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# Stakeholder Capitalism and Implications for How We Think About Leadership

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## MAD statement

The intention of this leading article is to help reframe our take on capitalism and leadership. Rather than presenting a linear, one-solution approach, it promotes an often messy, uncertain approach based on purpose, co-creation, creativity, courage and action delivering on a multitude of stakeholders' needs and interests.



## Introduction

Freeman et al. (2020) argue that the very idea of our business system is currently undergoing a conceptual revolution. They refer to the many clarion calls for the reform of capitalism – typically defined as shareholder primacy – especially following the Global Financial Crisis of 2008. Furthermore, a new narrative – or story if you like – about business is evolving as established and emerging businesses are formed and reformed on the grounds that are very different from the usual story about money and profits.

Some have suggested further attention to traditional ideas such as corporate social responsibility (CSR), corporate philanthropy, environmental sustainability and socially responsible investing is required. Others have proposed a variety of different models including conscious capitalism, connected capitalism, inclusive capitalism, a focus on UN's sustainable development goals and the global reporting initiative, impact investing and environmental, social, and governance investing. While some of these ideas may well be old wine in new bottles, many contain insights into society's changing expectations about business in the twenty-first century. And, almost all are built on the notion of business as serving the interests of multiple stakeholders rather than being limited to shareholder primacy.

We adopt the phrase 'Stakeholder Capitalism' as a concept representing these many suggestions for reform, acknowledging any proposed model such as 'conscious capitalism' as a particular conception<sup>1</sup> of the general idea. Stakeholder Capitalism as a concept is based on many of the models that have been proposed, and while there are differences among them, there are also many similarities.

In this article, we will (a) explain five key ideas that are necessary for thinking about any conception of Stakeholder Capitalism; (b) show how each idea has implications for the way we think about leadership; and (c) suggest an agenda for change.

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## Five Key Ideas for Stakeholder Capitalism

While calls for business reform emerge from multiple political, economic and cultural points of view, many carry a clear resemblance, arguing that business needs to be more responsible for the effects of its actions, including larger, more complex societal issues to which they have contributed. In *The Power of And: Responsible Business Without Tradeoffs*, Freeman et al. (2020) suggest that reforms aimed at making business a more responsible institution need to address five key ideas. Each of these five can be seen as complementing the traditional story of business as primarily concerned with growth and profits.

The five key ideas introduced are (1) Purpose and Profits; (2) Stakeholders and Shareholders; (3) Business as a Societal and Market Institution; (4) People as Fully Human and Economic; and (5) Putting Together Business and Ethics. Freeman et al. (2020) suggest that the support of these ideas lies in the existence of real businesses that are based on the ideas themselves. Thus, this is not an academic exercise but an account of a real-world reckoning happening before our eyes. Unfortunately, strong assumptions combined with the dominant shareholder primacy narrative all too often prevent our ability to consider alternatives and different futures.

### **Purpose AND Profits**

Business purpose is typically understood to be the maximization of profits for its owners. Being a view championed by Milton Friedman and others back in the 1970s, it still prevails because there is a measure of truth here. Businesses need profits to exist and sustain, much like human beings need to make red blood cells to live and thrive. However, the prevalent view that profits are the only thing that matters – and hence is the sole purpose of business – does not correspond well with the notion that most businesses want to sustain healthy profits over time. Hence, Collins and Porras (2005) coined the expression ‘purpose beyond profit’ as the defining success factor for what they identified as great companies based on financial data alone.

The purpose of our lives is not simply to produce red blood cells. Purpose is something else. As defined by By (2021, p. 34), purpose ‘is the pursuit of a worthy idea and activity, the outcome of which goes beyond the individual and the individual organization’. Or as stated by Mayer at the 2020 World Economic Forum: ‘The purpose of business is not to create profit. The purpose of business is to create profitable solutions to the problems of people and planet. Not to profit by creating problems for people and planet’ (World Economic Forum, 2020).

In their development of the economics of mutuality, Mayer and Roche (2021, p. 3) refer to ‘purpose or rather the achievement of purpose, which is the realization of the highest form of aspiration of any organization or individual’, arguing that

the real battle our globalized world is facing today is not between liberalism and protectionism, or between China and the United States, or between globalization and nationalism, but rather between a sense of purpose and no purpose – between fulfilment and no fulfilment.

