

## **Value Distribution to Stakeholders: A Study on Power and Strategic Importance in Toronto Stock Exchange IPOs**

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Agradecimento à órgão de fomento:

This work was supported in part by grants from CAPES - Brazilian Federal Agency for Support and Evaluation of Superior Education within the Ministry of Education of Brazil, and CNPq - Brazilian National Council for Scientific and Technological Development within the Ministry of Science and Technology of Brazil.

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## **1. INTRODUCTION**

Throughout the development of the stakeholder theory, Freeman (1984) assesses the existence of a relationship between companies and the different groups of stakeholders that can affect or be affected by the company's actions. As a key attribute, stakeholder management requires simultaneous attention to the legitimate interests of all stakeholders (Donaldson & Preston, 1995). For this, it is important to understand what the interests of the stakeholders are and how these interests affect the viability of the business (Maignan & Ferrel, 2004).

Usually, stakeholders make different claims about the organization's resources (Freeman, 1984; Hosseini & Brenner, 1992). Whether capital, profits, effort, or time, stakeholders may disagree about how or where each of these resources should be used (Reynolds, Schultz & Hekman, 2006). As a result of this conflict, balancing stakeholder interests is of fundamental importance for management (Hosseini & Brenner, 1992).

The balance of stakeholder interests is a process of evaluating and addressing the claims of those who are important stakeholders for the organization (Reynolds et al., 2006). The stakeholder salience model (Mitchell, Agle, & Wood, 1997) contributed to the identification and classification of stakeholders, considering power, urgency, and legitimacy as the main attributes to be combined in the model. The authors used the concept of power developed by Etzioni, Marcus, Merton, Reiss, Wilson & White (1964) who classified power into three types: coercive, utilitarian, and normative.

Much of the literature on stakeholder theory has as its central premise that the good treatment and management of stakeholder interests contributes to the value creation over time, which reflects in good business performance (Harrison & Wicks, 2013). To discover the interest of stakeholders, it is necessary to understand their value drivers (Harrison, Bosse & Phillips, 2010; Tantalo & Priem, 2016). For this approach, Tantalo and Priem (2016) list potential value drivers of stakeholders.

The business strategy is particularly concerned with business performance, analyzing the different factors that may be related to good performance. Many studies have analyzed relationships between corporate governance and financial performance, however, there are still few studies dealing with the relationship between governance and the distribution of value to stakeholders.

That said, one of the most important events of a company is the decision to go public (Oliveira, 2011), which occurs when a company goes to the capital market to raise funds (Ritter, 1998). Among the ways for a company to go public is the initial public offering (IPO). In this research, we understand that the phenomenon of value distribution to stakeholders can be better explained considering the context of the most relevant stock exchanges in the contemporary world. TSX is the ninth largest stock exchange in the world by market capitalization (WFE, 2020) and is the data source of this study.

The purpose of this study is to empirically investigate the association between the power and strategic importance of stakeholders and the distribution of value to them by the company. Thus, it seeks to provide theoretical clarification based on empirical evidence about the distribution of value to stakeholders, in view of the power and strategic importance in companies that went public on TSX between 2008 and 2019.

## **2. THEORETICAL FRAMEWORK**

### **2.1 Stakeholder Theory**

The stakeholder concept emerges, not exactly as a theory, in the 1980s to address the need for organizations concerned with social issues to manage relationships with individuals and groups. In the 1990s, however, the initial concept of stakeholder moves towards a more complete theory and becomes an important theoretical reference for research and understanding of the practical environment of organizations (Whetten, Rands & Godfrey, 2002).

The stakeholder theory has as its starting point Freeman's book, published in 1984, in which the best-known model of stakeholder strategy was presented. In this context, for Coombs and Gilley (2005), the most used definition in the literature of the term stakeholder is the one proposed by Freeman (1984), according to which stakeholder is any individual or group that can affect the achievement of organizational goals or that is affected through the process of pursuing these goals.

Freeman, Harrison and Wicks (2007) classify stakeholders as primary and secondary. According to the authors, primary stakeholders, which are buyers, suppliers, shareholders, employees, and the community, deserve greater management attention for their interests. And secondary stakeholders, are those who can influence the company's relationship with primary stakeholders: government, media, competitors, consumer protection agencies, and other interest groups.

Freeman (1984) states that in formulating the strategic direction of companies it is important to align social and ethical issues with the traditional vision of the company, and changes in strategic direction must consider the impact on stakeholders, especially on primary stakeholders. Subsequently, Evan and Freeman (1993) propose, as an objective function of companies, that the real purpose of the company is to serve as a vehicle to coordinate the stakeholders' interests. The proposed objective function contributes to incorporating the theory of stakeholders in the business strategy and, on the other hand, contradicts the primacy of shareholders defended by the theory of the firm, which culminated in criticisms and misinterpretations of the theory of stakeholders, named by Phillips (2003) as the limits of theory.

According to Freeman (1994), the theory of stakeholders is articulated according to two main issues. The first issue concerns the purpose of the company, which helps managers define the value they create with their main stakeholders. This pushes the company forward and allows it to generate exceptional performance, both in terms of its purpose and in terms of financial measures. The second issue comprises the responsibility that managers have towards their stakeholders. This reflects how managers want to do business, more specifically, what types of relationships they want and need to create with their stakeholders to fulfill their purpose (Freeman, Wicks & Parmar, 2004).

