Book Reviews

***Stakeholder Theory: The State of the Art*, R. Edward Freeman, Jeffrey S. Harrison, Andrew C. Wicks, Bidhan L. Parmar, and Simone de Colle (New York: Cambridge University Press, 2010).**

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Stakeholder Theory: The State of the Art is must reading for anyone interested in stakeholder theory and should be a staple in any doctoral seminar in business ethics. The title is totally accurate because the book gives a comprehensive big picture account of stakeholder theory.

For discussion purposes I will begin with the history of stakeholder theory, Part 1 Section 2. I will then explore nearly a third of the book-the relation of stakeholder theory to the traditional disciplines of business. The third section of this review focuses on Part 3 Section 8—the relation of stakeholder theory to corporate social responsibility. The longest section of this review concerns the methodology of stakeholder theory and the responses of the authors to the critics of stakeholder theory. This analysis will cover Part 1 Sections 1 and 3, Part 3 Section 7 and Part 4 Section 9. The review concludes with some thoughts on future research in stakeholder theory—Part 4 Section 10.

THE HISTORY OF STAKEHOLDER THEORY

Ed Freeman is often characterized as the father of stakeholder theory. As Ed and his colleagues make clear in chapter 2, that is not correct. The authors point out that "The actual word 'stakeholder' first appeared in the management literature in an internal memorandum at the Stanford Research Institute in 1963." By 1965, some were already urging a rejection of stakeholder theory. So Ed is not the father, but he is certainly the most famous son. Be sure to read pages 52–57, "The Development of Stakeholder Theory—Freeman's Personal Story." That story has an emotional wallop, and illustrates how the work of any senior scholar has elements of serendipity. Be sure to read the footnotes. Two points stand out in this chapter. First, Ed is very humble in describing the role he played in the early development of stakeholder theory. Every mention of stakeholder theory by someone else in these early years is covered in this chapter. Second, stakeholder theory began as management practice. It was used by managers and then became a theory for scholars. Given the history of stakeholder theory, it is important to realize that it was not developed

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as a scholarly theory and then applied to management. What make this origin in management practice important is the fact that one of the prominent criticisms of stakeholder theory is that it is impractical—that you simply can't manage all those stakeholder interests. But experience gives the lie to this claim. Stakeholder theory started as a type of management practice.

THE CENTRAL CLAIMS OF STAKEHOLDER THEORY

As I understand this book it argues that stakeholder theory is composed of the following central claims.

1. The purpose of business is value creation for the various stakeholders of the business
2. Stakeholder theory is primarily a theory of the management of organizations with a normative core at its center.
3. As a result of 2, there is no sharp distinction in the theory between business issues and ethics issues. Stakeholder theory rejects the separation thesis that is so common in traditional business scholarship and business practice.

I accept totally these three central claims. To that extent I am a stakeholder theorist as are many of my business ethics colleagues. We think that the three claims above are justified as to how a business should be managed.

THE RELATION OF STAKEHOLDER THEORY TO THE TRADITIONAL DISCIPLINES OF BUSINESS

All of Part 2 presents an account of stakeholder theory in the traditional business disciplines. The account includes strategic management, finance, accounting, general management and marketing. Chapter 6 broadens the account to include business law, health care, public policy, and environmentalism. The scope of this account is enormous. A reader familiar with the disciplines will be surprised to see the extent to which stakeholder theory has played a role in the theoretical development of these disciplines. Yes, stakeholder theory really has had an impact on finance and accounting. A reader unfamiliar with business disciplines will get a good overview on the ways that stakeholder theory has been used in these disciplines.

The authors take the following approach with each of these disciplines: They cite articles that raise certain stakeholder issues within the discipline. Thus with respect to finance, they cite Cornell and Shapiro who argue that non-financial stakeholders will limit influence on the financial policy of the firm, Zingales who provided a rationale for stakeholder theory in finance, Sperling who examined the reciprocal influence of various stakeholders in the health care field, Hausman who examined the benefits of being trustworthy and so forth. Given the large number of articles, by necessity the description of the issue raised in any article is often not developed. For a deep understanding, the reader will have to read the full article or articles mentioned in the areas that attract his or her attention. This is not a criticism

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since the chapters in this section are not designed to provide depth on the numerous stakeholder issues that appear in each discipline. However, for the interested scholar who wants more depth, there are more than sufficient references and copious footnotes. I point out that the bibliography is over 40 pages in length and probably contains 800 articles and books. The bibliography alone is an extremely valuable tool and justifies getting the book.

