of stakeholder engagement. The basic purpose of engaging stakeholders in the sustainability accounting and reporting process is to:

> drive strategic direction and operational excellence for organisations and to contribute to the kind of sustainable development from which organisations, their stakeholders and wider society can benefit by ... learning, innovating and performing ... (AccountAbility 2005, p.9).

Generally, stakeholder engagement is confined to a tool enabling organisations to abdicate their responsibilities for the results of their activities. The importance of stakeholder engagement lies far beyond this. Its real benefits can be obtained by using leadership to build relationships with stakeholders and thereby improving their overall performance and accountability (AccountAbility 1999). Stakeholders can be involved in the planning, accounting, auditing and reporting stages to bring transparency and enhance mutual understanding on the sustainability actions of corporations (AccountAbility 1999; Gao & Zhang 2006).

In the sustainability planning stage, organisations establish sustainability accounting and reporting commitments. Along with these, organisations can commit themselves to the role of stakeholders and define governance procedures to ensure the involvement of stakeholders in the process. According to AccountAbility (1999), the identification of stakeholders and characterising organisational relationships with each group is the essence of the planning stage. Such thoughtful processes have the potential to embed stakeholder aspirations and concerns into organisational values and missions (Bryson 2011). The involvement of stakeholders assists organisations to develop and improve strategy as well as to identify and address operational issues (AccountAbility 2011).

AccountAbility (1999) considers stakeholder engagement is one of the core components of the sustainability accounting process as it can facilitate an organisation:

- To identify stakeholder issues regarding its activities and social, environmental and economic performance.
- To determine the scope of the current process in terms of the stakeholders, geographical locations, operating units and issues; and accounting framework based on engagement outcomes. The organisation can also identify the audit method(s), the audit scope, and the auditor(s) to provide a high level of quality assurance to all its stakeholders.
- To identify social, economic and environmental indicators through stakeholder engagement. Such indicators are more effective in reflecting the organisation's performance in relation to its values and objectives, the values and aspirations of its stakeholders, and wider societal norms and expectations.
- To collect information about organisational performance in respect of the identified indicators. The organisation can engage with stakeholders in the design of the collection methods, which allow stakeholders to express their aspirations and needs accurately.

Moreover, stakeholders can be engaged in the process of developing and refining the sustainability accounting tools. This involvement offers the additional advantages of drawing on stakeholders' knowledge to facilitate problem solving, enhancing stakeholder knowledge about the organisation and encouraging them to 'buy-in' to the sustainability accounting process (Brown & Hicks 2013).

During the preparation of sustainability reports, stakeholder engagement facilitates organisations recognising stakeholders' information demands regarding content, form and media to develop a sustainability report that meets their specific needs (Isenmann & Kim 2006). Stakeholders can be engaged at three stages (Isenmann & Kim 2006):

1. At the beginning of the reporting process, to involve stakeholders to articulate their needs and expectations in relation to reporting;
2. During the reporting process to obtain feedback and criticism of reports to ensure continuous improvements of reports; and
3. During the publication and release of reports, to get consultation on future efforts on sustainability issues and the coming reporting cycle.

The understanding of the role of stakeholder engagement would enable the researcher to analyse the contribution of various stakeholders at each stage of the sustainability accounting and reporting process. In order to benchmark the stakeholder engagement practice in Australian local councils, stakeholder engagement frameworks are discussed in the next section.

3.5 Stakeholder engagement frameworks

Several stakeholder engagement frameworks have been proposed for guiding effective engagement processes. This study considers some of the prominent frameworks to understand the nature and role of stakeholder engagement in the sustainability accounting and reporting process. These frameworks are the Environment Council's stakeholder engagement evaluation and benchmark criterion, GRI's stakeholder engagement indicators and AccountAbility's stakeholder engagement guidelines. A study by the Association of Certified Chartered Accountants (ACCA) on stakeholder engagement reporting utilised the Environmental Council framework (ACCA 2007). Moreover, the GRI and AccountAbility are widely accepted practice-based standards and these provide useful insights into stakeholder engagement. Taken together, these

frameworks provide a comprehensive account of the available benchmarks for assessing stakeholder engagement.

The Environment Council criteria for stakeholder engagement

The Environment Council is a UK-based charity whose main goal is to pioneer the use of more collaborative and interactive techniques to co-create or to inform decision making in the sustainability arena (ACCA 2007). It developed an evaluation and benchmark criteria and themes for stakeholder engagement in the practice and reporting to review the reports entered in the ACCA UK Awards 2004 (ACCA 2005). The criteria was used by ACCA (2007) to study disclosure on stakeholder engagement by the top 50 companies on the Australian Securities Exchange. Table 3.4 summarises stakeholder engagement criteria and themes.

Table 3.4: The Environment Council's stakeholder engagement criteria and themes (adopted from ACCA 2005)

Stakeholder engagement	Requisites of the criterion
Stakeholder identification	Identify who/how many/how engaged/priority issues for each stakeholder group
Evidence of engagement	Evaluate engagement-related case study outlining why and how the relevant stakeholders were engaged as well as detailing some of the impacts
Target and metrics	Analyse development of a consistent metric for measuring stakeholder engagement and its effects
Integration of engagement programs	Observe evidence of integration of engagement programs in annual reports
Use of engagement results in report development	Analyse inclusion of material issues identified during stakeholder engagement programs in annual reports
Opportunities for feedback	Evaluate whether or not reports encourage stakeholder feedback

GRI's criterion for stakeholder engagement

GRI has issued sustainability reporting guidelines specifically for PSOs. The Sector Supplement for Public Agencies (SSPA; 2005) identifies key reporting principles to produce a balanced and reasonable report on an organisation's social, environmental and economic performance. One of these principles is 'inclusiveness' which recognises stakeholder engagement as an essential element to determine the scope and to enhance the quality of a sustainability report. Moreover, to provide evidence of stakeholder engagement practices in sustainability reporting, GRI–SSPA (2005) offers indicators

under the sub-sections 'Profile' and 'Governance structure and Management Systems' (Figure 3.3). These indicators require the PSOs to disclose items such as key stakeholders, the basis for identification and selection of stakeholders, stakeholder engagement techniques, and the key issues identified through stakeholder engagement and how organisations used this information.

2 <u>Profile</u>

2.9 List of stakeholders, key attributes of each, and relationship to the reporting organisation

Stakeholders typically include the following groups (examples of attributes are shown in parentheses):

- Communities (locations, nature of interest);
- Customers (retail, wholesale, businesses, governments);
- Shareholders and providers of capital (stock exchange listings);
- Suppliers (products/services provided, local/national/international operations);
- Trade unions (relation to workforce and reporting organisation);
- Workforce, direct and indirect (size, diversity, relationship to the reporting organisation); and
- Other stakeholders (business partners, local authorities, NGOs).

3 <u>Governance, Commitment and Engagement</u>

3.9 Basis for identification and selection of major stakeholders

This includes the processes for defining an organisation's stakeholders and for determining which groups to engage.

3.10 Approaches to stakeholder consultation reported in terms of frequency of consultations by type and by stakeholder group

This could include surveys, focus groups, community panels, corporate advisory panels, written communication, management/union structures, and other vehicles.

3.11 Type of information generated by stakeholder consultations

Include a list of key issues and concerns raised by stakeholders and identify any indicators specifically developed as a result of stakeholder consultation.

3.12 Use of information resulting from stakeholder engagements

For example, this could include selecting performance benchmarks or influencing specific decisions on policy or operations.

Figure 3.3: GRI–SSPA (2005) guidelines on stakeholder engagement disclosures

Although GRI–SSPA (2005) emphasises the importance of stakeholder inclusiveness in the preparation of sustainability reports and motivates PSOs to disclose such

engagement initiatives, it does not offer any specific guidance on how to undertake stakeholder engagement. However, AccountAbility offers a framework to explain the constructiveness of stakeholder engagement in the accounting and reporting process and has been designed to work with other accountability standards, including the GRI.

AccountAbility's stakeholder engagement framework

AccountAbility (1999) prescribes guidelines to secure and to enhance the quality of the sustainability accounting and reporting process. It recognises stakeholder engagement as a core component of the process. According to AccountAbility (1999) the aim of stakeholder engagement should be to improve the social and ethical accountability of organisations towards their stakeholders. Its stakeholder engagement guidelines outline mechanisms for improving accountability and for ensuring the quality of the dialogue between an organisation and its stakeholders. Table 3.5 discusses the stakeholder engagement assessment criteria.

Table 3.5: AccountAbility's stakeholder engagement assessment criteria (1999, p.115)

Component of report	Inclusion of component	Quality of component
Stakeholder commentary on social and ethical performance		
Stakeholder commentary on the social and ethical accounting, auditing and reporting process		
Survey of stakeholder views		
Evidence of stakeholder participation in the social and ethical accounting, auditing and reporting process – in definition of values		
Evidence of stakeholder participation in the social and ethical accounting, auditing and reporting process – in definition of objectives and targets		
Evidence of stakeholder participation in the social and ethical accounting, auditing and reporting process – in identification of issues		
Evidence of stakeholder participation in the social and ethical accounting, auditing and reporting process – in identification of indicators		
Process for stakeholder feedback on report		

The understanding of stakeholder engagement frameworks has been important for this study to examine how and to what extent stakeholders are being involved in the sustainability accounting and reporting process. These frameworks provided a

benchmark to analyse the current stakeholder engagement process in Australian local councils. It provided guidance on what more is required to make such engagement more fruitful in terms of producing comprehensive sustainability reports.

3.6 Evidence of stakeholder engagement in practice

This section examines various studies undertaken to investigate stakeholder engagement in the sustainability accounting and reporting process. These studies have focused on a range of issues related to stakeholder engagement, including the state of disclosure on stakeholder engagement, the identification of stakeholders, stakeholder engagement mechanisms, and the role and extent of stakeholder engagement in the process.

Current literature has examined the state of disclosure on stakeholder engagement in sustainability reports. To study disclosure practices on stakeholder engagement, ACCA (2007) examined social and environmental reports, websites and the annual reports of the top 50 corporations on the Australian Securities Exchange. The study revealed the existence of diverse disclosure practices among these corporations and concluded that only a few companies were providing high quality disclosure on stakeholder engagement. Considering that reporting on stakeholder engagement is a voluntary practice, the study insisted that insufficient stakeholder engagement disclosures do not always imply that stakeholder engagement is not taking place; rather, sometimes efforts remain unnoticed by readers due to the lack of disclosure on stakeholder mechanisms and results.

Prior literature has also investigated the nature and role of stakeholder engagement in the sustainability accounting and reporting process. Belal (2002) examined the sustainability reports of 17 UK companies using AccountAbility as a benchmark to analyse stakeholder engagement practices in the companies. He found that although most of the companies were identifying their stakeholders, they were not promoting the ideal stakeholder accountability. Rather, the companies used stakeholder engagement as a legitimisation tool and for managing stakeholders effectively. The study also indicated a poor quality of stakeholder involvement and an unwillingness to incorporate stakeholder feedback.

Similar findings were made by Lingenfelder and Thomas (2011) in a study of stakeholder inclusiveness in sustainability reporting in 11 South African mining companies. They found that most of the companies adhered to the minimum

quantitative GRI stakeholder engagement requirements, as a listing requirement, rather than engaging with stakeholders in the development of sustainability reports. The companies lacked extensive dialogue and interaction, specifically for developing sustainability reports. The study noticed that the mining companies adopted a 'tick box' approach to sustainability reporting and did not engage in a formal process that could inform and improve such reporting. Moreover, the reporting content failed to address the information needs of stakeholders, as the companies did not seek stakeholders' aspirations for reporting content and structure.

In line with this, several studies also found a limited role of stakeholder engagement in the development and improvement of sustainability (Manetti 2011; Frost et al. 2012; Imoniana et al. 2012). However, these studies emphasised the importance of stakeholder engagement in planning and accounting.

A recent study by Brown and Hicks (2013) of the Canadian Consumers' Community Cooperative provided evidence of successful stakeholder engagement in establishing sustainability accounting tools. They found that this engagement not only enhances mutual understanding and encourages relationship building but also contributes to the quality, credibility and relevance of the tool itself. Manetti (2011) indicated that stakeholder engagement is relatively greater in defining sustainability strategic goals and getting feedback on present strategies than in defining the contents of reports. Similarly, Imoniana et al. (2012) highlighted the involvement of stakeholders in the budgeting process in Brazilian municipalities. Stakeholders also played a vital role in monitoring sustainability indicators to evaluate the commitments of the municipalities.

In order to explore the influence of stakeholder engagement on sustainability reporting, Prado-Lorenzo et al. (2009) examined annual reports of 99 Spanish companies. Their study highlighted that the influence exerted by stakeholders, especially government and creditors together with the strategic posture of an organisation, has an important effect on the publication of sustainability reports. The study also indicated that government is one of the most important drivers for change and can affect sustainability disclosure practices of politically visible organisations.

Extant studies on stakeholder engagement have also focused on investigating the extent of engagement in the sustainability accounting and reporting process. Cummings (2001) utilised Arnstein's ladder of participation to evaluate the extent of stakeholder

engagement in 13 UK organisations. She found that most of the organisations were on rungs 3 (informing), 4 (consulting) and 5 (placation) of the ladder. Only a few organisations used partnership and delegated power to engage with their stakeholders.

Manetti (2011) also applied Arnstein's framework to examine the extent and quality of stakeholder engagement in 174 sustainability reports of corporations across Europe, North America, South America and Asia. Similarly to Cummings (2001), the majority of companies were using first five levels. The study found evidence of decisional power (7th rung) and citizen control (8th rung) but these levels of engagement were used occasionally and mainly to comply with legislative requirements. Manetti (2011) indicated that the delegation of decision-making power to stakeholders was significant but not decisive. More recently, Greco et al. (2013) assessed the level of engagement achieved by 11 Italian local councils using the classification provided by AccountAbility (2011). The study found that stakeholder engagement was limited to informing. The local councils engaged in consultation activities to obtain feedback on the content of the sustainability reports but stakeholders lacked interest in this activity.

Prior studies indicate that a majority of organisations interpret stakeholder engagement as a one-sided interaction form of engagement by not involving stakeholders in their decisions and simply communicating the decisions in the belief that this will best serve their needs (Belal 2002; Foster & Jonker 2005). This one-way dissemination of information to stakeholders is often regarded as a relatively weak form of engagement (Burchell & Cook 2006). The effectiveness of stakeholder engagement lies in engaging stakeholders in a two-way relationship so that the decisions are made after considering the conflicting interests of the organisation and its stakeholders (Foster & Jonker 2005; Burchell & Cook 2006). The existing stakeholder engagement practices do not tend to give stakeholders control and delegated power in decisions on social and environmental issues (Cummings 2001). Belal (2002) found that a majority of organisations do not identify their stakeholders clearly and systematically in order to engage them in the social and ethical reporting process. He also found that social and environmental issues are addressed unilaterally based on feedback from stakeholders without incorporating them in the decision-making process.

The review of literature indicates that the studies have mainly focused on examining disclosures on stakeholder engagement in sustainability reports to evaluate the nature

and extent of stakeholder engagement in the sustainability accounting and reporting process. There is also a lack of managerial perception on effective stakeholder engagement practice. This study uses interviews, documents and website monitoring to gain an in depth understanding of the stakeholder engagement practice. The interviews would highlight managerial perception about the role of stakeholder engagement in the sustainability accounting and reporting process. Website monitoring would assist the researcher to observe the nature and frequency of online interactions between the local councils and their stakeholders.

Although PSOs, especially local councils, share a close relationship with their local communities, most prior studies have investigated the stakeholder practices of the private sector. This research aims to address this gap by exploring the nature, extent and drivers of stakeholder engagement in the context of local councils.

3.7 Drivers of stakeholder engagement

The nature and extent of stakeholder engagement is determined by the organisation's motives to engage with stakeholders (Bendell 2003; AccountAbility 2011). Bendell (2003) argues that the choice of level of engagement, from manipulation to democracy, is affected by a managers' interpretation of corporate social responsibility. This implies that organisations using the traditional public administration system would have a low level of engagement. But organisations which have embraced a public value system would exercise the highest level of engagement.

Organisations can also engage with their stakeholders to legitimate their operations. Lawrence (2002) undertook a study to investigate the key drivers of stakeholder engagement in a multinational oil company facing a serious reputational crisis caused by strenuous public criticism from environmentalists, human rights activists and institutional stakeholders. The study highlighted that the company's need to regain its licence to operate motivated it to initiate dialogue with stakeholders. However, the success of this engagement activity demanded change in the existing processes, the commitment of leaders and the organisation's capacity to support the engagement.

As stakeholder engagement encourages a proactive rather than a reactive form of dialogue, an organisation can engage with stakeholders to minimise risk in decision making. Burchell and Cook (2006) conducted an in-depth study of companies and

NGOs in the United Kingdom to understand managerial attitudes towards stakeholder dialogue. They found that stakeholder dialogue enabled the companies to understand stakeholders' perceptions about their operations as well as acting as an 'early warning system' that assisted them in avoiding damaging publicity. The NGOs also considered stakeholder dialogue as an efficient risk reduction tool.

Understanding the drivers of stakeholder engagement is critical to determining the factors that influence the nature and extent of the involvement of stakeholders in organisational decisions. However, only a few studies have examined the factors that could encourage meaningful engagement, especially in PSOs. This study responds to this gap in the literature by examining the factors that drive stakeholder engagement practice in Australian local councils. New institutional theory has been used to examine the drivers of stakeholder engagement as it offers useful insights to understand external institutional influences affecting the uptake of new policies and practices.

3.8 New institutional theory

New institutional theory complements stakeholder theory by explaining the nature of the influences imparted by different stakeholder groups and individuals. Institutions can be regarded as human-devised constraints that structure and shape political, economic and social interaction (North 1991). These constraints consist of informal social values and cultural systems (such as sanctions, taboos, customs, traditions, codes of conduct and norms) and formal rules (such as constitutions, laws and property rights). The regulative, normative and cultural-cognitive elements of an institution provide it with the elastic features that guide its behaviour and resist change (Scott 2008). These elements on the one hand exert relative resistance to change (Jepperson 1991) and, on the other hand, allow change transmitted across generations to be maintained and reproduced (Zucker 1977). Although rules, norms and cultural-cognitive beliefs are central ingredients of institutions, the concept must also incorporate associated behaviours and material resources (Scott 2008). The combination of regulative, normative and cultural-cognitive elements together with associated activities and resources provide stability and meaning to social life (Scott 2008).

Institutions have been explored in different disciplines to understand and to address organisational change. In economics, institutions are mechanisms to minimise

transaction costs (North 1991). Institutions, according to the economics approach, essentially exist where the benefits exceed the costs incurred in creating and maintaining the structures. In sociology, institutions are social structures that are largely shaped by external factors such as societal norms and values rather than cost-minimising objectives (Moll et al. 2006). Here, 'institutions are transported by various carriers – cultures, structures, and routines – and they operate at multiple levels of jurisdiction' (Scott 1995, p. 33). The advocates of the institutional sociology approach, or a new institutional theory, seek to explain the influence of external pressures on organisational decision making to adopt or to change certain organisational practices, above and beyond the organisation's efficiency (DiMaggio & Powell 1983; Scott 2008). In the public sphere, institutions create sanctions and balances, facilitate political cooperation and reduce political uncertainties.

Early contributors to new institutional theory, including Meyer and Rowan (1977), emphasised the symbolic and ceremonial transformations in the organisations, and changes that reflect myths in the institutional environment rather than a detached calculus of costs and benefits and efficiency orientation. Other early work focused on processes such as isomorphic transformations and diffusion (Tolbert & Zucker 1983), persistence (Zucker 1977), institutionalisation (Scott 2008) and isomorphism and harmonisation (DiMaggio & Powell 1983). The common thread throughout new institutional research has been to observe organisational changes that are driven by external pressures and have little to do with maximising efficiency and to understand that structure may be decoupled from the organisational goals. Organisations do not always embrace strategies, structures and processes that enhance their performance, but, instead, react to and seek ways to accommodate pressures from external security, dependence and regulations (Frumkin & Galaskiewicz 2004).

The institutional environment is commonly considered to be composed of organisations and organisational fields. An organisational field is defined as 'those organisations that … constitute a recognised area of institutional life: key suppliers, recourse and product consumers, regulatory agencies and other organisations that produce similar services or products' (DiMaggio & Powell 1983, p.148). The institutional environment can be categorised as internal and external. The internal institutional environment includes the objectives, structure and culture of the organisation (Rahaman et al. 2004). The external institutional environment includes the economic, social and political circumstances in

which the organisation needs to legitimate its existence (Rahaman et al. 2004). New institutional theory goes beyond merely suggesting that action is a reaction of the external environment and challenges how social choices are shaped, mediated and channelled by the institutional environment (Wooten & Hoffman 2008). Institutional theory asserts that organisational structures and procedures are largely influenced or shaped by external environment factors to confer legitimacy rather than to enable efficient decision making or outcomes (Meyer & Rowan 1977). Therefore, new institutional theory provides extended and useful insights into understanding organisational change. It goes beyond the concept of merely explaining organisational change to understanding why a change has happened.

Institutional theory is based on the notion that intra-organisational structures and procedures are largely shaped by external factors rather than cost-minimising objectives (Moll et al. 2006). The organisations respond to the pressures from institutional environments and adopt socially accepted structures and procedures (Carpenter & Feroz 2001). It explores how organisational structure and actions are moulded by its surrounding cultural, political and social forces (Fogarty 1996).

The survival of organisations depend on their efficiency to manage societal demands and to bring conformity with societal expectations rather than the actual impact of these pressures on organisational performance (Meyer & Rowan 1977). Organisations become homogeneous with their institutional context to secure social security that is legitimacy as well as due to the emergence of powerful forces (DiMaggio & Powell 1983; Greenwood et al. 2008). The process of homogenisation is referred as ‘isomorphism’.

The seminal paper by DiMaggio and Powell (1983) focused on how institutionalisation actually occurs in organisations. They identified three ‘mechanisms of diffusions’ through which isomorphic changes occur in the organisational structure and procedures. These are coercive isomorphism, mimetic isomorphism and normative isomorphism. Coercive isomorphism arises when powerful individuals or groups cajole or force organisations to adopt an organisational element. Coercive pressure can be exerted by external stakeholders upon whom organisations depend for the supply of critical resources to adopt certain structures and procedures. Pressure groups can include suppliers, regulators, government policy, customers and local community. Mimetic isomorphism occurs when organisations imitate the internal structures and procedures

of a 'model organisation' to reduce uncertainty. In the case of uncertainty, imitating successful actors is regarded as a safe strategy. Normative isomorphism exists where organisations adopt the structures, norms, guidelines and procedures advocated by dominant professions, professional bodies, consultants and occupational groups.

These mechanisms of diffusion provide useful insights to explain the drivers behind the adoption of particular accounting systems that override a drive for increased efficiency. Coercive isomorphism occurs because organisations have a pressure to avoid sanctions imposed by individuals or groups upon whom the organisations depend for survival. Mimetic isomorphism arises because organisations are influenced by their interpretation of other organisations' successful behaviours. Normative isomorphism occurs because organisations are motivated to respect professional norms.

The new institutional theory framework has been so far used by accounting researchers in auditing, financial and management accounting areas (Moll et al. 2006). In the past few years environmental accounting and reporting researchers have used the framework to explore the uptake of voluntary practices in the private and public sector. According to Larrinaga-Gonzalez (2007, p.155), sustainability reporting:

> ... need not be the outcome of a rational process of decision-making by organisations acting independently. Rather, reporting could become institutionalized, determining to some extent the choice of organisations in terms of whether or not to publish a sustainability report and how to publish it. As an institution, sustainability reporting would consist of regulative, normative and cognitive structures and activities which would describe what type of reporting is produced, for who, by whom and with what assumed purpose.

As institutional theory emphasises the social, cultural and political pressures that force organisations to adopt a particular procedure or practice (stakeholder engagement in sustainability accounting and reporting), it provides a theoretical lens to explain why local councils engage with stakeholders in the sustainability accounting and reporting process. This theory can provide insights to the various rationales to adopt stakeholder engagement strategies and mechanisms that lie beyond regulatory compliance in local councils. Institutional theory can also help in understanding the motivations and de-motivations for disclosing/repressing social and environmental issues by local councils.

In this study it is argued that sustainability reporting and stakeholder engagement is subject to institutional pressures. Coercive pressures on local councils to engage with stakeholders on sustainability issues can include the commitment to Local Agenda 21 to

advance sustainable development, compliance to mandatory requirements of local government legislation such as NSW's Local Government Act 1993 and accountability towards stakeholders. Mimetic pressures can include the influence of the private sector as well as public sector initiatives on local councils in regard to stakeholder engagement in sustainability reporting. The normative pressures can include the GRI's public sector supplement which emphasises reporting comprehensively by engaging with stakeholders on sustainability issues and the AccountAbility's guidelines on effective stakeholder engagement.

3.9 Summary

This chapter provided an overview of the stakeholder identification and prioritisation process, stakeholder engagement mechanisms, extent and quality of engagement, and the drivers of stakeholder engagement. The extant literature emphasised the need to and importance of involving stakeholders in decisions affecting their welfare, including the sustainability accounting and reporting process. The inclusion of stakeholders in the process can assist an organisation in identifying material sustainability issues, determining and monitoring sustainability indicators, and ensuring the continuous improvement of sustainability reports.

Stakeholders can be involved in organisational decisions through a range of engagement media. The choice of engagement technique can reflect the extent of involvement allowed to stakeholders in the decisions. It must also be considered that problems and challenges associated with stakeholder engagement can hinder the accomplishment of ultimate goals.

This chapter also presented an overview of new institutional theory to develop a theoretical understanding for examining the drivers of stakeholder engagement in the sustainability accounting and reporting process. The key focus was the institutional isomorphism that underpins three mechanisms of external forces.

Institutional isomorphism suggests that the stakeholder engagement initiatives of local councils can be influenced by coercive pressure such as legislation, by mimetic influence such as corporations and leading local councils, and normative influences such as the GRI and AccountAbility. The research framework used to address the research objectives is discussed in the next chapter.

Chapter Four: Research framework

4.1 Introduction

The previous chapters discussed the sustainability accounting and reporting process, and underpinned the need for and scope of stakeholder engagement in this process. This chapter develops the research framework for the study based on the literature discussed in the preceding two chapters. The framework aims at providing the theoretical foundation for addressing the central research question:

> *How do best practice local councils engage with their stakeholders in sustainability accounting and reporting processes, to what extent do these engagements take place and what drives them to engage with stakeholders?*

This chapter utilises a combination of a sustainability accounting and reporting framework, stakeholder theory and new institutional theory to construct a theoretical background for the thesis. The research framework developed in this chapter suggests that stakeholders can be involved in the accounting and reporting stages using a range of engagement approaches, and the engagement is affected by external institutional influences. Section 4.2 discusses the nature and extent of engagement in the accounting and reporting process. Section 4.3 presents the institutional factors affecting stakeholder engagement. An overall research framework for this study is presented in Section 4.4.

4.2 The nature and extent of stakeholder engagement

This study argues that stakeholder engagement is critical for the sustainability accounting and reporting process, especially for local councils. Stakeholders, being a part of the local community, generate ecological footprints and bear the consequences of an imbalance in society and the environment. Local councils, through stakeholder engagement, can address and manage stakeholders' concerns and thereby advance the notion of sustainable development. In order to measure and demonstrate sustainability performance and stakeholder collaborations, the sustainability accounting and reporting process has emerged as an important management tool (Burritt et al. 2006; Unerman et al. 2007).

The sustainability accounting and reporting process can be regarded as both a process and an outcome of stakeholder engagement as it involves an array of stakeholders

contributing to different stages of the process (Gao & Zhang 2001). Therefore, this research focuses on the role of stakeholder engagement.

This study draws upon the frameworks suggested by Schaltegger and Wagner (2006) and AccountAbility (1999) to establish a sustainability accounting and reporting process. These frameworks recognise stakeholder engagement as the core element of the processes. As discussed in Chapter Two, Schaltegger and Wagner (2006) suggest an integrated framework for performance measurement by linking strategy, accounting and reporting. They advocate stakeholder input as a key ingredient of the process. However, they did not elaborate on how to achieve this engagement. Nevertheless, AccountAbility (1999) in its framework demonstrates how to embed stakeholder engagement in different elements of the process. Taken together these frameworks advocate a dialogue-based sustainability accounting and reporting process that not only measures and communicates actual sustainability performance but also contributes towards sustainability goals.

The implications of these theoretical insights for the current study are that the involvement of stakeholders by organisations in strategic planning, accounting and reporting would result in a stakeholder-centric accountability system. Such a system can enable organisations to understand stakeholders' concerns and aspirations and acknowledge them as targets and indicators in strategic plans. Subsequently, this understanding would encourage organisations to take necessary action, measure the performance and, finally, communicate this to stakeholders.

The sustainability accounting and reporting process involves three broad categories – sustainability planning, accounting and reporting – comprising ten stages. Schaltegger and Wagner (2006) emphasised the need to create a link between the categories. This linkage can result in an integrated planning and reporting process in which the strategic plans reflect key stakeholder issues, accounting captures actual sustainability performance, and reporting demonstrates progress towards strategic goals.

The framework proposes ten steps from setting strategic direction through to communicating performance against them (Figure 4.1). The stages are: identifying sustainability issues, analysing strategic relevance of the issues, developing a strategic plan, setting sustainability targets and indicators, developing data measurement tools, collecting sustainability data, analysing and interpreting information, preparing reports,

internal and external verification, and publication of sustainability reports. An understanding of each stage can highlight who the key stakeholders are and how are they engaged at each stage.

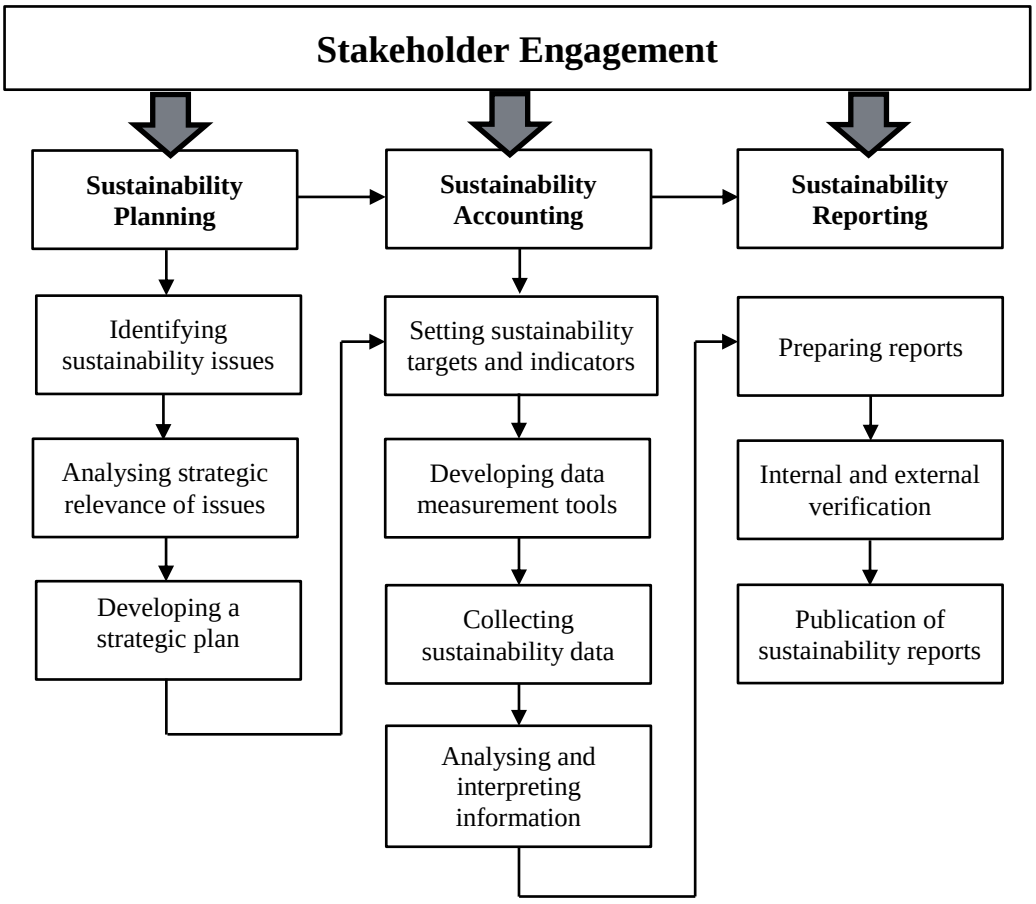

Figure 4.1: Stakeholder engagement in the sustainability accounting and reporting process based on Schaltegger and Wagner (2006) and AccountAbility (1999)

As discussed in Chapter Three, the accountability framework of AccountAbility (1999) emphasises the importance of stakeholder input in sustainability planning, accounting and reporting. This framework describes mechanisms and techniques for engaging with stakeholders to ensure meaningful stakeholder engagement.

At the planning stage, stakeholder engagement can assist in the identification of material sustainability issues and the development of a strategic plan. During the accounting stage, stakeholders can contribute to the development of sustainability indicators and targets, and provide performance data. Sustainability reporting has been recognised as a communication process that demonstrates an organisation's sustainability performance. Two-way interaction about reporting issues can enhance

receptivity to reports and facilitate continual improvement of the reports. However, the efficiency of the process outcomes would depend upon the extent of engagement exercised by a local council in all stages.

Although stakeholders have the potential to affect the sustainability accounting and reporting process, only meaningful engagement can contribute to a proficient accountability system. Chapter Three highlighted that the engagement outcome would be affected by the stakeholders involved, the extent of involvement, the method of engagement and an adequate representation of the stakeholder group (Gao & Zhang 2001). Therefore, establishing stakeholder identification and salience, and engagement mechanisms is important in this study.

4.2.1 Who are the key stakeholders?

Section 1.2 raised the need for stakeholder engagement in the sustainability accounting and reporting process. Stakeholder engagement begins with the identification of key stakeholders (Mitchell et al. 1997) as it is not practical for an organisation to involve all stakeholders. Stakeholder theory addresses issues related to stakeholder identification and engagement mechanisms. It can provide an in-depth understanding of current stakeholder engagement practices in the sustainability accounting and reporting process.

An array of stakeholders, both internal and external, can affect the various decisions involved in the development of sustainability reports. The previous chapter highlighted several attributes in recognising the different interests that stakeholders can have in organisational decisions. A stake in an organisation can be held by the owner, customer and government (Freeman 1984). However, the group or individual who is perceived by managers to have power, legitimacy and urgency (Mitchell et al. 1997) will get immediate attention for their claims (Agle et al. 1999).

Another perspective in understanding the factors behind the identification of stakeholders relates to dependency, responsibility, tension, influence and diversity in perspectives (AccountAbility 2011). Furthermore, technical stakes such as professional expertise can create stakeholder relationships (Gomes et al. 2010). The existence of one or more attributes can pressure local councils to engage with stakeholders.

Chapter Three emphasised that organisations should recognise and address the concerns of various stakeholder groups and individuals. Stakeholders can affect decisions in

relation to the different accounting and reporting stages depending upon capacity, interest, relationship and control over a resource. In the case of local councils, the local community, especially ratepayers and residents, can exert pressure to have their sustainability issues addressed in the local councils' strategic plans. Moreover, local councils depend on local community perceptions to evaluate their performance, which is part of the sustainability accounting stage.

4.2.2 How are stakeholders engaged?

Once the key stakeholders have been identified, an organisation should use an appropriate engagement technique to involve them in organisational activities. Section 3.3.2 identified a broad range of traditional and contemporary engagement methods that an organisation can use to involve stakeholders. The most commonly used traditional engagement methods are surveys, public meetings, round table discussions, community forums, seminars, corporate advisory panels, conferences, workshops and briefing sessions (Cummings 2001; Belal 2002; Thomson & Bebbington 2005; Lingenfelder & Thomas 2011).

With the emergence of social media, however, an organisation can benefit from readily available networks to build strong relationship with stakeholders. Contemporary engagment media such as Facebook and online discussion forums can facilitate wider participation and provide a voice for minority groups. The study of stakeholder engagement mechanisms would enable the researcher to explore the different engagement media and how the media provide a voice for stakeholder groups.

The choice of an engagement method could depend on the stakeholder groups concerned, their physical location and the relevant issue. If a local council intends to understand views and opinions of the wider population then engagement techniques such as surveys and online discussion forums would be useful. Alternatively, if the purpose of engagement is to seek expert advice, then advisory panels and workshops would be more appropriate as they allow discussion among small groups.

Gao and Zhang (2001) highlighted that a particular stakeholder engagement approach can depict the extent of engagement in an organisation. For example, distributing newsletters and website disclosures demonstrate a passive form of engagement while focus groups, partnerships and stakeholder councils indicate an active engagement strategy.

4.2.3 The extent of stakeholder engagement

Organisations can exercise different levels of engagement in the sustainability accounting and reporting process. The identification of sustainability issues and the development of sustainability indicators need a high level of commitment from a local council and its stakeholders. In comparison, merely informing stakeholders about organisational performance would require a low level of engagement strategy.

As discussed in the previous chapter, the extent of engagement can vary from informing about sustainability issues to empowering stakeholders (Arnstein 1969). Section 3.3.3 described the various levels of stakeholder engagement suggested by Arnstein (1969), Friedman and Miles (2006) and AccountAbility (2011). This study uses six engagement levels – information, consultation, negotiation, involvement, collaboration and empowerment – to establish the extent to which local councils engage with their stakeholders. Applying an appropriate engagement method in the different stages of sustainability accounting and reporting can enhance the effectiveness of the process. These levels of engagement and media are summarised in Figure 4.2.

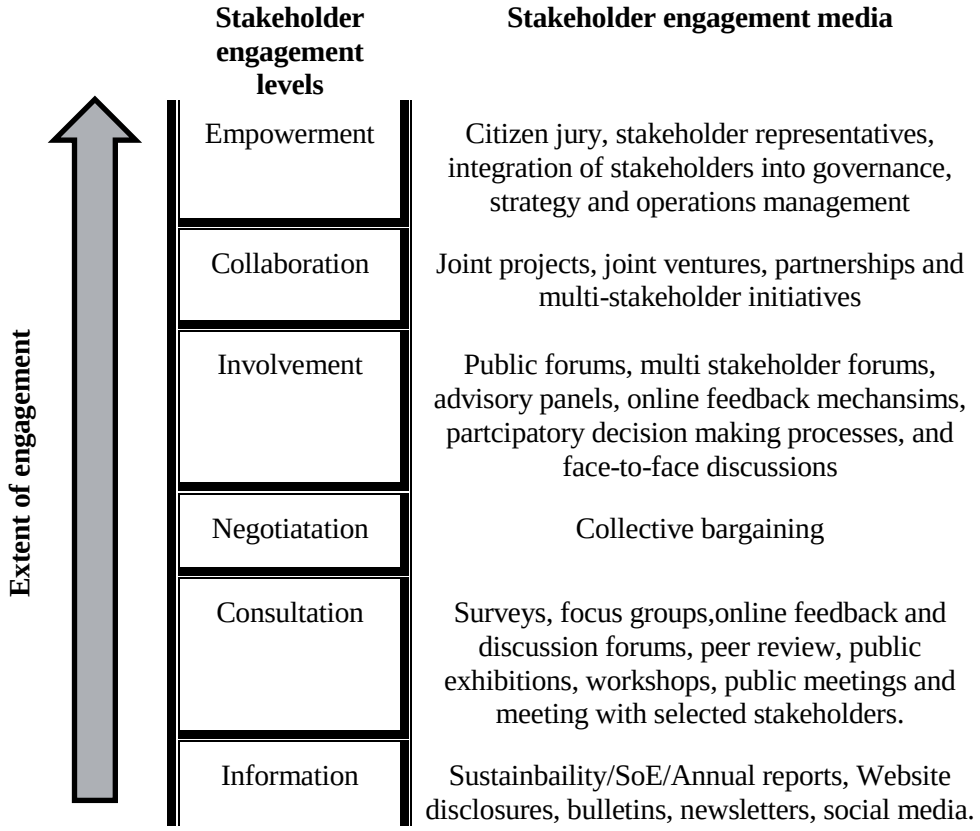

Figure 4.2: Stakeholder engagement extent and partcipative techniques

The lowest levels of engagement are non-participative forms of dialogue, namely manipulating, therapy and informing (Arnstein 1969; Friedman & Miles 2006). Although manipulation aims at disarming particularly critical stakeholders who are least interested in talking, therapy and informing is undertaken with a positive intention (Bendell 2003). Organisations can use the therapy approach to create awareness about the importance of sustainable development and the need for engagement to create a sustainable future. This research framework recognises 'information' as the beginning of the stakeholder engagement process because it can be used to bring transparency by providing information about organisational plans and policies. Although it is largely one-way communication, it is an important step towards real dialogue (Bendell 2003). Stakeholder engagement methods that can assist organisations in rapport building include websites, presentations, seminars, newsletters, bulletins, press releases, media advertising, sustainability reports and social media (for example, Facebook).

Consultation is the first step towards a two-way dialogue process. Although it provides a limited voice to stakeholders, it can serve as an effective tool for understanding perceptions and gaining the opinions of stakeholders at a mass level. Organisations, especially PSOs, can use consultation to identify local sustainability issues and to secure a wider population consensus on plans and policies. Engagement methods such as surveys, focus groups, online feedback and discussion forums, peer review, public exhibitions, workshops and public meetings can be used to consult with stakeholders.

Freidman and Miles (2006) and AccountAbility (2011) introduce negotiation as a form of two-way dialogue aiming at providing collective bargaining to internal stakholders, especially workers through their trade unions. In relation to the sustainability accounting and reporting process, negotiation can be undertaken to address conflicting interests between different stakeholders groups and to achieve concensus at the planning stage. Organisations can exercise a higher level of dialogue through involvement. That aim would be to establish close dailogue with a few key critics through public forums, multi-stakeholder forums, advisory panels, online feedback mechansims, participatory decision-making processes and face-to-face discussions. However, the organisations would act independently and veto power is retained by the powerholders.

The next level of engagement is collaboration, which comprises partnerships, joint ventures and multi-stakeholder projects. This type of engagement focuses on joint

learning, decision making and actions with major stakeholders, and equips organisations with critical strategic information, resources and problem-solving capabilities (Andriof & Waddock 2002). Organisations can collaborate with stakeholders with professional knowledge and expertise to create accounting tools and work towards developing solutions for sustainability issues.

The highest level of dialogue between an organisation and its stakeholders is empowerment, which aims at entrusting decision-making power in the stakeholders. Local councils which empower stakeholders, especially the local community, can ensure transparent decision making. Stakeholders can be empowered through a citizen jury, stakeholder representatives and the integration of stakeholders into governance, strategy and operations management.

The use of a particular engagement technique in a local council would be contingent on the purpose of the engagement. The local council can use a combination of levels of engagement to ensure stakeholders partcipate in various stages of a program. For example, an 'information' level can be used to create an initial awareness about sustainability issues, followed by 'collaboration' to develop a blueprint for a sustainable city.

Although stakeholder engagement has the potential to contribute the entire sustainability accounting and reporting process, it can be problematic. As discussed in Chapter Two, organisations find it difficult to involve stakeholders in the process, especially in providing feedback on sustainability reports. Chapter Three also identified some hindrances to effective stakeholder engagement such as hetrogenous expectations of stakeholders, loss of control and the use of one-way dialogue approaches. These problems can reduce the effectiveness of engagement in local councils. Therefore, this study seeks to identify the key issues and challenges related to stakeholder engagement.

In summary, stakeholder input has great potential for creating effective accountability systems in theory but in practice it is subject to a local council's commitment to meaningful stakeholder engagement. The uptake of meaningful engagement would depend on the institutional influences discussed in Section 4.3.

4.3 Institutional influences on stakeholder engagement

A range of factors can influence an organisation's decision to engage with stakeholders for achieving sustainability goals. The nature and extent of stakeholder engagement in

the sustainability accounting and reporting process are influenced by institutional factors. Section 3.8 discussed the existence of external institutional influences – coercive, mimetic and normative isomorphism (DiMaggio & Powell 1983) – that can force an organisation to adopt certain practices and procedures.

Coercive pressures can exist in the form of government regulations making it mandatory for organisations to involve stakeholders in the identification of local sustainability issues and the preparation of sustainability reports. Furthermore, local communities can exert pressure on the organisations to respond to their concerns while developing strategic plans and setting sustainability indicators.

Mimetic influences can exist where local councils follow the stakeholder engagement practices of other organisations. Section 3.6 discussed existing studies undertaken to examine stakeholder engagement in the sustainability accounting and reporting process. The majority of these studies demonstrate the uptake of engagement processes in the corporate sector (Cummings 2001; ACCA 2005; Manetti 2011). Local councils can imitate corporations in adapting stakeholder engagement practices for sustainability accounting and reporting as they are regarded as pioneers of the practice (Ball & Grubnic 2007; Tort 2010). Therefore, local councils can follow stakeholder engagement practices undertaken by corporations to develop efficient stakeholder accountability systems. Another form of imitating behaviour that can be expected from a local council is following other local councils.

Normative influences can exist in form of professional bodies offering knowledge and expertise about stakeholder engagement practices. With the emergence of international accountability frameworks, such as the GRI and AccountAbility, awarding agencies[3] and NGOs, organisations are moving towards a more proficient and harmonised sustainability accounting and reporting regime. Professional agencies and NGOs can assist organisations in the implementation of new accountability systems. As an example, AccountAbility not only issues guidelines for achieving meaningful stakeholder engagement but also provides training and technical assistance to organisations.

[3] Awarding agencies encourage sustainability accounting and reporting practice by reviewing and awarding annual and sustainability reports.

Moreover, organisations that seek to establish a reputation in sustainability reporting through awards tend to engage with their stakeholders in order to adhere to the awarding criteria. For example, the ACCA Awards for Sustainability Reporting introduced an additional theme of stakeholder engagement as a linchpin of good sustainability accounting and reporting practice. The existence of such institutions can motivate the organisations to consider stakeholder engagement as one of the prime channels for developing sustainability reporting, and can be also explained though normative isomorphism.

4.4 Research framework

A research framework was developed to address the central research question of this study (Figure 4.3). It draws upon the premises of the extant sustainability accounting and reporting literature with a particular focus on stakeholder engagement. The previous chapter highlighted the importance of stakeholder input in the adoption of strategic plans, the determination of sustainability indicators, the collection of sustainability information and the development of reports. An overview of the literature on the sustainability accounting and reporting process in Australian PSOs suggested that stakeholder engagement in the process has not been explored in-depth previously.

