The Growing Importance of Stakeholder Dialogues in Gaining and Transferring Knowledge

Claus-Heinrich Daub, Ylva Karlsson, and Sebastiaan Stiller
Institute for Sustainable Management
University OAS *North Western Switzerland*

The theoretical framework of both stakeholder dialogue and stakeholder interaction is extensive. However, the practical experience in this field is to a large extent lacking. In the full-length paper we propose to discuss how the theoretical framework is applied in practice and how the shift from purely profit-oriented towards value-oriented business is facilitated by a stakeholder dialogue as a source of knowledge generation and as a means of realizing sustainable management.

INTRODUCTION

Today, most of the dominant management and marketing theories are based upon the principle that companies must pursue market-driven business objectives if they are to achieve an increase in shareholder value. This perspective in classical management theory was strengthened in 1970 by Friedman's paper 'The social responsibility of business is to increase its profits' and has been the starting point of most further developments in managerial theories ever since. Certainly, his claim that a company has no social responsibility, at least no other than increasing shareholder value, was nothing new by itself and quite extreme and provoking from its point of view, but it is supposed to be seen as a reaction to a previously dominating trend.

Consequently, in a follow up to Friedman's discussion about shareholder value, there has been observed a gradual paradigm shift that in the academic discourse, and also in the public sphere, is characterised by concepts such as 'corporate citizenship' (CC), 'corporate social responsibility (CSR)' and 'corporate responsiveness' (McGuire 1963; Sethi 1975; Ackerman and Bauer 1976; WBCSD 1999). With varying nuances, these concepts describe the responsibility of a business towards its stakeholders and society as a whole. Whereas CSR is defined as 'corporate social responsibility that encompasses the economic, legal ethical and philanthropic expectations placed on organizations by society at a given time in period' (Carroll and Buchholz 2000, 35), Carroll's four part model of corporate social responsibility (Carroll 1991) defines four different levels (read expectations) of corporate social responsibility with philanthropic responsibilities at the top and economic responsibilities at the bottom of his pyramid. Lacking to address the interest of the business community for CSR because of the negative undertone of 'responsibility' for businesses, and more recently 'social' by Freeman on the EABIS Conference in Ghent this year, the term Corporate Citizenship (CC) was introduced in the nineties. According to Carroll (1998) CC is fully in compliance with the philanthropic responsibilities of his pyramid, where others claim that CC is ought to be defined as 'corporate citizenship that describes the corporate function for administering citizenship rights for individuals' (Crane and Matten 2004). The citizenship rights would be social, civil and political.

All three aforementioned concepts are based upon (business) ethics, and as being discussed in the following chapters they do not consider shareholders as their sole stakeholders. The assumed ethical considerations hold that a firm does not create economic value simply as an end in itself, but rather gives the value added back to society (by paying wages and taxes, for example). On the other hand, through its operations it also generates negative external effects. The bigger a company becomes, i. e. the more positive and negative effects it generates, the more it manifests itself in the public eye and the more it becomes obliged to justify and legitimate its presence in society (Ulrich and Fluri 1995). Especially in smaller countries, such as Switzerland, this 'being noticed by' and the need to legitimize itself to the public eye seems realistic and can be explained with the so called 'small-country' effect (Katzenstein 1985) by means of highly visible multinationals operating in vulnerable and open economies.

An evolving question derived from the discourse of corporate social responsibility is whether to limit or extend 'social' and if so, to which extent. During the 2004 EABIS Conference in Ghent, both John Kay and Edward Freeman, though having different opinions, openly criticized this concept. Kay said that 'the business of business is business' meaning that the responsibility of enterprises is limited and is a way to create competitive advantage. Freeman argued that the term corporate 'social' responsibility should be changed into corporate 'stakeholder' responsibility, since the term 'social' creates a lot of confusion in academic literature. Next to the 'social' word struggle, Freeman further argued that Kay's stance about focusing on business and creating competitive advantage will consequently end in 'shareholders become stakeholders'. Besides these two provocative stances, others claim that the demand for all-round responsibility of companies for both their social *and* ecological environment is justified through the concept of corporations as 'quasi-public institutions' (Ulrich 1977). According to Ulrich and Fluri (1995), a company must be viewed as 'a multifunctional and therefore pluralistic, legitimised value-added unit, which fulfils socio-economic functions for various target groups [...]'. Interpreting this from a business perspective this would mean that a company generates economic value for its stakeholders, and thus should have a main interest in doing so, whilst taking into consideration not only social aspects, but also their ecological aspects.