There is an underlying theme to Part II. There has been a reluctance on the part of scholars in these disciplines to recognize the important role of stakeholder theory. To the extent that stakeholder theory is recognized, it tends to be in recognition of its instrumental value. To be successful (increase shareholder wealth) you need to pay attention to stakeholders. What the traditional business disciplines ignore is the importance of the normative core in stakeholder theory. This neglect can be traced to the widespread acceptance of the separation thesis in business. The authors would dig deeper and attribute acceptance of the separation thesis to the influence of positivism in the social sciences.

I would give a slightly different account of the reasons that the separation thesis finds acceptance in these disciplines. Positivism—at least in its most strident form—is no longer accepted by many business faculty. Yet the separation thesis persists. Why? The methodology of the humanities disciplines is just too strange for a social scientist to accept. Most social scientists think that the humanities really do not expand *knowledge*. Rather the humanities, at best, provide insights into the human condition or how we should live our lives. To the extent that the insights rely on "fact," the facts are provided by the social sciences. The post modernist movements that look at "facts" as socially conditioned at least to some extent are associated with the humanities and are looked on with great suspicion. The humanities are seen as a threat to objectivity and thus to scientific inquiry itself.

In addition my colleagues in the social sciences tend to do research from one of the perspectives discussed in this section of the book. They are resource based theorists, contingency theorists, institutionalists, or transaction cost economists among others. The fact that I approach business ethics from a Kantian and thus a theoretical base helped to some extent in providing some legitimacy to my own work. However, even from a theoretical perspective, philosophers make arguments, criticize the arguments, and revise their arguments. As one colleague told me, that refining of arguments makes good op-ed pieces for the *Wall Street Journal*, but he did not see why people who do that should be given academic tenure. The makers of works of art might deserve tenure but not the makers of good arguments. We are up against something more than a positivist methodology.

STAKEHOLDER THEORY AND CORPORATE SOCIAL RESPONSIBILITY (CSR)

It would seem natural that philosophers who focus on business ethics would find natural allies with theoreticians of corporate social responsibility in the Social Issues in Management Division (SIM) of the Academy. However, in the early days any alliance was uneasy at best and adversarial at worst. Chapter 8 gives philosophers

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a good history of the development of the corporate social responsibility movement and its central role in SIM (235–57.) The authors have mixed feelings about the impact of CSR on the development of stakeholder theory. On the positive side, CSR takes seriously the normative component of stakeholder theory. However, the way CSR is articulated, it often seems like an add-on—something you do after a firm makes a profit. Freeman and his colleagues put it this way.

> The *residual* view of CSR is the initial view of CSR that was developed by the early scholars back in the 1960's and 1970's, and is still predominant in today's academic and business conversations around CSR, particularly in the American context. This view conceptualizes CSR as a residual (i.e., nonstrategic) activity, summarized by the "giving back to society" proposition, that is, the idea that there is a moral obligation and/or a number of good practical reasons for corporations to give back to society some of the value they have created. Under this view CSR is not integrated with the most important value creating activities of the firm. In other words, this perspective focuses on ex-post profit distribution.

I think that Freeman and his colleagues are right here. Academics and business leaders who endorse CSR need to see CSR as a central part of the value creation of business. CSR is not an add-on.

Perhaps the notion of "sustainability" will be helpful in that integration.The European sustainability movement is less subject to this criticism. All three pillars of sustainability—financial success, environmental friendliness, and social responsibility—are equal and all are to be measured by triple bottom line accounting. This centrality of the non financial pillars allows us to speak of sustainability capitalism in contrast to the finance based capitalism prevalent in the United States. In this way stakeholder theory provides a theory of capitalism itself—a possibility that Freeman and his colleagues explore in chapter 9. Consideration of this larger stakeholder project is included in my discussion below.