The research framework for this study establishes the sustainability accounting and reporting process as an integrated process, comprising three stages – sustainability planning, sustainability accounting and sustainability reporting – to examine the five research objectives as specified in Section 1.3. The framework suggests that stakeholders' input affects the entire sustainability accounting and reporting process. Lack of previous studies focusing on the role of stakeholder engagement in the three accounting and reporting stages raised the need to develop the research framework. The integrated sustainability accounting and reporting approach undertakes a comprehensive examination of the nature and extent of engagement in each phase of the accounting and reporting process.

A broad range of internal and external stakeholders contribute to effective planning, performance measurement and communication. The identification of key stakeholders is critical in recognising who is contributing what to the accounting and reporting process and in determining stakeholder salience. Therefore, the first objective focuses on the identification of stakeholders affecting decisions in the planning and reporting process.

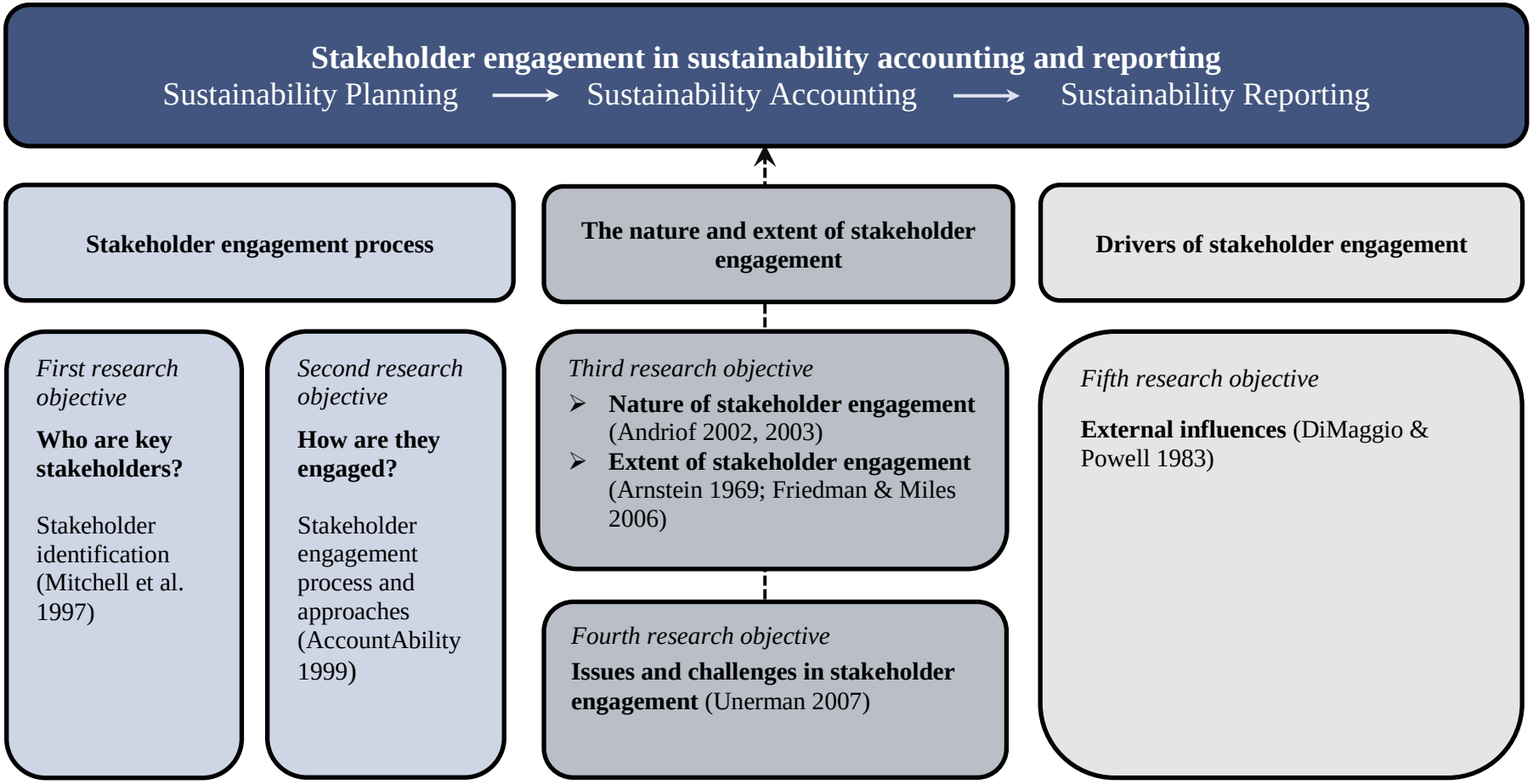

Figure 4.3: Overall research framework for the study

The framework also posits that meaningful stakeholder engagement is contingent on the extent of engagement used for involving stakeholders. The extent of engagement is affected by the form of dialogue and the degree of power offered by local councils to their stakeholders. Therefore, the second objective examines the engagement mechanisms employed by local councils to involve stakeholders. Subsequently, the third objective seeks to establish the nature of stakeholder engagement and to determine the level of stakeholder participation in decisions related to the development of strategic plans, sustainability indicators, accounting tools and sustainability reports.

Stakeholder engagement as highlighted in the framework could be undermined by organisational and external environment factors. This study is open to the possibility of the existence of potential difficulties that can hinder the effectiveness of stakeholder engagement in the accounting and reporting process.

The framework also considers that the external institutional have the potential to influence various decisions related to stakeholder engagement such as whom to involve, how to involve them and to what extent. The fifth objective involves investigating the factors that drive local councils to engage with stakeholders and to address their concerns.

4.5 Summary

This chapter has developed the research framework for this study. It has highlighted that stakeholder engagement is an essential component of the sustainability accounting and reporting process and organisations can secure this engagement using a range of approaches. The extent of engagement used – inform, consult, negotiate, involve, collaborate and empower – and the commitment of the organisation will affect the efficacy of the engagement process and thereby reports generated. The framework also suggests that external institutional factors can exert pressure to engage with stakeholders. The framework guides the research process for this study, including the research methodology and the specific methods used to collect data, discussed in Chapter Five.

Chapter Five: Research methods

5.1 Introduction

Having addressed the research framework in the previous three chapters, this chapter describes the methods used in this study. Section 5.2 justifies the appropriateness of the case study approach for obtaining an in-depth understanding of stakeholder engagement in the sustainability accounting and reporting process. Section 5.3 describes the research design. The research methods used in this study for data collection are outlined in Section 5.4 and the data collection process is described in Section 5.5. The next section presents the approach used to analyse various data sources.

Section 5.7 describes the techniques employed to ensure the validity and reliability of the case study design and methods. Finally, Section 5.8 provides details of how the case studies were complied.

5.2 Case study methodology

As discussed in Chapter One, this research aims to investigate the nature, extent and drivers of stakeholder engagement in the sustainability accounting and reporting process of local councils. In order to address the key research objectives, a research framework was developed (as discussed in Chapter Four) with an appropriate research strategy and methods.

This study used the case study method (Gomm et al. 2000; Stake 2003; Simons 2009; Yin 2009; Swanborn 2010) as the research strategy to understand how and to what extent stakeholders are involved in the sustainability accounting and reporting process, and the drivers behind such engagement. Case study is an empirical investigation undertaken to gain an in-depth understanding of a particular phenomenon (Yin 2009). Stake (2003) considers a case study as both a process of inquiry of a case and the outcome of that inquiry. Its main focus is to understand and describe the individuals, groups, organisations, processes and cultures (Woodside 2010) in their naturally occurring social situations (Gomm et al. 2000). According to Yin (2009, p. 18):

A case study is an empirical inquiry that:

- investigates a contemporary phenomenon in depth and within its real-life context, especially when
- the boundaries between phenomenon and context are not clearly evident.

Cases can be in the form of decision, programs, institutions and events (Yin 2009). Hence, cases can be minutely targeted such as an individual person or extensively focused such as a local council. Case setting is usually referred to as a social phenomenon because a case study is undertaken within the boundaries of the social systems of individuals, groups, organisations and cultures in which the phenomenon to be studied is embedded (Gomm et al. 2000; Swanborn 2010).

Case study was considered an appropriate research strategy for this study because:

- It focuses on the investigation and description of a contemporary phenomenon in depth in its natural context and hence is suitable to explore the role of stakeholder engagement in the sustainability accounting and reporting process;
- It emphasises the process rather than the outcome of an event and hence is useful for this study to explore how stakeholder engagement (process) takes place in the development of strategic plans, sustainability indicators and sustainability reports (outcome); and
- It allows the use of a range of data sources such as documents, media releases, interviews and website monitoring to collect and triangulate the data.

In this study, three contextually rich local councils in Australia were selected as case studies to study the role of stakeholder engagement in sustainability reporting. This number of cases was considered appropriate for data collection as the fewer cases to be investigated, the more information can be ascertained about each of them (Gomm et al. 2000). While selecting the cases, the emphasise was on the purpose of the study and the contextual richness of each case (Stake 1995) because relationships between and among contexts and cases are interdependent and reciprocal. Contextuality has been regarded as ‘an aspect of the dynamism and complexity of a case’ (Mabry 2008, p.217). Cases are shaped by their diverse contexts such as historical, social, political, organisational, cultural and philosophical. For example, sustainability reports of local councils tend to address diverse social, environmental and economic issues depending upon location, cultural backgrounds of residents and ecological threats. Thus, sustainability reports of different local councils would disclose sustainability issues specific to their local area.

A case study aims at capturing the uniqueness of a case 'rather than to use it as a basis for wider generalisation or for theoretical inference' (Gomm et al. 2000). In a case study, utmost importance is given to understanding a particular phenomenon rather than trying to generalise its results to a wider population. This inference is often criticised for a lack in generalisation, that is, how wider conclusions could be drawn from a single case study. In scientific research a sample represents its population and so the results obtained from a sample can be applied back to a population. However, case study is not a sampling technique (Stake 1995; Yin 2009), but this does not imply that generalisation is not feasible in case studies. Yin (2009) suggests two possible ways for generalising the findings of a case study. First, multiple case studies can be used to attain a wider applicability of findings. Second, using analytical generalisation to apply the case study findings to a theoretical proposition rather than to a population or universe. An existing theoretical proposition acts as a guide for data collection and analysis in case study research (Yin 2009). Analytical generalisation is useful to compare the results of one case study with the theoretical framework and with other cases to claim replication.

As suggested by Yin (2009), this study applied analytical generalisation rather than statistical generalisation for generalising the case study findings in a particular context – specific local councils engaging with stakeholders in the sustainability accounting and reporting process. Cross-case analysis was undertaken to develop generalisations of the nature, extent and drivers of stakeholder engagement. The research objectives (as discussed in Section 1.3) were explored in all three cases consistently to establish analytical generalisation for this study. The themes that were common to all three local councils enabled the researcher to claim replication and to establish stronger analytical generalisations than those found relevant in only one or two local councils. Furthermore, the results of the local councils were analysed in the light of the research framework (as developed in Chapter Four) and extant literature to enhance their credibility.

The case study approach has been used to gain an in-depth understanding of sustainability accounting and reporting practices in PSOs (see for example, Ball 2005a, 2007; Herbohn & Griffiths 2008; Frost et al. 2012; Lodhia & Jacobs 2013). However, there is lack of in-depth analysis of stakeholder engagement that focuses on PSOs. The majority of the stakeholder engagement studies discussed in Section 3.6 focused on the private sector and lack of comprehensive examination of the nature,

extent and drivers of stakeholder engagement. This study uses a case study research strategy to explore stakeholder engagement practice in PSOs. Chapters Seven, Eight and Nine address various issues related to stakeholder engagement such as the key stakeholders, stakeholder engagement mechanisms, the extent of engagement and the key drivers of engagement.

5.3 Research design

The purpose of a research design is to provide a blueprint for the study. It establishes a connection between the research objectives and specific methods to provide relevant data, it sets the criteria for the choice of participants and the ethical procedures to protect the interests of participants, and it defines an appropriate data analysis method to interpret the study findings (Yin 1993; Simons 2009).

The case study strategy offers two types of cases – single and multiple – as the unit of analysis (Yin 2009). This study uses a multiple case study design comprising three local councils because the prior research (as discussed in Section 2.3.3) indicates that local councils are not engaging extensively with their external stakeholders in the sustainability accounting and reporting process and there is a lack of understanding of the nature, extent and drivers of stakeholder engagement in particular contexts. Therefore, a single case was considered insufficient to address the research objectives. The choice of multiple cases over a single one will provide an opportunity to compare the findings across local councils and will allow analytical generalisation.

This research was undertaken in two phases – of local councils generally and specifically – to address the research objectives. The first phase aimed at identifying contextually rich Australian local councils for undertaking in-depth study in the next phase.[4] In order to locate the contextually rich local councils in Australia, a 'contextually rich' criterion was established in relation to stakeholder engagement in the sustainability accounting and reporting process. As this study aims to investigate the role of stakeholder engagement, the selection of contextually rich local councils was critical. The lack of studies suggesting best practice Australian local councils in

[4] The selection process of local council cases is discussed in Chapter Six.

sustainability reporting and stakeholder engagement therein raised the necessity to identify such local councils before selecting appropriate cases.

The contextually rich criterion encompassed four key considerations to ensure that the selected cases would assist in investigating the nature, extent and drivers of stakeholder engagement. First, only Australian local councils disclosing sustainability issues were considered. Second, they should engage with their stakeholders in the development of sustainability reports. Third, the local councils addressed issues and concerns of stakeholders in the sustainability reports. Fourth, the local councils should be located in different states in Australia to include diverse contexts such as sustainability issues and concerns, local functions, reporting practices and requirements, and stakeholder groups.

The second phase of the research consisted of an in-depth study of three local councils selected in the first phase. In each local council similar issues – key stakeholders, engagement techniques, extent of engagement, issues and drivers of stakeholder engagement – were explored to evaluate stakeholder engagement practice. Both research phases used multiple research methods and data sources to address the research objectives.

5.4 Research methods

To provide an in-depth understanding of an existing phenomenon, the case study method relies on multiple sources of evidence such as documentary analysis, archival records, physical artefacts, interviews, direct observation and participant observation (Gillham 2000; Yin 2009; Woodside 2010). This study focused on three distinctive but related issues concerning stakeholder engagement in the sustainability accounting and reporting process. The first probe was to determine key stakeholders and engagement mechanisms. The second investigation aimed at determining the extent of such engagement and key challenges affecting the nature and extent of stakeholder engagement. Third, the drivers for the engagement were explored. In order to address these issues, multiple research methods were required. The case study method allowed the researcher to examine a range of evidence – interviews, documents and website monitoring – to assess the nature, extent and drivers of stakeholder engagement in the sustainability accounting and reporting process.

The use of multiple sources of data provided greater explanatory power and enabled substantiation of the research data. Substantiation can address the potential problems

related to drawing valid conclusions and enhances the validity of the research process (Yin 2009). For example, in this research, interviews provided a basis for seeking managerial views on the importance of stakeholder engagement. These views were crosschecked in some instances through documents and website monitoring.

5.4.1 Interviews

An interview is a dialogue between two parties to share knowledge about specific issues or concerns which are of primary importance to the researcher. It aims at understanding the meaning of central themes of the participants' world and has unique potential for describing study-related events (Kvale & Brinkmann 2009). Interviews allow researchers to explore the world of interviewees through a set of questions that can be modified, abandoned or replaced to encompass any related topic emerging from the field (Bernard 2000).

Depending on the amount of control that a researcher wants to exercise over participants' responses, an interview can be unstructured, semi-structured or structured (Minichiello et al. 2008). These different types of interviews produce different types of data that are useful in research projects. Table 5.1 summarises the three types of interview methods.

Table 5.1: Interview methods (Minichiello et al. 2008, p.47)

Structured interviews	Semi-structured interviews	Unstructured interviews
Standardised interviews	In-depth interviews	In-depth interviews
Survey interviews	Survey interviews	Clinical interviews
Clinical history taking	Group interviews	Group interviews
		Oral or life history interviews

An unstructured interview is based on a clear plan that an interviewer keeps in mind constantly, but is categorised by minimum control over the interviewee's responses resulting into a spontaneous flow of discussion led by the interviewer (Bernard 2000). The interview can serve as an excellent tool for building rapport with a participant before starting an interview that is semi-structured or structured.

Semi-structured interviewing uses an interview guide to outline topics to be covered with suggested questions (Kvale & Brinkmann 2009). It allows the use of a written list of questions and topics that need to be covered in a particular order. Semi-

structured interviews are useful to gain rich data from people such as managers and bureaucrats who are accustomed to the efficient use of their time (Bernard 2000). Although such interviews provide a full control over the flow of interview questions, they offer a choice to the interviewer to follow new leads and themes emerging from interviewees' responses.

In contrast, structured interviews do not provide flexibility to address new topics arising during the interview and suggest the use of an interview schedule, which is an explicit set of instructions to interviewers who administer a questionnaire orally (Bernard 2000). The structured approach has been considered more appropriate for undertaking quantitative research as it generates limited social reality (Minichiello et al. 2008).

Although only a few recent studies have used the interview method to study stakeholder engagement in the sustainability accounting and reporting process (see for example, Cummings 2001; Owen et al. 2001; Burchell & Cook 2006; Greco et al. 2013), the use of interviews assisted those researchers to gain an in-depth understanding of the stakeholder engagement practice. Moreover, prior studies based on documentary analysis have suggested consideration of interviews as an inquiry method to obtain further insights into stakeholder engagement issues (see for example, Belal 2002; Lingenfelder & Thomas 2011). This study recognised the potential benefits that interviews can provide for researchers to gain a deep understanding of a particular phenomenon and used them to examine the nature, extent and drivers of stakeholder engagement in the sustainability accounting and reporting process. To address the research objectives, unstructured and semi-structured interviews were held with the participants, as they offered the researcher flexibility to vary the discussion according to diverse council profiles, sustainability issues and stakeholder engagement practices.

5.4.2 Document analysis

Documents have been regarded as a helpful precursor to interviewing as they can suggest additional issues related to the case and can provide a context for interpreting the interviews (Simons 2009). They are also considered a useful method of corroborating and supporting evidence from other sources (Yin 2009). In this study documents provided a useful data source for both research phases and acted as a base to crosscheck interview data and website disclosures.

During the general phase, the study of annual/SoE/sustainability reports of Australian local councils assisted the researcher to identify potential local council cases by offering information on their stakeholder engagement initiatives. Subsequently, in the specific local council study, key documents of each local council were accessed to gain insights into each local council's contextual background, stakeholder issues, and stakeholder engagement strategies and outcomes.

Previous research studies have found that PSOs disclose sustainability information in a mixture of reports, including SoE reports, stand-alone sustainability reports, annual reports, strategy documents, their website, operations plans and community reports (Jones et al. 2005; Herbohn & Griffiths 2008; Farneti & Guthrie 2009; Williams et al. 2011). Accordingly, for the purpose of this study the sustainability reports comprised the media that disclosed local councils' initiatives in respect to sustainability and stakeholder engagement.

5.4.3 Website monitoring

Website monitoring is emerging as an important data source for examining an organisation's environmental communication with its stakeholders (Adams & Frost 2004; Unerman & Bennett 2004; Herzig & Schaltegger 2006; Lodhia 2006, 2010, 2012a). The website is an efficient medium that can provide timely information to stakeholders (Lodhia 2012a). This feature can enable a researcher to observe an organisation on an ongoing basis rather than merely undertaking periodic reviews.

The website is being used to facilitate online dialogue simultaneously with a wide range of stakeholders (Unerman & Bennett 2004). There are many global internet discussion forums covering a wide range of topics, including sustainability (Unerman & Bennett 2004). Moreover, it allows the users to record contents externally. The users can maintain a record of social and environmental information by downloading and printing sustainability information (Lodhia 2010).

Website monitoring enabled access to additional, and possibly elaborated, information about sustainability issues and the stakeholder engagement practices of the three local councils. It also provided a useful basis to observe on-going interactions between local councils and their stakeholders on social, environmental and economic issues.

5.5 Data collection

As discussed in Section 5.3, the first research phase aimed at the identification and selection of appropriate local council cases and the second research phase was an in-depth study of the local council cases. The specific focus of each phase required different data collection methods to address the research objectives. Table 5.2 shows the data collection process for this study.

Table 5.2: Data collection overview

Research Phase	Research Phase Focus	Methods
General (November 2010 to September 2011)	Identification and selection of local councils appropriate for the study	– General overview involving documentary analysis of annual reports of 523 local councils – Content analysis of 23 annual reports – Unstructured interview with the ICLEI–Oceania's ISS Manager
Local council specific (October 2011 to January 2013)	In-depth study of local council cases	– Documentary analysis of three local councils: internal documents, strategic plans, stakeholder engagement manuals and reports, community surveys, annual/SoE/sustainability reports – Semi-structured interviews held in three different stages with three local councils – Website monitoring: online disclosures, discussion forums, blogs, Facebook and Twitter

Public documents were the first access point to the local councils and provided an account of their sustainability issues, plans, policies and strategies. Although the majority of the documents were available publicly, some internal documents were also accessed. Website monitoring provided a basis to observe sustainability disclosures and interactions between local councils and their stakeholders. Interviews were useful to gain in-depth insights into the local councils' approaches and philosophies towards stakeholder engagement. Before conducting the interviews, a human ethics approval (E1) was obtained from the Ethics Review Committee at the University of South Australia. Ethics consent forms were either signed at the initial interview or were obtained through email in the case of a telephone interview. The norms of ethics were maintained throughout the interviews and while analysing, using and storing the data.

5.5.1 Data collection in the general research phase

In order to select appropriate local councils for the specific local council phase, data were collected through documents and an interview. The interview assisted the researcher to enhance the validity of documentary analysis findings.

5.5.1.1 Documentary analysis

An evidence of stakeholder engagement in the development of sustainability reports was needed to identify and select appropriate local council cases. Documents provided such information. Data was collected from the sustainability/SoE/annual reports of 523 local council websites, from six states (NSW, Queensland, South Australia, Tasmania, Victoria and Western Australia) and one major mainland territory (Northern Territory) in Australia for the financial year 2009–10. The Australian Capital Territory, another major mainland territory, was excluded from this analysis as it does not have a local tier of government and all the functions of a local council are administered by its Legislative Assembly. Data collection limitations included inaccessibility/non-availability of websites for 16 local councils and the unavailability of 2009–10 reports in 24 local councils. These local councils were mainly from regional and outback areas.

Initially, a general overview of publicly available 523 reports was undertaken to identify contextually rich local councils. Then the extent of disclosures on stakeholder engagement in the contextually rich local councils was examined to select appropriate local council cases for this study. To evaluate contextually rich local councils a stakeholder engagement index was developed. These indicators highlighted the extent and the quality of the disclosures on stakeholder engagement in sustainability reports by local councils.

Development of stakeholder engagement index

In order to observe the level of disclosure on stakeholder engagement in reporting, a stakeholder engagement index consisting of seven indictors was developed (Table 5.3). This comprehensive index was based on the major frameworks identified in the extant literature as discussed in Section 3.5.

Table 5.3: Stakeholder engagement index

Stakeholder engagement indicators	Elements of each indicator
Stakeholder identification	• Definition of 'stakeholder' • Stakeholder list • Key attributes of stakeholder groups • Relationship to the reporting organisation
Basis for stakeholder identification and selection	• Differentiation: Key/wider • Method of identification • Level of interest (perceived) noticed
Media and approaches used for stakeholder engagement	• Media used for engagement • Degree of stakeholder involvement • Frequency of stakeholder engagement
Key concerns and issues raised through stakeholder engagement	• Nature of issues and concerns • Stakeholder comments/concerns/questions quoted • Concerns and issues addressed
Evidence of stakeholder engagement	• Case studies on stakeholder engagement • Photographs/pictures • Assurance of stakeholder engagement
Future targets for stakeholder engagement	• Future Target setting • Report on last year's targets
Opportunities for feedback	• Feedback welcomed • Feedback form provided • Contact details/email/website • Explanation on use of feedback

In providing the first available empirical evidence of stakeholder engagement in sustainability reporting in the public sector, the elements of this framework were considered adequate and complete but flexible enough to enable their expansion in light of different contexts and subsequent developments in engagement and reporting approaches. The analysis focused on the 'inclusion/exclusion' of stakeholder engagement indicators in the sustainability reports. The seven stakeholder engagement indicators are discussed below.

Stakeholder identification

The stakeholder identification indicator considered whether or not an organisation defined and identified its key stakeholders. This indicator also looked for disclosures on

a list of stakeholders, the number of groups involved, the key attributes of the stakeholder groups and the relationship of each stakeholder group with the local council.

Basis for stakeholder identification and selection

This indicator examined disclosures on the process and method of identifying and selecting stakeholders for sustainability reporting and the various categories of stakeholders such as primary or secondary, key or wider and perceived level of interest.

Approaches/media used for stakeholder engagement

This indicator looked for disclosures on the range of media used by local councils to involve stakeholders such as surveys, community forums, focus groups, advisory panels and meetings. It also recorded the frequency and degree of stakeholder engagement.

Key concerns and issues raised through stakeholder engagement

This indicator categorised disclosures on the nature of key concerns and issues raised through stakeholder engagement; how these concerns and issues were responded to; and whether or not stakeholder comments, concerns and questions were quoted in sustainability reports.

Evidence of stakeholder engagement

This indicator identified evidence of stakeholder engagement in sustainability reports of the local councils. The evidence could be in the form of case studies describing the purpose of the stakeholder engagement, how stakeholders were engaged, the number of participants and the outcomes of the engagement. This indicator also included other evidence of engagement such as photographs and an assurance of stakeholder engagement.

Future targets for stakeholder engagement

The stakeholder engagement target setting indicator evaluated whether or not local councils set targets for stakeholder engagement and thereafter measured and reported their performance against the targets.

Opportunities for feedback

This indicator was measured by determining whether or not the local council has a process for stakeholders to provide responses. This indicator also focused on different

feedback opportunities such as forms, including or excluding contact details, encouraging responses and an explanation of the use of the feedback.

5.5.1.2 Interviews

The initial unstructured interview was held in April 2011 with the ICLEI–Oceania's ISS manager at her office and lasted for 1½ hours. The purpose of this interview was to discuss the results of the documentary analysis and to identify best practice Australian local councils in the context of the sustainability accounting and reporting process and their engaging of stakeholders. Figure 5.1 provides a list of questions used during this interview.

1. What is your position within ICLEI–Oceania and for how long have you been in this role? Can you also please tell about your responsibilities in relation to sustainability issues?
2. What role does ICLEI–Oceania play in supporting and promoting sustainability reporting in local councils? For how long has it been involved in this role?
3. What do you think is the role of stakeholder engagement in sustainability reporting?
4. Can you provide details about specific local councils that are leading in sustainability reporting and stakeholder engagement in Australia?
5. As your organisation supports local councils in developing sustainability reports, can you discuss instances where stakeholder engagement was critical while preparing a sustainability report?
6. In my preliminary analysis of disclosures on stakeholder engagement for sustainability reporting, I have come across 23 local councils that are making disclosures on their stakeholder engagement initiatives. Most of these councils are from NSW. Would you be aware of why this would be the case?
7. Would you like to discuss any other issue related to sustainability reporting in Australian local councils?

Figure 5.1: Interview questions for ICLEI–Oceania's ISS manager

The use of an unstructured interview with the ICLEI–Oceania's ISS manager assisted the researcher to obtain an overview of stakeholder engagement practices in Australian local councils and to raise the importance of stakeholders in the development of sustainability reports. This interview also served as an important basis to gain access to local councils for undertaking an in-depth study.

5.5.2 Data collection in the council specific phase

The focus of the specific local council phase was to understand stakeholder engagement practice in Australian local councils. Data were collected through interviews, documents and website monitoring.

5.5.2.1 Interviews

The interviews with the three local councils were conducted in three stages. The interviews provided in-depth longitudinal data to ensure that the study's findings were the result of a rigorous research process.

The initial interviews were held between October 2011 and December 2011 with the sustainability/environmental managers of the chosen local councils. These interviews sought to understand the sustainability accounting and reporting process, and to identify key stakeholders and their roles. The initial interviews provided an opportunity to identify personnel who had a critical role in stakeholder engagement in the local councils and to establish rapport with them. Strategic planning and performance management staff were recognised as the key personnel responsible for engaging stakeholders in the planning, accounting and reporting process.

The second and third series of interviews involved the participants from the initial stage as well as strategic planning co-ordinators, divisional managers, project managers and community engagement personnel. These interviews focused on gaining an in-depth understanding of the current stakeholder engagement practice of the local councils. Diversity in the interviewees' profiles provided useful insights to different aspects related to the sustainability accounting and reporting process and stakeholder engagement. The second series of interviews was held between March 2012 and July 2012, and the third series was held between October 2012 and January 2013.

Conduct of interviews

The interviewees were provided with a participant information sheet (see Appendix 1) and interview questions in advance. They were again briefed about the nature of the research on the day of interview. At the beginning of each interview, the interviewees were reminded that their identify as well as the identity of their local council would be confidential, and information received from them would be handled in an ethical manner.

The initial interviews took place at interviewees' offices and second and third interviews were by telephone. Telephone interviews have been mostly commonly associated with large-scale survey research for conducting structured interviews. However, this approach has been recognised as the mediating technology for conducting in-depth interviews, particularly when the study time is short and research topics are already well defined (Minichiello et al. 2008). Moreover, using telephone interviews is a pragmatic second choice where, for reason of resources (time and cost), personal interviews are not feasible (King & Horrocks 2010).

Personal and telephone interviews were useful to establish rapport with the participants, to gain further contacts and, later, to collect data economically. In terms of data quality, there was no significant difference between the two interview techniques although the participants preferred the telephone interview. The interviews generally lasted between 45 minutes and 1½ hours, and were taped and later transcribed for data analysis.

Establishing contact formally with the sustainability managers of each local council started in October 2011. Further contacts were established using the snowballing technique (Minichiello et al. 2008) and included an array of sustainability managers, governance managers and community engagement coordinators.

A total of 26 interviews were held at the three specific local councils. The interview questions were based on the research framework (as discussed in Chapter Four) as well as documentary analysis undertaken in the first research phase of this study. A structured list of similar questions was used for these local councils. However, specific probes and specific questions were adjusted depending on a local council's sustainability accounting and reporting, and stakeholder engagement practice.

The first interviews

The first interviews with the local councils aimed at gaining insights to their sustainability accounting and reporting process. These interviews were useful for identifying key personnel involved in the process and in stakeholder engagement in each local council. Figure 5.2 provides the list of questions used for this interview.

1. What is your position within the council and for how long have you been in this role? What are your responsibilities in relation to sustainability issues?
2. What are the key social and environmental issues in your local area?
3. What measures do you take to respond and educate these social and environmental issues in your local area?
4. Who do you consider to be the key stakeholders of the local council in relation to the sustainability accounting and reporting process?
5. How do you define and identify stakeholders in relation to social and environmental issues?
6. How is sustainability information communicated to stakeholders?
7. What are the key motivations for your council to report on social and environmental issues?

   Probe: to identify stakeholder influence in the accounting and reporting
8. Are there any other issues related to this interview that you would like to raise?

Figure 5.2: The first interview questions

Rapport was developed with the interviewees by seeking information about their roles and responsibilities. The initial interview questions were general in nature and aimed at exploring key social, environmental and economic issues within each local council. These questions identified the measures opted by the local council to create awareness about the importance of sustainable development among stakeholders. The questions established the role of the local councils in education and in responding to stakeholders' local issues.

The interviewees were asked whom they considered to be their key stakeholders for sustainability issues and the considerations behind their identification and prioritisation for an effective stakeholder engagement. This question addressed the first research objective by highlighting the nature of each stakeholder group or individual engaged by the local councils and their impact on the local sustainability issues. Details of the communication tools and motivations for sustainability reporting were also sought to develop initial insights on the influence of stakeholders. The information obtained from this interview provided a basis for investigating the nature and extent of stakeholder engagement in subsequent interviews.

The second interview

The second series of interviews focused specifically on the sustainability accounting and reporting process and the role of stakeholder engagement therein. Specific

questions were developed to address the second and third research objectives (as discussed in Section 1.3) and these sought to identify the key stakeholder engagement mechanisms adopted by the local council to involve stakeholders in the process and to establish the nature and extent of such engagement. The questions in this interview were used as general guide and probes were often used following the responses of each interviewee. The probing was guided by the preliminary findings of the first research phase[5]. Figure 5.3 lists the questions used for this interview.

1. What is your position within the council and for how long have you been in this role? What are your responsibilities in relation to sustainability issues?
2. What are the various issues/decisions involved in selection of sustainability indicators to be reported?
    - Probe: to observe influence of stakeholders
3. What sort of back-end processes are in place to capture the relevant social and environmental information for reporting?
4. How is the information collected from various departments/stakeholders in relation to sustainability issues?
    - Probe: to identify the role of internal and external stakeholders in the sustainability accounting process
5. Can you please comment on the council's current annual reporting process?
6. What are the various methods used for engaging stakeholders in the accounting and reporting process?
7. To what extent are stakeholders' feedback, issues and concerns reported in the council's annual report? How are interests, concerns, issues and suggestions of stakeholders on sustainability issues incorporated in the accounting and reporting process?
8. Do you have any additional comments in relation to the issues we have raised in this interview?

Figure 5.3: The second interview questions

The interviewees in this series included sustainability managers, strategic planning coordinators, governance managers, project managers of annual reports and community consultation coordinators. Due to the different roles and responsibilities of the interviewees, the interview questions were altered slightly to make the questions more appropriate for them and to elicit responses that were more useful. For example, the

[5] One of the aims of the first research phase was to examine the state of stakeholder engagement disclosures in sustainability reports in Australian local councils.

strategic planning coordinators were asked about the role of stakeholder engagement in the development sustainability indicators whereas the performance management executives were asked about the involvement of stakeholders in preparing and refining the reports. Each interview began with a rapport-building question about their job responsibilities and time of service. This question identified the specific role of the interviewee in the sustainability accounting and reporting process generally and stakeholder engagement specifically, and thereby assisted the interviewer to adjust the interview questions.

The interviews commenced with questions related to the local council's sustainability accounting and reporting process to assess the role of internal and external stakeholders. This question established their local council's commitment to effective stakeholder engagement in their plans and programs. The interviewees' responses recognised the influence of different stakeholders in the development of the strategic plan, sustainability indicators and sustainability reports. Their responses also highlighted the need and importance of engaging stakeholders in the process.

The extent of engagement in the process was also explored. The interviewees were asked about various mechanisms adopted by the local council to engage stakeholders. To assess the extent of engagement, probes about the level of participation achieved through each engagement method were used. This question was followed by an enquiry into how suggestions and responses received from stakeholders were incorporated in the sustainability accounting and reporting process. The final question was used to identify other emerging issues related to effective stakeholder engagement in the process.

The third interviews

The third series of interviews sought to address the fourth and fifth research objectives – the key issues and challenges related to effective stakeholder engagement and the drivers of stakeholder engagement. Moreover, these interviews were the final opportunity for the participants to talk about issues that may have not been raised in earlier interviews. Figure 5.4 lists the questions used for the final interview.

The initial question aimed at exploring the interviewees' perceptions about effective stakeholder engagement. A number of probes were used to gain insights into the nature

of stakeholder engagement. The emphasis was on assessing the usefulness of involving stakeholders in the sustainability accounting and reporting process.

1. How would you define stakeholder engagement? What are your views on the usefulness of stakeholder engagement in the sustainability accounting and reporting process?
2. Discuss instances where stakeholder engagement provided critical directions in the accounting and reporting process.
3. What are the motivations for engaging stakeholders in the sustainability accounting and reporting process?

   Probe: Normative influence – Which framework does your local council use to guide the stakeholder engagement process?
4. What are your key issues or challenges regarding stakeholder engagement in sustainability accounting and reporting?
5. Are there any other issues reacted to this interview that you would like to raise?

Figure 5.4: The final interview questions

The first and second series of interviews provided initial insights into stakeholder engagement process, including the identification of key stakeholders, their influence on the sustainability accounting and reporting process, stakeholder engagement mechanisms and the extent of engagement. The third interview provided an opportunity to not only verify these findings but also to obtain additional information on issues that emerged in the last two interviews. For example, if a specific engagement mechanism was designed to engage a particular stakeholder group, the reasons and implications for its use could be obtained.

In order to establish the role of stakeholder engagement in the sustainability accounting and reporting process, the interviewees were asked to discuss recent instances where the local council engaged with its stakeholders. Responses from interviewees highlighted the local council's attitude towards meaningful engagement and the level of say provided to stakeholders to influence the local council's decision.

The drivers of stakeholder engagement in the sustainability accounting and reporting process were then determined. This aimed at identifying factors affecting the nature and extent of stakeholder engagement. Emphasis was given to the influence of these factors on enabling as well as constraining stakeholder engagement over time.

Towards the end of the interview, the key concerns and challenges regarding stakeholder engagement were explored. This sought to establish what factors can hinder an organisation in implementing stakeholder engagement programs and limit the effectiveness of engagement outcomes. Any concern raised in earlier interviews was also probed. Finally, the interviewees were asked to discuss other significant issues that had an impact on meaningful stakeholder engagement. The intention was to capture all the possible factors that affect stakeholder engagement in the sustainability accounting and reporting process.

5.5.2.2 Documentary analysis

Document analysis in the second research phase not only provided a basis to substantiate interview data but also provided insights into the local councils' sustainability issues, stakeholder concerns and their communication practices.[6]

Annual reports and SoE reports, which were available on websites for the periods from 2008 to 2012, provided useful insights into the specific local council phase. Community engagement strategies and other publicly available information related to the local councils' stakeholder engagement practices, such as community surveys, community engagement reports and the proceedings of presentations given to various stakeholders, were also studied. State government regulations relevant to each local council and specifically related to stakeholder engagement were accessed. These regulations included the *New South Wales Planning and Reporting Manual for Local Government 2010* and Queensland's Local Government Act 2009.

These documents also provided a context for the research process. They enabled an understanding of organisational structure and activities as well as the stakeholder engagement process – key stakeholders and engagement mechanisms – of each local council. By providing council specific information, they also assisted in preparing interview questions.

[6] A list of specific documents accessed for each local council is provided in Chapters Seven to Nine.

5.5.2.3 Website monitoring

A regular monitoring of websites was undertaken in the specific local council phase from January 2012 to December 2012. Monitoring time depended on the extent of stakeholder engagement initiatives communicated on the website and ranged from 30 to 60 minutes.

Website monitoring was not limited to the local councils' homepage and the pages related to sustainability and stakeholder engagement. Given that stakeholder dialogue can be facilitated using technological engagement media, online discussion forums, blogs, Facebook, Twitter and media releases, these resources were also accessed.

The focus of website monitoring was to observe the key stakeholders involved and the nature and frequency of conversations between the local council and its stakeholders. A checklist was created based on the research framework developed in Chapter Four to evaluate the nature and extent of stakeholder engagement offered by the website medium (Figure 5.5).

1. What is the type of website medium?
    a. Web page
    b. Twitter
    c. Facebook
    d. Online discussion forum
    e. Blogs
    f. Others
2. What is the nature of discussions offered by the medium?
3. Who are the key stakeholders involved in the discussions?
4. What is the response of stakeholders on the discussions initiated by the local council?
    a. How many stakeholders are involved?
    b. Are stakeholders raising any issues on the medium? If any, what are they?
    c. Are stakeholders commenting on each other's posts?
5. How does the local council respond to issues raised by stakeholders?

Figure 5.5: Checklist for evaluating the potential online media for stakeholder engagement

The monitoring of online social media undertaken in this study represents the development of a new approach for studying stakeholder engagement. This approach

extended beyond the study of online disclosures and forums. It required regular examination of social media used by the local council to engage stakeholders. Unerman and Bennett (2004) conducted an in-depth analysis of an internet web-forum and Lodhia (2006, 2012a) examined the potential of websites in enhancing environmental communication with stakeholders through longitudinal website monitoring. All these studies found useful insights into current communication practices. This study adds to the literature through utilising social media for examining the nature and extent of stakeholder dialogue facilitated by them.

5.6 Data analysis

Data analysis comprises the procedures, including coding, categorisation and theme generation, that enable the researcher to organise and make sense of the data in order to produce findings and an overall understanding of the case (Simons 2009). The analysis of case study is dependent on the researcher's own style of rigorous empirical thinking, along with the presentation of sufficient evidence and a careful consideration of alternatives (Yin 2009).

For analysing the data, a constant comparative analytical technique (Boeije 2002) was applied. The use of the constant comparison method enabled analysis of the cases at multiple levels, including interviews at the individual case and cross-cases levels. Initially, the data from a particular case study was analysed at the individual level. For example, interview one was compared with other interviews. Subsequently, inter-data source comparisons were undertaken involving cross analysis of interviews, documents and websites. Finally, the case was compared with the other two cases.

The cross-case analysis allowed the development of analytical generalisations of the factors contributing to stakeholder engagement in the sustainability accounting and reporting process. Therefore, the objectives of this research were applied to all three cases consistently. The factors that were common to all the specific local councils provided 'stronger' analytical generalisation than those found relevant in only one or two of the local councils.

5.6.1 Analysis of interviews

Recorded interviews were transcribed to facilitate the analysis of interview data. The researcher transcribed over half of the interviews and had some assistance for the remainder:

> Transcribing the interviews yourself enables you to analyse in depth as you transcribe and gives you a better 'feel' for the data as you progress. This is unavoidably time-consuming but in terms of obtaining insights and forcing you to think about the data, it can be invaluable (O'Dwyer 2004).

Initially, the interviews were listened to and a summary was drawn out of each transcript to develop a general understanding of the themes arising from the data (O'Dwyer 2004). This was useful in revisiting the initially developed codes and creating a sense of preliminary key findings before analysing the transcript in detail.

Then each transcript was converted to a three-column table to conduct in-depth analysis. While the interview text was placed in the left column, the remaining two columns – codes and other comments – were left blank. The purpose was to provide a clearly delineated worksheet that allowed handwritten annotations to be made alongside the interview data and to facilitate a comparison between other interviewees' answers to the same questions. Each interview response was divided into paragraphs in the table. These were separated according to interviewees' responses in relation to the codes generated based on the research framework. Different colours were used to identify the key themes arising from the data. This analysis approach was useful for organising similar themes in one file and generating the reasoning behind current stakeholder engagement practices.

Moreover, the Nvivo software program was used to cross-check the themes identified manually to ensure that all themes arising from the data had been recognised during the analysis (Boeije 2010). The software was also used to search for words or string of words in the interviews to obtain the frequency of the words for determining stronger codes.

This research used open coding (Boeije 2010) to identify the key themes from the study of the three local councils. A code is a label that depicts the core topic of a segment (Boeije 2010). Open coding is the process of breaking down, examining, comparing, conceptualising and categorising data (Corbin & Strauss 2008). The use of open codes provide an opportunity to read the data carefully and to divide it into fragments (Boeije

2010). Open coding encourages a thematic approach since it forces the researcher to break the text into pieces, to compare them and to assign them to a group that addresses the same issue (Boeije 2010).

Coding was started at the outset of the research project and continued throughout the process of data collection. The continual code building ensured the inclusion of all the relevant codes to address issues around stakeholder engagement in the sustainability accounting and reporting process. Initially, the codes were generated based on the research framework. In line with this, most of the interview questions (as discussed in Section 5.5.2.1) were designed to capture the nature, extent and drivers of stakeholder engagement in the process. For example, it was expected that the responses to the questions regarding 'stakeholder engagement drivers' would be consistent with the influences suggested by the new institutional theory. Accordingly, codes that corresponded to institutional influences were created. These codes included 'coercive influence', 'mimetic influence' and 'normative influence'.

Given the possibility of the emergence of certain issues not covered under the initial theoretical codes, any new issue raised by interviewees was also recognised and coded for probing in later interviews. For instance, some codes were developed from the last questions of the interview, where interviewees had the opportunity to raise specific issues not covered in the interviews. These informed future interview questions to capture explanations related to the code through the interview process. Table 5.4 highlights the key codes used and terms associated with them to analyse the nature, extent and drivers of stakeholder engagement.

The data related to each code (including emerging themes) for a particular local council were stored as a separate electronic file and hard copy as well as in Nvivo. These data were then substantiated with the evidence from the other data sources – the documents and website monitoring.

The nature, extent and drivers of stakeholder engagement were analysed for the entire sustainability accounting and reporting process to establish the importance of engagement for each local council. The key stakeholders and engagement mechanisms were identified based on their influence and utility in the planning, accounting and reporting process. For instance, the role of certain stakeholders was critical in sustainability planning yet at the same time had no influence on sustainability reporting.

Table 5.4: Terms that could be identified from the interview data

Codes	Terms
Sustainability accounting and reporting	State of the Environment report, Integrated Planning and Reporting framework, planning and reporting, annual reports, strategic plans, community plans
Stakeholder engagement	Two-way dialogue, listening to residents, understanding our community, Community consultation, community involvement, participation, involvement of stakeholders, partnership, dialogue with people, discuss, interact, talk, educate
Key stakeholders in sustainability planning	Council staff, us, we, CEO, councillors, community, residents, ratepayers, visitors, business, government, university, aboriginal community, social and environmental groups
Key stakeholders in sustainability accounting	Council departments, local community, government, external agencies, council staff
Key stakeholders in sustainability reporting	Local community, consultants, councillors, awarding adjudicators
Engagement media for sustainability planning	Email, Facebook, Twitter, blogs, online, forums, television, radio, surveys, focus groups, precinct groups, study groups, workshops, public exhibitions, open days, newsletters, meetings
Engagement media for sustainability accounting	Meetings, make telephone calls, ask local community about performance satisfaction, surveys
Engagement media for sustainability reporting	Annual reports, television, radio, networking
Coercive influence	Regulatory pressure, legislative requirement, mandatory for council, now we have to engage
Mimetic influence	Local community, stakeholder, resident
Normative influence	Work with consultants, send reports to awarding agencies, win awards
Internal organisational factors	Our CEO wants, committed to community engagement, leadership
Challenges and difficulties in stakeholder engagement	Lack of interest, expensive, time consuming, political factors

As mentioned, a cross-case analysis was also undertaken. The classification of the nature, extent and drivers of stakeholder engagement provided the basis for comparing each local council's practice. The cross-case analysis was subsequently used to develop analytical generalisations of the research findings.

5.6.2 Analysis of documents

Documents were analysed in the both research phases – general and local council specific – to analyse stakeholder engagement disclosures in local councils' documents.

