We are all stakeholders: Participatory decision-making and corporate sustainability.

Tom Berry, Lyn Carson* and Stuart White

Institute for Sustainable Futures
University of Technology, Sydney
AUSTRALIA

* Faculty of Economics and Business
University of Sydney
AUSTRALIA

ABSTRACT

This paper is about extending stakeholder dialogue to include citizens in decision making which impacts on corporate sustainabilityolicy frameworks using the tools of regulation and economic instruments, and communication strategies, have a significant influence on the level of corporate sustainability. Involving citizens, through the use of deliberative and representative (participatory) processes, in the creation of these frameworks is an effective way of reducing the influence of self- or sectoral-interests in the development of policy. Moving beyond self-interest is an essential requirement in the creation of change towards sustainable futures, for example, in order to ensure the appropriate consideration of social and environmental externalities.

This paper will describe the methodology and outcome of a process of participatory decision making in relation to a legislative review of an example of extended producer responsibility: a deposit and refund system on drink containers. We conducted a citizens' jury and televote, and established a reference group containing the key stakeholders. This case study illustrates how self-interest amongst stakeholders creates resistance to implementation of a public policy initiative that increases the level of corporate sustainability. The participating citizens by contrast, in this case study and others, are able to put self interest aside in their deliberations.

We are all stakeholders in creating sustainable futures. Participatory decision-making builds a mandate for change that can raise the level of corporate sustainability in a transparent and accountable way.

1 INTRODUCTION

This paper is about extending stakeholder dialogue to include citizens in decision making which impacts on corporate sustainability. The influence of policy frameworks on corporate sustainability and the tools used in creating these frameworks is first described. The paper then outlines three categories of decision makers and their stakeholders in policy creation: businesses, industry groups and government. The range of different stakeholders extending from the core decision makers of each group are described, citizens significantly appearing at the periphery of all three categories.

Policy frameworks in business, industry and government are often created in an attempt to resolve issues that can be described in terms of social dilemmas. This paper outlines this theory and examples of individual and corporate behaviours associated with such social dilemmas. The authors argue that processes to develop policy frameworks should be participatory, i.e. deliberative and representative , especially if we are to mitigate self-interest and effectively resolve social dilemmas. A case study of the beverage packaging industry is then used to illustrate how self-interest amongst some stakeholders creates resistance to implementation of a policy initiative that could help to resolve a social dilemma and increase the level of corporate sustainability. The participating citizens by contrast, in this case study and others, are able to put self-interest aside in their deliberations.

2 CORPORATE SUSTAINABILITY AND POLICY

The term corporate sustainability is used in this paper to describe the extent to which corporations engage with, and live up to, the range of societal expectations. This term is often used interchangeably with ‘corporate social responsibility’, ‘corporate responsibility’ or ‘(good) corporate citizenship’.

Corporate sustainability is influenced by the nature of the public policy framework. For example, beverage manufacturers in many countries (e.g. Australia and the United Kingdom) take no physical or financial responsibility for the fate of used drink containers that they have sold. If a public policy goal is defined as maximising the recovery of used containers for the purpose of improved environmental and social outcomes, then the current public policy framework in these countries is constrained by its reliance on industry self-regulation because the recovery rate for used containers is limited (less than 50% in Australia). In countries where a different policy framework exists (e.g. in Denmark) then recovery rates are much higher (greater than 95%). Clearly, the public policy framework significantly affects the environmental and social impacts of the corporate activity.

Constructing any public policy framework, requires some or all of the following tools (1) regulations, (2) economic instruments and (3) communication strategies. For example, again from the packaging industry, governments can apply a *regulation* that establishes a minimum recovery rate for used drink containers. This may lead the industry to apply a deposit and refund to used containers, which is an *economic instrument.* To supplement this, industry or government may also use *communication strategies* to reinforce the benefits of used container recovery to industry and consumers.

