

# **Making Corporate Social Responsibility (CSR) Operable: How Companies Translate Stakeholder Dialogue into Practice**

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**D**uring the last decade, an increasing number of scholars and practitioners have adopted the discourse of corporate social responsibility (CSR). Academics and consultants sing its praise in speeches, articles, conference papers, and books; companies formulate codes of conduct and report on the social and environmental impacts; and socially responsible investors place huge amounts of money in socially responsible companies. Likewise, governments and international organizations increasingly integrate CSR in policy papers, and voluntary organizations take part in designing and maintaining a wide range of social and environmental management standards, labeling schemes, and reporting systems. In other words, CSR has swept across the world and has become one of the buzzwords of the new millennium.

In spite of its current popularity, however, CSR remains an ambiguous and much debated construct. For instance, the proper dimensions of a company's social responsibilities and the relationship between corporate social performance (CSP) and financial performance (FP) are still the subject of lively controversy.<sup>1</sup> From a more practical perspective, CSR also remains difficult to operationalize.

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As David Grayson and Adrian Hodges correctly point out, there is still a “considerable gap between the corporate CSR rhetoric and actual practice on the ground because of difficulties in making it operational.”<sup>2</sup> In consequence, companies are left with little guidance when they try to translate the abstract concept of CSR into practice.

The purpose of this article is to analyze how companies actually translate CSR into practice and to identify some of the factors that affect the implementation process. However, before going into an analysis of how companies make the abstract term of CSR operable, the article will briefly introduce the stakeholder approach to CSR and present three “filters” that may constrain companies’ ability to implement stakeholder dialogue.

### **CSR AND STAKEHOLDER THEORY**

Due to its eclectic nature, CSR has always attracted scholars from a wide range of academic disciplines. In 1970, Alvar O. Elbing noted that social responsibility has been approached philosophically, theologically, psychologically, sociologically, economically, and esthetically.<sup>3</sup> However, in the last couple of decades, stakeholder theory has increasingly become the common frame of reference when CSR is discussed. According to the stakeholder model, a company must be aware of and respond to the various demands of its constituents, including employees, customers, investors, suppliers, and the local community.<sup>4</sup> Thus, it breaks with the notion that the shareholders are the only important constituents and that shareholder wealth is the only relevant criteria for evaluating company behavior. One of the reasons is that the clear-cut distinction between “social” and “economic” does not hold up in reality.<sup>5</sup> According to the shareholder perspective, business is about economic and not social goals, and therefore companies should not be concerned with the latter. In real-life situations, however, economic decisions also have social consequences (and vice versa) and hence the boundaries between the social and economic world become blurred.<sup>6</sup> Moreover, even if it was possible to distinguish between the two, there would not necessarily be any conflict between them. Authors have also challenged the dogma that profit maximization should be the only corporate goal and still others have argued that profit maximization does not reflect real-life decision-making processes that always

features a “zone of discretion” that enables managers to address social and environmental issues if they want to.<sup>7</sup> Last but not least, some proponents of CSR simply argue that companies have responsibilities toward the stakeholders whether it pays off or not. Companies do not deserve to be in business if they do not act in accordance with the dominant norms, rules, and values in society.<sup>8</sup>

The stakeholder model has become one that best reflects the modern understanding of companies as integrated in, rather than separated from, the rest of society. However, despite the current popularity of both CSR and the stakeholder approach, there is still no generally accepted definition of either “stakeholder” or “CSR.” With regard to the former, Freeman originally defined stakeholders as “any group or individual who can affect or is affected by the achievement of the organization’s objectives.”<sup>9</sup> Since then, almost every aspect of the internal and external environment of the company has been integrated into a more and more devaluated definition of stakeholders. This includes trees, starry nights, ecosystem processes, and future generations.<sup>10</sup> With regard to the latter, there has never been and probably never will be consensus on the definition of CSR. Actually, as early as 1960, Frederick called for a precise definition of CSR.<sup>11</sup> In 1975, Preston and Post also criticized the absence of boundaries to CSR and suggested a redefinition of the concept to public responsibility so as to highlight the importance of formal and informal institutions as guidelines and appraisal criteria for managerial responsibility.<sup>12</sup> More recently, in 2003, Snider, Hill, and Martin have argued that CSR is concerned with the relationship between business and society, but that the nature of this relationship will always be subject to numerous interpretations and influenced by passing trends and fashions.<sup>13</sup>

In summary, CSR means different things to different people at different times, and new issues can easily be included in existing definitions. Moreover, the multiplicity of related concepts, such as corporate citizenship, corporate accountability, sustainability, business ethics, triple bottom line, and philanthropy have undoubtedly contributed to the confusion about the true nature of CSR.<sup>14</sup> The article will not make any Sisyphean attempt to reach an all-embracing definition of CSR. Instead, the article will adopt the view of van Marrewijk who broadly defines CSR as “company activities—voluntary by definition—demonstrating the inclusion of social and environmental concerns in business operations and in interactions with

stakeholders.”<sup>15</sup> It is outside the scope of the article to go into a detailed discussion of whether this definition is in accordance with other authors’ use of the term—and if so, how. The important matter is that the definition of CSR acknowledges the close ties to stakeholder theory and accepts the eclectic nature of CSR by refraining from limiting itself to specific strategies, specific stakeholders, and/or specific social and environmental issues.

