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STAKEHOLDER ENGAGEMENT AS SOCIAL (IR)RESPONSIBILITY

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Abstract

The assumption of a direct and positive relationship between engagement of stakeholders and responsibility towards stakeholders within both practitioner and academic literature is a dilemma. There is an apparent soundness of logic to the assumption that the more an organisation engages with its stakeholders the more responsible and accountable the organisation is likely to be towards these stakeholders. This concurrence could exist, and perhaps we believe should exist, but to assume it necessarily does exist is highly problematic. It is problematic not just because it is may be inaccurate but, more importantly, because it may be misleading. I intend to make this case by firstly illustrating that this assumption exists in the literature though it is rarely made explicit. Next I will make a case for why it may not necessarily hold. I will show why it is essential to consider that the relationship between stakeholder engagement and responsibility may be a neutral relationship or, even more importantly, a negative relationship. Finally I will argue that, by erroneously assuming convergence, thus disallowing separation, the writer or practitioner is at risk of, intentionally or unintentionally, deceiving their audience.

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INTRODUCTION

There is an apparent soundness of logic to the assumption that the more an organisation engages with its stakeholders the more responsible and accountable the organisation is likely to be towards these stakeholders. Many strands of organisational studies could be employed to theorise such a relationship – participation, trust, communication, human resource management, leadership to name a few. The mechanism seems apparent. Through organisational 'stakeholder engagement', that is, the organisation disclosing information, seeking the input of stakeholders, and involving employees and other stakeholders in decision making, the organisation more likely act in a 'responsible' manner that is to understand, accept and act in the best interests of the stakeholders. This occurrence could exist, and perhaps we believe it should exist, but to assume it necessarily does exist is highly problematic.

Specific areas of organisational inquiry and practice are reliant on the notions of stakeholder engagement and responsibility. They are fundamental, for instance, to the research in social and environmental reporting. Reporting processes and accreditation are central to the work of non-profit foundations (Institute for Social and Ethical Accountability, New Economics Foundation), lobby groups (WWF), consultants (KPMG and small 'ethical' consulting firms) and large (Shell, McDonalds) and small (the local credit union) organisations alike. Even the United Nations is involved though the GRI (Global Reporting Initiative) and UNEP (United Nations Environmental Program) reporting awards. Yet, the practitioner and academic literature holds many examples of unsubstantiated claims of delivering responsibility to stakeholders. It is essential to question the assumption that greater consultation, more transparent processes, more detailed social and environmental reports will by necessity relate to more 'responsibility'.

The discussion that follows is divided into four parts. The first part will identify in the literature of the presence of the 'responsibility assumption', the assumption that stakeholder engagement (engagement) and responsibility towards stakeholders (responsibility) necessarily converge. It is beyond the scope of this discussion to provide an entire review of the literature to assess the exact extent and nature of this supposition. The goal of this section is to establish that this conjecture exists at a level of concern. The second section will show why the supposition of responsibility is just that – pure conjecture. The specific assumptions that form the responsibility hypothesis will be detailed and an argument against the claim will be made. Next the separation of responsibility and stakeholder engagement will be outlined. The likelihood that, as two independent phenomena, stakeholder engagement and responsibility may be not related or negatively related will be explored. A case will be outlined for the possibility that stakeholder engagement may be related to *ir*responsibility. Finally, the implications of rejecting the assumption, thus treating engagement and responsibility, as independent constructs will be explored.

THE EXISTENCE OF THE RESPONSIBILITY ASSUMPTION

Diverse rationales are given (or not given) for the engagement of stakeholders. These justifications may be ostensible related to social responsibility (i.e. favour the stakeholder), related to corporate strategy (i.e. favour the organisation), or some combinations of these. Rarely are these intentions made explicit.

The following example demonstrates where responsibility and strategic reasons are confused:

> "Responsibility audits are a management tool for demonstrating the potential qualitative and financial benefits of mirroring core values and ethics in practice. They direct managers' attention to socially responsible practices that meet the expectation of primary stakeholders. Such proactive management helps avoid normally hidden costs and liabilities that come from reacting to problems as they occur." (Waddock and Smith, 2000).

