

# AOM 2013: Capitalism in Question

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**Submission #14260**

**Title:           Earning legitimacy through stakeholder Dialog**

**Sponsoring Divisions:**

- 1) **PRIMARY: Social Issues in Management (SIM)**
- 2) Organizations and the Natural Environment (ONE)
- 3) Business Policy and Strategy (BPS)
- 4) Conflict Management (CM)

**Abstract:**

The theme of the 2013 AoM Annual Meeting, Capitalism in Question, raises inherently normative questions. How should an economic system look like that is more life conducive and which is the role of business therein?

This workshop will present, firstly, a review of the normative foundations of multi-stakeholder dialog (MSD) and the need for business organizations to actively seek and gain public legitimacy in the context of the theme of the Annual Meeting. We will do so by focusing on the procedural dimensions arguing that the way in which fruitful dialogs are established is universal while diversity in a global marketplace needs to accommodate for variations in resultant activities and outcomes. Secondly two case examples will provide rich input for reflecting on the

presented foundations. These are a Chinese garment and textile company, Youngor, and its relationship to domestic and international NGOs where substantial deficits have been observed in the willingness to seek legitimacy on normative grounds. In contrast stands the case of Fraport the Frankfurt Airport operating company that conducted a series of MSDs seeking legitimacy for building an additional runway that gained a 'license to operate'.

The second part of the workshop will consist of a moderated open floor discussion around two themes: What are the experiences with and insights on MSDs in the audience and, as the second theme, to what degree can MSDs be seen as an appropriate tool to answer some of the questions capitalism is under?

### **Overview of the Workshop:**

The theme of the 2013 AoM Annual Meeting, *Capitalism in Question*, raises inherently normative questions. How should an economic system look like that is more life conducive and which is the role of business therein? Questioning Capitalism also means questioning business conduct which in turn points towards potential deficits in the legitimacy of enterprises. Our point of departure for this workshop is that normative questions cannot be answered by instrumental logic and consequently we need to embed the discussion on fruitful MSDs firmly in the normative variants of both legitimacy and stakeholder theory.

This point of departure is also the underlying theme of the first presentation: In a normative approach, stakeholders are defined as persons who advance a valid normative claim on the corporation (Reed, 2002). This definition leads to an understanding of stakeholders as *claimholders*, thus positioning the stakeholder debate in the realm of legitimacy rather than strategy as descriptive and instrumental views would suggest (Waxenberger & Spence, 2003).

The implications of positioning normative stakeholder theory as the only variation that can provide the foundations for dialogical procedures that are conducive to a promising quest for earning corporate legitimacy are substantial. It means that a) not the factual power carried by a claimant but the argumentative power of the claim is decisive (J. Habermas, 1996); b) not static stakeholder listings are required, but principled openness towards all valid claims (McMahon, 2000); c) not stakeholders but the dialogues ought to be managed by the corporation (Palazzo & Scherer, 2006).

Answering the questions that capitalism has come under is inseparable from businesses seeking to gain and continuously renew the ‘license to operate’ which can be seen as a proxy for gaining normative legitimacy. Legitimacy of corporate conduct cannot be taken for granted based on the legality of corporate conduct, nor can it be gained when the only underpinning for a business’s *raison d’être* is an inherently opportunistic objective function such as profit maximization (Pirson et al., 2009). It can only be *earned* through the deep integration of ethical considerations into managerial decision making (Thielemann & Wettstein, 2008).

The 2013 AoM Annual Meeting conference theme reinforces the need for ethical literacy on the executive floor. Yet how can business entities gain legitimacy for their worldwide conduct while the cultural and contextual diversity of their enterprises bar one-size-fits-all answers from working out? The answer we will present in this workshop is: The universal aspect is to be found in the procedural dimensions of initiating and managing dialogues with stakeholders. Hence, *universal* is the *way* fruitful dialogues are accomplished, rather than their resultant *activities* or *outcomes* (Pedersen, 2006).

To corroborate these views we have chosen two cases of MSDs that will be presented in the workshop. The first case is that of Youngor, where substantial deficits regarding the aforementioned relationship between legality and legitimacy can be observed. The second case is

Fraport, the Frankfurt Airport operating company where painful learning has led to a MSD that in the end created legitimacy for new runway based on accepting and acting upon legitimate stakeholder claims.

Youngor is a garment and textile company that ranks among the top 20 most valuable privately held brands in China (Hurun 2009). The company is located in Ningbo, a city that has consistently been rated the most transparent in its environmental information disclosure practices in an annual survey of major Chinese cities (IPE & NRDC, 2012). Youngor has been a role model in corporate social philanthropy and has had a substantial positive impact on their local community (Ningbo Municipal People's Government, n.d.). It thus came as a surprise when the firm was attacked in Greenpeace's 2011 'Dirty Laundry' campaign and in the 2012 'Cleaning up the Fashion Industry' campaign launched by the Green Choice Alliance (GCA), a coalition of Chinese environmental NGOs. Both campaigns targeted MNCs and Chinese domestic apparel firms and directly addressed Youngor (Greenpeace International, 2011; Friends of Nature et al, 2012)

My presentation is based on research using an interdisciplinary and qualitative approach to explore the interactions between Youngor and global and local NGOs. Analyzed data includes NGO texts published about the campaigns as well as domestic and international media reports. We also analyze interviews with representatives from the domestic and global NGOs, Youngor management, and government officials familiar with the campaign.

