22 K. Davenport (1996) *Corporate Social Auditing* draft of unpublished thesis, Chapter two, p. 26.

23 P. Pruzan and O. Thyssen (1990), 'Conflict and Consensus: Ethics as a Shared Value Horizon for Strategic Planning', *Human Systems Development* 9 1990: pp. 134–152.

24 S. Zadek and P. Raynard (1995), 'Accounting Works: A Comparative Review of Contemporary Approaches to Social and Ethical Accounting', *Accounting Forum*, 19 (2/3) Sept/Dec.

25 For a more extensive description of some of the historical patterns that have been briefly alluded to in this section, see, for example, R. Gray, D. Owen, & K. Maunders (1996) *Accounting and Accountability: Social and Environmental Accounting in a Changing World* Prentice Hall International, Hemel Hempstead.

26 The principle of inclusivity can also be understood as the equivalent of the standard accounting principle of *materiality*. That is, the rights of stakeholders to choose performance indicators associated with their interests – in conjunction with the right of the organization to measure its performance against its own mission statement – is part of what secures information that is not only accurate but relevant or material.

There is an interesting connection with Fourth Generation Evaluation here, which suffers from the methodological defect of requiring balanced power conditions from the outset of the evaluation process. See S. Zadek (1995) *Beyond Fourth Generation Evaluation* unpublished paper, New Economics Foundation, London.

27 There have been enormous strides forward in the last decade in developing more participative approaches to dialogue between institutions and their stakeholders. Some of the most interesting work has been in the development field, where participative learning methods have been developed to cope with gross imbalances of power between the dialoguing partners, for example, those that exist between development agencies and village communities in the South. See, for example, J. Pretty, I. Guijt, J. Thompson and I. Scoones (1995) *Participatory Learning and Action: A Trainer's Guide* International Institute for Environment and Development, London.

28 There has been intense activity in the area of social indicator development over the last decade, particularly since the Rio Summit under *Local Agenda 21*. A good review of some of this material is provided by A. MacGillivray and S. Zadek (1995) *Accounting for Change: Indicators for Sustainable Development* New Economics Foundation, London.

29 Note, too, that this may mean it is more realistic and relevant for a large, diversified company to develop different social and ethical accounts for different subunits instead of trying to develop one single accounting, auditing and reporting system for the whole organization.

30 A considerable debt is due to John Elkington and Andrea Spencer-Cooke for their work in benchmarking environmental reports. See in particular United Nations Environmental Programme (1994) *Company Environmental Reporting: A Measure of the Progress of Business & Industry Towards Sustainable Development* Technical Report 24, UNEP, Paris, and UNEP/SustainAbility (1996) *The Benchmark Survey: The Second International Progress Report on Company Environmental Reporting* UNEP, Paris.

STAKEHOLDER ENGAGEMENT AND DIALOGUE

Jeffrey Unerman

A key point identified by the judges for the 2003 *ACCA UK* [Sustainability Reporting] Awards was the poor quality of stakeholder identification and involvement in the submitted reports. Beyond this, stakeholder engagement as an overall activity and more specifically

> as part of the reporting process is becoming increasingly high on the agenda in both the public and private sectors. It is therefore more important than ever before for such processes to demonstrate a clear rationale, transparency, and impact.
>
> (ACCA, 2005)

The above quotation encapsulates the key issues which are addressed in this chapter. It indicates that engagement and dialogue with stakeholders are increasingly recognized as crucial elements of sustainability reporting, while conceding that there is a shortage of evidence within social and environmental reports that such engagement and dialogue is actually taking place. In addressing these important issues, the aims of this chapter are to:

- explain why engagement and dialogue with a range of stakeholders are crucial elements of sustainability reporting;
- examine various theoretical perspectives regarding the prioritization of different stakeholders' needs and expectations, as identified through stakeholder dialogue, in the social and environmental reporting process;
- evaluate some of the key difficulties faced when an organization seeks to engage a broad range of stakeholders in the determination and discharge of the organization's social and environmental responsibilities, and the duties of accountability allied to these responsibilities;
- identify some of the stakeholder engagement and dialogue processes employed in practice by organizations.