This typology is comparable with that described by Karp and Gaulding (1995:439) where these three tools have been referred to as (1) ‘command and control’, (2) ‘market based incentives’ and (3) ‘voluntarist programs’. These tools can also be considered at the micro (consumer) level. For example, to reduce littering of drink containers, fines can be imposed, i.e. ‘command and control’, or a deposit and refund system (market based incentive), and/or a voluntarist program (an anti-litter education campaign).

Colebatch (1998:6) describes policy as having three major attributes: implied authority, expertise and order. For Colebatch, to describe something as a policy implies that it has the endorsement of an authorised decision maker, the power of expertise in a particular area, and in addition some kind of order through a system and consistency. How does this relate to the development of policy that strengthens corporate sustainability? This paper argues that it is possible, and indeed necessary, to engage citizens in truly participatory and deliberative decision-making in the creation of policy, in a way that reinforces the authority, the independently critiqued expertise, and the consistency associated with that policy.

3 POLICY STAKEHOLDERS

The term ‘policy’ is used in many different contexts. In relation to corporate sustainability, policies are being formed by both government and by business, and also through the combination of both, such as voluntary regulation developed by industry associations in conjunction with governments. An Australian example, featured here, is provided by the National Packaging Covenant, an industry self regulatory framework agreed between industry, Commonwealth and some state and local governments[1].

Policy in a corporate context is typically referred to as a strategy or mission, because corporations traditionally “have the clear purpose of making a profit, the only question being which way they might choose to do this, which makes statements of policy unnecessary” (Colebatch, 1998:5). As corporations become more accountable for broader societal goals in terms of the environment or social contribution, they are more likely to use the term policy, e.g. “Our policy regarding environmental protection is…”.

For the purpose of this paper, policy decision makers have been grouped into three categories: businesses, industry groups and government. In the creation of policy these three groups are entering into many forms of dialogue and engagement with their stakeholders. There is much debate in the literature on stakeholder theory around the question of who should be considered a stakeholder and whether they should be confined to those individuals and groups vital to the survival of the firm or organization, or broadened to a wider set of groups whose interests are affected by the firm’s or organization’s actions (see for example: Dunphy, Griffths, and Benn, 2003)[2]. The broadest group of stakeholders could include citizens, future generations or even the natural world. The extent to which the broader ‘stakeholder groups’, such as citizens, are engaged depends on how those with the power to organize the engagement (business managers, industry representatives, or government officials)

[1] See http://www.ea.gov.au/industry/waste/covenant/ (accessed 15/5/03)

[2] Much of the literature is focused on the stakeholders of individual corporations or firms rather than stakeholders in policy decisions that can be made at an industry or government level.

define the stakeholders and stakeholder groups that they deem relevant. Significantly, citizens appear at the periphery of all three categories of our typology, shown in Figure One.

