



Dialogical Value

The function of the stakeholder dialogue within integrity management

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Abstract

Corporations have lost sight of the basic function that is 'creating value through trade for stakeholders.' Edward Freeman's (1984) concept of stakeholder theory bears the potential to recover this basic corporate function; however, it does not seem to get off the ground in practice. Currently, the theory is used to identify stakeholders instead of engaging with them in a dialogue. This study examines the function of the stakeholder dialogue within integrity management. The research question is: *What is the function of stakeholder theory within integrity management and in what way does the stakeholder dialogue improve integrity management for corporations?* I will answer the research question by combining scientific research with empirical research in focus group discussions. This combination is applied to increase the validity of the scientific research and therefore, a dialogue runs through the thesis. This implies that representatives of the actual business practice are invited to 'join in the conversation.' The study reveals that stakeholder theory becomes useful when it is regarded as an action guiding mindset. In addition to this, a stakeholder dialogue is functional within integrity management because it can lead to mutual understanding or mutual agreement with regards to the complex subject of corporate integrity.

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1. Introduction

1.1 Introduction to the research question

In modern society it is becoming increasingly difficult to balance corporate integrity with corporate performance and some even argue, "capitalism is under siege" (Porter & Kramer 2011,4). This is because the expectations of society towards corporations have changed from maximizing profit (Friedman 1970) to creating shared value (Porter & Kramer 2011, 4). In this context, Edward Freeman (2012) claims that the basic function of corporations is to create value through trade for *stakeholders*. In order to support his claim Freeman has positioned stakeholder theory as a strategic and managerial theory (1984). Stakeholder theory accentuates the relation between stakeholders and corporations. Moreover the theory is pragmatic, this means it is *useful* for corporations. Over the years, stakeholder theory has been subjected to criticism and scrutiny from many perspectives (Phillips et al. 2011, 212). An example of this is that corporations¹ have become more preoccupied with stakeholder mapping and prioritizing interests than engaging in an actual dialogue with stakeholders (Freeman & Harris 2009, 690). These attempts have affected the usefulness of the theory; it is currently deployed 'behind-the-scenes' and not 'in the spotlight' of the corporate practice where it actually can make a difference.

In this study I will argue that stakeholder theory is useful for corporations by casting new light on Freeman's concept as outlined above. I will elaborate on how stakeholder theory functions by proposing the idea of a mindset that stimulates engaging in a dialogue with stakeholders. The stakeholder dialogue will be discussed in the context of integrity management, which is an especially complex area for value creation (Jeurissen & Karssing 2012, 212). Capitalism could well be "under siege" due to the fact that corporations have lost sight of their basic function. This in turn has led to an unbalanced pursuit of interests, compromising the integrity of many corporations (Goodpaster 2008, 28). In this thesis I will position the stakeholder dialogue as a balancing act between corporate integrity and corporate performance. The research question is:

What is the function of stakeholder theory within integrity management and in what way does the stakeholder dialogue improve integrity management for corporations?

¹ The word corporation in this thesis is used interchangeably. It can apply to either the business unit or to the people in the business unit, e.g. board

This study will combine two research methods to analyze the concepts of stakeholder theory and the stakeholder dialogue. Scientific research will be used to explore the theoretical concepts and empirical research will be used to test, judge and extend these concepts in focus groups. Combining these research methods symbolizes a 'dialogue between theory and practice' within the thesis. The theoretical relevance of this study lies in the fact that analyzing the stakeholder dialogue will draw attention to the potential of a 'dialogical approach' to integrity management. This is relevant because stakeholder theory has received a lot of attention in business ethics literature; however, the same cannot be said for stakeholder dialogues (Freeman & Purnell 2012, 115). The practical relevance of this study is provided by the empirical research that serves to validate the theoretical concepts. In this thesis a valid theory is pragmatic according to Freeman's original concept, meaning that it is *useful* both in theory and practice. The methodology for the empirical research will be discussed in the remainder of the introduction (section 1.2).

To answer the research question I will analyze the concept of stakeholder theory in chapter 2. I will propose to approach stakeholder theory as a stakeholder mindset in chapter 3. This chapter will be concluded by empirical review with regards to the stakeholder mindset. Chapter 4 involves an analysis of strategies for integrity management as they are currently applied in corporations. This will clarify how a stakeholder dialogue functions in this particular context. I will propose a dialogue strategy as a complementary external strategy. The focus group participants have been invited to review this approach and this will be addressed in the conclusion of the chapter. Then, I will continue to analyze the purpose and function of the stakeholder dialogue on the basis of discourse ethics in chapter 5. This chapter will be concluded by empirical review with regards to the stakeholder dialogue. In chapter 6, a five-phased model will be recommended for a corporate stakeholder dialogue. Finally, I will argue that the stakeholder mindset stimulates corporations to engage in a stakeholder dialogue in chapter 7. This functions to validate the integrity management system through external verification. I will emphasize that 'simply' engaging in a stakeholder dialogue is the first step towards improved integrity management. In addition to this I will discuss the limitations of this study and provide suggestions for future research in chapter 8.

1.2 methodology focus group discussion

Introduction

Three focus groups were organized at Nyenrode Business University for the empirical research. The focus groups were subdivided in categories. The first focus group involved financial experts, the second focus group involved real estate experts and the third focus group involved a panel of mixed expertise. The participants will remain anonymous. The focus group discussions lasted from two to three hours. The aim of the focus group discussions was to explore the function of the stakeholder dialogue within integrity management. One procedure has been applied to govern each discussion and two moderators were appointed to guide the focus groups. Additional details concerning the empirical research are specified in the appendix.

A focus group as a research method

A focus group involves (minimum four and maximum nine) pre-selected participants (Van Thiel & van den Hoven 1999, 11). A focus group discussion is governed by open questions that are meant to explore "background information of problems, opinions and conditions" (Ibid. 1999,11). In the present study, the focus groups were used as an instrument of practical validation. Therefore, a focus group is a suitable research method because it generates qualitative data that provides insight in the perceptions and experiences of experts (Ibid. 1999, 11). The qualitative data has been analyzed on the basis of open codification. Nonetheless, the results are subjective and based on the individual interpretation of the author. Additional advantages and disadvantages that apply to using focus groups as a research method are discussed in the appendix.

Focus group discussion

An effective focus group discussion should be well prepared. First, the participants were pre-selected, balancing knowledge and authority amongst the participants. Then, the topic lists were created. Topic lists are meant to guide the discussion and be open at the same time (Van Thiel & van den Hoven 1999, 13). The question-route that has been used is basic and addressed the stakeholder dialogue, integrity management and the connection between these two concepts. The focus group discussions have been recorded on camera to ensure accurate data processing. The data analysis procedure is specified in the appendix.

2. Stakeholder theory

“Those groups without whose support the organization would cease to exist”
(Freeman 1984, 31).

In this chapter I will first introduce the concept of stakeholder theory according to Edward Freeman (2.1). After this I will continue to discuss how stakeholder theory is related to ethical theory (2.2). It will be concluded from this chapter that stakeholder theory is a procedural effort aimed towards reaching consensus.

2.1 Introduction stakeholder theory

In his 1984 landmark textbook: *Strategic Management, A Stakeholder Approach*, Edward Freeman described “what strategic management would look like if one were to take the stakeholder idea seriously” (2011, 217). In his view, the basic function of a corporation is to create value through trade for stakeholders. As a pragmatist, Freeman deploys stakeholder theory as a useful intermediate theory towards a ‘new narrative’ for corporations (2011, 219). This new narrative should shift the negative focus on corporate capitalism to a positive focus on corporate value creation. Despite his effort, Freeman’s concept of stakeholder theory has been met with much resistance over the past 30 years (2011, 216). Attempts to scrutinize and re-theorize his concept are abundant.² Criticism can be constructive but it can also obstruct the usefulness of stakeholder theory in the corporate practice. Therefore, in this thesis I will not challenge but instead cast new light on the usefulness of Freeman’s original concept. Reconnecting theory to practice will turn stakeholder theory into stakeholding. The key premise to this argument is the view that value is created through a stakeholder dialogue.

2.1.1 Basic stakeholder theory

Within business ethics, the term stakeholder is understood an ethical extension derived from the term shareholder (Hummels 1998, 1405). What exactly is at stake? A stake is an interest in an undertaking or action of the corporation. A stake can be understood as a claim, a share or a right (Treviño & Nelson 2007, 215). Stakes take on many forms and represent something of value. The ‘holder’ of the before mentioned stake is any “individual or group who can or is affected by the achievements of the organizations objectives” (Freeman 1984, 46).

² For an overview of stakeholder theory scrutiny from 1999 to 2007, see Agle et al. 2008, 155-158.

On a narrow account, primary stakeholders are those with whom the corporation holds a formal, contractual relationship (Treviño & Nelson 2007, 216). Examples of primary stakeholders are shareholders, clients and employees. On a broader account, the relationship with secondary stakeholders is more informal. The corporation holds obligations towards secondary stakeholders absent of formal contracts, for example towards the community, society at large and the media.

To conclude, stakeholder theory extends the focus of the corporation as a unity, to a unity comprised of the corporation amongst stakeholders. Freeman’s (1984) view accentuates stakeholder presence and the effects caused on them through corporate activity. Thus, the fundament of stakeholder theory is hidden in the precepts of the golden rule.³ In the next section I shall outline how stakeholder theory is related to ethical theory.