But before addressing these issues, it will be helpful to define what is meant by the terms *stakeholder engagement and dialogue*. Thomson and Bebbington (2005, p. 517) provide a useful definition when they state that:

> [s]takeholders are involved [in the social and environmental reporting process] in a number of different ways including, identifying what issues are important to report on, how well the company has performed on specific issues and how to communicate this performance . . . Stakeholder engagement describes a range of practices where organizations take a structured approach to consulting with potential stakeholders. There are a number of possible practices which achieve this aim including: internet bulletin boards, questionnaire surveys mailed to stakeholders, phone surveys, and community based and/or open meetings designed to bring stakeholders and organisational representatives together.

A further perspective on the role of stakeholder engagement and dialogue is provided through the Institute of Social and Ethical AccountAbility's framework, AA1000. Within this framework, dialogue between a company and its stakeholders is one of the central principles of 'good' accountability practices:

> [l]aunched in 1999, the AA1000 framework is designed to improve accountability and performance by **learning through stakeholder engagement**.
>
> It was developed to address the need for organizations to integrate their stakeholder engagement processes into daily activities. It has been used worldwide by leading businesses, non-profit organizations and public bodies.
>
> The Framework helps users to establish a systematic stakeholder engagement process that generates the **indicators, targets, and reporting systems** needed to ensure its effectiveness in overall organisational performance.
>
> (ISEA, 2005, emphasis in original)

This importance of stakeholder engagement was further emphasized by the Institute of Social and Ethical Accountability when it published a draft standard on stakeholder engagement in September 2005 (Account Ability, 2005). This draft (p. 9) states that:

> [T]he overall purpose of stakeholder engagement is to drive strategic direction and operational excellence for organizations, and to contribute to the kind of sustainable development from which organizations, their stakeholders and wider society can benefit by:

Learning:

- Identifying and understanding
  - the needs, expectations and perceptions of internal and external stakeholders;
  - the challenges and opportunities identified by those stakeholders; and,
  - the material issues of internal and external stakeholders.

Innovating:

- Drawing on stakeholder knowledge and insights to inform strategic direction and drive operational excellence.
- Aligning operations with the needs of sustainable development and with societal expectations.

Performing:

- Enhancing performance.
- Developing and implementing performance indicators that enable internal and external stakeholders to assess the organization's performance.

Having provided a broad overview of the meaning and importance of stakeholder engagement and dialogue, this chapter will now proceed to examine why these processes are central to social and environmental reporting.

THE CORE ROLE OF STAKEHOLDER ENGAGEMENT AND DIALOGUE

To understand why stakeholder engagement and dialogue are crucial elements of social and environmental reporting, it is necessary to place these elements within the context of the overall social and environmental reporting process. Several commentators have characterized social and environmental reporting as a hierarchical staged process, whereby the decisions taken at each stage in the hierarchy determine the issues to be considered and decided in the subsequent stages.

For example, Deegan and Unerman (2006) and O'Dwyer *et al.* (2005b) argue that there are four broad hierarchical stages involved in the social and environmental reporting process. Deegan and Unerman (2006, pp. 311–13) label these as the *'why – who – for what – how'* stages, which are shown in Figure 9.2. The *why* stage involves determining an organization's philosophical motivations, or objectives, for engaging in social and environmental reporting – which are likely to be closely aligned to that organization's motives for adopting (or refusing to adopt) corporate social responsibility (CSR) policies and practices. The *who* stage identifies the stakeholders to whom an organization considers itself responsible and accountable if it is to achieve its philosophical objectives for engaging in social and environmental reporting. The *for what* stage is the stakeholder engagement and dialogue stage (and the main focus of this chapter), where the social, environmental, ethical and economic expectations of these stakeholders are identified and prioritized. The *how* stage comprises the mechanisms and reports which the organization employs to address these stakeholder expectations.

Although the focus of this chapter is stage 3 from this model, decisions taken at stages 1 and 2 will clearly shape the stakeholder dialogue and engagement processes employed by any organization. The relevant aspects of these stages are explored in a little more depth below, before focusing on stage 3.

