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A Habermasian model of stakeholder (non)engagement and corporate (ir)responsibility reporting

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ABSTRACT

Inspired by Habermas' works, we develop a prescriptive conceptual model of stakeholder engagement and corporate social responsibility (CSR) reporting against which empirical descriptions can be compared and contrasted. We compare the high profile case of Kraft's takeover of Cadbury with the conceptual model to illustrate the gap between an ideal speech situation and practice. The paper conducts a desk study of documents relating to the takeover and interviews with stakeholders from the local community to gauge their views of stakeholder engagement and CSR reporting by Cadbury/Kraft. The findings lead to policy recommendations for enhancing stakeholder accountability through improved steering mechanisms.

1. Introduction

"…they are keeping a low profile while Great Britain 'forgets' about the takeover" (S12, a local woman).

A growing body of academic accounting research highlights the ways in which non-financial stakeholders are relatively powerless, disempowered and marginalised by corporate decision-making (Cooper & Owen, 2007). The exclusive corporate focus on maximising shareholder value reinforces the disenfranchisement of other external constituencies (Collison, 2003). Companies are being encouraged to engage directly with their stakeholders.[1] The Sustainability Reporting Guidelines produced by the Global Reporting Initiative (GRI) elucidate reasons why stakeholder engagement is important and why it should be disclosed by companies. Where companies engage with diverse stakeholder groups, this engagement tends to benefit company management, serving as a weak mechanism of stakeholder accountability (Cooper & Owen, 2007; Owen, Swift, & Hunt, 2001; Thomson & Bebbington, 2005). Corporate social responsibility (CSR) reporting provides a vehicle for companies to engage, theoretically at least, in an indirect way with their diverse stakeholder groups. Further, CSR reports should include detailed information on the more direct stakeholder engagement processes companies are involved in the GRI. Recent trends in corporate governance and accountability favour a more stakeholder inclusive approach and in the UK context there are strong societal demands for corporate stakeholder accountability and CSR reporting (FRC, 2011). The GRI provides an important (although not mandatory) framework for CSR reporting and by insisting on reporting encourages the development of related, underlying activities, "[S]takeholder engagement processes can serve as tools for understanding the reasonable expectations and interests of stakeholders. Organizations typically initiate different types of stakeholder

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[1] Stakeholder engagement information-gathering methods include questionnaire surveys, interviews, focus groups and public meetings (Owen, 2003).

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engagement as part of their regular activities, which can provide useful inputs for decisions on reporting" (GRI, p.10).[2] Without documentation of underlying stakeholder engagement processes, the GRI stipulates that CSR reports are not assurable. Yet these voluntary recommendations focus primarily on CSR reporting with stakeholder engagement recommended as a crucial but essentially underlying, background process. This paper develops a Habermasian prescriptive conceptual model centring on discursive processes to summarise the processes producing, guiding and interacting with stakeholder engagement and CSR reporting. The model provides a counterfactual against which empirical descriptions can be compared and contrasted.

In the UK, the Modern Company Law Review (MCLR) resulted in a revised Companies Act requiring companies to give consideration to their broader stakeholders, not only their financial stakeholders.[3] Nevertheless, there is scepticism regarding the MCLR process and its outcomes, especially in relation to the abrupt abandonment of the proposed mandatory operating and financial review (OFR) which could have provided a vehicle for enhanced and effective CSR reporting (Cooper & Owen, 2007; Collison, Cross, Ferguson, Power, & Stevenson, 2011; Solomon & Edgley, 2008). In terms of corporate transparency and CSR reporting, ongoing efforts to achieve integrated reporting, such that companies integrate financial, economic, environmental, social and governance information into one primary report for stakeholders are gaining momentum (Eccles & Krzus, 2010; Solomon & Maroun, 2012), with South Africa being the first country to mandate an integrated report through their stock listing requirements (IIRC, 2011; IRCSA, 2011). Companies today are expected by society to discharge accountability to a broad range of stakeholders both for ethical reasons but also because 'good' governance, stakeholder accountability and a socially responsible approach nurtures long term value and reduces reputation and operational risk. A broader, multi-theoretic view towards corporate governance and accountability is becoming increasing relevant to society (Christopher, 2010). Indeed, a continuing stream of academic research has found a positive relationship between CSR and corporate financial performance thus strengthening the business case for corporate stakeholder accountability (Armour, Deakin, & Suzanne, 2003; Belkaoui, 1976; Bowman & Haire, 1975; Brennan & Solomon, 2008; Cobb et al., 2005; Cochran & Wood, 1984; Griffin & Mahon, 1997; Scholtens, 2008).

A high profile case which can be used to illustrate the current state of stakeholder engagement and CSR reporting in practice is that of the takeover of Cadbury's by Kraft. In 2010 Cadbury, a company with a renowned tradition for social responsibility, well-known for caring for its workforce, was taken over by Kraft in one of the most highly publicised cases in recent history. Kraft is not associated with outstanding CSR and has in fact received the lowest rating in the latest Carbon League Table.[4] One of the most poignant aspects of the takeover was the fate of Cadbury's Somerdale factory in Keynsham. Despite Kraft's stated intention to keep Somerdale open before the takeover, the decision was reversed as soon as Cadbury was sold. Analysing the documentation surrounding this illustrative case allows us to compare practice with our theoretical counterfactual model. Those stakeholders most directly affected by this decision were the local community of Keynsham and employees of the Somerdale factory. The perceptions of this community of non-financial stakeholders towards both companies' behaviour may provide insights into the extent to which companies are in practice incorporating less powerful stakeholders into their decision-making and communicating with them in a transparent manner through engagement and corporate social responsibility (CSR) reporting. Canvassing the views of relatively powerless stakeholder groups, such as members of the local community, is notoriously difficult (Tilt, 2007). However, studies which seek to include these disempowered stakeholders are crucial if corporate governance and accountability are going to evolve to encapsulate the needs and demands of diverse external constituencies. In this paper we analyse a wide range of documentation relating to the Cadbury takeover (including media articles and Government reports) and we supplement this research by soliciting views from members of the local Keynsham community in order to:

- Assess the nature of stakeholder engagement which took place around the takeover
- Expand research into stakeholder engagement and CSR reporting by soliciting the views of wider stakeholders such as members of the local community, local councillors
- Assess perceptions of stakeholder engagement processes and CSR reporting among members of the local community
- Draw insights on stakeholder engagement processes during the Cadbury takeover from the work of Habermas and the use of his theoretical framework as a counterfactual.

[2] Note that this quote is reproduced on p.16 of the current exposure draft of the G4 GRI Sustainability Reporting Guidelines which are currently undergoing a consultation process.

[3] "A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to – (a) the likely consequences of any decision in the long term, (b) the interests of the company's employees, (c) the need to foster the company's business relationships with suppliers, customers and others, (d) the impact of the company's operations on the community and the environment, (e) the desirability of the company maintaining a reputation for high standards of business conduct, and (f) the need to act fairly as between members of the company" (Companies Act 2006 S172: Duty to promote the success of the company).

[4] The Carbon League Table was published in November 2011 by the UK Environment Agency's CRC Energy Efficiency Scheme. Kraft was ranked joint 1301 in this league table, the lowest ranking attained by any company.