In this sense, managers are not only responsible for maximizing shareholder value, as proposed by the firm's theory, but also for the well-being of other parties affected by corporate decisions, which can help or hinder the achievement of the company's objectives (Cragg & Greenbaum, 2002; Phillips, Freeman & Wicks, 2003).

A general definition of stakeholder management is proposed by Friedman and Miles (2006) as essentially managing the relationship with stakeholders. According to Freeman (1984), stakeholder management can be summarized as the organization's skills to (1) identify who the stakeholders are, their interests, objectives, and ability to influence the organization; (2) understand the processes that can be used by the organization to relate to this audience; and (3) assume the decisions that best allow the alignment of stakeholders' interests with the organization's processes.

### 2.1.1 Stakeholder salience and power

An important contribution to the identification and classification of stakeholders was the model of stakeholder salience (Mitchell et al., 1997). Salience is defined as the degree to which managers prioritize competing demands from Stakeholders (Mitchell et al., 1997).

Arguing that the stakeholder theory should consider power, urgency, and legitimacy, as the main attributes to identify and classify stakeholders, Mitchell et al. (1997) propose the salience model. The model allows classifying the stakeholders into seven categories. As previously mentioned, considering the combination of its attributes, the greater the number of attributes that the stakeholder has, the greater its salience.

In this work, the focus on the salience model is the Power attribute. The definition of Power used by the authors in the salience model refers to the relationship between social actors, where a social actor "A" influences another social actor "B" so that B does something that he would not do without the influence of A (Peffer, 1981). Power can be categorized by the type of resource used to be exercised, being: Coercive Power, based on strength or threats; Utility Power, based on material incentives; and Normative Power, based on symbolic influences (Etzioni *et al.*, 1964).

In an empirical study using the model, Parent and Deephouse (2007) found as a result that power was the most influential attribute in determining managers' perceived salience, followed by urgency and legitimacy. Finally, they found that of the three types of power, utilitarian power had the greatest effect on the salience.

And Neville, Bell and Whitwell (2011) revisited the salience model and pointed out that some researchers have further developed the theoretical basis of the power attribute (Driscoll & Starik, 2004; Neville & Menguc, 2006), suggesting that the power of stakeholders can also be explained by the social network. Known as the network theory of stakeholders, proposed by Rowley (1997), this approach considers that the position of a stakeholder in the network, more or less central, can give it more or less power.

### 2.1.2 Strategic Importance

As previously argued, business strategy is concerned, in particular, with business performance, analyzing the different factors that may be related to good performance. Thus, research indicates that good governance practices are positively related to better corporate performance.

Strategic importance refers to the stakeholder's ability to contribute to the company's competitiveness (Harrison & Bosse, 2013). Friedman (2006) suggests that strategic interactions with stakeholders can be investigated to determine their strategic importance. Such investigations can reveal how much stakeholder plays a role in creating value for the organization (Freeman, 2010). Thus, managers start to consider the interests of stakeholders who can make valuable contributions to the company (Harrison et al., 2010).

Stakeholders, according to their power and strategic importance, can create value for the company with which they are associated (Freeman, Harrison, Parmar & De Colle., 2010). The greater its strategic importance, the greater its ability to create value for the organization and, consequently, the greater the company's performance and competitive advantage (Freeman et al., 2010).

### 2.1.3 Value for Stakeholders

The stakeholder theory has as its central premise that the good treatment and management of stakeholder interests contributes to the creation of value over time, which reflects in a good business performance (Harrison & Wicks, 2013). The existing literature corroborates this premise, since it has generally shown a positive relationship between

management oriented towards stakeholders and the company's performance (Freeman et al., 2010; Orlitzky, Schimidit & Rynes, 2003).

To discover the interest of stakeholders, it is necessary to approach their value drivers (Harrison et al., 2010; Tantalo & Priem, 2016). For this approach, Tantalo and Priem (2016) list potential value drivers of stakeholders as described in Table 1.

**TABLE 1 - Stakeholders groups' value drivers**

Stakeholders	Tangible value driver	Intangible value driver
<b>Shareholders</b>	Expected return (Fama and French, 1988). Investment time horizon (Fama and French, 1988). Corporate social responsibility (Aguilera et al., 2007).	Business risk (Amit and Wernerfelt, 1990).
<b>Customers</b>	Product's price (Ackerman and Tellis, 2001). Accessibility—time required to purchase the product (Priem, 2007). Environmental corporate responsibility and “ecofriendly” products (see Bansal and Roth, 2000; Shrivastava, 1995).	Perceived value (Fornell et al., 1996). Time required to master using the new product (Priem, 2007). Perceived quality (Fornell et al., 1996).
<b>Employees</b>	Salary (Abu-Bader, 2000) and benefits (Sutton, 1985). Corporate social responsibility (Aguilera et al., 2007). Work–life balance policies (Haley-Lock, 2008).	Perceived fairness of the working environment (Aguilera et al., 2007; Colquitt, 2001). Job characteristics and skill variety (Glisson and Durick, 1988).
<b>Suppliers</b>	Ordering procedure (Essig and Amann, 2009) and size Long-term relationships (Kalwani and Narayandas, 1995). Price received (Kalwani and Narayandas, 1995). Client payment habits and payment terms (Wong, 2000).	Image (Essig and Amann, 2009) and reputation of the customer. Possibility for cross selling (Essig and Amann, 2009) and potential for follow-up business.
<b>Community</b>	Number and types of jobs created (Porter and Kramer, 2011). Taxes to be paid (Buettner, 2001). Support infrastructure required (Porter and Kramer, 2011). Local clusters (Porter and Kramer, 2011)	Externalities linked to the business (e.g., noise or air pollution) (Bansal and Roth, 2000; Porter and Kramer, 2011).