By telling enterprises to generate economic value, but at the same time pressuring them to uphold their responsibilities towards society and the ecological environment, the before mentioned concepts cannot provide the corporation with a sufficient framework to systematically weigh and address all its responsibilities and to integrate these into business decision-making structures and management theory. The act of balancing the three dimensions of corporate responsibility was first institutionalised in 1987 when the Brundtland Commission published the 'Our Common Future' report. Here the idea of sustainable development was introduced and consequently a new sustainable management system which eradicates all weaknesses of the other concepts was developed (Daub 2004). Sustainable management is defined as a form of management, which clearly states that enhancing the value of a business is not simply about continuously increasing revenues and profits, but also about reconciling the economic goals of a business with environmental and social issues (cf. Elkington 1997) in an ethically correct way. Considering the fact that a company is ethically obliged to uphold their responsibilities to all three dimensions of sustainable management, the question is not about the balancing act itself, but about the ethical obligation behind the theory to balance these three dimensions.

Critical voices stemming from the business ethics argue that the sustainability concept and therefore sustainability management is more about handling the practical implications that appear, whilst decreasing the impacts created upon systems like our earth. To avoid confusing and misleading argumentation, it might not be out of place to stress the fact that sustainability management is indeed a way of dealing with occurring issues on a strategic and operational level in a sustainable way, such as an EMAS, OHSAS 18001 or ISO 14001 management system, whereas sustainable management has an ethical stance as discussed before. Originating from the sustainable management concept, value/ethically driven organisations can work their way up to at least touching the idea of systematically balancing the sustainable dimensions by systematically reviewing all their internal as well as external processes and frameworks. During this process they should be on the look-out for synergies they can exploit whilst implementing the sustainability concept. In order to reach this ideal situation, stakeholder groups, such as employees, customers, investors, and shareholders play a decisive role in this process. According to the sustainable management concept they are able to influence the development of a business in a process of permanent dialogue. Lining up with Freeman, 'Shareholder value' thus becomes 'stakeholder value'.

In line with this change in stakeholder perception and the increasing globalisation, the pressure on the companies for disclosure and information on their performance and policies in areas such as social and environmental responsibility is continuously growing. Following this trend of information 'wants and needs', the information flow via media such as the press, TV and commercials, increase in an equally escalating speed. Enormous amounts of information are being transmitted every day. People are bombarded with information, to some extent without requesting it or even wanting it. Some even talk about an information overflow. This is causing a new dilemma, there is no more a deficiency of information but rather an excess of information; hence the dilemma now lies in selecting the relevant bits and pieces. Consequently, the average person has become more critical and selective when it comes to choosing what information to take in and what to leave out. This new awareness represents a challenge for companies when laying down their communication strategies (Daub 2003a) on the strategic and operational level because of the numerous changes in both internal and external factors. In order to be successful in reaching the targeted receiver(s), the communication has to include the right kind of information and be presented in an appealing wrapping. Nevertheless, the knowledge needed for these strategic decisions are not always easily accessible and hence resource intensive. The task of fetching the needed information to base such decisions upon could be bestowed on an internal marketing department or an external office/consultancy. Both options have their advantages and consequently also their disadvantages. An internal marketing department will of course always work in the company's best interest, but might be lacking the needed know-how, independence and/or the necessary overview.

This 'weakness' is often what induces companies to outsource this task to an external market analyst, seeing as if an external consultant can supply the company with the necessary expertise, additional information channels and gatekeepers screening the information flow to pick out what could be useful for the company specific issues. Certainly, there might be a conflict of interest or a different perception on the scope in this strategy, since an external agency also needs to make a profit. Therefore, a further widening of an enterprise's channels might be of strategic interest with taking stakeholders into their communication strategies. This may sound weird to traditional marketers, but examples such as the Royal Dutch Shell and Asea Brown Boveri (ABB) cases prove that if the company cooperated with various stakeholders it could realize a gain.

