

## *Managing for Stakeholders as a Basis for Capitalism*

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- Many of the ideas here are forthcoming in Freeman, Harrison and Wicks, *Managing for Stakeholders*, in 2007.



## *A Conceptual Confusion*

- Business is really about “value creation and trade”.
- Often “capitalism” refers to much different debates in society. Often the term is confusing and opaque.
- If we think about how a society can sustain a system of voluntary value creation and trade, then capitalism can once more become a useful concept.

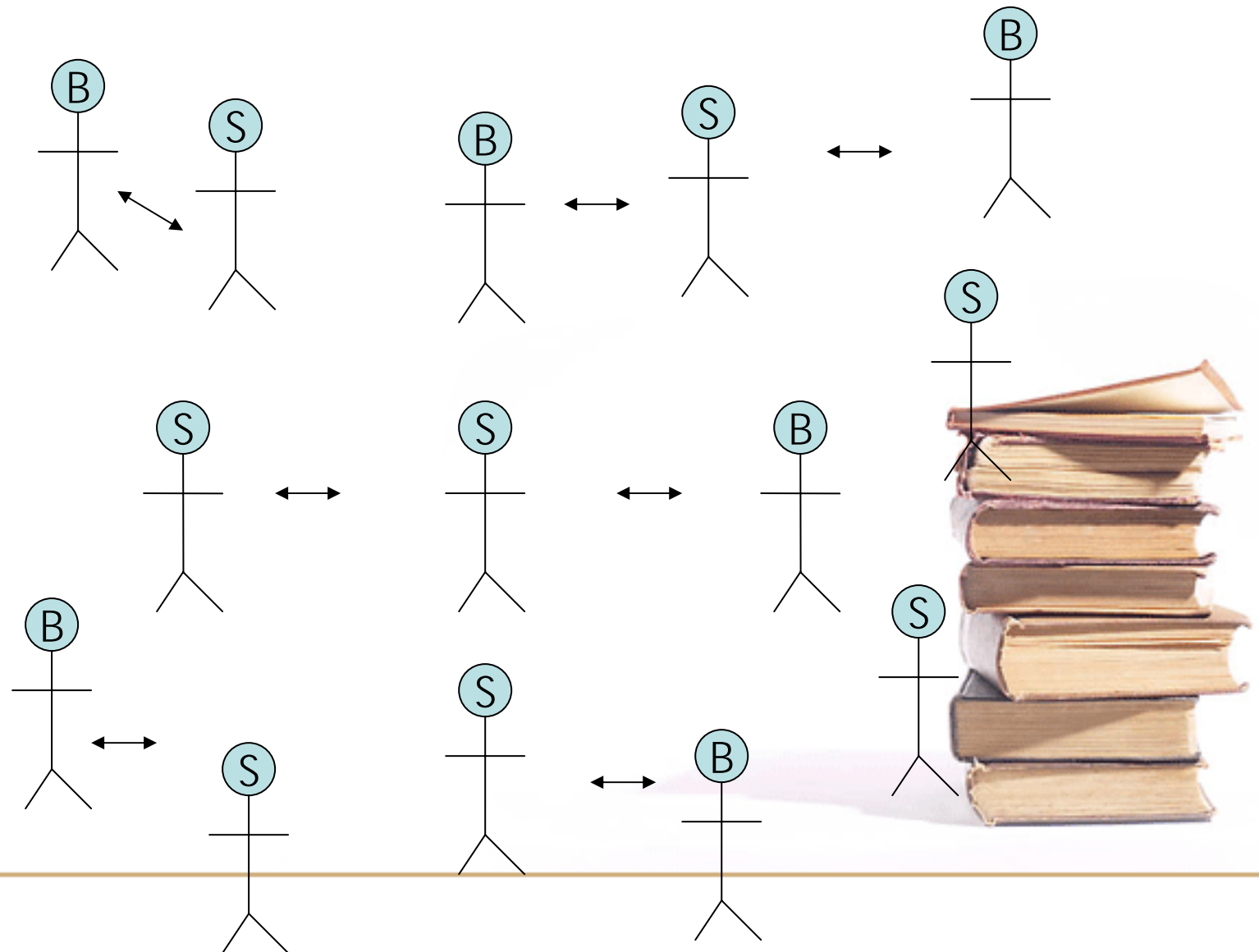


## *Traditional Models of Capitalism*

- **Capitalism as Markets**
  - Main metaphor for most models of business.
  - There are buyers and sellers.
  - Market conditions (numbers of buyers and sellers) and information reflected in prices, determine how value is distributed.
  - Buyers and Sellers are “black boxes”.
  - Not much insight into entrepreneurial process.



