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Managing for Stakeholders: Survival, Reputation, Success, by R. Edward Freeman, Jeffrey S. Harrison, and Andrew C. Wicks. New Haven, Conn.: Yale University Press, 2007. Hardcover, 200 pp., $26. ISBN: 978-0300125283

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Applied ethics is harder than it looks from the outside. Or rather, doing applied ethics *well* is harder than it looks. There is plenty of what passes for scholarship in applied ethics that is not, in fact, much good – but the same can be said of other fields, as well. I think in some sense it is easier to go astray in applied ethics than it is in most disciplines, in part because the edges of the field are so diffuse, and in part because there is the opportunity for applied ethics to devolve into the kind of 'off-the-cuff-opinion from someone-with-PhD' that the media, unfortunately, so often seeks from us. When we in applied ethics do a good job of offering practical advice, we seek to offer not just opinion, but clarity. We bring assumptions to the foreground, and critique those that seem faulty. We point out logical gaps in moral reasoning. We note when ethical arguments rely on empirical claims that are either false or merely unsubstantiated. Doing applied ethics well involves working on these sorts of pragmatic issues related to ethical reasoning, down in the trenches, as it were, trying to make progress on practical problems, all the while retaining sight of the fact that we are scholars, with specialized training in the formulation and application of principles, and the evaluation of theories.

Plenty of ink has already been spilled over the issue of what kind of beast applied ethics is. Is it a branch of academic philosophy? Is it a helping profession, or set of such professions? Is it some sort of hybrid discipline? Is it a discipline at all, or just a cluster of topics? Just how practical is it, really? (Some philosophers find most applied ethics too crassly practical, and insufficiently concerned with theoretical distinctions; some professionals find the field too bookish, too far removed from real-life practicalities.) There is of course no truth to the matter, no reason to think that applied ethics has an essence of the kind implied by these questions.

There is an older conception of "applied ethics" according to which the field involves (as the name, taken too literally, implies) *applying* various ethical theories to various practical problems. No doubt that is just what it involves for at least some scholars and practitioners in, or along the edges of, the field. And in some cases, there is good reason for this applying-the-theories pattern of practice. Theoreticians, including philosophers along with scholars in allied fields such as economics and political theory, have fruitfully debated and honed central theoretical positions within the broad field of moral theory; the real-life problems of applied ethics provide a good opportunity to set aside theoretical niceties for a moment, haul out a few *ceteris paribus* clauses and see how the theories help us understand better how we ought to behave. Indeed many older textbooks in the field (and more than a few newer ones) begin their pedagogical projects by trotting out the classical ethical theories: utilitarianism, Kantianism, virtue theory and contractarianism (or some sub-set of those), with some throwing feminist ethics in for good measure. And for certain pedagogical purposes, it can be handy to ask questions like, “What would a Utilitarian say about abortion?” or “What would a Kantian say about surveillance in the workplace?”

Properly understood, however, the project of applied ethics is more ambitious than mere application of theory. Properly understood, the project of applied ethics, at least as carried out by scholars with training in a theoretical discipline, is to engage directly in moral theorizing *in the context* of practical, “applied” problems. To do health-care ethics, then, for example, is not to take theories learned in Ethics 101 and see what they imply about various dilemmas in the world of health; rather, it is to engage in theorizing – comparing, debating, and honing theories – in light of the exigencies of rich, real-life practical problems. In this regard, applied ethics is a theoretical discipline. What distinguishes it is a commitment to the idea that theories are not mere abstractions that can be usefully constructed and refined in isolation from the world they describe and the real-world problems they help us solve. The data provided by the real world play a fundamental role in the theorizing done by applied ethicists.

Freeman, Harrison, and Wicks’ book, *Managing for Stakeholders: Survival, Reputation, Success,* is a work in applied ethics. It is a book that seeks to illuminate the moral complexities of the role of managers, and to provide managers with a framework, a new frame of mind, which the authors hope will help those managers make better sense of their role, and ultimately make better moral decisions.