YET, AN UNSATISFACTORY INTEGRATED CHANNEL IN SUSTAINABILITY COMMUNICATION

In order to understand the connection to sustainable management and the multitude in various stakeholders for generalizing knowledge, it is about time to write down the framework that will be the foundation of further discussion. There exist a multitude of definitions of what a stakeholder is and who should be sorted under this category. The most commonly used definition though, was made by Freeman (1984, 46) 'A stakeholder in an organization is [...] any group or individual who can affect, or is affected by, the achievement of the organization's objectives'. The traditional view recognizes three stakeholder groups: investors, employees and customers, whereas the modern view recognizes a broader set of stakeholders, including direct and indirect stakeholders, who are influenced by or influence the company (WBCSD 2002). This being influenced by or influencing the company has also been explained with the meaning of 'affects' and 'affected by', by using two principles (Evan and Freeman 1993). Firstly, the principle of corporate rights, which represent the idea that the corporation should not violate the rights of others. Secondly, the principle of corporate effect, which means that the company should carry the responsibility for the effects of their actions on others. The direct stakeholders include shareholders and employees who are often considered to be a company's most important asset, while the indirect stakeholders include all the individuals and organizations with an influence on the organization (e. g. customers, suppliers, NGOs, capital markets, financial analysts, government agencies, local communities).

In coherence with the increase of stakeholder importance enterprises slowly face a shift from purely profit, and therefore for many purely shareholder orientation, towards a more value driven and stakeholder orientation. Notwithstanding this change, within the area of business ethics there are several different thinkers to follow when it comes to answering the question 'who' is ultimately responsible for moral business practices and consequently the good or wrong for all parties involved. Followers of the macro level claim that the moral responsibility should be a part of the political system. The political system sets the rules of the market economy and therefore no company will successfully be able to work without the support of the market in the long term. The solution would thus be to legislate against morally irresponsible behaviour for all organizations (Homann and Blome-Drees 1992). Some researchers, however, see the organization itself as the moral actor and study the ethical climates and organizational values on a corporate level. Again other thinkers stress the responsibility of the individual and its vital role in the struggle to achieve an ethical and responsible behaviour (McDonald and Nijhof 1999). As mentioned before, Friedman (1970) being on the other side of the spectrum, claims that a corporation is a non human being and hence cannot be held morally responsible for its actions. Consequently, being socially responsible is superfluous in terms of resource efficiency and focus should solely be directed towards shareholder interest. Turning away from this idea of the traditional management role, the stakeholder model was developed to be later refined as the network model (Rowley 1997). The traditional management model identifies four major stakeholder groups: (1) customers, (2) employees, (3) suppliers and, being the owners of the corporation the most dominating, (4) the shareholders. The stakeholder model integrates, in addition to the traditional management model, a larger set of stakeholders, including (5) government, (6) competitors, and (7) the civil society (local community, NGO's, pressure groups etc.). The network model is a more complex structure including the interrelationships between the stakeholders, also taking into account the different roles of each stakeholder group and potential own stakeholder structures (fig. 1). This means that each stakeholder plays different roles within the network structure. Consequently, a member of the stakeholder group 'employees' can at the same time be part of the 'civil society'.

In the past companies often saw stakeholders as 'opponents' or even an 'interference'. However, with realizing the complexity of the environment an enterprise is operating in, this attitude has changed along with the

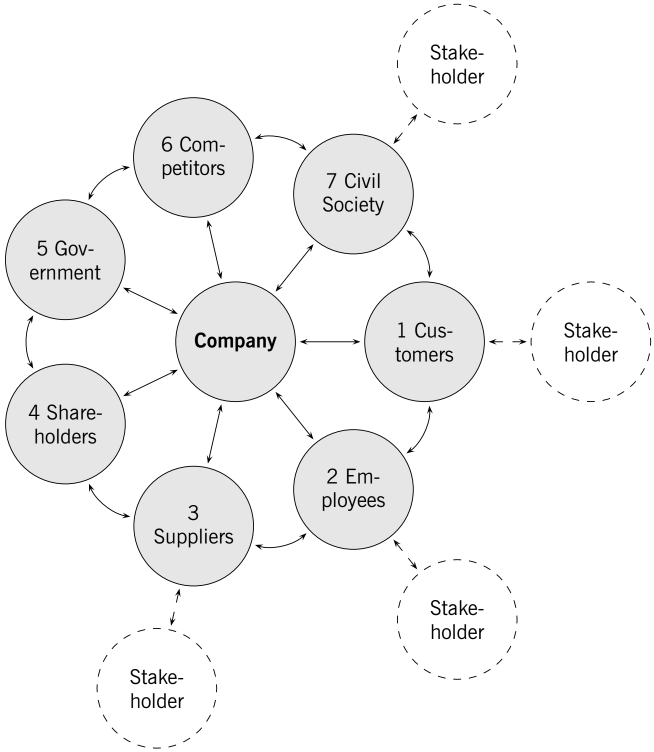

FIGURE 1 Network model (Crane and Matten 2004)

ever-increasing demand set on companies to reach a 'social licence to operate'. Programmes and Guidelines such as the Global Compact, initiated by UN Secretary-General Kofi Annan in 1999 (www.unglobalcompact.org), and the Guidelines for Multinational Enterprises OECD (2000) catalyzed this shift in the corporate posture. Consequently, stakeholders are today more often seen as partners in the business processes. The most important roles in the interaction and information exchange played by stakeholders are (Daub et al. 2003):