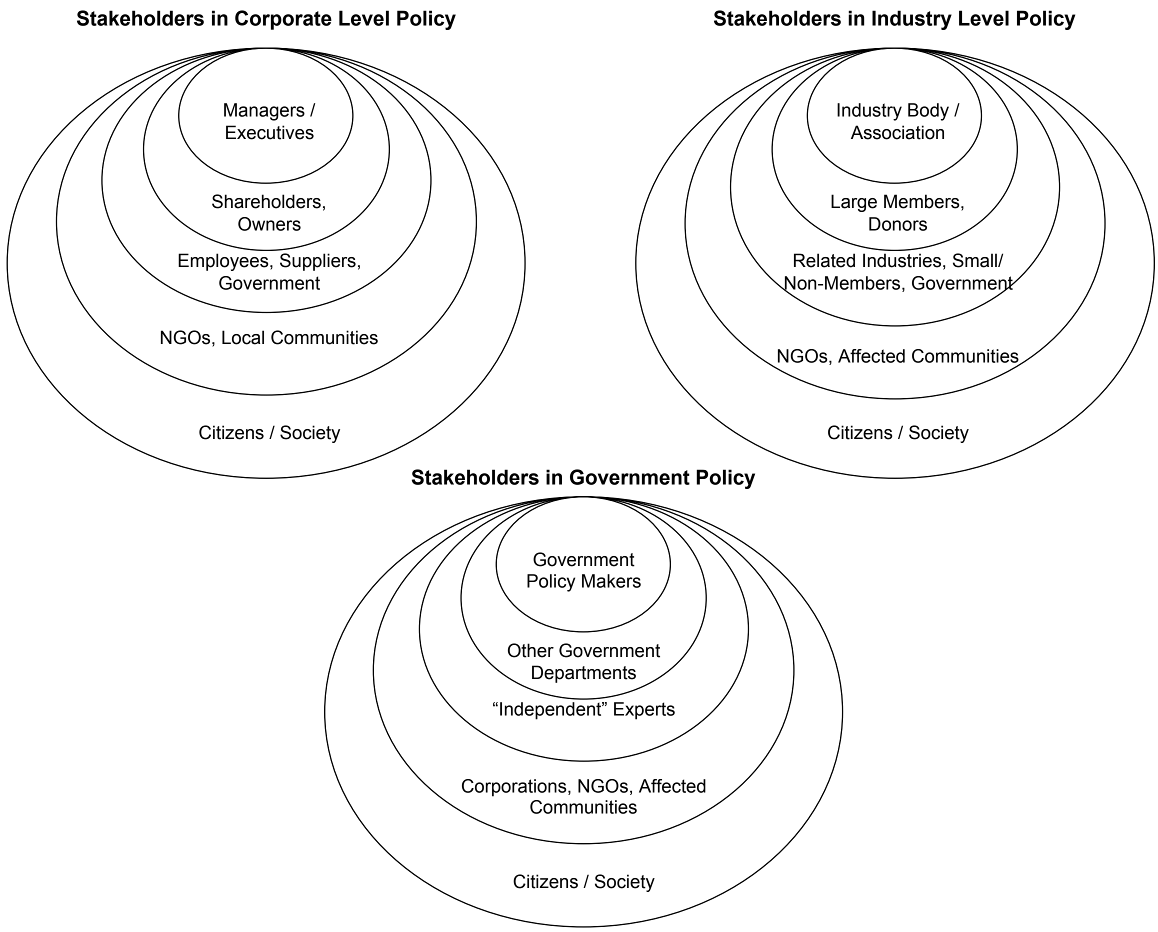

Figure 1: Types of Stakeholder Groups for Corporations, Industry Groups and Government.

The diagrams above represent many of the different stakeholders associated with the creation of policy frameworks at a business, industry association and government level. The stakeholder groups shown extend from those who are core policy decision makers outwards through those who can, if consulted by decision makers, be involved in developing policy. Stakeholders further from the core are traditionally less likely be involved in any deliberate or influential way in policy decision making.

For the reasons outlined in the following sections, this paper argues that citizens, historically peripheral as stakeholders, need to be made central to decision making through the use of deliberative and representative processes.

4 CORPORATE AND SOCIAL DILEMMAS

One of the key questions that is at the centre of this discussion is the following: 'why would private firms actively encourage processes of stakeholder engagement that could result in increased regulation of their business or their industry sector, even if those regulations were in the interests of society as a whole?' This question lies at the heart of the definition of a social dilemma. Social dilemmas can be defined as situations in which autonomous actors, either individuals or groups, including corporations or non-government organizations (NGOs), behave in their own rational self-interest, yet the aggregate outcome of these independent patterns of behaviour is sub-optimal or even negative, now or in the future (Karp and Gaulding, 1995:439). Policy frameworks in business, industry and government, are often created in an attempt to resolve such social dilemmas.

Many environmental and social issues provide an illustration of a social dilemma at work for both individuals and corporate actors. Littering or illegal dumping for an individual (in the absence of an appropriate policy framework) is easier and cheaper than safe and clean disposal, and yet collectively could result in an unappealing or even hazardous environment for all. Driving a car or using lorries for freight is individually rewarding and beneficial in terms of convenience, yet collectively results in costs such as traffic impacts, photochemical smog and global climate change. Similarly, and picking up on the previous example, in the UK and most Australian states, beverage container manufacturers resist establishing systems to collect the majority of used beverage containers, due to the cost and regulatory control this would imply, despite the documented benefits associated with higher recovery rates (White 2002).