Stage in model	Issues determined in stage	Example of holistic accountability	Example of strategic accountability
1 Why	Issues determined in stage	Using SER as a key mechanism for social, environmental and economic sustainability	Using SER as a tool to help maximize shareholder value
2 Who	Range of stakeholders to be adderssed in SER	All stakeholers affected by organization's actions (including future generations and non-humans	Stakeholders with the most economic power, who would detract from shareholder value if they withdrew their support
3 For what	Determining responsibilities to, and information needs of, stakeholders through engagement and dialogue	Needs of all stakeholders discussed and weighed via democratic debate leading to widely accepted consensus of organization's responsibilities and accountabilities	Stakeholder needs prioritized according to their relative economic power over the organization. Needs and interests of less powerful stakeholders largely ignored
4 How	Mechanisms used to compile and communicate reports addressing these stakeholder information needs	Report focused in consensus of information needs of broad range of stakeholders	Report focused on needs of economically powerful stakeholders

Figure 9.2: A staged hierarchical model of the Social and Environmental Reporting (SER) process.

Stage 1: understanding organizational motives for stakeholder engagement and dialogue

While there may be a combination of different motives driving any organization's social and environmental reporting and CSR in practice, the academic literature examining these motives can be very broadly divided into two perspectives (which may be viewed as two opposite ends of a continuum). One of these perspectives regards social and environmental reporting and CSR as processes which should be aimed at transforming business practices so they become socially and environmentally sustainable. Proponents of this holistic perspective often argue that a continual drive for short-term economic sustainability (in the form of maintenance or growth in financial profits) is incompatible in practice with social and environmental sustainability, as the generation of financial profits is almost always accompanied by direct and/or indirect negative social and environmental impacts (Bebbington, 2001; Gray, 2006; Gray and Bebbington, 2000; Meadows *et al.*, 2004). From this perspective, therefore, *social and environmental reporting* can only be regarded as *sustainability reporting* if it is structured in such a manner as to help in holding the organization (or its managers) truly responsible and accountable for all of their social and environmental impacts on all stakeholders – not just for those impacts or activities prioritized by the organization's managers (Bebbington, 2001; Bebbington and Gray, 2001).

The other broad perspective regards social and environmental reporting as a tool used by managers to win or retain the support of those stakeholders who have power to influence the achievement of an organization's goals (usually maximization of profit). Various theoretical perspectives highlight how social and environmental reports can be used strategically almost as a marketing tool, aimed at aligning perceptions of an organization's social and environmental policies and practices with the ethical values of its economically powerful stakeholders (see, for example, Bailey *et al.*, 2000; Deegan, 2002; Neu *et al.*, 1998; O'Dwyer, 2002, 2003). In this context CSR is often portrayed in terms of a 'win–win' practice, whereby organizational actions which apparently reduce the negative (or increase the positive) impacts of an organization's activities on society and/or the environment also help to increase that organization's profits (Norris and O'Dwyer, 2004; O'Dwyer, 2002, 2003; Thomson and Bebbington, 2005). However, the rarely declared corollary to this argument is that any reductions in negative social and/or environmental impacts on some stakeholders which would also result in a negative economic impact (for example reduced overall short- or medium-term profits) will not be undertaken. Thus, increased profit may be regarded as the prime motive underlying CSR and social and environmental reporting within this 'win–win' perspective, which has little to do with moving the organization towards a position where it is socially, environmentally and economically sustainable (if such a position could ever exist in practice) and accountable to a broad range of stakeholders. Spence (2005) argues that the 'win–win' business case has achieved such a dominant position in business thinking and in discourse about CSR, that it effectively suppresses many arguments which may highlight the social and environmental damage caused by many business activities, thus facilitating the continued unsustainability of business. For these reasons, social and environmental reporting strategically driven by a profit-oriented, economic, motive will not be referred to as *sustainability reporting* in this chapter, but will be simply referred to as *social and environmental reporting*.