# *The Standard Account of Value Creation and Trade*

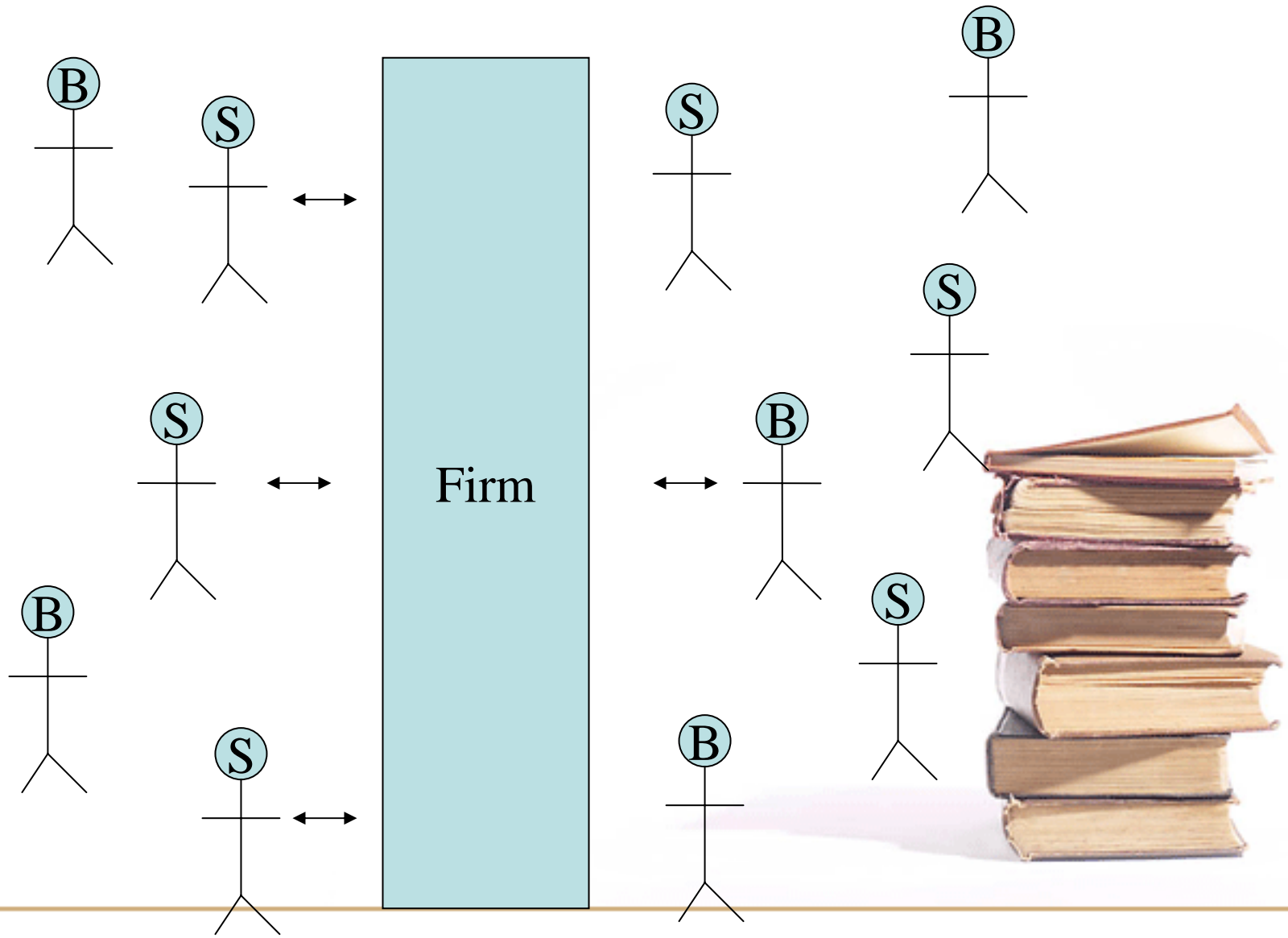


## *Traditional Models of Capitalism*

- Capitalism as Markets
- **Capitalism as Markets and Hierarchies**
  - Using the pricing mechanism has a cost, so sometimes it is easier to organize transactions via authority rather than markets.
  - Understanding “transactions costs” is the critical variable.
  - Why does value get created in firms?— Because markets are more costly in the real world sometimes.
  - How does value get created? –Not much insight here.



# The Emergence of Markets and Hierarchies



## *Traditional Models of Capitalism*

- Capitalism as Markets
- Capitalism as Markets and Hierarchies
- **Capitalism as Entrepreneurial Deal Making**
  - A better place to start...
  - Stakeholder relationships can be the units of analysis
  - Venkataraman's two principles of equilibration:
    - Weak force allows stakeholder by stakeholder renegotiation.
    - Strong force ensures the possibility of new deals.
- *But First...*





## *Three Theoretical Problems with the Standard Accounts of Capitalism (VC&T)*

1. The Problem of Competition
2. The Problem of Business Ethics
3. The Problem of Business in a Liberal Democracy



## *The Problem of Competition*

- Global Argument
- Historical Argument
- Societal Framework Argument
- The Human Nature Argument



## *The Problem of Business Ethics*

- Continual “Ethics Crisis”
- Separation Fallacy
- Responsibility Principle