**Source:** Tantalo & Priem (2016)

When a stakeholder has high power, that is, a high capacity to harm the company, and high strategic importance, great value is distributed to it, because the value to be created by this type of stakeholder is able to mitigate a higher cost of value allocation (Harrison & Bosse, 2013). However, Harrison and Bosse (2013) affirm that the costs associated with the distribution of value to stakeholders cannot be so high as to not be offset by the benefits generated. To understand the optimal point of value distribution for a stakeholder, Harrison and Bosse (2013) determined two factors: power and strategic importance.

Thus, this study has the research problem: What is the relationship between power and strategic importance in the distribution of value to stakeholders by the company?

Based on the research problem presented, the hypotheses revealed below serve as guidelines in the empirical path of this study.

**Hypothesis 1:** Power and Strategic Importance are relevant factors in the decision to distribute value to Stakeholders.

**Hypothesis 2:** Strategic Importance has greater influence than Power in the decision to distribute value made by the company to its main stakeholder groups.

### 3. METHODOLOGICAL PROCEDURES

This research aims to investigate the distribution of value to different stakeholders in publicly traded companies in Canada. The country has an interesting environment for the development of this study, since it is among the ten largest economies in the world (World Bank, 2020), occupying the twenty-second place in the ranking of best countries to do business, with emphasis on facilitating the execution of contracts (World Bank, 2019).

### 3.1 Sample

One of the most important events of a company is the decision to go public (Oliveira, 2011), which occurs when a company goes to the capital market in order to raise funds (Ritter, 1998). Among the ways for a company to go public is the IPO, which corresponds to the first time that a share is sold to the public with the expectation that a net secondary market will be created after its issue (Ritter, 1998).

To go public in Canada, a particular company must follow certain criteria defined by the TSX regulator, the OSC. One of these criteria is the publication of the initial public offering prospectus. The prospectus is a mandatory document, in which the company reveals important information for investors to make decisions.

The OSC uses the National Instrument 41-101 General Prospectus Requirements and Related Amendments (NI 41-101) version 2008 as a basis to instruct companies on the content of the prospectus. It should contain details on the distribution of shares, the company's financial information, and all legal issues related to the offer. In addition, the company presents its future strategy, that is, how the funds acquired with the IPO will be used.

The Ontario Securities Act (OSA) establishes specific requirements of form and content for prospectuses under its jurisdiction, imposing that a prospectus must provide complete, true, and simple information on all facts related to the capital offering, as well as accompanied by financial and administrative reports. Considering the legal requirements for information and the company's intention to attract investors make the prospectus a reliable and information-rich document about the company's strategy. The OSC's credibility in protecting the interests of investors and the community are relevant factors to ensure the reliability of the data to be analyzed in the prospectuses studied in this research.

The sample under study is composed of prospectuses of public companies that went public through the Initial Public Offering (IPO) at TSX. Founded in 1852 in the province of Ontario, Canada, TSX is currently the ninth-largest stock exchange in the world (WFE, 2020), with a market capitalization of C\$ 3.256 trillion (USD 2.409 trillion) and over two thousand listed companies (TSX, 2019).

In order to reach the necessary information for the sample space, a table of companies listed on the TSX from March 1993 to December 2019 was extracted from the TSX website in December 2019. The list refers to the procedure in which the company's shares are officially traded on the stock exchange. This Table has 1572 company records and covers other types of listings (IPOs and non-IPOs) in the period, containing the following information: company name, date of listing, sector, and sub-sector in which the company operates, type of listing, price of shares offered, number of shares offered, location of the company.

In order to collect the data included in the sample, the listings were filtered through the IPO between 2008 and 2019. Private investment funds (CEFs), index funds (ETFs), and companies for specific acquisition purposes (SPAC) were removed from the sample, as they represent the activities and products of companies operating in the financial services sector, which may cause sample bias. In this context, the total number of companies complying with the requirements established for the study was 104 companies within 11 sectors of the Canadian economy, as shown in tables 2 and 3 below.