Stage 2: linking stakeholder identification to motives for reporting

Having determined the broad philosophical motives or objectives underpinning why an organization wishes to produce a sustainability report, the next stage in the social and environmental reporting process involves identifying *to whom* the organization needs to report if it is to achieve these philosophical objectives. This identification of stakeholders has to take place after the philosophical motives for engaging in CSR and social and environmental reporting have been determined, because the range of stakeholders to be taken into consideration by any organization will be directly dependent upon its motives for engaging in CSR and social and environmental reporting. For example, an organization whose managers undertake CSR and social and environmental reporting because they believe it will maximize shareholder value will tend to focus only on those stakeholders who are able to exert the greatest economic influence on the organization's operations (Bailey *et al.*, 2000; Freeman, 1984; Freidman and Miles, 2002; Neu *et al.*, 1998; O'Dwyer, 2005b; Unerman and Bennett, 2004). Conversely, managers whose motives for engaging in CSR and sustainability reporting are grounded in a broader moral philosophy, of being responsible, responsive and accountable to all those upon whom their organization's activities might impact, are likely to be concerned with the whole of this broader range of stakeholders – rather than a narrower group of stakeholders whose needs are prioritized simply because the stakeholders' actions can impact upon the organization (Deegan and Unerman, 2006; Gray *et al.*, 1997; O'Dwyer, 2005b; Unerman and O'Dwyer, 2006).

Moving from stakeholder identification to stakeholder engagement and dialogue

Once the stakeholders who are the audience for an organization's social and environmental reporting have been identified, the third broad stage in the social and environmental reporting process is, according to Deegan and Unerman (2006), to identify the social, environmental and economic expectations of these stakeholders. This stage is crucial because these expectations will indicate both what behaviour these stakeholders require and consider acceptable from the organization, and the information needed by these stakeholders to enable them to judge the organization's performance in relation to these expectations.

Only once an organization knows *for what* issues its identified stakeholders regard it as being responsible and accountable can it then begin to produce a social and environmental report which addresses these specific issues. In other words, an organization cannot determine *how* to compile an effective social and environmental report – for example, to decide upon which issues to address in the report – until it has identified its stakeholders' information needs and expectations, because without this identification of stakeholders' information needs and expectations any resultant social and environmental report will be providing information which is not targeted at any particular purpose. Without appropriate targeting of the information, its purpose and impact is questionable (AccountAbility, 2005).

In such circumstances, only by luck will a social and environmental report be effective in addressing the information needs of, or discharging any duties of accountability which the organization has to, its identified stakeholders. Consequently it will be an ineffective mechanism for systematically holding the organization, and its managers, accountable for the social, environmental and economic impacts which the organization's actions may have upon its identified stakeholders. This is why stakeholder engagement and dialogue is a crucial element of social and environmental reporting (O'Dwyer, 2005b; Owen *et al.*, 2001; Owen *et al.*, 2000; Thomson and Bebbington, 2005).

Having established the importance of stakeholder engagement and dialogue to social and environmental reporting, we can now address some of the key issues and difficulties involved in the implementation of stakeholder engagement and dialogue processes.

Key issues and difficulties in stakeholder engagement and dialogue

Identifying the range of stakeholders to be considered

The first key issue which needs to be addressed in the implementation of any stakeholder engagement and dialogue process is the identification of stakeholders with whom the organization seeks to communicate. As indicated in the previous section, the range of stakeholders whose views are considered in any organization's stakeholder engagement and dialogue processes will be dependent upon the organization's (or its managers') motives for engaging in CSR and social and environmental reporting.

For an organization using social and environmental reporting strategically to help maximize shareholder value, those stakeholders with the most economic power will usually be significant in the organization's day-to-day operations. They will consequently be readily identifiable by the organization and may also be readily accessible through communication media prevalent in the areas where the organization operates. For example, a multinational corporation with a head office in a Western nation and whose products are sold primarily in Western nations may find that most of its economically powerful stakeholders are also based in Western nations. A multinational such as this can use a range of interactive communication media prevalent in Western nations (such as the internet, focus groups, opinion research) to engage in dialogue with, and to help identify, its economically powerful Western stakeholders' social, environmental and economic expectations (Swift *et al.*, 2001).

Conversely, where the motives of an organization's managers for engaging in CSR and sustainability reporting are based on a more holistic concern to be responsible and accountable for their impact on all those upon whom they have an impact, the process of identifying and engaging in dialogue with this broad range of stakeholders is likely to be much more problematic for several reasons.