- Critical reviewers, offering ideas and critique helping companies and organizations to identify and deal with societal issues and questions (issue management).
- Experts, when the company is dealing with ecological and social problems. This is common with single-issue interest groups such as Greenpeace (environment) and Amnesty International (human rights) etc.

- Independent auditors and dialogue partners in the corporate reporting process.

Being a stakeholder with a possible role does not automatically lead to an interaction between the enterprise and the stakeholder. The extent to which both the enterprise and the stakeholder seek interaction depends on the salience of the stakeholder defined by three aspects significant to this bilateral relationship such as: (1) power, (2) legitimacy, and (3) urgency (Mitchell et al. 1997). Besides the varying roles and salience of the different stakeholders in the enterprise's affairs, the extent to which they can or are willing to interact can differ as well. The numerous possibilities range from One-Way support via endorsement up to join ventures and alliances (Crane and Matten 2004). These different relationships include of course obligations and efforts on both parts, seeing as it in most cases should become a win-win situation. How and what these obligations exactly should include depends on the definitive relationship a stakeholder group and the enterprise develop. This paper does not discuss this topic into depth, since the relationship itself is only a pre-condition to the actual knowledge generation being discussed in this paper.

Besides the importance of knowing the different stakeholders and their possible relationship with the enterprise, it seems evident to know where you can place the various stakeholders according to their influence and interest, since this defines the enterprises resource allocation over all stakeholders. Different stakeholder groups have different stakes in the organisation and at some point even conflicting agendas. Hence, diverse strategies are needed when dealing with a multitude of stakeholder groups. A stakeholder matrix can help the organization to identify which stakeholder groups are most relevant for the issue at hand and consequently where to allocate the resources. In a matrix carried out by the World Business Council for Sustainable Development (2002) the stakeholder groups are categorized along two axes: their level of influence versus their level of interest. The stakeholder groups who exert a high level of influence and have a high level of interest should primarily be targeted as an important dialogue partner on whom the company should focus its efforts. An organization should be cautious when assessing influence; it is not always the loudest voice that has the highest influence. For instance, vocal stakeholders, like strong activist groups, may in fact be less important to a company than a minority group of in-

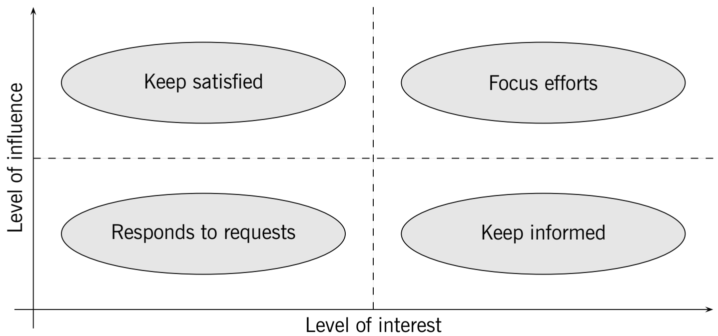

FIGURE 2 Relevant stakeholders (WBCSD 2002)

digenous people located far away from corporate headquarters (WBCSD). Rather than just listening to critical voices in its surrounding, the organization should ask itself: 'Who could possibly contribute new aspects to the discussion?'

An empirical study performed in Germany by the ECC Group in 2004, showed some quite interesting outcomes, for example that 'many (German) companies are talking to critical stakeholders', indeed, 'but most keep quite about the results' (ECC Group 2004). This might indicate that the internal/strategic use of the gained information is high and to a large degree case sensitive, which consequently prevents companies to communicate the results externally. In addition, the main reason for participating in stakeholder dialogues, given by the companies, was to decrease the potential threats derived from stakeholder groups and prevent damage to the corporate reputation (ECC Group 2004). This on its turn strengthens the idea that stakeholders nowadays have a relatively strong position, which has to be considered in strategic management and communication decisions. Critics might interpret the silence in external communication as a proof of the company's lacking interest or as if the discussed topics are of no relevance to them, hence the outcomes are kept silent. This criticism can be weakened by the fact that a profit and market driven enterprise cannot and will not allow such inefficient processes and resource losses. Besides this waste of resources, the corporation's reputation would be at risk, since the stakeholders will notice that the outcomes of the talks are useless or not taken into serious consideration by the management staff and consequently will (continue) campaign or decide against the corporation.