During the first research phase[7], initially, a general overview of sustainability reports of 523 Australian local councils was undertaken to locate evidence of stakeholder engagement in the development of sustainability reports. This general overview at first identified the local councils who were reporting on their sustainability issues and, subsequently, the local councils that engaged with their stakeholders in the sustainability reporting process.

Having identified contextually local councils, content analysis (Mayring 2004; Flick 2006) was used to examine stakeholder engagement disclosures. The key focus of the content analysis was to examine the extent and nature of disclosures made by the local councils. The analysis was guided by the stakeholder engagement index (as discussed in Section 5.5.1.1) to reflect the theoretical constructs used in this research. The analysis examined 'inclusion/exclusion' of stakeholder engagement indicators developed on the basis of the literature review and stakeholder accountability frameworks provided by AccountAbility, GRI and the Environment Council.

In the specific local council phase, documentary analysis was conducted to address the key research objectives and followed similar themes used in the analysis of interviews. The focus during the analysis was collecting evidence on the nature, extent and drivers of stakeholder engagement rather than word count and page count for stakeholder engagement disclosures.

5.6.3 Analysis of websites

The information collected through website monitoring was analysed on an ongoing basis. In line with Lodhia (2012a), a postscript stage identified any significant changes to the website in relation to environmental issues beyond the period of analysis. The discussion of the role of stakeholder engagement in the sustainability accounting and reporting process (Section 3.3) was used to identify stakeholder interactions and engagement policies on a website. The emphasis was on engagement related to issues specifically related to the sustainability accounting and reporting on a website (rather than the general community engagement programs). This focus resulted in an analysis

[7] The findings of the study of stakeholder engagement disclosures are discussed in Chapter Six.

of issues related to community education and community engagement for establishing the local councils' environmental strategies, resource allocations and sustainability vision.

For analysing website information similar codes as used during the analysis of interviews were followed to provide detailed explanations and to cross-check the interview data. However, few additional codes were created to analyse online interactions between the local council and its stakeholders. The codes included the nature of interaction, the stakeholders' response, the local council's follow-up and frequency of engagement.

5.7 Research validity and reliability

Validity ensures that the appropriate research methods are designed to capture the reality of phenomenon, and reliability encourages rigorous research design that would offer replication in the future, provided the same procedures are followed (Simons 2009; Yin 2009). Tests that can be used to enhance the quality of case study research as well as to verify the appropriate conduct of the research and the analysis of data are construct validity, internal validity, external validity and reliability (Yin 2009).

Construct validity is concerned with defining and establishing the correct operational measures for the phenomena under study (Yin 2009). This can be achieved by using multiple sources of evidence, establishing a chain of evidence and having the draft case study reviewed by the participants (Yin 2009). Construct validity in this study was enhanced in the following ways:

1. Collecting data from multiple sources
    a. an unstructured interview with a NGO supporting an Australian local council;
    b. 26 semi-structured interviews with 16 different managerial personnel from the three local councils in the study;
    c. stakeholder engagement information from the local council's reports (annual reports, strategic plans, community surveys, engagement policies, engagement outcomes reports and presentations); and
    d. stakeholder engagement from the local council's website, including online disclosures, discussion forums, blogs, Facebook and Twitter.
2. Establishing a chain of evidence
    a. taking notes during and immediately after interviews;

b. compiling verbatim interview transcripts from the recorded interviews; and

c. using a two-phase systematic approach – general and specific local council – for data collection.

3. Review by key participants – each interviewee was given the opportunity to review their transcript.

Internal validity aims at establishing a causal relationship whereby certain conditions are shown to lead to other conditions to distinguish them from spurious relationships (Rowley 2002). It is mainly a concern for explanatory case studies because they rely on inferences about events that cannot be directly observed. In this study, internal validity is improved by data analysis techniques. Constant comparison of one interview with other interviews within a case and subsequent cross-case analysis supported internal validity. Moreover, documents corroborated the findings of the website monitoring and interviews in some instances.

Yin (2009) indicated explanation building was one of the analytic tactics for addressing internal validity. The use of a three-column worksheet (discussed in Section 5.6.1) facilitated the identification of key themes and their comparison with similar interviews and the research framework. This comparison resulted in explanation building and addressed rival explanations for each case in this study.

External validity establishes the domain to which a study's findings can be generalised. As discussed in Section 5.2, the method of generalisation used for the case studies is not statistical generalisation, but analytical generalisation in which a previously developed theory is used as a template to compare the empirical results of the case study. External validity in case study research also relates to research design. The emphasis is on whether a single case or multiple cases have been used and the logic used to justify this selection. The multiple case study design in this research enabled replication and was used to derive theoretical conclusions. Replication logic implies that analytical generalisations are developed through similar and contrasting findings across a number of cases.

The objective of reliability is to ensure that procedures are documented to allow the reproduction of the results should the 'same' case study be undertaken by another researcher (Yin 2009). Reliability in case study research is achieved by the development of a case study protocol and a case study database. The protocol for this case study was

established through a document outlining the research project and the steps to be undertaken to collect and to analyse data in order to arrive at theoretical conclusions. The database was created through the materials collected during the research. Both of these devices were utilised thoroughly in this research.

5.8 Case study compilation

This study used a multiple case report (Yin 2009) to present its findings. In a multiple-case report, each case is presented individually before undertaking cross-case analysis. This compilation style is useful for obtaining an in-depth understanding of a particular case initially and then using this understanding as the basis for comparing similar and contrasting findings across cases.

In order to select contextually rich local councils as cases for this research, an analysis of annual/SoE/sustainability reports of Australian local councils and an unstructured interview with the ICLEI–Oceania's ISS manager were undertaken. Specific details relating to the identification and selection of cases are provided in Chapter Six and, subsequently, each case is discussed as a separate chapter . After presenting the findings of each case, the cross-case analysis is presented in Chapter Ten.

In presenting the analysis, individual interviewees are not referred to by name. Instead, they are referred by the code name allocated to them to maintain the anonymity of the interviewees. Documents were also coded to enhance the presentation of data.

A similar format is used for the multiple case chapters to maintain consistency across the three cases. Each chapter begins with a discussion of the data sources for a particular local council and a description of the contextual background of that local council. This is followed by a presentation of the findings on various research objectives.

In each case study chapter, the stakeholder engagement practice is observed through data collected from the interviews, documents and website monitoring. The emphasis is on the nature, extent and drivers of stakeholder engagement in the sustainability accounting and reporting process. The key stakeholders and engagement mechanisms are discussed for sustainability planning, accounting and reporting separately followed by ascertaining the extent of engagement exercised by local councils while engaging with stakeholders. Then the key issues and challenges related to stakeholder engagement are explained. Finally, institutional influences affecting the nature and

extent of stakeholder engagement are discussed. This process involves a discussion of coercive, mimetic and normative influences and certain themes emerging from the field. Interviews and documents primarily support these findings.

The cross-case analysis presented in Chapter Ten involves a comparison of the research objectives across all three cases with the intention of integrating all the findings to establish the stakeholder engagement practice. A comparison of similar and contrasting findings across the cases was also undertaken to promote replication logic and analytical generalisation.

5.9 Summary

Case study research methodology was considered the most appropriate research strategy for this study. It allowed the use of a range of research methods, including interviews, documents and website monitoring to address the research objectives. Documents were useful for understanding the state of stakeholder engagement in sustainability reporting and assisted in building contextual backgrounds of the local council cases.

The use of semi-structured interviews provided flexibility in exploring contemporary issues specific to each of the local council cases without losing focus of the central research objective. Furthermore, as local councils could have adopted contemporary reporting media such as online disclosures, website monitoring emerged as a useful tool to observe on-going stakeholder interaction. The constant comparison analysis approach assisted cross-case examination of local council cases by allowing multi-level data analysis.

The next five chapters will present the findings of the study. Chapter 6 will provide an overview of the current state and extent of stakeholder engagement disclosures in Australian local councils and also discusses the selection of the local council cases. The following three chapters present case specific findings. Chapter Ten will discuss the findings by presenting cross-case analysis. The final chapter will present the major findings and contributions of this study. This chapter will also discuss the limitations of the study and identify future research directions in the area of stakeholder engagement in the sustainability accounting and reporting process.

Chapter Six: Disclosures on stakeholder engagement in sustainability reports in Australian local councils

6.1 Introduction

This chapter aims at the identification and selection of contextually rich Australian local councils to examine the role of stakeholder engagement in the sustainability accounting and reporting process. The identification of contextually rich local councils was made on the basis of a general overview of the annual/SoE/sustainability reports focusing on disclosures on stakeholder engagement in sustainability reporting. The selection of the cases was based on extensive documentary analysis using a stakeholder engagement index and an interview with the ICLEI–Oceania's ISS manager.

Section 6.2 provides an overview of the documentary analysis and an interview undertaken to select local council cases. The following section presents a statewide analysis of disclosures on stakeholder engagement in sustainability reporting in Australian local councils, and identifies the local councils that are making such disclosures. Section 6.4 highlights the level of disclosures on stakeholder engagement in the identified local councils. Section 6.5 discusses the findings of the documentary analysis in the light of stakeholder engagement literature. Section 6.6 describes the considerations for the selection of local council cases and provides details on local council cases for the second phase in-depth study.

6.2 Overview

The lack of studies demonstrating the best practice Australian local councils in relation to stakeholder engagement raised the need to identify the local councils that involve their stakeholders in the development of sustainability reports. In order to identify and select appropriate cases, the state of stakeholder engagement in sustainability reporting was ascertained on the basis of documentary analysis and an interview.

As discussed in Section 5.5.1.1, the documentary analysis involved a general overview and content analysis of annual/SoE/sustainability reports. A general overview of 523 local councils' reports aimed at identifying contextually rich local councils by locating evidence of stakeholder engagement in the development of sustainability reports. This

general overview initially identified the local councils who were reporting on their sustainability issues and, subsequently, the local councils that engaged with their stakeholders in the sustainability reporting process.

The content analysis involved an extensive study of the sustainability reports of twenty-three local councils identified in the general overview to ascertain the extent of disclosures on stakeholder engagement in sustainability reporting. The purpose of ascertaining the extent of stakeholder engagement was to identify best practice local councils for addressing the central research question. The analysis examined 'inclusion/exclusion' of the seven stakeholder engagement indicators constructed on the basis of prominent stakeholder engagement frameworks (Section 5.5.1.1). Moreover, the nature and level of stakeholder engagement in sustainability reporting was examined through a ladder of participation (Section 3.3.3; Arnstein [1969]).

Having examined the extent of stakeholder disclosures and identified the contextually rich local councils, an unstructured interview with ICLEI–Oceania's ISS manager assisted in the selection of the local councils to study. This interview was useful for determining the appropriate local councils for this study and for exploring the state of sustainability reporting and stakeholder engagement practices in Australian local councils.

6.3 Analysis of statewide disclosures on stakeholder engagement

This section reports evidence of stakeholder engagement in sustainability reporting in Australian local councils, highlights the state of disclosure on stakeholder engagement in sustainability reporting and underpins the role of stakeholder engagement in the development of sustainability reports. The main aim of the statewide analysis of disclosures was to locate the local councils engaging with their stakeholders in the development of their sustainability reports.

Local councils in four states provided information about their initiatives to involve stakeholders while preparing sustainability reports. NSW was found to have highest percentage of local councils (13.42%) that were making these disclosures. Queensland, Victoria and Western Australia each had one local council that disclosed information on stakeholder engagement in sustainability reporting. Table 6.1 shows the percentage of local councils in each state and territory making disclosures on stakeholder engagement in sustainability reporting.

Table 6.1: Local councils reporting on stakeholder engagement in sustainability reporting

State	No. of local councils in Australia[8]	No. of local council reports studied in each state	No. of local councils reporting on sustainability issues	No. of local councils reporting on Stakeholder engagement	Percentage of local councils reporting on stakeholder engagement
NSW	152	150	149	20	13.42%
Northern Territory	16	12	11	0	0%
Queensland	73	63	33	1	3.03%
South Australia	74	68	67	0	0%
Tasmania	29	29	28	0	0%
Victoria	79	79	79	1	1.26%
Western Australia	140	122	35	1	2.85%
Total	563	523	402	23	5.72%

Twenty-three local councils in Australia were found to be reporting on stakeholder engagement for sustainability reporting. All of these local councils highlighted the significance of involving stakeholders during the development of sustainability reports and regarded it as the core element of their reporting framework. Stakeholder engagement assisted the local councils to identify material sustainability issues, to determine sustainability indicators and targets, to evaluate performance towards sustainability goals and to improve decision-making processes. Some of the stakeholder engagement disclosures were:

> *Melton Shire Council:* 'Community consultation and engagement is a core ingredient in Council's Corporate Planning and Reporting Framework'.
>
> *Broken Hill City Council:* 'Council recognises that the SoE is a useful environmental reporting tool that benefits from the input of the other organisations, groups and the general public. Council therefore encourages community input and consultation for the compilation of the report'.

[8] Sources include state and territory local government websites – NSW figures from Division of Local Government, Department of Premier and Cabinet; Northern Territory figures from Department of Local Government and Regional services, Northern Territory Government; Queensland figures from Department of Local Government, Queensland Government; South Australia figures from Local Government Association of South Australia; Tasmania figures from Local Government Association, Tasmania; Victoria figures from Department of Planning and Community Development, State Government Victoria; and Western Australia figures from Department of Local Government, Government of Western Australia.

City of Canada Bay: 'The process of community consultation is widely recognised by Council as a means of providing communication between stakeholders, thus enabling improved decision making on important issues. The advantages of local community involvement in the collection of data for the report include:

- Improved decision making based on broader information sources;
- Increased community commitment and ownership of local environmental programs; and
- Lower cost of data collection for each SoE Report'.

6.4 Analysis of the extent of disclosures on stakeholder engagement indicators

After the identification of local councils that were disclosing their initiatives on stakeholder engagement for sustainability reporting, an extensive analysis of the level of stakeholder engagement disclosures was conducted in terms of what and how information was being reported. This analysis was undertaken for 23 local councils identified in the statewide analysis of disclosures on stakeholder engagement in sustainability reporting.

Table 6.2 highlights the percentage of local councils disclosing information against each stakeholder engagement indicator and its sub-components. This percentage has been calculated on the basis of the total number of local councils out of 23 local councils found to be disclosing information on various aspects of stakeholder engagement in sustainability reporting. The overall disclosure percentage indicates the percentage of local councils reporting on each of the seven indicators. An overall indicator was considered to be disclosed when one or more of the sub-components of an indicator were present in the reports.

Stakeholder identification

The findings highlight that the majority of the local councils were identifying their stakeholders in their reports. Some 82.60% of the local councils explicitly identified their stakeholders. Therefore, local councils seem to be aware of the audience of their sustainability reports. However, the reports lacked the definition of stakeholders.

The key stakeholders recognised for sustainability reports included the community, local environmental groups, community organisations, employees, local businesses, councillors, suppliers, state and federal governments, universities and ratepayers.

Table 6.2: Detailed analysis of stakeholder engagement indicators and their sub-components

No.	Stakeholder engagement indicators	Overall percentage of local councils disclosing on indicators	Percentage of local councils disclosing on each of the indicator sub-components	
1.	Stakeholder identification	82.60%	Definition of 'stakeholder'	4.34%
			Stakeholder list	82.60%
			Key attributes of stakeholder groups	4.34%
			Relationship to the reporting organisation	4.34%
2.	Basis for stakeholder identification and selection	60.86%	Differentiation: Key/wider	60.86%
			Method of identification	0%
			Level of interest (perceived) noticed	0%
3.	Media and approaches used for stakeholder engagement	91.30%	Media used for engagement	91.30%
			Degree of stakeholder involvement	91.30%
			Frequency of stakeholder engagement	8.69%
4.	Key concerns and issues raised through stakeholder engagement	78.26%	Nature of issues and concerns	78.26%
			Stakeholder comments/concerns quoted	0%
			Concerns and issues addressed	65.21%
5.	Evidence of stakeholder engagement	4.34%	Case studies on stakeholder engagement	4.34%
			Photographs/pictures	4.34%
			Assurance of stakeholder engagement	0%
6.	Future targets for stakeholder engagement	0%	Future Target setting	0%
			Report on last year's targets	0%
7.	Opportunities for feedback	65.21%	Feedback welcomed	13.04%
			Feedback form provided	8.69%
			Contact details/email/website	65.21%
			Explanation on use of feedback	8.69%

The analysis also provided evidence of a number of graphical presentations such as stakeholder mapping being utilised. However, only one local council disclosed information about the relationship of various stakeholder groups to the organisation and the key attributes of these stakeholder groups.

Basis for stakeholder identification

Some 60.86% of local councils were found to be disclosing information on stakeholder identification issues related to basis of stakeholder identification and selection. Fourteen local councils differentiated between their key and wider stakeholders. However, no local council provided any information about the method of stakeholder identification and selection.

Approaches/media used for stakeholder engagement

The study of approaches/media for stakeholder engagement indicator highlights that a range of media is being used by a majority of local councils for engaging with stakeholders. These media included surveys, workshops, public forum, focus groups, meetings, face-to-face discussions, 'Bang-the-Table' online forums and panels, e-newsletters, local newspapers and direct mail. Some local councils were also using internal peer review and public exhibition of a draft report to involve employees and staff in the preparation of the report. In relation to the degree of stakeholder involvement in sustainability reporting, the majority of the local councils were found to be undertaking consultations with their stakeholders for reporting.

The local councils were also found to be involving the community through partnerships and education programs. However, these approaches were mainly used to involve the community in planning and policy formulations.

Key concerns raised through stakeholder engagement

The findings highlight that the key concerns raised through stakeholder engagement are being reported by the majority of the local councils. These disclosures were usually related to social and environmental issues and concerns of the community and other key stakeholders. These issues were well addressed by the local councils while reporting on sustainability issues.

Findings related to the study of this indicator also suggest that stakeholder engagement was not convenient for all of the local councils. One of the local councils commented on unsuccessful stakeholder involvement:

> *Kempsey Shire Council:* 'The community was invited to form a 'Focus Group' for the 2008/09 Comprehensive SoE Report. Advertisements were placed in local papers calling for expressions of interest (EOI) for community representatives during March and April 2009, however, Council did not receive any written responses. Following this Council moved forward with developing the draft structure and commenced preparations for drafting the Report. The draft 2008/09 Comprehensive SoE Report was presented to Council at its meeting of 8 September 2009, where Council resolved to endorse the draft Report for the purposes of public exhibition. The draft Report was placed on formal public exhibition for a period of 28 days from Tuesday 15 September to Tuesday 13 October 2009. The draft Report was made publicly available on Council's internet site and hard copies were distributed for public viewing at Council's Customer First Centre and at South West Rocks, Hat Head and Stuarts Point Libraries during normal opening hours. At the conclusion of the public exhibition period, no submissions had been received on the draft Report'.

Another local council indicated an unwillingness of stakeholders to participate in the process*:*

> *Broken Hill City Council:* 'Sixteen key stakeholders, as per 2009, were approached in writing to make submissions for the preparation of this report as well as advertisements being placed in the Barrier Daily Truth requesting submissions. Of the stakeholders that were approached in writing, two submissions were received, one from Country Water, advising of their activities undertaken during the reporting period, the other from Lower Murray Darling Catchment Management Authority, similarly advising of their activities undertaken during the reporting period. There were no submissions received by Council from the general public'.

In this case the local council appears to have made sincere efforts through sending an invitation to participate in a focus group and by putting the document on exhibition for feedback. However, the local council failed to obtain community support in the reporting process.

Evidence of stakeholder engagement

Only one local council presented evidence of stakeholder engagement in its sustainability report. This evidence included detailed information on how stakeholders were engaged, a graphic presentation of community surveys and photographs of community engagement.

Future targets for stakeholder engagement

No local council disclosed any information on future targets for stakeholder engagement. Thus, the local councils appear to be less directed and motivated by future stakeholder engagement goals.

Opportunities for feedback

The findings suggest that 65.21% of the local councils provided feedback opportunities to stakeholders. Most of these local councils provided contact details for feedback or enquires facilities about sustainability reports.

Only two local councils provided an explanation as to why stakeholders should respond and how feedback would be used, and encouraged their stakeholders to provide feedback on the quality of their sustainability reports.

The number of local councils offering a feedback form to their stakeholders was also found to be very low. Only two local councils provided a form in order to get feedback on various issues related to the sustainability report.

6.5 Discussion

From the results of this study it appears that there exists a very low level of disclosure on stakeholder engagement in the development of sustainability reports. However, we cannot conclude that stakeholders are not being engaged by these local councils. It is possible that stakeholder input is being included in the preparation of sustainability reports; it is, however, as ACCA (2007, p.7) found, going 'largely unnoticed by readers due to the lack of disclosures on stakeholder engagement mechanisms and results' because of the voluntary disclosure practice. Local councils should make public the process they use to gain stakeholder input to provide an account of engagement outcomes.

The study identified 23 Australian local councils that were disclosing their efforts in relation to stakeholder engagement in the development of sustainability reports. The shire and regional local councils were found to be more involved with their community and key stakeholders than the city local councils. However, the linguistic approach used in the disclosures was found to be relatively similar local councils. Such similarity could exist because of regulatory influences and the use of consultancy services in developing the reports.

A further examination of disclosures in the identified local councils highlighted the importance and role of stakeholder engagement in sustainability reporting. Descriptive stakeholder theory was applied to explain who the key stakeholders for the local councils are and how and to what extent this engagement is taking place. The findings of the study suggest that the majority of local councils do recognise their key stakeholders. In addition to internal stakeholders such as employees, this study highlights the involvement of external stakeholders such as the community, environmental groups, ratepayers, universities and local community organisations. The analysis of council reports indicates that most of the local councils considered the community as their key stakeholder for the purpose of sustainability reporting. This could be anticipated due to the local councils' direct accountability towards residents and ratepayers as mentioned in these reports. This finding is inconsistent with the key stakeholders recognised by Farneti and Guthrie (2009) in their study of sustainability reporting in Australian PSOs. They found that sustainability reporting in PSOs is mainly driven by internal stakeholders.

Although stakeholder identification and prioritisation has been highly regarded as an embarking point for the stakeholder engagement process, no local council disclosed the specific methods for stakeholder identification. The only information disclosed in relation to identification was in form of the distinction made on whether they are addressing key stakeholder groups or a wider audience.

In reference to Arnstein's ladder of participation (as discussed in Section 3.3.3), the findings of this research suggest that the local councils are positioned at the 3rd (informing), 4th (consulting) and 5th (placation) rungs of the ladder (Table 6.3). The stakeholder engagement approaches included informing techniques such as newsletters, e-newsletters, direct mail and local newspapers; consultation techniques such as surveys, online forums, peer review, workshops and meetings; and placation techniques such as focus groups, public forums and face-to-face discussions. Online forums are emerging as efficient media for stakeholder engagement in the local councils.

The majority of the local councils used a consultative approach to identify the key concerns and issues of their stakeholders and to gather the feedback on their sustainability reports. Cummings (2001) in the study of stakeholder engagement in UK organisations also observed consultation as the commonly used level of engagement along with

informing and partnership. However, this form of engagement could restrict the implementation of suggestions and recommendations provided by stakeholders because in such a form of engagement, decision and veto lies with the power holder (Arnstein 1969). No local council reported on the frequency of their stakeholder engagement.

Table 6.3: The position of 23 local councils on the basis of Arnstein's ladder

Rungs of Arnstein's ladder	Stakeholder engagement techniques used
Informing (3rd)	Newsletters, e-newsletters, direct mail and local newspapers
Consultation (4th)	Surveys, online forums, peer review, workshops and meetings
Placation techniques (5th)	Focus groups, public forums and face-to-face discussions

Furthermore, engagement strategies and frameworks were found to be guided by statewide legal requirements. Low level use of international frameworks such as AccountAbility and GRI was observed in the reporting practices. This diversity in the engagement and disclosure practices of the local councils could reduce comparability. This study also finds that disclosure on stakeholder engagement was high in the local councils where state legislation made it mandatory to involve stakeholders in the reporting process. Manetti (2011) in his study of the quality of stakeholder engagement in sustainability reporting also observed the same regulatory influence on engagement policies. This implies that the majority of local councils engage with their stakeholders to comply with the mandatory requirements rather than recognising them as a key means to attain sustainability goals.

This analysis also highlights complexities and difficulties in the engagement process. A lack of stakeholders' interest to engage was the major difficulty observed in this study. This contributes to the list of complexities and difficulties identified by Unerman (2007).

6.6 Selection of cases

The document analysis and an interview with the ICLEI–Oceania's ISS manager guided the selection of the local council cases for the next phase of this research. Given that the disclosure on stakeholder engagement in sustainability is a voluntary practice in Australian local councils, the interview was useful for identifying those local councils which do not disclose their stakeholder engagement initiatives in their sustainability

reports. The interviewee highlighted that most of the Australian local councils are engaging with their stakeholders on a range of issues, including sustainability reporting. In cases where such engagement initiatives are not disclosed, the problem is relatively associated with disseminating, holding, sharing and interpreting the information internally rather than the actual engagement. The interview also provided an opportunity to substantiate the findings of the documentary analysis.

The interviewee emphasised the role of stakeholder engagement in the development of sustainability reports. She mentioned that stakeholder engagement assists local councils to identify priority sustainability issues, to connect the local community with their core goals, and to attain and assess performance against sustainability targets.

In addition to reviewing and elaborating on the document analysis findings, the interviewee identified three best practice local councils. The interviewee indicated that these local councils have a long history of preparing sustainability reports, active stakeholder engagement practice for sustainability accounting and reporting, and efficient back-end information systems to capture sustainability performance data. The local councils were located in NSW, Queensland and Victoria.

Process of selection of local council cases

As the focus of this study is on stakeholder engagement, emphasis was placed on local councils that involve stakeholders in the sustainability accounting and reporting process. The selection of these local councils involved considerations such as the extent of stakeholder engagement in sustainability reporting, the existence of efficient back-end information processes, the sustainability reporting history of local councils, the sustainability reporting awards, and the best practice local councils identified by the ICLEI–Oceania's ISS manager.

As discussed earlier in this chapter, the documentary analysis found evidence of stakeholder engagement in sustainability reporting in 23 local councils. The interview highlighted additional three local councils that can be considered contextually rich for studying the nature, extent and drivers of stakeholder engagement in the sustainability accounting and reporting process.

The results of the first phase of the research revealed that six local councils appeared to be the leaders in stakeholder engagement. These six local councils comprised top three

local councils highlighted by the documentary analysis and the three local councils identified by the ICLEI-Oceania's ISS manager. A marked difference in the stakeholder engagement practice (assessed in terms of the stakeholder engagement index and interview) of these local councils compared with other local councils was observed. All six local councils were in metropolitan areas.

The six local councils were approached to gain access for studying the nature, extent and drivers of their stakeholder engagement practice. Two of them were going through major organisational restructures and resource difficulties. The initial talks with their executives indicated that it would not be worthwhile to select these local councils for the research. One local council declined to participation in the research. The second phase of the research was therefore focused on the analysis of stakeholder engagement practice of three local councils. They will be referred to from this point onwards as Council A, B and C.

Table 6.4 provides the details of these local councils. All three had differences in their organisational structure and management. There was also some variation in their sustainability issues and accounting and reporting practices. This variation assisted the cross-case comparison.

Two of the three local councils, were situated in NSW and one in Queensland. The local councils located in NSW had a mandatory requirement to produce SoE reports. Local councils A and C used the GRI indicators for reporting on sustainability issues and were recipients of the Australasian Reporting Award (ARA) and the Local Government Managers Australia Award for sustainability reporting.

The three local councils had excellent back-end processes for capturing sustainability information and were extensively engaging stakeholders in the sustainability accounting and reporting process. The ICLEI–Oceania's ISS manager provided instances of stakeholder engagement in these local councils. For example, she mentioned that Council A extensively engaged with its key stakeholders in order to identify and prioritise sustainability indicators. Accordingly, the local council's accounting and reporting system was restructured to incorporate stakeholders' feedback. This engagement assisted the local council to enhance the materiality, credibility and receptivity of the reports.

Table: 6.4: An overview of local councils selected for the case studies

Local council	Details of local councils
A	• Located in NSW • Efficient stakeholder engagement mechanisms • Group 1[9] local council for NSW's Integrated Planning and Reporting • Uses GRI reporting guidelines • Won ARA in 2010, 2011 and 2012 • Local Government Managers (NSW) – Management Excellence Awards for Sustainability Reporting in 2008
B	• Located in NSW • Efficient stakeholder engagement mechanisms • Group 1 local council for NSW's Integrated Planning and Reporting
C	• Located in Queensland • Efficient stakeholder engagement mechanisms • Uses GRI reporting guidelines • Local Government Management Awards (LGMA) Sustainability Reporting Leadership Gold Award 2008 • LGMA Excellence in Sustainability – Highly recommended 2010 • ARA Bronze award winner 2011 and Report of the Year Award 2012

The three local councils were disclosing their stakeholder engagement initiatives in their annual reports. An analysis of their annual reports highlighted the key stakeholders, their issues and the engagement mechanisms adopted The local councils were using a mix of traditional and contemporary engagement techniques such as surveys, online forums and public meetings.

An analysis of each annual report indicated that two local councils were providing a feedback form to gain stakeholders' perception about the content and structure of reports. This suggested that these local councils were moving beyond merely adhering to regulatory requirements regarding community consultation and were focusing on the quality of their annual and sustainability reports.

[9] Group 1 local councils are those that have adopted and implemented the Integrated Planning and Reporting Framework to report on local sustainability issues. The NSW Local Government Amendment (Planning and Reporting) Act 2009 provides transitional provisions for phasing in the legislative requirements of the IP&R framework over a three-year period. Local councils can decide which group they will commence in. The timeframe for each group is:
Group 1: Community Strategic Plan and Delivery Program adopted by 30 June 2010
Group 2: Community Strategic Plan and Delivery Program adopted by 30 June 2011
Group 3: Community Strategic Plan and Delivery Program adopted by 30 June 2012

As indicated, the three local councils were selected on the basis of the theoretical perspective adopted in this research. These local councils engaged with a range of stakeholders to identify local sustainability issues and to ensure the continual improvement of their reports. The documentary analysis and the interview indicate that the study of these councils can provide useful insights into the usefulness of stakeholder engagement in the sustainability accounting and reporting process.

6.7 Summary

This chapter has provided evidence of stakeholder engagement in sustainability reporting and highlighted its importance in the identification of material sustainability issues and the development of sustainability reports. The local community emerged as the key stakeholder in the local councils in relation to sustainability concerns, issues and reporting. Stakeholders were engaged using two-way communication techniques such as survey, workshops and meetings, which indicate that the local councils are consulting with their stakeholders in the development of sustainability reports. However, stakeholder engagement strategies and processes in local councils are driven more by state regulations than international accountability frameworks.

Three best practice local councils were selected for the second phase of this study in order to obtain an in-depth understanding of their stakeholder engagement practices and to establish factors affecting the nature and extent of stakeholder engagement in the sustainability accounting and reporting process. The individual local councils and their findings are discussed in the next three chapters.

Chapter Seven: Stakeholder engagement in sustainability accounting and reporting in Council A

7.1 Introduction

This chapter presents the findings emanating from the study of Council A. Data sources specific for this case are discussed in Section 7.2. The next section provides the contextual background for the council by describing its sustainability issues and sustainability reporting practice. Section 7.4 responds to the first and second research objective – the identification of the key stakeholders and engagement mechanisms used to involve them – to investigate how stakeholders were engaged in the sustainability accounting and reporting process. Section 7.5 addresses the third and fourth research objective by examining the nature and extent of stakeholder engagement, and the key issues and challenges undermining its effectiveness. Section 7.6 explores the external and internal influences on stakeholder engagement in the sustainability accounting and reporting process to address the fifth research objective. In Section 7.7, the findings of this case are summarised.

7.2 Data sources

As stated in Chapter Four, data were collected through interviews, documents and website monitoring for the local council-specific phase of the research. The selection of methods was guided by the central research question of this study which is to investigate 'who, how, what and why' of stakeholder engagement in the sustainability accounting and reporting process.

A total of 12 interviews were conducted at Council A from December 2011 to January 2013. Interviewees' profiles are detailed in Table 7.1. The selection of the interviewees was made on the basis of their significant involvement in the various stages of the sustainability accounting and reporting process. The array of participants involved those personnel who had critical roles in the decisions related to setting, monitoring and measuring sustainability indicators as well as the ongoing process of overseeing, planning and compiling annual reports. Council A's annual reports were prepared by the Department of Environmental Services. An initial interview was held with the Sustainability Coordinator (Interviewee A1) followed by an interview with the Group

Manager, Leadership (Interviewee A2). These interviewees assisted in gaining further contacts with other key personnel such as the Strategic Planning Coordinators.

Table 7.1: Council A interviewee profiles

Interviewees	Position	Job responsibilities	Interview stage
A1	Sustainability Coordinator, Environmental Services	Responsible for corporate sustainability processes, including reporting	1,2,3
A2	Group Manager, Leadership	Responsible for corporate sustainability processes, including reporting	1,2,3
A3	Senior Environmental Planner	Responsible for incorporating sustainability in corporate processes	2,3
A4	Strategic Planning Coordinator	Responsible for incorporating sustainability in corporate processes and community engagement	2,3
A5	Senior Corporate Planner, Community and Cultural Department	Responsible for community engagement programs	2,3

The main focus of the analysis of interview data was to examine the sustainability accounting and reporting process with an emphasis on the role of stakeholder engagement in the different stages of the process. This involved understanding the nature and extent of stakeholders' input in identifying sustainability indicators as well as monitoring, measuring and reporting against the indicators. The interview data were supported by documentary evidence.

The documentary analysis provided further useful insights in relation to critical sustainability issues, stakeholder issues and concerns, and stakeholder engagement policies and strategies. Council A's documents were also used to substantiate and support the interview data by discussing the reported instances in the light of the interviewees' comments. Table 7.2 lists the documents analysed in this case study. All these documents were publically available.

Table 7.2: Council A documents

Codes	Document	Description
AD1	Annual Reports: 2008–09, 2009–10 and 2010–11	Statutory report
AD2	Community Strategic Plan 2031	Identifies the long-term aspirations the local communities want to see delivered in the city
AD3	Community Engagement Strategy 2011	Outlines how Council A engages with its communities and relevant stakeholders in developing and finalising the Strategic Plan
AD4	Community Participation Manual 2006	Provides detailed guidelines, responsibilities, obligations, design for engagement, and acted as a practical tool to guide a community participation program
AD5	Community Surveys: 2009 and 2011	Evaluate resident perceptions of the council's performance in relation to a range of key services and facilities
AD6	Delivery Program 2009–13	Outlines what Council A will do over the next four years towards achieving the agreed Community Outcomes
AD7	Resource Strategy 2011–21	Outlines Council A's capacity to manage assets and deliver services over the next ten years
AD8	Operational Plan 2011–12	Acts as 'implementing' part of Council A's key strategic documents and outlines its services
AD9	Sustainability Action Plan	Outlines the council's plan of action towards a sustainable future for the city
AD10	Community Research Report 2012	Presents the outcomes of community engagement undertaken to review strategic plan
AD11	Local Area Profile 2010	Provides an overview of the social, environmental, economic and community profiles of the area
IP&R Guidelines 2010	Planning and Reporting Guidelines for local government in NSW 2010	Lists the mandatory requirements from the NSW Local Government Act 1993 in relation to planning and reporting
IP&R Manual 2010	Planning and Reporting Manual for local government in NSW 2010	Explains the reasoning behind, and the general intent of, the requirements of the IP&R legislation and guidelines

Website observations included monitoring online disclosures and social media such as Council A's sustainability blog, Twitter and Facebook. Online disclosures provided detailed information on the contemporary sustainability issues and stakeholder initiatives. The use of social media as a data source also provided insights into on-going interactions between the council and its stakeholders.

7.3 Contextual background

Council A is located on the western fringe of metropolitan Sydney in the state of NSW. Its municipality includes several suburbs in an area of 404 km^2 and accommodates 184,681 residents (Document AD1, 2011–12). In the terms of natural environment, over 630 species of native plants exist within the area (Document AD11). A minimum of 132 native species of fish, amphibians, reptiles and mammals, and over 200 species of birds have been recorded (Council A's Biodiversity webpage).

The interviews and documents uncovered key social and environmental issues for the council. The major organisational sustainability issues comprised greenhouse gas emissions, climate change, waste reduction, water, corruption, employee diversity, health and safety, and indigenous people. The major sustainability issues for the city and community included biodiversity, native species habitat, river health, air pollution, accessibility to services, local jobs, population growth, housing affordability, household waste and public transport.

Of the social issues, the health of the local community was critical due to the low socio-economic status of the area. Local jobs were of concern because the council is situated on the fringe of Sydney and its residents have to travel long distances for work. Again, due to the low socio-economic profile, housing affordability has become a significant issue. The interviewees were aware of the low socio-economic status of the area and appeared to be highly concerned about the social issues.

The interviewees equally acknowledged environmental issues. Interviewee A1 revealed that the council is committed to protecting a local river, which is of high importance to stakeholders, as well as the quality of water in creeks and waterways. The community survey 2011 affirmed that the health of the river was the most important environmental issue for residents, with 92.5% of residents placing 'high' importance on this issue. This was closely followed by the protection of bush land, the natural environment and wildlife, with 91.8% of residents placing 'high' importance on this. Another critical issue was biodiversity because the council is on the urban fringe and, therefore, clearing up the area and maintaining wildlife corridors becomes highly essential. Due to a recent increase in heat waves and water scarcity, the interviewees were also concerned about climate change.

The council's vision centralised the concept of sustainability and highlighted its goal 'to become a sustainable and prosperous region with a strong commitment to environmental protection' (Document AD9). In order to ensure continual progress towards sustainability goals, Council A adopted the United Nations Environmental Programme (UNEP) Melbourne principles[10] for sustainable cities in 2003 (Council A's Sustainability webpage). The ten principles provided the council with a robust framework to guide its planning, decision-making and reporting (Document AD2).

Council A focused on embedding quadruple sustainability – social, environmental, economic and governance – into its operations and processes. The NSW Local Government Act 1993 regulated annual reporting and therefore Council A was required to produce SoE reports. The website analysis revealed that the council has been preparing SoE reports since 1994. Until 2006, Council A produced SoE reports supplementary to its annual reports, but from 2007 it started reporting the sustainability information as a part of its annual reports. In 2010 Council A adopted *Integrated Planning and Reporting*[11] (referred as the planning framework by the interviewees) to comply with the latest regulations under the NSW Local Government Act 1993 and became one of the Group 1 local councils in NSW. The annual reports disclosed information on two types of performance indicators, City and Council Indicators. The City Indicators were based on the UNEP Melbourne principles and represented the issues and concerns about the city and its communities. The Council Indicators were drawn from the GRI framework. In relation to the GRI indicators, the Council self-declared itself as a level 'C' GRI reporter[12].

The council shared a close relationship with its local community. To ensure community involvement in council decisions, it adopted a *Community Participation Manual* in 2003 which sets guidelines for effective community engagement and this was followed by a

[10] UNEP Melbourne principles were adopted at the Local Government session of the Earth Summit 2002, Johannesburg. These consists ten short statements on building sustainable cities.

[11] It is a new regulation that has been introduced for NSW local government to improve local councils' long-term community, financial and assets planning.

[12] The GRI level 'C' can be claimed by organisations who have disclosed a G3 Profile and a minimum of ten performance indicators, including at least one each from the Social, Environmental and Economic indicators.

Community Engagement Strategy in 2010. The council also undertakes a community survey every two years to discover the community's perceptions about its performance.

Council A has established a strong reputation for being one of the most sustainable areas in NSW. Recently, in 2012 it won the 'Overall Sustainable Council Award' at the Keep Australia Beautiful Sustainable Cities Awards, which recognised the council's successes and ongoing commitment to sustainability and ensuring a better quality of life for current and future residents (Media release July 2012). The website disclosures revealed that Council A has won numerous national awards in the area of waste minimisation and management, community engagement, water management and health management. These awards exhibit Council A's proficient service delivery. Council A's waste reduction innovations included the introduction of the 3 Bin Organics Service in 2009. This innovation was adopted by other local councils to induce their residents to develop recycling behaviour. Besides service awards the council has won awards for efficient reporting practices, including the Australasian Reporting Awards (ARA) in 2010, 2011 and 2012, and Local Government Managers (NSW) Management Excellence Awards for Sustainability Reporting in 2008.

7.4 Sustainability planning, accounting and reporting

This section discusses the sustainability accounting and reporting process in Council A. The aim is to highlight the development of sustainability indicators, internal sustainability information gathering, and external reporting to identify the key players and their contributions to the process.

In Council A the sustainability accounting and reporting process was structured around the Integrated Planning and Reporting (IP&R) framework suggested by the state government. Figure 7.1 summarises the planning and reporting process in the council. The IP&R framework proposes an integrated planning and reporting approach wherein sustainability issues are knitted into core goals of the council to align them with corporate planning, performance monitoring and performance measurement. As a part of state government requirements, NSW local councils have to prepare a long-term Community Strategic Plan, Delivery Program, Operational Plan and Resourcing Strategy.

The IP&R framework establishes a link between strategic planning and annual reporting. This linkage serves as a foundation to capture and report actual sustainability performance. It requires the council to identify sustainability issues and concerns for the city and

community, determine sustainability indicators and tools to measure them, monitor the indicators, capture performance of various indicators, and report against the indicators.

Moreover, the framework intends to link the strategic plan to a resourcing strategy to ensure the availability of funds for resolving the issues identified. This implies that if certain community aspirations have been recognised in the community strategic plan, adequate resources – time, assets, people and money – must be allocated in the annual budget to address them.

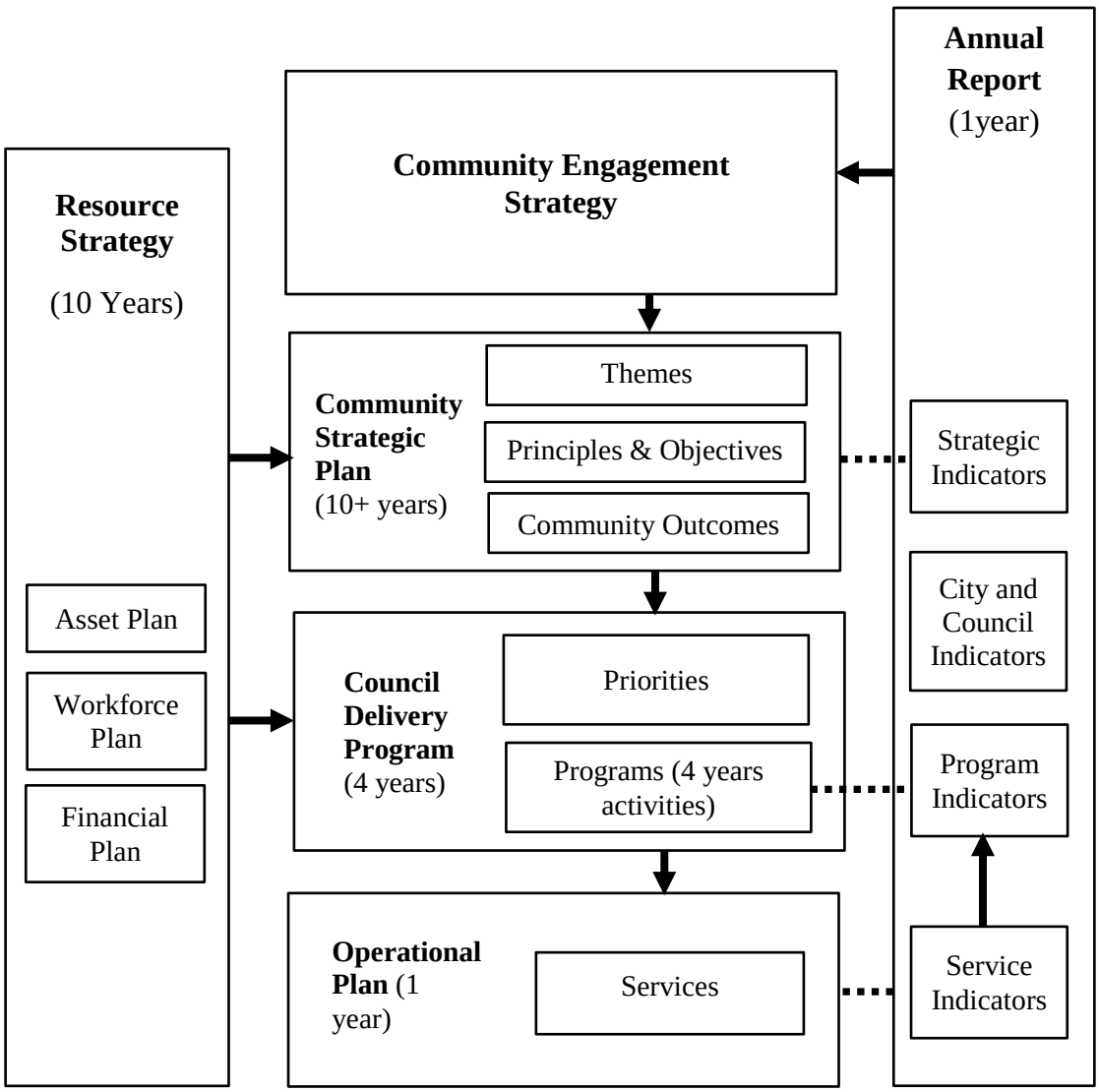

Figure 7.1: Council A's Integrated Planning and Reporting Framework

The IP&R framework emphasises the importance of community input in the planning and reporting process and tries to shift the council's focus from community consultation to community engagement. The new framework opens the way for local councils and

their communities to have important discussions about funding priorities, service levels and preserving local identity, and to plan in partnership for a more sustainable future (IP&R Guidelines 2010).

In order to comply with IP&R regulations, Council A placed its community engagement strategy above strategic and other supporting plans. This positioning assisted the council to identify the core local issues through stakeholder engagement and embed them in the strategic planning. As a result, Council A's actions and activities were oriented towards addressing actual stakeholders' concerns.

7.4.1 Sustainability planning

In Council A the identification of local sustainability issues can be considered as the start of the planning and reporting process. Documents and interviews indicated that the council has engaged extensively with its stakeholders to recognise their social, environmental and economic aspirations. After having the sustainability issues identified, Council A initiated the development of strategic and other supporting plans to address them. The responsibility of strategic planning and reporting was vested in the Group Manager, Leadership.