### **PARTICIPATORY APPROACHES TO CSR**

As indicated in the definition, the company’s interaction with various societal groups and individuals is an important part of CSR. Some even see the company’s engagement with stakeholders as the essence of CSR.<sup>16</sup> Without relationships with the internal and external constituents, companies will find it difficult to grasp the fluctuating nature of the values, attitudes, and behavior of their stakeholders and respond accordingly. In consequence, terms like “participation,” “inclusion,” “voice,” “involvement,” “collaboration,” “partnerships,” and “engagement,” have always been common in CSR literature. In this article, I will use the term “stakeholder dialogue” to describe the involvement of stakeholders in the decision-making processes that concern social and environmental issues.

Stakeholder dialogue may assume a variety of forms—from information about the company’s conduct to an open dialogue on a wide range of issues—and the quality of the dialogue process differs significantly.<sup>17</sup> The multifaceted nature of stakeholder dialogue implies that it is necessary to have an analytical framework to evaluate how the company actually involves stakeholders in the decision-making processes. Figure 1 outlines the different dimensions of stakeholder dialogue and the corresponding levels of engagement. The model serves as a frame of reference for an appraisal of the extent to which the company’s stakeholder dialogue is either participatory and inclusive or hierarchal and exclusive.

- **Inclusion.** The identification and inclusion of stakeholders in the dialogue is of crucial importance. If important stakeholders are excluded from the decision-making process, the relevance of and anticipated benefits from the dialogue will be limited. As a participatory ideal, the stakeholder dialogue should include the

**FIGURE 1** Stakeholder Dialogue: Levels of Engagement.

		Level of engagement:	
		<i>Low</i>	<i>High</i>
<b>Dimension:</b>	<i>Inclusion</i>	Only a few privileged stakeholders are included in the dialogue.	All relevant stakeholders are included in the dialogue
	<i>Openness</i>	Dialogue is structured around a fixed set of questions/problems/issues.	Dialogue is structured around open questions/problems/issues.
	<i>Tolerance</i>	One position has priority over all the others.	New, alternative and critical voices are respected.
	<i>Empowerment</i>	One stakeholder dominates the dialogue and decisions.	Freedom and equality in dialogue as well as in decisions.
	<i>Transparency</i>	No access to information about the process and outcomes of the stakeholder dialogue	Full access to information about the process and outcomes of the stakeholder dialogue

Source: This figure is based on the work of Iris Marion Young<sup>18</sup> and Jacob Torfing.<sup>19</sup>

important groups and individuals who affect and/or are affected by the decision on the issue in question.<sup>20</sup> However, as will be discussed later, defining who is important and who is unimportant is neither a trivial nor a neutral task, and the participatory ideal of inclusion has to be combined with efficiency concerns. When the number of participants increases, efficiency is likely to decrease, because the task of coordinating the dialogue and reaching consensus becomes more challenging.<sup>21</sup>

- **Openness.** The relevance of the stakeholder dialogue will be limited if the nature of the problems is taken for granted and if the consequences and alternatives are few and predetermined by the company. A prerequisite for a participatory dialogue is open problems/issues that allow stakeholders to make their own judgments and voice their opinions.<sup>22</sup> If certain participants are free to kill potentially controversial issues before or during the stakeholder dialogue, the level of engagement is limited.<sup>23</sup>
- **Tolerance.** If some rationales or logics take precedence over others, the dialogue will favor the stakeholders that hold these positions. For instance, if arguments based on “efficiency” and “profit” are considered to be more legitimate than arguments referring to “fairness” or “the public good,” the results of the

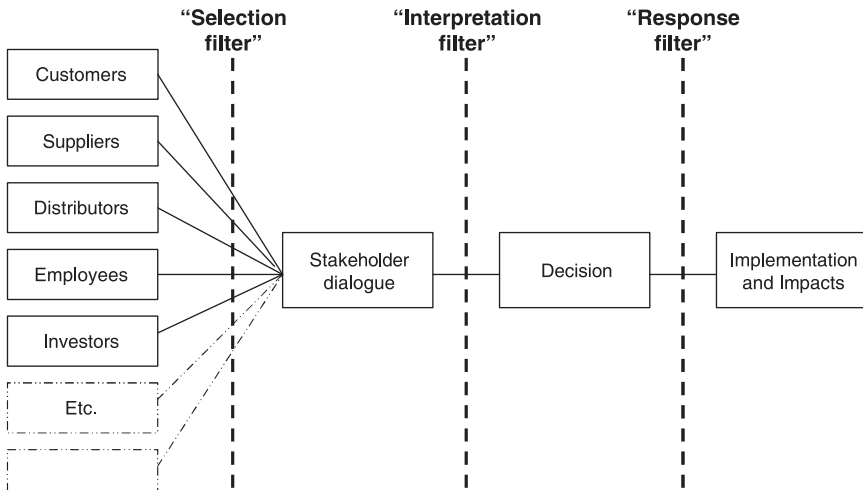
dialogue will be known from the start. In order for the dialogue to be participatory, the stakeholders and the organization involved must be open-minded toward alternative and critical voices that may bring new ideas and insights to bear on the issues that the company is trying to solve.<sup>24</sup>