2.2 Stakeholder theory and ethical theory

Mark Timmons differentiates between a theoretical and a practical aim for ethical theory (2002, 3). The former has to do with specifying aspects of right and wrong for moral evaluation whereas the latter aims to discover a procedure to guide moral action (Ibid. 2002, 3-4). Generally, two types of ethical theory can be discerned. Mid-level ethics is a type of theory that is supported by a backbone of generalized principles, e.g. autonomy or justice (Arras 2010, 2.1). High theory ethics is a model for ethical theorizing according to which an organized system of judgments is supported by one or two primary principles, e.g. Kant’s categorical imperative (Ibid. 2010, 2.1). Stakeholder theory is related to mid-level ethics as well as high theory ethics. Table 1 illustrates by example that stakeholder theory is related to ethics specifically by ‘cherry picking’ from different strands of theory.

Table 1

Stakeholder theory	
Mid level ethics	High theory ethics
Principle based ethics Four principles approach (Beauchamp & Childress 2009).	Reflective equilibrium Cooperative specification of coherent principles (Arras 2010).
Care ethics Human interaction and interdependency (Bolt et al. 2010).	Exteriority The relation between the I and the Other (Levinas 1969).
Integrated Social Contracts Theory (ISCT) Formulate standards from the perspective of a community (Wempe, 2009; Freeman & Harris 2009).	Procedural ethics Joint effort to establish moral principles through discourse (Habermas 1996; Van der Linden 2012).

³ What you don’t want done to yourself, don’t do to others (Goodpaster 2008, 54).

Table 1 shows a selection of mid-level and high theory ethics. Although the theories differ in nature, they share a common focus on human interaction. For example, mid level ethics can be applied to guide interaction via principles, e.g. I should approach my neighbor with respect. Whereas high theory ethics can be used to reflect upon a deeper notion of interaction, e.g. through exposing why the confrontation with the Other is so beneficial for the Self (Levinas 1969). These theories all suggest that actions of confrontation, conversation and cooperation are moral. The aim of stakeholder theory is realize the basic corporate function by means of stakeholder identification (section 2.1). Yet, this creates a *neutral theory* given that it will answer the “whom” question, but it will not answer the “what now” question (Goodpaster 1988, 57). I suggest that more emphasis should be placed on the stakeholder dialogue, as this is something that corporations can actually do. A dialogue specifically involves confrontation, conversation and cooperation. Thus, stakeholder theory should be understood as a procedural effort to reach agreement with stakeholders over the concept of value creation, rather than a specific strand of normative ethics to reach consensus over what is right and wrong. This means that stakeholder theory is actually based on ethics rather than being an ethical theory in itself.

This view of stakeholder theory as a procedural effort casts new light on how stakeholder theory can function in the corporation. It has already been discussed in the introduction that the theory has not yet proven to be effective for practical implementation (Kaler 2006, 263). This is contrary to Freeman’s (2011) pragmatic intention for stakeholder theory as a useful theory for corporations. To recover the usefulness of Freeman’s original intention, I will suggest a *mindset* approach to stakeholder theory in the next chapter. This suggestion is motivated by the belief that stakeholder theory becomes action guiding if it is approached as a mindset. A mindset is a frame of reference that involves *values*, e.g. responsibility, and *factual beliefs*, e.g. based on experience (Goodpaster 2008, 37). As a “bridge between reflection and behavior”, these elements combined guide ethical action (Ibid. 2008, 37). The mindset is particularly useful for corporations. This is because at the present corporations do not *have* stakeholder theory; however, they do (or could) *have* a stakeholder mindset. Thus, the mindset approach suits the purpose of stakeholder theory. The proposition for adopting a stakeholder mindset will be outlined in chapter 3.

3. The stakeholder mindset

In this chapter I will outline the details of the mindset first (3.1). Then I will discuss the empirical review with regards to the stakeholder mindset (3.2). Finally it will be concluded from this chapter that a stakeholder mindset contributes to the disposition of stakeholder theory within the corporation (3.3).

3.1 From theory to mindset

A mindset approach to stakeholder theory departs from ethical premises (ought), aligns them with the 'facts of life' (is) and then governs corporate action. A mindset does not function to differentiate right from wrong; it presupposes a corporation positioned amongst stakeholders. Figure 1 illustrates the stakeholder mindset. Values and factual beliefs are separate features. When they are put together and reflected upon they can govern corporate action. The arguments for the content of the mindset are specified below.

If creating value through trade is the basic function then a corporation bears responsibility towards stakeholders to do so.⁴ For example, Apple is responsible for providing good products for clients and for creating proper working conditions for employees. Hence, *responsibility* is a value that belongs to this mindset. Additionally, corporations are in the business of trade. They trade products for money, job opportunities for employees and thus value for value. Nonetheless, there is no trade without market dynamics. I believe it to be as simple as that. Trade is based on a relation of *interdependence* (Porter & Kramer 2011, 6). This is the second value that belongs to the stakeholder mindset. To continue to the factual beliefs or experiences; Apple cannot exist without client demand. Clients in turn need Apple to design and market innovative products. Thus it can be concluded that engaging with stakeholders is a necessary condition for creating value and this occurs through cooperation. Co-created value therefore, is the factual belief of the stakeholder mindset.



Figure 1

⁴ The discussion on corporate responsibility has received considerable attention in business ethics literature. To illustrate this discussion over the years I suggest the following authors: Friedman 1970, Carroll 1999 and Aguilera et al. 2007.

3.2 Focus group discussion: the stakeholder mindset

The empirical review with regards to the stakeholder mindset is reviewed in this section. First I will discuss the tension between value creation and trade (3.2.1). After this I will review the interpretation of the focus group participants concerning the stakeholder mindset (3.2.2).

3.2.1 Tension between value creation and trade

The basic function of the corporation – creating value through trade for stakeholders – is subject to tension imposed by practice.⁵ This is indicative of what Freeman claims is a *separation fallacy* between business and ethics (Freeman & Harris 2009, 686). What are these practical thresholds that corporations face? A first threshold is corporate estrangement. Corporations have become separated from the basic corporate function and have lost the connection to stakeholders. This is a consequence of a persistent corporate pressure conflict. Participants explained that on the one hand strategic pressure is applied to achieve targets and “sell, sell, sell.” Whereas on the other hand ethical pressure is applied to do good and “think, think, think.” The second threshold is the focus on short-term achievement. This combination creates ‘roadblocks’ that obstruct a clear view of the corporate function. It appears that corporations *should* implement stakeholder theory and create value through trade, but practice is obstructive so that most of them do not. This separateness between what corporations should do and what corporations actually do is indicative of an ‘is-ought’ situation.

3.2.2 The elements of the stakeholder mindset

The concept of the stakeholder mindset has not been mentioned explicitly due to the fact that the focus group discussions were guided by a basic topic list (see the appendix) Nevertheless, the participants did discuss the elements of the stakeholder mindset and therefore these elements can be tested for accuracy or practical validity. I will discuss the outcome of the focus group regarding responsibility, interdependence and co-created value in the context of the stakeholder dialogue and integrity management.

⁵ This tension is persistent in the realm of business ethics. In the Economist of 1866, Samuel Le Poole argued: “Immers, het nut van alle onze economische wetten bestaat hierin, dat alle mensen gelukkiger en beter worden, en van het oogenblik dat daarop zichtbaar inbreuk gemaakt wordt, houdt dat voordeel op” 102.

First, *responsibility* was ascribed to different members of the corporation. Either narrowly: only to board members and management. Or broadly: running from the corporate top to the bottom and reversed. And even all embracing: moral responsibility crosses the borders of the corporation, creating a network of shared responsibility. Interestingly, responsibility was discussed from a predominantly internal point of view. Meaning that the discussion revolved around who is responsible for what and not around who is responsible to whom. Second, *interdependence* between the corporation and stakeholders was denoted as important and often linked to the concept of reciprocity. Stakeholders are said to “keep the corporation on track.” Finally, the participants did address *co-created value* but only as a normative ideal instead of a factual belief based on experience. Co-created value is idealistic in the sense that corporations *should* replace the focus from self-interest to stakeholder interest. Yet, at present this appears not to be the case.

3.3 Conclusion

I have outlined the basics of stakeholder theory and proposed a new concept of a more pragmatic mindset approach. A mindset is a frame of reference based on values and factual beliefs that in turn govern corporate action. Responsibility and interdependence have been positioned as values and co-creation was positioned as the factual belief. The outcome of the focus group discussions provided practical insight with regards to this approach. On the one hand, stakeholding is obstructed by corporate pressure conflicts and short-term achievements, whereas on the other hand stakeholding is considered as a moral necessity. This implies that a useful method should align stakeholder theory with the conditions of practice. The stakeholder mindset can meet this ‘alignment demand.’ It is pragmatic given the fact that it governs action on the basis of reflection (values and factual beliefs).

The stakeholder mindset can be considered as a departure point for organizing ethics in the corporation. This organization is also known as integrity management which is a safeguard for corporations to assure that they “do the right things, and that they do things right” (Hummels & Karssing 2004, 196). I consider that the stakeholder mindset has a key function within integrity management. Therefore, I will discuss integrity management and how it is currently organized in corporations in chapter 4.

4. Integrity management

"Character is forged at those defining moments when a manager must choose between right and right"
(Badaracco 1998, 115).

In this chapter I will first address corporate integrity (4.1). Then, I will review different strategies for integrity management (4.2). After this I will suggest the dialogue strategy as a complementary strategy (4.3) and discuss the suggested strategy with regards to the empirical review (4.4). It will be concluded from this chapter that the dialogue strategy validates integrity management systems through external input (4.5).