The *community strategic plan* was the key strategic document of the council and comprised two key elements, community outcomes and strategic responses. It basically outlined the aspirations, ideas and messages of the community and other stakeholders, and the council's response to them. Documents highlighted that Council A has adopted five visionary themes – leading, green, liveable, opportunities and vibrant city – based on the community's feedback. These themes together underlined the council's quadruple sustainability approach and focused on the broad range of issues and activities that were critical for the local area.

The *delivery program* was regarded as the council's response to the strategic plan and served as a single point of reference of all activities undertaken by the council. This document highlighted the key programs of Council A that will contribute towards delivering the strategic responses, and outlined the key sustainability indicators for the council and the city.

Furthermore, Council A produced an *operational plan*, which provided details of the service activities and tasks that would be undertaken in a specific year as a part of the

overall four-year delivery program. It was considered as a subset of the delivery program, and contained more detailed information on service activities, service levels and service budgets. It provided flexibility to respond to changes as they happen each year.

The community strategic plan was supported with a *resource strategy* which outlined Council A's capacity to manage assets and deliver services. The strategy provided information on the status of the council's assets, workforce and finances, and the broad challenges that the council could face over the next 10 years in implementing the community outcomes. The resource strategy affirmed the council's commitment to extensive engagement and valued the diversity of skills, views and expertise in the local communities.

The *community engagement strategy* was placed above all the strategic plans and program to recognise the importance of the community's input in the planning process. It set out how Council A will engage with its communities to identify their aspirations in order to guide the community strategic plan (Document AD1, 2010–11). The strategy described the techniques of engagement utilised by the council to involve the local community in making important decisions.

7.4.1.1 Stakeholder engagement in sustainability planning

Stakeholder engagement emerged as a key component of the sustainability planning process. Documents revealed that the council has actively engaged with stakeholders to recognise and address their key sustainability concerns and to review the strategic plan. The interviewees mentioned that the council thoroughly incorporated the aspirations and needs of stakeholders during the development of strategic and other supporting plans.

The interviewees mentioned that stakeholder engagement is important because stakeholders are becoming more aware and cautious about prevailing social, environmental and economic issues and want to address them. Therefore, the council regularly engages with its key stakeholders to recognise their dynamic sustainability aspirations. Interviewee A5 stated that:

> it is interesting how people know more now and are interested in climate change and are interested in energy saving and waste management and all of those things, more than we often give them credit for. People are becoming more aware of those issues.

Council A recognised and valued the wealth of skills, knowledge and expertise in its communities and aimed to use these to improve its decision making. Effective stakeholder participation in planning was regarded as a symbol of good democracy, good business and good management (Document AD2). Furthermore, Interviewee A4 highlighted the importance of engaging with stakeholders in the development of the strategic plan:

> The strategic planning is all about knowing what the community wants. Communities are much more active now and they will tell us. Strategic planning it is a process of looking from the inside what is needed but also take-on board the communities views and marrying those up really. I have been doing the analysis on the online feedback – it is amazing the themes that come through and similar to internal ones. It informs us what is needed. It is a democratic participation and citizenship, about actively being able to contribute to your community.

Council A conducted an extensive engagement program in 2012 with the assistance of a research consultant to identify the current concerns and needs of the local community (Document AD10). This engagement assisted the council to recognise any shift in the local community's priorities since the development of the strategic plan and thereby revise the plan accordingly. Document AD10 highlighted that the community freely expressed their concerns about the future of the city and their opinions would significantly affect the council's indicators and targets. Some comments were:

> 'Encourage people to plant native and locally endemic plant species'
>
> 'Creating new housing release areas close to transport and infrastructure'
>
> 'Council should focus on the quality and quantity of infrastructure, e.g. roads, safety, traffic control and parking'

Due to the council's extensive engagement approach, several community aspirations and outcomes outlined in the plans and programs were beyond its roles and responsibilities. These outcomes comprised sustainability issues that can be advocated and influenced by the council but are not within its direct control, for example, housing affordability, public transport and local jobs. The interviewees mentioned that the council advocates these outcomes to responsible authorities such as the state government on behalf of its stakeholders and collaborates with them for resolving these sustainability issues.

7.4.1.2 Who are the key stakeholders?

The key stakeholders who substantially influenced the sustainability planning process were the local community, employees, social and environmental groups and the state

government. The involvement of these divergent stakeholder groups assisted the council to encompass different aspects of quadruple sustainability.

Local community

Local communities emerged as the key stakeholder group for the planning process. Their reasonable expectations and needs were considered as a key input for the council's plans, strategies and policies for two reasons. First, they paid rates and, therefore, the council held itself accountable to them. Second, they were regarded as an important channel to understand local issues due to their closeness to the environment and society.

Council A proactively engaged with the local community to develop strategic and other supporting plans. Considering the possibility that different community groups can have dissimilar sustainability concerns, the council identified and consulted with each sub-section of the community. These groups were the Aboriginal community, business, cultural and linguistically diverse (CALD) groups, senior citizens and youth.

The involvement of the local community during the planning stage assisted the council in prioritising sustainability issues. The interviewees mentioned that the community consultations undertaken by the council highlighted that its local community is relatively more interested in social and economic issues than environmental issues. Interviewee A2 stated that 'our local community is still on the survival side. I mean they are still working on shelter, food, income'. Interviewee A1 added that:

> More of social and environmental issues are chosen by our community groups because the city has some areas of low socio-economic [status] on the basis of earning, getting a job and keeping a family. The other things [environmental issues] are nice but survival is first.

The interviewees considered the low socio-economic status of the area as the reason for the dominance of social and economic issues such as housing, employment and liveability over environmental issues. The recognition of this assisted the council to prioritise its service areas to meet the needs of the local community.

Government bodies

Regulatory bodies such as the Division of Local Government (DLG), the state government and the federal government had a significant influence on Council A's decisions. This influence prevailed in the form of enforcing regulations such as

incorporating quadruple bottom line, a community engagement strategy and the IP&R framework. Interviewee A3 mentioned that the DLG is a key stakeholder 'because they require the council to incorporate quadruple bottom line issues into all of its activities'.

Due to this influence, the interviewees placed regulators above the local community. Interviewee A1 stated that 'on the top of community is government stakeholders [for the reason] that are influencing us in our plans and also making sure that we are aligned with other stakeholders'. Therefore, they not only regulated the council's operations but also acted as a bridge between the council and its community.

Council staff

Internal stakeholders, especially the senior management team – general manager, directors and employees, were recognised as one of the most salient stakeholder groups. Interviewee A3 mentioned that the council staff were a key stakeholder group because they guide the community about sustainable living. She stated that it is 'us, leading by example and providing the communities with the opportunity in terms of information when they build a house as to how to make it more sustainable'.

The council senior management played an important role in the council's planning. They initiated sustainability initiatives in the council, introduced UNEP Melbourne principles and, more recently, adopted the IP&R framework. Moreover, they had power to make decisions that impacted on the well-being of the local community and the environment. The interviewees mentioned that in case of a disagreement on issues among community members, the staff reserved the right to take a decision considering the general interest of the community members and the council's resources**.**

Councillors

The interviewees recognised the influence of councillors in the planning process, especially in the identification of local sustainability issues and funding approvals for the council's programs. They were considered as representatives of local voices and were regularly involved in the development of strategic plan. However, this stakeholder group was transient due to its specified elected term.

Social and environmental groups

Social and environmental groups were stakeholders. Such groups within an area support local communities in relation to their social and environmental issues. Their collaboration with local authorities provides additional assistance to promote community well-being and to protect the environment. The interviewees stated that the council has a strong rapport with NGOs as both share a strong network to promote social issues within the area. Of the social and environmental groups, the social groups were reported to be more active and pervasive.

The council lacked the level of cohesiveness with environmental groups that it had with its social groups. Interviewee A1 stated that 'the environmental groups though have really never been as strong. They had their own areas of interest and did not bring themselves together into a cohesive voice really'. The pervasiveness of social groups and the lack of environmental groups were associated with low socio-economic profile of the area and community preferences.

Other stakeholders

The interviewees highlighted the contributions of a local university to monitor and to resolve issues affecting the quality of water in a local river. Besides, involvement of local businesses in the accounting and reporting process was considered important to address economic issues.

Although the strategic plan documents other stakeholders such as sister cities, suppliers and regional partners, their contribution to the identification of sustainability issues and the development of plans remained marginal.

7.4.1.3 How are stakeholders engaged?

Various stakeholder groups were involved in the planning process using a mix of traditional and contemporary engagement techniques. Traditional approaches included focus groups, public forums, surveys, public exhibitions and workshops. Contemporary approaches included emails and social media (blogs, Facebook and Twitter). These engagement media assisted the council to educate stakeholders about the importance of sustainable development, to develop stakeholder networks and to understand stakeholders' concerns.

Focus groups were used extensively in developing and reviewing the strategic plan to understand concerns of a particular group in the community. It assisted the council to hold guided discussions that allowed in-depth and interactive debates on an issue (Document AD4). Focus groups were aimed at gathering opinions of stakeholders with common interests as well as testing engagement activity such as a survey. These groups usually consisted of six to twelve people who were either selected at random or invited based on interests. Although focus groups enabled two-way communication between the council and its community, it provided limited involvement opportunities to the community members due to small size groups.

Workshops were organised by the council to develop an understanding of the perceptions and needs of the local community. For example, two workshops were held in 2010 with landowners to gain an understanding of their perceptions and needs regarding sustainable land management and biodiversity conservation in rural areas (Council A's Community Engagement webpage). In contrast to focus groups, the workshops were open to public and facilitated a wider participation.

Similarly, surveys provided the council with an opportunity to involve a large number of community groups. The survey techniques included the use of mail, email, telephone and personal interviews. Document AD4 stated that:

> The strength of the survey method is that it can provide a valid cross-sectional view of a whole population, and can elicit information on perceptions and values that cannot be readily gained in other ways. A survey reaches the general population, not just activists in the field or those who are willing to attend a meeting.

The interviewees also considered surveys as a useful method for gathering quantifiable information from the community, including their attitudes, perceptions, consensus, level of satisfaction and the prevalence of a problem.

Wider participation was also secured by hosting online blogs. A sustainability blog was started by the council in 2005 to provide updates on current programs and operations, to share general information about sustainability and, most importantly, to involve stakeholders in sustainability conversations. Since July 2007 a total of 10,374 visits were noted. The blog posts were administered and led by the council's Sustainability Unit. The key discussions on the website involved the use of eco housing, waste and energy conservation. The blog was also used to create awareness about the council's future sustainability events such as workshops on sustainable living, cancer awareness

and community grants. However, the comments made on the posts were limited. The lack of interaction indicates that the blog was not perceived as effective interactive media by stakeholders.

Furthermore, website monitoring highlighted the use of social media such as Facebook and Twitter to enhance approachability, to create awareness about sustainability and to facilitate convenient participation. In 2010 Council A joined this medium to gain stakeholders' perception on its services. However, this medium is facing the same issues as the blog. Although the council appears to be quite active in using Facebook to share local issues, only few comments and 'likes'[13] were posted by the community groups. For example, only a few people raised their concerns about climate change and participated in a discussion on it. The use of Twitter was observed to be relatively more successful for engaging stakeholders than the blog and Facebook. It was being used to share news and views related to local issues such as jobs, elections, graffiti, transport facilities, smoking and the environment as well as international concerns such as expanding urbanisation. Stakeholders involved in these discussions included media, community members, local schools and businesses, and other local councils.

The council often exhibited its plans and policies publicly to meet legislative requirements (Document AD4). Document AD1 (2011–12) stated that:

> Council A values the community's ideas and opinions and is keen to include these in our decision making. This ensures our communities needs and concerns are noted and addressed. Draft plans, strategies, policies and planning instruments are placed on public exhibition to allow the community to have their say on issues that are important to them.

To maximise public access, high volume venues are chosen, including local libraries, post offices and the front counters of the council's offices. This method was prominently and more frequently used over other traditional engagement methods due to the low cost and the access to the wider community.

In Council A the choice of an engagement method was affected by the purpose of engagement and the nature and specific needs of stakeholders. During the 2010 engagement program, the council tailored engagement methods to match the

[13] 'Like' is an option in Facebook to agree with or appreciate a post made by a user.

stakeholder group's nature and ideology (Document AD10). Table 7.3 summarises the engagement activities tailored for various target groups by the council.

Table 7.3: Stakeholders and engagement methods

Groups	Stakeholder engagement technique tailored for each group
Children	Children at selected childcare centres were asked to create art works about their favourite places in the city. Each child used different media and resources (paint, photographs, craft materials) to present their artwork.
Youth	Organised 'Vox' pops ('voice of the people') to record a 5 minute DVD of what they liked about living in the city, as well as future improvements for the local area
Aboriginal community	Arranged 'Cuppa Time' meetings with Aboriginal women's group and attended Aboriginal youth groups.
CALD groups	Attended the Maltese Community monthly meeting and held meeting with representatives from the Dutch, Chinese, Nepalese and Greek communities.
People with a disability	Organised meetings at different venues
Businesses	Organised Gen Y Business Networking Meeting and Business Forum
Community	Held a Community Groups Forum that included 25 representatives from local progress associations, Police, Senior Citizens, Lions Clubs and other community group representatives

The interviewees mentioned that the tailoring assisted the council to create mutual trust and raised the comfort level of the group being consulted. For example, the council designed an informal engagement tool to involve local Aboriginal communities who have remained inactive in the council's decisions due to a lack of trust caused by the saga of the 'stolen generations'. Therefore, building trust and a relationship with them before pursuing any engagement was highly important for the council to allow free expression of views.

The council created trust and relationship through informal gatherings rather than using traditional or programmed engagement techniques. Informal engagement activities included playing basketball and football with Aboriginal youth and having pizzas with them, and organising teatime with Aboriginal women. Interviewee A5 mentioned that informal conversations were used to facilitate relaxed and open discussions:

> We did not organise a workshop in the council where people might feel intimidated rather we went where they felt comfortable. We sat with them and had a cup of tea at the women's group. With the young people, we went out to their youth group and played basketball with them and also had pizzas with them. We asked them questions as we stood around talking so they did not to have go anywhere different

> and feel like maybe a bit uncomfortable because travel arrangements were not put in place or whatever. It was about us going to them which just worked really well.

Moreover, the interviewees mentioned that the use of diverse engagement techniques provided opportunity to minority groups to contribute to the strategic planning process. The use of artwork sessions emerged as an effective dialogue media to create awareness about the environment and to understand the sustainability aspirations of less vocal stakeholders such as children. Document AD10 highlighted that children had a strong focus on the outdoor environment, including river, trees, flowers and rainbow. For example, one participant painted a clear sky and green meadow. Similarly, 'Vox pops' targeted the younger generation and offered them a platform to express their opinions about local sustainable development.

To summarise, stakeholder engagement emerged as an integral component of the sustainability planning. The involvement of stakeholders facilitated the identification of material issues and the development of strategic plans. Council A actively engaged with various stakeholders in the planning stage to embed the community's aspirations and needs in its core plans and programs. The engagement methods were tailored to facilitate wider and open discussions. The findings suggest that an engagement activity undertaken with stakeholders using an appropriate strategy has the potential to deliver stakeholder-centric sustainability plans and policies. These plans can ensure that the processes of accounting and reporting would capture and communicate actual sustainability performance to stakeholders.

7.4.2 Sustainability accounting

Sustainability indicators were considered as useful tool to measure performance. Indicators reflected the sustainability concerns of the council and the local community and assisted the council to analyse 'whether there has been a change and whether that has been for the better or not' (Interviewee A4). According to Document AD1 (2008–09), the council's reports were based on a comprehensive suite of indicators to ensure transparent reporting processes and to establish a baseline to track progress towards sustainability goals. Document AD9 stated that:

> An indicator is something that helps you understand where you are, which way you are going and how far you are from where you want to be. Sustainability indicators are different from traditional indicators of economic, social, and environmental progress. Traditional indicators such as profits, asthma rates and water quality, measure changes in one part of a community as if they were entirely independent

> of the other parts. Sustainability indicators reflect the reality that the three different segments are very tightly interconnected.

Documents highlighted that Council A has established two types of indicators to measure organisational sustainability and the quality of life in the city. 'Council Indicators' measured organisational sustainability issues drawn from the GRI. This indicator suite comprised all six accountability areas prescribed by the GRI – Economic, Environmental, Human Rights, Labour Practices, Society and Product Responsibility (Document AD1, 2010–11). 'City Indicators' were developed to measure liveability or community well-being (Document AD1, 2010–11). The key themes covered under this suite of indicators included a leading city, a city of opportunities, a green city, a liveable city and a vibrant city.

The sustainability and planning department primarily coordinated with other departments to collect and assimilate sustainability performance data from their annual activities and actions. The interviewees revealed that the sustainability and planning department organised personal meetings and sent questionnaires to gather information about the sustainability outcomes of the different departments. For example, Interviewee A3 stated that:

> Our environmental health team does water sampling, so we would go and talk to them about the water sampling results they have collected. Similarly, our sustainability education team runs programs in schools so we would go and talk to them about how many people attended those programs and that sort of stuff.

The interviewees identified a range of data sources supporting the council's efficient processes to capture sustainability performance data, including internal and external data sources to measure performance on the Council and City Indicators. The internal accounting system included the in-house data management system, internal engagement records and various departmental records.

Council A had strong control over the outcome of the Council Indicators and mainly captured their performance data through internal processes. However, it had a variable level of influence on the City Indicators and other factors, such as the state government, played a larger role in influencing these indicators (Document AD1, 2010–11). Therefore, the council had to rely on external agencies to collect information about the performance of the City Indicators.

7.4.2.1 Stakeholder engagement in sustainability accounting

The interviewees strongly emphasised the importance of stakeholder engagement in setting the sustainability indicators, developing the accounting tools and assimilating the sustainability performance data. This continuum of engagement was considered critical to establish a stakeholder commitment throughout the accounting process. First, engaging with stakeholders in the development of sustainability indicators enabled the council to embed stakeholders' material issues and aspirations in the performance management system. This engagement also provided the council with an opportunity to explain its expectations regarding the collection of performance data. Second, consulting stakeholders in setting the data collection methods assisted the council to establish stakeholder ownership over different sustainability indicators, to create a willingness to monitor them and to bind them to measure sustainability outcomes. Third, the involvement of stakeholders was regarded as critical to ensure the supply of sustainability information for evaluating sustainability performance and preparing annual reports. The interviewees mentioned that failure to engage with stakeholders in any of these three activities could result in an ineffective accounting system. Interviewee A3 stated that:

> Community engagement is useful in ensuring that the indictors that you are measuring are meaningful and robust. I mean that's the crux of it, if you don't engage the stakeholders and the people that are gonna either have to act on the information or have to collect it, you can end up with a set of indicators that doesn't make sense to anybody, or is unrealistic or simply can't be used.

The interviewees considered the setting of sustainability indicators as an information sharing process between the council and its stakeholders. Interviewee A1 stated that the development of sustainability indicators 'is more of information sharing process and bring those things out there for discussion'. Council A developed its first set of sustainability indicators, consisting of 79 sustainability indicators, in 2007 (Document AD1, 2007–08). The interviewees mentioned that key stakeholders who contributed to the development of the suite included council staff and ICLEI–Oceania.

The interviewees mentioned that a number of cross-organisational teams were formed and were consulted to embed diverse social, environmental and economic considerations in the sustainability indicators. Although this process was dominated by internal stakeholders, an indirect influence of external stakeholders was noticed in the selection of the indicators. Interviewee A1 indicated that the council constituted 'a big

cross-organisational team to bring experiences from different areas about their feedback from the local community, what was important to them to develop those indicators'. This implies that the council's close relationship with the local community positioned the team members to advocate local issues on behalf of the community members and to incorporate their aspirations while determining the indicator suite.

Council A did not involve the local community in the development of the suite to simplify the process. However, it engaged extensively with a range of external stakeholders in 2009 in undertaking a materiality review of the indicator suite. The review aimed at making sure that the council's 'reporting is focused on those issues that are of the greatest concern to [its] communities, [its] organisation and other key stakeholders' (Document AD2). An extensive engagement with the community and other stakeholders using telephone interviews and surveys assisted the council to identify ten high priority material issues and to revise the indicator suite. Interviewee A1 stated that 'as a part of the materiality review, we have been able to identify 47 indicators as our key indicators, addressing those issues of greatest concern to our stakeholders'.

This instance highlights the importance of engaging with the wider population. Although the council attempted to incorporate the views and concerns of external stakeholders indirectly during the development of the sustainability indicators, a weak perception about stakeholders' actual needs existed. This gap could exist due to lack of a specific purpose to engage, which in this case would be to understand stakeholders' sustainability aspirations. Conversely, better outcomes were obtained when Council A engaged with its stakeholders specifically to undertake the materiality review. This engagement assisted the council to prioritise 47 indicators from the first suite that truly reflected stakeholders' expectations. After determining the key sustainability indicators, the council developed performance measurement tools and accounted for the council's and city's sustainability.

The interviewees indicated that the council relied heavily on external data sources, including direct conversations, community surveys and the national census. These sources were mainly used for measuring and recording the City Indicators. Direct conversations were aimed at gaining feedback from community members on the council's different sustainability projects. Survey data assisted the council to understand the level of satisfaction perceived by the community members about the council's

sustainability performance and to identify their issues and concerns (Document AD5). The community surveys were conducted with the assistance of external consultants once every two years to gather perception-based data. The interviewees raised concerns about the difficulties in collecting data through community surveys. Interviewee A2 stated that:

> We do an annual customer survey, which is useful in providing [sustainability] information. But it is potentially very limited and that what we recognise it as our one of the main issues in getting data, the accurate data. And it is quite time consuming and potentially expensive.

A similar situation was observed with the national census data. The council relied on the census data to account for social issues, including health, employment and housing affordability. However, these were conducted only once in five years. Interviewee A1 stated that 'the federal census just happens every five years. We get a good data from that but unfortunately it is not very frequent – which is frustrating'. The non-availability of regular sustainability data affected Council A's reporting, especially of sustainability disclosures online. To overcome these problems, the council's employees applied their own perspective to evaluate the sustainability performance. Interviewee A3 stated that due to the non-availability of annual data:

> Often we cannot update online figures but we can say what we have done in the year. We cannot report on how the trend is going because we do not have the information but we can say what we have done in the previous year from our perspective.

Another difficulty faced by the council in collecting sustainability information on certain City Indicators was the absence of any kind of external data source. To resolve this, the council undertook regular research activities. For example, a research program on the long-term recreational and cultural needs of the city. The data collected from this research assisted the council to account for existing demographic characteristics of the city and to anticipate trends in suburban growth and demographic changes.

7.4.2.2 Who are the key stakeholders?

A range of stakeholders was involved in the accounting process. The key stakeholders were internal staff, community members, professional agencies, and the state and federal governments. Their involvement assisted the council to monitor and to measure the sustainability performance of the council.

Council staff

Council staff played a vital role in the entire accounting process. They were regarded as the key stakeholder group for developing the first sustainability indicator suite because the council considered its employees as an important link between itself and the outside world. Being a part of the local community, employees were perceived to be aware of sustainability issues in the area and thus were considered as representatives of local voices. Interviewee A2 stated that:

> More than 65% of our employees live in the city. So we almost have our own sort of local resident base that we can consult with. Then beyond that more than 90% of our staff and employees live within the region.

The interviewees also highlighted the role of the council's different departments in monitoring and measuring the sustainability performance.

State and federal governments

State and federal PSOs had a huge influence on Council A's accounting process, especially in measuring sustainability performance. The federal government was identified as a key stakeholder group because it provided data on several sustainability indicators. The interviewees mentioned that the councik's ability to account for the City Indicators was contingent on social and economic data issued by the federal government. The NSW government prompted the council to set sustainability targets through community consultation. It also served as a foundation for the council to build stronger relationships with other stakeholder groups, especially with sustainability data providers. Interviewee A2 said, 'it has been difficult to access some of performance data before and we are now hoping to use the legislation to perhaps build a stronger relationship with data providers'. Therefore, the role of regulators was thoroughly emphasised in documents and interviews.

Professional bodies

ICLEI–Oceania emerged as an influential stakeholder group with a set of skills and knowledge to guide the development of the indicators. Interviewee A2 recognised its role and stated that 'it was an ICLEI–Oceania's program that helped us to start with the development of the indicators'. ICLEI–Oceania offered technical assistance and its experience with other local councils to resolve problems faced by the council while defining sustainability indicators.

The council also used consultancy services to enhance the outcomes of the sustainability planning and reporting processes. The interviewees mentioned that the council hired consultants for conducting statistically valid surveys and organising engagement activities. Consultants possessed technical knowledge about stakeholder engagement issues and assisted the council in analysing survey data and in writing reports on the engagement outcomes.

Local community

Local community was also regarded as a critical stakeholder group in sustainability accounting. The council extensively engaged the local community in the materiality review of the sustainability indicators. Moreover, their participation was sought to collect performance data against the City Indicators. The interviewees mentioned that the community's perception about the state of sustainability indicators was important to evaluate the council's performance.

7.4.2.3 How are stakeholders engaged?

Surveys were primarily used to collect data from the local community to determine the level of satisfaction perceived by the service users. In discussing external data sources for collecting the data Interviewee A3 stated that:

> The only external [engagement] process we would do would be the community survey which may have a question on, you know, do you think sustainability is important or something like that, it's fairly broad brush.

The interviewees referred to the community surveys as a 'broad brush' data source for sustainability accounting as they mainly focused on the council's services and lacked questions on environmental sustainability. Although surveys have proven limited utility in data collection, the interviewees supported their importance in developing the sustainability indicators. In the surveys the council asked the community to rank various social, environmental and economic issues according to the level of importance perceived by them. The data obtained from the surveys was regarded as important to understand the community's needs and to tailor programs to meet their aspirations. The interviewees indicated that sometimes survey data could indicate the need to develop new indicators to track contemporary issues observed in the community.

Meetings and workshops were aimed at establishing commitment towards the accounting process among the council's departments. The council organised meetings

with the senior managers to undertake consultation in relation to the development of sustainability indicators. These methods were also useful to create ownership of the indicators and a willingness to monitor and measure them. Furthermore, the sustainability planning department arranged interviews and personal surveys with various departments to collect performance data.

To conclude, the involvement of stakeholders both internal and external was critical in the determination of the sustainability indicators, the development of accounting tools and collecting the sustainability data. The findings of this study suggest that in PSOs, an efficient system of accounting depends upon data sources and perceptions of external stakeholders.

7.4.3 Sustainability reporting

Council A communicated the sustainability outcomes to stakeholders using media such as annual reports, end of term reports, internal reports, newsletters, website disclosures and media releases. The use of different communication tools assisted the council to manage the frequency and amount of information disclosed to stakeholders. The annual reports and end of term reports provided a formal basis for communicating sustainability information but were limited by time and the amount of disclosures. Alternatively, newsletters and website disclosures provided more frequent, elaborate and current information to stakeholders.

The annual reports provided information to the local community and other stakeholders about the council's performance against the aspirations and concerns identified in the strategic plan. Council A ensured that its reports reflected the quadruple bottom line sustainability outcomes proposed in the strategic plan. The *Annual Report 2011–12* allocated 77 pages (out of 146 pages) to disclose Council A's quadruple sustainability performance. The Communication Unit was responsible for preparing the annual reports. The interviewees mentioned that the Communication Unit compiled the relevant sustainability information and achievements across the council and ensured that the reports complied with the legislative requirements.

In addition to complying with the legislative requirements, Council A used some of the GRI indicators for providing disclosures on the Council Indicators. The council assessed itself to be a level 'C' reporter. Although the council used the GRI framework,

'cherry picking' of indicators was observed (Document AD1). The annual reports included disclosures on 19 environmental, 14 labour practices, seven social product responsibility, four human resources and three economic indicators.

Website monitoring revealed an extensive use of online disclosures to educate and inform stakeholders about current sustainability issues in the area. The interviewees mentioned that website disclosures have emerged as an important communication tool for the council as it allows the council to provide detailed information on all the sustainability indicators on a regular basis which is not possible with annual reports.

7.4.3.1 Stakeholder engagement in sustainability reporting

Council A's annual reports targeted a range of stakeholders, including current or prospective residents, ratepayers, business operators, government or organisational representatives, employees, visitors and students. Interviews and documents indicated that Council A has a keen interest in engaging with stakeholders in the sustainability reporting process to improve the materiality and quality of the reports. Document AD2 stated that:

> As part of our commitment to continual improvement, in early 2009 Council Engaged independent consultants, X, to undertake a materiality review. We wanted to make sure our reporting focused on those issues that are of the greatest concern to our communities, our organisation and other key stakeholders.

In terms of the development of sustainability reports, internal stakeholders such as council staff and senior management exerted a high influence on the reporting contents and structure. The involvement of the council's staff in preparing the annual reports highlighted the usefulness of stakeholder engagement in enhancing the receptivity of reports. The interviewees mentioned that the council undertook an employee engagement program in 2007–08 to understand users' needs for sustainability information. This engagement provided an opportunity for the council staff to express their views about reporting style and contents. Consequently, when the report was released, it was well received among the staff.

Although internal stakeholders significantly affected the development of sustainability reports, the role of external stakeholders was limited to the verification of sustainability information through public exhibitions. Moreover, the public display of the reports was observed as a mere adherence to the legislation rather than an active consultation activity.

The role of external stakeholders was better represented at the later stage of refining annual reports than in developing the reports. The interviewees mentioned that Council A regularly engages with external stakeholders to ensure continuous improvement of the annual reports. Council A used two distinct channels – professional advice and general stakeholder review – to gain feedback on its annual report.

The interviewees mentioned that the council actively sought feedback from ARA adjudicators by submitting its annual reports for expert panel review. Subsequently, the feedback received from this process significantly improved the quality of reporting. Interviewee A1 stated that:

> The council sends its annual report to Australasian Reporting Awards and use feedback from the judging process to really refine how we are reporting. The feedback has been also quite useful to make sure that we are leading towards best practice in sustainability reporting. So the feedback has been a very useful way to improve our report, you can definitely see that each year it [reporting] has changed due to it.

Moreover, with emergence of the IP&R framework, the council also had an option to consult with the DLG about the quality of its 2010–11 annual report. However, the DLG did not prove as beneficial as the ARA Limited because of its passiveness towards the review process. Interviewee A3 mentioned that:

> The DLG was meant to be providing us with constructive feedback on last year's [2010–11] annual report because it was the first one that we had to prepare a report under the integrated reporting and planning legislation, but they told us on Friday that they have not even started looking at them yet. So we need to start preparing this year's report pretty much now. So I don't know that we'll actually get their feedback in time to be able to do that much with it.

Similar non-participation was noticed in the general stakeholder reviews. The council demonstrated a keen interest in seeking feedback from the community and other stakeholders through telephone interviews and a feedback form attached to the annual reports. The interviewees mentioned that the council has a practice to send its annual reports to selected stakeholder groups such as community members and businesses, and then book telephone interviews with them to gain their perceptions about the utility of the reports. In order to gain feedback from the wider community, the council used questionnaires. These questionnaires aimed at securing stakeholders' views about the reporting style, format and content, and the relevance and adequateness of the sustainability issues reported. A range of options – email, post and phone – enabled stakeholders to provide feedback. However, the interviewees indicated that the number of responses has been minimal, contributing negligibly towards refining these reports.

7.4.3.2 Who are the key stakeholders?

The interviewees identified the state government, council staff and professional agencies as the key stakeholder groups affecting sustainability reporting in Council A. Their involvement was regarded as important to determining the report's content and structure, and to ensure continuous improvement of the reports.

State government

Council A's preparation of annual reports was highly influenced by NSW government regulations. The interviewees recognised a strong influence of the Local Government Amendment (Planning and Reporting) Act 2009 in terms of the reports contents. Interviewee A1 stated that:

> The council is subject to lots of legislative requirements as to what need to be in local government annual reports. We need to comply with the requirements of the Local Government Act and they are quite specific as to what needs to be in there.

Although the state government advocated community engagement in the planning process, it somewhat overpowered the role of other stakeholders in determining the contents of the reports. The interviewees showed reluctance towards community engagement on the mandatory disclosures because the council must report on them irrespective of the community's opinions. Interviewee A3 said that 'if it is required by law there is not much point in going out and asking people whether it is relevant to them because we have to put it in our reports'. In such cases, the community's feedback was merely limited to obtaining their views about the format and presentation of the reports.

Council staff

Council staff primarily influenced the reporting content and structure. Yet again, the council regularly consulted with its staff during the development of reports to understand their information needs because they were considered as representatives of the local community. The involvement of its staff in sustainability reporting not only assisted the council to determine the inclusion of material social, environmental and economic issues but also enhanced receptivity of the reports.

Professional bodies

ARA adjudicators emerged as an influential stakeholder group in the reporting process. The interviewees highlighted the importance of constructive feedback received through the adjudicating process. The award committee comprised experts from industry,

government or a third sector. Their opinion about the content and structure of the reports was considered important to enhance their materiality, receptivity and quality and to ensure their continuous improvement.

7.4.3.3 How are stakeholders engaged?

The council provided information about the sustainability performance using a range of media including annual reports, newsletters and online disclosures. These media ensured that stakeholders have up-to-date information about the local sustainability issues and sustainability performance of the council. A limitation of these engagement methods was that they allowed only one-way dialogue between the council and its stakeholders.

Council A's two-way dialogue initiatives in the sustainability reporting included meeting with professional bodies and interviews with stakeholders. As discussed in Section 7.4.3, the council undertook an extensive engagement program to understand stakeholders' perception about the reports and potential areas for improvement. This initiative included forwarding the annual reports to several stakeholder groups and individuals and thereafter arranging telephone interviews with each stakeholder to assess their reporting needs and concerns. As an outcome, the council incorporated stakeholders' views and aspirations in the next year's report.

Although interviews with stakeholders appear to be a fruitful endeavour, it is not feasible to undertake such an extensive engagement program every year due to the demand of resources. Council A used an alternative tool, feedback forms, to ensure continuous improvement of the reports. Stakeholders were invited to provide feedback on the reporting content and structure through a questionnaire attached to the annual reports. The interviewees mentioned that regardless of their efforts to encourage stakeholder input in the reporting process, notional feedback was obtained. Although it is a relatively less expensive engagement tool in comparison to interviews, it did not attract sufficient stakeholder input.

A similar situation was observed with public exhibitions of the annual reports. The public display of the reports was undertaken to comply with legislative requirements. The interviewees indicated that only a few comments were posted during the exhibition period and a majority of them were related to the structure of the reports.

In summary, the involvement of stakeholders assisted the council to enhance the quality and materiality of its annual reports. The council demonstrated a proactive attitude towards stakeholder engagement in sustainability reporting. However, it seldom received support from external stakeholder groups, especially the local community. Conversely, professional experts such as ARA adjudicators emerged as a critical stakeholder group by providing constructive feedback on the reports. The nature and extent of stakeholder engagement in the sustainability accounting and reporting process is discussed next.

7.5 The nature and extent of stakeholder engagement

This section discusses the nature and extent of stakeholder engagement in Council A to determine the level of say allowed to stakeholders in the sustainability accounting and reporting process.

7.5.1 Nature of stakeholder engagement

In Council A stakeholder engagement was considered as a two-way interaction between the council and its stakeholders on matters affecting the well-being of both parties. The interviewees acknowledged it as a communication process that flows from both directions and is not limited to merely providing information. Stakeholder engagement aimed at providing information, creating awareness and, most importantly, listening to the concerns of stakeholders. Interviewee A5 stated that stakeholder engagement is:

> About listening to the community but it is not a passive listening – it is an active listening, it is about a very proactive commitment to listening to your community and following through as well. So it is not just about listening but it's about following through on actions as well.

Document AD2 stated that community engagement constitutes any process that:

> Involves the public in problem solving, decision making and uses public input to make decisions. This includes decisions that directly impact upon living, working, playing, studying, using services and doing business in the City. Community engagement is a dynamic process that covers a wide range of activities including consultation, education, communication and relationship building.

An important element of stakeholder engagement was the incorporation of feedback in the council's activities. The interviewees mentioned that the process of stakeholder engagement begins with creating awareness about an issue and ends with incorporating ideas and aspirations of stakeholders in the decisions affecting them.

The interviewees indicated that the relationship between the council and its stakeholders is the 'core' of stakeholder engagement. They mentioned that a reciprocal stakeholder

relationship exists, where the council itself is a stakeholder for the parties. Under this reciprocal relationship criterion, individuals and groups become stakeholders for a local council and the local council itself becomes a stakeholder for the individuals and groups. Interviewee A2 stated that 'it is the relationship that we have with our community groups and therefore we need to recognise them because in some way we are stakeholders for them and vice-versa.'

The study of Council A highlights a substantial but varying role of stakeholder engagement in the sustainability accounting and reporting process. Table 7.4 highlights the influences and roles of various stakeholder groups in the council's sustainability accounting and reporting process.

Table 7.4: Roles of stakeholders in the sustainability accounting and reporting process

Stakeholder group	The elements of sustainability accounting and reporting influenced	Stakeholder's role in the sustainability accounting and reporting process
Council staff	Development of strategic plans, determination of sustainability indicators, setting accounting tools, monitoring and measurement of sustainability indicators, preparation of annual reports and feedback on the reports	Experts, coordinators and facilitators of the process
ICLEI–Oceania	Development of sustainability indicators	Trainer, consultant and mentor
Community	Identification of social and environmental issues, development of strategic plans, determination of sustainability indicators, setting accounting tools, monitoring and measurement of sustainability indicators, and feedback on the reports	Bearer of sustainability issues, ratepayer, reviewers and monitors of sustainability indicators, partners in sustainability programs, sustainability data providers and audience for sustainability reports.
Government bodies	Regulated the planning and reporting and community engagement therein, and provided data for measuring the 'City' indicators	Regulator, enforcer, sustainability data provider and fund provider
Social and environmental NGOs	Identification of social and environmental issues and problem solving	Consultants
Universities	Provided technical assistance to monitor and resolve sustainability issues	Specialists, researchers and collaborators
Awarding agencies	Improvement of annual reports	Motivators and feedback providers

Various stakeholders played multiple roles in the process. For example, the local community played a critical role in the identification of sustainability issues, the development of the strategic plan, the determination and measurement of the sustainability indicators, and the improvement of the annual reports. Similarly, the state government played an important role in regulating the sustainability accounting and reporting process as well as providing sustainability performance data.

7.5.2 Extent of stakeholder engagement

Council A exercised different levels of engagement in the sustainability accounting and reporting process. The interviewees revealed that the spectrum of engagement varied depending upon the purpose of engagement. For example, if the purpose of an engagement was to involve in dialogue to develop sustainability indicators and measurement tools, participative engagement techniques such as forums and workshops were designed to understand stakeholders' expectations and concerns. Otherwise, where the purpose of engagement was just to inform stakeholders about sustainability performance of the council, websites and reports were used. Interviewee A2 stated that stakeholder engagement exists 'across the whole spectrum because in some cases we are just there to inform, in some there is more of a participatory form of level of engagement'.

The involvement strategies of the council were guided by the International Association for Public Participation (IAP2)'s[14] Public Participation Spectrum which suggested five levels of community participation. The levels of engagement included inform, consult, involve, collaborate and empower. Informing and educating were considered as a prerequisite to the accounting and reporting process. Council A organised seminars and community events, distributed brochures and used social media to create awareness about the importance of sustainable development and the role of stakeholders. Moreover, annual reports were regarded as a formal document to provide a snapshot of the year's activities. Although informing advocates one-way dialogue with stakeholders, it emerged as a useful approach to establish commitment to sustainability and to create a relationship and mutual trust.

[14] IAP2 is an international member association which seeks to promote and improve the practice of public participation or community engagement, incorporating individuals, governments, institutions and other entities that affect the public interest throughout the world.

The interviewees mentioned that Council A actively and regularly provided information to stakeholders through annual reports, website disclosures, newsletters and media releases to promote awareness of sustainability issues. The council undertook educational programmes on the sustainability issues at the school, community and business levels as well as internally. It also used a sustainability blog to facilitate dialogue with the wider community.

Consultation emerged as the most commonly used engagement level. The council used a range of media to consult with stakeholders to identify sustainability issues, to develop council plans, sustainability indicators and accounting tools, and to improve annual reports. The media included surveys, focus groups, public exhibitions, meetings and peer review. Although some media such as public exhibitions provided a limited voice to stakeholders, the use of focus groups (as discussed in Section 7.4.1.3) created trust and allowed openness in the dialogue process. Stakeholder engagement was taken to the next level by involving stakeholders, especially staff, in the accounting and reporting process. The council used participatory decision making and personal discussion to facilitate the development of annual reports.

The council also collaborated with external stakeholders including a university, ICLEI–Oceania and NGOs to promote joint learning and decision making. A partnership with a local university assisted the council to address issues related to a river. Similarly, ICLEI–Oceania shared its knowledge and experience in relation to the development of sustainability indicators.

Freidman and Miles (2006) regarded the integration of stakeholders' opinions into strategy as a signal of stakeholder empowerment. Sections 7.4.1.1 and 7.4.2.1 presented a case of extensive input of local community in the development of the strategic plan and the sustainability indicator suite respectively. Hence, these instances imply that stakeholders, especially the local community, were empowered by the council to determine its sustainability goals and targets.

In summary, the council demonstrated a high level of commitment through exercising the top three levels of stakeholder engagement. The findings of this study suggest that the purpose of engagement would determine the level of engagement to be exercised by an organisation. If the purpose is to establish new structures and to address complex problems, collaboration and involvement with technical and professional groups would

be needed. However, the development of community-centric plans would require the empowerment of stakeholders. This study also suggests that exerting a low level of engagement does not necessarily imply that the engagement in ineffective. If the purpose is the create awareness then informing would serve as an appropriate engagement strategy.

7.5.3 Key issues and challenges in stakeholder engagement

The interviewees raised the issues and challenges that affect the nature and extent of stakeholder engagement in the sustainability accounting and reporting process. These issues and challenges were concerned with limited resources, diverse stakeholders' expectations, unwillingness to participate and the quality of engagement.

Limited resources

The time involved in the engagement process emerged as a key issue throughout the interview process. Interviewee A1 mentioned that local government's limited resources could hinder engagement goals. She stated that 'to engage, you have to spend significant time and resources which are always an issue for local government where they are limited'. The Community Engagement Strategy and the Community Participation Manual also indicated the impact of time and resources in seeking a meaningful engagement and determining the level of engagement.

Unwillingness to participate

The interviewees mentioned that Council A has actively sought stakeholders' opinions about the annual reports in order to improve the quality of the reports. However, it received limited feedback from stakeholders unless it directly approached them. Interviewee A1 stated that the council has not received sufficient constructive feedback and suggestions:

> Unless we have actually gone and sought feedback, which we have done in the past. What we did – we send the annual report out to a series of quite a large number of stakeholders and then booked telephone interviews with each of them to see how they perceived it, what issues they have, what suggestions for improvement that sort of thing. So thus unless we actively go out and seek stakeholder feedback on an issue we do not get a great deal. We are quite active in seeking the feedback.

Unwillingness to participate could hinder an efficient engagement process and affect the quality of the outcome. Due to insufficient feedback on the reports, the council was unable to refine reporting contents and structure as per the users' needs.

Heterogeneous concerns

As discussed in Section 3.3.4, heterogeneous stakeholders' interest could raise conflicts among different stakeholder groups, thereby resulting in difficulties in achieving consensus. The interviewees raised similar concerns about heterogeneous stakeholder expectations and conflicts. Interviewee A3 stated that stakeholders' expectations are of huge concern to the council because:

> Where we have got different stakeholders that have different ideas on what you should be doing and you need to somehow resolve that, because you can not necessarily take into account everybody's views, particularly if you need to change things you can not necessarily change things to suit everybody.

In order to resolve conflicts, Council A either negotiated with stakeholders on the issue or placated the stakeholders. At the end, decision making rested in the hands of power holders, which in the case of Council A were internal stakeholders. Interviewee A5 stated that:

> In a situation where we cannot resolve it [an issue] then eventually we have to make a decision, and have the confidence in our process that we have followed and that we are going make the right one.

Quality of engagement

The interviewees considered the quality of engagement as a critical issue. The key challenges faced by the council to maintain the quality of engagement included representativeness, effective use of resources and meeting state government requirements. Interviewee A1 stated that the council makes 'sure that we are doing it [stakeholder engagement] in a quality way. We are engaging with a wide section of the local community to get balance sort of view and response. Making sure we meet as many community members we can'.

Even though the factors discussed above somewhat undermine the effectiveness of stakeholder engagement, the interviewees mentioned that the council is committed to embedding stakeholders' opinions in the sustainability accounting and reporting process. The factors that encouraged stakeholder engagement in Council A are discussed in the next section.

7.6 Influences on stakeholder engagement

Documents and interviews highlighted that coercive, mimetic and normative influences affect the nature and extent of stakeholder engagement in Council A. However, the

effect of these influences varied with some being stronger than others. Internal factors were another critical driver of stakeholder engagement.

7.6.1 Coercive influences

The mandatory requirements such as under the Local Government Act 1993 and the Environmental Planning and Assessment Act 1979 emerged as a key driver for stakeholder engagement in Council A. The council is a Group 1 local council in terms of adopting the IP&R framework. Therefore, it faces strong pressure to develop a strategic plan, a community engagement strategy and to engage stakeholders in the issues affecting them. The IP&R legislation 'is based on the principle that all members of a community have a right, and a responsibility, to contribute to their City's future' (Document AD2). Interviewee A5 stated that:

> We could sit in an office and all of us just write a strategic plan, which in years gone by that's what councils did, but the new legislation now says that we can't do that. We have to talk to our communities and we have to listen to their aspirations and we have to incorporate those in our plans. We have probably been doing that quite well at Council A for a long time.

7.6.2 Mimetic influences

The use of the term 'stakeholder' by Council A appears to be carrying a mimetic effect. The term 'stakeholder' has been exhaustively used in the corporate area. It is argued in this research that the use of the term has been adopted by local councils from corporations. In the context of Council A, it was relatively more about the community rather than stakeholders in general as their plan and policies were mainly directed to the community. This is evident from the linguistic use of the term 'community' more than 'stakeholder' by the interviewees, adoption of a 'community engagement plan' rather than a 'stakeholder engagement plan', 'community survey' rather than 'stakeholder survey', and strategies focusing on community welfare. The council used community and stakeholder interchangeably to refer to the individuals and groups towards whom it is accountable. Document AD2 explained the preference of the term 'community' over 'stakeholder':

> All of these communities are referred to as stakeholders. They may be, or perceive that they may be, affected directly or indirectly by the outcome of a decision. Internal stakeholders (individuals who work for or with the decision making organisation) are also part of our communities.