**TABLE 2 - Breakdown by sector**

<b>Main Sector</b>	<b>Companies by Sector</b>	
	<b>Subsector</b>	<b>N</b>
<b>Clean Technology</b>	Low impact material and products	4
	Renewable energy production and distribution	2
	Waste reduction and water management	1
	<b>Total</b>	<b>7</b>

<b>Consumer Products and Services</b>	Consumer goods	13
	<b>Total</b>	<b>13</b>
<b>Industrial Products and Services</b>	Energy services	5
	Mining services	2
	Others	3
	<b>Total</b>	<b>10</b>
<b>Life Sciences</b>	Medicinal Cannabis	2
	Health services and supplies	1
	Biotechnology	1
	<b>Total</b>	<b>4</b>
<b>Real Estate</b>	Industrial/Office/ Retail/Residential	13
	Specialized	2
	Diversified	1
	<b>Total</b>	<b>16</b>
<b>Technology</b>	Internet software and services	4
	Software	4
	Hardware and Equipment	1
	<b>Total</b>	<b>9</b>
<b>Mining</b>	Agriculture/Potassium	2
	Gold and other metals	15
	<b>Total</b>	<b>17</b>
<b>Petroleum gas</b>		<b>10</b>
<b>Communication and media</b>		<b>1</b>
<b>Financial services</b>		<b>13</b>
<b>Utilities and pipelines</b>		<b>4</b>
	<b>TOTAL</b>	<b>104</b>

Source: the authors (2021)

**TABLE 3 - Breakdown by year**

<b>Companies per year</b>			
<b>Year</b>	<b>Companies</b>	<b>Year</b>	<b>Companies</b>
2008	4	2014	6
2009	3	2015	11
2010	17	2016	2
2011	8	2017	16
2012	10	2018	10
2013	15	2019	2
<b>Total</b>		104	

Source: the authors (2021)

The 104 prospectuses used as a data source were taken from the System for Electronic Document Analysis and Retrieval (SEDAR), a system used as a basis for the publication of documents from the stock exchanges that are within the OSC jurisdiction.

### 3.2 Data Collection

For the analysis of the data collected in the 104 prospectuses, the content analysis technique was used. According to Bardin (1977), the content analysis can be quantitative, which is based on approaches of frequency of the registration units with the application of statistical techniques, or qualitative, where the attention is on the implications resulting from the presence or absence of the registration units at specific locations in the message (Bardin, 1977). In this research, a quantitative content analysis was performed using the NVivo 12 software. The dependent and independent variables used in this study were collected from the IPO prospectuses.

### 3.2.1 Prospectuses Analysis

Business reports are usually quite extensive and present the most varied information, therefore, it is important to define the sections that are most adherent to the scope of the research carried out. The prospectus is a document that can reach more than 500 pages and have several sections, some focused only on legal issues, others only referring to banks participating in the offer, etc. Sections with legal information, income statement, details of the offer, among others, are not interesting for a prioritization analysis, as they do not provide information about stakeholders. In addition, if considered in content analysis, these sections may cause a bias in the analysis due to their legal and shareholder/investor content.

Although the prospectus format is not strictly standardized, TSX requires a list of information that must be present and highlighted in these documents. For the purposes of this research, only the sections of the prospectus that contained information about the company's strategy were considered, which we consider relevant to identify the prioritization.

The sections considered reveal information about the company's activity, its market, indications about future strategy, and risks related to the company and the market, which are: (1) Summary of the Offer - a summary of the company and its strategy located at the beginning the prospectus; (2) Management's discussion and analysis of financial and operating results; (3) Risk Factors - risks raised by the company in relation to its business and the offering of shares; (4) Industry analysis - data on the company's operating market; (5) and Business - more detailed data on the company's operation.

### 3.2.2 Definition of Keywords

The keywords used in the content analysis were the words related to the "business environment". Table 4, after analyzing the sections of the prospectuses, shows the synonyms defined for Stakeholders in the various sectors of the Canadian economy.

**TABLE 4 - Synonyms for the main Stakeholders**

Stakeholder	Synonyms
Customer	Customer, customers, client, clients, consumer, consumers, buyer, buyers, user, users, shopper, shoppers, tenant, tenants.
Community	Community, communities, society, societies, population, "members of the public", citizen, citizens, government, governments, "local authority", "local authorities", nation, "local contractors", "regulatory authorities".
Employee	Employee, employees, attendant, attendants, laborer, laborers, "staff member", "staff members", worker, workers, personnel, "team member", "team members", crew, "work force", staff, staffs, team.
Supplier	Supplier, suppliers, provider, providers, manufacturer, manufacturers.
Shareholder	Shareholder, shareholders, investor, investors, shareowner, shareowners, bondholder, bondholders, stockholder, stockholders, unitholder, unitholders, "holders of unit", "holders of units", "holder of unit", "holder of units".

Source: the authors (2021)

Following the model proposed by Boaventura et al. (2020), Table 5 was adapted for this investigation. That includes the utility functions for each stakeholder and presents a list of words with synonyms that express such values, both tangible and intangible, for stakeholders.