- **Empowerment.** The level of engagement is affected by the degree to which the stakeholders are able to affect the structure, process, and outcomes of the dialogue. Low levels of freedom and equality in the dialogue indicate low levels of commitment and imbalances of power. For instance, if only some participants have decision-making authority or if rules and procedures favor one participant over the others, the stakeholder dialogue moves away from the participatory ideal.
- **Transparency.** In a “don’t tell me, show me” world, companies are expected to disclose information to the stakeholders on their social performance.<sup>25</sup> In order to improve the accountability, it has even been argued that the stakeholders should themselves take part in the companies’ social accounting and reporting activities.<sup>26</sup> The degree of transparency is an important element in the stakeholder dialogue because neither the involved parties nor outsiders are able to hold the company (or the stakeholders) accountable without access to information about the process and outcomes of the dialogue. For instance, if there is no information available on the implementation of the decisions from the stakeholder dialogue, it is not possible to evaluate whether it has been a participatory approach to problem solving or just a public relations exercise.

### **LIMITATIONS OF CSR**

Figure 1 shows the wide spectrum of stakeholder engagement and is useful in evaluating real-life dialogue situations. The right-hand side of the figure represents the most wide-ranging stakeholder dialogue, characterized as the “participatory ideal,” but this type of stakeholder engagement may not always be obtainable or even desirable. Likewise, the stakeholder dialogue in the left-hand side of the figure does not automatically indicate window-dressing companies with questionable morals. In practice, stakeholder dialogue is likely to be located somewhere between the two extremes because identification

**FIGURE 2** The Phases of Stakeholder Dialogue and Related Filters



Source: Inspired by the writings of Frank Olesen on strategic issues management.<sup>27</sup>

of and communication with stakeholders is costly and time-consuming, and because decision makers have to balance these activities with other priorities. In practice, therefore, stakeholder dialogue means simplifying the complex by focusing on a limited number of stakeholders, a limited number of issues, and by developing rules and procedures for the dialogue.

Figure 2 illustrates how the stakeholder dialogue can be interpreted as a modeling process in three phases. Each phase has a “filter” that makes the stakeholder dialogue more operable, but also limits the benefits that the company can expect to derive from the initiatives. Based on CSR literature and two case examples from the biotech-based Danish company Novozymes, the article focuses on how these filters affect the operationalization of the stakeholder dialogue. The case analysis is based on an interpretation of interviews made at Novozymes and on secondary information about the two examples.

- The selection filter. Needless to say, stakeholder dialogue requires participants. The selection filter is about the access to the dialogue

“arena.” Does a wide range of stakeholders participate in the dialogue or is it limited to a few privileged groups with whom the company already communicates? Companies are unlikely to have the capacity to include all stakeholders in the dialogue and therefore a selection must be made—a selection that will have consequences for the process and outcome of the dialogue. For instance, the composition of the stakeholders can have an impact on whether the issues raised in the dialogue arena are important and central or peripheral and uncontroversial.

- The interpretation filter. The interpretation filter concerns the transformation of the multiple voices from the dialogue into a limited number of decisions. Stakeholder dialogue is a complicated process and it may not be possible to come up with solutions that satisfy all stakeholders. Moreover, a number of factors can make it difficult to reach results that capture the interests of the stakeholders in the dialogue. For instance, cliques and alliances may arise that are able to dominate the agenda, the voices of some stakeholders may be overheard or misunderstood, latent conflicts may be suppressed, and problems may remain unsolved. In other words, the interpretation filter means that intentionally or unintentionally the decisions ensuing from the dialogue may diverge from the interests of the stakeholders.
- The response filter. Finally, the response filter relates to the activities that take place when the decisions move out of the dialogue arena. Local interpretations, changing environmental conditions, conflicting interests, and organizational changes may influence the way the results of the dialogue are implemented. The response filter represents the divergence between the observable action and the intentions underlying the decisions ensuing from the stakeholder dialogue.

### **CASE EXAMPLE: NOVOZYMES**

Novozymes is a biotech-based Danish company in the enzymes market. Enzymes for the industrial sector (textiles, pharmaceuticals, forestry, baking, brewing, etc.) constitute the most important product category and account for 95% of Novozymes' sales.<sup>28</sup> In 2004, Novozymes had revenue of approximately US\$1,050 million and a net profit of approximately US\$140 million. The company



employs some 4,000 persons and has production facilities in Denmark, Sweden, Switzerland, the United States, Brazil, and China.