7.6.3 Normative influences

This study found evidence of professionalisation influencing stakeholder engagement policies and initiatives. IAP2's Public Participation Spectrum was utilised to guide the nature and extent of engagement in the council's plans and programs. The key community engagement documents such as Community Engagement Strategy and Community Participation Manual adopted five levels of engagement – inform, consult, involve, collaborate and empower to ensure effective community input in the development of the plans and polices.

Furthermore, national and international awarding agencies motivated the council to establish and practice effective stakeholder engagement mechanisms. Council A demonstrated a keen drive to win awards and to build a strong reputation in the area of sustainability and community engagement. The council reported its awards and recognitions using online media releases and annual reports to demonstrate its excellence in the area of stakeholder engagement. Document AD1 (2010–11) stated that:

> The [community engagement] initiative won a prestigious Local Government and Shires Associations of NSW Cultural Award (Integrated Cultural Policy Implementation), which recognised outstanding work in cultural policy, planning and programs. Council's award highlighted the successful collaboration between Council A, XYZ School, CuriousWorks and residents in our community.

Most of the interviewees were also found to be encouraged by the awards and recognitions earned by the council. Interviewee A5 narrated an instance that promulgated Council A's drive for awards and recognitions. She stated that:

> We just went to the nationals and we got two awards – we got a youth engagement award and we got the waste recovery award and all of those things are obviously advertised to our community but when they came to – the judge came – we took her to one of our childcare centres and the children were talking to her all about sustainability and what that means – people are just so much more aware of the issues now.

The council was observed to be proud of its engagement achievements and recognition. The intention to earn prestigious awards could raise the level of programs and service towards establishing proficient systems.

7.6.4 Internal influences

Although regulations were the strongest influence for Council A to engage with local communities, its commitment to engagement, now and in the past, equally influenced the extent of the engagement in the accounting and reporting process. Interviewee A1

stated that ‘it is legislation but then there is obviously the commitment from the council as to how much that they follow through with that legislation as well’. Therefore, understanding the internal influences affecting the nature and extent of stakeholder engagement becomes important in determining the factors that can accelerate stakeholder engagement programs in local councils.

In Council A, internal factors such as top management and staff commitment had a significant influence on effective stakeholder engagement. Interviewee A5 stated that:

> We have a real commitment to community engagement, it is a philosophy, and it is a commitment to working with our community and providing community a voice. We just think it is our everyday work – it is what we work whereas I am aware that other councils do not but it is what we do here. If you look at our delivery program information you will see that it’s there working in partnership with the Aboriginal community – it’s part of what we do; it’s part of what we report on as part of the commitment from the council laws; the General Manager and everybody down.

Furthermore, achieving organisational efficiency was highly important for the council and engaging with the community ensured the effective utilisation of resources. The interviewees raised their concerns about the council’s limited resources because the development of sustainability reports requires huge resources in the form of time, money and staff. Nevertheless, they acknowledged the correlation between receptivity of the reports and stakeholder engagement, and mentioned that the reports lose relevance if they do not address the concerns and issue of stakeholders. Publication of such a report was regarded as a waste of valuable resources. Interviewee A2 remarked that ‘I hate wasting our time as an organisation reporting on things that aren’t of interest or relevance to people’.

7.7 Summary

The study of Council A provided useful insights into the nature, extent and drivers of stakeholder engagement. The interviews and documents highlighted that the council proactively engaged with its stakeholders in decisions and activities. These activities ranged from merely creating sustainability awareness to achieving collaboration with stakeholders in resolving sustainability issues. The council emphasised the vitality of connections with local community, business and state government to advance the notion of sustainable development.

Stakeholder engagement emerged as a critical component in the entire sustainability accounting and reporting process. A range of stakeholder groups contributed to the

different stages of the process, including the development of sustainability indicators, monitoring and measuring the sustainability indicators, and the preparation and refinement of annual reports. Stakeholders were engaged through using traditional and contemporary engagement tools. The use of engagement methods such as surveys, interviews, focus groups and public exhibitions explained the extent of engagement in the council. The extent of engagement varied depending upon the stage of the accounting and reporting process and the purpose of engagement in it. The study of Council A demonstrated the use of informing, consultation, involvement, collaboration and empowerment.

The GRI (2006) emphasised the importance of stakeholder engagement in enhancing the quality and receptivity of the reports. One-way dialogue, from the council to the local community, existed in the sustainability reporting stage. The instances mentioned by the interviewees highlighted Council A's extensive interest in procuring stakeholder feedback on the sustainability reports. However, a lack of interest among stakeholders to provide the feedback was noted. This scenario raises a question on the usefulness of sustainability reports for stakeholders.

The key drivers of stakeholder engagement in the sustainability accounting and reporting process included external and internal institutional factors. The findings of this case indicate that although external factors – coercive, mimetic and normative – affect the adoption of certain stakeholder engagement practices and processes, the internal factors – commitment of management – promotes meaningful stakeholder engagement.

Chapter Eight: Stakeholder engagement in sustainability accounting and reporting in Council B

8.1 Introduction

This chapter presents the findings emanating from the study of Council B. The data sources specific to this case are discussed in Section 8.2. The next section provides the contextual background for the local council case by describing its sustainability issues and its sustainability accounting and reporting process. Section 8.4 deals with the first four research objectives of this study to investigate how and to what extent stakeholders are engaged in the sustainability accounting and reporting process. The focus is to identify the key stakeholders and the engagement mechanisms used to involve them. The nature and extent of stakeholder engagement, and the key issues and challenges undermining its effectiveness are also examined. Section 8.5 explores the external and internal influences on stakeholder engagement in the sustainability accounting and reporting process to address the fifth research objective. Section 8.6 summarises the findings of this case.

8.2 Data sources

As stated in Chapter 5, data were collected through interviews, documents (including presentations) and website observations for the local council specific phase of the research. The selection of these research methods was guided by the research objectives which are to examine the nature, extent and role of stakeholder engagement in the sustainability accounting and reporting process and the drivers for the engagement.

A total of 14 interviews were conducted at Council B from December 2011 to January 2013. Table 8.1 provides details of the interviewees' profiles. The interviewees were selected on the basis of their significant involvement in the sustainability accounting and reporting process and stakeholder engagement. The participants comprised personnel who had critical roles in the decisions related to engaging stakeholders and developing sustainability indicators, and had ongoing involvement in overseeing, planning and compiling annual reports. An initial interview was held with the Divisional manager of Environmental Services (Interviewee B1) to gain insights into the key issues related to the council's sustainability accounting and reporting process.

This interview was also useful for establishing contact with the key personnel involved in that process and in stakeholder engagement.

Table 8.1: Council B interviewee profiles

Interviewees	Position	Job responsibilities	Interview stage
B1	Divisional Manager, Environmental Services	Responsible for corporate sustainability processes, including SoE reporting	1,2,3
B2	Divisional Manager, Governance & Integrated Planning	Responsible for incorporating sustainability in corporate processes, IP&R framework and community engagement	1,2,3
B3	Director, Corporate & Technical Services	Responsible for corporate sustainability processes, including reporting	2,3
B4	Divisional Manager, Technical Services	Responsible for maintaining physical infrastructure of the council	2,3
B5	Senior Environment Officer	Responsible for incorporating environmental sustainability in the council's plans and programs	2,3
B6	Divisional Manager, Finance & Information Systems & Services	Responsible for financial accounting and reporting and managing information systems of the council	2,3

The aim of analysis of the interview data was to explore the sustainability accounting and reporting process with an emphasis on the nature and extent of stakeholder engagement at each stage of the process. This involved understanding the nature and extent of stakeholders' input in identifying sustainability issues, developing the strategic plan, setting sustainability indicators, and measuring and reporting the indicators. The interview data were supported by documentary evidence and website monitoring.

The documentary analysis provided useful insights in relation to critical sustainability issues, stakeholder issues and concerns, and plans and policies to engage with stakeholders. These documents also were used to substantiate and support the interview data by discussing the reported instances in the light of the interviewees' comments. Table 8.2 lists the documents analysed in this case study.

Table 8.2: Council B documents

Codes	Document	Description
BD1	Annual Reports: 2008–09, 2009–10, 2010–11 and 2011–12	Statutory report
BD2	SoE Reports: 2008–09, 2009–10	Statutory report
BD3	Report on Integrated Engagement Strategy 2009	Describes the process and outcomes of a community consultation
BD4	Community Strategic Plan 2010–22	Identifies the long-term aspirations of the local communities
BD5	Delivery Program 2010–13	Outlines what Council B will do over the next four years to work towards achieving the agreed community outcomes
BD6	Long-Term Financial Plan 2011	Outlines Council B's capacity to support sustainability targets and deliver services
BD7	Environment Action Plans – Vision 1 & 2	Outlines environmental vision, directions and targets set through community engagement
BD8	Workforce Plan 2010–14	Outlines guidelines for workforce retention and attract new staff
BD9	Social Plan 1 & 2: 2005–10	Describes Council B's demographic characteristics and addresses the needs of different groups in the community
BD10	Operational Plan 2011–12	Acts as 'implementing' part of Council B's key strategic documents, and outlines all of the council's services
BD11	Funding The Future 2010–22: Report on the outcomes of community consultation 2010	Presents community feedback in response to a community consultation program commissioned by Council B.
IP&R Guidelines 2010	Planning and reporting Guidelines for Local Government in NSW 2010	Lists the mandatory requirements from the NSW Local Government Act 1993 in relation to planning and reporting
IP&R Manual 2010	Planning and reporting Manual for Local Government in NSW 2010	Explains the reasoning behind and the general intent of the requirements of the IP&R legislation and guidelines

In addition to public documents, presentations delivered by Council B's Director of Corporate & Technical Services to various stakeholder groups were also used to gain a better understanding of the council's journey towards the adoption of the IP&R framework and stakeholder engagement therein. The details of the presentations are provided in Table 8.3.

Table 8.3: Council B presentations overview

Code	Presentation	Stakeholders involved
PB1	Working within an integrated planning process to achieve sustainable assets and services	Finance Professionals Conference, Western Australian Local Government Managers Australia
PB2	Consulting with communities to secure their future	International Property Tax Institute
PB3	IP&R End of Term Reporting	Integrated Planners Member Network
PB4	Integrated Planning & Reporting Accessing the biggest benefits	University of Technology Sydney Corporate Management & Organisation Change Course
PB5	Funding the future – Overview of Community Consultation	Councillors

The website monitoring included the observation of social media (Twitter, Facebook and online forums) and online disclosures on sustainability issues and community engagement. The online disclosures provided elaborate information about the council's contemporary sustainability issues and ongoing discussions with stakeholders. These media will be discussed in detail in Section 8.4.1.3.

8.3 Contextual background

Council B is located in Sydney in NSW. It oversees a densely populated city with several suburbs. Council B hosts one of the most famous and busiest beaches in Australia and attracts more than two million visitors annually. The city accommodates 68,567 residents (Document BD1, 2011–12) and 3% of residents are Indigenous. With an area of 924 ha and a population density of 68.42 people/ha, Council B is among the most densely populated local government authorities in Australia (Document BD1, 2011–12). In terms of natural environment, over 153 species of native plants and 94 native animal species exist within the area (Document BD7).

The interviews and documents revealed key social and environmental issues in the area. Interviewees mentioned that the council's and community's concerns about social issues include the changing demographics of the area, affordability, the aging population, local heritage, non-English speaking background (NESB) communities, accessibility and safety. The interviewees also identified key environmental issues within the region as water, waste, greenhouse gas emissions and biodiversity.

Affordability was regarded as a critical issue for the area because residents are becoming 'asset rich and cash poor'. Young families and working class communities in the area have been losing their purchasing power due to the increasing cost of living affecting affordability to live and support their families. Moreover, Council B experienced one of the largest population declines in NSW for the year ended 30 June 2004 (Document BD9). The interviewees were concerned about residents moving out of the area resulting in demographic changes and a loss of local history.

Council B was also highly concerned about the increasing aging community with 12.1% of its total population being aged 65 years and over in 2010, and which is projected to increase to 17.6% by 2022 (Document BD9). Aging community was of concern to the interviewees because of the impact on the council's assets and infrastructure, including footpaths, transport and council services. With 25.7% of the total residents born overseas (Document BD1, 2011–12), managing NESB communities' needs was considered a critical social issue. The interviewees indicated that the council faces a constant challenge to manage NSEB communities' needs, including settlement issues, interpretation services, education, housing, health and employment.

The interviewees were concerned about greenhouse gas emissions in the area as the average of carbon emissions per resident in Council B is 16.1 tonnes (Documents BD7). In response, the council through community consultation has set a target of a 30% reduction in greenhouse gas emissions by 2020 (Documents BD7). The interviewees showed more concern towards social issues than environmental issues. The reason for this could be associated with the control over targets and indicators. In relation to environmental issues, state and federal governments were observed to be more active in providing directions and targets, leaving less control in the hands of Council B to make decisions in this regard. In contrast, the council possessed more authority to consider social issues in consultation with the local community.

Council B's annual reports, SoE reports, plans and policies were publicly available. Website monitoring revealed that the council has been reporting on its SoE since 1997. The SoE reports were prepared strictly in accordance with section 428(c) of the Local Government Act 1993 and the Local Government (General) Regulation 1993. These reports were highly driven by the NSW regulations, and provided information on pre-determined eight environmental sectors of land, aquatic systems, biodiversity, air,

waste, noise, Aboriginal and non-Aboriginal heritage, and social environment. In 2010 the council adopted the Integrated Planning and Reporting (IP&R) framework introduced by the NSW government and became one of Group 1 local councils in NSW. The framework is discussed in detail in Section 8.4.

8.4. Sustainability planning, accounting and reporting

This section discusses the sustainability accounting and reporting process of Council B to highlight the nature, extent and drivers of stakeholder engagement in developing the sustainability indicators, and measuring and communicating sustainability performance. The focus is to identify the key stakeholders and mechanisms adopted to engage them in the sustainability accounting and reporting process.

The process was based on quadruple sustainability which comprised sustainable community, sustainable environment, sustainable living and sustainable governance. The interview data and documents highlighted the adoption and use of the IP&R framework in Council B. Figure 8.1 shows the IP&R framework adopted by Council B.

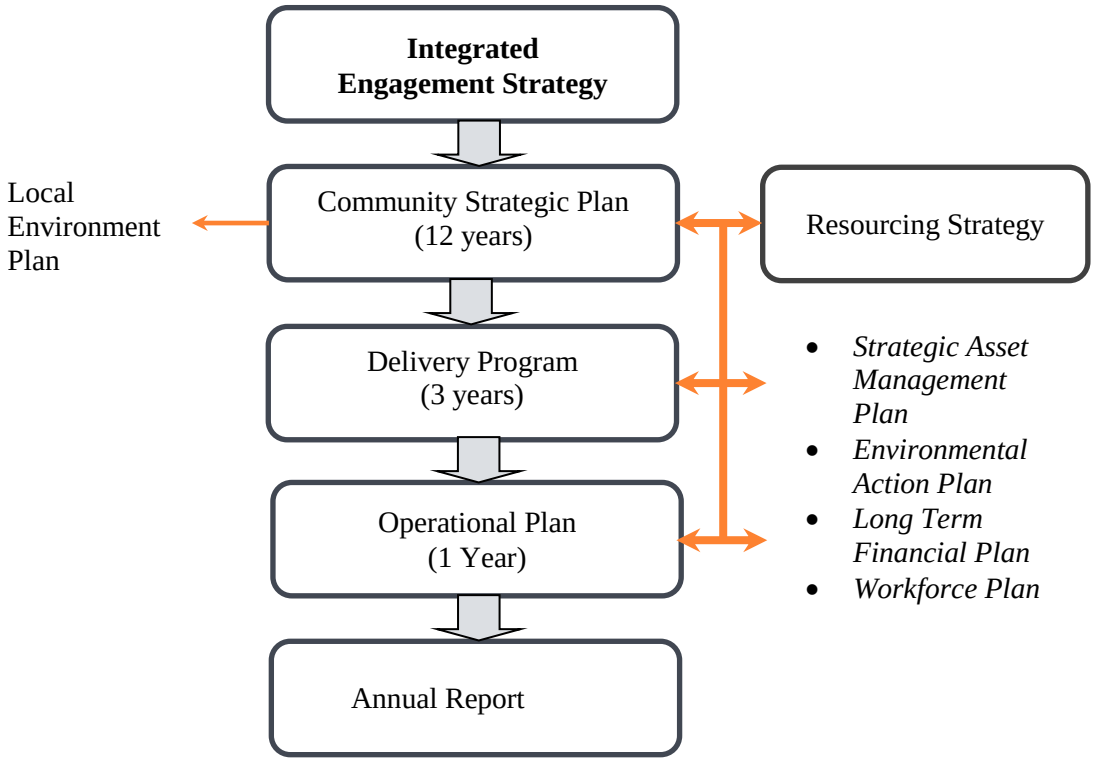

Figure 8.1: Council B's Integrated Planning and Reporting Framework

The framework consists of six key documents: Integrated Engagement Strategy, Community Strategic Plan, Delivery Plan, Operational Plan, Resource Strategy and Annual Report (including sustainability disclosures). Council B regarded the IP&R framework as a major microeconomic reform and an affordable means for achieving quadruple bottom line sustainability for local communities (Document PB2). The key strength of the framework is that it required the council to identify and to establish material sustainability issues for the area and community, which were then incorporated in the strategic plans and programs. While doing so, each sustainability target was linked with a resourcing strategy to ensure the availability of adequate funds to implement sustainability plans and programs. This implies that if an issue has been recognised in the community strategic plan, it must be supported within the annual budget to ensure its accomplishment.

Another benefit of the IP&R framework is that for the first time it hands planning power directly to communities resulting into the planning power hierarchy shifting from 'top down' (i.e., the council to the community) to 'bottom up' (i.e., the community to the council) (Document PB2). This shift allows the council and the communities to work together to set targets for a sustainable future and to drive all levels of government towards it.

8.4.1 Sustainability planning

Council B considered the development and adoption of the community strategic plan as a critical tool to achieve its sustainability goals and for measuring and communicating sustainability performance. In order to develop a strategy that reflects local sustainability aspirations, the council regularly consulted with its community and other stakeholders.

Having identified the sustainability issues, Council B developed a community strategic plan which outlined mechanisms to achieve a sustainability vision and sustainable outcomes for the local community (Document BD1, 2010–11). The plan provided information on the vision (what are the aspirations of the community), directions (where Council B wants to head), strategies (how Council B will get there), targets (where Council B wants to be) and indicators (how will sustainability performance be measured). Figure 8.2 shows linkage between these elements of the strategic plan.



Figure 8.2: Council B's strategic plan's structure

The strategic plan was supported by a delivery program, which guided the council's activities over the shorter term. It listed the issues that were of high concern among stakeholders and demanded the most attention. The IP&R framework recognises that plans that are not properly resourced will not work. To maximise the chance of meeting the community's objectives, the adoption of a long-term resourcing strategy has been compulsory for NSW councils (IP&R Guidelines 2010). Council B adhered to this regulation by linking its plans with a resource strategy to determine its capacity to manage assets and deliver services.

Finally, the operational plans were established as sub-plans of the delivery program and aimed at describing the projects, programs and activities to be undertaken in a specific year. They also explained how Council B intends to finance their operations during a year through rates revenue, loans, borrowings and other income.

8.4.1.1 Stakeholder engagement in sustainability planning

The documents and interviews emphasised the importance of community engagement in the identification of critical social and environmental issues, the development of strategic and other supporting plans, and decision making to optimise sustainability outcomes. When asked about the usefulness of stakeholder engagement in the planning process, Interviewee B3 stated that she could count 'more than one hundred usefulnesses – you cannot have a plan for a community without a community'. The interviewees regarded the involvement of community in the planning process as a proactive form of engagement. It assisted the council to gain insights to stakeholders' aspirations beforehand 'rather than managing spot fires that happen in local government when a development might go across the road and then everyone hates it' (Interviewee B2). Interviewee B5 also emphasised the importance of community engagement during the drafting of a new policy or implementing a new program:

> Community engagement has a potential to gain insights for issues in regard to the council's draft coastal risk management policy, specially it enables us to gain insights on situations issues that we may have not thought of. It also enables us to measure the potential success and acceptance of the policy. Implementing a policy

> that it is not supported by anyone is not in the interest of most organisations. It is very beneficial to have feedback to get support or otherwise on policy.

The interviewees mentioned that stakeholders, especially the local community, have been an important means of gaining awareness about local sustainability issues because of their daily exposure to their society and the environment. Therefore, Council B regularly engaged with the local residents to explore their knowledge, attitudes, skills and behaviours in relation to environmental sustainability and to identify key sustainability issues (Document BD2, 2010–11).

Furthermore, Council B extensively used stakeholder input in the development of the strategic and other supporting plans, including a strategic asset management plan, an environmental action plan, a long-term financial plan and a workforce plan. Document BD4 stated that these plans were 'the result of substantial consultation with residents, community groups, local businesses and others'. Interviewee B3 stated that community engagement is:

> Critical for the success of integrated planning because if you don't have community engagement then you're not getting a true reflection of where the community wishes to head in the long term.

During 2009 and 2010 the council undertook two comprehensive engagement activities to understand its stakeholders' perspective about the council's strategic plan and resourcing strategy respectively. Both of the engagement programs demonstrated the use of different engagement mechanisms to facilitate two-way dialogue with the wider community.

The council adopted a six-stage consultation process to identify stakeholders' concerns about the plans and to ensure effective engagement throughout the planning process. Figure 8.3 summarises the consultation process of Council B.

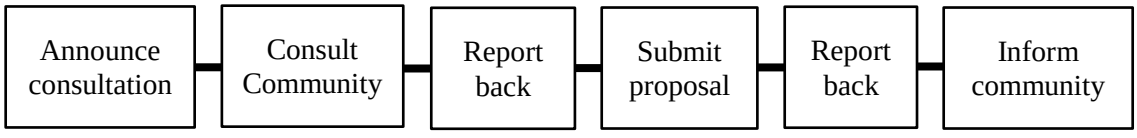

Figure 8.3: Council B's stakeholder consultation process

Before starting the consultation process, the council made public announcements to create awareness about the consultation purpose and methods. The announcements were made through newspapers, a letter to ratepayers, newsletters and staff briefing sessions.

The interviewees considered education as a critical component of an engagement as it aimed at creating understanding about projects. Council B tailored its communication, education strategies and engagement to meet the needs of different community groups.

In the first part of the consultation stage a community information package was sent to survey participants and in-depth information about the consultation was made available on the council website. The media, including traditional, contemporary and third-party channels, were then activated to obtain feedback from stakeholders. In order to advance two-way communication, stakeholders' queries were addressed to facilitate ongoing interaction. Finally, internal focus groups were created to gather informal feedback on how the community was responding and to discuss any adjustment, information and/or messaging required.

After consulting stakeholders, all the information was analysed and the results were reported to councillors, staff, key stakeholders and influencers. This was followed by the publication of interim results in newsletters, media releases, websites and precinct meetings. Councillors had a responsibility to provide briefings on the overall recommendations resulting from the consultations. Once the key stakeholders approved the results and recommendations, council reports were prepared and released.

In the fourth stage the consulted proposal was submitted to the state government for final approval. In the meantime, Council B continued interaction and education programs with the community, staff and councillors. The council communicated the outcome and updates to key stakeholders followed by the formal announcement of the outcome to the community and the media. Finally, brochures and letters were distributed about the proposed changes. To ensure the implementation of the proposed changes, the council organised precinct committee meetings.

8.4.1.2 Who are the key stakeholders?

Documents and interviews were used to identify groups and individuals influencing Council B's strategic planning. The key stakeholders included the local community, visitors, council staff, state government and councillors.

Local community

The local community emerged as the most salient stakeholder group in sustainability planning. The community was a prime channel to identify and understand local

sustainability issues because of the close interface with society and the environment. Interviewee B1 stated that stakeholders such as ratepayers and residents are:

> [At] the forefront of the city, they are aware of what their local issues are because they live with them and they breed them in the community. They are exposed to local issues on a daily basis where[as] we as an organisation may not always know what those issues are.

Moreover, the interviewees recognised the influence of local community on the potential success or failure of the sustainability programs. The identification and prioritisation of local residents and the community as the prime stakeholder group relates to the notion of accountability. The interviewees considered ratepayers as 'the funders of council activities'. These groups pay local council rates and, therefore, the council must respond to their local issues and needs within their accountability framework.

Visitors

Along with the local community, visitors significantly influenced local sustainability. Council B's area attracted more than two million visitors annually resulting in a huge impact on environmental and economic sustainability. The concerns relating to visitors included pressure on streets, parking areas and education for backpackers' children. The interviewees mentioned that the council regularly attempts to create awareness among visitors about their ecological footprints but they have proved to be the most difficult group to engage with because of their transient nature. Interviewee B1 raised this concern and stated that being a tourist destination means the area attracts:

> 2 million visitors a year and that is a huge stakeholder group. That's very transient and hard to sort of communicate with and engage with. A huge population of backpackers that come here for 2 or 3 months, we try to tell them about what to do with their garbage and how to look after the area but we don't know about the channels of contacting them because you know they are not the landowners.

The main concern relating to engaging with transient groups was finding an appropriate channel of establishing contact. Contrary to the residents, whose residential contacts are readily available, transient groups lack contact points for providing information and obtaining feedback.

Council staff

Council staff were considered important to manage, control and satisfy community expectations. Considering that staff are also representative of local voices, staff were engaged using focus groups to elicit their feedback on the wider community concerns. Their involvement was not only critical for developing the strategic plans but also for

implementing the council's programs. Interviewee B2 mentioned that the IP&R framework recognises council staff as a key stakeholder group because they are an important link between planning and achieving sustainability targets because:

> There's no point having the money and the assets in place if you haven't got the staff to actually do the job in the first place, so it recognises all three [delivery program, resource strategy and workforce management plan] have to work together to achieve the outcome for the community.

Council B's managers and officials actively participated in meetings and workshops related to strategic planning. Moreover, some of staff such as the Director of Corporate & Technical Services were regarded as champions of the IP&R framework. Along with driving the strategic planning and community engagement internally, they facilitated conferences and seminars to create awareness about the framework among external stakeholders, including councillors, tax planners and other councils (Document PB1, PB2 and PB5).

State government

In Council B the state government was considered a highly influential stakeholder group as they had power to dictate environmental policy, to define strategic plans, to set environmental targets and to sanction funds to achieve sustainability goals. Moreover, the NSW government through its IP&R regulations encouraged the council to develop a strategic plan and to engage the local community in the planning process. Document BD1 (2010–11) stated that:

> The NSW Government introduced a new way for councils to conduct their business called Integrated Planning and Reporting. This new system shows a commitment to creating a strong and sustainable local government system where communities can have a more direct say in what happens in their area. Underpinning this new framework is the requirement for councils to take a long-term view when making decisions and the need for them to consider the Quadruple Bottom Line (QBL) consisting of social, economic, environmental and civic leadership (governance).

Before the adoption of this framework, Council B had been reporting on the state of the environment as a mandatory requirement for NSW local councils. Document BD2 stated that the SoE reports have been 'prepared as a comprehensive document as required under section 428(c) of the Local Government Act 1993 and the Local Government (General) Regulation 1993'. Therefore, the council has been under a continual pressure from the state government to promote environmental sustainability and to demonstrate the sustainability performance through its annual reports.

Councillors

Councillors emerged as an influential internal stakeholder group in Council B as their approval was essential for adopting plans and policies. Moreover, being elected representatives of the community, they had a strong influence on decisions relating to local issues. The interviewees mentioned that occasionally councillors' opinions dominated the community consensus.

8.4.1.3 How are stakeholders engaged?

Council B used a mix of traditional, contemporary and third-party channels to engage stakeholders in the sustainability planning process. Traditional engagement channels included the mayor's column, precinct meetings, brochures, community noticeboards, media contact and customer service points. Contemporary engagement channels included the use of social media, 'Bang the Table'[15], email, telephone 'on hold' messages, a special 'Q&A' section on the council's website and key stakeholder discussions. Third-party channels included media, 'StreetCorner'[16], community channels and word of mouth (resulting from ongoing discussions). The use of alternative engagement methods assisted the council to obtain general and expert opinions on the implications of sustainability issues for the development of the strategic plan.

Media options such as the mayor's column, brochures, community noticeboards, mass media, community channels and telephone 'on hold' messages were used to educate stakeholders in the strategic planning and to encourage their participation. Although these approaches advanced one-way communication, their use was important to create awareness about the importance of strategic planning and stakeholder engagement. These media prepared stakeholders for more participative forms of engagement in the development of plans and policies for a sustainable future.

Stakeholder engagement methods that provided voice to stakeholders were surveys, study and focus groups, open days and social media. The council organised a telephone survey to consult approximately 500 community members with the assistance of an

[15] Bang The Table is a private company that offers online community consultation tools for engaging in collaborative learning, discussion and debate.

[16] Street Corner is an online social media that allows local organisations and the general community to share their concerns through blogs and comment on others' posts.

independent consultant (Document BD3 and BD11). It drew on a randomly selected group of residents that reflected the demographic profile of the area such as age, gender, rental tenancy status, property ownership (residential and business) and rate payment brackets. The survey responses assisted the council to determine residents' significant local issues, their level of satisfaction with the council's services and facilities, and their concerns about the quality of life (Document BD3). However, this approach suffered from two limitations. First, it did not engage the wider community and second, it lacked two-way dialogue between the council and participants.

Documentary evidence indicated the use of study groups, staff focus groups and precinct committees to encourage discussion among participants. Study groups comprised small and carefully selected community representatives from business, environmental groups, health institutions, ethnic groups, the youth population and senior citizens in recognition of diverse local issues (Document BD3). The staff focus groups were aimed at eliciting staff feedback on wider community concerns. Both the study and staff focus groups can be regarded as effective methods of engagement as they allow two-way interaction between the council and its stakeholders. However, they provided limited opportunity for the involvement of community members due to their small size. Precinct committees and citizen juries expanded opportunities for residents by securing active participation in the council's decision making. Precinct committees comprised residents who met regularly to discuss matters of concern in the area (Council B's Community Engagement webpage). Citizen juries also included community members but were created to facilitate decision making on a particular issue, for example, sustainable land use.

In order to facilitate wider participation, Council B organised open days and provided a moderated online forum, hosted through the 'Bang the Table' site. The broad aim of an open day was to:

> Confirm feedback that had been received from our other avenues of consultation (i.e. the Community Survey, study groups and early comments from the web forum) and expand our knowledge of residents' expectations regarding the issues presented to them (Document BD3).

A similar purpose was noted for creating an online forum. The interviewees mentioned that the council created online forums to obtain perceptions about the council's new plans, polices and strategies. For instance, during the 2010 community consultation, an

online forum was designed as an alternative engagement tool to seek the community's opinion on funding options – rate rise or service cut – for the strategic plan. The use of an online forum allowed anyone with internet access to join the forum and to post comments on issues. This provided an opportunity for participants to share their opinions about the project as well as to comment on each other's posts.

A total of 190 comments and 7596 views were observed on the forum. Although the amount of feedback can regarded as insufficient, it assisted the council to understand the perceptions of the community. Two of the comments were:

> No rate increase, council has to live within its means like the rest of us. Stop wasting money painting pretty patterns on the roads and prioritise your services ... more income will only lead to greater inefficiency.
>
> Rates should be increased to maintain current services but not to fulfil the enhancements that were envisioned. Council B ratepayers resent paying for the cleaning up of so much rubbish, damage, and graffiti while our roads, and footpaths remain in a shoddy condition.

The website monitoring indicated that the majority of the community members were not in favour of the funding program. The interviewees mentioned that the comments on the online forum assisted the council to recognise the priorities of the local community. The forum allowed free expression of views and opinions, and so can be regarded as an effective medium to anticipate the probable acceptance or rejection of sustainability programs by the local community.

In addition, the council used other social media to increase approachability, to facilitate convenient participation and to gain feedback from stakeholders on a continuous basis. Website monitoring and documents observed the use of Facebook, Twitter, email, local social media blogs such as 'StreetCorner' and the online version of a local newspaper.

Council B used Facebook and Twitter to interact with community members on local issues. These media were used to create awareness about sustainability issues, share photographs of social events and local scenic beauty, post information and media releases about up-coming sustainability events and workshops, and obtain feedback on council policies and plans. The council used Facebook and Twitter as of one the prime engagement media during the funding consultation in 2010. These assisted the council in providing updated information to the community on the consultation process.

Although the council was very active in posting new information on Facebook, there were only few comments and occasional 'likes' from community groups. Only a few members of the community commented on issues raised by the council and few issues were initiated by the community. The use of Twitter was observed to be relatively more successful than Facebook for engaging stakeholders. It was used to update the community about Council B's activities and initiatives, post up-coming social and environmental events, and create awareness about local issues such as jobs, sustainable trading and crime. Twitter attracted a range of stakeholders, including the National Geographic channel, community members, businesses, police authorities, other local councils, local schools and the local railway authority.

In summary, stakeholder engagement emerged as an integral component of sustainability planning. Council B extensively engaged with its stakeholders in the identification of material issues and the development of strategic plans. The key stakeholders who influenced the planning process were the local community, visitors, state and federal governments, council staff and councillors. They were involved using both traditional and contemporary engagement media. The findings suggest that an engagement activity undertaken with stakeholders using an appropriate strategy has the potential to deliver stakeholder-centric sustainability plans and policies. Such plans can ensure that subsequent processes (accounting and reporting) capture and communicate actual sustainability performance to stakeholders.

8.4.2 Sustainability accounting

Sustainability indicators were regarded as numerical tools for measuring a variety of economic, social, environmental and political trends occurring within the area (Document BD2, 2009–10). Council B established indicators to reflect outcomes that are fundamental to the long-term economic, environmental or social health of the community. Monitoring and evaluation of sustainability indicators assisted the council to assess the contribution of PSOs, community and the council towards the goal of ecologically sustainable development.

In 2009 the council adopted a suite of sustainability indicators consisting of 14 vision elements, 33 sustainability directions and 60 sustainability targets and indicators (Document BD4). The sustainability targets and indicators were measured using

objective and subjective measures. Document BD4 highlighted the purpose of having such a suite of indicators. It stated that the council has:

> Chosen deliberately to rely on a mixture of objective targets (for physical outcomes and subjective indicators for improving quality of life, as provided to us in responses to community surveys. Taken together these should give a reliable holistic picture of wellbeing for ourselves and the environment we live in as interdependent things.

Objective (financial) measures were used to account for a change in physical targets and were measured through internal accounting processes. For example, a target of greenhouse gas emissions reduction by 30% was measured using an online energy data management system. Subjective (non-financial) measures, also referred as 'emotional measure' by Interviewee B3, aimed at measuring social facts such as community well-being, which cannot be easily expressed through 'hard edged' quantitative indicators. For example, an indicator – cultural heritage and diversity is recognised, protected and respected – can be measured on the proportion of residents who agree that living in the city gives them a sense of living in a community.

Council B used different processes to capture the sustainability performance data, including the reliance on internal and external data sources to draw a comprehensive picture of the area's sustainable growth. Internal statistics were maintained using computerised data management systems. These systems mainly recorded data related to energy and gas consumption, and waste generation for the council and the community. External data sources included databases maintained by the state and federal governments, and external agencies.

8.4.2.1 Stakeholder engagement in sustainability accounting

The development of the sustainability indicators suite involved extensive engagement with the local community. The interviewees mentioned that the council conducted a statistically valid survey to gain the community's perception about the city's sustainability, wherein 90% of Council B's residents supported the city's vision resulting in the adoption of the suite. The SoE report 2009–10 stated that:

> In partnership with the local community, Council has developed 31 sustainability indicators that best represent how the community wants progress toward environmental sustainability measured. By comparing progress in these key areas from year to year, we can monitor Council's movement toward achieving corporate sustainability goals.

In terms of sustainability performance measurement, the collection and assimilation of sustainability data was highly dominated by internal stakeholders. However, it required input from several external sources, including state and federal governments, service providers, the community and consultants to evaluate the overall sustainability of the city and the council. The various groups provided information on different aspects of sustainability. For example, PSOs provided data on physical indicators such as crime and transport, and the local community provided information in relation to subjective or community indicators. Recognising the input of the community in measuring sustainability performance, Interviewee B1 stated that stakeholder engagement is:

> … incredibly important because local government is an organisation that provides service to its local community. We are here to provide services to our community and if that do not have input into what we are doing and how we are measuring our performance, then it is a pointless organisation.

8.4.2.2 Who are the key stakeholders?

A range of stakeholders was involved in the sustainability accounting process. The key stakeholders were council staff, the local community, the state and federal governments, and external agencies. The contribution of these stakeholders ranged from the development of sustainability indicators to the supply of sustainability performance data. Table 8.4 records the stakeholders who provided sustainability performance data.

Table 8.4: Sustainability performance data providers in Council B (Document PB3)

Sustainability Area	Stakeholders who provided data
Sustainable community	Resident Survey, Australian Bureau of Statistics, Housing Department
Sustainable living	Resident Survey, Australian Bureau of Statistics, Roads and Maritime Services (RMS)
Sustainable environment	NSW Climate Change Action Plan (CCAP), Australian Bureau of Statistics, Transport Data Centre, Office of Environment and Heritage (OE&H), Resident Survey and internal statistics
Sustainable governance	Resident Survey, Annual Financial Statements, Internal Statistics and staff survey
Sustainable Assets	Asset Condition Surveys and Internal Statistics

Council staff

Council staff imparted a high influence on the measurement of sustainability performance. Interviewee B2 stated that ‘with our community strategic plan and with

our targets and indicators and one of the sources of information for us is actually a council staff survey which we run on an annual basis'. The various council divisions monitored and collected information on sustainability indicators, and supplied the performance data to the governance manager.

Local community

The perception of the local community about the council's services was important to determine the progress of the council. The majority of the social, economic and governance indicators required a subjective measure (that is the community's perceptions) to reflect upon the council's sustainability performance (Document PB3). The interviewees also mentioned that qualitative indicators such as the quality of life and social settlement in the area can only be measured by the community's perceptions. Approximately half of the targets and indicators required the council to collect data about 'how the community feels' and this perception was obtained through community surveys.

Government bodies and external agencies

The interviewees mentioned that the council relies heavily on the state and federal governments, and external agencies to measure and report on the quantitative sustainability indicators. They identified a number of external sources of sustainability information, including the Australian Bureau of Statistics, Roads and Maritime Services, energy and gas service providers, the Transport Data Centre and the Housing Department.

However, the interviewees were concerned about the data sources provided by PSOs and external agencies. Their concerns were related to the time lag involved in the issuing of sustainability data. Interviewee B1 stated that:

> We very reliant on state government and external agencies for data, and that is why that the data is often one year behind. So now we can only get between now and June we can only get data up to date from last financial year 2010–11. Therefore, there is the real lack, which is the real problem I think, and for some of the things that are out of our control like transport we are totally reliant on the state government for those figures and state agencies.

To summarise, the council needed both internal databases and external data sources to account for its sustainability performance. The external data providers were critical for the council to measure the social, environmental and economic state of the city.

8.4.2.3 How are stakeholders engaged?

Sustainability data was collected using engagement methods such as meetings with internal departments, community surveys, an advisory committee and networking with service providers and the state and federal agencies.

Community surveys were a prominent engagement method for obtaining feedback about the council's performance and to measure qualitative indicators. However, a reliance on the community's perceptions raises a question about the accuracy of performance data because of the varying opinions of community members. The community's emotional perspectives can vary depending upon the people's different backgrounds, values, beliefs, cultures and norms. When this was raised with the interviewees, they mentioned that the data interpretations are made based on community consensus about an indicator rather than their individual perception. Interviewee B2 stated that:

> People say it is hard to measure emotions and that is true, but it is not hard to measure the consensus about emotions – that is what we try to do in our community surveys. When we want to figure out whether people feel safe as opposed to whether they actually are safe, we can measure the consensus about that.

Therefore, Council B conducted surveys to understand the perceptions of the wider population and drew consensus from the feedback received through the process. Besides surveys, the council formed an environmental and sustainability advisory committee comprising 13 local residents with expertise in the sustainability field in order to monitor and measure environmental performance. The council organised quarterly meetings with the group to gain feedback on the progress and sought advice on further actions needed to improve sustainability outcomes. Interviewee B3 mentioned that 'the advisory committee had huge input into the state of environment report, particularly in each of the areas of greenhouse gas, water waste and diversity. They gave us lots of feedback about what we were doing, what we could do better'.

Furthermore, the data from PSOs and external agencies were obtained from their periodic publications.

8.4.3 Sustainability reporting

Being located in NSW, the council has a requirement to produce SoE reports under the Local Government Act 1993. However, the framework failed to establish linkage

between sustainability issues, strategic planning and annual reporting. Interviewee B1 expressed concern about the SoE reporting:

> State of the environment reporting was for me a totally flawed process because it was a legislative requirement but no one ever read it. It costs council a lot in resources, not only money but also staff's time to produce it. It was huge, it was four month's work and huge document that was put together for those councillors and the state government who probably never read and because of the way that it was valued it wasn't part of corporate planning process. So even though we were measuring indicators, the performance of indicators was never feeding back into the planning cycle. SoE reports were totally of their own, no money was put into it and no money was put into if one the indicator is showing that you weren't performing well, there was no way of putting money to improve in that area. So because it wasn't integrated into council's planning, it just was pointless really.

In order to resolve problems undermining the SoE reporting and to ensure commitment to its sustainability vision, Council B adopted the IP&R framework prescribed by the NSW government in 2010, which integrated the annual reporting with the community strategic plan. All of the interviewees appraised the new reporting system because the measurement and communication of performance reflected the successes and failures towards achieving the sustainability goals. Interviewee B2 supported the relevance of IP&R reporting over the previous SoE reporting system:

> Reporting on the integrated planning program is the perfect strategy for councils. For instance, the environment action plan, because it is a part of our integrated planning program, we are constantly monitoring, evaluating and changing our plan to make sure that we working towards the indictors. So they are integral part of what council does and it is linked to the budged cycle. This new strategy is great because we have to report to council and it is tied into the budget cycle. So it's the way the planning should be done in the local councils.

The council's Department of Environmental Services was responsible for preparing Council B's annual reports until 2010. However, with the recent adoption of the IP&R framework the responsibility for preparing the reports was transferred to the Governance Manager. With the change in annual reporting legislation, the SoE report will be produced every four years and included in the annual report. The annual reports included disclosures on IP&R performance and other statutory requirements such as the state of the environment, the condition of public works, bush fire reduction activities, contributions and donations, human resource activities and legal proceedings. The *Annual Report 2010–11* had 80 pages (out of 304 pages) on Council B's annual performance on the sustainability indicators. In addition to annual reports, the council used internal reports, newsletters and online disclosures to provide sustainability performance information to stakeholders.

8.4.3.1 Stakeholder engagement in sustainability reporting

Annual reporting in Council B emerged as an informing tool to communicate the organisation's performance on various sustainability targets and indicators. A minimal external stakeholder input was observed in the reporting stage in comparison to the sustainability accounting and planning stages. The main source of obtaining feedback on the content and structure of annual reports was public exhibitions.

Council B has a statutory requirement to report on its performance indicators every year. In order to obtain feedback on the annual report, Council B invited its precinct committees and community groups to comment on them. Interviewee B6 stated that:

> The annual financial statement, it is well – it is a standard format. They [stakeholders] get an opportunity to see them, to see the statements and make comment on them. Therefore, they go on public exhibition so there is an opportunity to comment on what has happened in the last financial year.

The preparation of the annual reports was regarded as more 'formal documentation processes' where the reports were a summary of the outcomes of annual activities. The interviewees mentioned that a lack of feedback from stakeholders during the public exhibitions meant the council has little understanding of their reporting needs. The interviewees mentioned that the council staff has mainly contributed to the improvement of the reports.

The interviewees emphasised the importance of the reports in evaluating the council's performance in respect of sustainability indicators. However, when asked about the usefulness of reports to the local community, they were regarded as a mere source of one-way communication. The annual reports were considered to have less receptivity and impact on stakeholders' decisions. The interviewees mentioned that in most cases the stakeholders were not interested in the council's reports. Interviewee B6 stated that:

> Well their [the community] lives are not going to get better if the report is not relevant to them. We work with them [community] to make sure that the [sustainability] indicators are relevant to what they really want to achieve, and then we report on that.

Furthermore, he raised concerns about the preparation of and stakeholder receptivity to the financial reports:

> I actually don't think anyone ever reads them [reports] because they're just – they're a set of financial statements that people don't really understand. The financial people understand them, but I don't know if there really is an audience for them. But we still

> have to produce them as it's a statutory requirement. I still think we should be producing them, it just would be better if someone actually read them.

8.4.3.2 Who are the key stakeholders?

The interviewees identified councillors and local community as the key stakeholder groups for Council B's annual reports. Councillors used annual reports to build a good reputation in the local area and the involvement of the local community was considered important to bring transparency to the reporting process.

Councillors

Councillors were most interested in the annual reports as they highlighted the growth achieved during their elected term. With the introduction of IP&R, it has become mandatory for councillors to report on their performance against the delivery plan. The tenure of the delivery program (4 years) provided sufficient time for councillors to implement the program and to demonstrate their commitment to local community welfare in their term of office (also 4 years). In order to show the targets and goals achieved the document focused on quadruple sustainability outcomes. Interviewee B1 mentioned that:

> With our integrated planning program, it's made quite political. Therefore, our politicians are our elected councillors every term of office. Therefore, for four years, they have to report on what they have achieved … [This enables] politicians to say this is what I have achieved in the last four years of my term of office

Furthermore, the interviews mentioned that councillors use the reports to establish sound rapport in sustainability performance to win their next election. The findings of this study suggest that political parties seeking the support of the community to get re-elected will report on sustainability issues to demonstrate their performance.

Local community

The interviewees identified the local community, including residents and business, as the most salient stakeholder group for sustainability reporting. Interviewee B5 recognised the importance of involving the community in the reporting process: 'it is good to have community engaged in the progress of council. Their involvement supports the council in ensuring transparency and helps us to remain on track and targets'. However, a concern about a lack of participation from the local community was noted. The interviewees mentioned that regardless of the council's initiatives to

involve the local community in the reporting process, they remained least interested to provide feedback on the reports.