Resolving these dilemmas can be of benefit to business as much as to society:

> "The irony of this conflict is that the pursuit of self interest, which is such a central tenet of free-market capitalism, may ultimately lead not only to diminished collective outcomes, but diminished outcomes for individuals who had been rationally pursuing their own best interests" (Karp and Gaulding, 1995:439).

All social dilemmas have two key features that make them difficult to resolve (Platt, 1973 cited in Karp and Gaulding, 1995: 439). The first is referred to as the 'social trap' where the benefits are allocated to an individual, while the costs are distributed collectively, the negative externality (Cornes and Sandler, 1986 cited in Karp and Gaulding, 1995: 439). For example, the environmental impact of producing increased virgin container materials is borne by the environment and people in areas near power stations, factories and through greenhouse gas emissions. The second is referred to as a 'temporal trap' where the benefits are accrued immediately, while the costs are borne at some time in the future (Messick and McClelland, 1983 cited in Karp and Gaulding: 1995, 439).

Organizations such as NGOs or local communities also face similar forms of social dilemma. For example, it is recognised that NGOs have become increasingly engaged and intimate with corporations in order to increase their understanding, influence and funding (Zadek, 2003:1). However, this in turn has also allowed corporations to increase their leverage over the activities of some NGOs.

> "[corporations] are increasingly influencing, and sometimes effectively undermining, new challenges and opportunities emerging from the NGO community" (Zadek, 2003: 1).

Policy frameworks can be effective means of overcoming the behaviours associated with social dilemmas. Involving citizens, through the use of deliberative and representative processes, in the creation of these frameworks is an effective way of reducing the influence of self- or sectoral-interests inherent in social dilemmas.

5 PARTICIPATORY DECISION MAKING

There have been many examples, both in Australia and internationally, of the application of consultation processes that are representative and deliberative. Some of these examples have included citizens in the public policy making process. Most of these processes involve some form of random selection and stratification to ensure representativeness (see Carson and Martin, 1999) and most involve structured deliberative processes. Examples in Australia include a consensus conference on genetically modified organisms in the food chain (in 1999), and deliberative polls on the issue of whether Australia should become a republic (in 1999) and on reconciliation with Australia's indigenous people (in 2001). The deliberative polls brought together a statistically significant sample of Australians, the consensus conference involved a diverse handful of citizens (Carson, White, Hendricks & Palmer, 2002).

Involving citizens in the creation of an individual company policy that will affect the market performance of that company is unlikely to be appropriate. However, at an industry wide or government level where decisions affect a number of similar corporations, the processes to develop policy frameworks should be highly participatory, especially if self-interest is to minimized and social and corporate dilemmas are to be resolved.

Participatory processes, as a form of stakeholder engagement, should not be seen as a public relations exercise for governments, industry bodies or businesses. Corporations are social entities that should be answerable to the communities within which they operate. As Finlay (1990:40) argues, companies need to be more than just aware of citizen preferences:

> "A company's survival depends on many factors, including consent and support, not just of its shareholders but of a wider constituency of stakeholders. Corporations are expected to be **accountable and responsive to the needs and values of society at large**" (emphasis added) (Finlay, 1990:40).

It is therefore logical that citizens should be given some involvement in and responsibility for the development of policy frameworks by which the activities of corporations are regulated.

Citizens are unlike any other 'stakeholder' group. Citizens themselves experience ambivalent attachment to their joint roles of citizen and consumer (Achterberg 1996:157). Sagoff (1988) notes that the preferences of people in their citizen and consumer role can be incompatible and writes about his own experience:

> " I, too, have divided preferences or conflicting … 'preference maps' … I speed along the highway; yet I want the police to enforce laws against speeding. I used to buy mixers in returnable bottles — but who can bother to return them? I buy only disposables now, but to soothe my conscience, I urge my state senator to outlaw one-way containers … The political causes I support seem to have little or no basis in my interests as a consumer, because I take different points of view when I vote and when I shop" (Sagoff 1988:52).