Impossibility of direct dialogue and engagement with some stakeholders

Firstly, as organizational actions which take place today can, in many instances, have long-term impacts on nature and society, stakeholders affected by an organization's operations are likely to include future generations (World Commission on Environment and Development, 1987). It is difficult to conceive how an organization can engage stakeholders from future generations in dialogue today regarding current organizational responsibilities and accountabilities. Certain groups of contemporary stakeholders (such as some non-governmental organizations) might position themselves as guardians of specific interests of future generations, but engaging in dialogue with such 'proxy' stakeholder groups involves a vicarious representation of the interests of future generations which may be different from the actual interests yet to be judged by the future generations themselves (Unerman and O'Dwyer, 2006).[1]

Similar issues arise when recognizing that an organization's actions might impact on a range of non-human stakeholders today such as fauna other than humans (Singer, 1993) or, more broadly, the ecosystem (Gray, 2006; Meadows *et al.*, 2004), and/or on some human stakeholders who are less able to articulate their own concerns and interests (for example, infants or the mentally impaired).

Addressing heterogeneous stakeholder views and expectations

Secondly, even if all stakeholders who are affected (or likely to be affected) by an organization's actions were in a position to articulate their own interests, the needs and expectations of different stakeholders are often likely to be mutually exclusive (Lehman, 1995; Neu *et al.*, 1998; Unerman and Bennett, 2004). Faced with a range of mutually exclusive demands from different stakeholders, managers need a mechanism to determine which social, environmental and economic needs and expectations they will seek to address in their CSR and social and environmental reporting.

For managers of organizations strategically motivated to engage in CSR and social and environmental reporting by a belief that these processes will enhance shareholder value, choosing between mutually exclusive stakeholder demands is likely to be fairly straightforward – as they will simply prioritize the demands of those stakeholders with the most economic power over the organization (Adams, 2002; Bailey *et al.*, 2000; Boyce, 2000; Buhr, 2002; Mouck, 1995; O'Dwyer, 2003). Furthermore, in situations where many of the economically powerful stakeholders of a multinational corporation are likely to share a broadly similar cultural background (because for example they are mostly from the more wealthy sections of Western nations), it may be expected that these stakeholders' broad social, environmental and economic expectations will often be similar if, as argued by some, these expectations are largely dependent upon shared cultural and social backgrounds (Lewis and Unerman, 1999). In such situations, it may be expected that multinationals whose managers regard themselves as responsible and accountable solely to those stakeholders with the most economic power over their organization will face a largely homogenous set of broad social, environmental and economic expectations and demands from their selected (often relatively wealthy, predominantly Western) stakeholders.

However, managers who are motivated to engage in CSR and sustainability reporting by a desire to minimize the negative social, environmental and economic impacts of their organization's operations on all those stakeholders who are affected by these operations will face greater problems in identifying a single set of stakeholder expectations from a wide range of often mutually exclusive expectations (Thomson and Bebbington, 2005; Unerman and Bennett, 2004).

Prioritizing stakeholder needs on the basis of maximum negative consequences

One way to identify a single set of expectations would be to prioritize the needs and expectations of those stakeholders upon whose lives the organization's operations have (or are likely to have) the greatest negative impact. But there are several problems with this method of prioritizing stakeholder needs. Firstly, it risks ignoring the views of some stakeholders upon whose lives the organization's operations cause a substantial negative impact in situations where there are other stakeholders whose lives are impacted to a much greater negative extent by the organization's operations. Secondly, it assumes that the negative impacts caused by an organization's operations on each stakeholder can be assessed with a reasonable degree of certainty. And thirdly, it presupposes that it is possible to objectively rank the negative impacts suffered by different stakeholders in order to determine which stakeholder suffers the most from the organization's operations. In practice, any ranking of this nature is likely to be based (at least in part) on the subjective perceptions of the person observing the outcome of the organization's actions, and two observers with slight differences between their respective value systems may place different weightings on different outcomes, thereby resulting in different rankings of the significance of perceived negative outcomes suffered by different stakeholders.[2]

Negotiating a consensus among mutually exclusive stakeholder views through discourse ethics

An alternative method of seeking to arrive at a single set of stakeholder expectations from among mutually exclusive competing stakeholder claims and expectations, while still prioritizing the needs of those who are the most negatively affected by an organization's operations, has been advocated by Unerman and Bennett (2004). This method is based on the discourse ethics of Jürgen Habermas (1992), which provide a theoretical model for arriving at a consensus view of moral standards and values within a society through the use of discourse mechanisms (see, also, Alexy, 1978).