Novozymes became an independent company in 2000 after a demerger from Novo Nordisk. Although the company has only been independent for a mere five years, Novozymes already has been engaged in a number of CSR activities, and its performance has not gone unnoticed. Novozymes has been ranked number one in the Dow Jones Sustainability Indexes (DJSIs) (within its fields Biotechnology/Healthcare) for five years in a row, and for three years the company has been recognized by SustainableBusiness.com on their top 20 list of the world's most sustainable business stocks.<sup>29</sup> Moreover, the company subscribes to and/or supports a number of international initiatives, conventions, declarations, and standards (e.g., the UN Global Compact, the International Chamber of Commerce's Charter for Sustainable Development, the UN Convention on Biological Diversity, and the UN Universal Declaration of Human Rights). Novozymes' achievements are documented in an integrated annual report that covers financial, social, and environmental performance. The annual report also includes information on Novozymes' use of global reporting initiative indicators, progress with regard to the Global Compact, and achievements of sustainability development targets.<sup>30</sup> The form and content of the integrated annual report has been the subject of discussions with the users of the report, including employees, NGOs, media, and scientists.

In terms of stakeholder dialogue, it is explicitly stated in the company's values that Novozymes "shall seek an active dialogue with our stakeholders to help us develop and strengthen our business."<sup>31</sup> Hence, throughout the years, Novozymes has been involved in a number of projects and events that include dialogue with customers, suppliers, NGOs, and local communities.<sup>32</sup> For instance, Novozymes has regular meetings with the neighbors to the production sites and has been actively involved in a number of research projects and knowledge-sharing activities.<sup>33</sup> This article is primarily based on Novozymes' involvement in two recent CSR projects:

- The "Purchasing with Decency" project. Novozymes has evaluated key suppliers on environmental performance for years. However, in 2003, the company launched the "purchasing with decency" project, which involved the development of a survey-based supplier self-evaluation on labor standards and human rights. The

evaluation is based on international conventions and principles, and covers issues such as freedom of association, health and safety, child labor, nondiscrimination, and working hours. The evaluation concerns all key suppliers of raw materials (corresponding to approximately 80% of the total raw material costs).<sup>34</sup>

- The “Genius” project. Genius was a three-year (2001–2004) educational project launched by Novozymes, Novo Nordisk, and the Danish Society for Nature Conservation. The aim of the project was to stimulate classroom discussions among students aged 14 to 18 around genetic engineering and the associated moral and ethical questions.<sup>35</sup> The project resulted in a communication package including a website ([www.geniusweb.dk](http://www.geniusweb.dk)), a magazine, a role-play card collection, and a TV show on the Danish National Broadcast System.<sup>36</sup> The communication package includes factual information on genetic engineering, a history of important events in relation to this technology, and the attitudes and opinions of a wide range of stakeholders, including schoolchildren, politicians, scientists, and NGOs. When the project was finalized in 2003, all participants were invited to a seminar to evaluate the process and the results.

The examples have not been chosen randomly. The “purchasing with decency” project illustrates how Novozymes communicates with its formal stakeholders (customers, distributors, suppliers, owners, employees), whereas the “genius” project is an example of how the company manages less formal stakeholder relationships.

### **THE SELECTION FILTER: FROM THE TRIVIAL MANY TO THE CRITICAL FEW**

To use a metaphor by Linda Smircich and Charles Stubbart, it is difficult to analyze the world’s oceans using a glass of water.<sup>37</sup> However, this is the only option when our limited information-generating capabilities prevent us from grasping the actual complexity of the environment.<sup>38</sup> These cognitive limitations also imply that the company has to develop a selection filter separating central stakeholders from less important ones. Otherwise, the stakeholder dialogue would have to include everyone and everything. The problem is that it is difficult to find the right selection criteria to ensure that the company

has considered all the important stakeholders. Therefore, it is not surprising that the literature is packed with attempts to categorize stakeholders, each with a different perspective and/or with a special emphasis on one or more stakeholder aspects.

Distinctions have been made between for instance, primary/secondary, involved/affected, and voluntary/involuntary stakeholders.<sup>39</sup> Moreover, Mitchell et al.<sup>40</sup> have introduced three criteria to evaluate stakeholders—urgency, power, and legitimacy—whereas Harrison and St. John<sup>41</sup> argue that the strategic importance of a stakeholder is determined by (a) the contribution to the environmental uncertainty, (b) the ability to reduce the environmental uncertainty, and (c) the strategic choices of the managers. Last but not least, the World Business Council for Sustainable Development has developed a matrix that distinguishes between the stakeholders' influence versus their level of interest.<sup>42</sup>

Novozymes also uses different categorizations to sort their stakeholder relationships. Inspired by the literature, Novozymes distinguishes between internal (inside the organization) and external stakeholders (outside the organization) as well as market (suppliers, customers, competitors, and business partners) and nonmarket (public authorities, NGOs, the media, neighbors) stakeholders. In Novozymes' stakeholder mapping procedures, the stakeholders are also evaluated on function, character, and present and future values.<sup>43</sup>

The supplier evaluation also includes various categorizations of suppliers. When launching the Purchasing with Decency project, Novozymes made a distinction between direct suppliers (raw materials) and indirect suppliers. The new labor and human rights issues were only included in the evaluation of direct suppliers because it was difficult to find a systematic approach to evaluate the thousands of indirect suppliers. Moreover, Novozymes wanted to concentrate its efforts on the suppliers that the company had a realistic chance to influence. This is still the case. Furthermore, the supplier evaluation distinguishes between old and new suppliers. Since 2004, all new suppliers of raw materials have been evaluated on labor standards and human rights.<sup>44</sup>

The selection criteria in the Genius project were much less formalized than the criteria in the Purchasing with Decency project. The communication package included a wide range of the stakeholders' perspectives on genetic engineering, for example, the perspectives of researchers, NGOs, public authorities, politicians, and schoolchildren.