**TABLE 5 - Stakeholder utility function and word to measure value**

Stakeholder	Components of the utility function found in the literature	Synonyms that mean value to the Stakeholder
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Customer	Products with quality and functionality, product price, perceived quality, service, safety, cost-effectiveness, accessibility - time needed to buy the product and time needed to master the use of the new product (Harrison & Wicks, 2013; Tantalo & Priem, 2016; Clarke, 1998). Repetition of business, respect, environmental responsibility, and sustainable products (Harrison & Wicks, 2013; Tantalo & Priem, 2016:322; Clarke, 1998).	product, quality, applicability, functionality, purpose, usefulness, use, utility, award, compensation, cost, demand, gratification, worth, payment, price, remuneration, reward, retribution, value, service, duration, accessibility, period, term, time, interaction, reiterates, recidivism, repetition, accepted, attention, consideration, courtesy, customer, deference, fulfillment, kindness, respect.
Community	Perceived impact on the community (Harrison & Wicks, 2013; Tantalo & Priem, 2016). Numbers and types of jobs created, taxes, necessary support infrastructure, local clusters (Tantalo & Priem, 2016).	planning, plan, project, wellness, convenience, comfort, contentment, dispose, happiness, satisfaction, security, tranquility, capital, money, resource, rest, protection, interest, profit, benefit, utility, value, advantage, comfort, ease, composure, decency, decorum, dignity, distinction, respect, infrastructure, service, communitarian, common, social, employment, work, creation, and environment.
Employee	Salary, Benefits, Remuneration, Safety at Work, Conditions and Training, healthiness (Tantalo & Priem, 2016; Brown & Forster, 2013; Cragg e Greenbaum, 2002; Clarke, 1998). Perceived justice in the work environment, work characteristics, variety of skills, pleasant work environment (Tantalo & Priem, 2016; Brown & Forster, 2013; Cragg & Greenbaum, 2002; Clarke, 1998).	allowance, benefit, billing, bonus, commission, compensation, contributes, costing, credit, dividend, earning, fee, financing, gain, gift, gratification, honorary, income, insurance, interest, orderly, pay, paid holidays, pension, percentage, prize, portion, profit, provision, quota, receiving, remuneration, revenue, retribution, return, reward, salary, share, satisfaction, subsidy, vacation, wage, arranges, care, cleanliness, comfort, health, hygiene, installation, neatness, perfection, sanitation, sanity, safety, welfare affiliation, association, communication, disclosure, engagement, fidelity, honesty, information, integrity, link, loyalty, membership, merger, note, notification, participation, proposal, recommendation, recognition, reference, sincerity, statement, trust, union, warning, advantage, ascension, apprentice, awareness, career, capacity, competence, development, education, effect, encouragement, impulse, improvement, incentive, increase, instruction, know-how, promotion, progress, training.
Supplier	Nature of payments (i.e., volume, speed), order procedure and size, price received (Deutsch & Valente, 2013; Tantalo & Priem, 2016). Long-lasting and stable relationship (Harrison & Wicks, 2013; Clarke, 1998).	dimension, magnitude, quantity, size, volume, price, consolidated, durable, enduring, interaction, long-lasting, perennial, permanent, reiterates, recurrence, recidivism, repetition, accelerates, agility, brevity, emergency, fugacity, hurry, preparedness, promptness, speed, acquisition, order, purchase, request, process.
Shareholder	Expected return and dividends (Tantalo & Priem, 2016; Brown e Forster, 2013; Cragg & Greenbaum, 2002; Clarke, 1998) Information, Transparency and Corporate Social Responsibility (Harrison & Wicks, 2013; Tantalo & Priem, 2016)	income, revenue, gains, profit, interest, return, proceeds, invoice, price, amount, sum, value, compensation, requirement, bonus, payment, award, prize, rewards, remuneration, compensation, information, science, knowledge, data, report, news, notice, notification, communication, memo, message, note, opinion, clarification, explanation, clarity, truth, truthfulness, kindness, and compliance.

Source : Boaventura et al. (2020)

### 3.3 Assignment of Variables

#### 3.3.1 Dependent variable

The sections of the prospectus that were used to analyze the value distributed to stakeholders were “Summary”, “Management discussion and analysis”, “Business” and “Industry”. Such sections are relevant for interpreting the value delivered to stakeholders, as they include the firm's strategies, analysis of the business by the organization's managers, description of the main activities, and the overview of the industry in which the company operates.

The combination of citations from Stakeholders and citations from synonyms that represent tangible and intangible value to them in the same paragraph was defined as the value unit. For a keyword to be linked to a stakeholder, both must be in the same context unit analyzed, as defined by Bardin (2009). The context unit considered was a paragraph, as a paragraph generally addresses only one stakeholder. To analyze the identified words and attribute the presence of the distribution of value to the stakeholder, just the word count is not enough. For this reason, the number of paragraphs in the “stakeholder” x “value distribution” intersection was compared with the total number of paragraphs identified for the stakeholder.

Thus, with the aid of the Nvivo 12 software, the frequency in which the combination of Stakeholder and Value for Stakeholder, was present in the same paragraph of the four sections of interest, was counted. This result was divided by the number of pages of the sections used, and subsequently, the results were balanced on a scale of 0 to 1 considering the highest result obtained as a reference 1.

#### 3.3.2 Independent variables

To measure the independent variable *Power*, the "Risk Factors" section was analyzed. In this section, the company discusses the main threats to its business and points out which stakeholders can negatively affect the organization's performance. This choice is in line with authors Harrison and Bosse (2013), who defines power as the ability or propensity of a stakeholder to negatively affect the company's activities.

The number of citations from the Stakeholder was defined as the unit of power of a stakeholder. With the aid of the Nvivo12 software, the frequency in which each Stakeholder was mentioned in the section of interest was counted, afterwards, this result was divided by the number of pages of each section analyzed. Finally, to be used in the same statistical model as the other variables, the results were balanced on a scale of 0 to 1, which are the inputs for the final model.

To measure the independent variable *Strategic importance*, the “Business” section was analyzed, which contains information about the essential activities of the organization, as well as its competitive advantages and its relationship with stakeholders. According to the definition of Harrison and Bosse (2013), the ability of a stakeholder to contribute to the organization's competitiveness reflects its strategic importance for the company.