In summary, these discourse ethics mechanisms rely upon two key philosophical propositions. The first of these is derived from Immanuel Kant's (1949) eighteenth-century philosophical proposition of the Categorical Imperative (which has influenced numerous philosophers since Kant), and judges the validity of any moral proposition by the willingness of the person proposing this moral value to accept its validity in all possible situations. In other words, a judgement on the morality of a particular act can only be considered to have force if the person proposing this moral value would make the same moral judgement no matter in what position they found themselves in relation to the act whose morality was being evaluated. Thus, for example, if a wealthy member of a society who owned shares in many companies but was not reliant on paid work maintained that voluntary corporate initiatives to protect the health and safety of employees were immoral, this moral position would only be considered valid if this person would hold the same view if they found themselves stripped of their wealth (and investment income) and were then in the position of an impoverished worker who relied upon income from employment – and had no choice regarding whether to accept unsafe working conditions. Put another way, actions which are considered acceptable to someone with power, wealth and privilege would only be considered morally acceptable if that person would consider these actions to be equally morally acceptable if they lost their power and wealth, and were looking at (and experiencing) the outcomes of these actions from the position of the least privileged members of society (Lehman, 1995; Rawls, 1971).

The second key mechanism within Habermas' framework required to arrive at a universally acceptable and accepted consensus regarding the morality of behaviour is that each person's moral values and arguments should be tested and evaluated through debate with others who may hold alternative views. Habermas argues that the process in the first key stage (of judging the moral acceptability of actions by putting oneself in the position of others affected by the actions) is insufficient alone to arrive at a universally accepted consensus, because each person is likely to have a different conception of the possible outcomes of particular actions on a range of different stakeholders, and is likely to weight the significance of these outcomes differently. Only through the process of a democratic debate, where each person is free to articulate their own views regarding how particular acts are likely to impact upon them, and are free to challenge the views and arguments proposed by others, does Habermas believe that a universally (intersubjectively) accepted and acceptable moral consensus will be arrived at. But for this process to work, it is important that specific protocols of debate are observed so that the force of the better argument is recognized and accepted by all. The rules of debate proposed by Habermas to ensure that the debate produces and recognizes the 'best' arguments are termed an *ideal speech situation* and, in addition to requiring each participant to engage in the debate openly, honestly, and with willingness to recognize and accept the force of the better argument, they require that:

1 Every subject with the competence to speak and act is allowed to take part in a discourse.
2 a) Everyone is allowed to question any assertion whatever.
b) Everyone is allowed to introduce any assertion whatever into the discourse.
c) Everyone is allowed to express [their own] attitudes, desires and needs.
3 No speaker may be prevented, by internal or external coercion, from exercising [their own] rights as laid down in (1) and (2).

(Alexy, 1978, p. 40, as quoted in Habermas, 1992, p. 89)

However, Unerman and Bennett (2004) and Lewis and Unerman (1999) argue that, in practice, the theoretical ideal of an *ideal speech situation* is unlikely to ever be (or have been) realized in practice in the determination of organizational social, environmental and economic responsibilities and accountabilities. Among the reasons for this are that:

- many stakeholders who are potentially affected positively or negatively by an organization's actions are not able to participate in the debate and represent their own interests because, as indicated earlier in this chapter, they may not yet have been born (future generations), may be non-human species of fauna or flora, or may not have the mental ability to articulate their own interests;
- among those who are able to articulate their own interests, some may be better at articulating their interests than others, thus giving the more articulate a debating advantage over the less articulate in the process of discursively testing the arguments aired in the debate;
- in practice, many people may participate in the debate strategically, aiming to further their own interests irrespective of the impacts these may have on others – rather than being open and honest regarding these impacts and rather than being willing to recognize the strength of the more compelling moral arguments.

Nevertheless, Unerman and Bennett (2004) argue that although the requirements of an *ideal speech situation* debate are unlikely to ever be realized in practice, they have the potential to inform stakeholder dialogue processes. In other words, these ideal speech procedures should not be regarded as an 'all-or-nothing', but should be regarded as one end of a continuum ranging from no democratically informed procedures to a full ideal speech situation debate (see, also, Power and Laughlin, 1996). Unerman and Bennett argue that any movement along this continuum away from managers simply taking into account the information needs of only those stakeholders with the greatest economic power over achievement of the organization's objectives, and towards a democratic debate among all stakeholders who are affected by the organization's actions, is desirable and should not be sacrificed simply because the full 'ideal speech situation' is unachievable in practice. In the context of the distinction made at the beginning of this chapter between sustainability reporting (aimed at helping realize social, environmental *and* economic sustainability) and social and environmental reporting (motivated by an imperative to increase profits irrespective of negative social and environmental impacts which may arise), any movement towards a democratic consensus in the determination of organizational social, environmental and economic responsibilities and accountability should help move us away from profit-oriented strategic social and environmental reporting and towards more holistic sustainability reporting.