THE METHODOLOGY OF STAKEHOLDER THEORY: CRITICISMS AND RESPONSES

Despite its widespread intellectual and managerial acceptance, stakeholder theory has been subject to two main criticisms that have never been definitely answered in the literature. First, who is to count as a stakeholder? Second, how is it possible to manage (balance) all those stakeholder interests? For years, I have been pressing Ed to provide his answers to these questions. Ed promised me that *Stakeholder Theory: The State of the Art* would provide the answers. On first glance, I thought that the promise was unfulfilled. Relatively speaking, there are only a few pages in this book that address those questions.

Upon reflection, however, I realize that the answer to the questions are provided in large part by the pragmatic methodology adopted. I think Ed and his colleagues would argue that if one is a pragmatist the objections lose much of their bite and may even dissolve. This book explicitly urges stakeholder theorists to adopt a pragmatist methodology. What would such a methodology look like?

> Pragmatists see the goal of inquiry as generating insights that help us to lead better lives. . . . In thinking about usefulness, the pragmatism of Wicks and Freeman encompasses two dimensions simultaneously: the epistemological (is it useful in terms of providing credible, reliable information on the subjects at issue?) and the normative (is it useful in making our lives better?). (75)

Since there are a variety of business organizations and since any business finds itself in a variety of situations, who counts as a stakeholder depends on the situation. The answer to the first criticism or question, "Who counts as a stakeholder?" gets a pragmatic answer. There is no one "true" definition. Who counts as a stakeholder depends on the business and the issue it faces. Normally, of course, we can assume that employees, customers, suppliers, and the local community are stakeholders. In a publicly held corporation, the stockholders are stakeholders. But NGO's and government regulators could also be stakeholders in certain situations. The authors put it this way: "However, one way to think about role of the definitional problem is to return to the pragmatic perspective, when thinking about the issues involved. Rather than seeing the definitional problem as a singular and fixed, admitting of one answer, we instead can see different definitions serving different purposes" (211).

As for the second questions, "how are interests of the relevant stakeholders to be balanced?," the authors say, "**A stakeholder approach to business is about creating as much wealth as possible for stakeholders, without resorting to trade-offs**" (28 emphasis in original).

This question emerges again on pages 224–26. Here the authors simply point out that many of the biggest and most successful companies in fact practice stakeholder theory. The proof is in the pudding so to speak. The fact that stakeholder management can be successfully practiced does undermine the criticism that it is impractical. However, the impracticality question arises again, when managers are urged to practice stakeholder theory "without resorting to trade-offs." I have no problem with that as a management ideal, but I suspect that the necessity of trade-offs may be required more often than the authors think.

SHOULD STAKEHOLDER THEORISTS ADOPT A PRAGMATIST METHODOLOGY?

My answer to that question is qualified. I reflect back to my days as an undergraduate philosophy major. I remember my professor defining pragmatism as a theory that says one should believe and do whatever works. However, he quickly added that pragmatism has no theory of what works.

The authors do have a theory and it is closely related to Rorty's pragmatic account that they quote approvingly. "What works for a business is what creates and promotes value specifically the values of freedom and solidarity."

But why those values? Why not the maximization of wealth as Friedman recommends? Can the pragmatist deny all foundationalism without ending in relativism? That is the danger although the authors think they can avoid it? They specifically reject the relativism that comes with much of the anti-positivist approaches to science. "Anti-positivists elevate the human-ness of all inquiry, even that based in

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science, but it undercuts our ability to tackle the questions of values and meaning by making all points of view equally valid and any effort to establish a "better" or "best" narrative little more than a power grab" (74).

However, can they avoid relativism sufficiently? I think the social scientists in business schools would be suspicious of the view of science espoused in *Stakeholder Theory: The State of the Art*. The four central ideas of a pragmatist epistemology that Ed and his colleagues endorse are 1) "the world is 'out there' but not objective," 2)"facts and sentences are intertwined," 3) all inquiry is fundamentally interpretive or narrative 4) science is a kind of language game." "Science is simply one more tool that can provide us with a set of narratives that can be incredibly useful as we sort out how to live well" (74). All this has a terribly subjective ring to it. What is required is some theory of objectivity even it is not the objectivity of traditional science.

Unfortunately the book provides no account to overcome the suspicion. There are hints. One appears on page 74 that some kind of intersubjective agreement is being endorsed. This brings to mind Habermas and from American political science, the theory of "deliberative democracy." Unfortunately there is no intersubjective agreement on what it means to live well. And I see no way pragmatism can provide such a theory on its own. Rorty can appeal to hope and freedom. But what can a pragmatist like Rorty say when an opponent says that conformity to religious dogma rather than freedom of conscience is what it means to live well?