An illustration of a call for engagement without commitment to either responsibility or strategic treatment of stakeholders:

> “Reporting (on social and ethical performance) is a way in which stakeholders can see if the company “listened” to their concerns, and over time whether they responded in practical terms. Further, reporting is an essential element of the process of deepening the understanding of managers as to what is going on and how people view it.” (Zadek, 1998)

An instance where both objectives are identified:

> “The Body Shop’s approach to social auditing (is) a practical tool for increased social accountability and transparency as well as a strategic management tool with specific potential to facilitate continuous improvement in corporate performance and stakeholder relationships.” (Sillanpaa, 1998)

Shell represents the ideal case of engagement leading to an interpretation of responsibility. The reputation of Shell has shifted from its lowest level in 1995, at the time that the company was accused of being complicit in the execution of activist Ken Saro-Wira and eight of his colleagues (Obi, 1997), to its current high, as a leader in social and environmental reporting and accountability (UNEP, 2000). Shell were pushed on a path of ‘transformation’ by disasters in Nigeria and at the Brentspar platform (Kok, Wiele, McKenna and Brown, 2001). At the time of the first report in 1998, common opinion was that, although the company may not be ‘doing the right thing’, at least they are honest in reporting what are doing (Sweeney and Estes, 2000). The Shell Report was ranked at number five in the top fifty reports examined by a United Nations sponsored benchmark survey of sustainability reporting (UNEP, 2000). The survey notes that Shell report focuses mainly on high-level corporate approaches to sustainable development with little detail provided on local operations around the world (UNEP, 2000: 28). By the time of the 2002 report this commentary had slipped into that of ‘doing the right thing’. A model for the development of the company-stakeholder relationship developed by consultants working with the company clearly equates the sharing of information with the sharing of responsibility. They write that “Shell’s decision to publish an ethics report can be seen as the transformation of the trend towards ‘trust me’ and ‘show me’ into ‘join us’” (Kaptein and Wempe, 1998)

The assumption of a positive relationship between stakeholder engagement and responsibility is rife in both academic literature and practitioner material. The nature of this relationship, however, is under investigated and under theorised. According to Owen and Swift (2001) “vacuous consultant-speak with meaningless phraseology and jargon (threatens) to displace necessary in-depth analysis of the tensions and problems encountered in holding powerful economic organisations accountable.”

WHY THE RESPONSIBILITY ASSUMPTION IS WRONG

Some concerns about the responsibility assumption have been identified. The difficulty of differentiating moral responsibility from calculated responsiveness (i.e. reputational strategy) has not been directly addressed in the literature (Windsor, 2001). Owen and Swift (2001) note that commentators adopt an “almost evangelical tone” in promoting socially responsible management together with stakeholder engagement practices. O'Dywer (2003) has noted that, through their attempts at engaging in business, and their pragmatic focus, ‘non-critical’ writers have facilitated the appropriation of the CSR (corporate social responsibility) concept by the corporation.

There are additional concerns about the supposition of responsibility that are neither identified nor addressed. Firstly, there is the assumption of a singular, or at the very least overlapping, set of goals between the organisation and the stakeholder. It is suggested that if the organisation communicates and involves the stakeholder, they will be able to move forward to a common goal or goals. For example Gao and Zhang (2001: 254) argue that “a real, meaningful stakeholder engagement approach should be one that provides a mechanism both for the stakeholders and for the organisation to share each other’s views for the purpose of improving the organisation’s performance and accountability”. This unitarist assumption is indicative of a domination of the debate by a positivist, managerialist perspective. This domination is rarely acknowledged and parallels other organisational debates such the field of human resource management (Greenwood, 2002). Legge (2001: 32) observes that positivistic approaches “appear to be the fashionable project for high profile HRM research today”. In opposition, Frooman (1999) emphasises that concern for stakeholder interests implies the unstated premise of the divergent interests of various stakeholders and that this premise is fundamental to any stakeholder theory of the firm. It follows that denial of divergent stakeholder interests may be evidence of managerial capture.

Secondly, in addition to the assumption of convergent interests, there is the denial of the impact of the gross power imbalance between the organisation and the shareholder that leads assumption that such 'sharing and caring' is possible. A recent leading definition of corporate citizenship (Waddock, 2003: 3) reads:

> "Corporate citizenship really means developing mutually beneficial, interactive and trusting relationships between the company and its many stakeholders…In this sense, being a good corporate citizen means treating all of a company's stakeholders with dignity and respect, being aware of the company's impact on stakeholders and working collaboratively with them when appropriate to achieve mutually desired results."

In general power is seen as an attribute of the stakeholder which determines how influential a stakeholder is over the firm (Mitchell, Agle and Wood, 1997, Agle, Mitchell and Sonnenfeld, 1999). For example, Rowley (1997) depicts a complex model of stakeholder networks that addresses earlier assumptions that organisations relate to stakeholders in isolation of each other (as represented by the classic 'wheel and spoke' model of Freeman). This model allows for the possibility that the organisation may not take the central role in these networks, and that some players will hold more dominant positions than other in particular situations.