An important aspect of such an 'emancipatory' debate among stakeholders regarding the social, environmental and economic responsibilities of a business is that the debate should not be controlled by the business itself (Thomson and Bebbington, 2005). Such control limits the scope of the debate, and may result in important stakeholder concerns being marginalized (Gray *et al.*, 1997). Thomson and Bebbington (2005) indicate that one possible outcome of a process of stakeholder engagement where the organization itself invites selected stakeholders to participate and determines both the agenda and the channels of communication to be used (ensuring 'difficult' issues are not adequately aired), can be the production of accounts which support and reinforce a falsely objectified 'win–win' image of organizational social and environmental impacts, whose role is 'to tell a more or less passive audience that "everything" is fine and to discourage further questioning of the organizations' (p. 521). Thomson and Bebbington (2005, p. 520) further argue that stakeholder engagement and dialogue mechanisms which would support sustainability accounting and accountability would require that:

- measures be taken to equalize power between the organization and its stakeholders (and, presumably, between different stakeholders);
- the difficulties (or impossibility) of achieving business social and environmental sustainability are explicitly recognized in the stakeholder dialogue; and
- the views of stakeholders regarding all of the impacts which the organization has on them and on the environment are accorded a central place in any social and environmental report resulting from the dialogue process.

The next section of this chapter examines evidence of stakeholder engagement and dialogue practices to see how well they measure up to the principles discussed above.

Evidence of stakeholder engagement in practice

So far this chapter has explored a variety of issues related to stakeholder engagement and dialogue from a largely theoretical perspective, explaining: why stakeholder engagement is a crucial element of the sustainability reporting or social and environmental reporting process; how the range of stakeholders that any organization's managers will seek to engage is related to their philosophical objectives for engaging in CSR; and some of the difficulties involved in seeking to identify, from amongst mutually exclusive competing stakeholder social, environmental and economic expectations, a consensus set of expectations which the organization can then address in its sustainability reporting. This section moves away from these rather abstract (but nevertheless important) theoretical considerations to examine evidence of stakeholder engagement and dialogue practices.

A broad view on the general attitude in practice among large UK corporations towards stakeholder definition and prioritization is offered by Owen *et al.* (2005). In a survey of managerial attitudes, they found that managers considered shareholders to be the most important group of stakeholders in social and environmental reporting. After shareholders, the ranking among managers for the importance of different stakeholder groups in sustainability reporting was: employees, environmental pressure groups, government/regulators, local communities, customers, long-term lenders and suppliers. However, this ranking cannot be regarded as applicable universally as, for example, Adams (2002) found differences between the stakeholders who were considered the most important by a sample of German managers and those considered the most important by managers in the UK.

Among the academic studies which have commented upon aspects of stakeholder dialogue mechanisms in practice are Thomson and Bebbington (2005), Swift *et al.* (2001), Unerman and Bennett (2004), Owen *et al.* (2001), O'Dwyer (2005a) and O'Dwyer *et al.* (2005a, 2005c).

The dialogue mechanisms mentioned by Thomson and Bebbington (2005) covered: 'internet bulletin boards, questionnaire surveys mailed to stakeholders, phone surveys, and community based and/or open meetings designed to bring stakeholders and organisational representatives together' (p. 517) in addition to focus groups and tear-off comment cards included in social and environmental reports. In commenting on the (lack of) use of the latter, Thomson and Bebbington (2005, p. 523) state:

> [t]hese forms are usually fairly small, they cover a very small set of questions or solicit feedback of a very general nature. All the

> evidence which exists . . . suggests that very few individuals provide feedback on these preprinted, enclosed feedback forms.

In addition to the dialogue mechanisms outlined by Thomson and Bebbington (2005), Swift *et al.* (2001) found evidence for the use of interviews and company newsletters.

