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Business and Economics

STAKEHOLDER ENGAGEMENT AND THE RESPONSIBILITY ASSUMPTION

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Working Paper 19/06
July 2006

DEPARTMENT OF MANAGEMENT
WORKING PAPER SERIES
ISSN 1327–5216

Abstract

The purpose of this paper is to explicate the notion of stakeholder engagement and, in doing so, to dispel the common assumption that stakeholder engagement is necessarily a morally responsible practice. Stakeholder engagement is traditionally seen as corporate responsibility in action. Indeed, in some literature there exists an assumption that the more an organisation engages with its stakeholders, the more it is responsible. This simple 'more is better' view of stakeholder engagement belies the true complexity of the relationship between engagement and corporate responsibility. Stakeholder engagement may be understood in a variety of different ways and from a variety of different theoretical perspectives. Engagement based relationships may or may not involve a moral dimension. Hence, from even from an ethical point of view, engagement is not necessarily a moral practice. It is therefore argued that stakeholder engagement must be seen as separate from, but related to, corporate responsibility. A model that reflects the multifaceted relationship between the two constructs is proposed.

STAKEHOLDER ENGAGEMENT AND THE RESPONSIBILITY ASSUMPTION

INTRODUCTION

The purpose of this paper is to dispel the simplistic assumption that stakeholder engagement is necessarily an act of corporate responsibility and to theorise the complex relationship between stakeholder engagement and corporate responsibility. Stakeholder engagement can be understood as practices that the organisation undertakes to involve stakeholders in a positive manner in organisational activities. Corporate responsibility is taken to mean the responsibility of the corporation to act in the interest of legitimate organisational stakeholders. To this effect the paper is organised in the following manner. First the construct of stakeholder engagement will be teased out. The idealised depiction of stakeholder engagement will give way to the murky reality that engagement of stakeholders can mean many things to many people. Next, the existence of the simplistic "more is better" theme in the literatures of social reporting and human resource management will be explored. Then the construction of engagement without (the moral dimension of) trust or in opposition to trust will be developed. Trust in this instance is seen as the moral aspect of a cooperative relationship. This will be followed by a statement on the moral status (or lack thereof) of stakeholder engagement. The final section of the paper introduces a model that proposes a complex interaction between stakeholder engagement and corporate responsibility to replace the debunked simplistic responsibility assumption.

MULTIPLE VIEWS OF STAKEHOLDER ENGAGEMENT

Stakeholder engagement can be understood as practices that the organisation undertakes to involve stakeholders in a positive manner in organisational activities. According to Phillips (1997), the involvement of stakeholders in a mutually benefiting scheme that marks a person or group as a stakeholder and merits them additional consideration over and above the consideration due to any human being. In ideal terms, stakeholder engagement would take the Rawlisan form of a "mutually beneficial and just scheme of cooperation" (cited in Phillips, 1997: 54). Such a view depicts stakeholder engagement as a moral partnership of equals. In reality, however, it is likely that the organisation and its stakeholders are not of equal status and that the terms of any co-operation are set by the more powerful party. Hence, the notion of stakeholder engagement is ripe for further exploration.

Given the varied set of organisational stakeholders, notion of engagement may be extended to many areas of organisational activity including Public Relations, Customer Relations, and Employee Relations. It may be seen as a mechanism for consent, as a mechanism for control, as a mechanism for co-operation, as a mechanism for accountability, as a form of employee involvement and participation, as a method for enhancing trust, as a substitute for true trust, as a discourse to enhance fairness, as a mechanism of corporate governance.

Various possible depictions of stakeholder engagement, grouped into themes of responsibility, managerialist (market related and legitimacy related), and radical (control and social construction), together with theoretical sources from which they are derived are presented in Table 1. It is posited that not all these depictions of stakeholder engagement are mutually exclusive, although some are incommensurable. Further, it is posited that stakeholder engagement can perform several of these functions depending on the particular circumstance, even within a single organisation.