4.1 Introduction integrity management

Much like the stakeholder concept, the concept of integrity is subject to scrutiny. Moreover, it is the most "important and oft-cited of virtue terms" (Cox, La Caze & Levine 2013, 1). When we refer to the integrity of objects we look at aesthetic features such as the "wholeness, intactness or the purity of the thing" (Ibid. 2013, 1). Applying this to determine corporate integrity is more or a challenge. This is due to the fact that in the corporate realm, integrity refers to internal rather than external features. Illustrating this challenge from a philosophical point of view, Bert Musschenga characterizes integrity as follows: "integrity functions as an ideal, a strive that we can never fully realize" (2004, 12).

On the basis of the above-mentioned characterization, the concept of corporate integrity becomes difficult to assess and thus, difficult to implement. Freeman invalidates this claim and argues: "there is always a context to business theory, and that context is moral in nature" (1994, 5). This implies integrity is already present in the corporation. In addition to this, Wittgenstein argues that we should focus on the *use*, rather than the *meaning* of words in language (Biletzki & Matar, 2002). What remains then is to define integrity in a positive way, for example, appoint trustworthiness as a value first. Then methods should be devised to stimulate and safeguard this value, for example by integrity training, to make it *useful* (Karssing & Jeurissen 2012, 212). In the next section I will illustrate how integrity management can be understood and applied in the corporation. This will show that the *meaning* of corporate integrity becomes concrete when it is placed in a specific context of *use*.

4.1.1 Corporate integrity

For individuals integrity is primarily a matter of keeping the self-intact and uncorrupted (Cox, La Caze & Levine 2013,1). For corporations integrity is extended to a professional level and linked to a role-based type of responsibility. The key aspect of corporate integrity is that it becomes perceptible in the discretionary space in which professionals can determine the right course of action for themselves. Integrity becomes perceptible because “responsibility does not exist without space to act responsible” (Musschenga 2004,128). Nonetheless, discretionary space can also create professional insecurity and prompt moral dilemmas. Compare it to a crossroad with broken traffic lights and the point becomes clear. How should one determine the right course of action? In answer to this question a definition of corporate integrity will be introduced below.

4.1.2 Due care, accountability and firmness

Jeurissen and Karssing (2012, 212) discuss the *use* of integrity in the corporate realm and thereby clarify the *meaning* of the concept. Integrity is considered as acting with due care, accountability and firmness (Ibid. 2012, 212). Through this sharp interpretation, integrity can be connected to the actions of the corporation. First, integrity demands internal and external consistency, in other words the corporation should align ‘walk and talk.’ Taking due care demands for a critical and systematic reflection on core responsibilities (Ibid. 2012, 12). Second, accountability suggests that taking due care comes with the duty to be accountable towards outsiders (Minderman 2008, 30). Third, firmness means to maintain the set of corporate norms and values and in the face of resistance and temptation. Finally, corporate integrity is seen as a social construct, subject to the judgment of society (SIO 2012,10). The question that remains is how this concept of integrity can be managed? Therefore, I will continue the discussion of how corporate integrity can be organized as a managerial strategy.

4.2 Strategies for integrity management

Integrity management is about maintaining consistency between the corporate norms and values and the corporate structure and culture (SIO 2012, 4). Lynn Sharp Paine indicates the importance of integrity management as an “integral and systematic approach that protects the corporation from unethical behavior” (1994, 111). I will discuss two strategies for organizing ethics, or integrity management: the compliance strategy and the stimulation strategy.

4.2.1 Integrity management as a compliance strategy

A compliance strategy governs corporate action based on a preordained set of legal rules and regulations. Compliance management is about improving “norm conformity by increasing control and internal supervision with regards to the actions of management and employees” (Hummels & Karssing 2004, 197). Compliance strategies are not aimed at internalizing norms, they externally force norms upon management and employees through fines and sanctions. This leads to a retrospective view as opposed to focusing on achieving the shared purpose that lies ahead. Moreover, compliance strategies are incomplete safeguards; Sharp Paine claims, “legal clearance does not certify the absence of ethical problems” (1994, 110). Thus, professionals should abide by rules and regulations but they should also behave morally. In order to stimulate moral behavior, integrity management can also be organized as a stimulation strategy.

4.2.2 Integrity management as a stimulation strategy

A stimulation strategy is principle based and demands active responsibility of all concerned (Hummels & Karssing 2004, 199). In addition to this definition Sharp Paine characterizes the integrity management strategy as being broad, deep and demanding (1994,111). First, integrity management is broad because it stimulates taking responsibility, e.g. what is our social responsibility as a corporation? Second, integrity management is deep because it cuts into the corporate ethos, e.g. what are the corporate values? Finally, it is demanding because it requires the corporation and its representatives to proactively define responsibilities and aspirations, e.g. what is the corporate purpose? The answers to these questions can be found and maintained by implementing different methods. Implementation instruments for integrity management are plentiful; take for example ethics training or assessment tools for integrity management.⁶

Above, I have provided an overview of two strategies for organizing ethics. While they might differ in method and purpose, often times they will be applied simultaneously. Compliance and integrity management complete each other as ethics does not always touch upon the law and the law does not always touch upon ethics. Nonetheless, I consider this approach is incomplete. In what follows I shall present the missing link that adds external focus to the predominantly internal focus of the compliance and stimulation strategy.

⁶ For an overview of implementation instruments for integrity management see, KPMG 2013, BIOS 2010 and SIO 2012.

4.3 Dialogue strategy

The above-mentioned strategies provide frameworks for internal integrity management. Nonetheless, they provide a 'frame around a relatively blank canvas' given that stakeholders are not yet included in this picture. A stimulation strategy focuses on organizing internal ethics; however, this strategy should also organize external verification of internal ethics by including stakeholders. This is because corporate integrity is a social construct that requires input from internal and external perspectives. The dialogue strategy⁷ is well suited for this requirement. This is due to the fact that it is a 'dialogical approach' to integrity management (Hummels & Karssing 2004, 201). Insecurity about the determination of the moral course is the central disposition. Consequently, the corporation should consider the views, interests and values of stakeholders by means of a dialogue (Ibid. 2004, 201). This disposition can function to reassure corporate insecurity. Therefore, the *dialogue* and what the corporation can *learn* from this are the key elements. I propose to add the dialogue strategy as an external and complementary part of the stimulation strategy. One part will then be focused on stimulating internal ethics whereas the other part will be focused on acquiring external verification.

The question now arises as to what is external verification of internal ethics? External verification requires a stakeholder dialogue and this makes internal ethics debatable, e.g. via feedback sessions or debates. In the remainder of this thesis I will denote corporate integrity as an *open notion* due to the fact that it is a social construct (SIO 2012). This is a 'Wikipedia-like' concept of corporate integrity, open for editing by multiple stakeholders.⁸ Perceived this way the internal effort to safeguard integrity becomes inefficient, as it will always depend on input by the corporation *and* stakeholders. Governed by a mindset, corporations will make an effort to engage in an external stakeholder dialogue. As a result, the corporation will then organize ethics in a holistic manner. Supported by a bottom line of rules and regulations, maintained by efforts to organize internal ethics and finally verified externally through engaging in a stakeholder dialogue. In order to test this theoretical disposition of holistic integrity management, I will discuss the empirical review in the next section.

⁷ This strategy is also known as the *facilitation* strategy (Hummels & Karssing 2004, 201).

⁸ I would like to thank Ronald Jeurissen for sharing this creative interpretation of integrity.

4.4 Focus group discussion: integrity management

This section involves the empirical review with regards to integrity management. It has appeared that the 'ought-is' separation applies to stakeholder theory and to integrity management. I will review the relevant features that concern integrity management on the basis of a dual perspective. One that is realistic (4.4.1) and one that represents ideal integrity management (4.4.2).

4.4.1 Integrity management in practice

In many corporations, integrity management is implemented rather superficial as risk management. This is because integrity is a vague concept that creates a shaky foundation for solid integrity management systems. Corporations require more certainty than this. Risk management has led to increased regulation, for example in the near future there will be a 'bankers oath.' The consequence of this formal implementation was explained by a participant of the mixed focus group as follows: "We face counterproductive processes based on the motive of integrity, from a motive to obtain a firm grasp on the corporation and that implies integrity in a certain way." Many focus group participants were critical of this development. It was argued that increased regulation creates 'mechanical integrity.' Instead corporate integrity should be internalized, almost like a mindset. Furthermore, compliance and instrumental approaches to integrity are internal procedures; they create what some participants indicated as fallible security. This implies that integrity management is internally acceptable, but it says nothing yet about the external acceptability. Moreover, if all effort is put in enforcing mechanical integrity, then where are stakeholders positioned in this view? The ones for whom value should be created in the first place.

4.4.2 Ideal integrity management

The empirical review has revealed that the proposal for a complementary dialogue strategy (section 4.3) is a scary conception due to the fact that it cannot be controlled. This is because the outcome of a dialogue is context dependent. Nevertheless, as much as the participants mentioned the fallible features of modern day integrity management, they also emphasized the need for stakeholder involvement in what could well be a renewed conception of integrity management 2.0. Participants denoted integrity as being so complex, that stakeholders are needed to get an idea of the concept. Therefore, in an ideal situation stakeholder involvement is a must for integrity management.