The number of citations of a particular stakeholder in the "Business" section was defined as a unit of strategic importance. With the aid of the Nvivo12 software, the frequency in which each Stakeholder was mentioned in the section of interest was counted, afterwards, this result was divided by the number of pages of each section analyzed. Finally, to be used in the same statistical model as the other variables, the results were balanced on a scale of 0 to 1, which are the inputs for the final model.

#### 3.3.3 Control variables

The year of publication of the IPO prospectus was defined as a control variable, since, depending on the year in which the company did the process for going public, market conditions

may change. This can affect the distribution of value to stakeholders. To this end, the years 2008 and 2019 were included in the model as dummy variables.

The company's sector was also defined as a control variable, as the industry in which the company operates can affect the distribution of value since each sector has characteristics that managers need to consider when directing resources to stakeholders (Baird et al., 2012). A service company, for instance, can distribute more value to customers, while a manufacturing company can focus more on suppliers (Boaventura et al., 2020). To this end, the 11 sectors originating from TSX data were included in the model as dummy variables, covering all companies that are part of this analysis.

### **3.4 Data analysis**

#### **3.4.4 Hypothesis testing equations**

After data collection and treatment, scores were obtained regarding the stakeholder strategies proposed by the companies, which were used to measure the prioritization of stakeholders. And the regression of ordinary least squares was used to test the hypotheses of this research.

The premises of this method are the homoscedasticity of the regression residues and the absence of multicollinearity of the variables. To satisfy these two premises, the Breusch-Pagan test was performed on the models for the absence of heteroscedasticity and the VIF (Variance Inflation Factor) for the presence of multicollinearity. The Breusch-Pagan test indicated the presence of heteroscedasticity in the data, however, according to Wooldridge (2015), in econometric analyzes heteroscedasticity is common, requiring only adjusting the errors to suit the failure. Thus, the robust standard error present in the Gretl Software was applied to the models. For the VIF test, the result of the average score was less than 10, indicating that there is no multicollinearity problem (Hair et al., 2006).

In the hypothesis test, three equations were used. The first using only value as an independent variable, the second using only strategic importance as an independent variable, and the third considering the two variables in the same equation, according to the models below:

$$\text{1st Equation: Value} = \beta_0 + \beta_1 \text{ Power} + \text{sector} + \text{year}$$

$$\text{2nd Equation: Value} = \beta_0 + \beta_2 \text{ Importance} + \text{sector} + \text{year}$$

$$\text{3rd Equation: Value} = \beta_0 + \beta_1 \text{ Power} + \beta_2 \text{ Importance} + \text{sector} + \text{year}$$

Where:

Value = Value distributed to the Stakeholder

Power = Stakeholder Power

Importance = Stakeholder strategic importance

$\beta_0$  = Linear model coefficient

$\beta_i$  = Slope of the linear model

Sector = Dummy variable for the company's productive sector

Ano = Dummy variable for IPO year at TSX

## **4 ANALYSIS OF RESULTS**

### **4.1 Correlation and descriptive statistics**

Table 6 shows the correlations and descriptive statistics for the variables used in the hypothesis test of this study. To avoid a correlation model with an excess of zeros (Lambert, 1992), observations of the results that presented "0" in the dependent variable and in the independent variables were removed, resulting in a model with 500 observations, this model being equally relevant to the study, with both independent variables showing a positive and significant correlation. The variable strategic importance has a correlation of approximately 0.670, this value is higher than the correlation of 0.498 presented by the variable Power.

**TABLE 6 - Correlation between variables**

	VALUE	POWER	IMPORTANCE
VALUE	1		
POWER	0.498	1	
IMPORTANCE	0.670	0.461	1
Observations	500	500	500

  

Descriptive statistics	VALUE	POWER	IMPORTANCE
Average	0.162	0.233	0.146
Standard deviation	0.182	0.204	0.192
Minimum	0	0	0
Maximum	1	1	1
Observations	520	520	520

Source: the authors (2021)

In order to investigate the relationship between power, strategic importance, and value distribution, it is assumed that value distribution decisions are not made in isolation for each stakeholder, therefore the observations of all stakeholders were considered together, as the value distributed to a stakeholder can influence the value available to others. However, it is important to check how companies relate to each group of stakeholders individually.

Table 7 shows the results of the dependent and independent variables, with the average score in the fourth column for each stakeholder. Since they are binary variables, the control variables "sector" and "year" were not considered in this observation.

**TABLE 7 - Descriptive statistics by stakeholder**

	Stakeholder	Observations	Average	Standard deviation	Minimum	Maximum
Value	Customer	104	0.241	0.237	0	1
	Community	104	0.152	0.176	0	1
	Employee	104	0.212	0.168	0	1
	Shareholder	104	0.121	0.127	0	1
	Supplier	104	0.086	0.141	0	1
Power	Customer	104	0.223	0.223	0	1
	Community	104	0.159	0.157	0	1
	Employee	104	0.357	0.179	0	1
	Shareholder	104	0.270	0.170	0	1
	Supplier	104	0.158	0.217	0	1
Strategic Importance	Customer	104	0.187	0.208	0	1
	Community	104	0.121	0.163	0	1
	Employee	104	0.236	0.183	0	1
	Shareholder	104	0.153	0.219	0	1
	Supplier	104	0.034	0.101	0	1

Source: the authors (2021)

According to table 7, the stakeholder with the highest average value distributed is the Customer (0.241) followed in descending order by Employee (0.212), Community (0.152), Shareholder (0.121), and Supplier (0.086). For the variable Power, the stakeholder with the highest average is the Employee (0.357), followed in descending order by Shareholder (0.271), Customer (0.223), Community (0.159), and Supplier (0.158). And for the strategic importance variable, the stakeholder with the highest average is also the Employee (0.236), followed in descending order by Customer (0.187), Shareholder (0.153), Community (0.121), and Supplier (0.034).