8.4.3.3 How are stakeholders engaged?

The interviewees indicated that the council often displays its key documents and makes information available to the public. The public exhibitions were usually for meeting legislative requirements. This method was prominently and more frequently used by the council over other traditional engagement methods due to the low cost and the access to the wider community. However, the use of public exhibitions raises some concerns over the extent of engagement allowed to stakeholders. Public exhibition is commonly used by Australian local councils to obtain comments and input from stakeholders but it suffers from inherent drawbacks. The drawbacks include a lack of interaction on both sides and excessive comments on the exhibited documents. Interviewee B1 raised concern about publicly exhibited documents by stating that displays lack constructive feedback: 'You are not expecting that much of input or feedback. You might get a few – 'I don't like the word on the page' but it is not changing the intent of the document'.

The interviewees also highlighted the use of presentations to precinct committees, the local chamber of commerce and other stakeholders to get their feedback on sustainability matters. These presentations aimed at sharing information and knowledge about the IP&R framework and community engagement therein with a range of professional stakeholders.

In summary, sustainability reporting emerged as passive form of engagement due to the limited input of external stakeholders in the development and improvement of reports. Information about the performance mainly flowed from the council to stakeholders and lacked interaction from the stakeholders' side. The council received a notional number of responses from stakeholders about the report content and structure.

8.5. The nature and extent of stakeholder engagement

This section discusses the nature and extent of stakeholder engagement in Council B. It aims to assess the level of say allowed by the council to its stakeholders to influence the council's sustainability accounting and reporting process.

8.5.1 Nature of stakeholder engagement

The interviews and documentary evidence highlighted the use of stakeholder concerns and expectations as the key input to the entire planning and reporting process. Document PB2 stated, 'Being at the level of government nearest to the community they [local councils] have significant opportunities to engage the community in discussion about reforms of systems and services'. A range of stakeholder groups contributed in the different stages of accounting and reporting, including the identification and setting of sustainability indicators, monitoring and measuring, and reporting. However, the extent of engagement differed depending on the stage of the planning and reporting process and the purpose of engagement in it.

Stakeholder engagement was considered as a two-way interaction tool between the council and its stakeholders. The interviewees acknowledged it as a communication process that flows from both directions and is not limited to merely providing information. It was regarded as the 'lifeblood' of the IP&R process which assists in collecting information about the community's needs and expectations and incorporating them in the council's sustainability initiatives. Interviewee B3 stated that:

> Stakeholder engagement is the lifeblood for us; it is like the oxygen that supplies the lungs of integrated planning and reporting. Because what happens, now we have to constantly test back with the community as to whether we are achieving their long-term vision. Then under integrated planning and reporting, we have to go back to the community on a regular basis and say is your vision that you provided for us in our case back in 2009 still holding true.

The interviewees acknowledged stakeholder engagement as an entirely different approach to that of consultation because it aims to understand the concerns and expectations of the stakeholders without any pre-determined objectives in mind. Interviewee B1 stated that:

> Engagement for me is different to consultation. Engagement is you actually going out in the community with no pre-determined agenda and you go and ask people about something and get their feedback before you do any planning. I think engagement is really truly asking before doing, which councils do not do very well.

Another important aspect of stakeholder engagement was empowerment. The interviewees mentioned that the scope of stakeholder engagement is not merely confined to identifying and addressing the local community's needs. When carried out in an effective manner, it has potential to empower the community in decision making.

Interviewee B2 stated that 'engagement is not just about consultation, it's also about involving and empowering people to get them involved in the decision making process'.

The study of Council B highlights a substantial but varying role of stakeholder engagement in the sustainability accounting and reporting process. Interviewee B3 stated that stakeholder engagement is:

> Critical for the success of IP&R because if you don't have community engagement then you're not getting a true reflection of where the community wishes to head in the long term, and that's why the division of local government set up at the very beginning of the integrated planning and reporting process.

The different roles of the stakeholders are summarised in Table 8.5. The interviewees acknowledged the critical nature of external stakeholder input for identifying and selecting sustainability indicators. However, the same critical level of external engagement was not observed in the development of reports.

Table 8.5: Roles of stakeholders in the sustainability accounting and reporting process

Stakeholder group	The element of sustainability accounting and reporting influenced	Stakeholder's role in the sustainability accounting and reporting process
Council staff	Development of strategic plan, determination of sustainability indicators, development of accounting tool, Monitoring and measurement of sustainability indicators, preparation of annual reports	Experts, decision makers, coordinators and facilitators of the process
Community	Identification of sustainability issues, input in strategic plans, setting sustainability indicators, performance measurement data	Bearer of sustainability issues, ratepayer, reviewers and monitors of sustainability indicators, partners in sustainability programs, sustainability data providers and audience for sustainability reports.
Government bodies	Regulated planning and reporting and community engagement programs, sustainability performance data	Regulator, enforcer, sustainability data provider and fund provider
Consultants	Strategic planning, development of indicators	Professional advisors
Awarding agencies	Recognition of sustainability and community engagement initiatives	Motivators and feedback providers
Councillors	Strategic planning and sustainability targets	Decision makers, facilitators of sustainability goals and targets

8.5.2 Extent of stakeholder engagement

The findings of this study highlight the use of five different levels of participation in the sustainability accounting and reporting process depending on the purpose of engagement. The levels of engagement are inform, consult, involve, collaborate and empower (Table 8.6). The use of these levels was driven by the community engagement framework recommended by the IAP2 (Document PB2).

Although informing has been regarded as one-way communication, it was useful to educate and create awareness among stakeholders about sustainability goals and the role of stakeholders to achieve it. Council B used brochures, community noticeboards, mass media, telephone 'on hold' messages and social media to create awareness about developing strategic plans. The website monitoring highlighted the growing use of online disclosures to inform and educate stakeholders about the local environmental issues. Moreover, annual reports were regarded as a formal document to provide information to stakeholders about the state of sustainability in the local area. Although informing advocates one-way dialogue with stakeholders, it emerged as a useful approach to establish a commitment to bring transparency to the council's operations.

Table 8.6: Levels of engagement in Council B (Document PB2)

Inform	Consult	Involve	Collaborate	Empower
To inform and remind the community of the council's vision and long-term strategic plan	To invite opinion from residents and the business community in the options for funding or for changing the council's vision	Two-way communication through emails, online forums, and personal interviews to discuss concerns and issues	To seek and collate qualitative and quantitative feedback on priorities and funding preferences	To receive re-commitment on the council's vision and a mandate to apply Independent Pricing and Regulatory Tribunal (IPART) for rate increases

Consultation emerged as the most commonly used engagement level to gain the opinion and consensus of the local community. The council extensively consulted with stakeholders to identify sustainability issues, to develop council plans and to determine funding opportunities to achieve sustainability targets. Media underpinning the consultation level included surveys, focus groups, public exhibitions, meetings and

workshops. These media provided limited voice to stakeholders and did not allow free expression of views.

The council established two-way dialogue by involving stakeholders in issues influencing them. The council used emails, online forums and personal interviews to discuss funding implications for achieving sustainability targets and setting sustainability indicators. The council collaborated with external stakeholders, especially the local community, to determine service cut-off and accumulating resources to fund the sustainable future of the city.

There was evidence of empowerment as Council B used precinct groups and a citizen jury that allowed community representatives to vote on the council issues. Moreover, Section 8.4.1 presented a case of extensive input of the local community in developing the strategic plans. This implies that stakeholders, especially the local community, were empowered by the council to determine its sustainability goals and targets.

In summary, the council demonstrated a high level of commitment through exercising the top three levels of stakeholder engagement. The findings of this study suggest that the lower levels of engagement do not necessarily indicate the existence of ineffective communication tools, rather that informing and educating can serve as a base to initiate proactive forms of engagement.

8.5.3 Key issues and challenges in stakeholder engagement

The interviewees raised the issues and challenges undermining the effectiveness of Council B's stakeholder engagement plans and activities. These issues and challenges included shortfalls in IP&R framework, adequate representation, lack of resources and staff commitment, political implications and unwillingness to engage.

Shortfalls in IP&R framework

The interviewees raised their concern about the IP&R framework for providing insufficient information in regards to stakeholder engagement. Although the framework encourages community engagement in sustainability planning and reporting, it fails to narrate how exactly the community should be involved. Due to a lack of clarity, the interviewees suspected that the engagement initiatives could be limited to one-way consultations. Interviewee B1 stated that:

> The one risk with the integrated planning legislation [is that] it does not legislate how to consult with your community. And in some ways I think that will be its downfall because unless you have wanted the community to do good consultation they won't to do it and they will just standardise [the consultation]. We [can] write a plan put it on exhibition and say this is what people are saying.

Adequate representation

The interviewees mentioned that the adequate representation of the local community is critical to embed opinions of all community groups. Interviewee B1 stated that it is easy to acclaim that:

> I have consulted with my community and you might have asked your precinct groups or you chamber of commerce to do it really properly, you need to make sure that you go out in the community and you cover all the possible groups and then you get random feedback from a totally demographic [way].

However, during consultation programs, the opinions of minority groups were repressed by powerful groups as interviewee B5 stated:

> There is always the dreaded public meeting, where you get the five people who shout the loudest and then the people who have the average views won't come along because only certain people come to that so the challenges are ensuring that you do hear the views of a number of people and that you can take on board – you are never going to be able to take on board everybody's views either – that's the other thing.

Therefore, ensuring an adequate number of representatives and providing repressed groups with a voice were concerns for the council. In order to ensure adequate representation, the council used independent consultancy groups to seek opinion from diverse community groups.

Lack of resources and staff commitment

Stakeholder engagement was considered as a resource intensive activity because it demanded both work force and money to ensure meaningful engagement. Local councils mainly rely on rates and taxes to meet their operational costs. The interviewees highlighted that there has been a lack of commitment from staff, especially engineers, in recognising the value of community engagement. Interviewee B3 stated:

> Engineers tend to have a view that we're here to build things, and under this new model with community engagement it's not about the continual building of new assets, it's also looking at if the communities say they're quite happy to just have their roads in condition 2 and 3, it doesn't mean that they want every road in condition 1 which a lot of engineers would want. And so they've got to really realise that they're there to service the community not the asset.

The interviewees also mentioned the lack of feedback processes in the consultation program resulting in distrust among stakeholders. Interviewee B5 stated that the

‘Aboriginal community being consulted and consulted and consulted, and then you do not go back and give them some feedback; I think that’s where it gets really meaningless and people just get cynical’. A change of attitude among staff members was considered a key to achieve community engagement outcomes. The interviewees insisted that community engagement is an efficient tool but only when the engagement strategies are implemented in a proper manner.

Lack of political commitment

The interviewees raised concern about the lack of political commitment in regard to community engagement. Interviewee B3 stated:

> there is a lack of political commitment to robust community engagement in that [IP&R]. It [IP&R] requires a change in attitude at the political level, in that, probably the electoral process within New South Wales doesn’t really provide for, let me say, a true commitment to community engagement on the part of politician.

The interviewees revealed that the councillors are more driven by their own career objectives and portfolios leading to their transition from local to state and/or federal government rather than following the long-term aspirations of the community consultation outcomes.

Unwillingness to engage

The interviewees mentioned the unwillingness of local members to engage in providing feedback on the council’s sustainability performance. The key reason for this reluctance was the demanding lives of community members. Interviewee B5 stated ‘it always take bit of time to either write a letter or an email to provide any sort of feedback. So it is a challenge to actually get people to respond. Just because of the time commitment and people’s time is precious’. Council B regarded a lack of voluntary feedback as acceptance of the council’s plans and policies by the community. The interviewees also offered the community’s satisfaction towards council services as an explanation for their unwillingness to participate.

> Despite the very wide reach with messages, the response from the community was extremely modest – this may suggest that a majority of the community as a whole is still committed to its vision expressed in the Strategic Plan and is comfortable with the rate rises to support it (Document PB5).

Interviewee B3 stated that:

> The people who don’t tend to speak up are the people who are happy with what you’re proposing anyway, it’s very hard to draw them out. So I suppose the people who are happiest are the hardest ones to motivate and get involved in and excited by the [IP&R] process.

Although stakeholder engagement in Council B was subject to certain challenges and limitations, the council demonstrated a strong commitment towards meaningful engagement. The factors influencing its stakeholder engagement practices are explained in the next section.

8.6. Influences on stakeholder engagement

The findings of this study suggest that coercive, mimetic and normative influences affect the nature and extent of stakeholder engagement in Council B. However, the effect of these influences varied with some being stronger than others. Moreover, internal factors emerged as a critical driver of stakeholder engagement.

8.6.1 Coercive influences

Mandatory requirements imposed by the NSW government emerged as a key driver for Council B's stakeholder engagement practices in the sustainability accounting and reporting process. Both SoE and IP&R frameworks recognise the importance of stakeholder input in the planning and reporting process. IP&R recognises that communities and local councils are interconnected. Communities are part of a larger natural, social, economic and political environment that influences and, to a large extent, shapes their future direction. Local councils are accountable for land use and infrastructure planning which carry social, environmental and economic implications. Consequently, the actions of local communities affect local councils' decisions and vice-versa. Documents and interviews supported the use of stakeholder input in the sustainability planning and reporting process. The interviewees mentioned that the IP&R framework not only requires the council to involve stakeholders but also empowers them in the decision-making process. Interviewee B2 stated that:

> The IP&R forces councils to look at the staffing resources that are required to actually put that in place, and also most critically it requires them to talk to their communities, work out what is the long term vision they want, and then to engage in a robust discussion with the communities in terms of the provision of service levels.

In order to adhere to the IP&R framework, Council B engaged with its local community to identify sustainability issues, to develop sustainability indicators and to obtain feedback on sustainability performance. Interviewee B3 mentioned that the selection of sustainability indicators and stakeholder involvement are subject to:

> … the requirements of integrated planning and reporting which is really based on that quadruple bottom line. So every council what they have to do, they are required to facilitate the development of a community strategic plan and that

> community strategic plan must reflect the long-term vision for the community. So in developing that vision we have to ask the community then well what are the social issues that you want to see improved over the long term, what are the economic issues, what are the environmental issues, what are the governance issues that you want to see dealt with over the long term.

8.6.2 Mimetic influences

The use of the term 'stakeholder' by Council B appears to be holding a mimetic effect. The term has been used exhaustively in the corporate area and is now being embraced by local councils to refer to individuals and groups who affect and/or are affected by their operations. Council B's strategic plans, policies and reports to the local community reflect their needs and aspirations. The term 'stakeholder' had little relevance in council documents. However, interviewees used the terms 'community' and 'stakeholder' interchangeably to refer to the individuals and groups they are accountable to. Interviewee B2 referred to stakeholder as a 'bureaucratic' term:

> Stakeholder is a sort of detached impersonal term. You won't find it probably used all that much in local councils, you'll find them talking constantly about their community not stakeholders, because they don't have a detached impersonal relationship with their community, so they don't use kind of bureaucratic words very much like stakeholders, they tend more to use community, it's people.

8.6.3 Normative influences

Council B exercised all five levels of engagement – inform, consult, involve, collaborate and empower – suggested by the IAP2 to engage the local community for deciding funding options to meet strategic goals and targets. Moreover, the council used consultancy services to gain expert advice on community engagement mechanisms. Interviewee B2 stated that:

> We often will get external organisation to help us to engage with our communities. So the external consultancies, we will ask them what the best engagement method is [Sic]. We go to experts because we want to do statistically valid consultation to get data that we can use both quantitatively and qualitatively but we are definitely not the experts in the best way to do it. So we often bring that expertise in.

The council has a keen interest in establishing a good reputation in sustainability and stakeholder engagement initiatives. For instance, in regard to the community strategic plan, the council had a $200 million shortfall over 11 years to deliver the community's sustainability targets. Interviewee B3's presentation highlighted that the council was able to reduce this asset backlog renewal bill with the community's help. For this consultation they won the Federal Government's 2010 National Award for Local

Government in Asset and Financial Management. In line with this, the interviewees appeared to be proud of the council's stakeholder engagement achievements.

8.6.4 Internal influences

The interviews highlighted Council B's initiatives to establish efficient stakeholder engagement mechanisms. Although the involvement of stakeholders in the strategic planning process was a regulatory requirement, the council used a range of contemporary media (as discussed in Section 8.4.1.3) to educate the local community about the importance of sustainability and their role. The council's commitment beyond the requirements of the IP&R framework demonstrates an internal drive to achieve meaningful engagement. Leadership from senior staff enabled the council to undertake stakeholder engagement. The council's senior staff, especially the Director of Corporate and Technical Services, not only encouraged stakeholder engagement with the council but also inspired other local councils and professional bodies (Documents PB1, PB2, PB3, PB4 and PB5).

Moreover, Council B was highly concerned with achieving efficiency in its plans, programs and operations. Engaging with communities enabled the council to understand its community's expectations and thereby develop plans and programs that effectively represent its community's concerns and needs. Interviewee B2 stated that 'the driver in my case is to ensure that council is getting as accurate information as possible in terms of the true community desires'. Interviewee B1 stated that stakeholder engagement is critical to 'plan better, prepare a better program and to become a better performing and efficient organisation. Therefore, we need to have input from the people on the ground'.

8.7. Summary

This chapter examined the sustainability accounting and reporting process and stakeholder engagement in Council B. The council's IP&R approach supports the research framework developed in Chapter Four. Although sustainability accounting and reporting is an essential tool to evaluate sustainability performance, the roots of this tool lie in effective community strategic planning. The study of Council B suggests that sustainability accounting and reporting does not exist in isolation, it has to be linked with strategic planning focusing on material sustainability issues. This linkage can ensure an evaluation of sustainability performance based on proper plans and actual

performance. The findings also suggest that an effective planning and reporting system require stakeholder input and continuous stakeholder review.

Council B gave the utmost importance to stakeholder engagement in the identification of material sustainability issues and in shaping the long-term community strategic plan. Stakeholder engagement provided the council with information about the community and city, and enabled the council to revise its plans in order to meet the changing needs and aspirations of the community. The sustainability accounting process relied heavily on state and federal PSOs and external agencies to capture sustainability performance data. Although the extant literature emphasises the role of stakeholder engagement in the development of sustainability reports, little influence of external stakeholders was noted in the reporting process.

The council used a broad range of traditional and contemporary engagement methods to communicate with stakeholders. The choice of engagement method depended on the purpose of participation. Social media is a new form of engagement method and it allows free expression of views and convenient participation. The study into Council B provided useful insights to the nature and extent of stakeholder engagement. The findings of this study indicate that the council has reached the level of empowerment as representatives of the community on the precinct committees and citizen jury could vote in matters concerning strategic planning. However, the nature and extent of stakeholder engagement was undermined by factors such as a lack of political and staff commitment, shortfalls in the IP&R framework, an unwillingness to engage and transient groups.

Stakeholder engagement was driven equally by external and internal factors. Coercive influences such as regulations pressured the council to engage the community in the sustainability accounting and reporting process. Mimetic influences imparted by corporations were reflected in the use of the term ‘stakeholder’. Normative influences existed in form of IAP2, consultants and awards as these encouraged the council to use vivid engagement tools. Additionally, internal factors such as management commitment and leadership drove the council to pursue meaningful engagement.

Chapter Nine: Stakeholder engagement in sustainability accounting and reporting in Council C

9.1 Introduction

This chapter presents the findings emanating from the study of Council C. Data sources specific for this case are discussed in Section 9.2. The next section provides the contextual background for the case study by describing the council's sustainability issues and sustainability reporting practice. Section 9.4 responds to the first four research objectives of this study to investigate how and to what extent stakeholders are engaged in the sustainability accounting and reporting process. The focus is to identify the key stakeholders and engagement mechanisms used to involve them. The nature and extent of stakeholder engagement and the key issues and challenges undermining its effectiveness are also examined. Section 9.5 explores the external and internal influences on stakeholder engagement in the sustainability accounting and reporting process to address the fifth research objective. Section 9.6 summarises the findings of this case.

9.2 Data Sources

As stated in Chapter Five, data were collected through interviews, documents and website observations for the local council specific phase of the research. The selection of research methods was guided by the research objectives of this study which are to examine the nature, extent and drivers of stakeholder engagement in the sustainability accounting and reporting process.

A total of 12 interviews were conducted at Council C from December 2011 to January 2013. The interviewees' profiles are provided in Table 9.1. The selection of the interviewees was made on the basis of their significant involvement in the various stages of the sustainability accounting and reporting process. The array of participants involved those personnel who had critical roles in the decisions relating to setting, monitoring and measuring the sustainability indicators, and in overseeing, planning and compiling the annual reports. Interviews were also held with staff involved in the stakeholder engagement process. An initial interview was organised with the Coordinator, Corporate Planning and Performance (Interviewee C1) to gain insights into

the key issues related to the council's sustainability accounting and reporting process. This interview was also useful for establishing contact with the different personnel involved in that process and in stakeholder engagement.

Table 9.1: Council C interviewee profiles

Interviewees	Position	Job responsibilities	Interview stage
C1	Coordinator, Corporate Planning & Performance	Responsible for corporate sustainability processes, including reporting	1,2,3
C2	Performance Management Project Officer	Responsible for corporate sustainability processes, including reporting	1,2,3
C3	Project Manager: Annual reporting	Responsible for compiling and preparing annual reports	2,3
C4	Coordinator, Corporate Performance Management	Responsible for incorporating sustainability in corporate processes	2,3
C5	Coordinator, Community Consultation	Responsible for community consultation programs	2,3

The focus of the analysis of the interview data was to examine the sustainability accounting and reporting process of Council C with an emphasis on the nature and role of stakeholder engagement in the different stages of the process. This involved understanding the nature and extent of stakeholders' input in identifying sustainability indicators, and monitoring, measuring and reporting against the indicators. The interview data were supported by documentary evidence and website monitoring.

The documentary analysis provided further useful insights in relation to critical sustainability issues, stakeholder issues and concerns, and plans and policies to engage with stakeholders. Table 9.2 lists the documents analysed in this case study. These documents also were used to substantiate and to support the interview data by discussing the reported instances in the light of the interviewees' comments.

Table 9.2: Council C documents

Codes	Document s	Description
CD1	Annual Reports: 2008–09, 2009–10, 2010–11 and 2011–12	Statutory report
CD2	Sustainable Future Visioning 2009	Describes the process and outcomes of a community consultation undertaken to determine long-term aspirations of the local community
CD3	Community Consultation Policy 2008	Outlines purpose, method and levels of community engagement
CD4	Sustainable Future Planning Scheme: Statement of proposal 2010	Proposed a new planning scheme for obtaining stakeholders' feedback on sustainable land use
CD5	Planning Scheme: Statement of Proposal (Consultation Report) 2011	Outlines consultation methodology for the City's future sustainability
CD6	Corporate Plan 2009–14	Outlines key sustainability directions determined based on a community consultation program
CD7	Operational Plans: 2010–11 and 2011–12	Provides details of planned activities and budgets for a specific year
CD8	Draft Community Indicators – Queensland Framework	Outlines different sustainability indicators prescribed by the Queensland Council of Social Service Inc.
CD9	Sustainability Report 2010	Defines community/city sustainability and identifies sustainability models, indicators and tools to support and measure sustainability decision-making across the council
CD10	Community Sustainability Assessment 2011	Outlines the proposed community sustainability indicators; and describes the sustainability assessment tool used by Council C
CD11	Climate Change impact Statement and Sustainability Assessment: Consultant Brief 2011	Provides guidelines for integrating climate considerations into Council C's routine activities and outlines sustainability initiatives
CD12	Nature Conservative Strategy 2009–19	Guides Council C's actions for nature conservation during the decade
CD13	Report on the annual return on community engagement by the Department of Infrastructure and planning, Queensland	Presents the current state of community engagement in Queensland local councils

The website observation and social media monitoring included the council's Twitter, Facebook and online discussion forums as well as disclosures on sustainability issues and community engagement. These media elaborated the council's contemporary sustainability issues and on-going discussions with stakeholders, and will be discussed in Section 9.4.

9.3 Contextual background

Council C oversees a coastal city located in the southeast of the state of Queensland. It is one the largest local government authorities in Australia, based on the city's estimated resident population. The municipality of the council contains 64 local suburbs in an area of 1377.97 km^2 (Document CD1, 2010–11; Council C's History of Our Suburbs webpage). The city accommodates 541,024 residents and has 238,665 rateable properties (Document CD1, 2010–11). The city is one of the popular tourist destinations in Australia and attracts numerous national and international visitors every year. In terms of natural environment, Council C area is home to more than 1800 species of native plants and 700 species of native animals. Approximately 50% of the city's land area (63,678 ha) is covered with native vegetation (Council C's Environment webpage).

The annual reports and sustainability report 2010 highlighted the key sustainability issues of Council C. The social issues included housing affordability, health, crime, safety, employee turnover, training and education, increasing population and corruption. The environmental issues included biodiversity, climate change, energy usage, greenhouse gas emissions, wildlife, coastline, water quality and management, and waste management. Website disclosures also focused on similar environmental issues. Document CD5 indicated that the local community was concerned about the environment, population growth, infrastructure, development, employment opportunities and affordable housing.

The interviewees were observed to be relatively more concerned about the community and economic issues than social issues. There was a high concern about the impact of 2008's Global Financial Crisis on local business. As the area is one of the most popular tourist destinations in Australia, the local economy has suffered due to a drop in the national and international tourism rate.

Council C was also concerned about the local environmental issues including energy, water, waste, and native flora and fauna (Council C's Environment webpage). The drive to maintain environmental sustainability can be associated with its high national and international tourism visibility. The council is pressured to preserve and conserve the local natural heritage, including beaches, bushland, coral reef, and endangered fauna and flora in order to attract international tourists.

The interviewees indicated that the council focuses on quadruple sustainability development. The four aspects of this are environmental, social, economic and community (governance). Council C's annual reports, plans and policies were publicly available. Additionally, internal documents were provided by the interviewees for the purpose of this research. The council's planning and reporting is regulated by Queensland's Local Government (Finance, Plans and Reporting) Regulations 2010. Council C has a legislative requirement under the Queensland Local Government Act 1993 and Finance Standard 2005 to develop a corporate (strategic) plan focusing on the city's sustainability. The annual reports were based on the directions provided by the strategic plan and demonstrated the council's performance against sustainability targets set through community consultation.

The strategic plan and annual reports emphasised the importance of community engagement in setting sustainability vision, directions and outcomes for the city. The annual reports, planning documents and website monitoring highlighted Council C's proactive approach towards community engagement which it regarded as an essential component of the corporate planning and decision-making process.

Council C has a strong reputation for being one of the most sustainable cities in Queensland. Documents and online media releases highlighted the awards and recognition earned by the council for promoting sustainability and community engagement in its area. Two examples of the awards are the Queensland Award for its Litter and Waste Management project and the International Association for Public Participation (IAP2) 2009 Core Value Award for initiating community engagement programs. Besides these awards, Council C has won numerous awards at national and international levels for demonstrating transparency and openness in its annual reports. Its annual report for 2009–10 won several awards, including the Queensland Public Sector Annual Report Award for the Best Overall Annual Report, Australasian Reporting Award (ARA) for Distinguished Achievement in Reporting and Governance Reporting, and Gold MerComm International's Annual Reporting Competition Award for Cover Photo/Design. The council also won ARA's Report of the Year Award in 2012.

9.4 Sustainability planning, accounting and reporting

This section discusses the sustainability accounting and reporting process in Council C. The aim is to highlight the development of sustainability indicators, the internal data collection system and the communication of sustainability information in order to identify the key players and their contributions in these processes.

In Council C the sustainability accounting and reporting process was connected to strategic planning in order to create an efficient system of accountability. This system assisted the council to define the sustainability indicators based on the stakeholders' expectations, and to measure and then communicate the performance against them. The documents and interviews indicated the use of the integrated planning and reporting (IP&R) framework (Figure 9.1) introduced under the Queensland Local Government Act (QLGA) 2009.[17] Similar to the NSW IP&R framework (as discussed in Chapters Seven and Eight), it emphasised the development of a long-term community plan to determine the council's sustainability goals, strategies and policies.

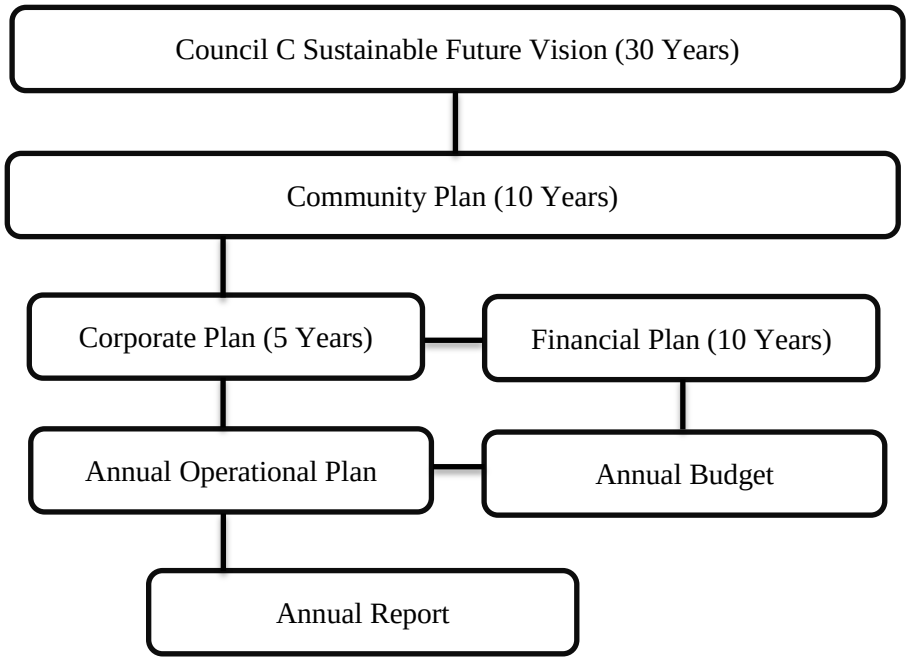

Figure 9.1: Council C's Integrated Planning and Reporting Framework

[17] The integrated planning and reporting framework requires Queensland local councils to prepare an annual report, a corporate plan, an annual operational plan, a long-term community plan, a financial plan, and a long-term asset management plan.

In order to comply with the legislation, Council C engaged with its key stakeholders and adopted a suite of planning and reporting documents in 2011. These documents were the sustainability vision, the corporate plan, a long-term financial plan, assets management plans, corporate strategies, a quarterly corporate performance report and an annual report (Document CD1, 2011–12). However, the community plan was under preparation during the period of study.

9.4.1 Sustainability planning

The identification of local sustainability issues was important for Council C to determine areas of priority in the delivery of its services and activities. The council undertook extensive consultation to identify local issues: 'Community consultation has been the key mechanism for the identification of local values and local needs that form part of staff advocacy to [Council C] for a preferred project approach' (Council C's Community Engagement webpage). Council C's Sustainable Future Vision webpage reported statements by community members. Some comments were:

> Our beaches are equivalent to the best internationally and need to be maintained, protected and where necessary enhanced to ensure future generations are able to enjoy them.
>
> Would like to see '80% of dwellings will use renewable energy, the majority of dwellings will have solar energy and hot water systems, and infrastructure will be run on renewable sources'.
>
> I want [City C] to remain an affordable place to live.

Having identified sustainability issues, the council determined a sustainability vision for the community and city. The sustainable future vision was placed at the highest level in the hierarchy of the suite of plans to embed it in the council's plans and programs. It defined the council's ambitions to inspire the city's leaders and the community to achieve social, environmental and economic sustainability (Council C's Sustainable Future Vision webpage). The sustainability vision comprised six themes that framed an overarching vision statement: a city leading by example, a city loved for its green, gold and blue, a city connecting people and places, a safe city where everyone belongs, a city with a thriving economy and a city shaped by clever design (Document CD1, 2010–11).

In order to realise the vision, the council developed a corporate plan that translated this vision into medium and long-term priorities, outcomes and strategies (Document CD1, 2010–11). It outlined 124 targets that would monitor the council's contribution towards the six key focus areas identified during the sustainability visioning program (Document

CD7). The plan also identified the key performance areas required to evaluate each target. To achieve the target set in the corporate plan, the council allocated sufficient funds in respect of each of six key focus areas over both long-term and short-term periods. The allocation of resources to the plan enhanced service delivery and outcomes for the community (Document CD1, 2010–11).

Council C's operational plan supported the corporate plan in the delivery of the sustainable future vision and outlined specific activities and services to be undertaken to progress the targets set out in the corporate plan within a one-year period (Document CD7). It articulated the organisation's internal control and support mechanisms that were critical for delivering services and activities that progress the key focus area outcomes (Document CD7).

9.4.1.1 Stakeholder engagement in sustainability planning

The involvement of stakeholders emerged as an important element of the planning process. Stakeholders were engaged to identify stakeholders' needs, establish the overarching sustainability vision and action statements for a sustainable city, and review the directions for the strategic and operational plans. Council C undertook two major engagement programs to obtain views and opinions of the local community regarding the strategic plan and directions. During 2007–08, the council conducted an extensive engagement to understand stakeholders' social, environmental and economic aspirations in order to determine a sustainability vision. Document CD2 highlighted the importance of community input in the development of the sustainable future vision:

> The key qualities of community visioning are that it engages the whole of community, reflects core community values, responds to emerging trends and issues, builds a strategic future vision and focuses on local action.

Council C recognised the importance of internal and external stakeholders' input to developing the sustainable future vision. The visioning exercise started as an internal process involving discussions among council officers and the executive leadership team about the concept of sustainable future vision (Document CD2). The internal discussions were followed by customer satisfaction market research to assess community satisfaction with the council's services and activities. Moreover, the draft vision and six themes were tested with the community through a series of community reference groups to refine and define the final vision.

In 2010 the council sought stakeholders' views on a planning scheme focusing on sustainable land-use planning and development (Document CD4). Stakeholder engagement mechanisms used during this consultation process included public exhibition, open days, online forums, self-addressed feedback forms, post and email. This consultation exercise assisted the council to revise the planning scheme based on the concerns and issues of the local community (Document CD5).

Stakeholder influence was also noted during the preparation of the corporate plans. The interviews and documents highlighted that the council thoroughly incorporated stakeholders' feedback to the strategic plans and policies. Document CD6 disclosed that 'Council C reviewed all submissions received from the community during the consultation period and took these into consideration when adopting the corporate plan'. The following steps were undertaken by the council to embed stakeholders' opinions in the strategic plan (Document CD6):

- Assessed and responded all submissions individually;
- Evaluated the submission's appropriateness for inclusion in the corporate plan and referred operational issues to the appropriate area within the council;
- Considered opinions and views of each individual submissions and balanced them against the wider community interest and priorities; and
- Informed all the participants about the council's response in respect of their submission.

9.4.1.2 Who are the key stakeholders?

The focus of stakeholder engagement in the development of the strategic vision and corporate plan was the local community. However, that project also recognised the importance of internal stakeholders such as councillors, council executives and officers.

Local community

The local community, comprising ratepayers, residents, business, Aboriginal partners and visitors, was considered the prime stakeholder group for strategic planning in Council C. The residents and ratepayers played a vital role in the identification of sustainability issues, the determination of future sustainability priorities and the development of the strategic vision (Document CD7). Visitors significantly affected the local economic sustainability and thereby the economic planning of the council.

The interviewees mentioned that the involvement of different groups in the strategic planning assisted the council to identify and address group-specific issues. For example, engagement with Aboriginal partners was critical to recognising and preserving the local Aboriginal heritage and culture. Similarly, the involvement of business groups and leaders was important for advancing economic sustainability because they had knowledge and understanding of local economic issues.

Council staff

The interviewees recognised the council employees as a part of the wider community and hence they were considered representatives of local voices. Interviewee C1 stated that 'on our [council] side and also at individual level, most of us are residents of the city, we live in the city. Therefore, we are contributing in that role as well'.

The senior officials such as the Chief Executive Officer (CEO) and various managers emerged as influential stakeholders. The interviewees mentioned that these officials have a keen interest in sustainable development in the area. The managers maintained a direct relationship with community members and engaged with them regularly on sustainability issues specific to their divisions. Moreover, the CEO and divisional managers had power to make decisions in relation to the strategic plans of the council.

Councillors

A significant impact of councillors was observed in the planning stage as they initially considered the need for and drivers of a new vision for a sustainable city, and the importance of engaging external stakeholders. Councillors had influence over the vision and plan through the advisory committee but they lacked voting power to influence the final outcome of the process (Document CD2). They actively participated in council meetings and workshops in relation to strategic planning. However, this stakeholder group was somehow transient because their role was confined to a fixed election term and councillors faced the uncertainty of not being elected for the subsequent term. The interviewees mentioned that due to the transitional nature of this group the council has had different councillors with dissimilar visions for the city, including a limited focus on sustainability and community engagement.

Professional bodies

Council C engaged with internal and external technical experts to provide the most comprehensive and contemporary information on sustainability themes. International experts in the field of future planning and community visioning were engaged to offer expertise during the development of the vision. The interviewees mentioned that the council regularly engages with professional bodies to seek support, advice and expertise in the planning process.

State government

The state government imposed a mandatory requirement for the council to set a community vision to achieve a sustainable future for the city. As part of the legislation, the council defined six elements of the vision and the indicators to track and measure their sustainability performance.

9.4.1.3 How are stakeholders engaged?

Council C engaged stakeholders using traditional and contemporary media such as workshops, community surveys, public exhibitions, open days, advisory committees and social media.

The prime challenge faced by the council during the 2007–08 consultation program was to create awareness of the importance of developing a long-term vision among stakeholders. To address this challenge, the council undertook a series of workshops to educate and engage the internal stakeholders (council staff, managers and councillors). These workshops were facilitated by a visioning expert and were designed to familiarise internal stakeholders with the visioning process, to explore potential implications for the future of the city, to gain expert opinion about the vision, and to form a consensus on the vision outcome (Document CD2).

After creating awareness among those stakeholders, Council C initiated the visioning exercise. During the development of the vision and the corporate plan, the council consulted with its external stakeholders using a survey (mail-outs, telephone and online questionnaires) approach. This assisted the council to recognise the concerns of the wider community in addition to experts' opinions.

The survey demonstrated an outstanding level of participation in comparison to the participation rates of similar cities and national projects (Document CD2). Table 9.3 illustrates the success of a community survey conducted by the council. More than 11,000 people had their say on the sustainable future vision project by filling in an online or hard copy survey form (Document CD2). The council achieved an outstanding response with 50,206 individual visits to its Sustainable Future website with 140,867 page views during the initial community consultation phase (Document CD2).[18]

Table 9.3: Comparison of community consultation exercises

	Council C Sustainable Future	2020 Summit	Maroochy 2025	City Shape	2026	Toward Q2
Area	Council C	All Australia	Maroochy shire (former)	Brisbane	Logan City (former)	Qld State
Responses	11,019	9,000	2,500	15,000	3,000	4,149

Note: Former refers to the local council prior to 2008 when Queensland's 157 councils were reduced to 73 by the state government implementing the recommendations of the independent Local Government Reform Commission.

In addition to surveys, Council C formed an advisory committee to oversee the development of the sustainable future vision. The committee rationalised the input from within the council, the local community and reference groups to inform the development of the vision, the strategic plans and the performance measures (Document CD2). The advisory committee comprised councillors, youth representatives, the mayor, a local university and some community members having expertise, knowledge and/or experience to provide balanced representation on social, environmental and economic issues. The committee members possessed voting rights to make decisions on matters affecting the sustainability of the area.

Another engagement technique focusing on wider participation was holding open days. During the engagement program in 2010 the council organised two open days at different public venues. The open days attracted several stakeholder groups from the local community and from private, commercial and industry associations (Document CD5). The open days provided an opportunity for the stakeholder groups to express a diverse range of issues and concerns. The topics discussed included affordable housing,

[18] A visit was regarded as someone accessing the Sustainable Future website. The website contained several pages and a page view constituted viewing an individual webpage.

wildlife corridors, youth development, city structures, urban footprints, natural conservation areas and the involvement of children in the planning process.

Along with traditional techniques, Council C used contemporary media in order to educate external stakeholders. Social media, including YouTube, Facebook and Twitter, were considered efficient tools for monitoring issues in the community, capturing public sentiment about particular issues, responding to misinformation about the government's position on an issue, raising awareness about opportunities to influence government decision making and encouraging responses through official channels (Tools for engagement, Queensland Government website).[19]

The use of YouTube was aimed at creating awareness about the area and issues among the community. Council C's YouTube page included short documentaries and information sessions related to annual budgets, local transport, biodiversity, centre improvement planning, cultural events, and local heritage and history. Besides YouTube, television, radio and newspapers were means for the council to deliver the message about its sustainable vision.

The council joined Facebook in 2011 and has used it heavily to raise local sustainability issues, promote council services, advertise local events and share sustainability information. Although the council was very active in posting new information, there were only a few comments on issues and some occasional 'likes' recorded from community groups and there was a lack of issues being initiated by the community. The introduction of Facebook is relatively new to Council C and the interviewees appeared to be excited but somehow concerned about the challenges related to its use. Interviewee C1 stated that Council C 'now does have a Facebook page but it is a very early days for us. There are lots of challenges that social media present for a large organisation like this that we are still working through'. Interviewee C2 added that 'there are 530,000 around people in the city, just imagine if they are all on Facebook sending in their comment, it will probably crash the server'.

Although Twitter posts were dominated by the council, this media appeared to be more successful in engaging stakeholders than Facebook. It was being used to update the community about Council B's activities and initiatives, post up-coming social and

[19] http://www.qld.gov.au/web/community-engagement/tools/ accessed on 24 October 2012.

environmental events, and create awareness about local issues such as job alerts, local markets, sustainable trading, weather warnings and sustainability events. The key stakeholders using Twitter included social and environmental groups, community groups, a local university, a conservation and wildlife sanctuary, media and business.

Online forums emerged as a prominent online tool to involve stakeholders in various discussions related to sustainability issues. Council C has developed an online forum, 'Have Your Say', for receiving input from community members for shaping future directions, commenting on key issues and initiatives, and guiding the council in making important decisions (Council C's Have Your Say webpage). Anyone with internet access and an email address could join the forums and post their views. This facilitated discussion on different issues such as the city's sustainable future, its cultural precinct plan and service satisfaction.

Online discussion forums provided the community with an opportunity to express their opinions and perceptions about the council's plans and strategies more freely than is possible with surveys and meetings. For instance, in 2010 the council undertook a review on the sustainable future vision using an online forum. This forum aimed at gaining the perceptions of community members on land-use planning and development to analyse its social, economic and environmental impact. Although only a few comments were posted on the forum, they clearly depicted stakeholders' perceptions about the council's performance. Two of the comments were:

> Without serious commitment from [the Mayor] and the other benchwarmers what can the council really do to achieve in this theme area? The Statement can do nothing, and the planning scheme can only do very minor things as it is a document dependent on new applications and therefore new development. The planning scheme is not a cure all for past sins. It cannot be used to retro correct the massive blunders of past Councils and State governments. Based on the lovey-dovey mothering statements contained in the document on these matters, I suspect that the planning scheme will have nothing new or innovative to add. As that would require political will to implement and that is just too hard for Mayor and Co. "Full ahead both, damn the torpedoes" is what is required in relation to the environment.
>
> We cannot continue to kid ourselves that economic growth is the answer to all our woes. There is a dire need to put the brakes on economic growth for the sake of all our futures and the health of our home, the EARTH. For far too long economics have ruled our thinking. The Statement currently being discussed is no different. Forget 'sustainable economic growth'; let us just focus on 'sustainable'. We must reduce our impact on the Earth now, we must change our ways, dramatically, immediately, and permanently.

Furthermore, to gain the community's opinion on the planning documents, the draft corporate plan was exhibited publicly for 30 days. Details of the availability of the draft were publicised throughout the community through radio advertising, public notices in the local media, details on the 'Message on hold' telephone service, reply-paid feedback forms and email, and internally to all staff. Stakeholders such as advisory committee members, councillors, council staff and visioning experts responded to the exhibited corporate plan but only a limited response was obtained from the local community (Documents CD2 and CD5).

9.4.2 Sustainability accounting

A performance indicator was regarded as objective evidence of the extent of or progress towards the achievement of a desired outcome (Document CD1, 2008–09). Interviewee C3 stated that sustainability indicators enable the council 'to understand how we are travelling. If we do not track them, we do not know whether or not we are doing any good'. Focusing on quadruple sustainability, the indicator suite has been designed to capture quantitative as well as qualitative aspects. Quantitative indicators include the indicators that can be expressed in a numeric form such as economic and environmental indicators. Qualitative indicators include those indicators which were measurable using stakeholders' perception and mainly consisted of social indicators.

The interviewees mentioned that the council has developed different tools to measure sustainability performance against sustainability indicators and targets. Performance measures were regarded as evidence of the degree to which actions by the council are achieving the intended objectives of monitoring progress and reporting effectiveness (Document CD6). The performance measures included creating internal databases and building networks with external agencies and service providers.

In order to ensure quality data input, the council's Corporate Planning and Performance Division primarily liaised with other council departments to record the sustainability performance outcomes. The interviewees mentioned that the council has been using an in-house database for several years which has enabled it to capture all the key initiatives that are being undertaken across the different directorates. The accounting system required data input from the departments on a quarterly basis. The designated staff members enter information such as how departmental initiatives are progressing, whether they are on or off track, highlights and any significant issue.

Coordination with other departments was considered an important part of the data collection because it assisted the corporate management team to gather data from specific areas. Interviewee C3 stated that 'they [departmental representatives] chase the information out because they know the people, they know whom to talk to and know what to do'. For example, the Natural Conservation Strategy and Climate Change team was allocated environmental indicators and the team monitored action plans and supplied performance outcomes through the quarterly report process. The media used to interact with the other departments included personal conversations, telephone meetings and email. The sustainability information was checked and ensured for its quality and accuracy through an internal audit system.

9.4.2.1 Stakeholder engagement in sustainability accounting

The study highlights the involvement of internal and external stakeholders in the sustainability accounting process. Although internal stakeholders primarily managed the accounting stage, Council C relied on external stakeholders such as the local community, and state and federal PSOs.

Internal stakeholders such as divisional managers and the CEO dominated the process of setting sustainability indicators. In 2011 the council initiated a sustainability project to determine a new suite of sustainability indicators for the city and the council. This project required input from internal and external stakeholders. In response, various directors and staff members involved in community services, social planning and cultural space, planning, environment and transport, engineering services and economic development were consulted.

During the first round of interviews with Council C (October–December 2011), the interviewees revealed that the council intended to engage with external stakeholders, especially the local community, in 2012 to gain their perspective on a new suite of indicators. However, this plan was put on hold due to changes in the political set-up in the area. The key issues and challenges relating to Council C's stakeholder engagement plan is discussed in Section 9.5.