Put more firmly, the stakeholder dialogue is a condition to get to the core of integrity management. The participants indicated that integrity management should strike a balance between compliance, stimulation and dialogical stakeholder involvement. This outcome confirms what has been proposed as a holistic approach to integrity management. The participants view this as an ideal or 'ought situation' given that in practice, integrity management is implemented internally and mostly through compliance. Nonetheless, this does not imply that all hope for integrity management 2.0 is lost. On the contrary it is because the participants have indicated there is a need for renewed stakeholder involvement and so hope is brought back into the discussion. I will conclude this overview by quoting a participant of the mixed focus group who argued for a combined system for integrity management that involves "as much idealism as we can handle with as many rules as we need."

4.5 Conclusion

In this chapter, three strategies for organizing ethics have been discussed. The compliance strategy was examined first; this strategy governs the corporation by means of legal rules and regulation. Second, the stimulation strategy was determined as based on internalizing ethics by instrumental means. Third, the dialogue strategy was proposed as an external approach to integrity management. In this strategy the emphasis lies on engaging in a stakeholder dialogue and the lessons that can be learned from this. Finally, these strategies comprised will form a holistic approach to integrity management. This account has been confirmed by the focus groups given that they have indicated the stakeholder dialogue is necessary for integrity management. A dialogue can function to obtain firm grasp on the concepts of proper integrity management. Proper, in this sense, implies that the moral course is determined internally and then confirmed by external stakeholder input. Therefore, holistic integrity management should unite the above-mentioned strategies into one all-embracing strategy. It can be concluded that engaging in a stakeholder dialogue is a pragmatic means to ensure the basic corporate function that creates value through trade. It brings the pragmatism back into stakeholder theory, as it is something that corporations can actually do to make a difference.

Prelude: the stakeholder dialogue

On the basis of the preceding chapters it has become clear that engaging in a stakeholder dialogue has great potential to function in the context of corporate integrity management. Currently, this potential is undermined by practical conditions. To illustrate, a job-description normally does not say: 'speak with and listen to stakeholders.' Understandably this is because engaging in a dialogue is perceived as an ordinary aspect of human interaction. Nonetheless, it has been observed in the focus group discussions that engaging in a dialogue is really not that ordinary at all. The question now arises as to why we do not really engage with each other any more? Is this due to inefficiency, e.g. "I do not have the time or the means to speak with stakeholders." Or is it due to indifference, e.g. "I do not need stakeholders to differentiate between right and wrong." Freeman has recently addressed the practical conditions and denotes them as "roadblocks of imagination before the conversation even starts" (Freeman & Purnell 2012, 115). I consider that these roadblocks need to be taken into account given that the present advice conjoins theory and practice.

Could a theory of engaging in a conversation suffice to recover the basic corporate function? At first sight, emphasizing a dialogical approach might seem commonsensical without the need for further clarification. Do we not already engage in dialogues on a daily basis? In response to this presumption, the next chapter will show that there is more to a simple conversation than may appear at first hand. This view is useful for the corporate practice given that it exposes the power of basic conversation. At present the purpose of the stakeholder dialogue has not been emphasized enough, nor have we understood its inherent function. Therefore, Freeman recommends the concept of "Ethics-As-Conversation" for future scholarship (Freeman & Purnell 2012, 115). I will take this recommendation to heart and outline the potential of the stakeholder dialogue for integrity management in chapter 5.

5. The stakeholder dialogue

“The face of business is the face of the person sitting across the table”
(Freeman & Purnell 2012, 115).

In this chapter I will position the stakeholder dialogue as the primary function of stakeholder theory within integrity management. This will contribute to answering the research question. I will discuss the dialogical approach first (5.1). Then I will analyze the stakeholder dialogue on the basis of discourse ethics (5.2). After this I will address a theory of corporate democracy (5.3). Finally, the empirical review will be discussed (5.4). The conclusion of this chapter is that a stakeholder dialogue reconnects corporations with stakeholders and functions to obtain an objective account of mutually acceptable integrity management (5.5).

5.1 The dialogical approach

5.1.1. *The tennis metaphor*

I will start the discussion of the dialogical approach by means of a metaphor. The sequence of a stakeholder dialogue can be compared to the sequence in a tennis match. A *proper* match requires more than one player in the court. The challenges a corporation faces are not so much constituted by who her opponents are, but by who her teammates are. We can compare the way in which norms, values, policy or regulation are proposed/realized in corporations to serving the ball in a tennis match. The corporation will ‘serve’ a core value, for instance trust, that might be faulty - one that fails to land the ball in the designated area of play -. Next, stakeholders are up. They can return a stroke by landing the ball in what they perceive is the *right* area of play. Hence, the ball representing norms, values, policy or regulation, goes back and forth in an interpretative form of play. The alert corporation can learn from each stroke; what are the strengths of the other player, what are possible weaknesses in this game? This back-and-forth sequence leads to a co-created match through a process of fine-tuned strokes. Unlike tennis, the stakeholder approach will make winners of the competing parties because it results in mutually accepted outcome for all players concerned.

The metaphor shows the inherent features of a well-played dialogue according to the stakeholder mindset. First, it shows that the dialogue, just like tennis, requires multiple players in the court who interact with one another as equals. Second, it shows the corporation depends on stakeholders if they want to stay in the game, that is, keep playing. Finally, inviting stakeholders to the court creates a more objective notion of what exactly is at stake. That is, by engaging in a dialogue we can get a hold of *the concept* of something such as the open notion of corporate integrity (section 4.3). Take trust for example, a dialogue can provide a more objective notion of the concept. What is the corporate definition of trust and how does this relate to the stakeholder definition of trust? Therefore, to reach mutual agreement concerning the definition of trust, views need to be exchanged (back-and-forth) by means of a dialogue.

5.1.2. The potential of the stakeholder dialogue

The tennis metaphor illustrates that the potential for improved integrity management lies hidden in what might appear as a 'simple dialogue.' I will argue that re-engaging in the actual conversation with stakeholders can improve integrity management. Nonetheless, at present this is only a theoretically supported argument. This is because the focus groups have indicated that in practice a stakeholder dialogue is used mainly for strategic purposes, e.g. to increase profits. This means that the stakeholder dialogue is not implemented to achieve its full potential. To expose this potential I will elaborate on the function of the stakeholder dialogue. The purpose of this is to 'broaden the corporate mind' as to what can be achieved by a dialogical approach to integrity management. It will be shown that confrontation and dialogue with stakeholders leads to a more objective notion of the corporate self (Levinas, 1969). Others have also addressed this potential. For example, In the introductory speech for the SIO integrity management system, Theodor Kockelkoren (Board member Financial Markets) invited the audience to reflect upon the following question: would the financial crisis have occurred if corporations had included stakeholders in their conduct of business? Kockelkoren raised a sensitive issue here. This issue invites us to reconsider the potential of the stakeholder confrontation through a dialogue. I suggest that this potential can be clarified by means of analyzing the purpose and function of the dialogue. This will be addressed in the next section.

5.2 Stakeholder dialogue and discourse ethics

5.2.1 *The stakeholder dialogue as a departure point*

A dialogue creates interaction between the corporation and stakeholders. It is a procedure to reach mutual agreement. Nevertheless, the focus groups have indicated that practice can be tough. This means that unresolvable conflicts will arise. Therefore, a dialogue will not always ensure mutual agreement. Why then, should corporations engage in a dialogue with stakeholders if it does not help to resolve conflicts? For example, why should McDonald's engage with vegan NGO's? In response to this I propose to extend reaching mutual understanding to reaching mutual agreement as a second best. One of the three definitions of corporate integrity is accountability (section 4.1.2). This presupposes that a corporation does not have to reach agreement with stakeholders or vice versa. They do however have to explain, or be accountable, for 'what they do and why they do it' so that stakeholders may come to understand their actions better. Perceived this way, mutual understanding between the corporation and stakeholders increases *empathy* on both sides. On the one hand the corporation can come to understand the standpoint of the stakeholder and on the other hand the stakeholder can come to understand the standpoint of the corporation.

To continue this discussion, two approaches can be chosen to analyze the potential for a stakeholder dialogue: (i) a dialogue as a departure point towards the aim of mutual understanding and (ii) a dialogue towards the aim of mutual agreement. In this thesis I will focus on the dialogue as a departure point (i). The first argument for this is that the focus groups have indicated that engaging in a dialogue is challenging enough as it is. Therefore, I will address beginnings rather than address ends. The second argument is that the reasons to engage in a dialogue can be determined in the present, whereas the outcome of a dialogue can only be discovered 'in the future.' Thus, analyzing the potential of the stakeholder dialogue by focusing on the outcome as an incentive will result in fallible arguments. The aim to reach mutual agreement can be achieved as an ideal. Yet, the aim to reach mutual understanding can be achieved either way, as it is engaging in a dialogue that counts. In order to analyze the potential of the stakeholder dialogue, I will discuss several studies that have explored the exact dynamics of 'corporate conversation.' This discussion will contribute to the present argument of the dialogical function for integrity management.

5.2.2 Dialogical scholarship

The focus on the stakeholder dialogue is not new given that several business ethicists have analyzed the use of a dialogue and communication in corporations (Van de Ven 1998; Scherer & Palazzo 2006; 2011; Langenberg et al. 2011). Nevertheless, the combined research method - aligning theory and practice - in this thesis might be what makes a difference. Bert van de Ven claims that the right course of action is assessed "continuously through conversation" (1998, 75). In addition to this he argues that the purpose of the dialogue is in and of itself; it is not "purpose rationally controllable" (Ibid. 1998, 141). Thus, it is more important to engage in a dialogue than it is to focus on possible outcome. Suzan Langenberg adds to this that the pressure of setting up high-quality communication in corporations has increased (2011, 18). I take it this argument further accentuates the need to engage in a dialogue with stakeholders. Scherer and Palazzo argue that in modern society, corporations are no longer able to obtain public acceptance without public discourse (2006, 79). Hence, the use of a stakeholder dialogue is emphasized from multiple perspectives. Interestingly what unites these views is that they are all based on discourse ethics, in particular on the Theory of Communicative Action⁹ by Jürgen Habermas (1996, 180).