It is a challenge to write a scholarly review of a book written by scholars but emphatically not aimed at scholars. *Managing for Stakeholders* is just such a book. The authors note in the Preface that, “It is written for executives, not for academics….”[1] My intention, therefore, is to take the book’s mission seriously, and review it not as a scholarly tome, but as a helpful guide for the beleaguered manager. The structure of this review essay will be as follows. First, I note some of the book’s admirable qualities. Next, I target a handful of what I take to be its most serious shortcomings. Finally, I explore the extent to which the book succeeds at exemplifying good ‘applied ethics’ scholarship; my conclusion is that it does not do well by that standard.

There are things to admire in *Managing for Stakeholders*, both in terms of overall strategy and in terms of specific insights. Two aspects of the book’s overall strategy are worth commending. First is the authors’ avowed desire to foster a new *narrative* about business. The authors state early on that they want to “create a new narrative” and that, through their book, they are “telling a new story” about business.[2] Management is, in some sense at any rate, a profession, and the moral values of professions are embodied as much in the stories professionals tell themselves, and each other, about the work they do, as they are in the codes promulgated by authoritative bodies. The idea of handing to managers a new kind of story – a story according to which the manager’s legitimate social role is something more than short-term profit-seeking – is an immediately-appealing one. Second, it is also worth commending the authors’ professed desire to speak, through their book, directly to managers, to tell a story that *managers* can recognize and take up as their own. It is not enough that we scholars have a good story to tell about the role of managers in a capitalist system; it is important that we also strive to

[1] *Managing for Stakeholders*, vii.
[2] *Managing for Stakeholders*. viii

tell that story *to* managers themselves, and tell it to them in a language they are likely to find congenial and conducive to retelling.

The book also provides a number of specific insights that are useful. First, of course, is the basic idea that there is value to be had in attending to the interests of a wide range of stakeholders. That idea will not be new to most readers of *BEQ* – indeed, Freeman himself deserves credit for having helped to popularize the idea within the field of business ethics. But to at least some among the book's target audience, it may well be new. A related piece of wisdom is to be found in the authors' encouragement to seek mutually advantageous solutions – what colloquially are called "win-win" solutions, and what more technically might be referred to as Pareto superior outcomes. The authors are right to insist that it is both wise and ethically good for managers to think imaginatively about ways in which they can create value for all stakeholders, or at least as many of them as possible.

Another important insight is the idea that different stakeholders are to be "paid" in different currencies.[3] Even given the understanding that (as the authors put it) business is about "creating value" for all concerned, we ought not assume that the term "value" always implies a dollar figure. Different parties want different things, and not all of those things can be readily quantified in financial terms. Wise managers – especially ones looking to save money – would do well to think creatively about other, non-financial ways in which stakeholders can be made happy.

But despite these virtues, *Managing for Stakeholders* is hobbled by a number of shortcomings that, I fear, limit the value that the book could have to its intended audience.

To begin, one key problem with *MFS* is its critical portrayal of managerial capitalism – which they equate, somewhat oddly, with "laissez faire capitalism"[4] (*sic*). Of course, the problem is not that the book's portrayal of capitalism is critical: there is plenty of room for criticism of the particular form managerial capitalism has taken in the early 21st century, and for the particular habits and conventions that have evolved within it. It is a system that has permitted some to wield excessive power and to reap unjustified benefits. But the particular account of "standard" (managerial) capitalism portrayed (and criticized) by the authors amounts to a straw man.

The authors' problematic portrayal of capitalism begins early. In the Preface, the authors decry the "current shared understanding of capitalism as only creating value for shareholders."[5] They don't specify *among whom* they believe that understanding to be shared, so the natural assumption is that they take it to be shared quite broadly. But capitalists, at least those informed by Adam Smith, have long understood capitalism as involving mutually beneficial exchange. In Chapter 1, the authors make their criticism more targeted, taking aim at "how theorists want us to believe" capitalism works. In particular, they have harsh words for those theorists who cleave to "the idea that we need

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[3] *MFS,* 130.