Considering the stakeholders' position as an opportunity, they could be seen as a source for generating knowledge, if used with care. To clarify this statement with an example, the focus will shift to a specific stakeholder group that possesses a unique position in the business field. Partnering with NGOs as a result of a search for new channels and sources for gaining knowledge about external topics, which are evident to an enterprise, can provide new insights. NGOs often possess knowledge and technologies not within reach of the company itself. Furthermore, by working with instead of against the enterprise – NGOs can head off trouble, and due to their integration in social movements can: foresee shifts in consumer and stakeholder demand, speaking for several thousands members, help shape the legislation and set industry standards with their specialist knowledge and technologies, and accelerate innovation (Yaziji 2004). This kind of interaction is not only of sole interest to the corporation itself, it carries positive effects on the society and the surrounding environment, seeing as the technological or ethical progress stemming from the collaboration of organizations and stakeholder groups, and often enriches third parties, too. This could be in form of a new environmentally friendly production process or by setting a benchmark for other businesses to strive for. All this of course, not without certain costs for both parties. NGOs are momentarily in a position, in which there are almost no unused resources at their disposal, there is little to no money to take from more resources. Moreover, when NGOs have recognized the need and necessity to partner with companies, in order to make a difference, they have not for that sake partner with just any company. There are of course trade-offs even for NGOs when entering into a relationship with an enterprise. If the partnership ends up hurting the credibility of the NGO, the future activities of the organization might be at stake. Hence that specific relationship might be, in the long-run, contra productive. As a preventive measure companies are commonly pushed/encouraged/demanded/obliged to disclose, at times sensitive, information to the NGO as leverage or to shape a common ground. Thus, the company should take into consideration the price of this interaction and make the most of the partnership.

The methods of stakeholder dialogue/interaction are mostly devided in two categories; one-to-one vs. multi-participants and direct vs. indirect communication. There are several tools to use when it comes to stakeholder integration. Interactive Internet platforms are being considered a quite common method of tapping knowledge from different stakeholder groups. Here stakeholders can give their opinion to a certain topic, for instance in a forum. The anonymous environment offered on an Internet platform induces stakeholders to share their true views. However, this anonymity reduces the possibilities to follow up on comments or statements made. The ECC Group study showed that in Germany, where the infrastructure is available to most stakeholders, online stakeholder dialogues are only used by 1.8% of the participants in their study (ECC Group 2004) and therefore are not integrated in the process. The other extreme, and commonly seen as the 'best way', is a round-table discussion, where the stakeholders and the company are confronted with each other. 82.5% of the ECC Study participants used round tables or similar direct-contact happenings (ECC Group 2004). This 'favourite' tool can be therefore very productive under clever supervision. This media enables a direct interaction between the different parties, where questions and opinions can be discussed without delay. Often enough, this interaction leads companies to consider issues on which they never concentrated before. Loehr (2004) mentions the importance of a neutral mediator facilitating the interaction of the organization and the stakeholder groups, in this case the NGO's. By introducing a third party a power balance between the organization and the stakeholder groups is accomplished. This balance is the prerequisite for a fruitful interaction for both parties. There are of course plenty of other tools available for a stakeholder interaction, depending upon what kind of information you want to attain. However, as a rule, the two-way communication options (round tables, focus groups, panel discussions etc.) are often more efficient than one-way communication such as Internet platforms or questionnaires.

Though corporations consider stakeholder dialogues as a very useful tool and will definitely increase the amount of executed dialogues in its various ways (ECC Group 2004), many companies endeavour into stakeholder dialogue without having an action plan, goals or any defined direction. This can not be considered as anything else than wasting resources, the company's as well as the stakeholder's. According to the ECC Group's study on 'German companies in stakeholder dialogue' (2004) 'many companies have learned that involvement is better than confrontation'. The study showed that the companies listen to their stakeholders, but lack in actually transferring this information into their management and decision-making systems. However, if the information gained from the interaction is not channelled and applied in the corporate context, the information loss will become a knowledge loss. Stakeholders can thus be seen as important sources of knowledge generation. To systematically nurse and entertain such a relationship is a necessity for a successful business in times of change and globalization. Sustainable management is the practical implementation of sustainability into the corporation, i. e. how to put the challenge of taking responsibility for the social and ecological environment surrounding the company into effect, and furthermore throughout the whole value chain. Plainly put, to act in a responsible/ethical way towards 'any group or individual who can affect, or is affected by, the achievement of the organization's objectives' (Freeman 1984). Concluding, the essence of sustainable management is a continuous stakeholder dialogue. 'The business of business is business' and business is nothing else than listening, acting and supplying solutions to the stakeholders.