Consultative mechanisms are required that allow participants to think like citizens rather than as consumers, or any other 'stakeholder' with a vested interest in the outcome. Also, there is often no single 'right' answer to the question of which is the best policy solution to resolve the social dilemmas that lead to social and environmental problems. Developing solutions using participatory processes to determine citizen preferences (making sure the process is representative) and ensuring that these preferences are drawn from informed and interactive discussion and debate (making the process deliberative) will mitigate inherent self-interest. The more representative and the greater the level of deliberation the more confident policy makers can be in the results of such processes.

The use of such participatory processes is not about removing the importance, input or involvement of other key stakeholders, such as corporations, government decision makers, NGOs or community representatives. Information, opinion and expertise from each of these groups is crucial to inform the deliberation of a group of citizens. What is required, for effective deliberation, are the services of skilled and impartial facilitators who can allow a group to find its own path and avoid the dysfunctions that can emerge in unmediated groups.

Involving citizens in the creation of policy that influences corporate sustainability is also not about the micro management of companies but about consistency and transparency in rule making. Enhancing the accountability and transparency of big business, and so addressing the issue of corporate governance, is critical in progressing corporate sustainability. Participatory processes involving citizens in policy development offer one way to help achieve this goal. Using participatory processes in decision-making can be a mechanism to progress sustainability through the creation of authorised, appropriate and consistent policy that governs corporations.

Table 1 illustrates the differences between various participatory processes, not all of them representative or deliberative, exploring their strengths and weaknesses particularly in relation to opinion formation. We have included opinion polling, criminal juries and referenda so that we can compare both weak and robust methods:

Method	Opinions Accessed and Process	Weakness/Strength
Opinion poll	Gauges respondents' immediate response to questions on what they think, now, without opportunity for reflection or discussion or research. Can be representative, NOT deliberative	Respondents are not exposed to full information or complexity of debate. Appeals to self-interest.
Push Poll	Respondents are asked for an opinion but questions are purposely biased and misleading, e.g. Do you agree/disagree that the candidate should be prosecuted for taking bribes (when the charge has not been proven)? Can be representative, NOT deliberative	Push polls involve intentional lies and are meant to mislead respondents. Push polls corrupt the policy development process by disseminating false and misleading attacks on policy ideas.. Appeals to self-interest.
Televote	Explores what respondents think now, measured against what people think after they receive additional information (with encouragement to engage in discussion with family and friends). Can be representative AND deliberative	If discussing only with like-minded people (or not discussing at all), respondents may become confused, anxious or entrenched in their views due to the unexpected complexity of an issue. Questions can only be answered if private research is undertaken. Self-interest is tempered by conversation with others (if discussion occurs).
Referendum	Gauges what people think now, usually after receiving written information and hearing opposing views. Opinion is expressed as a vote. Can be representative, NOT deliberative	Either/or response is required and respondents may be confused and anxious about unexpected complexity of issue in the absence of debate, particularly if the outcome will affect them.. Appeals to self-interest.
Criminal Jury	Explores what people think after they have heard evidence without any opportunity to directly question witnesses and with an obligation to reach a unanimous verdict. The process is regulated by tight procedures and rules. Can be representative AND deliberative	Jurists have an opportunity to deliberate but lack the advantage of independent, skilled facilitation, hence the outcomes can indicate group dysfunctions such as group think, group polarization, domination. Appeals to common interest.
Citizens' Jury	Explores what people think after they have had access to full information, an opportunity to question specialists, and time to argue/discuss the merits of the case with their peers. Required to build consensus but not reach it. The process is flexible to meet the group's needs. Deals with diversity of opinions with independent, skilled facilitation. **Is representative AND Deliberative.**	Allows for decisions (usually in the form of recommendations) that can take account of the complexity of the issue, minority opinions, and new ideas. Time for deliberation means that any concerns can be allayed or confirmed. Appeals to common interest.