[4] *MFS*, 22. As I understand those terms, "managerial capitalism" describes a certain kind of relationship between managers and owners; "laissez faire capitalism" refers to a certain kind of relationship between corporations and the state. There might be some (contingent) relationship between the two, but they're not the same thing.

[5] *MFS,* viii.

to pay attention to only one" group of stakeholders, namely "the people that supply the capital".[6] What the authors don't tell us, however, is just which theorists hold the oddly narrow view that, even from a prudential point of view, only providers of capital (i.e., shareholders or financiers) need be attended to. Certainly, there are those who defend the view that managers' primary fiduciary obligation is to shareholders, as well as those who argue for the importance of shareholders in corporate governance.[7] But the view that a successful company could be built without even *considering* the interests of other stakeholders is simply too implausible to be taken seriously. Likewise, the authors proclaim (without evidence) that the "managerial view" (of capitalism) is so focused on shareholders that "managers fail to look externally for new sources of growth and innovation."[8] Here again, the idea that there are any managers – ones actually deserving of that title – who behave this way is simply too implausible to accept without supporting evidence, or at least elaboration.

This mischaracterization of capitalism (and its theorists) is particularly unfortunate given that the authors' audience is a non-scholarly one. Were their audience to take to heart the authors' portrayal of 'mainstream' capitalism, that audience would end up with the false impression that most theorists and mainstream managers – certainly those that aren't hip to the stakeholder idea – are simply fools.

The second noteworthy problem with *Managing for Stakeholders* lies in its attempt to deny that there can be a conflict between the needs of different stakeholders. The authors make this claim repeatedly, but their first and clearest statement of it is this, in Chapter 1: "There really is no inherent conflict between the interests of financiers and other stakeholders."[9] The authors' very next sentence seems intended to be an elaboration: "If we are correct, there simply is no way to maximize value for financiers without paying attention to the other stakeholders."[10] The second claim is certainly true. But the necessity of "paying attention" to stakeholders, in order to produce profits for shareholders, is a far cry from a claim that there is *no conflict* between the two. What the second claim rightly points out, in essence, is that commerce is not a zero-sum game. But to say that it is not a zero-sum game is not to say that there is no conflict. For even if, as is standardly assumed, commerce is a positive-sum game, there remain very serious questions about how the productive surplus is to be divided. Indeed, some of the most infamous problems of business ethics arise precisely from the ineliminable conflict over how to divide the spoils of commerce. When a North American apparel company gives a sewing contract to a factory in a developing nation, the question of who will benefit by how much is very much a live one. How much will workers be paid? Will the company insist on a particular standard of working conditions? And pointing out that the company must "pay attention to" the demands of local workers does nothing to eliminate the question of just how much those workers are to be paid, or the working standards to be

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[6] *MFS*, 4.

[7] See, for example, John Boatright, "Contractors as stakeholders: Reconciling stakeholder theory with the nexus-of-contracts firm." *Journal of Banking & Finance.* 26 (2002) 1837–1852

[8] *MFS*, 25.

[9] *MFS,* 5.

[10] *MFS,* 5.

insisted upon. And yet, the authors of *MFS* want us to believe that "how we should distribute the burdens and benefits among stakeholders" is simply "the wrong question."[11] Contemplating conflict between stakeholders is, they claim, "likely…to lead executives astray."[12]

Again, this is particularly troubling because of the authors' intended audience. Scholars might brush aside the authors' denial of the reality of conflict between stakeholders as a kind of rhetorical flourish. And maybe the managers who are the authors' audience would too; but those who do not will be misled. To deny that there is conflict, and that conflict is unavoidable, seems just the wrong message to send to managers. Managers have real choices to make – hard choices – and to deny that they will ever have to trade off the interests of one stakeholder against those of another is to trivialize the morally challenging work they do.

