



Earning Legitimacy through Stakeholder Dialogue

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The Three Stepped Approach of Humanistic Management

Stakeholder dialogue in humanistic management



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Discussion

Why Have Stakeholder Dialogues?

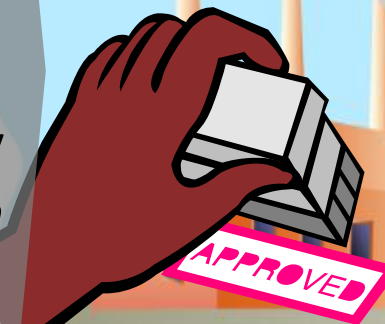
Dialogue creates legitimacy

Reciprocity of moral rights as expressed most widely through the *golden rule*

Voluntary submission of business conduct to a *self enforced test of legitimacy*

Engagement in *normative stakeholder dialogue* as the primary tool to *earn moral legitimacy*

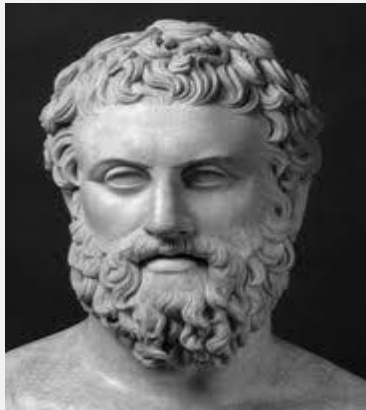
License to Operate



Why Have Stakeholder Dialogues?

The *golden rule* and reciprocity of moral rights

- The *golden rule* is a cornerstone of philosophic thought



Ancient Greece
Pittacus, 6th century BC



Chinese Confucianism
Confucius, 5th century BC



Age of Enlightenment
I. Kant, 18th Century

- The *golden rule* impacts not only our thinking on ethics and philosophy, but also on e.g. psychology, sociology, theology and neuroscience

Why Have Stakeholder Dialogues?

Dignity and reciprocity of moral rights

Awareness:

Humans are universally *aware* of their own physical and mental vulnerability (*conditio humana*)

We experience the exploitation of our vulnerability as deeply degrading, as disrespectful of our dignity

Consequence:

We demand others to avoid causing us undignifying experiences under all circumstances, or, in positive terms, we expect others to unconditionally respect our dignity.

Capacity:

Humans are universally *capable* and make use of their *capacity* for imaginative role taking

We frequently 'role play' whenever we say things like "I don't want to be in his/her shoes" or "imagine how this would make you feel"

Why Have Stakeholder Dialogues?

Business and reciprocity of moral rights

- Consequently, morally reciprocal behavior is more than the mere strategically motivated individual behavior that calculates utility gains from reciprocal (trans)actions under social interdependence.
- It demands unconditional adherence, for one can only expect unconditional respect for one's own moral rights if one is willing to respect everyone else's unconditionally as well.
- Morally reciprocal behavior is based on a universal moral point of view, in which a person's moral right for respect of his or her vulnerable persona supersedes any calculus regarding potentially resulting future benefits or sanctions.

Why Have Stakeholder Dialogues?

Legitimacy-seeking through dialogue

- *Reciprocity of moral* rights is fundamental for civilized human interaction; the universal character and acceptability is demonstrated by the *golden rule*
- Dialogue enables us to better understand if and how we affect the moral rights of others, representing the *dialogical extension of monological ethical reflection*.
- The translation to a more direct business context is based on *legitimacy-seeking* of the economic agent, providing the basis on which businesses can *earn* their license to operate

Why Have Stakeholder Dialogues?

Three main legitimacy conceptions

Cognitive legitimacy:

- An organization or institution is seen as inevitable or necessary
- Its existence is taken for granted
- It emerges where any other option seems unthinkable
- Based on pre-constructed beliefs and empirically accepted

Pragmatic legitimacy:

- Bestowed by self-interested, calculating stakeholders
- Based on receiving utility gains
- For the organization, legitimacy is (only) desired from key stakeholders
- Builds trust in social exchange processes

Moral legitimacy:

- Arises when normative evaluation results in the perception that an organization is 'doing the right thing.'
- It is based on values and reason
- May be granted consequentially or procedurally

Why Have Stakeholder Dialogues?

Three main legitimacy conceptions

Cognitive legitimacy is established when the very existence of an organization or structure has been removed from the perceived sphere of influence of actors

Pragmatic legitimacy creates a 'business case for legitimacy' encouraging organizations to provide certain stakeholders with tangible rewards in exchange for trust

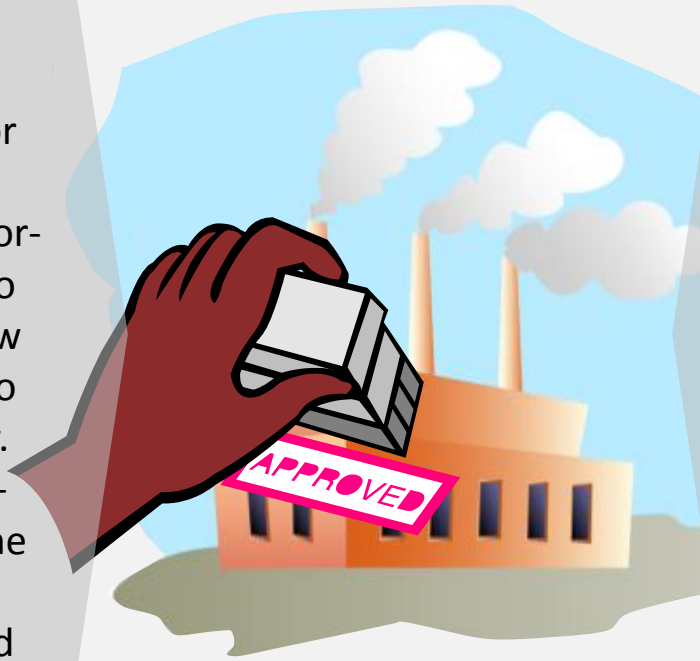
Moral legitimacy forces a business to assess its conduct, rationalize its behavior and compare it to expectations and the desirability of its impact on all those affected

Why Have Stakeholder Dialogues?