The purpose of TCA is realizing intersubjective consensus (Van de Ven 1998, 54). Beforehand it should be mentioned that this purpose has raised much controversy given that it is difficult to realize (Bohman & Rehg 2011, 13). In TCA Habermas introduces the dialogical principle of universalization (U). This means that what is agreed upon in a dialogue should be acceptable to all concerned without coercion (Ibid, 2011, 13). Upholding the U-principle can affect the relevance of including Habermas in the present study because corporations often have numerous stakeholders (Langenberg et al. 2011, 14). Consequently, the U-principle becomes impossible to realize. Moreover, the corporation would lose its identity in the course of satisfying stakeholders. To relax the strictness of the U-principle, Habermas has indicated that the principle actually purports an ideal speech situation (ISS). In accordance with this view, the argument for the stakeholder dialogue will refer to an ideal situation as well. Meaning that the ideal does not have to be reached as such, it should only function to inspire.

⁹ The Theory of Communicative Action by Jürgen Habermas (1996) will from hereinafter be referred to as TCA.

5.2.3 Discourse ethics and the theory of communicative action

Habermas' discourse ethics does not specifically involve the corporate realm. This is because in TCA, the economic system is separated from the individual 'life world' (Langenberg et al. 2011, 21). Thus, to connect discourse ethics to the present discussion I will address van de Ven's invalidation of the above-mentioned separation first. Van de Ven claims that the corporate culture is based on the life world itself (1998, 139). This implies communication is important 'within or without' the corporation. What counts is that we are all human first, and thus similar rules of 'moral communication' will apply to individuals and professionals. Therefore, TCA can function to provide a deeper understanding of the dialogue and this alone can be of value in the present study. I will outline the general elements of TCA first and after this I will narrow the discussion down to address the central features of a discourse as perceived by Habermas.

Communicative action is successful when "speakers freely agree that their goal (or goals) is reasonable, that it merits cooperative behavior" (Bohman & Rehg 2011, 10). This implies that a successful dialogue stimulates cooperation. By 'freely agree,' Habermas means to say that participants of a dialogue should be granted equal opportunities to speak and be heard. Hence, a dialogue can be used to confirm that the corporation is 'doing the right things, and doing things right' based on a view that is shared with stakeholders. The dialogue can also help to clarify the concept of corporate integrity. For example, a corporation can define trust as *keeping promises* whereas stakeholders might define trust simply as *being on time*. In effect, engaging in a stakeholder dialogue will extend and complete the concept of trust. In support of this argument, Habermas claims that "the revision of the values used to interpret needs and wants cannot be a matter for individuals to handle monologically" (1996, 186). I consider that a similar premise applies to corporations; what is 'right' can only be assessed, understood and completed through a stakeholder dialogue. Perceived this way TCA is formal; it does not provide principles but it should rather be understood as a procedural effort "for testing the validity of norms that are being proposed and hypothetically considered for adoption" (Ibid. 1996, 187). This procedural effort of testing validity will be elaborated in the next section.

A dialogue takes place between speakers and hearers and has rational features built into it. Rationality for Habermas lies not in what the speaker knows, but in how the speaker acquires knowledge (Bohman & Rehg 2011, 9). In general, a speaker acquires knowledge in a dialogue through expressing speech acts that involve claims. That is *when* I claim to be trustworthy; my speech act creates an expectation that I must conform to. Habermas argues claims are supported by reasons that justify the speech act, before the claims are called into question (Ibid. 2011, 10). Hence, *before* I claim to be trustworthy I must have affirmed the reasons for this prior to my speech act. If my claim is rational then the hearer will affirm and perceive its underlying reasons as true. That is if I am always on time and known to keep my promises, the hearer will understand the reasons for my claim and accept it. Conversely, if this is not the case, the speaker and hearer will “switch reflexive levels from ordinary speech to discourse” (Ibid. 2011, 10). Then in a discourse we will exchange our definitions of trust and try to reach mutual agreement. How is this achieved? In answer to this question I will outline the details of a Habermasian discourse below.

Habermas has developed a procedural method for establishing the validity of claims. To assess the supporting reasons Habermas differentiates three basic validity claims that represent a “triadic structure of correctness” (Bohman & Rehg 2011, 11). First, discourse enables the hearer to test the claim of the speaker for factual rightness; is the claim true in the external world? Second, the claim must be socially right; is the claim appropriate in the social world? Finally the claim should be sincere; does the claim relate to the inner world (Ibid. 2011, 11)? This procedural method could also be applied to a stakeholder dialogue given that the validity claims can be used to assess corporate integrity. The dialogue with stakeholders will expose the factual rightness, social appropriateness and sincerity of the corporate claim to integrity. At this point I will emphasize again that my argument should remain pragmatic (or workable); therefore, all three validity claims need not be met. This would create an instrumental, box-ticking dialogue. Rather it is that I have included TCA and the validity claims as exemplary of an ideal speech situation. This indicates the *use* of corporate engagement in a dialogue with stakeholders. Moreover, including TCA exposes the specific function of the stakeholder dialogue for integrity management. I will further analyze this function in the next section.

5.2.4. *The dialogical function*

Through the Habermasian concept of TCA, the validation feature of a stakeholder dialogue becomes evident. Moreover, it exposes the *dialogical function*. The validity claims can help to either structure a dialogue or create understanding of what engaging in a 'simple' dialogue can *do*. Confrontation and dialogue enable to realize mutual understanding of what is at stake. Hence, the dialogical approach exposes corporate integrity issues by extending, completing and validating integrity concepts. The stakeholder dialogue then becomes *feed* or input for the open notion that is corporate integrity (see chapter 4). Habermas confirms this and argues, "[...] practical discourse is dependent on contingent content being fed into it from outside" (1996, 187). This argument clarifies what is at once both the potential and the product of stakeholding that is to build corporate legitimacy through a stakeholder dialogue.

Above I have specified a general account of TCA. I have also provided a more detailed account as to how validity claims can be understood as functional in a stakeholder dialogue. To continue, this conceptualization will be taken a step further. I will review a more radical notion of a *corporate democracy* by Scherer and Palazzo (2006) that could well be the potential outcome of a corporate stakeholder mindset. The word radical applies to this notion because the corporation is positioned as a political actor in a democratic stakeholder society.

5.3 Corporate democracy

5.3.1. *The corporation and the pluralization of society*

Scherer and Palazzo (2006; 2011) argue for a concept of corporate legitimacy based on the pluralization of society. This is a threefold process of individualization, devaluation of traditions and globalization (Ibid. 2006, 73). For the authors pluralization is problematic for corporations that currently derive legitimacy by implementing CSR strategies. Three general approaches to obtain corporate legitimacy are differentiated. First, there is the strategic approach to obtain pragmatic legitimacy. The measure in which stakeholders are satisfied then becomes the measure in which the corporation is legitimate. Second, there is the institutional approach to obtain cognitive legitimacy. This approach considers corporate legitimacy to be based on commonly held norms, values and beliefs.

Yet, due to the implications of plural society norms, values and beliefs are no longer commonly held, and so this is a self-defeating approach (Scherer & Palazzo 2011, 73). Thus, strategic and cognitive approaches are inadequate to obtain corporate legitimacy in modern society. Scherer and Palazzo then introduce moral legitimacy, which depends on: "conscious moral judgments on the organization's output, procedures, structures and leaders" (Ibid. 2006, 73-74). Moral legitimacy is secured by adopting from democratic politics. In a democracy, political authority is earned through fair election and the public authority is what defines state power (Ibid. 2006, 75). Rules and policies are legitimate because a democratically chosen government enforces them. The outcome of elections is variable. Fair and square, it will please some and disappoint others. Next, I will discuss how this view can be implemented.

5.3.2. Corporate democracy and corporate legitimacy

In the corporate realm, democratic methods can be applied to obtain corporate legitimacy. For example, subjecting norms, values and beliefs to democratic judgment can derive corporate moral legitimacy. Ideally, the corporation should organize and implement methods to create a network of discourse and thereby 'give voice' to multiple stakeholders. To accomplish this, they could adopt a democratic disposition, e.g. organize election and debate. The measure in which the corporate output is legitimate and publicly supported will then be determined in an "interactive field of discourse" (Scherer & Palazzo 2006, 79). Therefore, a *corporate democracy* should involve discourse to justify the norms, values and beliefs. To conclude, they become justified because they are secured through democratic discourse.

In this chapter I have analyzed the dialogical approach. The Habermasian ideal speech situation has been reviewed with regards to the stakeholder dialogue. This has clarified the inherent purpose of realizing mutual agreement or understanding with stakeholders. In addition to this, the dialogical approach was discussed because it functions to build corporate legitimacy. In turn this might alter the corporate outlook into a 'democratized view of doing business.' To subject these concepts to empirical review, the focus group discussions concerning the purpose and function of the stakeholder dialogue will be discussed in the remainder of this chapter.