A further problem lies in the authors' implicit assumption that in order for businesses to act more responsibly, managers are all that matter, and that all that is needed in order to reform corporate ethics is for managers to adopt a new, stakeholder-friendly 'mindset.' Practically no attention at all is paid to the role of those above, or below, the manager in the corporate hierarchy. Granted, this is a book aimed at managers, and about how managers should conduct themselves. It isn't aimed either at the corporate rank-and-file, or at Boards of Directors. But surely the intention (and perhaps the need) to focus on just one set of role responsibilities does not warrant excluding other roles from consideration, to the extent that those roles intersect with the one at hand.

The problem here can be illustrated by asking, how would the new managerial mindset advocated in this book to be translated into action? Let us first consider the 'downstream' issues. Even if managers take the authors' message to heart – even if they adopt a new mind-set and start telling a new story – it is not at all clear how this overcomes the very substantial (well-documented, well-theorized) problems inherent in getting individual workers to adopt that same mindset and tell the same story. But *MFS* contains no reference at all to such agency problems. Consider also that, for a company's rank-and-file, we might reasonably expect a change in 'mindset' to mean a change in corporate culture. And yet *MFS* has nothing to say about corporate culture – ethical leadership, yes, but not about how leaders are supposed to change the behaviour of their organizations. Similar problems arise if we look 'upstream.' Upstream, the newly stakeholder-friendly manager must figure out how to apply her new stakeholder-friendly mindset within the strictures of a corporate governance structure. After all, even a manager zealously committed to the idea of finding ways of building long-term value for all stakeholders has to cope with the fact that one stakeholder group – namely, shareholders – elects the Board of Directors that has power to fire her. But *MFS* has virtually nothing to say about corporate governance, except to assert (p. 34) that "shareholders no longer have a special place at the centre of the managerial model."[13] Then again, many of the strictures of corporate governance regimes are the result of

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[11] *MFS,* 11.
[12] *MFS*, 36.
[13] Another exception that proves the rule: on p. 23, the authors mention, dismissively, the recent trend to shape executive compensation in a way that aligns the interests of executives with those of shareholders.

particular bits of corporate law; and *MFS* has little, if anything, to say about corporate law, either. The result is a book that focuses entirely on the mindset of the individual, to the exclusion of consideration of institutional mechanisms. Agency relationships, governance structures, and corporate law play an undeniably enormous role in the functioning of the modern firm. And yet, in its effort to avoid being too scholarly, *MFS* brushes these challenges aside, not just avoiding grappling with the voluminous scholarly literature on those topics, but also avoiding dealing with the issues themselves.

A final problem is to be found in a pair of significant non sequiturs – each rooted, it seems, in some perhaps-unintentional verbal sleight of hand. Both non sequiturs have to do with the question at the very core of this book's project, namely the question, "What is the manager's role?" In both cases, the non sequitur involves a move from a very reasonable (indeed, very wise) premise to a highly contentious, and ultimately unsupported, conclusion.

The first of these non sequiturs involves the relationship between managers and stakeholders. The authors begin, here, with the very reasonable claim that a primary role for the executive is to – in some sense or another – manage the needs of various stakeholders, and the claims those stakeholders make upon the corporation. This, I take it, is just smart management. But the authors then proceed to make an illegitimate leap from the claim that executives *manage stakeholder relationships* to the claim that executives must manage *for* stakeholders. On page 3, they make the leap quite explicitly: "The executive's…job is to manage and shape these [stakeholder] relationships, hence the term 'managing for stakeholders.'" And it simply does not follow. There is, after all, a notoriously big gap between the prudential advice (that wise managers should manage stakeholder relations) to the moral advice (that managers are obligated to manage for the benefit of all stakeholders).