REFERENCES

Ackerman, R. W., and R. A. Bauer. 1976. *Corporate social responsiveness: The modern dilemma.* Cambridge, MA: Harvard University Press.

Carroll, A. B. 1991. The pyramid of corporate socal responsibility: Toward the moral management of organizational stakeholders. *Business Horizons* (July–August): 39–48.

Carroll, A. B. 1998. The four faces of corporate citizenship. *Businesses and Society Review* 100 (1): 1–7.

Carroll, A. B., and A. K. Buchholtz. 2000. *Business and society: Ethics and stakeholder management.* 4th ed. Cincinnati: South-Western College.

Crane, A., and D. Matten. 2004. *Business ethics: A European perspective.* New York: Oxford University Press.

Daub, C.-H. 2003a. *Spannungsfeld Unternehmenskommunikation: Perspektiven im Zeitalter der Globalisierung.* 4th ed. Basel: Edition Gesowip.

Daub, C.-H., R. Ergenzinger, M. Weik, and H. Schmassmann. 2003. *Nachhaltigkeitsberichterstattung Schweizer Unternehmen 2002.* Basel: Edition Gesowip.

Daub, C.-H. 2004. Nachhaltiges management: Stand, entwicklung, perspektiven. *Umwelt Focus,* no. 8: 10–3.

ECC Group. 2004. Secret mission? German companies in stakeholder dialogues: Results of an empirical survey. Bonn: ECC Group.

Elkington, J. 1997. Cannibals with forks; the triple bottom line of 21st century business. Oxford: Capstone.

Evan, W. M., and R. E. Freeman. 1993. A stakeholder theory of the modern corporation: Kantanian capitalism. In *Business ethics: A European perspective,* ed. A. Crane, and D. Matten. New York: Oxford University Press.

Freeman, R. E. 1984. *Strategic management: A stakeholder approach.* Boston: Pitman.

Friedman, M. 1970. The social responsibility of business is to increase its profits. *New York Time Magazine,* 13 September.

Homann, K., and F. Blome-Drees. 1992. *Wirtschafts- und Unternehmensethik.* Göttingen: UTB.

Katzenstein, P. 1985. *Small states in world markets: Industrial policy in Europe.* Ithaca, NY: Cornell University Press.

Loehr, A. 2004. The changing role of NGOs for business: Instruments, opponents, or professional partners? Paper presented at the 20th EGOS Colloquium, Ljubljana, 1–3 July.

McDonald, G., and A. Nijhof. 1999. Beyond codes of ethics: An integrated framework for stimulating morally responsible behaviour in organisations. *Leadership and Organizational Journal* 20 (3): 133–46.

McGuire, J. 1963. *Business and society.* New York: McGraw-Hill.

Mitchell, R. K., B. R. Ahle, and D. J. Wood. 1997. Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of Management Review* 22 (4): 853–86.

OECD. 2000. *The* OECD*-guidelines for multinational enterprises.* Paris: OECD.

Rowley, T. J. 1997. Moving beyond dyadic ties: A network theory of stakeholder influences. *Academy of Management Review* 22 (4): 887–910.

Sethi, S. P. 1975. Dimensions of corporate social performance: An analytical framework. *California Management Review* 17 (3): 58–64.

Ulrich, P. 1977. *Die grossunternehmung als quasi-öffentliche institution.* Stuttgart: Poeschel.

Ulrich, P., and E. Fluri. 1995. *Management: Eine konzentrierte einführung campus.* 7th ed. Bern: UTB.

Word Business Council for Sustainable Development. 1999. *Meeting changing expectations: Corporate social responsibility.* Geneva: WBCSD.

Word Business Council for Sustainable Development. 2002. *Sustainable development reporting: Striking the balance.* Geneva: WBCSD.

Yaziji, M. 2004. Turning gadflies into allies. *Harvard Business Review,* February: 111–5.