Table 1 about here

THE RESPONSIBILITY ASSUMPTION

There is an apparent soundness of logic to the assumption that the more an organisation engages with its stakeholders, the more responsible and accountable that organisation is likely to be towards these stakeholders. This 'more is better' theme or responsibility assumption is pervasive in both the literatures of social reporting and the human resource management.

High road HRM as corporate responsibility

Employee engagement is understood as a subset of stakeholder engagement, that is, the engagement of the stakeholder group identified as employees. Hence, employee engagement is understood to mean the intention and actions undertaken by an organisation in order to procure employee involvement, in various aspects of the workplace, together with the employees' response of becoming involved. Employee engagement is seen as a reciprocal activity, albeit one that is, to a large extent, initiated and controlled by the organisation. This definition follows that of stakeholder engagement (Beckett & Jonker, 2002) and is somewhat different from the employee centred definition derived from HRM, wherein employee engagement is seen as the extent to which employees are cognitively and psychologically connected with others and how this affects their involvement in task performances in the organisation (Kahn, 1990). The employee centred definition is rejected on the grounds that it constructs the notion of employee engagement as a one way process that is the responsibility of the employee.

Employees are considered primary stakeholders in the firm from both a normative and an instrumental perspective. Employees have been considered to be a primary constituent, and workplace conditions have been seen as an important subject, of social reporting since the inception of social reporting (Screuder, 1981). Indeed, management's role has been depicted as the balancing the conflicting interdependent demands for increased labour productivity and improved working conditions.

Employee engagement practices can include a range of activities which vary as to the amount of employee control (Blyton & Turnbull, 1998) from employee participation (low control) to employee empowerment (high control). Generally, these practices imply an increased employee input into decision making, increased employee control over resources, increased employee self-regulation and authority– in short, increased employee discretionary power (Claydon & Doyle, 1996). There is, however, scepticism as to the amount of true 'power' afforded employees, even at the 'empowerment' end of the spectrum (Wilkinson, 1998).

A "moralistic theme" is present in the employee empowerment literature (Claydon & Doyle, 1996: 13). The suggestion, however, that engaging with employees is an inherently responsible action on the part of the firm is fallacious. Just because an organisation attends to employees does not mean it is responsible towards them. Likewise, just because an organisation does not engage with employees does not mean that the organisation is not responsible towards them. Such assumptions do not account for the propensity of the organisation to act in self-interest, particularly where there is a large power imbalance in the favour of the organisation. Claydon and Doyle (1996: 16) note that the language of empowerment, like the HRM discourse more widely, slides between moral intent and self-interest. Thus, it is argued that employee engagement does not equate with moral responsibility.

Social reporting as corporate responsibility

Social reporting is the reporting of a company's social performance to its internal and external stakeholders. The communication information in this is often depicted as a part of a dialogue between the company and its stakeholder and a means by which the stakeholders can participate in the activities of the company. Shell represents the ideal case of engagement through social reporting leading to an interpretation of responsibility. The reputation of Shell has shifted from its lowest level in 1995 (Wheeler, Fabig & Boele, 2002), 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 peak in 2000, when it was seen 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, van der Wiele, McKenna, & 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 about it' (Sweeney & Estes, 2000). At some point public commentary slipped into that of 'doing the right thing'. A survey of 160 global opinion leaders found that Shell was thought to be strong on the environment, ethical and committed to human rights (Vidal, 1999). In 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, however, noted 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). Nevertheless, according to (Wheeler et al., 2002: 313):

There is no doubt that Shell's corporate repositioning on sustainability, CSR and stakeholder--responsiveness is real. Their international stakeholder outreach and public relations in the years since the events of 1995 have been very effective with a number of audiences…. In many ways, at the corporate level Shell is now a model company with respect to the concepts of CSR.

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 & Wempe, 1998: 132). Further, Kaptein and Wempe (1998: 132) erroneously assume that the proactive stance to be "normative" and that, by implication a defensive response is the opposite (they do not specify whether such a response is amoral or immoral).