Of course, one of the standard functions of ethical theory is to tell us what it is to live well. A theory of living well is most explicit in Aristotle but it can also be garnered from philosophers like Kant and Rawls as well as from feminist moral theory. Ed and his colleagues would endorse these theories as capable of providing a moral core for stakeholder theory. Indeed Ed himself has been linked to a Kantian core, a Rawlsian core, a feminist core, and a libertarian core.

I think most philosopher business ethics who have worked on ethical theory without explicit ties to stakeholder theory will feel that something is missing from the discussion of chapter 7 and it is more than the fact that these business ethicists get hardly a mention or no mention at all. This is the only chapter in the book where there is little or no mention of several of the major players in the field under discussion. If the only function of an ethical theory is to provide a normative core for stakeholder theory, then the emphasis of chapter 7 on business ethics might make sense. In other words the omissions are fair enough if Ed and his colleagues see ethical theory as simply a normative core for stakeholder theory. But what if these ethical theorists present an answer or answers to the pragmatists central question—namely a justified theory of what it means to live well. A terrorist state defending a religious orthodoxy is not simply an alternative narrative of how to live well. It is an incorrect or unjustified theory of how to live well. Ethical theory provides more than a normative core for a pragmatic view of stakeholder theory; it provides a justified account of what it means to live well and thus a justification for Rorty's values of hope and freedom.

We can take one more cut at this issue by examining a stakeholder theory of capitalism itself—the subject of chapter 9. Before beginning, it is imperative to point out that this is an important chapter. Many of us who teach in business schools have not paid much attention to the justification of capitalism itself. We tend to operate at the individual or organizational level. When business ethics is taught in a philosophy department, the issue of whether capitalism can be justified is discussed—often from the perspective of Marxism. But Marxism is a non starter in a business school. However, business ethics scholars in Europe have had no such reservations and the justification of capitalism is a central topic of their conversation. The authors are to be commended for providing a stakeholder narrative of capitalism as an alternative to 5 other types of capitalism that they discuss.

They argue persuasively that one of the problematic common assumptions of labor capitalism, government capitalism, investor capitalism, managerial capitalism, and entrepreneurial capitalism is the central role given to competition at the expense of collaboration. This emphasis is mistaken because it ignores cases where collaboration is necessary for survival. Each theory emphasizes a dominant group at the expense of all others. A stakeholder theory pays attention to value creation for all groups.

Importantly a stakeholder theory of capitalism has a normative core based on libertarian and pragmatist lines. "Stakeholder capitalism is based on freedom, rights, and the creation by consent of positive obligations," The authors argue that such a view of capitalism provides a superior narrative of capitalism to the five traditional ones discussed. I agree but why? Or to put it another way, what can I say to others who have a different account for the basis of capitalism—a non libertarian or robust theological basis for capitalism? What could be said to one who argues for a state based capitalism like China's? It is here that I find the pragmatist account too thin. Ethical theory—and by that I mean several of the traditional ethical theories—can provide a basis for the choice of those values. Be that as it may, the authors do present the beginnings of a more satisfying theory of capitalism based on six stakeholder principles. But the four pages devoted to those principles are just a tease. Yes, Ed, you and your colleagues need to write yet another book.

A FUTURE RESEARCH AGENDA

Developing in more detail a stakeholder theory of capitalism is an important future project. It is time that stakeholder theory be discussed at the macro economic or societal level as well as at the individual and organizational level. Showing in detail how the six principles would impact the practice of business is certainly the next step in such a theory. In other words we need a richer description of what a stakeholder theory of capitalism would look like. *Stakeholder Theory: The State of the Art* concludes with thirty-six research questions that should constitute a research agenda for an even more robust stakeholder theory. The current state of the art of stakeholder theory is not the final story.

CONCLUSION

Stakeholder Theory: The State of the Art is a magnificent book. It is global in scope, well documented, and coherently argued. It has much to offer all the various business disciplines. Most importantly it provides principles and guidelines for a more just and humane capitalism as well as a more successful capitalism of value creation. If followed, the separation thesis would be a thing of the past and business ethics would no longer be considered an oxymoron. A book that can hold out that hope deserves our attention.