Instead of being the outcome of an intentional mapping procedure, the selection was determined by the stakeholders' connection to the existing Danish milieu of gene technology. In other words, the stakeholder selection was based on the network of the three partners. Novozymes, Novo Nordisk, and the Danish Society for Nature Conservation were already engaged in an ongoing dialogue, and the other organizations and individuals participating in the project had all been actively involved in the Danish discussions on genetic engineering. Only very few stakeholders did not want to participate in either the magazine or on the Genius website. Some NGOs were not interested because the concept—form, content, or partnering with business—was not the way for them to get the message through.

The examples show how a company separates the important stakeholders from the less important ones in order to make the stakeholder dialogue operable. In conclusion, the translation of the stakeholder dialogue into practice requires a selection filter that reduces the complexity of the environment and the stakeholder relationships. From an academic point of view, this makes it virtually impossible for companies to meet the expectations of the more idealistic CSR literature. The stakeholder dialogue will always be incomplete because the inclusion of certain groups and individuals in the dialogue means the exclusion of others.<sup>45</sup> From a business point of view, the drawback of the selection filter is that it puts even the most well-intentioned and socially responsible company at risk since critical voices will always be able to argue that the company failed to integrate the interests of all relevant stakeholders in a decision-making process. In other words, the company has to be careful when it makes claims about the inclusiveness of its stakeholder dialogue.

### **THE INTERPRETATION FILTER: BALANCING STAKEHOLDER INTERESTS**

As one of the characters notes in Jean Renoir's movie "The Rules of the Game": "The terrible thing about this world is that everybody has his reason." One might add—from the company's perspective—that the really terrible thing about the world is that everybody does not have the same reason. If everybody had the same perception of the environment, it would be easy to choose the right action. However,

this is not always the case, and the company is often faced with multiple and not necessarily compatible interests—not only between different stakeholder groups, but also between stakeholders from the same group.<sup>46</sup> In consequence, misrepresentations and misinterpretations may occur when the interests of multiple stakeholders are transformed into a limited number of decisions. The interpretation filter reflects the discrepancy between the decisions resulting from the stakeholder dialogue and the interests of the individual stakeholders.

The difficulties stemming from multiple interests are well known to Novozymes. The company has often had to balance the need for global standards with an adaptation to local conditions. In the Purchasing with Decency project, Novozymes chose a global approach to supplier evaluation. For instance, the company has translated the human and labor rights conventions into 20 specific questions, and even though a draft version of the new evaluation system was tested on five to six suppliers, the company must still be considered as the prime mover in deciding what the stakeholders should discuss in the dialogue process.<sup>47</sup> It is also evident from the fact that it is Novozymes that has designed the supplier evaluation procedures and administers the survey results.

In comparison, the Genius project is closer to the participatory ideals of stakeholder dialogue. Actually, one of the objectives was to allow a wide range of stakeholders to comment on gene technology, thus stimulating discussions among young people aged 14 to 18.<sup>48</sup> However, the decision-making authority was still concentrated between the three partners who were responsible for implementing the project. For instance, the three partners made up the editorial board of the magazine on genetic engineering, which gave them a decisive influence on the content. Not that the partners agreed on everything. Even though the partners had agreed on the main objectives in a memorandum of understanding, there was some disagreement regarding the form and content of the project. Some of the important discussions concerned the trade-off between the technical/scientific and the ethical/political themes in the communication package. Moreover, there were some discussions about the form of the articles for the magazine, as the usual approaches to communication of Novozymes and Novo Nordisk differed significantly from the approaches used by the Danish Society for Nature Conservation.

Sometimes, the CSR literature tends to view all stakeholders as equally important.<sup>49</sup> In practice, however, there is always a trade-off between the desirability of integrating the interests of all stakeholders and the need to make efficient decisions. As Kaplan noted: “attempting to be everything for everyone virtually guarantees organizational ineffectiveness”.<sup>50</sup> Since the stakeholder dialogue and the CSR in general are still viewed as voluntary activities, the trade-off is mostly made by the company, which brings a “shadow of hierarchy” to the dialogue process.<sup>51</sup> Stakeholder engagement processes inevitably become more efficient, but less participatory, when a few stakeholders select the issues for dialogue and define the rules of the game.

### **THE RESPONSE FILTER: TRANSFORMING DECISIONS INTO ACTIONS**

Giving voice to the stakeholders does not necessarily mean commitment to action. The response filter pertains to the difference between the decisions resulting from the stakeholder dialogue and the actual implementation of initiatives and their related impacts. Even though the decisions ensuing from the stakeholder dialogue may be fairly representative of the stakeholders’ interests, it might still be difficult to translate these decisions into action. For instance, implementation of the decisions might run into a number of technological, economic, and political barriers. Moreover, implementation is often delegated to persons who did not take part in the dialogue. Their interpretation of the decisions and the tasks that have to be performed might differ from the ideas of the stakeholders that took part in the dialogue. Last but not least, unexpected events may change the course of the implementation, and the impacts may differ from those originally expected by the participants in the stakeholder dialogue.