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: 7) "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."

ENGAGEMENT AND/OR TRUST

Engagement as part of mutually beneficial co-operative schemes is highly likely to include some degree of trust. Trust is defined as including three elements: a rational prediction regarding the behaviour of the other party; an emotional bond with the other party; and a belief in the moral intent of the other party. It is noted that managerial authors tend to focus upon the rational aspect of trust at the expense of the other two (Wicks, Berman & Jones, 1999). It is argued, however, that the moral element of the relationship is essential to the concept of trust. The relationship between engagement and trust is not as straightforward as it might seem. Yes, one could assume a positive relationship between the two: greater engagement leads to greater trust and/or greater trust leads to greater engagement. But, one could also surmise that engagement may occur when trust is failing: we have a tendency to talk more to our partners when there is a problem. These views, and their implication to practices of stakeholder engagement, are outlined in this section.

Trust-based forms of co-operation can be distinguished from exchange-based forms of co-operation by the presence of a moral dimension in the relationship (Peccei & Guest, 2002). Where trust is present, the parties are motivated to co-operate by the belief that the other party will act with moral intent or, as a minimum, not act in a narrowly self-interested or opportunistic manner. Such a belief may be based on the perceived trustworthiness of the other party. Thus, the trustworthiness of the other party acts as a control to ensure that their interests are protected, or even advanced. Trust engenders greater co-operation among the participants in a trust relationship and co-operation may in turn lead to trust. Indeed one of the fundamental assumptions of consultative practices such as employee involvement is that such practices lead to 'stronger' relationships and greater commitment, and that these in turn build further co-operation. It is has been noted that interdependence between the trusting parties is key to a trust relationship. This would imply that working together, communicating, exchanging resources and other forms of co-operation are fundamental to such a relationship. Hence, the engagement of stakeholders by an organization may be understood as either a manifestation of or a contribution to the development of a trust relationship.

Without the element of moral duty, a co-operative relationship can be better described as showing the absence of distrust rather than the presence of trust (Swift, 2001). Co-operation can exist in a relationship independent of the presence of trust. Such a relationship, however, is fundamentally different to a trust-based relationship. In the absence of trust, co-operation is based on reciprocal exchange, but how is the integrity of this exchange ensured? Control against self-interested behaviour cannot be based on a belief in the moral integrity of the relationship or the other party. It is essential to have alternative control mechanisms, either external to the organisation (regulation, industry codes, etc.) or internal to the organization (code of conduct, culture of shared reciprocity). Hence, the notion that mechanistic forms of corporate control are a substitute for trust, and are less likely to be present in organizations with trust-based organizational-stakeholder relationships, is raised (Swift, 2001).

THE MORAL STATUS OF STAKEHOLDER ENGAGEMENT

It is posited that stakeholder engagement is a morally neutral practice. It may be morally neutral practice in that it may underpin exchange relationships based on rational factors. Stakeholder engagement may be used in a moral way or used in an amoral way, but it is not necessarily a moral practice nor is it necessarily an amoral practice. It has the possibility of being either of these. It may be a moral positive practice when it enables co-operation in the context of a trust relationship. It may be an amoral practice when it substitutes for trust in the context of a co-operative relationship. However, it may also be a morally negative (immoral) practice used as a deceptive control mechanism to lull stakeholders in to a false scenario of 'corporate responsibility'.

To suggest that stakeholder engagement is morally neutral is not to suggest that it is amoral, that is, without moral value. The very act of engaging stakeholders has moral connotations. For example, employee engagement presumes the attribution of some free will and respect to the workers, and existence of some element of procedural justice of the process (Rothschild, 2000). Clearly, unless employees are to some extent voluntary and active in the process, and the process is seen as fair and just by them, then engagement cannot be said to occur (the process would be more akin to manipulation or indoctrination).