The second non sequitur involves the relationship between managers and society as a whole. In this case, the authors begin by asserting, again quite reasonably, that business is, in some sense, "about" creating value for all concerned.[14] The expectation[15] of mutual benefit is, after all, what differentiates commerce from crime. What we want from business as a whole is for it to improve the lot of all participants; that is the *raison d'être* of a system of commerce, the reason why we would wish to invent commerce if it didn't happen so naturally. But from this reasonable claim about the role of *business*, the authors make the illegitimate leap to the conclusion that the role of *managers* is to create value for all concerned. And that simply doesn't follow. The fact that we expect business, as a system, to create value for all concerned does not imply that social value-creation should be the direct objective of each participant. Compare: we want our legal system to result in justice for all. But that doesn't mean that the defence attorney's goal is justice for all: the defence attorney's goal – her *role* in the system – is to defend her client. For any complex system, the question of how the parts of that system should behave in order

[14] See *MFS* p. 4, p. 10, and elsewhere.

[15] Note that it is the *expectation* of benefit, not benefit itself, that distinguishes commerce from crime. Benefit cannot be guaranteed; even with the best of intentions, exchanges can fail, in the long run, to satisfy.

best to conduce to the goals of the system as a whole is a hard problem. It cannot simply be assumed. [16]

These two non sequiturs are more than logical errors. Together, the conclusions they claim to point to give managers a skewed understanding of their role, both within the corporation and within society. And far from offering hope in the midst of a harried day, these arguments simply expand, without adequate justification, the range of problems for which the manager is responsible. If the goal of *Managing for Stakeholders* is to give managers a new mental framework as a way of dealing with the enormous range of demands and pressures to which they are subject, it's hard to see how telling managers that they are responsible not just for meeting their own, local objectives, but the global objectives of the commercial system as a whole, is conducive to that goal.

I'll conclude this review with a few words situating *Managing For Stakeholders* within the much larger project of applied ethics. There is every reason to expect *Managing for Stakeholders* to be exemplary applied ethics. It even might be expected to be a sort of crowning achievement, at least within the applied ethics sub-discipline of business ethics. The book has its roots in Freeman's venerated 1984 work, *Strategic Management: A Stakeholder Approach.* Freeman is a philosopher by training. But in good applied ethics fashion, the book is interdisciplinary: Harrison's PhD is in Strategic Management, and Wicks's doctorate is in Religious Ethics. So we see here an interdisciplinary trio of scholars, made up of people steeped in theoretical literature related to the topic at hand, and yet making a very genuine attempt to broaden its audience, to reach out to the people who grapple, on a daily basis, with the problems it examines. These authors, writing on this topic, with this intended audience, could well be expected to have produced a work that exemplifies the 'project', if you will, of applied ethics. Perhaps that sets the bar too high for any book; nonetheless, framing things this way helps to see clearly what is problematic about this book.

Good work in applied ethics has certain features that make its project feasible. In the paragraphs that follow, I'll outline what I take those features to be, and say a few words about the extent to which *Managing for Stakeholders* manifests them.

First, I take it that one of the valuable contributions made by good work in applied ethics is that it **brings ethics to the foreground**, in domains of life where ethical issues are pervasive but not always discussed openly. In the world of healthcare, for example, the work of nurses is complicated and often stressful; good work in nursing ethics brings to the foreground the range of ethical issues involved in nursing, and identifies many of the stressors in nurses' professional lives as genuine ethical issues. *Managing for Stakeholders* similarly takes what might otherwise be thought of as "merely" managerial issues and – rightly – names them as ethical ones. I worry, however, that *MFS* tends to blur the distinction between ethical and prudential advice. The most common normative theme of *MFS* is that stakeholder-oriented management is the key to success. In fact, the reader often gets the sense that – despite stakeholder theory's central place in the vocabulary of business ethics – the central project of *MFS* is to give practical advice to

[16] The authors' argument that the role of managers should be to create value is an example of what is known as "the fallacy of division," the idea that the characteristics of the whole must also be characteristics of its parts.

managers. That is not to say that there is no overlap between practical and ethical advice; rather, it's to say that *MFS* seems to leave that connection under-explored.