## *The Problem of Business in a Liberal Democracy*

- The State as Sole Recourse for Stakeholders
- The Problem of Collusion
- The Self in Liberal Democracy
- Political Philosophy as if Business Mattered



## *Solving the Problem of Competition*

- How can we redefine our understanding of business to make room for the collaborative and creative nature of value creation?
- How can we redefine our understanding of business to make room for the full complexity of human beings and their drive to create alone and with others?
  
- **Focus on Stakeholder Relationships**
- **Focus on Stakeholder Cooperation**
- **Focus on Complex Human Beings**



## *Solving the Problem of Business Ethics*

- How can we resituate both business and ethics so that they are part of the same institution?
- Can we re-conceptualize capitalism (VC&T) so that the question of its “ethics” as an external matter, simply does not arise with every transaction? How do we create the presumption that business is ethically justified most of the time?
- **Focus on Stakeholder Responsibility**
- **Focus on Complex Human Beings**



## *Solving the Problem of Business in a Liberal Democracy*

- Can we offer an alternative voluntary scheme to the role of the state?
- Can we rethink political philosophy to begin with the question, “how is value creation and trade sustainable over time”?
- Can we include a more robust view of the self in understanding business?
- **Focus on Stakeholder Engagement**
- **Focus on Complex Human Beings**