Standard deviation values range from (0.237) to (0.127) for Value; from (0.223) to (0.157) for Power; and (0.208) to (0.101) for Strategic importance. The amplitude of the

standard deviation is greater in the value variable, followed by strategic importance, with the shortest distance between the largest and the smallest value for the standard deviation of the power variable.

#### 4.2 Regression

Table 8 shows the results of the regressions using the least-squares method. Of the four models used for linear regression, three are the equations presented previously, and the robust standard error was applied to all models to correct heteroscedasticity. In the models, dummy control variables were used for the Year and Sector of Companies, taking as base value "Year\_2019" and the sector "Utilities & Pipelines". The four models were used to assess the influence of power and strategic importance on the distribution of value to stakeholders.

In model 1, regression was performed only with the control variables, in this model no economic sector had a significant impact, some years had a P-value less than (0.1), 2009 was one that was not statistically significant and in this model the R<sup>2</sup> was only 4.5%, revealing that this model is a weak representation of the reality of the data.

**TABLE 8 - Result of regressions**

	Model 1	Model 2	Model 3	Model 4
	<i>Coefficient</i>	<i>Coefficient</i>	<i>Coefficient</i>	<i>Coefficient</i>
Constant	0.380***	0.192*	0.170 **	0.117*
Power		0.465***		0.221***
Strategic Importance			0.650 ***	0.537***
CleanTechnology	-0.063	-0.072	-0.064	-0.068
CommMedia	0.023	6.92E-05	0.046	0.031
ConsumerProductsServices	-0.041	-0.058	-0.043	-0.051
FinancialServices	-0.057	-0.077	-0.030	-0.044
IndustrialProductsServices	-0.023	-0.049	0.012	-0.005
LifeSciences	-0.077	-0.075	-0.059	-0.062
Mining	-0.033	-0.041	-0.002	-0.011
OilGas	0.012	-0.019	0.022	0.005
RealEstate	-0.031	-0.042	0.0034	-0.007
Technology	-0.018	-0.042	-0.003	-0.017
Year_2008	-0.167*	-0.063	-0.072	-0.039
Year_2009	-0.135	-0.038	-0.056	-0.023
Year_2010	-0.202**	-0.091	-0.094	-0.060
Year_2011	-0.151*	-0.032	-0.043	-0.005
Year_2012	-0.210**	-0.107	-0.115*	-0.082
Year_2013	-0.205**	-0.105	-0.113*	-0.081
Year_2014	-0.190**	-0.071	-0.096	-0.056
Year_2015	-0.165*	-0.093	-0.080	-0.060
Year_2016	-0.188*	-0.116	-0.140*	-0.114*
Year_2017	-0.214**	-0.125	-0.097	-0.075
Year_2018	-0.157**	-0.081	-0.084	-0.061
N	540	540	540	540
R <sup>2</sup>	0.045	0.303	0.495	0.540

\* p < 0.1    \*\* p < 0.05    \*\*\* p < 0.01

Source: the authors (2021)

In model 2, the regression used only the independent variable Power and the control variables. In this model, the independent variable Power showed a positive coefficient of (0.465), with a P-value less than (0.01) and R<sup>2</sup> with 30.3% indicating a better correspondence with reality.

In model 3, the regression used only the independent variable Strategic Importance and the control variables. In this model, the independent variable Strategic importance presented a

positive coefficient of (0.65) with a P-value less than (0.01) and R<sup>2</sup> with 49.5%, indicating a good correspondence with the satisfactory reality.

In model 4, the regression used all independent and control variables. In this model, the independent variable Power had a positive coefficient of (0.221) and the variable Strategic importance a positive coefficient of (0.538) both with a P-value less than (0.01). This final model presented the R<sup>2</sup> with 54.1% indicating a good correspondence with reality.

#### 4.2.1 Regression by Stakeholder group

Table 9 shows the results of the regression by the method of ordinary least squares for each stakeholder group individually. Model 4 served as a basis for obtaining such results. All performed with robust standard error to correct heteroscedasticity, and the VIF test with a score lower than 10, indicating the absence of multicollinearity.