Table 1: Opinion formation using various participatory methods (taken and adapted from: Carson, White, Hendricks & Palmer, 2002)

6 CASE STUDY – BEVERAGE PACKAGING

In 2000, the Minister for the Environment in Australia's largest state, New South Wales, commissioned one of the authors (SW) to undertake an independent review of Container Deposit Legislation. Such legislation, requiring a deposit and refund system on drink containers, has been in place in one state (South Australia) since 1978. The review involved a combination of a cost-benefit analysis, and a participatory decision making process involving a combined citizens' jury and a televote.

The aspects of this review that are relevant to the case being put forward here relate to the role of the beverage and packaging industry in the debate, the public support for such a system, and the distortion of public policy that exists because of the lack of participatory and deliberative decision making processes in the regulation of packaging waste.

There is strong public support for a deposit and refund system in Australia. In South Australia, where citizens are familiar with the requirements of such a system, there is 95% support (Carson, White, Hendriks and Palmer 2000). The community support, based on surveys or the televote in areas where this system is not in place ranges from 60% to 77%, with the lower result following the availability of information regarding the contested nature of the issue. The citizens' jury, following deliberation on the issue, reached consensus in support of implementing CDL.

Of note is the behaviour of various participants during the preparation and implementation of these participatory processes. To assist in the preparation and conduct of the two processes, a stakeholder reference group was established, which comprised equal numbers of peak group representatives opposed to, and supportive of CDL. The group was responsible for agreeing on the program of speakers at the citizens' jury, many of whom were members of the reference group, as well as agreeing on the nature and exact wording of the background material sent out to jurors and televote participants. Consensus was reached on these issues in a painstaking process over several meetings. However, days before the jury was to take place, the industry representatives withdrew from the process, in a move that may or may not have been pre-meditated, but was certainly orchestrated and aimed at preventing the process from going ahead.

The jury process was modified to allow it to proceed, and the jurors were not informed that there had been an industry withdrawal. An independent evaluation was put in place for the jury process[3]. During the jury process, the participants (a stratified sample of randomly selected citizens) demonstrated their ability to put aside self interest and consider the needs of groups and individuals that were not represented in the group. For example, the final report of the jury process reflects a desire on the part of jurors to ensure that industry groups would not be unnecessarily adversely impacted by implementation of CDL, as well as considering the needs of disadvantaged groups in the community.

7 CONCLUSIONS

Policy frameworks, constructed using a mixture of regulations, economic instruments and communication strategies can significantly affect the environmental and social impacts of corporate activity, and therefore influence the level of corporate sustainability.

In relation to corporate sustainability, policies are formed by both government and business, often in consultation with their stakeholders. For the purpose of this paper,

[3] For details of the process and the report of the independent evaluation see White (2002) "Report of the Independent Review of Container Deposit Legislation in NSW: Volume III, available at http://www.isf.uts.edu.au/CDL_Report/.

policy decision makers and their stakeholders were grouped into three categories: business, industry groups and government. Which stakeholders should be involved in policy creation for each of groups is often debated and it was noted that citizens tend to appear as peripheral stakeholders in all three categories. This paper argues that citizens should be made more central to decision making through the use of representative and deliberative processes.

Policy frameworks are often created in an attempt to resolve issues that can be described in terms of social dilemmas; situations in which autonomous actors, either individuals or groups, such as corporations or NGOs, behave in their own rational self interest yet the collective outcomes of these independent behaviours is sub-optimal or even negative. In the creation of policy frameworks it is therefore also necessary to mitigate these self- or sectoral-interests evident in the examples of individual and corporate behaviour.