However, there are other 'moral' elements that may be assumed or implied as part of engagement process (employee involvement as being necessarily 'good' for employees) that are not necessarily present. The intent of the actors may be taken for granted erroneously. Just because someone communicates or consults with another does not mean that they have any interest in fulfilling the other's desires or wants. In the organisational setting, employee participation in decision making may not be undertaken to achieve the goals of the employees, but rather done to further the objectives of the organisation. Likewise the virtue of the actors may be incorrectly assumed. Just because a manager acts in a fair and respectful manner in an engagement process does not mean that these are virtues that they value or nurture. Finally, it is often incorrectly assumed that the outcome sought is that which will provide the best utility for all parties involved. A conflation between the justness of the process (procedural justice) and the justness of the outcome (distributive justice) may occur. Thus it is claimed that the engagement process per se should be considered as independent of the intentions of the actors, the virtue of the actors and the fairness of the outcomes and, as such (with the qualification identified earlier), can be depicted as largely morally neutral or unaligned (as opposed to amoral or value-free).

MODEL OF STAKEHOLDER ENGAGEMENT

Having argued for the separation of stakeholder engagement from corporate responsibility, and the depiction of these two variables as distinct, it is appropriate to consider the possible relationship between them. The model presented herewith (see Figure 1) explores the relationship between two variables: the engagement of stakeholders and the moral treatment of stakeholders.

Figure 1 about here

The axes of the model

The x-axis of the model is labelled *Stakeholder engagement*. Stakeholder engagement is a process or processes of consultation communication, dialogue, and exchange. The social audit is understood as a process of engagement. High engagement is where these activities are numerous and/or these activities are of high quality. Low engagement is the opposite of high engagement. No engagement is theoretically possible, but highly improbable.

The y axis of the model is labelled *Stakeholder agency*. Stakeholder agency is a proxy for the moral treatment of stakeholders. Stakeholder agency is the number and breadth of stakeholder groups in whose interest the company acts. Single stakeholder consideration is where the organization considers one or a small number of stakeholders (most often owners or senior managers). Multiple stakeholder consideration is where the organization considers a larger number and/or a broader range of stakeholders. Multiple stakeholder obligation can distinguished by: the extent to which responsibilities towards non-shareholders are considered equivalent to those towards shareholders; the extent to which the duties towards non-shareholder stakeholders are considered ‘perfect’ duties; the extent to which responsibilities towards non-shareholder stakeholders are role-specific; and, the extent to which the fulfilment of responsibilities towards non-shareholder stakeholders are presumed to be the ultimate objective of corporate activity (Kaler, 2003: 77).

The quadrants of the model

1. Paternalism. By separating engagement from responsibility we also allow for the possibility for a company to act in the interests of stakeholders without necessarily engaging with them (see figure 1). This more traditional version of social responsibility may take the form of paternalistic management practices towards employees or philanthropic donations to the community. Whether the company can know or respond to the interests of stakeholders without consulting them is highly questionable. It is commonly believed that responsible management practices should incorporate stakeholder consultation and go beyond acts of benevolence.

2. Responsibility. Where stakeholder engagement combines with the moral treatment of stakeholders we can refer to corporate responsibility (figure 1). This moral responsibility forms the foundations of stakeholder theory (see the original principles of stakeholder theory (Evan & Freeman, 1993). The question of whether or not the moral treatment of stakeholders indeed is the appropriate manner in which business should fulfil its responsibility towards society, its corporate social responsibility, is beyond the scope of this paper (see (Sternberg, 1999) for a comprehensive ‘no’ argument).

3. Narrow or classical view. Where an organisation has little interest in engaging its stakeholders and acts accordingly we can assume a classic economically based view of the firm. Examples of practices which would fit such a model would be outsourcing of services such as human resource management, employment of contract labour rather than permanent staff and use of multiple low cost suppliers. Relationships with stakeholders would thus be viewed as an economic exchange and there would be no desire on behalf of the company to build comprehensive relationships with such stakeholders.