5.4 Focus group discussion: stakeholder dialogue

In this section I will discuss the empirical review of the stakeholder dialogue. First, I will address the dialogical approach (5.4.1) and after this I will review the feasibility of corporate democracy (5.4.2).

5.4.1 The dialogical approach

The participants of each group were asked to write down on a post-it, and thus in a few words, their perception of the *function of the stakeholder dialogue for integrity management*. The outcome of this assignment is specified in table 2.

Table 2

Finance	Real estate	Mixed focus group
Keeps you on track	Mirror function	Generate business
Am I doing things right?	External judgment	Exchange perspectives
Right balancing of interests?	Pinpoint salient issues	Receive detailed feedback
Discuss issues	External test of internal affairs	Create value together
Connection to society	Discuss-ability	Relieve tensions
Transparency	Food for thought	Connection
Risk-management	Credibility insurance	Warmth
Push and Pull of information	Create support	Reciprocity of interests
Assess reciprocity	Create sustainable relation	Togetherness
Regain lost reputation	Learn from stakeholders	Getting to know each other
Regain lost integrity	Improve corporate function	Inspiration
Find new balance	Align priorities	Higher purpose

To conclude the assignment, the ‘post-it results’ were presented to the participants and they were asked to reflect on the general outcome. As it appeared consensus was reached with regards to the necessity and value of a stakeholder dialogue. Nonetheless, the focus group participants also indicated that what they had written down does not represent what occurs in practice. This leads me to conclude yet again that there is a separation between ‘ought and is’ situations. Yet, the focus group participants also argued that there is willingness to engage in a dialogue. One need only read through the results specified in table 2, to conclude that a dialogue harbors a richness of possibilities. In summary of this, four incentives can be added to the function of a dialogue. First, the stakeholder dialogue provides *answers* to questions that cannot be given internally (are we doing the right things and are we doing them right?). Second, the stakeholder dialogue provides *feedback* concerning multiple facets of corporate integrity (norms, values, policies). Third, the dialogue creates a *sustainable relation* with stakeholders. Finally, the dialogue can also function to *repair* the corporate reputation and thus the relation with stakeholders.

I will now continue to review the dialogical purpose and function (section 5.2). Provided that we have not explicitly mentioned Habermas in the focus group, this is a subjective account of the validity of including Habermas in the present study. I have proposed reaching mutual agreement as an ideal purpose for a dialogue, and then relaxed this demand by adding reaching mutual understanding as a second best. This proposal was confirmed in the focus groups. The assessment of reciprocity concerning stakeholder interests is inherent to a dialogue. Also, the participants denoted that the dialogue functions to reveal, "what is really at stake." A participant of the real estate focus group even articulated: "the most valuable conversations are informal, the rest I can read." Furthermore the three validity claims can be linked to the outcome of the post-it assignment as well (table 2). Factual rightness comes from external answers to internal questions and stakeholder feedback (1). Social appropriateness comes from assessing reciprocity and building sustainable relations (2). Finally, sincerity comes from the vulnerability and insecurity concerning the moral course that lies hidden in the dialogical disposition (3). This implies that the Habermasian approach is a useful method to analyze and obtain firm grasp on the potential of a stakeholder dialogue. It relates to the intrinsic idea of what the dialogue ought to be and thus, it inspires through a well-conceptualized idealism proposed by Habermas.

5.4.2 Corporate democracy

The concept of corporate democracy (section 5.3) was met with much resistance, especially in the finance and real estate focus groups. Stakeholder influence can only go so far. This is because corporate identity and conduct are supposed to be defined autonomously. Moreover, the participants rejected the idea of equality (democratic view of corporation amongst stakeholders). Sharing responsibility with stakeholders is another 'no-go area.' Responsibility belongs with those who actually are responsible. The mixed focus group showed more tolerant towards the democratic view and considered corporate responsibility and integrity as concepts that cross the borders of the corporation. For the purpose of the present study it can be concluded that the dialogue should not be discussed in the context of a corporate democracy due to the simple fact that 'we are not there yet.' I conclude instead that the view of engaging in a dialogue as departure point is a more feasible position. I will present the conclusion that unites the theoretical and the empirical review in the next section.

5.5 Conclusion

In this chapter the dialogical approach has been reviewed. For the sake of pragmatism that is inherent to stakeholder theory, an ideal approach should align theory and practice. To reach this objective the dialogue was discussed as a departure point. This means that the argument focuses on engaging in a dialogue, rather than focusing on the outcome. This latter focus would turn engaging in a stakeholder dialogue into a strategic, rather than a confrontational endeavor. Taking the stakeholder dialogue as a departure point requires a profound understanding of the inherent purpose. The purpose of the dialogue was determined idealistically as reaching mutual agreement, and realistically as reaching mutual understanding. This account was confirmed by the focus groups. Nonetheless, the focus groups have also revealed practice is tough. There are too many stakeholders and conflicting claims to take consensus as the realistic purpose for every dialogue. Therefore, the proposal for an *ideal* and *realistic* purpose for the stakeholder dialogue will tell corporation what they can strive towards (mutual agreement) and what they can actually accomplish in the mean time (mutual understanding).

The dialogical function was assessed as constructive. It builds corporate integrity, and thus it also builds corporate legitimacy. The Habermasian validity claims of factual rightness, social appropriateness and sincerity have been proposed as 'tools' for this assessment. Also, the demands of meeting all three claims in every dialogue were relaxed for the sake of pragmatism; it is not useful to be so stringent in practice. The validity claims help to structure a dialogue and they illustrate what can be achieved. The focus group discussions have extended the dialogical function to: providing external answers to internal questions, providing feedback, building sustainable relations and repairing the corporate image. It was not the intention to provide incentives for the dialogue given that it is proposed as an end in itself. Nevertheless, the empirical review has provided them for the present discussion and it would be a waist *not* to specify them. Finally, the democratic conception of the corporations was discussed. This political view of the corporation is a potential outcome of the stakeholder mindset. As it has shown, this concept may be acceptable in theory; it certainly is not accepted in practice. The focus groups indicated that a democratic view of the corporation interferes with corporate autonomy.

The resistance that many of the participants have shown towards this democratized concept of the corporation is what strengthens the core premise in this study with regards to a basic and fundamental approach to business ethics.

In the preceding chapters, the empirical review has been discussed in the context of the stakeholder mindset, the dialogue strategy and the stakeholder dialogue. In addition to this, the focus group participants have also shared a great deal of knowledge and input as to how a stakeholder dialogue can be implemented in practice. To move from ideal to real I will propose an implementation scheme for a stakeholder dialogue in chapter 6. This implies that the focus in this thesis will now shift from ethics to applied ethics.

6. Practical output

"[...] Understand ethics as a conversation about how to describe and re-describe our world, and hence enact a better one"
(Freeman 2011, 226).

This chapter involves a suggestion for a stakeholder dialogue set-up.¹⁰ First I will address the conditions imposed by reality that need to be taken into account (6.1). These conditions will shape the implementation (6.2). After this, the implementation scheme for the stakeholder dialogue will be presented (6.3) I will conclude by presenting a five-phased model that captures the function and purpose of a stakeholder dialogue (6.4).

6.1 The conditions of practice

6.1.1 Practical thresholds

The focus group discussions have indicated practical conditions or thresholds that can stand in the way of engaging in a stakeholder dialogue.¹¹ The practical conditions need to be taken into account to align theory with practice. Therefore, I will address what I take as primary conditions. The conditions are: discussing integrity, operational preoccupation, distrust, sub-divided operations, stakeholder relativity, corporate autonomy and controlled stakeholding.

The first condition is that of *discussing integrity*. Integrity management is perceived as a reactionary corporate measure. Discussing integrity with stakeholders makes sense only as a responsive act when things have gone wrong. Action is followed by reaction. When integrity questions are raised out of the blue through a more proactive approach, people become weary, e.g. what have I done wrong? This implies that integrity is not a conscious disposition. In part, this relates to the second condition that is *operational preoccupation*. The participants in the financial and real estate focus groups explained that professionals are caught up in the execution of their jobs. This is understandable given that they are expected to execute certain tasks within a certain amount of time. A tight schedule is also used as an excuse for operational escapism; professionals would rather just do their jobs as opposed to dealing with stakeholder claims or thinking about corporate integrity.

¹⁰This discussion represents the subjective analysis or 'birds eye view' of the researcher based on the focus group discussions.

¹¹ For an overview of the processed results of the focus group discussions, see the appendix.

A third condition is related to integrity breaches that have occurred in the past. Participants elaborated extensively on the subject of compromised corporate integrity. The reasons they have specified for 'why things go wrong' are interesting. One example is corporate estrangement from stakeholders. Another example is information asymmetry between corporations and stakeholders, e.g. a banker knows all about financial products whereas the client does not. Meaning that the client must trust the banker to handle a financial request in the right way. Recently, integrity breaches appear to have fed and secured a notion of *distrust*. Even corporations that do implement integrity management systems are subject to societal skeptics. A fourth condition has to do with efficiency. Corporations are divided into *sub-sections*. Employees are focused only on reaching the targets within their separate section. Separation is efficient because it improves performance and cooperation then becomes inefficient. This is counterproductive especially when salesmen and purchasers that work in the same corporation avoid engaging in a dialogue and when supply chains become highly segmented in the process (Van de Veen, personal communication, June 6 2013).