Youngor's behavior does not appear to demonstrate ideal MSD engagement. When Greenpeace launched its campaign, Youngor had had little experience with civil society organizations and had seen few cases where Chinese firms had been attacked as brands. Only

when Youngor was confronted with the threat of publication of an NGO investigative report did they engage in active discussion with Greenpeace to find solutions; however after the report was released the company denied the accuracy of Greenpeace's information and refused further engagement (Interview with Greenpeace China, 31 July 2012). Similarly, Youngor has been unresponsive to Chinese NGOs' information requests (Ma et al., 2012). Hence, it seems as if Youngor does not show principled openness towards all valid claims. Youngor's perspective, however, is that the NGO's claims are not valid: The chemicals for which Youngor was criticized by Greenpeace are actually legal in China (Watts, 2011), and Youngor is widely respected in terms of CSR performance.

Regarding the claims of international and domestic NGOs, we find interesting differences between Greenpeace, who addresses Youngor as a supplier to global brands, and the GCA, who considers Youngor to be a brand with power over and responsibility for its own (Chinese) supply chain. We thus find support for the conceptual claim that brands rather than suppliers are addressed by NGOs as partners in MSDs; a claim which the GCA appears to implicitly accept by addressing Youngor as a brand rather than as a supplier.

Analyzing the role of the city of Ningbo can provide further insight: The transparency created through Ningbo's environmental information disclosure policies supports civil society players as the important second party in MSD in two ways. First, the policies allow civil society players to access municipal environmental data and thereby equip them with the information necessary to confront MNCs with the effects of their operations and to potentially alert a concerned public. Second, they establish a public norm of environmental information transparency that NGOs can transfer from local governments to put pressure on local companies in order to engage them into MSD.

In the workshop we will present results from interviews with representatives of all involved parties: Youngor, Chinese and Western NGOs, and the Ningbo government. The findings from this emerging market case indicate challenges in implementing MSD that will stimulate further debate and can be used as anchor points for stimulating and structuring the involvement of the PDW participants.

In our Second Case, from 1998 to 2008, Fraport – the operating company of Germany’s largest airport in Frankfurt – has partnered with the regional Hessian state government to offer two consecutive MSDs in regard to plans to build a fourth runway. The prior extension of Frankfurt Airport in 1984 had been met with years of mass protests and confrontations with the police that abruptly ended only in 1987 when two policemen were killed by snipers. Plans to extend the airport yet again in 1998 required “dealing with an angry public” (Susskind & Field 1996). That is why these two MSD have taken form as the largest political mediations in Germany to date.

The presentation will focus on the second MSD, the Regional Dialogue Forum (RDF). Over 150 participants worked together from 2000 to 2008. They represented more than 50 different groups with stakes in the operation and effects of an airport, including citizen initiatives, environmental groups, mayors of surrounding towns, aviation group representatives, and representatives of chambers of commerce, churches, and unions. The first MSD between 1998 and 2000 had negotiated a “mediation package” which coupled an extension and the optimization of the existing capacity with a night flight ban and an Anti-Noise-Pact to rid the region of noise. It also established the Regional Dialogue Forum as MSD to continue and deepen the dialogue of stakeholders over specific measures of implementation. That dialogue took place on several

levels. A public dialogue, organized by a citizens office, was open to all citizens. A substantial discourse in five “project teams” and dozens of small working groups between officials and experts about facts and details of measures included 14 joint fact finding reports, a pioneering measure for Germany. Finally, a dialogue of decision makers and representatives in the main Forum of 34 stakeholders steered the whole process and eventually led to renewed negotiations about the Anti-Noise-Pact that resulted in a confirming vote in parliament and a public declaration of the air traffic community and the state government.

My presentation is based on my own practical experience as project leader of the RDF from 2005 to 2008, on the results of a Lessons Learned Dialogue with key stakeholders in 2008 that resulted in two studies (Meister and Gohl 2011; Gohl and Meister, 2012), as well as on instructional literature (Hemmati 2002, Geis 2005, Gastil 2008). I will first offer an overview of facts and structure. I will then offer two perspectives to frame and model this MSD. In the first and obvious frame, this MSD will be described as an example of political mediation. In the second frame, the MSD is described as an example of a sustainable development process. Issues that may be of interest for the discussion are the tension between trust, transparency and confidentiality, the relation of the formal due process of law and informal negotiations, and the different games of, and benefits for, participating stakeholders.

The example of the RDF is a good example of a successful MSD. Substantial issues were discussed, major decisions were influenced, and over time, thousands of people took part in it. It build legitimacy for the extension by listening to concerns, and accommodating central ones. While it demonstrated the potential of MSDs, it also showed its limits – and it is full of hard-learned lessons for anyone interested in MSD and its potential for corporate citizens to build trust and legitimacy among critical stakeholders.

In this workshop we wish to present MSD as a tool to overcome legitimacy deficits and, in consequence, paving a way from questioning capitalism to transforming capitalism. In doing so, we suggest MSDs will bear the richer fruit when grounded in the normative variant of stakeholder theory and that the focus ought to be on the procedural dimension of establishing and maintaining dialogical engagements.

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## **Second Presentation**

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### **Third Presentation**

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### **Why is this of interest to SIM**

This workshop explores social, ethical, and ecological environments influencing and influenced by organizations. Both of the central conceptions in this proposal are highly relevant for social issues in management. Legitimacy, in its normative variant, must be embedded in the broader social and indeed societal context to be meaningful. Simultaneously stakeholder claims from internal or external stakeholders can be neither justified nor answered only by the pure application of economic rationality.

### **The Workshop's Format**

This workshop is aiming to create a shared learning environment where the panelists will hold three short presentations of 15 minutes each. Subsequently the discussant will summarize the main tenets of the presentations closing the first hour of the workshop. After the discussants' summary a 5 minute break will take place. The second hour of the workshop will begin with a moderated open floor discussion aiming to share views and experiences on where and why MSDs succeeded and where and why they failed to enhance corporate legitimacy. The second theme for discussion is the validity of viewing normative MSD as a promising tool to find answers to those questions that capitalism is facing.