Purpose gives meaning to our lives and to our organizations. Purpose-led organizations can and will outperform organizations that are not oriented around purpose

(see, for example, Collins & Porras, 2005; Mayer & Roche, 2021). Of course, purpose-driven businesses must also make profits, and that is why Freeman et al. (2020) argue that key to any new narrative about business and capitalism is the use of AND.

The importance of this tiny but almighty word was previously identified by Collins and Porras (2005), who in their book 'Built to last: Successful habits of visionary companies' proposed AND being the keyword for any great company. They captured this importance with the following examples: Continuity AND Change; Core values AND Big hairy audacious goals; Stability AND Discontinuity; Cultlike cultures AND Idiosyncratic People; Consistency AND Innovation; Discipline AND Creativity; Systematic methods AND Experimental approaches; Meaning AND Achievement; and Preserve the core AND Stimulate progress.

### ***Stakeholders AND Shareholders***

Business creates and sometimes destroys value for customers, suppliers, employees, communities, society and shareholders. However, the dominant narrative gets in the way of seeing this brute fact because it insists that shareholders or financiers always come first. There are many arguments against this shareholder primacy view. One of the most important ones being the notion that always being ready to make trade-offs in favour of shareholders can and will at some stage prevent a business from discovering new products, services and methods that can create more value simultaneously for multiple stakeholders, including shareholders. Trade-off thinking, beloved by many economists, exists because of the old narrative's assumption about equilibrium economics.

Most entrepreneurs understand that the real key to making business successful lies in figuring out how to satisfy multiple stakeholders. Making trade-offs is a last-ditch effort when our imaginations fail us. Stakeholder interests are joint. Making trade-offs ignores this jointness and results in suboptimal solutions and performance for most.

### ***Business as a Societal AND a Market Institution***

Every business must understand its effects on its relevant markets, and the effects of these markets on the business. The entire discipline of business strategy is built around this basic insight into our business system. However, there is another equally important basic insight that is often ignored. Most businesses have effects and are affected by society at large, both in terms of large-scale societal issues, and small scale, local community issues and interests. Ignoring these societal issues undermines the public support for capitalism, and the sustainability of the business itself. It is indeed capitalism that has been one of the driving forces of modern society and its good fortunes such as getting billions of people out of poverty.

An analysis of current societal issues should include difficult and complex topics such as gender and racial equality, continued poverty, the climate crisis, a global pandemic and a fractured political system, among others. These problems cannot be solved without the innovative and often breakthrough thinking that happens in businesses. Hence, to restrict business thinking to market issues is to suboptimize for all. Many businesses are far ahead of the dominant narrative, and many businesses are even formed to address societal

problems. Of course, these businesses must also address market issues, but we rely on our friends AND to signify the changes required in this new and emerging narrative.

### ***People as Fully Human AND Economics***

The dominant narrative of business portrays people as mostly concerned with their economic interests, and as being mostly short-termed and selfish with respect to these. Yet we know that human beings are much more complicated. Anyone who has ever had a child or been in love knows that humans are capable of great acts of selflessness as well as acts of selfishness. We are complex beings with a complicated psychology. Indeed, this is the very reason that capitalism works so well. We are capable of being self-regarding and other-regarding at the same time. Reducing human behaviour to either extreme is not very useful when considering how to lead a successful business.

### ***Putting Together Ethics AND Business***

Everyone knows the joke: ‘Oh, you teach business ethics. That is an oxymoron (two words that are contradictory like “jumbo shrimp”) isn’t it’. The joke symbolizes the ethical bankruptcy of the old story and gives credence to the critics of capitalism. The joke is based on a notion Freeman et al. (2020) call ‘saints and sinners’ thinking where we tend to divide business into saints and sinners. As this story goes, there may be a few businesses actually trying to do good in the world. However, when something goes wrong, or a CEO says something out of context, we immediately put them into the sinner category, as in only concerned with profits.