4. Strategic. Where an organisation attends to or is responsive to the needs of the stakeholders with the aim of furthering the organisations goals the management of stakeholders would be understood as strategic in nature. It could be surmised that most of the stakeholder engagement practices that pass under the label of corporate social responsibility are in fact forms of strategic management.

It should be noted that whilst these quadrants have been presented as discrete for heuristic purposes, the possibility that they meld and overlap is high. Indeed, it is posited that an organisation may be characterised by more than one (or possibly all) engagement types across its various departments/groupings or over time.

CORPORATE (IR)RESPONSIBILITY

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 many 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: 227) 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”. Ten Bos & Willmott (2001) 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 (for example Puxty, 1991; Tinker, Neimark & Lehman, 1991). Owen, Swift & Hunt (2001: 264) coined the term “managerial capture” with respect to social accounting and the broader 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: 524). In their investigation of whether companies report environmental performance objectively, Deegan and Rankin (1996) report 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 & Gray, 1996), or as an “ideological weapon” to reinforce its control by the company over its stakeholders (Tinker et al., 1991).

CONCLUSION

This paper has explored the construct of stakeholder engagement and its relationship with corporate responsibility. It has argued that the simplistic assumption that stakeholder engagement is directly related or equivalent to corporate responsibility is just that: simplistic and an assumption. The logic of this argument was based on an analysis of the moral status of stakeholder engagement which showed that, although stakeholder engagement has moral elements, overall it is morally neutral. This conclusion is manifest if one considers the reality that organisations can engage its stakeholders in order to control or manipulate them rather than out of any sense of moral obligation. Stakeholder engagement may be part of a trust-based mutually co-operative scheme but it may also be a substitute for trust or a veil for deceit. In order to fully understand these possible aspects of stakeholder engagement it is necessary to theorise the complex relationship between engagement and corporate responsibility. A model that proposes a probable relationship has been presented. This model offers a stepping stone for further theoretical and empirical exploration of this multifaceted relationship.

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Table 1: Understandings of stakeholder engagement

Engagement as a form of….	Engagement becomes a mechanism for….	Based on the ideas of….
Responsibility		
Fiduciary duty	acquitting the moral duty of the firm	Evan & Freeman, 1993
Consent	enhancing voluntary explicit consent, ameliorating unfairness	Van Buren, 2001
Corporate governance	allowing stakeholders access to decision making, enhancing stakeholder voice	Freeman, 1984 Van Buren, 2001
Participation	allowing stakeholders to participate in the firm	Arnstein, 1969
Fairness	fulfilling the proportional obligation to stakeholders	Phillips, 1997
Cooperation	enhancing trust-based cooperation	Peccei & Guest, 2002
Accountability	enhancing the accountability of the firm	Gray, Owen & Adams, 1996
Managerialist		
Unitarism	encouraging unity of values, suppressing dissent, discouraging informal communications	General managerial literature
High commitment HRM	eliciting employee contribution, becoming an “employer of choice”	Peccei & Guest, 2002
Non-financial accounting	Measuring and valuing non-financial, intangibles of the firm e.g. intellectual capital, social capital	
Strategic management	Managing the firm in response to the interests of the stakeholders	Freeman, 1984
Continuous learning	Involving stakeholders so that the company can continuously learn and improve	Sillanpaa, 1998
Legitimisation	legitimising the firm to its stakeholders	Deegan, 2002
Risk management	deflecting criticism	Deegan, 2002
Control and construction		
Trust-distrust	substituting for trust or mitigating distrust	Swift, 2001
Managerial capture	enhancing managerial control	Owen, Swift, Humphrey, & Bowerman, 2000
Social construction	constructing an image of the firm	Livesey & Kearins, 2002
Fatal remedy	Undermining democratic goals by attempting to control the immeasurable and making it rational and objective	Power, 2004
Knowledge appropriation	Transforming stakeholders’ tacit knowledge to explicit knowledge	Kamoche & Mueller, 1998; Power, 2004
Immorality	suppressing moral instinct	Bauman, 1993

Figure 1: A model of stakeholder engagement and the moral treatment of stakeholders