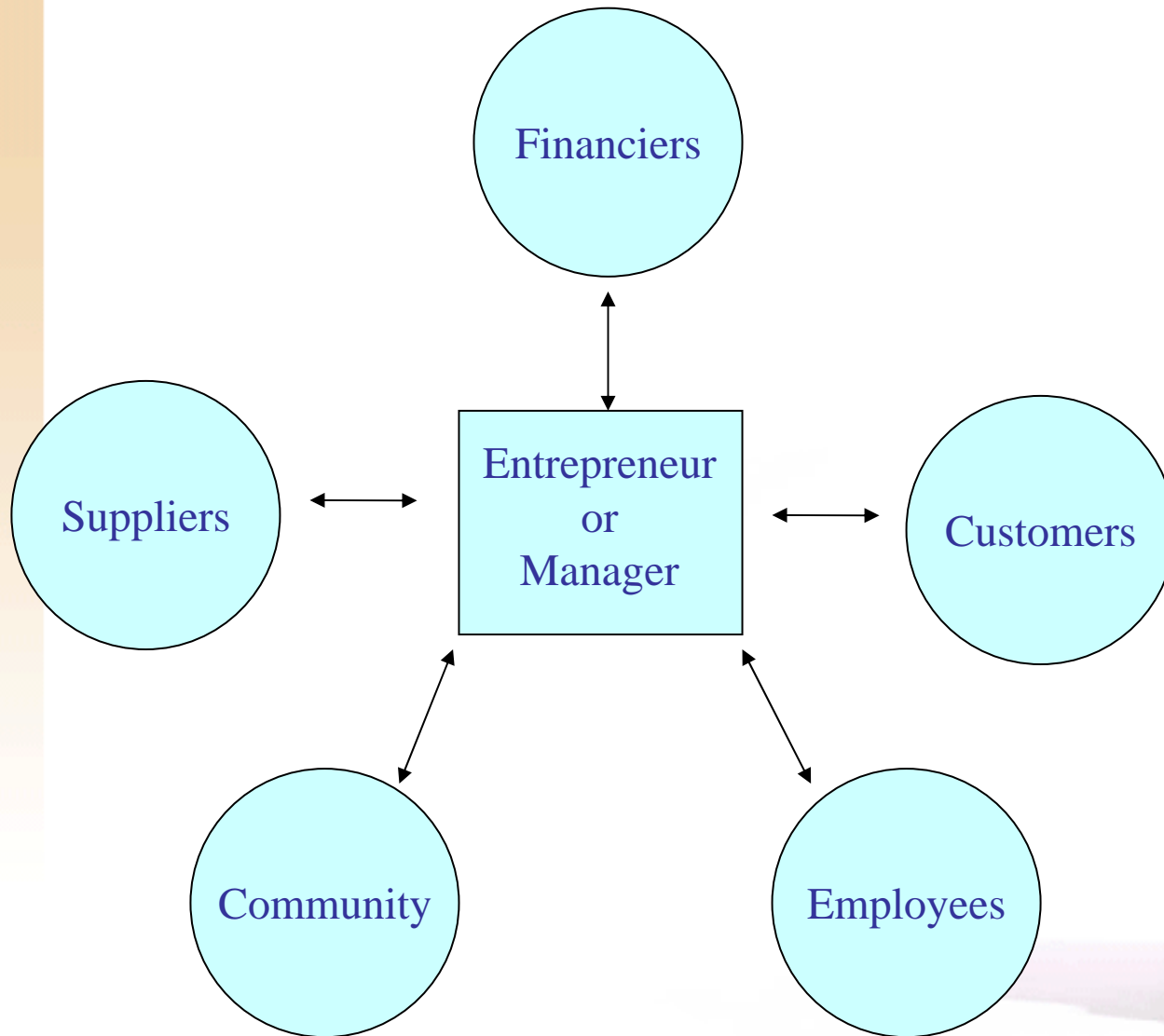
## *Some Practical Issues*

- Value Chain  $\longrightarrow$  Responsibility Chain
- Strategy  $\longrightarrow$  Purpose
- Shareholders  $\longrightarrow$  Stakeholders
- Execution  $\longrightarrow$  Stakeholder Engagement
- Motivation  $\longrightarrow$  Inspiration





# *The Stakeholder View of Value Creation and Trade*



## *Features of the Stakeholder View*

- The entrepreneur or manager puts together a deal that simultaneously satisfies multiple stakeholders.
- Each stakeholder is important for the deal to be sustainable.
- Other stakeholder relationships may well be important in so far as they influence the primary ones.
- Wheel and spoke diagram (much criticized) indicates only one point of view.