The council's Corporate Planning and Performance division engaged with different divisions and external agencies to obtain sustainability performance data. The interviewees indicated that data measurement in the council was affected by the

frequency of data issued by external agencies. Interviewee C2 stated that the council's ability to measure sustainability performance is affected by external agencies, including:

> State government bodies, their input is going to depend on their budget. Some of the indicators that are recommended measure are very much dependent upon state agencies continuing to report at the level they are reporting, on the frequency they are reporting and that's dependent upon their budget. So there is whole trickle-down effect. So this thing looks great, we are going to report on that – wonderful! Next year they pull the budget on that and they don't on it report any more – back to square one. So, that point of view that sort of stakeholder engagement can have consequences on the future of the reporting.

When the interviewees were asked about data availability for the qualitative measures, they mentioned that the council uses surveys to gather information about the level of satisfaction in the community about the council's performance. The data obtained from the surveys was used to measure performance against qualitative indicators such as safety. In order to draw a picture of the community's vision, the interpretation of survey data was undertaken based on the community's consensus about an indicator rather than individual perceptions. Interviewee C3 stated that:

> There are a lot of qualitative measures for the indictors around like safety or crime. To measure them we intend to survey the community to have a bit of their perception survey on whether they feel safe or not.

The interviewees mentioned that the selection of a new sustainability indicator suite required the participation of internal and external stakeholders. The new sustainability project aimed at developing an indicator suite that reflected council as well as city sustainability issues. Interview data indicate that the selection of indicators started as an internal process involving corporate sustainability planning personnel with a plan to consult the community to gain their opinions and perceptions about the city's sustainability. The interviewees mentioned that Council C was using an independent consultancy firm to develop a new sustainability indicator suite. The use of a consultant would enable the council to benefit from skills and knowledge that were beyond its expertise and would ensure a robust stakeholder engagement process for determining the new sustainability indicators. The importance of using the consultancy firm was highlighted throughout the interviews.

In terms of the city sustainability data, Council C relied on a range of external agencies, including the community, business groups, and state and federal PSOs to supply information on sustainability issues in the area. For example, the national census was used for housing affordability, unemployment and community

demographics data. Similarly, survey data obtained from residents assisted the council to report on the level of satisfaction for the council services, including local heritage, waste and water management.

In summary, the accounting process required input from internal and external stakeholders. Internal stakeholders used the sustainability performance data through in-house database systems. External stakeholders supplied sustainability data captured through their own accounting systems and provided perception-based data to measure qualitative indicators.

9.4.2.2 Who are the key stakeholders?

Council C relied on internal and external stakeholders to determine sustainability indicators and to collect data on its sustainability performance. The key stakeholders were council staff, consultant, local community and state and federal PSOs.

Council staff

Internal stakeholders such as the CEO and managers dominated sustainability accounting in Council C. They had the power to influence decisions related to the development of the sustainability indicators. The interviewees mentioned that the CEO had a keen interest in developing a sustainability suite that could be benchmarked and compared with national and international sustainability frameworks. However, the interviewees raised their concern about the CEO's expectations for the sustainability suite due to the uniqueness of the local sustainability issues and the existence of diverse sustainability matters, especially at international level. Interviewee C3 stated:

> We can benchmark state and internationally but the international one is the really difficult one because everyone is just that little bit different. I can get 10 or 12 benchmarks. What that is actually going to mean to me is absolutely nothing, but it will make the CEO happy. You can always compare and contrast but I do not see the point in comparing, say, our percentage of native vegetation cover with the likes of London.

Various managers and staff developed a new sustainability indicator suite and their different backgrounds, expertise and experiences enabled the council to gain insights to different aspects of sustainability issues and to establish the relevance of various sustainability indicators.

Professional bodies

In Council C consultancy firms emerged as an important external stakeholder group. The council relied on the expertise of an international consultancy firm, ARUP[20], to develop the new suite of sustainability indicators and to establish data measurement tools for each indicator. Most of the interviewees acknowledged the contribution of the firm in assessing the state of sustainability in the area.

Other stakeholders

Council C recognised the importance of local community's input to measure perceptions based sustainability targets such as safety and connectivity. Furthermore, Council C relied on state and federal government statistics for several community and social indicators such as employment, tourism, crime, housing, health, domestic violence, transport and accidents. However, there were concerns among the interviewees about the time lag involved in obtaining the data as in the majority of cases the census data is released once in five years.

9.4.2.3 How are stakeholder engaged?

Council C mainly conducted meetings and workshops with its managers and industry experts to develop the new sustainability indicators. These meetings and workshops provided an opportunity for the participants to share and discuss their concerns about the indictors. The interviewees mentioned that both methods were also useful for creating a sense of ownership of the indicators and creating willingness to monitor and measure them.

The collection of sustainability performance data depended on networking between the Corporate Planning and Performance division and other council departments. The division also arranged interviews and surveys with departments to obtain additional information on different service areas such as governance, community and environmental sustainability. Community survey was one of the prominent engagement methods used by Council C to obtain feedback about its performance and sustainability of the local area.

[20] ARUP is an independent consultancy firm of designers, planners, engineers and technical specialists offering a broad range of professional services, including sustainability assessment.

9.4.3 Sustainability reporting

The annual report of the council reflected its commitment to achieve effective corporate governance through openness and accountability, and demonstrated that council resources have been used efficiently to provide value-for-money services to the community (Document CD1, 2010–11). The interviewees considered the reports as history books which enabled staff to look at previous reports and make performance comparisons.

The Corporate Planning and Performance Division was responsible for collecting the sustainability performance information and writing the final report. The interviewees indicated professional writers were involved in producing the annual reports. As the council has to report on its and the city's sustainability, accounting data on internal and external sustainability issues were captured through internal and external processes.

Council C's reports were prepared in accordance with the QLGA 2009 and the Local Government Finance, Plans and Reporting Regulation 2010. Since 2009 the council has been reporting on the corporate strategic plan to communicate sustainability performance outcomes against the sustainability targets and indicators. Document CD1 (2011–12) stated:

> Our Annual Report is an important component of Council's performance management process, with integrated reporting at the forefront of Council's approach. Integration of Council's reporting processes occur with report information feeding directly into ongoing organisational planning and resource allocation, both non-financial and financial performance being analysed, as well as utilising Council's quarterly report process as the basis for the development of this Annual Report.

Although the reports were driven by legislative requirements, the council maintained versatility and individualism. Interviews and documents indicated the clever use of one of the vision elements created a focus for the whole report. For example, the key theme for the 2010–11 report was 'Together we are creating a safe city where everyone belongs' and for the 2009–10 report it was 'A city loved for its green, gold and blue'.

Moreover, the document analysis indicated that Council C has been using the GRI sustainability indicators since 2006–07 to track and measure the local sustainability area. The council is reporting on 16 GRI indicators, including two economic, five environmental and labour, three society and one product responsibility. As internal stakeholders dominated the selection of the indicators, a 'cherry picking' of the

sustainability indicators was observed because the majority of the indicators represented the organisation's concerns.

9.4.3.1 Stakeholder engagement in sustainability reporting

The annual reports of the council are highly stakeholder centric. The interviewees mentioned that the council regularly engages with internal and external stakeholders to share stories about the council's sustainability performance. For instance, the 2009–10 report included views and snapshots of key council staff who contributed to the overall sustainability of the council and city.

In order to acknowledge the contributions of external stakeholders, the 2010–11 report focused on community members. Interviewee C3 stated:

> Throughout the report we have tried to talk about all these people here, actually are the members of the ... community and they have an affiliation to council and they all do something that helps make the city a safe place where everyone belongs. So as you go through the report all of these people have their stories here … what they do. These people are not council employees, they are from the community that council has engaged to help them, to help the way council undertake its business.

This report narrated six stories concerning six community members' association with the council for advancing the community vision. One of the instances highlighted an engagement with an indigenous member and underlined the council's initiative to support, encourage and acknowledge the local community's sustainability initiatives. Document CD1 (2010–11) stated:

> Person Alpha came to the city six years ago, drawn by the city's lifestyle and employment opportunities. A musician and cultural performer, he is passionate about his role in educating children about the city's rich indigenous heritage through his Circular Rhythm contemporary music, song and dance presentations. Alpha is an advocate for the XYZ cultural precinct which he believes will enhance the city's reputation as a cultural hub and encourage greater participation in the arts. "Having a cultural precinct, attracting international artists, will do that," he says.

Along with the stories, the report presented snapshots of the members. Interviewee C3 passionately recalled the photography by the council which turned a technical process into an interactive and 'funky cool' activity:

> We had a photo shoot over the council's chambers, where I photographed the mayor, and the CEO and the Chief Financial Officer and all these guys [community members]. We did the photo shoot and we filmed on that and it was like turn the annual reporting from our document like this to more like a funky cool sort of thing, a happy thing to do because they all came in, got face painted, took all cool photos. These people haven't actually got many acknowledgements for some of their work previously and this engagement gave them feeling that council really appreciate them for what they are doing as well.

These instances highlight Council C's commitment to developing engaging reports. A similar commitment was observed to ensure the continual improvement of the annual reports. The interviewees mentioned that the majority of the feedback on the reports had come from internal processes and reporting adjudicators. The council has a practice whereby staff ask for feedback on the report's contents and structure during meetings with external agencies and other councils. The council also submitted its annual reports to various national and international awards to obtain constructive feedback on the contents and structure.

In terms of feedback from the local community, Council C also reported similar issues to those faced by Councils A and B. Despite the council's efforts, it received minimal response from the local community. Interviewee C4 mentioned:

> Unfortunately nobody ever fills them [survey forms] out. We have tried it over the years a number of different ways. We have tried ones that sort of fold out and drop off and other ones that fall out and other ones that are stuck in and we rarely get more than about 3 or 4 back each year.

Interview data highlighted two distinct perceptions about the non-receptivity and the lack of feedback from the local community. Some interviewees mentioned that the council received minimal feedback because the community lacked interest in annual reports. Other interviewees reported that a general level of satisfaction about the contents and structure limits the critical evaluation of reports by the community. Interviewee C4 stated:

> I think most people are quite happy with the report. I think it's one of those things – people tend to only complain or say something when there's something wrong. Generally if there is something right then they tend not to say anything. So it could be interpreted as the fact that we do a fairly good job and so everyone is reasonably happy so they don't see a need to say anything about it.

9.4.3.2 Who are the key stakeholders?

The key stakeholders identified in the annual reports included local community, state and federal PSOs, businesses and investors, community groups, service providers, other councils and professional organisations. However, only a few of them affected the preparation and refinement of the reports.

Professional bodies

The council submitted its annual reports to national and international awarding agencies, including the Institute of Internal Auditors Australia (Brisbane), ARA Limited

(Sydney) and MerComm Inc. (New York) to obtain constructive feedback on its reports. The feedback from the award adjudication process enabled the council to ensure continuous improvement of the content, structure and style of its report.

The ARA Limited emerged as an important influence in regards to the council's annual reports as the judges provide constructive criticism to the council to help it improve and refine its reports. Interviewee C3 stated that the council conducts:

> a feedback session with the Australasian reporting adjudicators and they actually help us [and] actually say [how] I would actually improve this, this, this ... and then all that feedback I have actually taken and included in this report so we improve it based on experts' feedback.

The interviewees considered the ARA judges as experts in the field of annual reporting.

Council staff

Internal stakeholders, primarily the Corporate Planning and Performance Division and the Corporate Finance Division, influenced the content and structure of Council C's annual reports. The findings suggest that the staff have played a vital role in converting the statutory document into an interactive forum.

Local community

Council C considered the local community – ratepayers, residents and visitors – as the key stakeholder group for its annual reports. The annual reports provided information on the state of issues material to the community. Although the council actively pursued feedback from the community about the report's structure and content, minimal responses were received.

State government

The interviewees considered the Queensland Government as a key stakeholder because it required the council to report on certain issues and activities, including the remuneration of council staff and significant business activities for the year.

9.4.3.3 How are stakeholders engaged?

A range of communication media was used by Council C to provide regular information about its sustainability performance. The choice of media ranged from formal communications such as annual reports, newspapers and newsletters to informal means including website disclosures, YouTube, radio and television. The interviewees

mentioned that the annual report is a useful tool to disclose sustainability performance but is limited by its frequency and a word limit. The interviewees mentioned that over time stakeholders have become less receptive to annual reports and have preferred website disclosures and newsletters. Interviewee C1 stated:

> When I first started here 7 years ago, I think we were producing around about 1000 reports and they were distributed fairly widely. Now we only produce about 200 of the written versions and we're probably going to cut that back even further.

The prime reason for the decrease in hard copy annual reports was the existence of alternative sources of information such as online disclosures and newsletters. These sources not only provided relatively more convenient, detailed, up-to-date and regular information but also are an opportunity to interact with the council. The interviewees mentioned that the annual reports are primarily to meet a legislative requirement and that the general community lack interest in them.

The informal communication means served as an efficient tool to provide sustainability performance information in an interesting, more frequent and timely manner. Interviewee C3 mentioned that:

> There are a range of other ways in which people get information such as newspapers and the TV. In local news, a lot of them is about local government – community is getting a lot of information about local government programs and what's happening through the news every night. You know on the radio as well, it's heavily looked at.

Although these communication media were important for raising awareness about local sustainability issues and providing information about the council's performance, they were one-way communication from the council to the stakeholders. In contrast, meetings allowed two-way dialogue during the reporting stage. Council C undertook several meetings with professional agencies to discuss the issues concerning the annual reports and to obtain constructive feedback to improve the quality of reports.

In summary, Council C recognised the importance of stakeholder engagement to enhance receptivity and to ensure continuous improvement of the reports and, therefore, actively engaged with different stakeholder groups. Moreover, the council used a mix of formal and informal techniques to communicate its sustainability performance.

9.5 The nature and extent of stakeholder engagement

This section discusses the nature and extent of stakeholder engagement in the sustainability accounting and reporting process. The purpose is to understand

managerial perceptions about stakeholder engagement and to determine the level of power delegated to stakeholders to affect the council's decisions.

9.5.1 Nature of stakeholder engagement

The interviewees considered stakeholder engagement as a two-way communication process that aims at exchanging information about local sustainability issues. It was regarded as a dialogue that assists the council in reaching choices acceptable to a wide range of interest groups (Online community engagement manual and Document CD3). Interviewee C4 stated that community engagement involves:

> Those opportunities where we interact with our community that might be whether we seek feedback on specific projects, it may be through open forums, open boards, 'Have a say day' website that we have. For me community engagement is quite broad that involves two-way communication with the community.

Community engagement was regarded as a tool that provides an opportunity for the community to interact and to discuss issues through public meetings, forums and other stakeholder engagement mechanisms (Online community engagement manual). Interviewee C5 regarded stakeholder engagement as:

> A process of formally engaging the community either is undertaken to seek their input in a particular area or for providing information to the community on the organisation's plans, activities, and performance. For me community engagement consists of both structured and non-structured engagement. Irrespective of which we one we talk about, it is those opportunities or those occasions where we are provided with an opportunity to interact with the community. For me community engagement is really quite broad, but it certainly involves two-way conversation with the community.

Community engagement was considered as a broad communication activity in which the choice of the engagement media was affected by the purpose of the engagement. The interviewees highlighted that the council adopts structured and non-structured approaches to involve stakeholders in decisions affecting sustainability. The formal or structured engagement was undertaken in response to legislative requirements and the unstructured or informal engagement assisted the council in educating the community about sustainable development. Education about sustainability and its implications was considered most essential by the interviewees due to the lack of awareness about sustainable development in the local community. The interviewees mentioned that education can occur through informal engagement channels too. The key objectives of community engagement programs undertaken by the council were to (Council C's Community Engagement webpage):

- ensure community views are considered in Council C's decisions
- ensure meaningful community engagement in consultation
- identify community capacity building areas for strategy development
- establish and maintain partnerships between Council and community
- build a network of community contacts
- minimise burden on community representation.

A range of stakeholders played multiple roles in the sustainability accounting and reporting process. Table 9.4 summarises the influences and roles of stakeholder groups. In relation to the accounting of sustainability indicators, the council relied on a range of external stakeholders, including, tourism agencies, and state and federal PSOs. The community's perception was also obtained through surveys to measure the level of satisfaction with the council's services.

Table 9.4: Roles of stakeholders in the sustainability accounting and reporting process

Stakeholder group	The element of sustainability accounting and reporting influence	Stakeholder's role in the sustainability accounting and reporting process
Council staff	Determination of sustainability indicators, corporate planning, setting sustainability vision, providing sustainability performance data, and content and structure of reports	Experts, coordinators and facilitators of the process
Community	Development of sustainability vision and key focus areas, collection of performance data, reporting content	Bearer of sustainability issues, ratepayer, reviewers and monitors of sustainability indicators, partners in sustainability programs, sustainability data providers and audience for sustainability reports.
Government bodies	Planning and reporting process, sustainability performance data	Regulator, enforcer, sustainability data provider and fund provider
Consultants	Development of sustainability indicators, community engagement programs	Professional advisors, experts
Awarding agencies	Reporting content and structure	Motivators, feedback providers and experts

The study of Council C demonstrated a vivid nature of engagement in the reporting process. As discussed in Section 9.4.3, the council engaged with its internal and external stakeholders in two different accounts of the development of reports. The annual report 2009–10 provided narratives and snapshots of contributions made by internal stakeholders in respect of sustainable development. Similarly, the annual report 2010–

11 disclosed the role of external stakeholders in the social, environmental and economic advancement of the city

9.5.2 Extent of stakeholder engagement

The study of Council C highlights the use of different levels of engagement to enhance stakeholder input in the planning and reporting process. The levels of engagement were inform, consult, involve, collaborate and empower. Informing and educating were considered as a prerequisite to the planning and reporting process. The council used social media, mass media such as television and radio, and online disclosures to create awareness about the importance of preserving local biodiversity and developing a sustainable future.

The council consulted extensively with its stakeholders to determine its vision for a sustainable future and to prioritise key focus areas for the council. The media used were surveys, meetings, public exhibitions and online discussion forums. The consultation level was regarded as an appropriate level of engagement to gain the opinions of the wider community during the planning stage and to gain feedback from professional agencies such as ARA Limited during the reporting stage. Stakeholder engagement was taken to the next level by involving stakeholders in the reporting process. The council engaged with internal and external stakeholders to recognise their input in advancing the council and city's sustainability. There was a partnership with a consultancy firm to develop the new sustainability indicators and to assess the sustainability of the area.

The council empowered community representatives through its advisory committee to develop a sustainable vision for the city. The committee members possessed the power to vote and to make decisions related to the vision and the strategic plan. The empowerment of the community assisted the council to develop a sustainability vision that reflected its long-term aspirations for the city.

In summary, along with non-participative levels the council exercised higher levels of stakeholder engagement. The findings of this study suggest that the purpose of engagement would determine the level of engagement to be exercised by an organisation. The non-participative level aimed at educating stakeholders before initiating two-way dialogue. Involvement created a sense of belonging and ownership

among stakeholders, and empowerment equipped the stakeholders with power to make decisions impacting on their future.

9.5.3 Key issues and challenges in stakeholder engagement

Political implications

The political nature of the organisation emerged as a key challenge for the council in achieving its stakeholder engagement objectives. During the first and second round of interviews with Council C staff, the interviewees indicated that the council planned to undertake an extensive stakeholder engagement activity in the first half of 2012. The interviewees raised a concern about a change of leadership and its effect on the engagement plan. Interviewee C2 stated:

> The local government elections in Queensland are in March 2012. So a lot of this type of work [stakeholder engagement] has been put on to hold until after that election because Council C will get a new Mayor. Our Mayor is retiring. And so there will be change of leadership and may be some change to our council. So they really need to be involved in strategic document [setting of sustainability indicators project] like this with the city.

During the third round of interviews, the interviewees revealed that the engagement plan failed to materialise because of the change of leadership and issues related to it. Interviewee C1 stated:

> There has been a lot happening in this [setting sustainability indicators and community engagement] space, we have continue to do background development work on this project over the past several months and the scope of the project has continued to evolve. Unfortunately, however our timeline has been pushed out. This is primarily due to the upcoming local government elections, as we have been advised to wait until the outcome of these is known. The city we will be appointing a new Mayor who will be instrumental in leading this piece of work in the public arena. It is now likely that we will not be consulting with the community until early 2013.

Lack of commitment from internal stakeholders

The interviewees revealed that there had been a lack of commitment among the council staff in relation to the sustainable future project. The council consulted its community to gain their aspirations about the sustainable future of the city but the project overlooked a continual engagement approach to achieve optimal outcomes. Interviewee C2 stated:

> I think probably what is disappointing is that it [Council C's Sustainable Future Vision] was treated as a project it had a start date and had an end date. It did not continue the momentum and, kind of, engagement with people that were involved in this was dropped off. So I think in hindsight it would have been good if we would have kept up the relation with them [stakeholders], communicated with them, let them know how we are tracking against what they have told us.

The interviewees mentioned that continual engagement with the community could have assisted the council to gain feedback about its performance against sustainability targets.

Resource availability

Council C was observed to have concerns about the resources, including time, personnel and money, involved in the community engagement activities. The online stakeholder engagement manual stated that while undertaking the community consultation and reporting processes the staff were to be mindful of the resource constraints associated with the project.

Similar concerns were also raised by the interviewees, especially in relation to the resources and commitment involved in using social media. Interviewee C2 stated:

> The administration of a site like that [Facebook] is challenging, if people are putting their comments up there and they are expecting us to respond, that is really just 24 hours a day, 7 days a week responsibility, and for that we don't have [enough] resources to meet.

Create willingness to engage

The study of Council C highlights the lack of commitment from stakeholders to get involved in addressing the local sustainability issues. The interviewees considered the lack of awareness about the notion of sustainability as the key reason for the existence of the unwillingness among the community. Interviewee C4 stated:

> I think probably our biggest challenge would be getting people engaged and wanting to participate in the things that are bigger than their little patch and something that are of quite long term [relevance].These things [sustainability issues] are not necessary something that's tangible, you know it's not necessarily that they [stakeholder's] can see or feel right now. I mean it's kind of vision almost you have to visualise it.

The interviewees were of the opinion that creating awareness about the importance of long-term sustainability benefits was required to divert stakeholders' thinking from daily activities such as their work, family and mortgage to wider sustainability goals. Interviewee C3 stated:

> We have not educated the residents yet. Once you educate your residents, then you get more input [on sustainability issues] from them as they become engaged because when you know about something, you become interested in it. At the moment people are too busy going to work, running their kids to schools, we are just trying to pay the mortgage.

Interviewee C2 stated:

> Considering what impacts somebody can have in the backyard or in the space they are living. We are definitely trying to get the awareness and get people involved in wanting to participate in something that's really a long-term goal … you know he

> was not an individual just can make tiny little piece of difference ... trying to even get them engaged and interested in making a difference will be challenge too.

9.6 Influences on stakeholder engagement

The interview data and documents were used to establish the key drivers of stakeholder engagement in the sustainability accounting and reporting process. The interviewees revealed the internal and external drivers of stakeholder engagement in the process.

9.6.1 Coercive influences

The mandatory requirements imposed under the QLGA 2009 emerged as the key influence on the council to engage with the local community. The Act endorses 'community democratic representation, social inclusion and meaningful community engagement' as key principles in Queensland's local government, and hence the council was required to undertake community consultation in decisions affecting the citizen's welfare. Due to the legislative requirement, the council consulted its community members in 2008 and 2010 regarding the city's sustainable future vision. Interviewee C1 stated:

> We [the council] work within a political environment. We have legislations that we have to meet. Certainly our new legislation is very much focused on meaningful community engagement, really involving the community in our decision making. Therefore, this presents challenges to how we actually do that as well.

The interviewees mentioned that the Queensland Government's corporate policy on community engagement informed stakeholder engagement with the council. Interviewee C3 also indicated the impact of legislation on the community engagement policy: 'under the new local government act that we have in Queensland, community engagement policy is required to be implemented'.

9.6.2 Mimetic influences

The interviews and documents indicate the influence of corporations on the stakeholder engagement practices of Council C. The GRI sustainability indicators have been used extensively by the private sector to disclose sustainability and stakeholder engagement initiatives. Documentary analysis highlighted that the council used 'Governance, commitment and engagement' indicators to disclose its stakeholder engagement initiatives. These indicators were adapted from the GRI version instead of the specific public sector supplement – GRI–SSPA. The council appeared to be imitating

corporations by disclosing against the GRI indicators in order to establish leading council status.

Another imitating behaviour was observed in the use of 'stakeholder' terminology. The interviewees' use of the term 'stakeholder' to refer to community originated from corporations and had limited relevance to the council's plans and policies.

9.6.3 Normative influences

There was evidence of professionalisation and networks in Council C's engagement programs. The ARA Limited emerged as a critical influence on stakeholder engagement in sustainability reporting. One of the awards' eligibility criterion for local government is to comment on community democratic governance arrangements, including elections, community consultation and engagement in its annual reports. In line with this, the council's annual report for 2010–11 was highly external stakeholder centric and won the 2012 Report of the Year award.

Moreover, Council C relied on consultants to undertake stakeholder engagement programs. There was also evidence of the use of IAP2 framework to guide the council's community engagement policy and to prescribe mechanisms and levels of participation to optimise engagement outcomes.

The council also used the GRI indicators on stakeholder engagement to disclose its stakeholder engagement initiatives, which included stakeholder groups engaged by the organisation, approaches to stakeholder engagement, and key topics and concerns of stakeholders. The use of the GRI indicators highlights a normative influence as the council followed the GRI to demonstrate it was a best practice council in Australia.

9.6.4 Internal influences

The interviewees mentioned a strong commitment in the council to consult the local community to understand their aspirations and concerns about the city's sustainability. The council staff, especially the project manager of the annual report for 2010–11, believed that the involvement of stakeholders during the preparation of the annual reports is useful to generating interest in the report and thus can enhance receptivity of the report when it is released. Interviewee C3 stated:

> In the annual report 2010–11, the sustainability theme is 'Together we are creating a safe city where everyone belongs'. Therefore, while preparing the report, I really

> felt that the council itself cannot just create a safe city. All community members create safe city. I want the people's stories to come through this report because the report is for the community. I wanted people's stories are not council's employees saying what they are doing to help the community.

Moreover, Interviewee C4 stated that stakeholder engagement assisted the council 'to ground our thinking', that is to realign the council's opinion to the level of the community. Interviewee C5 also acknowledged the need to understand the community's concerns as the key driver of stakeholder engagement:

> Well the key drivers are always going to be first and foremost it's around council being a public organisation, so it's around democracy, and it's around meaningful engagement, but the drivers are particularly around which communities are affected, how they are affected. So whether it is socially, economically, environmentally, what the effects are and so that councils can make decisions that are for the good of the whole community. So the – yeah the key drivers of community engagement really are the – come from those key plans and informing the community and consulting the community around all of those new plans, politically and administratively that come through city plan, all those strategies that council creates.

9.7 Summary

This chapter highlighted the sustainability accounting and reporting process and the nature and extent of stakeholder engagement for Council C. The study of Council C highlights a substantial but varying role of stakeholder engagement in the sustainability accounting and reporting process. The interviewees acknowledged the necessity of external stakeholder input for defining the sustainability vision for the city. However, the same level of necessity for external engagement was not observed during the identification of sustainability indicators.

The involvement of stakeholders in sustainability reporting assisted the council in the identification of material sustainability issues, the development of sustainability indicators and their monitoring and measurement. The council extensively engaged with stakeholders to determine sustainable visions for the council and the city. In terms of measuring sustainability performance, the council relied on internal and external stakeholders, including various directorates, state and federal governments, and the local community. The council demonstrated an excellent stakeholder engagement practice in the sustainability reporting process through the involvement of council staff and local community in the development of reports. Although the local community had little influence on the improvement of the reports, other external stakeholders such as

other councils and awarding agencies played a critical role in ensuring continual improvements to the reports.

Council C used traditional and contemporary social media to interact, educate and create awareness among the local community and other stakeholders. Traditional engagement methods were study groups, open days, surveys and public exhibitions. Contemporary social media included online forums, Facebook, Twitter and YouTube. Social media assisted the council to enhance approachability and to facilitate convenient participation.

The findings of this study indicate that the council is exercising a mix of engagement levels to suit the need and purpose of engagement. The use of the informing level can be appropriate for an organisation where the purpose is merely to create awareness about organisational goals and performance. Contrarily, if the purpose of engagement is to set a sustainable vision then stakeholders can be empowered by being represented on the advisory committees.

The key issues and challenges that undermine the effectiveness of stakeholder engagement were also identified. A lack commitment from staff and leadership changes were of high concern to the interviewees. Other issues included an unwillingness to engage and resource availability.

This study highlights external and internal institutional factors affecting the nature and extent of stakeholder engagement in the sustainability accounting and reporting process. Coercive influences such as mandatory regulations exerted pressure on the council to involve stakeholders in the sustainability planning process. Mimetic influences such as stakeholder engagement disclosures and normative influences such as IAP2 and awards encouraged the council to demonstrate efficient engagement practice. Additionally, internal factors such as management commitment drove meaningful engagement in the sustainability process.

Chapter Ten: Cross-Case analysis

10.1 Introduction

This chapter discusses the results of the research study through a cross-case analysis of the three local councils. The overall findings are related to the three best practice local councils selected to understand the nature, extent and drivers of stakeholder engagement. The discussion of the findings is made in light of the research framework and extant literature on stakeholder engagement in the sustainability accounting and reporting process. Emerging themes from the field are also presented in relation to each research objective.

Section 10.2 emphasises the sustainability accounting and reporting process in Australian local councils to establish the role of stakeholder engagement therein. The next two sections focus on the key stakeholders and engagement methods, respectively, to examine how stakeholders are engaged in the process. The nature and extent of stakeholder engagement, and the key issues and challenges undermining its effectiveness are discussed in Section 10.4. The next section explains the key drivers of stakeholder engagement in the process. These discussions enable the central research question for this study to be addressed. Section 10.6 highlights the revised research framework based on the study's findings.

10.2 Stakeholder engagement in the sustainability accounting and reporting process

The first part of this section discusses the sustainability accounting and reporting process in the three selected councils to establish the role of stakeholder engagement. Subsequently, the key research objectives of this study are addressed and themes emerging from the field are identified.

10.2.1 Sustainability accounting and reporting

The extant literature has mainly examined three aspects of sustainability – the triple bottom line of social, environmental and economic sustainability (For example, Sciulli 2009; Tort 2010; Williams et al. 2011). The findings of this study suggest that the three councils have shifted to quadruple bottom line sustainability – social, environmental,

economic and governance – in their operations and processes. Consequently, the sustainability accounting and reporting process was designed to capture and to communicate the councils' performance on these four aspects.

The results of the three cases support the integrated reporting framework for sustainability performance measurement and communication of Schaltegger and Wagner (2006) as discussed in Section 2.2. Although there were subtle differences in the cross-case analysis, strategic planning was regarded as a prerequisite to the sustainability accounting and reporting process.

The majority of the research on the sustainability accounting and reporting process have examined planning, accounting and reporting as three independent organisational practices (Schaltegger 2012). The current study's findings suggest that a link between strategic planning, accounting and reporting and the involvement of stakeholders is essential to establish an efficient stakeholder-centric accountability system. Moreover, the sustainability vision should be embedded in the organisation's goals. Figure 10.1 summarises the sustainability accounting and reporting process and the role of stakeholder engagement.

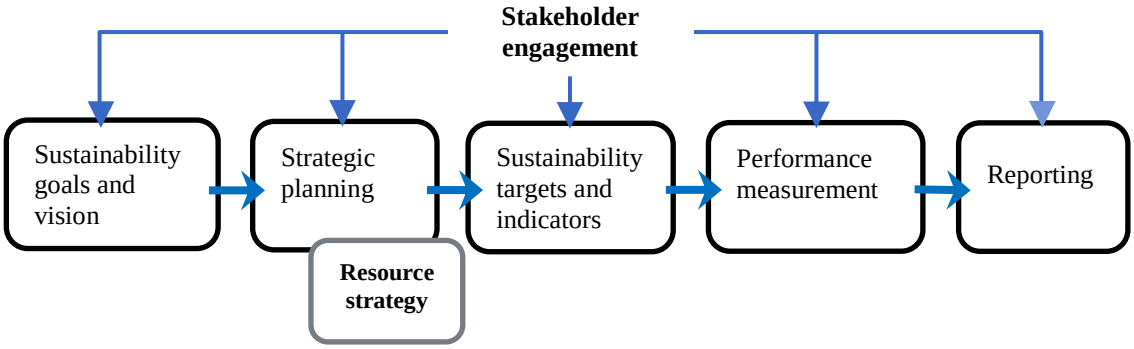

Figure 10.1: Stakeholder engagement in sustainability accounting and reporting

The interviews and documents highlighted that this association enabled the councils to not only measure and communicate actual sustainability performance but also to address the sustainability issues and concerns of stakeholders. In Council A the strategic plan identified local sustainability issues, the delivery programs outlined action plans to address these issues and a resource strategy allocated funds to implement the action plans. The accounting system then determined sustainability indicators to measure success or failure of the programs, followed by reporting on the actual performance.

The other two councils used similar pathways to measure and to communicate information about their sustainability performance. However, Council C established a sustainability vision through community consultation before developing strategic and other supporting plans. The current study's findings indicate that the development of a resource strategy is an important component of the sustainability accounting and reporting process as it ensures a sufficient allocation of resources – assets, money and staff – to achieve the targets.

10.2.2 Stakeholder engagement

Council A was a leader in stakeholder engagement in the sustainability accounting and reporting process. In 2009 and 2012 it undertook two extensive engagement programs with its key stakeholders to identify their key sustainability issues and to review the existing sustainability indicators. These programs assisted Council A to understand stakeholders' needs and aspirations and to embed them in the strategic and other supporting plans. Stakeholder engagement in the planning stage was considered essential to create an awareness of the importance of sustainable development. It also provided an opportunity to develop networks with NGOs and community groups to deliver sustainability targets. The accounting stage was dominated by internal stakeholders. However, the council needed the support of external stakeholders such as the local community and the state and federal governments to assess social and environmental sustainability in the area. In the reporting phase, employees influenced the reports' contents and structure, and professional bodies assisted Council A to enhance the quality of the reports.

Council B recognised the usefulness of stakeholder engagement in the sustainability planning stage. Stakeholder engagement assisted the council to identify and to address issues proactively rather than in a reactive manner. It was useful to gain perceptions from and the support of stakeholders about the council's plans and policies before their implementation to avoid future rejection and disapproval. Key stakeholders for the planning were local residents, community groups and local businesses. Similar to Council A, Council B relied on external agencies to collect information on certain sustainability indicators. A limited influence of external stakeholders was observed in the reporting stage in comparison to the planning and accounting stages.

Council C emphasised the need of stakeholder engagement in the planning stage. The council successfully undertook an extensive engagement program in 2006 to establish a long-term sustainability vision for the city. The council's annual report demonstrated outstanding stakeholder engagement in the development of the annual reports. The traditional engagement tools were complemented by contemporary engagement media, including YouTube (to create awareness about local sustainability issues) and online discussion forums (to gather stakeholder input on the council's plans and policies).

International accountability standards such as AccountAbility (1999) and GRI (2005, 2011) emphasise the importance of stakeholder engagement in the sustainability accounting and reporting process, especially in the development of sustainability reports. However, the role of stakeholder engagement has been questioned in the extant literature. The research by Lingenfelder and Thomas (2011) and Frost et al. (2012) found that very little engagement exists in the development of sustainability reports. In contrast, the current study's findings provide evidence of stakeholder engagement in the reporting stage. Council A engaged with employees to gain their opinions about the reporting content and structure. This engagement assisted in enhancing the receptivity of the annual reports. Similarly, Council C engaged with its employees and community members to include their stories in the 2009–10 and 2010–11 annual reports, respectively. There was no evidence of such stakeholder engagement in the development of reports in Council B.

Prior studies indicate that sustainability reporting in PSOs, including local councils, lags behind the private sector (Dickinson et al. 2005; Ball & Grubnic 2007). However, this study shows that local councils are leading the way in stakeholder engagement. They are acknowledging the potential of engaging stakeholders in the sustainability accounting and reporting process and have developed a range of engagement tools to educate and to involve them.

10.3 How stakeholders are engaged

10.3.1 First research objective – key stakeholders

The first research objective was addressed by examining the nature and role of each group and individual who influenced the planning, accounting and reporting stages in the three councils. Table 10.1 identifies the key stakeholders who influenced the

sustainability accounting and reporting process in the councils, as explored through interviews and documents. The classification is informed by each council's stakeholder engagement practice during the period of analysis for this study (November 2011 – January 2013) and a comparison of their practices, as informed by the cross-case analysis. A comparison with literature, as discussed in Section 3.2, is also made.

Table 10.1: Key stakeholders involved in the sustainability accounting and reporting

Stage	Council A	Council B	Council C
Sustainability planning	Local community, state and federal governments, council staff, councillors, universities, and social and environmental groups	Local community, state government, councillors and visitors	Local community, council staff, visitors, councillors professional bodies and state government
Sustainability accounting	Council staff, local community, state and federal governments and professional bodies	Council staff, local community, PSOs and external agencies	Council staff, mayor, professional bodies, local community, and state and federal governments
Sustainability reporting	State government, council staff and professional bodies	Councillors and local community	Professional bodies, council staff, local community and state government

The international accountability standards such as AccountAbility and GRI consider stakeholder identification as an essential element of the stakeholder engagement process. Belal (2002) and Unerman (2007) argued that the lack of stakeholder identification can question the effectiveness of the engagement process. However, this was not found to be an issue in the current study as the councils identified and engaged with their key stakeholders in the sustainability accounting and reporting process.

A broad range of stakeholders influenced the councils' decisions relating to strategic planning, setting sustainability indicators, sustainability performance measurement and the development of sustainability reports. However, the role and influence of each stakeholder varied with some stakeholders being more powerful than others. For instance, the local community was highly influential in the planning stage but played a limited role in the reporting stage.

In regard to the key stakeholders in sustainability planning, the results indicate similarities between the three councils. The local community, council staff and the state

government primarily influenced the development of strategic plans. Council A regarded the community as the most influential stakeholder in identifying local sustainability issues. Their reasonable expectations and material issues were regarded as the core component of strategic plans.

A similar influence of the local community was observed in Councils B and C. Council B consulted its local residents and ratepayers extensively to determine funding possibilities to meet community targets identified in the strategic plan. The result supports the findings by Frost et al. (2012) and Greco et al. (2013) that councils were engaging stakeholders in decisions related to resource allocation. Council C also recognised the expertise and knowledge of its community and involved community representatives in determining its sustainable future vision.

The councillors affected the strategic planning in the three councils significantly. They were considered representatives of the community and had power to influence decisions related to the development of strategic and other plans. However, councillors were transient due to their fixed term of office. Some changes in council leadership affected strategic priorities too.

The area of Councils B and C included major tourist attractions. Therefore, visitors had significant implications for environmental and economic sustainability planning although the interviewees indicated that this group was the most difficult to engage because of its transient nature.

Bryson (2011) emphasised the role of council staff in the development of strategic plans. The three councils considered employees as representatives of local voices, role models for the community and prime agents to deliver strategic outcomes. Besides staff, regulators emerged as the most powerful stakeholder group in this study. The interviews and documents highlighted that the state governments in NSW and Queensland impart strong influence on local council planning and reporting practices and do encourage them to engage with their stakeholders.

Other stakeholders identified in this study include universities and social and environmental groups. Council A collaborated with a local university to improve the water quality in a local river. The council also engaged with local social and environmental groups to identify sustainability issues. In contrast, Council C

collaborated with a consultancy firm and technical experts to assess local sustainability and develop the council's and city's sustainability vision.

In terms of key stakeholders in the sustainability accounting and reporting process, there were similarities between the three councils. Primarily, staff, the community, state and federal PSOs, and professional bodies were involved in the development of sustainability indicators and the measurement of sustainability performance. Councils A and C developed their first sustainability suites in consultation with internal stakeholders, including the CEO, divisional managers and staff. Brown and Hicks (2013) highlighted the involvement of boards of directors, managers and employees in designing accounting tools. This study supports this finding as it suggests that the involvement of internal stakeholders assisted the three councils to create ownership of sustainability indicators and a willingness to measure them.

Additionally, the community's involvement in the determination of sustainability indicators, especially social and community indicators, was important to ensure that the councils' services met the needs of their community. Moreover, the three councils relied on their communities to monitor and to measure qualitative sustainability indicators. All three councils also used the databases of state and federal PSOs, and external agencies such as the Roads and Maritime Services and the Transport Data Centre to measure environmental and community indicators.

There was evidence of involvement of professional bodies in the development of sustainability indicators. Council A consulted ICLEI–Oceania and Council C collaborated with the ARUP to assess their local sustainability indicators and to develop an initial set of indicators.

In respect of the key stakeholder influencing sustainability reporting, the councils' preferences were not completely similar. For Council A the state government and council staff influenced decisions relating to report contents and professional bodies such as ARA Limited assisted the council in enhancing the quality of their reports. However, Council B's councillors were highly interested in the annual reports and considered them as a tool to enhance their reputation in the area. In contrast, Council C recognised the community, professional bodies and council staff as the key stakeholders in developing and refining its annual reports. The current study supports the findings by Farneti & Guthrie (2009) as the CEO and divisional directors were

primarily responsible for promoting the sustainability accounting and reporting process in the three councils.

Emerging themes

The findings of this study highlight the influence of transient stakeholders such as visitors and councillors on the sustainability accounting and reporting process. Councils B and C attracted a massive number of tourists every year and were concerned about their influence on local environmental and economic sustainability. However, they were the most difficult group to engage with due to the lack of permanent contact and their frequent mobility. In contrast, councillors were easy to engage with but their role and influence was limited to their elected term.

10.3.2 Second research objective – stakeholder engagement mechanisms

The study highlights the use of traditional and contemporary engagement media to involve stakeholders in the planning, accounting and reporting stages. The interviewees highlighted that the choice of engagement methods depends upon the purpose of engagement and the nature of the stakeholders (Cummings 2001; Belal 2002). The three councils used a range of engagement methods to ensure wide participation and to enhance their capacity to influence council programs. Table 10.2 summarises the engagement techniques used by the three councils.

Cummings (2001), Belal (2002) and Manetti (2011) highlighted the use of traditional engagement methods such as focus groups, road shows, panels, public meetings, conferences and workshops to enable stakeholders to express their opinions or to participate in the decision-making process. In addition to these media, Adams and Frost (2004) and Lodhia (2006, 2010, 2012a) emphasised the importance of the World Wide Web in enhancing the communicating of environmental information to stakeholders. The findings of the current study indicates that the use of a combination of traditional and contemporary engagement techniques has the potential to inform and educate, consult, involve and empower stakeholders in the sustainability accounting and reporting process.

In relation to the engagement methods used to involve stakeholders in the planning stage, the current study highlights the use of similar but versatile engagement tools by the three councils. The three councils used various engagement techniques to inform, educate,

consult and empower stakeholders. Greco et al. (2013) suggested that a lack of awareness among stakeholders about councils' operations could result in ineffective stakeholder engagement practices. Therefore, organisations should educate their stakeholders before initiating any engagement program (AccountAbility 2011). In line with this, the three councils were found to be using a broad range of information techniques – bulletins, the mayor's column, presentations, newsletters, television, radio and websites – to create awareness about the importance of sustainable development and engagement programs. Besides these, Council C used YouTube to create awareness about the importance of environmental sustainability and the community's role in addressing it.

Table 10.2: Stakeholder engagement methods used by the three councils

Stage	Council A	Council B	Council C
Sustainability Planning Stage	Survey, workshops, focus groups, direct contact, Facebook, Twitter, online forums, public exhibition, partnerships, artwork sessions, 'Cuppa time', informal meetings and sustainability blogs	Survey, brochures, mayor's column, community noticeboard, open days, workshops, focus groups, study groups, face-to-face discussions, precinct committees, citizen jury, Facebook, Twitter, online forums, public exhibition; 'Bang the Table' tool, and social blogs	Survey, workshops, focus groups, open days, direct contact, advisory committee, Facebook, Twitter, YouTube, online forms, public exhibition
Sustainability Accounting Stage	Direct contact, telephone, surveys, networking, meetings and peer review	Direct contact, surveys, networking, meetings and peer review	Direct contact, telephone, surveys, networking, meetings and peer view
Sustainability Reporting Stage	Online disclosures, annual reports, newsletters, feedback forms and meetings with professional bodies	Online disclosures, annual reports and public exhibitions	Online disclosures, YouTube, television, radio, newsletters, annual reports, direct contact, feedback forms and meetings with professional bodies and consultants

Local Agenda 21 recognised the role of local government in educating communities about the importance of sustainable development. As education encompasses two-way communication (Friedman & Miles 2006), the three local councils used social media – Facebook, Twitter and blogs – to facilitate ongoing dialogue with their stakeholders. The current study's findings suggest that social media is a new engagement tool that

increases interaction with stakeholders because it offers wider, economic and convenient participation.

Furthermore, online forums encouraged discussion and debate on critical planning issues. Councils B and C gained insights to their community's views and ideas about the strategic plans using online forums. Besides contemporary engagement approaches, the three councils used traditional methods such as surveys, focus groups, workshops and public exhibitions. All of these techniques are consistent with methods for stakeholder dialogue recommended by AccountAbility (1999, 2011).

Of the traditional engagement techniques, public exhibitions were the most commonly used by all three local councils to obtain feedback on the strategic planning documents. It was observed that the exhibitions were mainly conducted to comply with legislative requirements and had a low influence on changing the councils' decisions. The three councils also used open days and questionnaire surveys (telephone and personal) to comprehend the sustainability issues of the community.

However, surveys had a low response rate in all three councils. Small group techniques used by the three councils included focus groups, workshops, presentations and direct contact. These methods assisted the councils to conduct guided discussions to gather ideas and views from stakeholders on common interests.

In relation to engagement mechanisms used in the sustainability accounting process, this study shows the three local councils used similar approaches. The sustainability performance data was collected through internal processes, surveys and meetings. Surveys assisted the councils to collect data on the satisfaction level of their services (Cummings 2001) and to measure perception-based indicators. Meeting were organised by the three councils to compile and interpret sustainability data. For instance, in Council C the Corporate Planning and Performance division held meetings to obtain and to clarify details on the various types of sustainability information captured by other divisions in the council.