The processes to develop policy frameworks should be highly participatory, especially if we are to mitigate self-interest and resolve social dilemmas. If corporations are to be accountable and responsive to the needs and values of society at large consultative mechanisms are required that allow participants to think like citizens rather than as consumers, or any other ‘stakeholder’. Developing solutions using participatory processes to determine citizen preferences and ensuring that these preferences are drawn from informed and interactive discussion and debate will mitigate inherent self-interest.

Participatory processes are not about removing the input or involvement of other key stakeholders; information, opinion and expertise from all stakeholders are crucial to inform the deliberation of a group of citizens. Involving citizens in the creation of policy that influences corporate sustainability is also not about the micro management of companies but about consistency and transparency in rule making.

The case study of the beverage industry clearly demonstrates that participatory and deliberative processes can provide a framework for moving beyond self-interest, and that the self interest of stakeholders is such that decisions should not be left entirely in their hands.

There are significant benefits associated with a strategy of pursuing greater participatory processes in policy formation. One of the major drivers of any stakeholder engagement for business is increased customer or consumer understanding. This understanding is only furthered and deepened by the representative and, most importantly, deliberative nature of participatory processes. Such processes can also stimulate business innovation borne from a mutual understanding and partnerships with many stakeholders. In addition, because these processes can be used to form policy at a government or industry association level, all companies are affected equally by any policy.

The transparency and accountability created through such processes (benefits in themselves in terms of corporate governance) increases wider public confidence in, and understanding of, business and industry conduct. For policy makers the risk and uncertainty associated with policy decisions that affect society as a whole is reduced.

8 REFERENCES

Achterberg, W. (1996) Sustainability and associative democracy, Democracy and the Environment — Problems and Prospect, eds W L Lafferty and J Meadowcroft, Cheltenham, UK, Edward Elgar, pp. 157–174.

Carson, L and Martin, B (1999) Random Selection in Politics, Westport, CT, Praeger Publishing.

Carson L., White S., Hendricks C., and Palmer J., (2002) Community Consultation in Environmental Policy Making, The Drawing Board: An Australian Review of Public Affairs, 3 (1), July.

Colebatch. H.K, , Policy, (1998), Open University Press, Milton Keynes. Finlay, Richard, J, (1990) Survival Ethics, Business Quarterly, London, Abstract, 55 (2) Autumn, pp 40-45.

Finlay, Richard, J, (1977) Re-thinking the corporate social predicament – and agenda for mutual survival, Business Quarterly; London, 42 (2) Summer, p 59

Hess, D, (1999) Social Reporting: A Reflexive Law Approach to Corporate Social Responsiveness, Journal of Corporation Law, 25 (1) Fall, p. 41

Hibbitt, C & Kamp-Roelands, N, (2002) Europe's (Mild) Greening of Corporate Environmental Management, Corporate Environmental Strategy, 9(2). p. 178

International Institute for Environment and Development, Institutionalising Participatory Approaches and Processes for Natural Resource Management, <http://www.iied.org.agri/ipa.html> Accessed 24/04/03

Karp, D. & Gaulding, C.L(1995) Motivational underpinnings of command-and-control , market based and voluntarist environmental policies, Human Relations, New York, 48 (5), May, p. 439

Orts, Eric, W, (1995) A reflexive model of Environmental Regulation, IN Hess, D, (1999) Social Reporting: A Reflexive Law Approach to Corporate Social Responsiveness, 25 (1), p. 41

Sagoff, M. (1988), The Economy of the Earth: Philosophy, Law, and the Environment, Cambridge UK, Cambridge University Press

White, S. (2002) "Final report of the Independent Review of Container Deposit Legislation is NSW', Institute for Sustainable Futures, University of Technology, Sydney. Available from <http://www.isf.uts.edu.au/CDL_Report/>

World Business Council for Sustainable Development, Stakeholder Dialogue: The WBCSD's Approach to Engagement <www.wbcsd.ch/newscenter/reports/2001/stakeholder.pdf,> Accessed 17/03/03

Zadek, (2003) The Civil Corporation, The New Economy of Corporate Citizenship Available from: <http://www.earthscan.co.uk> Accessed 17/03/03