## *The Principles of Stakeholder Capitalism*

- Stakeholder Cooperation
- Stakeholder Responsibility
- Stakeholder Engagement
- Complexity



## *The Principle of Stakeholder Cooperation*

Value can be created, traded, and sustained because stakeholders can jointly satisfy their needs and desires by making voluntary agreements with each other, that for the most part are kept.



## *The Principle of Stakeholder Responsibility*

Value can be created, traded, and sustained because parties to an agreement are willing to accept responsibility for the consequences of their actions. When third parties are harmed, they must be compensated, or a new agreement must be negotiated with all of those parties who are affected.



## *The Principle of Stakeholder Engagement*

To successfully create, trade and sustain value, a business must engage its stakeholders.

Almost every business transaction involves: customers, suppliers, communities, employees, and financiers. Other stakeholders such as media, additional civil society representatives, NGOs, etc. are often affected or can affect value creation.



## *The Principle of Complexity*

Value can be created, traded, and sustained because human beings are complex psychological creatures capable of acting from many different values and points of view.



## *Two Subsidiary Principles*

- The Principle of Continuous Creation
- The Principle of Emergent Competition





## *Example: The Principle of Stakeholder Engagement*

- Stakeholder Engagement defines the very essence of capitalism
- Capitalism just is creating value for stakeholders.
- Example: Smith Bread Company



## *Practical Implications for Managers*

- CSR: Company Stakeholder Responsibility
  - The Basic Value Proposition
  - Principles for Sustained Stakeholder Cooperation
  - An Understanding of Broader Societal Issues
  - Ethical Leadership



## *CSR: The Basic Value Proposition*

- Who are we and what do we stand for?
- How does this company make its stakeholders better off?
  - Customers and Consumers
  - Employees
  - Suppliers
  - Communities
  - Shareholders



## *CSR: Principles for Sustained Stakeholder Cooperation*

- What principles or values are we committed to so that stakeholders will continue to support us and do business with us?
- Where are the major tradeoffs that we have made among stakeholders?
- What are we doing to improve the tradeoffs for each stakeholder?



## *CSR: An Understanding of Broader Societal Issues*

- Are we going along with or against the key trends in society?
- Are we helping to build / restore confidence in business, or are we part of the problem?
- Given our history and our business do we need to commit to work on a societal issue that is important to all of our stakeholders?



## *Ten Practical Ideas for Managing for Stakeholders*

1. Stakeholder interests go together over time.
2. Stakeholders consist of real people with names and faces and children. People are complex.
3. We need solutions to issues that satisfy multiple stakeholders simultaneously.
4. We need intensive communication and dialogue with stakeholders—not just those who are friendly.
5. We need to have a philosophy of voluntarism, to manage stakeholder relationships ourselves rather than third parties such as governments.



## *Ten Practical Ideas for Managing for Stakeholders*

6. We need to generalize the marketing approach.
7. Everything that we do serves stakeholders. We never trade off the interests of one versus the other continuously over time.
8. We negotiate with primary and secondary stakeholders
9. We constantly monitor and redesign processes to make them better serve our stakeholders.
10. We act with purpose that fulfills our commitment to stakeholders. We act with aspiration towards fulfilling our dreams.



## *Miles' Question: So What?*

- We need to replace our outmoded ideas of capitalism with something like “stakeholder capitalism”.
- Stakeholder capitalism implies the joint project of self-creation and community creation.
- Is there a matrix of relevant ethical concepts that can be combined with our understanding of business, such as:
  - Responsibility-Freedom-Authenticity
  - Autonomy-Solidarity-Relationships
  - Individuality-Community





## *Miles' Question: So What?*

- What kinds of theories of responsibility can we develop that have sophisticated understandings of the way that value creation and trade works, and what kind of creatures we really are and can be?
- Are there more robust theories of human beings to be developed for business, that do not depend on "The Great Jackass Fallacy"?
- We need a radical rethinking of the way we educate and train leaders and managers.