As far as the Purchasing with Decency project is concerned, the implementation of the supplier evaluation is delegated to the employees in the purchasing function that interacts with the suppliers on a day-to-day basis. However, this decentralized model leaves room for local interpretations of “decent purchasing” that might differ from the official policies. In awareness of this problem, Novozymes has trained the purchasers in dealing with CSR, but the balance of social issues with other concerns is still discussed internally.<sup>52</sup> Moreover, it has been difficult to decide which reactions to

adopt when a supplier fails to meet Novozymes' expectations. Unlike parameters such as price and time of delivery, CSR can be interpreted in many ways, and some of Novozymes' suppliers might not share the company's understanding of labor standards and human rights. So far, Novozymes has used the carrot rather than the stick when dealing with suppliers who do not meet the company's expectations for CSR. Instead of just excluding them, the company tries to convince the suppliers to deal with the issues of noncompliance.<sup>53</sup>

The Genius project was implemented without major problems. New ideas to improve the results came up and targets were changed a couple of times. The idea of making a role-play card collection including guidelines for teachers was an idea that came up very late in the process and as a result there was a relaunch of the whole communication package. To date, 13,500 copies of the magazine, 175 videos, and 230 role-play card collections have been distributed to primary schools and other educational institutions.<sup>54</sup> Prior to the project, Novozymes was concerned that the public might interpret its engagement in an educational project as an attempt to push the agenda for genetic engineering. There had previously been a debate about private companies advertising in Danish schoolbooks. Therefore, Novozymes tried throughout the project to ensure that the communication package did not distort the debate. However, Novozymes was not met with negative reactions and the Genius project actually received positive feedback from the participants and the media.

### **STAKEHOLDER DIALOGUE: THE PARALLEL DESTRUCTION AND REBUILDING OF ORGANIZATIONAL BOUNDARIES**

CSR addresses the relationship between business and society—a relationship that compels companies to communicate with different stakeholder groups. However, to engage in a dialogue with all relevant stakeholders is beyond the capacity of any company. In order to make the complexity of the environment manageable, the company must transform it into a model that will always contain less information than the phenomenon it tries to describe.<sup>55</sup> The three filters presented in the previous sections illustrate this “simplification” process. Simplification is not necessarily a bad thing. On the contrary, it reduces the complexity of the environment and is a precondition

for making the stakeholder dialogue operable. However, simplification also means that the company cannot take all stakeholder concerns into consideration.

Novozymes' experiences have been used to illustrate the modeling of stakeholder relations. Even though Novozymes has been recognized by for example, the DJSIs as a best-in-class company in terms of CSR, it still focuses on a limited number of stakeholders and issues/questions to make the stakeholder dialogue operable. Moreover, Novozymes has a strong impact on the rules, procedures, and outcomes of the dialogue. Even though the company has committed itself to listen to stakeholders and to act as a good corporate citizen, it does not necessarily follow that the company always can or will act in accordance with all stakeholders' interests.<sup>56</sup>

The two examples also indicate that the dialogue differs depending on the type of stakeholder relationship. For instance, the Purchasing with Decency project appeared to be less participatory in comparison to the Genius project. According to Novozymes' own stakeholder engagement policies, the dialogue with close stakeholders (e.g., employees, customers, investors, suppliers, and authorities) are formalized, whereas the engagement with other stakeholders (e.g., neighbors, consumer organizations, and environmental organizations) are defined on a case-by-case basis.<sup>57</sup> An obvious reason for this is that formalization makes little sense if the company has no ongoing relationship with the stakeholders. Moreover, it can be speculatively argued that management of close stakeholders has a higher priority for Novozymes. The closer the stakeholder is to the company's core business, the higher the perceived need for managing the relationship.

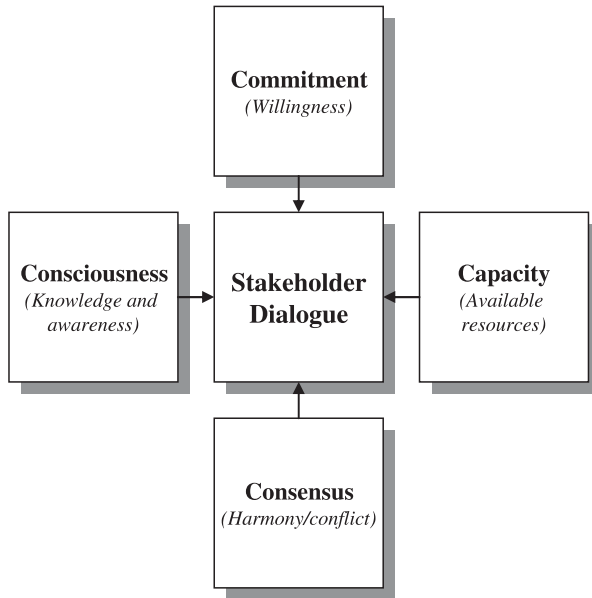
In summary, even though the company attempts to break down the existing organizational boundaries by engaging in a dialogue with stakeholders, it will inevitably create new boundaries by organizing the stakeholders and the dialogue. The new boundaries are by no means neutral and they have important implications for the level of participation in the stakeholder dialogue.<sup>58</sup>