**TABLE 9 - Result of the regression for each Stakeholder group**

	Power		Strategic Importance		R <sup>2</sup>
	Coefficient		Coefficient	p-value	
Customer	0.282	**	0.766	***	0.836
Community	0.228	*	0.665	***	0.598
Employee	0.195	*	0.524	***	0.617
Shareholder	-0.076		0.436	***	0.619
Supplier	0.350	***	0.091		0.443
	* p < 0.1	** p < 0.05	*** p < 0.01		

Source: the authors (2021)

The regression performed for each stakeholder group separately, presented consistent results when compared to those found in model 4. Both independent variables Power and Strategic Importance obtained a p-value of less than 0.1 in four of the five main groups of stakeholders. The stakeholder groups Customer, Community, and Employee showed in all cases significant coefficients with a p-value of 0.1, and coefficients for Strategic Importance positively higher than the coefficients for Power. High values for R<sup>2</sup> were found in these three groups of stakeholders, being Customer with 83.6%, Community with 59.8%, and Employee with 61.7%. For the Shareholder group, power was not the statistically significant variable and strategic importance was significant with a p-value of 0.01. The Supplier group was the only one with the coefficient of the Power variable positively higher than the Strategic importance variable, although the only significant variable with a p-value of 0.01 was the Power variable.

#### 4.3 Hypothesis testing

The data found in the analysis of this research support hypothesis 1. In regression models 2 and 3, performed with the independent variables Power and Strategic Importance separately, both presented a positive correlation with the dependent variable Value and significance with a p-value of 0.01. In model 4, the independent variables are used to explain the behavior of the dependent variable Value, and the results show a positive correlation with significance with a p-value of 0.01 and a high value for R<sup>2</sup> for the variables, indicating correspondence of the regression with the actual data. Therefore, the evidence found by the empirical investigation of this study corroborates the hypothesis H1 that Power and Strategic Importance are relevant factors in the decision to distribute value to stakeholders.

The data found in this research also support hypothesis 2. If models 2 and 3 are compared, model 3, with the independent variable Strategic Importance, presented a higher angular coefficient (0.65) compared to the coefficient of the variable Power (0.465) in model 2. Model 3, with the Strategic Importance variable, also presented a higher R<sup>2</sup> (49.5%) than the R<sup>2</sup> present in model 2 (30.3%) with the Power variable. Finally, in model 4, which has the

presence of two independent variables, the coefficients of the variables Strategic Importance (0.537) and Power (0.221), indicating a greater influence of the variable Strategic Importance in the dependent variable Value. Therefore, the evidence found by the empirical investigation corroborates hypothesis H2 that Strategic Importance has a greater influence than Power in the decision to distribute value made by the company to its main stakeholder groups.

## **5 DISCUSSION**

In its development, the stakeholder theory pointed out different issues for business management, such as: how to identify and classify stakeholders (Freeman et al., 2007), how to analyze their interests (Freeman et al., 2004), which stakeholders to prioritize (Mitchel et al., 1997), what are the strategies for treating stakeholders (Harrison et al, 2013), what are the practices of stakeholder engagement (Vurro & Perrini, 2011), among other topics. This discussion permeated the management of companies, as can be seen in their annual reports, which report maps of stakeholders, prioritization matrices, and engagement practices.

Among the issues that need to be developed in the stakeholder theory, it is in the association of power and strategic importance and its relationship with the value distribution to stakeholders that this study seeks to advance knowledge. According to Freeman et al. (2010), Stakeholders, according to their power and strategic importance, have the ability to create value for the company with which they are associated, and the greater their strategic importance, the greater their ability to create value for the organization. This argument became the initial basis for the development of this research.

The results found in the empirical investigation of this work, by highlighting the relationship between Power and Strategic Importance in the decision to distribute value to Stakeholders in publicly traded companies at TSX, support Harrison and Bosse's (2013) perspective that the value distribution for stakeholders has as its main factors the Power and Strategic Importance of stakeholders.

Although many works focusing on Stakeholder management, place greater emphasis on Stakeholder Power as the main source of influence on the distribution of value by the company, Boaventura et al. (2020) presents the argument that the Stakeholder Strategic Importance has a greater influence than its Power in the value distribution process. This argument tested empirically in publicly traded companies on the Brazilian stock exchange, is also applied in this work in publicly traded companies on the TSX.

The empirical evidence found in this study shows that in publicly traded companies at TSX, Strategic Importance has a greater influence than Power in the decision to distribute value to its main stakeholder groups. As well as the other works in the set of research aimed at investigating this phenomenon in publicly traded companies.

## **6 CONCLUDING REMARKS**

The purpose of the research was to empirically verify the association between the power and strategic importance of stakeholders and the distribution of value to them by publicly-traded companies on the Toronto Stock Exchange. To this end, it was verified through content analysis with applications of statistical techniques, if there is a significant relationship between Strategic Importance, Power, and Value distributed to Stakeholders.

The results observed reveal that not only is Power and Strategic Importance relevant in the distribution of value to Stakeholders but also that, in the decision-making process of organizations, Stakeholder Strategic Importance has greater influence when compared to its Power. In other words, the results support the hypothesis that decision-makers in companies consider more strategic importance than power when they distribute value to their stakeholders.

Recognizing the limitations of this research, it is considered that companies that go public on TSX need to follow a series of requirements and procedures with a high financial cost

to go public via IPO, the sample captures the reality of large companies that have the necessary resources to this procedure, that is, it may not represent the reality of medium and small companies that operate in the various sectors of the market that are the focus of the study.

Considering future research, with the expansion of the database to other contexts, it is possible to establish, using a similar methodological structure, new possibilities for empirical research. An example would be the investigation of differences in the treatment of stakeholders by publicly traded companies, in the context of developing countries in contrast to developed countries.

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