Unerman and Bennett (2004) conducted an in-depth analysis of the use of one stakeholder dialogue mechanism employed by Shell – an internet web-forum in the form of a bulletin board of social and environmental issues hosted on Shell's website. This web-forum, which is a mechanism also used by other companies, allowed anyone with internet access and an email address to post comments on any of the topics covered by the web-forum (which included a catch-all 'other' category). Shell officials replied to many, but not all, of the comments posted by external stakeholders, but Unerman and Bennett found little evidence of external stakeholders commenting on each others' comments. They therefore concluded that the web-forum was not being used by external stakeholders as a mechanism to debate their views, but rather appeared to be used to state views with little evidence of a willingness to engage in debate which might challenge (and possibly lead to a change in) these views. Furthermore, Unerman and Bennett commented that as many stakeholders potentially affected by Shell's operations may not have access to the internet (for example those in less developed nations), and as there were no translation facilities provided for non-English language users, the web-forum could not be used in practice to engage in dialogue with all possible stakeholders. Thus, while the facilities of this web-forum had the potential to move a little way towards the realization of an 'ideal speech situation' democratic debate among stakeholders with divergent views on the social and environmental responsibilities and accountabilities of Shell, in practice it was not used by either Shell or many of its external stakeholders to conduct such a debate.

Rather than commenting upon specific stakeholder dialogue mechanisms, Owen *et al.* (2001) examined managerial attitudes towards the overall process of stakeholder dialogue and engagement. They found that while there was recognition of the importance of stakeholder dialogue and engagement in social and environmental reporting:

> [t]he views of many of the corporate respondents . . . give rise to some suspicion that their commitment to stakeholder engagement is largely confined to a desire to manage expectations and balance competing interests, whilst leaving much scope for the exercise of managerial discretion.
>
> (Owen *et al.*, 2001, p. 270)

Broadly similar insights are provided by some of the findings of O'Dwyer (2005a). Furthermore, in an interview-based study examining the perceptions of one form of stakeholder (non-government organizations) in Ireland towards corporate stakeholder engagement, O'Dwyer *et al.* (2005a) found that these stakeholders believed there was active resistance by many corporations to meaningful engagement and dialogue with some stakeholders (to the extent that some viewed the relationship between corporations and stakeholders as antagonistic).

The above attitudes by corporations towards stakeholder engagement and dialogue in practice would indicate that these measures are used strategically as part of a business case, 'win–win' oriented social and environmental reporting process which has more to do with improving economic performance than it has to do with moving us towards sustainability. However, in a further study, O'Dwyer *et al.* (2005c) found that most of the Irish NGOs who responded to a questionnaire survey considered their relationships with corporations to be amicable, indicating that antagonism between corporations and stakeholders might not be a significant impediment to meaningful stakeholder engagement and dialogue – although a majority of the respondents did not actually take the opportunities which they perceived as being available for engagement and dialogue in helping to determine corporate social and environmental responsibilities and duties of accountability.

Summary and conclusions

This chapter has explored a variety of issues related to the role of stakeholder engagement and dialogue in the process of social and environmental reporting. It located these practices in the context of the motives for organizations engaging in social and environmental reporting, with these motives only being regarded as leading to sustainability accounting if they aimed at making the organization responsible, responsive and accountable to all those stakeholders upon whom their operations may have an impact. It further discussed the problems in operationalizing stakeholder dialogue and engagement mechanisms where these are motivated by concerns to address the expectations of this very broad range of stakeholders. It outlined theoretical procedures for arriving at a consensus among competing, mutually exclusive stakeholder needs and expectations, but indicated that in practice such procedures were not evident. If we are to achieve an improvement in the sustainability of business, then stakeholder dialogue mechanisms which give greater empowerment to a broad range of stakeholders will need to be developed and employed. Otherwise, stakeholder dialogue may continue to be used to provide a fig-leaf for strategically motivated social and environmental reporting which has little to do with making business more holistically sustainable in practice.

Notes

1. It may also be considered problematic for an individual to identify today their own interests in any more than a few years into the future.
2. Nevertheless, there have been some attempts in the academic literature to rank the significance of perceived negative social and environmental consequences of organizational activities – for example in developing full cost accounting models designed to account for externalities (see, for example, Bebbington et al., 2001).

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