Thirdly, there is the assumption that the 'stakeholder group' is a static, homogeneous entity, that all individuals, sub-groups, formal and informal networks within a 'stakeholder group' share a set of consistent goals and characteristics. Mitchel and his colleagues (Mitchell et al., 1997, Agle et al., 1999) depict a complex model of stakeholder salience based on the stakeholder groups characteristics of power, legitimacy and urgency. The model suggests that an organisation will attend to stakeholder groups high in these characteristics in preference to stakeholder groups lower in these characteristics. The model, however, assumes the consistency of these characteristics within the stakeholder group. They focus on who or what are the stakeholders of the firm rather than the dynamics of the organisational stakeholder relationship and how this may change over time (Friedman and Miles, 2002). It is doubtful that a diverse and fluid stakeholder group hold consistent and shared objectives. A workforce made up of different ethnic groups, casual workers and staff, unionised and non-unionised, disabled, personality disordered, old, young, male, female or other individuals and sub groups are unlikely to have common needs and desires.

Can the organisation ever know the interests of the stakeholder group, and if they could, would they ever put these interests above their own? In questioning these assumptions, it follows that stakeholder groups' interests may not be consistent or knowable, and that the organisation may not be motivated to know or act on these interests. These concerns follow the conventional criticisms of utilitarianism. In exposing the conjecture of a positive relationship, it follows that the alternative theses should be considered.

THE SEPARATION OF STAKEHOLDER ENGAGEMENT AND RESPONSIBILITY

The suggestion that attending to the needs of stakeholders, or engaging with stakeholders, is an inherently responsible action on the part of the firm is fallacious. Just because an organisation attends to stakeholders does not mean they are responsible towards them. Likewise, just because an organisation does not engage with stakeholders does not mean that the organisation is irresponsible towards them. The mitigating factor in the relationship is the reason or reasons why the organisation engages stakeholders. Is the company engaging with the stakeholder to further the interests of the stakeholder or is to further its own interests? These questions are fundamentally linked to a debate on the relationship between business and society, the purpose of the firm and corporate social responsibility. The normative aspect of this debate is beyond the scope of this discussion. On an instrumental level, however, it is clear that stakeholders can be treated either in a strategic manner, that is, as a means to an (organisational) end, or as a responsible manner, that is, as an end in themselves.

Stakeholder analysis, for instance, involves the identification of parties affected and the determination of positive and negative impacts on these parties. For what purpose this engagement is taken cannot be assumed. Goodpaster (1991: 57) correctly states that decision making involving stakeholder analysis can be "for different underlying reasons, not always having to do with ethics". Thus stakeholder engagement, in and of itself, is morally neutral and should not be seen automatically as responsible thinking. Management may be careful to consider positive and negative stakeholder effects in order to minimise potential stakeholder resistance or retaliation. This is precisely what is meant by the often-bandied term 'stakeholder management'. Rather than being driven by ethical concern for stakeholders, management may be concerned about potential aids or impediments to the achievement of strategic objectives. Hence, this model of stakeholder decision making is referred to as 'strategic stakeholder management' (Goodpaster, 1991: 57, Berman, Wicks, Kotha and Jones, 1999). Thus, the strategic stakeholder model holds, in common with the classical view, the belief that the purpose of the corporation is to act in the interests of its shareholders. Whether or not the process by which this outcome is achieved includes stakeholder engagement, the intentions are the same. Whilst in the 1970s Friedman firmly believed that any direct concern for stakeholders was unnecessary, redundant and inefficient (Goodpaster, 1991) nevertheless the ultimate goal was the same as that of modern stakeholder management. One could surmise that in today's complex business environment where external groups external are far more influential than thirty years ago, Friedman also would advocate a form of strategic stakeholder theory that upheld the agency role of management and the profit goal of the organisation.

WHY MORE MAY BE LESS

There is however the concern that strategic management of stakeholders does not remain responsibility neutral practice but becomes an *ir*responsible practice. Decades ago, Friedman (1970) noted what he saw as potential fraud on behalf of the company:

> "there is a strong temptation to rationalize actions as an exercise of 'social responsibility'… for a corporation to generate good-will as a by-product of expenditures that are entirely justified in its own self-interest….I can express admiration for those (corporations) who disdain such tactics as approaching fraud".