A fifth condition is that stakeholders surrounding the corporation are diffuse and thus their interests will be incommensurable. The participants indicated that stakeholders are variables. They can be immediate or distant qua proximity and salience, and their stakes may be either short term or long term oriented. Stakeholders may 'vote with their feet' or have no vote at all. Some wish to be engaged, while others do not. Not to mention the power differences between stakeholders. From this I conclude that a stakeholder is *relative*. This delimits the stakeholder definition to the holder of a stake, absent of all conditions. The sixth condition is that of *corporate autonomy*. It has shown that inviting stakeholder to think about the corporate identity is taking it a step too far. Corporate autonomy is connected to the seventh and final condition of *controlled stakeholding*. Meaning that stakeholder are invited to think along, but only regarding preordained topics. Thus, corporations assess for themselves what they need from stakeholders. It is as if 'the corporation' lies partially exposed in a market stall whereby only the prime merchandise is presented to the crowd. By leaving the more delicate and shaky merchandise behind, the stakeholder is left to evaluate what the corporation wants them to evaluate.

6.1.2 Conclusion

The conclusion of the conditions is this; corporations currently face heavy weather in setting up integrity management. Discussing integrity is problematic because it is perceived as a reactive rather than a proactive approach. Also, operational preoccupation creates an escape route for professionals to avoid engaging in actual dialogues. Additionally, integrity breaches of the past have become stuck in the mind of society, instilling a strong sense of distrust. Another problematic feature is the flip side of maximizing efficiency in corporations as this leads to segmented operations. Then there is the issue of stakeholder relativity, which is vexing to those in charge of setting up integrity management systems. Corporate autonomy is a condition that stands in the way of a constructive and open stakeholder dialogue. Finally, controllability turns the stakeholder dialogue into an effort focused not on the dialogue but on the required outcome.

The focus group discussions have provided insight concerning negative conditions imposed by practice, yet at the same time they have also provided insight in what I consider as possibilities for a stakeholder dialogue. Based on their vast experience as professionals, they have shared knowledge concerning what could be good dialogical stakeholding. Based on this input and the theory that has been developed in the preceding chapters, I will illustrate a pragmatic recommendation for the stakeholder dialogue in what follows.

6.2 Implementing the stakeholder dialogue

6.2.1 The framework

A framework of business ethics supports a stakeholder dialogue. I propose this framework as a new beginning for dialogical stakeholding. Bearing in mind that a new beginning implies that the top of the mountain does not have to be reached at once, the view at a hundred meters can be just as good. My recommendation is quite simple, corporations should again engage in a dialogue and see where it leads from there. Similar to how hotel chain founder Conrad Hilton (2012) listed "location, location, location" as the most important elements for succeeding in the hotel industry, I will list "dialogue, dialogue, dialogue" as the most important elements for succeeding in business ethics.

The framework that supports the stakeholder dialogue set-up is based on three elements, the stakeholder mindset, the 'ought-is' situation and the ideal stakeholder dialogue. First, a stakeholder mindset is a condition for a successful dialogical approach. The mindset should be perceived as a second corporate nature. This is because the stakeholder dialogue loses its ethical force (notion of responsibility, interdependency and co-created value) if it is organized to serve strategic purposes only. The second aspect is that this recommendation is intended as an example approach, it shows how the stakeholder dialogue 'ought' to be implemented and corporations can use this to move from ought to 'is.' Corporations can cherry-pick from this recommendation and develop an approach tailor made to fit the uniqueness of the corporate identity. Finally, the recommendation is based on the Habermasian ideal speech situation. The purpose of a dialogue – realizing mutual agreement – is something that corporations can strive for. In the mean time, the dialogue will function to realize mutual understanding, which is beneficial 'in and of itself.' In the next section I will present the recommendation for the stakeholder dialogue.

6.2.2 Five phases to a stakeholder dialogue

I propose a simple sequence of hollow notions that can be implemented by the corporation.¹² Figure 5 illustrates five phases for dialogical stakeholding. This sequence includes preparatory, active and reactive phases. As it shows the sequence encompasses a more extensive preparatory phase in comparison to the active and reactive phases. This is because the actual course of the dialogue cannot be preconceived. This advice will therefore be restricted to address only what is desirable to assess in advance (preparatory phase), the character of the dialogue (active phase) and the processing of the information (reactive phase).

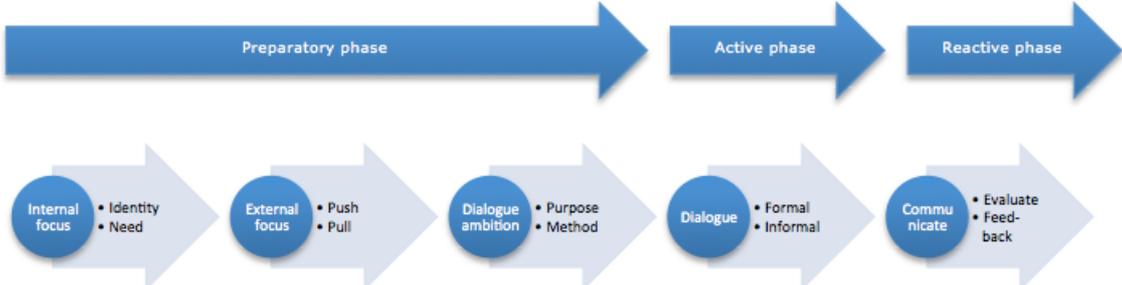


Figure 5

¹² This sequence is based on the outcome of the focus group discussions specified in the appendix.

1. Preparation – Internal focus

Dialogical stakeholding should be organized on the side of the corporation. In this phase the corporate identity is settled autonomously by including internal stakeholders. Through a top-down point of view it should be assessed what the corporation ought to be, and from a bottom-up point of view it will show what the corporation actually is. These views need to be aligned and together, they will represent the true corporate identity. Following this it should be assessed what is needed to maintain and build the corporate identity with stakeholders.

- Establishment corporate identity, top-down / bottom-up
- Establishment stakeholder needs to maintain corporate identity

2. Preparation – External focus

An internal focus is logically followed by an external focus. Nonetheless, the logic in this argument is challenged by operational preoccupancy. Therefore, I propose that at this point the corporation ought to interrupt all doing, engage in what Hannah Arendt denotes as a silent dialogue and “stop and think” (1971, 417). In this intermezzo it should be assessed what type of stakeholders surround the corporation. Stakeholder relativity might create difficulties for application. Hence, the corporation should address the stakeholder needs that are most salient and peel down the layers from that point onward. I suggest an initial selection of two stakeholder types. Then an approach inspired by a basic marketing strategy (Push and Pull) can be implemented as a follow up procedure that can be applied to the initial selection.

- First tier stakeholders, e.g. shareholders, NGO’s, clients and employees.
 - Pull strategy, dialogue is requested (pulled) by stakeholder.
- Second tier stakeholders, e.g. community, suppliers and competition.
 - Push strategy, dialogue is proposed (pushed) to stakeholder.

3. Preparation – Dialogue ambition

The third preparatory phase is aimed at establishing the ambition of the dialogical approach. What is the purpose of the dialogue? What is the method that would apply to this purpose? During this phase it is important to identify the short- and long-term stakeholder interests and align them with the interests of the corporation. This implies that the agenda for the dialogue must be set in advance. The autonomous account of reciprocity will be tested for validity during the actual dialogue. Determining the ambition and agenda in advance is efficient because it will help maximize the outcome (utility) of the stakeholder dialogue. Figure 6 shows an example of topics that can be taken into account to determine the content of the agenda. This will enable the assessment of a proper method in the subsequent active phase.

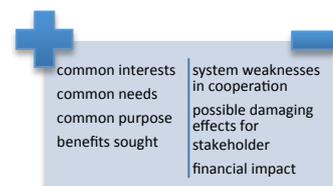


Figure 6

4. Active – Stakeholder dialogue

In this 'trial and error' approach to dialogical stakeholding I propose two types of dialogue in accordance with the first tier and second tier stakeholders. The first tier stakeholder claims can be characterized as altogether powerful, influential and legitimate (Mitchell, Agle & Wood 1997). Therefore, these claims should be responded to in a formal dialogue. The second tier stakeholder claims are legitimate but as it shows they often lack influential power (Ibid. 1997). Nonetheless, the dialogue with second tier stakeholders could yield valuable information. The specifics of the differentiation between a formal and informal stakeholder dialogue are illustrated in figure 7.

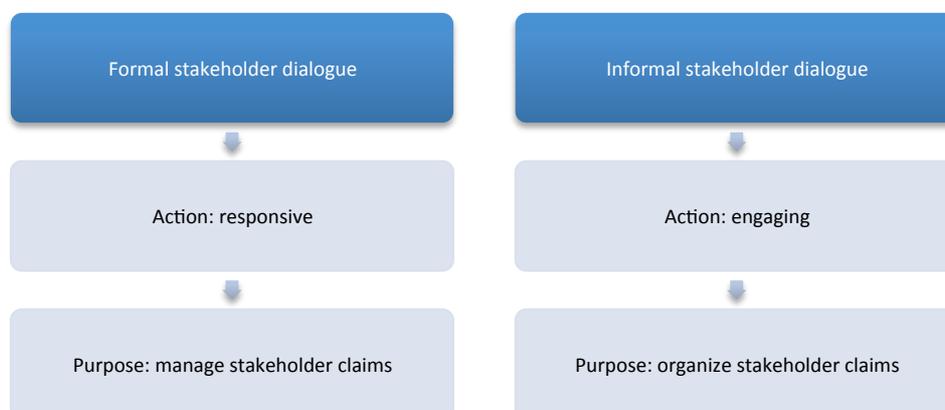


Figure 7

As the figure shows, both approaches 'form' stakeholder relations through responsiveness or by engaging with stakeholders. In the formal approach, stakeholder claims have been raised and deserve immediate attention. In the informal approach it is important to proactively seek out and thus organize stakeholder claims. The dialogue in the formal approach aims at responding to a stakeholder claim. Contrary to this, the informal dialogue is an explorative dialogue aimed at 'getting to know' second tier stakeholders and their interests. Finally, both stakeholder dialogues can be set up according to a six-step schedule. This schedule was proposed in the real estate focus group. It is part of the preparatory phase and is based on the internal focus, the external focus and the dialogical ambition. Similar to a focus group question route, the schedule must be "action-guiding yet open at the same time" (Van Thiel & van den Hoven 1999, 13). In what follows I will illustrate the six-step schedule. This is intended as a guiding example, rather than a stringent method.