## **FACTORS AFFECTING THE OPERATIONALIZATION OF STAKEHOLDER DIALOGUE**

Even though the filters of selection, interpretation, and response simplify all dialogical processes, this does not mean that stakeholder



**FIGURE 3** Four Factors Affecting the Operationalization of Stakeholder Dialogue.



Source: The figure has been inspired by the Discussion-Oriented Organizational Self-Assessment (DOSA) framework (see webpage: [www.edc.org/GLG/CapDev/dosafile](http://www.edc.org/GLG/CapDev/dosafile) (01 July 2005)).

dialogues are all alike. On the contrary, stakeholder dialogues vary significantly, and the process of simplification will be determined by a wide range of individual, organizational, and inter-organizational factors. For instance, disagreement among managers, the company’s financial situation, and the nature of the company’s operations may all have a significant impact on how stakeholder dialogue is manifested in practice. The next sections will present four features that are likely to determine the fate of stakeholder dialogue—consciousness, capacity, commitment, and consensus—and discuss how they affect the filters presented in the previous sections (see Figure 3). The discussion will be supplemented with examples from Novozymes.

### ***Consciousness (Knowledge and Awareness)***

People do not pay attention to everything. They concentrate on certain features of the environment and exclude others.<sup>59</sup> In an organizational context, the perceptions and priorities of the dominant actors—not least the managers—are likely to affect the company's responses to environmental conditions.<sup>60</sup> Therefore it is no surprise that for instance, managerial perceptions of CSR have received some attention in the business and society literature.<sup>61</sup>

The knowledge and awareness of managers is also an important driver for the successful implementation of stakeholder dialogue. Otherwise, there is a risk that the selection of issues and stakeholders as well as dialogue process becomes unstructured and accidental. Moreover, the outcomes of the dialogue process—as well other CSR initiatives—will become isolated events detached from the company's daily operating practices. However, stakeholder dialogue is not just a management task. The implementation filter also depends on the social and environmental consciousness of the employees and how they translate the outcomes of the stakeholder dialogue into practice. After all, it is the employees who make and remake the relationships with the company's stakeholders in their everyday interaction with these groups and individuals.<sup>62</sup> Consciousness is closely related to values, and the stakeholder dialogue must be an integrated part of the mainstream business systems if the company wants to succeed in its implementation.<sup>63</sup>

The organizational consciousness is probably one of the reasons why Novozymes has been successful in implementing CSR. CSR has always been part of the company's vision, policies, and strategies. This is probably due to Novozymes' former linkage with Novo Nordisk—one of the pioneers in the field of CSR. At least, the company has intentionally tried to incorporate CSR by decentralizing sustainability activities and integrating them into the line organization.<sup>64</sup> This approach also applies to the stakeholder dialogue that has moved from being an explicit strategy presented in the annual report to become embedded in Novozymes' day-to-day practices.

The company's social and environmental awareness has not been defined once and for all. Neither have the stakeholders'. In consequence, discrepancies might occur between the company and its stakeholders if the company does not accept the possibility of CSR blind spots and does not constantly develop its capacity to deal with changing societal demands.<sup>65</sup> In this regard, training and

education are central issues. However, these initiatives may be relatively costly and time consuming, which brings us to the company's capacity to engage in the stakeholder dialogue.

### ***Capacity (Available Resources)***

In this article, capacity refers to the physical, organizational, and human resources that enable the company to achieve its economic, social, and environmental objectives.<sup>66</sup> It is reasonable to believe that it will be easier for companies with sufficient resources to engage in CSR activities compared to companies that face serious resource constraints.<sup>67</sup> This is probably also one of the reasons why size and FP are said to affect CSP.<sup>68</sup> Companies with excess resources have the capacity to make CSR investments, analyze societal demands, and grow specialized skills and competencies in developing good relationships with the stakeholders. In consequence, the filters of selection, interpretation, and response will all be affected by the resources available for stakeholder dialogue.

As a relatively large and profitable company, Novozymes is able to dedicate more resources to stakeholder dialogue and CSR activities than companies in general. For instance, only few small and medium-sized enterprises have the capacity to establish a sustainability development center to deal explicitly with the social and environmental aspects of their operations. The sheer size of the company also makes it easier for Novozymes to make a difference in some stakeholder relationships. For instance, Novozymes' resources and bargaining power in the supply chain had an impact on the implementation of the Purchasing with Decency project.<sup>69</sup>

However, even though a company has the necessary capacities, it does not follow that it is willing to use them. In other words, the company's capacity to engage in a dialogue with its stakeholders must be seen in relation to its actual commitment to the purposes.