In purporting to care for the interests of all stakeholders, with the true intent of furthering the interests of only one stakeholder group (owners), management risks acting in a deceitful and manipulative manner. Such action would violate the basic principles on which stakeholder theory has been developed: the right of the stakeholder to pursue their own interests and; the responsibility of the corporation to ensure that the outcomes of corporate action benefit the stakeholders. Thus, the strategic stakeholder management is at best a neutral stance, but at worst may represent irresponsible treatment of stakeholders.

This concern has been noted in organisational critiques. Windsor (2001) voices disquiet about the increasing domination of the academic conceptualisation of corporate social responsibility by wealth-oriented practitioner views. "What amounts to the counter-reformation in academic theories of responsibility adopts a narrowly economic conception of responsibility readily aligned with shareholder value creation strategies" (Windsor, 2001: 228). Bos and Willmott (2001) seek to highlight and challenge the dominance of rationalist assumptions in business ethics. Keenoy's parable of the wolf in sheep's clothing, hard HRM philosophy masquerading behind a veneer of soft HRM practices, has become common wisdom in the critical and ethical study of human resource management (Legge, 1995).

Building on the work of radical social accountants like Puxty (1991) and Tinker, Neimark and Lehman (1991). Owen, Swift and Hunt (2001) coined the term 'managerial capture' of the social agenda. It refers to "the means by which corporations, through the actions of their management, take control of the debate over what CSR (corporate social responsibility) involves by attempting to outline their own definition which is primarily concerned with pursuing corporate goals of stakeholder wealth maximisation" (O'Dywer, 2003). In their investigation of whether companies report environmental performance objectively, Deegan and Rankin (1996) that companies have been prosecuted for environmental misdemeanours are more likely to report favourable environmental information. This is evidence for the concern that social and environmental disclosure may not be a demonstration of ethical concern (Mathews, 1995), but rather a method by which the company can legitimate its action to society (Owen, Adams and Gray, 1996), or as an "ideological weapon" to reinforce its control by the company over its stakeholders (Tinker et al., 1991)

CONCLUSION AND RESEARCH IMPLICATIONS

This paper has addressed the supposition that greater stakeholder engagement is related to greater organisational responsibility. It has shown that this assumption is evident in areas of organisational literature, that it is erroneous, and that it is potentially misleading. The counter suggestion, that greater stakeholder engagement may not be related to greater organisational responsibility, has been made. This leaves open the possibility that engagement may not be associated with responsibility or associated with a lack of responsibility. Clearly this begs the question of substantiation and evokes significant research possibilities.

The discussion has been founded on two organisational constructs: stakeholder engagement and responsibility towards stakeholders. Although these constructs were briefly described early in the paper, they are worthy of much greater attention. The notion of stakeholder engagement is fairly straight forward in that it is can be either a descriptive or instrumental concept. On that account it may be fairly readily operationalised and 'measured'. In contrast, the responsibility construct is less knowable. It may be instrumental or normative, and may be far more subjective. What it 'looks like' and how it may be investigated is less certain and as such necessitates further consideration.

Further more, the development of the constructs as 'one-way' needs to be addressed. This inquiry has focused on the organisational engagement of stakeholders, and the responsibility of the organisation towards its stakeholders, with no mention of the reverse. This is despite the fact that the notion of stakeholder engagement has an inherent two-way connotation. Setting the discussion in this manner may be justified by its descriptive validity. It is the organisation that sets the agenda. It cannot be assumed that engagement involves an equal dialogue between partners. The ground rules for engagement are more likely to be set by the dominant player (in the absence of an independent referee). Likewise the organisations treatment of its stakeholder is more critical than the stakeholder's treatments of the organisation with exceptions (for example Greenpeace and the Brentspar). It is the behaviour of the organisation that is, in general, the focus of the organisation and its stakeholders. The development of the constructs as descriptive, however, has obvious limitations. In addition, we are cautioned against putting the organisation at the centre of analysis as it discourages consideration of the stakeholders in their own right (Friedman and Miles, 2002) and thus can be accused of colluding in the misdeed we are attempting to expose. The need for research that gives weight to stakeholder voice is manifest.

Why does this assumption persist in the literature? As noted, it is rarely explicit. There are at least two possible explanations. From a more critical perspective it could be seen as more evidence of the control and capture of the agenda by the power elite (Kamoche, 1994). The more generous explanation is that academics and practitioners believe that pursuing this case will achieve responsibility, or at least, socially responsible outcomes. For such ideologues, their concern to achieve their desired outcomes outweighs any concern for 'truth' they may have. This, however, is the slippery slope of consequentialism. To what length will you go to achieve a certain outcome? Whose interest do you pursue, and at whose expense? Put simply, what means are permissible to achieve a certain end?

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