A second feature of good applied ethics is that it **popularizes ethical discourse**. That is, good work in applied ethics makes ethics discourse more accessible, and thereby draws more people into the discussion. Smart applied ethics – like good science writing – makes the reader feel smart, by taking complicated theories and simplifying them, both in structure and in vocabulary, to make them accessible. Simplification is something *Managing for Stakeholders* takes to an extreme. As suggested in the criticisms above, the task of managers – including deciding how best to balance the needs, interests, and legitimate demands of a wide range of stakeholders – is both personally and theoretically challenging. Yet the authors of *MFS* insist that the solution is really very easy. Right from the beginning (p. viii), they assert: "By the simple act of changing two letters – turning 'stockholders' into 'stakeholders' – we believe we can revise our understanding of capitalism to build a more robust idea of business and management." This theme is reiterated, over and over. "The basic idea is quite simple." (p. 3) "The logic is simple." (p. 5) "Our argument is simple." (p. 8) Not only is the *solution* simple: the *reason* for adopting the stakeholder approach, according to the authors, is simple and widely applicable. That reason, apparently, is fear. Indeed, the notion that the world inhabited by the modern manager is a scary, uncertain place is perhaps the most oft-repeated notion in the book.[17] There are frequent references to helpless managers, working under tremendous pressure inside a 'fishbowl' of public scrutiny. There is reference to "complexity and intensity" (p. 9) and to an "ever-changing world filled with conflict," (p. 12) and many other references that seem designed to play on managers' fear. The message, in the end, is that the problem is simple (fear) and the solution is simple (a stakeholder-oriented change of mindset), but this is not the kind of simplicity that scholars of applied ethics should embrace.

Next, I take it as typical, and desirable, that good applied ethics **draws on good social science.** As part of its commitment to engagement with real-world problems, applied ethics seeks to go beyond the philosopher's introspection and thought experiments and to make use of the wealth of social-scientific knowledge currently available about just what makes people and institutions tick. In practice, sometimes this means, for example, that philosophers (or scholars from other non-empirically-oriented disciplines) who do work in medical ethics draw on the work of medical anthropologists, and sometimes it means that medical anthropologists (for example) conduct their research in a way that is shaped by current philosophical debates and seeks to provide the factual answers that will shape resolution. Either way, the result is (ideally) a useful synthesis of approaches, and sometimes a fruitful cross-fertilization.

But the authors of *MFS* seem determined to avoid drawing on social science; indeed, they insist that "[t]raditional social scientific methods are inadequate as they limit themselves to describing how companies operate"[18] – as if the only two live options are

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[17] Interestingly enough, the first sentence of the preface of Freeman's 1984 book is this: "Managers in today's corporation are under fire." It seems little has changed, in this regard. See R. Edward Freeman, *Strategic Management: A Stakeholder Approach.* Boston: Pittman, 1984. v.
[18] *MFS,* p. viii.

to rely exclusively on social science or to reject it entirely. They opt for the latter, preferring to use as "data" their own years' of experience discussing the challenges of management with executives and MBA students.[19] The result is a book that favours anecdotes over evidence, stories over data. And while, as argued above, the *intention* of writing a book that speaks directly to managers in a language they are likely to find congenial is an honourable one, the results are lamentable. One result of this tactic is that it appears to license the authors of *MFS* to ignore important economic concepts (such as 'agency problems.') Another result is a book that essentially robs managers of the opportunity to explore more deeply; it refuses to cite evidence that would reassure managers of the strength of the authors' claims, and refuses to given managers anywhere to go to find out more.

The conclusion that cannot be avoided is that *Managing for Stakeholders* is a book that ought, by dint of its pedigree and its project, to exemplify the best of applied ethics, but ultimately ends up over-achieving in its populist aspirations and hence under-achieving in its aspirations to prove useful to managers.

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[19] *MFS,* p. ix.