1. Identify what is at stake – *What is the interest, claim or right?*
2. Establish causality – *What is a possible cause for this claim?*
3. Prioritize stakes – *Which claim should be addressed first?*
4. Determine and align reciprocity – *Reach mutual understanding/agreement.*
5. Prioritize and align possible action – *Establish possible actions.*
6. Implement and communicate – *Be transparent.*

To be complete, I will add a condition for the six-step schedule. That is the corporation should consult changing stakeholders to prevent a stakeholder power block. This was brought to the fore in the real estate focus group. A diversity of stakeholder voices should be sought and heard to "keep the discussion alive."

5. React – communication

"You are only as good as your last performance." For dialogical stakeholding, a majority of the focus group participants have confirmed this. Therefore, the results of the dialogue should be processed and communicated to stakeholders. Communication of this sort should clarify how the corporation intends to deal with the stakeholder claim. Hence, stakeholder feedback is 'fed back'. This will show that the corporation actually has listened to stakeholders and provide an incentive for stakeholders to re-engage in dialogues in the future. Finally, open communication will result in building a sustainable stakeholder relationship.

6.3 Conclusion

I have suggested a five-phased model for a stakeholder dialogue. This model was based on a framework that comprises the stakeholder mindset, the 'ought-is' disposition and the ideal stakeholder dialogue. The five-phases represent a sequence that involves preparation, action and reaction phases. The first phase includes an internally focused (autonomous) assessment of the corporate identity. The second phase involves an external focus, meaning that stakeholders should be categorized into first tier and second tier stakeholders. The ambition and agenda for the dialogue are determined in the third phase. Then in the fourth phase the dialogue can commence based on extensive preparation. Finally, the results of the dialogue should be processed and fed back to stakeholders in the reactive phase.

The above-mentioned recommendation is an example of applied ethics. On the one hand the proposal is based on stakeholder theory, integrity management and discourse ethics. On the other hand, the proposal can be put into practice through implementing the five-phased model. I consider that this final chapter contributes to recovering the pragmatism, or usefulness in Freeman's (2011) original intention for stakeholder theory. A dialogue is something corporations can actually do on the basis of a mindset that comprises ethical features. This will turn stakeholder theory to stakeholding in practice. The key to stakeholding is the stakeholder dialogue, which is at once of ethical value and of practical use. The following chapter (7) will provide the answer to the research question.

7. Dialogical integrity management

This chapter will address the answer to the research question of the thesis that is: *What is the function of stakeholder theory within integrity management and in what way does the stakeholder dialogue improve integrity management for corporations?* The function of stakeholder theory within integrity management will be discussed first (7.1). After this, I will discuss how the stakeholder dialogue improves integrity management (7.2).

7.1 Functional stakeholder theory: the mindset

Stakeholder theory functions within integrity management as a mindset disposition (chapter 3). A mindset governs the actions of the corporation on the basis of values (responsibility and interdependency) and factual belief (co-created value). A stakeholder mindset stimulates engaging with stakeholders in a dialogue. This can be used to establish the moral course of the corporation. Corporate integrity was determined as involving open notions of taking due care, accountability and firmness (chapter 4). Due to the fact that these are *open* notions, managing corporate integrity requires organizing dialogical assessment via external stakeholder input. Consequently, the mindset functions within integrity management in that it leads to external verification of internal ethics by means of a dialogue (chapter 4).

7.2 Improving integrity management: the dialogue

The stakeholder dialogue can improve integrity management. This becomes clear through the analysis of the purpose and function of the dialogue (chapter 5). The purpose of a stakeholder dialogue has been set idealistically as reaching mutual agreement and realistically as reaching mutual understanding. Furthermore, a dialogue functions to assess the validity of integrity claims and it can function to structure a dialogue as well. Stakeholders can either confirm the current moral course or suggest measures for improvement. Therefore, there is but 'one road leading to Rome' when corporations aspire to secure integrity and that road should always include stakeholder verification. The overall conclusion is that dialogical integrity management is the "only way to go" if the purpose is to maintain a valid account of corporate integrity.

8. General conclusion

8.1 Summary: the main chapters

This study has answered the following research question: *What is the function of stakeholder theory within integrity management and in what way does the stakeholder dialogue improve integrity management for corporations?* With respect to this question philosophical research was combined with empirical research to increase the validity of the arguments. The main conclusions of each chapter will be summarized below.

In chapter 2, it was argued that stakeholder theory is a theory based on ethics, rather than an ethical theory. The theory stimulates the corporation to engage in a procedural effort to reach consensus with stakeholders. Then, it was concluded in chapter 3 that an action-guiding mindset is a useful approach to stakeholder theory. The focus group discussions have shown that stakeholders *ought* to be taken into account. Yet, they also indicated that this *is* not currently the case. In conclusion I have suggested the mindset as a method to move from 'ought to is.' This new approach of stakeholder theory is relevant because it recovers the usefulness that was part of Freeman's (1984) original intention.

Chapter 4 continued the analysis of a possible function for stakeholding within integrity management. It has been concluded that the verification of corporate integrity depends on a compliance and stimulation strategy that combines internal as well as external input. The dialogue strategy was suggested to provide external input via stakeholder engagement. This combination leads to holistic integrity management. The empirical research confirmed that stakeholders ought to be included in corporate integrity management. Nonetheless, they also indicated that this rarely occurs in practice. This revealed another 'ought-is' situation. The conclusion of chapter 4 is relevant because it exposed both a theoretical possibility as well as practical willingness to include stakeholders in integrity management. In chapter 5 it was argued that the stakeholder dialogue should be considered as a departure point. The focus should be placed on confrontation and dialogue rather than on the supposed outcome, given that this latter cannot be preconceived.

Consequently, an ideal stakeholder dialogue was proposed, based on the Theory of Communicative Action by Jürgen Habermas. The purpose of the dialogue was defined idealistically as reaching mutual agreement and realistically as reaching mutual understanding. The function of the dialogue was linked to three validity claims. These claims can help structure a dialogue and they expose corporate integrity issues by extending, completing and validating integrity concepts. To consider a possible outcome of a stakeholder mindset, the concept of corporate democracy was reviewed. This view was met with much resistance in the focus group discussions and this discussion was left to rest. Nevertheless, the empirical research did confirm and extend the use of a stakeholder dialogue with regards to integrity management. This is relevant for the present study; it indicates that additional theorizing efforts with regards to the stakeholder dialogue can be beneficial for integrity management.

Finally, in chapter 6 a five-phased sequence for a stakeholder dialogue was recommended. This model was based on a framework of business ethics that involves the stakeholder mindset, the 'ought-is' situation and the ideal stakeholder dialogue. The model also represents useful stakeholding in that it is a basis for setting up corporate stakeholder dialogues. The model strengthens the view of the dialogical function for integrity management, as it creates feed or input for the open notion that is integrity management.

8.2 limitations

I will discuss three limitations that apply to the present study. First, this thesis was written in a set period of three months. Therefore, the amount of time that has been devoted to the research was restricted. The second limitation is related to the sample size of the qualitative data of the empirical research. The three focus groups have provided an abundance of data and inspiration for the present study. Nonetheless, for a solid analysis the focus group discussions should have been repeated in order to reach a 'saturation point' in the acquired data. Meaning that the hypotheses should be confirmed each time. The final limitation is based on the combination of research methods in this study. Philosophical concepts do not always fit with empirical concepts and this may affect the validity of the present study.

8.3 Suggestions for future research

This thesis has analyzed the stakeholder dialogue in the context of integrity management. I consider that this study stands at the beginning, or amidst, forthcoming scholarship with regards to the stakeholder dialogue. The focus group discussions have indicated that dialogues are often taken for granted. I argue that the dialogue and thus, basic human interaction, should be emphasized more in corporate practice. Due to my background in hospitality business I argue that corporations should behave as though they were 'hosts engaging with guests.' Then, creating value through trade – or delivering service in return for transaction – for stakeholders becomes daily routine and the basic function of corporation can be fulfilled once more.

8.4 conclusion

In this thesis I have dedicated 40 pages of research and three months of thinking to a simple element of human interaction that is the dialogue. As it has shown, this concept is rich and diverse. Not only does it provide the means for corporations and stakeholder to become reacquainted, it also aims to realize mutual understanding or even agreement between multiple parties. My research has shown that a 'simple' speech act is really not that simple at all. To quote Goodpaster (2008): "simple does not necessarily mean easy." This quote covers the difficulties that obstruct the pathway between corporations and stakeholders. In the face of these difficulties I hope to have provided a convincing account of *dialogical value* as a conceptual resource of inspiration for corporations.

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