The license to operate depends on dialogue

Corporate perspective:

Corporations that are serious about being, or working towards becoming, responsible corporate citizens have no alternative but to allow for ethical argument to supersede expediency. Only moral legitimacy-seeking can provide the *foundation for ethical arguments* to be heard and acted upon.



Societal perspective:

Only moral legitimacy can lead civil society to willingly grant a license to operate for it is not based on the power of certain stakeholders, or tangible asset allocation towards them. Instead it is based on the *logic of reciprocating moral rights* and the resultant equal respect for all those affected by a business.

Who are Stakeholders?

Stakeholders are a dynamic group

Principled openness towards dialogue is fundamental to civilized human interaction in situations of conflict

Stakeholders are a dynamic group; just as business operations change so do the corresponding stakeholders

Not the power of claimants but the power of the claims must determine engagement with stakeholders

**Alignment of
Business and
Societal Aims**



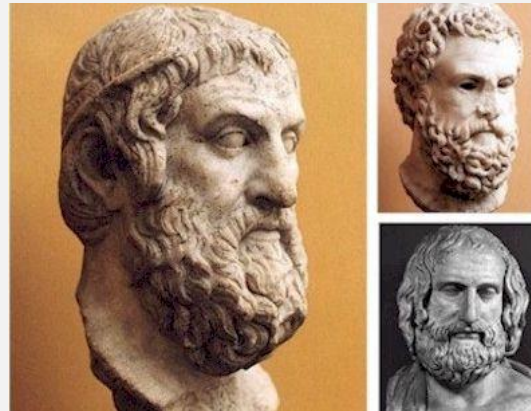
Who are Stakeholders?

Interpersonal conflict and dialogue

- Dialogue has long been the means of civilized conflict resolution



Buddhism: Buddha,
6th - 5th century BC



Ancient Greece: Plato, Socrates,
Aristotle, 5th century BC



Communicative action: Habermas, today

- We have little alternative but to *combine rational thought and speech* in order to find compromise when interests are in conflict

Who are Stakeholders?

Not static but dynamic in character

- Stakeholder literature and corporate practice often offers lists and models containing static views on who stakeholders are, drawing attention to the claimant rather than the claim.
- They (implicitly) exclude anyone who has not made it on that list.
- Static lists will either not be able to account for the breadth of potential stakeholders, or they must be kept so generic that they lose their relevance.
- Simply put, only an open stakeholder definition can account for the dynamic character of potential claimants.

Who are Stakeholders?

Three main variants in stakeholder theory

Descriptive:

- Stakeholders are parties that (evidently) interact with the corporation
- The corporation is a constellation of cooperative and competitive interests
- The majority of businesses practice stakeholder management

Instrumental:

- Stakeholders are parties that can forward or hinder enhanced profitability
- The prime objective function of the firm is profit maximization
- Managers should (only) pay attention to constituents who affect the value of the firm

Normative:

- Stakeholders are anyone who can forward a valid normative claim
- Stakeholder claims have intrinsic value
- Stakeholder interaction does not rest in the realm of strategy but legitimacy

Who are Stakeholders?

Three main variants in stakeholder theory

Descriptive stakeholder theory helps us understand 'how things are' but it lacks the power that could explain how or help a business to gain moral legitimacy

Instrumental stakeholder theory is in stark conflict with reciprocating moral rights as it responds only to the power of the claimant rather than the power of the claim

Only normative stakeholder theory can satisfy the conditions for gaining moral legitimacy as only it has the power to satisfy the moral rights of stakeholders

Who are Stakeholders?

The power of claims vs. the power of claimants

- Any meaningful construct of who stakeholders are must be based on the fundamental insight, that the *argumentative power of the claim* must prevail over the *factual power of the claimant* (logic of reciprocating moral rights).
- Any claim and, thereby, any claimant must have the right to equal consideration and receive equal opportunity to bring forward a claim and voice concerns.
- Only then can businesses ensure that they treat all stakeholders as an end and that all valid claims are regarded as having intrinsic value.

Who are Stakeholders?

Stakeholders are a dynamic group

Societal perspective:

Only *normative stakeholder theory* paves the ground for civil society stakeholders to be respected as representatives of claims of intrinsic value. Dialogical interaction with business must be grounded in a dynamic understanding of stakeholders as claimholders.



Corporate perspective:

For corporations to fully reap the benefits of fruitful stakeholder dialogue there is no alternative but to embrace stakeholders based on the power of their claims rather than the power of the claimants. Only normative stakeholder theory can frame dialogical stakeholder engagement accordingly.

Spot the Difference?



Stakeholder dialog

A tool for conflict resolution – defensive



- Glencore – Comunites around the Carbones de la Jagua Mine
- Nestlé – Greenpeace: Palm oil sourcing
- Shell – Greenpeace: Brent Spar
- Ikea – UNICEF: Child labor
- Unilever – IUF: Labor rights in Pakistan
- Bayer – FLA: Child labor
- Novartis – Swiss Labor Union: Redundancy program

Stakeholder dialog

A tool for conflict resolution – progressive



- ABB – own employees: Global social standards
- Puma – Greenpeace: Detox
- Springer – Greenpeace: Recycled paper
- Novozymes – Danish Government: Genetically modified enzymes



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