### ***Commitment (Willingness)***

Commitment concerns the willingness to give priority and allocate resources to a certain issue. Without commitment from the key persons involved in the planning and implementation, practically all initiatives are likely to fail. For instance, evidence indicates that management commitment and employee involvement is important

when implementing environmental management systems.<sup>70</sup> In relation to stakeholder dialogue, it has been argued that initiatives to promote employee participation and involvement are frequently obstructed by the managers' desire to retain control and a negative or indifferent attitude among employees.<sup>71</sup> If neither the company nor the stakeholders participating in the dialogue are committed to this type of decision-making process, it will be difficult to reach binding agreements between the parties. Moreover, the response filter will be determined by the degree to which the implementing agents are committed to put the agreements into practice. To summarize, the actual commitment of financial as well as the nonfinancial resources has an important impact on the operationalization of stakeholder dialogue.

Novozymes' membership in and subscription to a wide range of international initiatives—for example, the DJSIs, FTSE4Good index, UN Global Compact, Declaration of Human Rights, and Convention on Biological Diversity—can be interpreted as commitment to CSR. Moreover, the outside recognition of Novozymes' CSP indicates a willingness to allocate resources to CSR. For instance, Novozymes has been selected for the Nordic Sustainability Index, the Sustainable Business.com list of the World's Top 20 Sustainable Stocks, and the Kempen SNS Smaller Europe Socially Responsible Investment Index.<sup>72</sup> Last but not least, the establishment of a sustainability development center and the two initiatives presented in this article can also be seen as a reflection of the company's commitment to CSR.

It has always been an open question whether a company's CSR activities are based on a genuine commitment to social and environmental issues or on self-interest. In most cases, it is probably a combination of the two, but as long as the social and environmental initiatives generate the desired outcomes, the company's motives for addressing CSR are of little interest. However, in order to understand the factors affecting the planning and implementation of the stakeholder dialogue, the motives and interests are crucially important. Different rationales for engaging in the dialogue and dealing with CSR may cause conflicts between the participants and have a strong impact on the success/failure of the initiatives.

### ***Consensus (Harmony/Conflict)***

According to Waddock and Smith, good relationships between stakeholders develop “under conditions of fairness, openness

(transparency), and honest engagement in dialogical processes to assure that mutual interests are considered, even when not everyone's needs or interests can in fact be met."<sup>73</sup> However, one might wonder whether the stakeholders whose interests are neglected will always consider the relationship as fair, open, and honest. Consensus is seen here as the degree to which the organization and the stakeholders agree on their perceptions of the issues in question and the relevance of dialogue more generally.<sup>74</sup> It concerns the level of harmony/conflict between the parties involved in the dialogue and between those parties and the implementing agents, respectively. With regard to the former, consensus is difficult to obtain if the stakeholder dialogue involves multiple groups and individuals with diverging values and preferences. Therefore, it is a precondition for successful dialogue that there is an element of goal congruence, allowing the participants to develop shared perspectives on common problems, questions, and issues. With regard to the latter, lack of consensus between the participants in the stakeholder dialogue and the implementing agents may create a gap between the results of the dialogue and the observable practices that undermine the trust between the company and its stakeholders.

However, even though an element of goal congruence is a precondition for successful stakeholder dialogue, consensus is a relative phenomenon. Actually, Novozymes' experiences from the Genius project show that agreements can be reached despite conflicting interests between the stakeholders. The corporate partners in the project, Novo Nordisk and Novozymes, are proponents of genetic engineering, whereas the Danish Society for Nature Conservation has a more skeptical attitude toward this issue. However, it was possible to establish a dialogue and implement the project because the stakeholders agreed on the basic premises of the project and the rules of the game. In short, dialogue is possible even in situations with conflicts of interest if the conflict can be regulated and/or the stakeholders will acknowledge the potential for a fruitful cooperation.

## CONCLUSION

The CSR literature and its inseparable companion, stakeholder theory, capture the current zeitgeist by highlighting the importance of seeing the company as integrated into rather than separated

from its environment. This perspective also increases the need to integrate the stakeholders' concerns into the decision-making processes, but the open-ended nature of CSR and stakeholder interest makes it difficult to operationalize such initiatives.

This article has discussed how stakeholder dialogue can be translated into practice. It argues that a number of constraints—in this article termed “filters”—make it difficult for companies to live up to the participatory ideals of the stakeholder dialogue. From the company's perspective, this means that the stakeholder dialogue never can be a guarantee against consumer sanctions, a negative press, or NGO activism. Seen from society's perspective, the agenda, the stakeholders, and the rules of the dialogue are largely determined by the company, which implies limitations to the inclusiveness of the stakeholder dialogue.

However, despite these constraints, stakeholder dialogue cannot be discarded as just another management fad. Stakeholder dialogue may take a number of forms, and the article has illustrated how the organization's consciousness, ability, willingness, and interests may influence the success of such initiatives. The point is that translating the stakeholder dialogue into practice is a simplification process that can only approximate the “ideal” dialogue situation. Of course, the critical question is whether proponents of stakeholder dialogue base their praises on the simplified or the idealized version. But as Rudyard Kipling said, that is another story.

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