In the sustainability reporting process, Beck et al. (2010) indicated that the media by which organisations communicate its sustainability performance has evolved beyond annual reports to include internal television channels and even social media such as Facebook groups. There was no evidence of the use of Facebook as a complementary

reporting tool. However, the interviews and website monitoring highlighted the use of online disclosures, local television, radio, and YouTube to provide information to stakeholders about the council's sustainability performance.

Councils A and C used feedback forms to gain stakeholders' opinions on their annual reports. However, this was an ineffective engagement strategy as both councils received minimal feedback. Council B exhibited its annual reports publicly. This had similar problems to the feedback forms. In contrast, meetings with consultants and experts emerged as an efficient mode of engagement at the reporting stage. Councils A and C attended the ARA events to obtain feedback on their reports from the adjudicators.

10.4 The factors affecting the nature and extent of stakeholder engagement

10.4.1 Third research objective – nature and extent of stakeholder engagement

Stakeholder engagement has been regarded as two-way interaction between an organisation and its stakeholders aiming to address common goals (Andriof et al. 2002; 2003; Lawrence 2002; Sloan 2009). The findings of this study suggest that the relationship between the councils and their stakeholders was a critical element of stakeholder engagement. The councils shared a reciprocal relationship with their stakeholders as both parties had a significant impact on each other's activities.

Council A considered stakeholder engagement as a commitment to listening and responding to stakeholders' concerns. It assisted the council in effective problem solving and decision making. Council B regarded stakeholder engagement as the essence of the sustainability accounting and reporting process because the aspirations and needs of the local community guided the development of the strategic and other plans. Council C also valued the importance of stakeholder engagement. It considered any formal and informal involvement of stakeholders in the council's activities as stakeholder engagement.

The extent of stakeholder engagement in the sustainability accounting and reporting process was explored through the engagement methods used to involve stakeholders and stakeholders' influence on enhancing or constraining the process. Figure 10.2 summarises the extent of engagement in the three councils.

The three councils exercised different levels of engagement in the sustainability accounting and reporting process. Greco et al. (2013) raised the importance of creating awareness about the actual operations of councils in order to have genuine influence in evaluating and promoting sustainability programs. The three councils used social media, annual reports, brochures, community n and seminars to create awareness about the importance of strategic planning and their role in it. Although informing has been recognised as one-way communication (Arnstein 1969), it emerged as an important level of engagement before commencing any engagement. It has the potential to provide information about the council's sustainability performance to the wider population. Moreover, the use of workshops (Friedman & Miles 2006) and social media highlights that the councils have moved from merely providing information to education which promotes two-way dialogue.

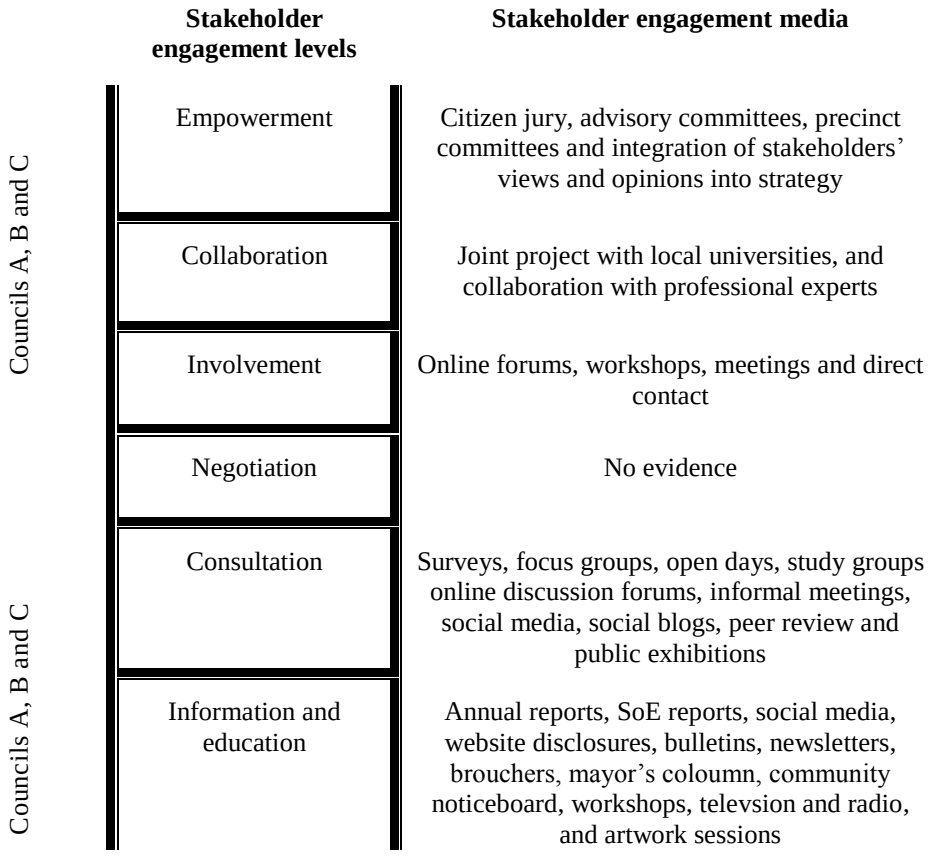

Figure 10.2: Stakeholder engagement extent and partcipative techniques

The current study supports the findings of Cummings (2001), Manetti (2011) and Greco et al. (2013) who found that organisations were consulting with their stakeholders on sustainability reporting. The three councils thoroughly consulted their key stakeholders

in the development of strategic plans and the preparation of annual reports. Consultation techniques were surveys, focus groups, public exhibitions, meetings and peer review. Although techniques such as public exhibitions provided limited voice to stakeholders, the use of focus groups created trust and allowed openness in the dialogue process. Consultation has been regarded as a weak form of engagement because organisations can solicit stakeholders' opinion over issues determined beforehand and, consequently, the issues of real concern to the stakeholder may be ignored in the survey (Friedman & Miles 2006). However, it can be argued that given the councils have limited resources, they would not waste resources unnecessarily.

Friedman and Miles (2006) and AccountAbility (2011) proposed negotiation as the level of collective bargaining, where employees influence organisation's decisions through trade unions. There was no evidence of negotiation in the sustainability accounting and reporting process.

Involvement has been regarded as the level of constructive dialogue. The findings of this study indicate that the three councils involved stakeholders in the development of strategic plans and the preparation of annual reports. The sustainability accounting process in the three councils required the involvement of various council departments to measure the overall sustainability of the council. Council C had a practice to involve internal and external stakeholders in the development of its annual reports.

Cummings (2001) indicated that industry consultation with expert panels, together with some of the in-depth focus and small group techniques, can be described as 'working in partnership'. In line with this, the interviews highlighted that the three councils engaged with professional bodies and NGOs to address complex issues in the sustainability accounting and reporting process. Council A collaborated with a local university to address a threat to a local river and with ICLEI–Oceania to develop sustainability indicators. Council B worked in partnership with the community to determine resource allocation for the strategic plan. Council C worked jointly with a consultancy firm, ARUP, to assess local sustainability and to determine sustainability indicators.

Freidman and Miles (2006) regarded the integration of stakeholders' opinions in strategy as a signal of stakeholder empowerment. The use of precinct groups, citizen jury and advisory committees allowed community representatives to vote on council issues. Moreover, the current study found extensive input of the local communities to

the development of the strategic plans. This implies that stakeholders, especially the local community, were empowered by the councils to determine their sustainability goals and targets. Similar to Manetti (2011), a limited use of empowerment was observed in comparison to other forms of engagement, including information, consultation and involvement. However, the limited use of this extent of engagement is justifiable as the delegation of power is desirable only at the strategic planning and governance stages which are not as frequent as the performance reporting process.

10.4.2 Fourth research objective – key issues and challenges in stakeholder engagement

The councils encountered some difficulties in stakeholder engagement in the sustainability accounting and reporting process. The interviews highlighted the key issues and challenges in the stakeholder engagement process.

Gao and Zhang (2001) raised concern about the quality of engagement as it could affect the outcomes of the sustainability accounting and reporting process. Councils A and B were highly concerned with establishing quality engagement programs. This did not appear to a deterrent for Council C in the process. The interviews highlighted that ensuring representativeness, effective use of resources and complying with state government requirements were the key parameters for measuring the quality of engagement. Unerman (2007) raised a concern over the heterogeneous needs of stakeholders. The current study also highlights the existence of heterogeneous concerns among different stakeholder groups.

Emerging themes

The political environment of the councils significantly affected the engagement programs. Council C was unable to proceed with a proposed engagement program due to the mayor's term ending. Similarly, Council B was concerned about the commitment of councillors as they were more driven by their own careers than in addressing the long-term aspirations of the community.

Community engagement was considered a resource intense activity as it demanded a commitment of considerable money, time and staff. The three councils had concerns about limited funds to support comprehensive engagement programs on a regular basis. Moreover, the interviewees revealed a lack of commitment from internal stakeholders in

Councils B and C. The outcomes of stakeholder engagement programs in the three councils were undermined at times by an unwillingness of the stakeholders to engage. Although the three councils undertook pre-engagement activities to create awareness of the engagement, the local communities did not pay adequate attention to this.

10.5 Fifth research objective – key influences on stakeholder engagement

The results for the three councils support institutional theory perspectives on explaining external influences on stakeholder engagement. The findings suggest that coercive, mimetic and normative influences affect the nature and extent of stakeholder engagement but the effect of these influences varied with some being stronger than others.

Coercive influences were imparted through state government legislation which ensured a minimum level of engagement with the community and government bodies in the sustainability accounting and reporting process. Herriman (2011) also indicated the existence of mandatory legislation influencing Australian councils to consult with ratepayers, residents and government. In line with this, this study found that the three councils had pressure to involve stakeholders in the strategic planning process. NSW's Local Government Act 1993 introduced the IP&R framework which required Councils A and B to engage with local community groups in the development of a long-term strategic plan. In response, both councils engaged with their communities to understand better their needs and expectations in regards to the future sustainability of their area. Similarly, the QLGA 2009 and the Queensland Corporate Policy encouraged community engagement programs in Council C and the council engaged extensively with the community to determine the council's and city's sustainability vision.

Mimetic influences existed in relation to the use of the term 'stakeholder' which has been exhaustively used in the corporate area (ACCA 2007; Unerman 2007). Although the three councils were familiar with this terms, these were not really relevant for the their operations and services. The interviews indicated that the councils considered all the groups and individuals within their geographical limits as stakeholders. However, this categorisation has been recognised as community instead of stakeholder in the public sector (Warburton 1998; Herriman 2011).

This study argues that the use of the term ‘stakeholder’ has been adopted by local councils from corporations. All three councils used the term ‘community’ relatively more than the term ‘stakeholder’ in their plan, policies and annual reports. The relevance of ‘community’ was also evident in the strategic documents adopted by the three councils – for example, a community engagement strategy instead of a stakeholder engagement strategy, and plans focusing on community welfare rather than general stakeholder welfare. Moreover, the interviewees used the term ‘community’ more than ‘stakeholder’. Mimetic influence was also noted in terms of the frameworks used by corporations. GRI indicators have been used extensively in the private sector and Councils A and C used these indicators to disclose their stakeholder engagement initiatives.

Normative influences suggest that the three councils went beyond legislative requirements and adopted stakeholder engagement frameworks suggested by national and international professional bodies. The three councils used consultants to undertake statistically valid surveys and to design engagement tools. In terms of engagement frameworks, there was no evidence of the use of AccountAbility. The GRI indicators on stakeholder engagement were adopted by Councils A and C but were limited to tick box exercises. However, the three councils utilised the IAP2 framework to guide the extent of engagement during the sustainability accounting and reporting process. The findings of this study suggest that IAP2 as well as professional networks, such as ICLEI–Oceania, have the potential to encourage a sharing of ideas and knowledge on stakeholder engagement. Another normative influence was observed in the form of awarding agencies. They motivated the three councils to demonstrate meaningful stakeholder engagement in the sustainability accounting and reporting process. The interviewees highlighted the enthusiasm among council staff to win awards for successful engagement programs and to establish a reputation of being a leading council in their state.

Emerging themes

Internal stakeholders played a critical role in the sustainability accounting and reporting process. The commitment of management and employees affected the nature and extent of engagement in each council case.

Lodhia and Jacobs (2013) highlighted the emergence of internal influences on the sustainability reporting process. Herriman (2011) also indicated that the ways in which

councils engage with their communities vary considerably and are largely determined within the organisations. The current study's findings support the existence of internal influences. In the three councils, the commitment of internal stakeholders to sustainability and meaningful engagement was equally as strong as external institutional influences. Council A went beyond the legislative requirements to engage stakeholders and designed diverse engagement tools such as informal meetings with Aboriginal communities and youth debates to suit the nature of the stakeholders to be engaged. Council B used social media and online discussion forums to reach the wider community and to encourage participation. Council C engaged with its community to include members' experiences in its annual reports. These instances highlight the organisational commitment towards developing and implementing effective engagement strategies.

Moreover, Councils A and B nominated themselves as Group 1 local councils in NSW, which required them to adopt the IP&R framework in 2010. In addition, Council B's Director of Corporate and Technical Services encouraged meaningful engagement within the council as well as creating awareness about the importance of community engagement in the IP&R among other councils and professional bodies. These initiatives underline the critical role of leadership and management commitment in establishing meaningful stakeholder engagement.

10.6 Revised research framework

The research framework developed in Chapter Four, based on sustainability accounting and reporting literature, stakeholder theory and new institutional theory, provided an explanation for most of the findings. However, findings which were not specified in the initial framework also partially explained the stakeholder engagement practice. Consequently, utilising the flexibility allowed by case study research (Stake 1995; Gomm et al. 2000; Simons 2009; Yin 2009), findings from the field extended the research framework for this study (Figure 10.3). The framework represents the analytical generalisation of this study.

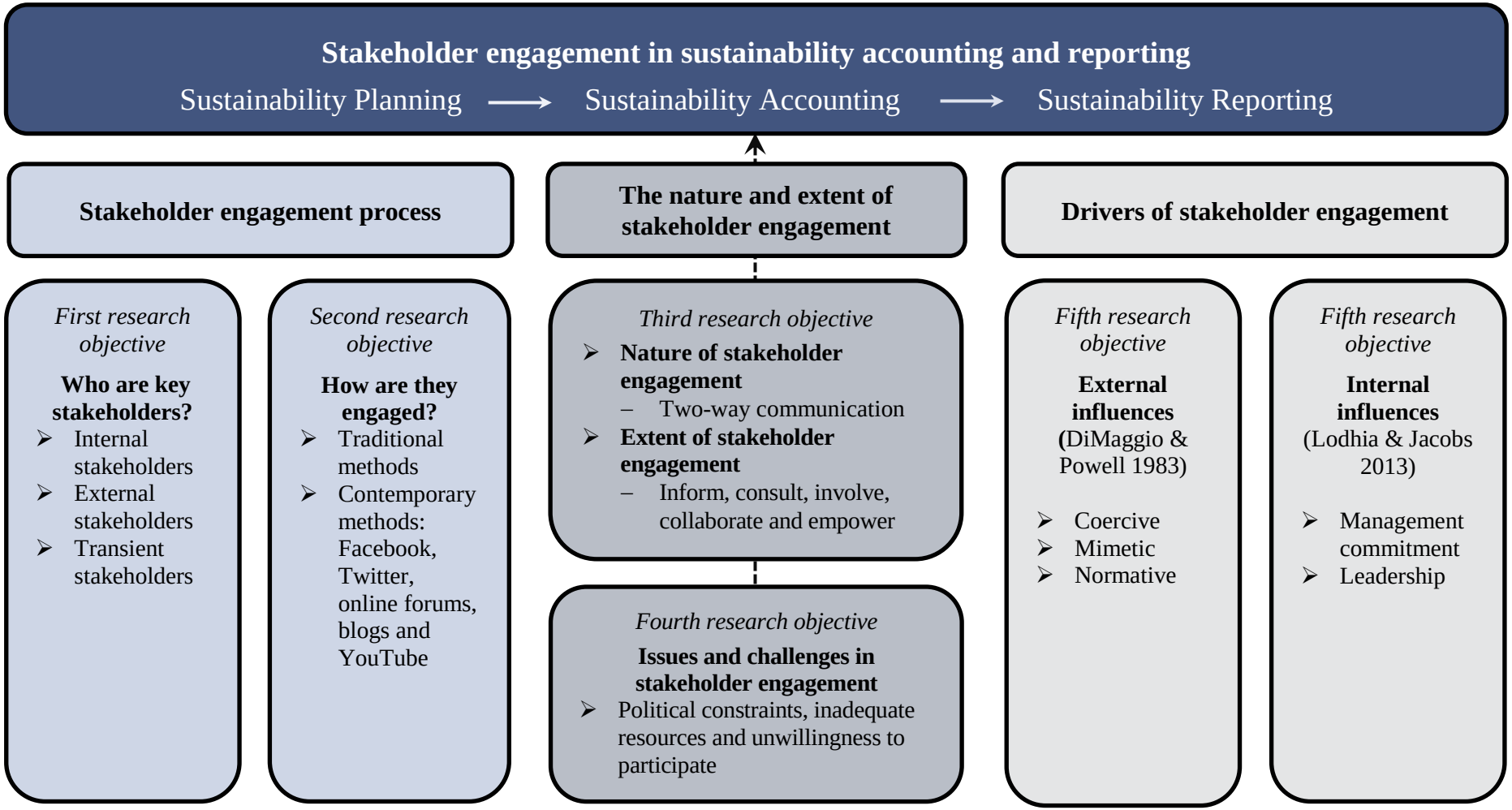

Figure 10.3: Overall revised research framework for the study

The current study suggests that an efficient system of accounting and reporting depends upon meaningful engagement with internal, external and transient stakeholders. In relation to the first research objective, the three councils paid utmost attention to the local community, including ratepayers, residents, visitors and businesses, during the planning stage. The three councils required the assistance of internal and external stakeholders to develop and to measure sustainability indicators. During the reporting stage, awarding agencies emerged as a key stakeholder group that enabled the councils to ensure continual improvement of their annual reports.

The findings in relation to the second research objective suggest that a mix of traditional and contemporary engagement techniques is required to encourage stakeholder participation and to exercise the appropriate extent of engagement needed in specific accounting and reporting stages. However, the choice of a specific engagement method in the three councils depended on the stakeholder group to be involved and the purpose of engagement.

In relation to the third research objective, the three councils considered stakeholder engagement as two-way dialogue process aiming at listening to and incorporating stakeholders' concerns. The findings of this study suggest that the councils are empowering local communities by involving community representatives in the strategic planning process. Moreover, the councils used different levels of engagement to allow for the requisite degree of participation.

The findings of this study indicate that the stakeholder engagement practices of the three councils were undermined by certain issues and challenges, including limited resources, lack of staff commitment, heterogeneous stakeholder expectations and the quality of engagement.

The findings in relation to the fifth research objective suggest that both external and internal institutional factors drive meaningful stakeholder engagement. Coercive influences exert pressure to engage stakeholders and normative influences enhance the effectiveness of the stakeholder engagement programs. However, the commitment of internal stakeholders is critical to encourage meaningful stakeholder engagement in the sustainability accounting and reporting process. Moreover, mimetic influences such as the imitation of stakeholder engagement disclosure practices of corporations drove the councils towards harmonisation of the stakeholder engagement practice.

In addition to these findings, themes emerging from the field were also addressed. The first of these, the transient stakeholder, highlights the influence of stakeholders that affect an organisation for a specified period only. In the case of the three councils, visitors affected the local sustainability during their visiting time and councillors affected the strategic plans subject to their term of office. The involvement of such stakeholders would need regular adjustments in the council's action plans because of movement and short-term commitment.

Another key finding from the field is the use of contemporary engagement media – Facebook, Twitter, blogs, online discussion forums and YouTube – to ensure regular, wider, economic and convenient participation. These media have the potential to involve the broader community and allow free expression of opinions.

This study also identified difficulties and challenges in stakeholder engagement. The councils were sensitive to the political environment because councillors tend to dominate opinion in the wider community. The three councils found it difficult to engage regularly with stakeholders due to limited resources. The major challenge for the three councils was to create a willingness to participate among the stakeholders.

The fourth emerging theme is that the nature and extent of stakeholder engagement is equally affected by internal and external institutional influences. Although the councils had mandatory requirements to involve their community, the commitment of internal stakeholders towards meaningful stakeholder engagement drove the councils to use diverse engagement mechanisms and to engage with consultants and awarding agencies to enhance the quality of their annual reports.

10.7 Summary

This chapter reports the results of a cross-case analysis to develop analytical generalisations. The study suggests stakeholder engagement is a critical component of the sustainability accounting and reporting process. An array of stakeholders play multiple roles in the entire process. In order to engage these stakeholders, the three councils used a combination of engagement techniques. The purpose and nature of stakeholders depicted the choice of engagement techniques.

The findings of this study indicate that the councils exercise different levels of engagement – inform, consult, involve, collaborate and empower – to incorporate

stakeholders' views and opinions in the decisions affecting their well-being. However, the nature and extent of stakeholder engagement was affected adversely by factors such as political implications, heterogeneous expectations, limited resources and an unwillingness to participate. Despite of these deterrents, the three councils were committed to establishing efficient stakeholder engagement procedures. Stakeholder engagement in the three councils was driven by external institutional influences including coercive, mimetic and normative factors. Moreover, emerging themes such as transient stakeholders, social media and internal influences were critical influences on stakeholder engagement and raised the need to revise the research framework.

Chapter Eleven: Conclusion

11.1 Introduction

This section provides an overview of this thesis and outlines the structure for the current chapter. This thesis commenced with the following research question:

> *How do best practice local councils engage with their stakeholders in sustainability accounting and reporting processes, to what extent do these engagements take place and what drives them to engage with stakeholders?*

In order to address the central research question, five research objectives were established in the first chapter. These sought to identify the key stakeholders and the engagement mechanisms used to involve them. The objectives also raised the need to examine the nature and extent, key issues and challenges, and drivers of stakeholder engagement. Chapter One outlined the scope of this research and its justification. The theoretical perspective and methodological issues related to addressing the research objectives were also articulated.

The next three chapters discussed theoretical perspectives related to this research. Chapter Two discussed the sustainability accounting and reporting process and the current sustainability accounting and reporting practices in Australian PSOs. The review of literature highlighted that the sustainability accounting and reporting process has paid limited attention to the role of stakeholder engagement. Chapter Three emphasised the importance of stakeholder engagement in the sustainability accounting and reporting process and reviewed the theoretical perspectives for stakeholder engagement through stakeholder and institutional theory.

Chapter Four developed the research framework for this study based on the integrated accounting and reporting concept suggested by Schaltegger and Wagner (2006), stakeholder theory and new institutional theory. It recognised the role of stakeholder engagement in each stage of the sustainability accounting and reporting process.

Chapter Five justified the case study research approach and developed the research design. The research was undertaken in two phases. The general research phase used documentary evidence to identify and to select appropriate council cases. The council-specific phase aimed to gain an in-depth understanding of stakeholder engagement

practices in three councils through analysing interviews, documents and websites. The data were analysed on an individual and cross-case basis through the constant comparative approach. Research credibility and reliability were maintained throughout the research process. In order to present the results of this study, the cases were compiled in a multiple case report, whereby each case was discussed individually before a cross-case analysis was undertaken.

The next four chapters presented the findings of the two phases of this research. Chapter Six presented the findings of documentary analysis of Australian councils that was undertaken to select three councils as cases for the second phase of this study. Chapters Seven to Nine reported the results of interviews, documents and website monitoring to highlight the stakeholder engagement practices of the councils.

Chapter Ten provided a cross-case analysis of the results of this study. The findings were also compared to the literature on stakeholder engagement in the sustainability accounting and reporting process. The cross-case analysis suggested extensions to the research framework.

Section 11.2 summarises the significance of the major findings of this study. Section 11.3 reports the contributions of this study. Section 11.4 identifies the limitations of the current research. Future research opportunities are discussed in Section 11.5. Section 11.6 concludes the thesis by arguing for the importance of stakeholder engagement in the sustainability accounting and reporting process.

11.2 Significant research findings

This study used the integrated accounting and reporting framework (as established in Section 4.2) to assess the nature, extent and drivers of stakeholder engagement in the sustainability accounting and reporting process. As discussed in Section 2.2, the link between planning, accounting and reporting could enable organisations to measure and to communicate their sustainability performance against stakeholders' aspirations (Schaltegger & Wagner 2006). The findings of this research are based on the evaluation of sustainability accounting and reporting practices of the three best practice local councils and suggest that the integrated accounting and reporting framework has the potential to embed sustainability in the core goals of an organisation and to ensure their achievement through a resourcing strategy. Organisations seeking to advance the notion

of sustainable development should link their accounting and reporting structures to strategic planning and encompass stakeholder input in the planning and reporting stages.

This study developed the stakeholder engagement framework to assess the nature, extent and drivers of stakeholder engagement in the sustainability accounting and reporting process. Section 1.2 emphasised that stakeholder engagement is a critical component of sustainability accounting and reporting (AccountAbility 1999; Gao & Zhang 2001; ACCA 2005; Unerman 2007; GRI 2011; Brown & Hicks 2013). It is argued in this research that an efficient system of accountability requires contributions from stakeholders in order to enhance the credibility and reliability of the sustainability reports. This research study provides evidence of stakeholder engagement in the sustainability accounting and reporting process and highlights the importance of engaging with stakeholders.

11.2.1 First research objective – key stakeholders

Stakeholder theory guided the identification of key stakeholders influencing decisions related to the sustainability accounting and reporting process. Local councils form a distinct and versatile relationship with stakeholders to advance the notion of sustainable development. In this relationship, the councils and the stakeholders learn from each other to establish an integrated planning and reporting structure.

The findings associated with the first research objective suggest that a broad range of stakeholders contribute to the sustainability accounting and reporting process. The key stakeholders include local community, council staff, state government, councillors, consultants and professional bodies. However, their influence and contribution vary in the different stages of the process. For example, the local community was found to be a critical stakeholder group for identifying local sustainability issues, setting sustainability indicators and targets, planning and for the financial outlay to accomplish sustainability targets. However, they had the least impact on the reporting content and structure. Conversely, other stakeholders such as awarding agencies and consultants assisted in the improvement of the reports.

The state government emerged as the most influential stakeholder group in terms of reporting content. The three councils reported on the sustainability indicators mandated by their state governments. In addition, CEOs and departmental managers had a

significant influence on the sustainability accounting and reporting process. Their perceptions about sustainable development in the local area affected the selection of sustainability indicators and their measurement.

The findings also indicate the existence of transient stakeholders such as councillors, mayors and visitors. As councillors and mayors hold office for a fixed term, subsequent leaders can set different priorities resulting in delays or even the cessation of existing plans and programs. Visitors had a significant impact on the environmental and economic sustainability of the local area. They were the most difficult group to engage with due to insufficient information on their residential contact.

These results in relation to the councils as well as the PSOs indicate that stakeholders influence an organisation's activities in a different manner. Therefore, the councils should identify and prioritise stakeholders on the basis of their influence and contribution before engaging them in the sustainability accounting and reporting process.

11.2.2 Second research objective – stakeholder engagement mechanisms

The findings of this research indicate that the choice of engagement methods depends on the nature of the stakeholders to be engaged and the purpose of the engagement. The three councils used a mix of engagement methods to understand the perceptions of their stakeholders on a particular activity. Before undertaking any engagement program, pre-engagement techniques such as brochures, newsletters, informal meetings, the mayor's column and websites played a critical role in educating stakeholders about the importance of their involvement in the engagement program (AccountAbility 2011). These mechanisms, especially informal meetings, can act as a platform to build trust and a relationship which are considered a core of stakeholder engagement (Andriof et al. 2002; Lawrence 2002).

The findings of this study indicate an emergence of contemporary engagement techniques such as social media for engaging stakeholders in the sustainability accounting and reporting process. Online discussion forums served as an effective tool to encourage dialogue between the councils and their stakeholders in to comparison to traditional engagement techniques such as public exhibitions and surveys. These media facilitated wider, economic and convenient participation.

11.2.3 Third research objective – nature and extent of stakeholder engagement

The levels of engagement suggested by Arnstein (1969), Friedman and Miles (2006) and AccountAbility (2011) provided the foundation for this research to determine the extent of stakeholder engagement with councils. The findings of the study highlight that the three councils exercise different levels of engagement to involve stakeholders in the planning and reporting stages. The extent of engagement ranged from merely informing to empowering.

Prior research indicates that organisations tend to inform and consult stakeholders and rarely empower their stakeholders in the sustainability accounting and reporting process (Cummings 2002; Manetti 2010). This study, however, posits that the use of lower levels of engagement – informing and consultation – does not necessarily indicate the existence of an ineffective engagement strategy. Their use facilitates mass engagement on a regular basis which is not possible at the higher levels. The 'empowerment' level delegates power in strategic decision making to a few stakeholders occasionally (Gao & Zhang 2001). However, consensus of the wider community can be gained using consultation techniques such as surveys. Although empowerment of external stakeholders is critical for sustainability planning, it has limited application in the preparation of sustainability reports.

11.2.4 Fourth research objective – key issues and challenges in stakeholder engagement

The findings of this study suggest that the effectiveness of stakeholder engagement can be undermined by certain difficulties and challenges faced by an organisation. The availability of resources – money, staff and time – determine the scope, frequency and choice of engagement methods in the three councils. Therefore, limited resources, time constraints and a lack of commitment from staff would reduce the effectiveness of stakeholder engagement outcomes.

Moreover, the political environment of the councils significantly affects the engagement programs as changes in leadership resulted in changes in priorities. Councillors and mayors had different visions about the future sustainability of their

area and the role of the local community. Therefore, changes in leadership can interrupt engagement programs.

The unwillingness of stakeholders, especially from the local community, to engage emerged as the most challenging issue for the councils. Regardless of the councils' efforts – education and a range of engagement media – the majority of local community members were not interested in the council's plans and programs.

11.2.5 Influences on stakeholder engagement in sustainability accounting and reporting

This study has argued that external institutional factors – coercive, mimetic and normative – affect the nature and extent of stakeholder engagement in the sustainability accounting and reporting process. It is further argued that internal factors equally determine how and to what extent stakeholders are involved by councils.

Coercive pressure to engage with stakeholders was exerted by state governments. The NSW and Queensland state governments introduced the IP&R framework and placed community consultation at the heart of the framework. Councils were required to consult with their local community to identify local issues and to set sustainability targets and indicators. Mimetic influences existed in the form of following the private sectors' stakeholder engagement practices such as GRI indicators and the use of the term 'stakeholder'. Normative influences encouraged the councils to collaborate with professional bodies, awarding agencies and consultants to obtain expert advice on strategic planning and implementation, accounting and reporting structures.

Although the councils faced strong external pressures, internal commitment and the drive to earn recognition and awards motivated them to engage with stakeholders. Therefore, the internal context should be recognised not just in research but also in practice because the research findings suggest that the commitment of certain personnel could drive stakeholder engagement practices.

11.3 Research contributions

This study responds to calls by Ball (2007) to examine the sustainability accounting and reporting process in PSOs and by Unerman (2007) to investigate evidence of stakeholder engagement therein. Agenda 21 (1993) highlighted the role of local

government in building partnerships with local communities to address the notion of sustainable development. The extant literature recognises the sustainability accounting and reporting process as an efficient tool to demonstrate an organisation's progress towards sustainable development goals and considers stakeholder engagement as a critical component of the process. Thus, this research focused on stakeholder engagement in the sustainability accounting and reporting process to establish the role and importance of stakeholders in councils.

The study examined the nature and extent of engagement (who are the key stakeholders and how they are engaged) and drivers of such engagement in the various stages of sustainability accounting and reporting. This research has made theoretical and methodological contributions and has implications for practice and policy.

11.3.1 Theoretical contributions

The study has developed the integrated accounting and reporting framework to highlight that stakeholder engagement plays an important role in the identification of sustainability issues, the development of strategic plans, and the measurement and communication of sustainability performance. Prior research in PSOs has primarily focused on the sustainability accounting and reporting process but has given limited consideration to the involvement of stakeholders (Ball 2007; Farneti & Guthrie 2009; Frost et al. 2012). The focus on stakeholder engagement extends the role of stakeholders from merely being an audience for sustainability reports to an influential contributor in the sustainability accounting and reporting process.

This study used the integrated accounting and reporting framework suggested by Schaltegger and Wagner (2006) to establish the sustainability accounting and reporting process in Australian councils. The findings of this study contributes to sustainability accounting and reporting literature by examining sustainability planning, sustainability accounting and sustainability reporting as an integrated approach rather than as three distinct practices. The findings also contribute to the framework by highlighting the importance of linking resource strategy with strategic planning to allocate sufficient resources to sustainability targets.

As indicated in the early chapters, there is limited literature on stakeholder engagement in the sustainability accounting and reporting process. The emphasis in previous studies

has been primarily on the role, extent and quality of stakeholder engagement in sustainability reporting (Cummings 2002; Gao & Zhang 2001; Owen et al. 2002; Lingenfelder & Thomas 2011; Manetti 2011; Greco et al. 2013). This study has examined the nature, extent and drivers of stakeholder engagement in the entire sustainability accounting and reporting process. It has identified the key stakeholders who affect decisions related to the planning, accounting and reporting as well as the engagement mechanisms employed to involve them in these processes. Considering that stakeholder engagement has the potential to influence the accounting and reporting, this study explored the extent to which councils involve stakeholders. It also examined the key concerns, challenges and drivers of stakeholder engagement in the public sector, which are distinct from the private sector.

This study also contributes to the emerging field of stakeholder engagement in stakeholder theory by examining its usefulness in the sustainability accounting and reporting process in the public sector. The findings of this research provide information about the nature and extent of stakeholder involvement in sustainability accounting and reporting practices. Thus this study adds to the ladder of participation (Arnstein 1969) and the levels of engagement (Freidman & Miles 2006; AccountAbility 2011) by providing evidence of various levels of engagement exercised by the councils to engage stakeholders.

This research explored the potential of new institutional theory to explain drivers of stakeholder engagement in the sustainability accounting and reporting process. The findings of this study highlight that external institutional influences – coercive, mimetic and normative – affect the nature and extent of stakeholder engagement in the sustainability accounting and reporting process. Moreover, the findings suggest an extension of new institutional theory by considering the role of internal factors in addition to external influences on organisational policies and practices.

11.3.2 Methods

The majority of the existing studies analysing stakeholder engagement in the sustainability accounting and reporting process have used content analysis of annual and sustainability reports (Belal 2002; ACCA 2005; Lingenfelder & Thomas 2011; Manetti 2011; Imoniana et al. 2012; Greco et al. 2013) and survey questionnaires (Burchell & Cook 2006). A limited number of studies have applied interviews to gain an in-depth

understanding of stakeholder engagement practices (For example, Cummings 2002; Owen et al. 2002). However, these two studies paid limited attention on the factors affecting meaningful stakeholder engagement. This study goes beyond the existing studies and explores the challenges and drivers of stakeholder engagement using the interview method. Moreover, unlike previous studies that mainly used single research method, this study uses multiple research methods – interviews, documents and website monitoring – to provide an in-depth understanding of stakeholder engagement in the sustainability accounting and reporting process in councils.

Adams and Frost (2004) and Lodhia (2006, 2010, 2012b) emphasised on website monitoring to examine environmental communication with stakeholders. This study also undertook monitoring of online disclosures, discussion forums, blogs, Facebook, YouTube and Twitter to examine and to understand the nature of on-going interaction between councils and stakeholders. These media emerged as an informal and convenient data collection method that enabled the researcher access to unbiased and freely expressed opinions and concerns.

This study has highlighted that stakeholder engagement in the sustainability accounting and reporting process involves a multi-disciplinary approach. Therefore, to gain a thorough understanding of this, it is critical to determine the personnel involved. In the current study, the initial interviews were held with environment/sustainability staff. However, a snowballing technique (Minichiello et al. 2008) assisted the researcher identify relevant personnel in other departments of councils. Thus, interviews in future research on stakeholder engagement in the sustainability accounting and reporting process should be held not only with environment/sustainability staff but also with personnel involved in governance, community engagement and strategic planning.

11.3.3 Practice

This study examined the integrated accounting and reporting process in two Group 1 local councils in NSW and Queensland with a particular focus on the importance of stakeholder engagement therein. Although the findings are limited to the best practice councils whose practices were studied, the study offers useful insights for stakeholder engagement practices through its analytical generalisations. This research is beneficial to other councils who are or who will be in the process of implementing the IP&R framework as it provided an in-depth understanding of the practice of stakeholder

engagement in the sustainability accounting and reporting process. The findings of this research would assist practitioners from the private sector seeking to engage stakeholders in the process as it enables an understanding of the factors that influence the nature and extent of stakeholder engagement.

The findings of this research assist practitioners by providing an in-depth understanding of the existing practice of stakeholder engagement in Australian councils. This research is beneficial to PSOs as well as corporations which intend to engage their stakeholders in the sustainability accounting and reporting process it enables an understanding of various stakeholders influence on the process and the efficiency of engagement mechanisms to involve them.

Moreover, an understanding of the present practice of stakeholder engagement in the Australian councils is beneficial to stakeholders. They can gain insights into the different decisions and activities requiring their contribution and can understand the various mechanisms available to interact with their council. Certain stakeholders such as NGOs and state and federal PSOs could also apply the understanding gained from this study for establishing efficient stakeholder engagement mechanisms.

11.3.4 Policy

As the pressure is now increasing on PSOs to disclose their social and environmental impacts and to involve stakeholders in the reporting process to bring transparency, and given the challenges and complexity involved in the stakeholder engagement process, the findings of the research will be of use for policymakers and practitioners. The study provides information about the key stakeholders in councils in relation to social and environmental issues, issues and concerns of councils regarding stakeholder engagement, and effective stakeholder engagement mechanisms to identify and report social and environmental issues. This research highlighted the emergence of social media in facilitating convenient and free expression. Therefore, the availability of website-based technologies in rural councils is another issue that needs to be addressed.

The findings of this study also suggest that stakeholder engagement strategies and processes in councils are more driven by state regulations than international accountability frameworks. Hence, there is a need for mandatory regulations nationwide

to encourage councils to involve stakeholders in sustainability issues in order to attain the goal of sustainable development.

The policy implications for this research in relation to stakeholder engagement can apply to the private sector. The study highlights that an efficient stakeholder engagement program should include pre-engagement activities such as announcements using radio, newspapers, bulletins and social media. These activities would enable stakeholders to understand their role in the engagement program. Thus, in addition to benefiting practitioners, this research is useful to policymakers and other stakeholders.

11.4 Limitations of the research

In order to address the research objectives, evidence was collected through interviews, documents and website monitoring. These methods, especially online discussion forums, provided an opportunity to gain insights to the dialogue process of councils. However, the actual decision-making processes that determine engagement with external stakeholders were not observed. The observation of meetings could highlight the level of power delegated to external stakeholders that can affect council decisions.

The focus of this research was on an organisational perspective and did not seek views directly from stakeholders because this was recognised as being beyond the scope of this thesis. Some insights into stakeholders' perceptions were gained through comments posted by stakeholders on discussion forums and social media. Interviews with stakeholders could have provided further insights into the key difficulties, challenges and drivers of stakeholder engagement.

The councils studied in this research were located in NSW and Queensland. The inclusion of councils from other states and territories could have provided additional insights to stakeholder engagement practices under different regulatory systems. However, the three councils studied in this research were best practice local councils. The selection of the councils was made on the basis of documentary analysis which identified 23 contextually rich councils and these were primarily located in NSW and Queensland. Moreover, the interview with the ICLEI–Oceania's ISS manager substantiated the documentary findings and assisted the researcher to select best practice councils in regards to the sustainability accounting and reporting process, and

stakeholder engagement therein. Thus the study of such councils was critical to address the central research question.

11.5 Future research directions

The research framework developed in this thesis can be applied to studies of different contexts. The application of the research framework to other levels of governance as well as the private sector can provide useful insights to sector-specific stakeholders and issues related to stakeholder engagement. As this research focused on three councils, further large sample size studies can also be undertaken in order to extend the explanatory power of the research framework. These studies could include the use of surveys to complement the interviews and website monitoring.

A stakeholder engagement index was developed in Section 5.5.1.1 to assess the extent of disclosures on stakeholder engagement by Australian councils. There is scope for expansion of the stakeholder engagement index with changes in council reporting and engagement in the future. The index can be adopted and extended in other contexts such as for other PSOs or even corporations.

The focus of this study has been on councils that share a close relationship with their local community. Future studies can examine the nature, extent and drivers of stakeholder engagement in other organisational contexts that do not have a direct relationship with local communities such as state and federal governments.

Lawrence (2002) emphasised examining perceptions of both the organisation and the stakeholders to determine the drivers of stakeholder engagement. Future studies can focus on gaining a perception of external stakeholders, including councillors, local community and professional bodies, about the effectiveness of an organisation's stakeholder engagement practice through interviews and website monitoring.

The previous literature has mainly focused on the GRI and AccountAbility as benchmarks for sustainability reporting and stakeholder engagement. This study highlighted the influence of the IAP2 on stakeholder engagement practices in councils. Future studies can examine the extent of use of IAP2 in PSOs and its utility for the private sector.

The data collection method used this study did not include observations of stakeholder meetings. Studies could use observation to determine the level of voice provided to stakeholders to affect decisions. Observations can uncover the existence of decoupling (DiMaggio & Powell 1983) in stakeholder engagement practice which sometimes remains unnoticed in interviews and documentary evidence. Moreover, future studies can seek the views and opinions of external stakeholders to gain their perceptions on the key issues, challenges and drivers of stakeholders.

Social media emerged as new technique of stakeholder engagement that can be convenient, economic and an open dialogue between an organisation and its stakeholders. Studies could investigate the emphasis given to the use of social media as a medium for stakeholder engagement and to explore the factors that influence the decision-making processes guiding the selection of social media as an interactive medium.

11.6 Summary

This study has highlighted that stakeholder engagement plays a critical role in the sustainability accounting and reporting process. The analytical generalisations that arose from a study of specific councils in Australia indicate that a range of stakeholders influence decisions concerning the development of strategic plans, sustainability indicators, and the measurement and communication of sustainability performance.

Stakeholders can be involved in the process using traditional and contemporary technological media to encourage mass participation. However, the extent of engagement would vary depending on the purpose of engagement. The highest form of engagement, empowerment, could be exercised to determine the strategic targets and indicators. This level of engagement would enable organisations to embed material stakeholder concerns in their core goals and thus establish a stakeholder-centric accountability system.

The nature and extent of stakeholder engagement is determined by internal and external institutional factors. Coercive influences such as regulations exerted pressure on councils to engage with stakeholders and normative influences such as professional bodies guided them in optimising engagement outcomes. Moreover, mimetic influences such as corporations' and PSOs' practices can affect the stakeholder engagement practices of councils, especially if they intend to establish leading council status.

Although external influences were critical, management commitment to meaningful engagement (internal influences) motivated the councils to use contemporary engagement media and to empower stakeholders in the development of strategic plans. These instances indicate that the stakeholder engagement approach is evolving towards the next level, empowerment, and prompting a shift from ‘engage me’ to ‘empower me’.

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Appendix

Information sheet

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Research Topic: Stakeholder engagement in sustainability accounting and reporting in Australian local councils

Research project description

Aims: This project aims to explore the role of stakeholder engagement in the development of sustainability reports in Australian local councils. It seeks to understand the mechanisms adopted by local councils to engage with their stakeholders to prepare a sustainability report; and the factors that drive stakeholder engagement in sustainability reporting in the local councils.

Methods: A mixed method approach involving documentary analysis, interviews and observation will be utilised. Initially, annual/SoE/sustainability reports of 523 local councils from six states across the Australia were analysed. This analysis aimed at identification of local councils that are engaging with their stakeholders for the preparation of sustainability reports in relation to sustainability reporting. After the identification of such local councils, an unstructured interview will be undertaken with the ICLEI's ISS manager. This interview would assist in selection of appropriate Australian local councils for case studies.

Once cases are selected, an initial contact will be established at each organisation and interviews will be held. The interviews are likely to be the sustainability managers and the key personnel involved in stakeholder engagement and sustainability reporting. The case study will also involve website monitoring related to sustainability issues and stakeholder engagement and, collection of non-confidential data from the participating organisations.

Outcomes: As the pressure is now increasing on the public sector agencies to disclose their social and environmental impacts and involve stakeholders in the reporting process to bring transparency, and given the challenges and complexity involved in the stakeholder engagement process, the findings of the proposed research will be of use for policy makers and practitioners. The study will provide information about: key stakeholders in local councils in relation to social and environmental issues, issues and concerns of local councils regarding stakeholder engagement, and effective stakeholder engagement mechanisms to identify and report social and environmental issues. Therefore, this study along with theoretical contributions will also have practical implications.

Participation and withdrawal: Participation in this research will be in form of in-depth interviews. These interviews are intended to be carried out with personnel involved in stakeholder engagement process for preparing a sustainability report. Interviews will be tape recorded with the permission of the interviewees and they will be reminded of this before data is collected. Each interview is expected to last between 45 minutes to an hour and would be conducted at the organisation or at any other venue convenient for the interviewees.

In addition to the interviews, the researcher intends to observe actual conduct of stakeholder meeting, specifically related to preparation of sustainability reports. Non-confidential documents will also be sought.

Consent for interviews would mean that the organisation could be used as case study for this research. A transcription of the interview will be provided to the interviewees for their confirmation.

Participation is voluntary for this research. Participants have the option to withdraw from interviews. In such cases, the data collected from the interviewee will be securely destroyed and would not be used in the project.

Confidentiality issues: All the data collected from the organisation (mainly from interview transcripts) would be kept confidential. The identity of the organisation and the interviewees will also be kept confidential.

Interviews will be analysed on the basis of common themes or categories that would emerge out of data collected. The organisations will be referred to as Organisation X, Y, Z.... and the interviewees as Interviewee A, B, C.... rather than using their individual identities.

Data protection: The researcher will be the only individual who will have access to the research data that comprises of interview and observation transcripts and documents. The data collected in the form of paper copies will be stored in a locked filing cabinet in the researcher's office and electronic copies will be password protected. The data gathered will be kept for publication in journals and books and will be destroyed after that in accordance with University of South Australia's data management research protocol.

Feedback: Please let me know if you would like a summary of the findings associated with this research to be sent to you. Meetings can also be arranged to discuss these findings.

Statement: This project has been approved by the University of South Australia's Human Research Ethics Committee. If you have any ethical concerns about the project or questions about your rights as a participant please contact the Executive Officer of this Committee, Tel: +61 8 8302 3118; Email: Vicki.allen@unisa.edu.au

Thank you.