The past 40 years have seen the rise of the academic discipline of business ethics, and the business world has responded with internal processes that are aimed at supporting ethical action. Of course, not all businesses are serious about this, and some do engage in ‘ethics speak’. However, critics who ‘know for sure’ that all those who claim to be ethical are really only concerned with profits, are driven by ideology rather than facts. Many business thinkers and business people are in the grip of this old story about business. As the grip loosens through the emergence of thousands of businesses started to make a difference – to make the world a better place – AND make money, this old narrative will change. We need to make it change faster though, and thinking about the implications for leadership is one of the tasks that is necessary.

### ***Stakeholder Capitalism and Leadership***

Each of the five key ideas of stakeholder capitalism has implications for how we think about leadership. However, leadership is itself a contested idea with an endless variety of definitions, models, theories, examples, best sellers and self-help books. By (2021, p. 30) suggests that leadership ‘is a responsibility of the many, not a privilege of the few’, and that it is ‘the collective pursuit of delivering on purpose’. Building on the work of Drath et al. (2008), he further suggests that we should be able to talk about leadership without having to talk about leaders. We should be able to talk about leadership as the enabling of purpose, alignment and commitment (PAC ontology). This is an approach that also includes the traditional tripod ontology (leader–followers–shared goal).

Furthermore, Scott and Freeman (2021) suggest that we think about the idea of 'leadership' in a way that philosophers call a 'family resemblance'. Following Plato, they suggest we can use metaphors such as 'teacher', 'doctor', 'navigator', 'artist' and others to understand various aspects of leadership. Rather than trying to find a model of leadership that equals leadership with leaders, and which fits all situations, of all organizations, at all times, it may be more useful to think about these metaphors. There will be a family resemblance among the variety of models, but there will be differences as well. Doctors, teachers and artists may well think about purpose and profits in very different ways. There is no need to impose one way to think about this idea.

Business leaders need to focus on purpose, and the connection between purpose AND profits. Purpose and profits are both multi-faceted (Van der Linden and Freeman, 2017). Purpose can inspire ordinary people to do extraordinary things. It gives us reasons for acting, but it cannot just be fine-sounding rhetoric. Leading with a purpose must focus leadership processes on the details of action. In such a scenario, encouraging dissent and pushback becomes important, because how can a leader who discourages questioning be said to lead by purpose, unless that leader truly believes they know everything there is to know? Leading with purpose then becomes about leading with humility and encouraging colleagues to speak up when they believe that the business has lost its way and is acting contrary to purpose.

This focus on dissent and pushback is equally important with the other four key ideas. A business can hardly be stakeholder-oriented if employees are afraid to challenge how it is creating value for stakeholders, including shareholders. Here the process of leadership becomes even more challenging as leaders need to engage and listen to key stakeholders. Employee pushback becomes stakeholder pushback, and this sometimes comes in the form of harsh criticism. The perspective we are championing here suggests that stakeholder feedback should be seen as suggestions for improvement in the value creation process. Of course, leaders will not take all suggestions on board, just as artists do not take all criticisms. A critical leadership skill emerging is, therefore, to be able to figure out what feedback will actually improve the value creation process and what feedback will not.

The solving of societal problems requires courage and broad vision, and action based on this broad vision requires creative imagination. At the very least, it requires that we challenge assumptions and the view of an already set future. New ways of defining problems and solutions, innovation and new ways of thinking are all partial functions of our imagination. Yet, this is often far from one of the underlying ideas about leadership, where we assume that leaders need to tell people what to do. We would rather suggest that in many circumstances, effective leaders can light the fire of imagination in their colleagues, who, filled with purpose, can define new solutions or new ways to frame problems that turn out to be more useful. Hence, it can be argued that businesses should consider and include design thinking principles and methods in the way forward.

Capitalism works in part because we are complex. Leaders need to see themselves and their colleagues as creative and cooperative beings. It is our creativity and our ability to co-create that enables us to produce value for each other. Hence, we need to take this beyond the idea that every business deal can be understood in terms of a discrete transaction. Business is about relationships that endure over time, where the participants come to care about each other, trust each other and create value together. Leaders play an

important role in this process, but it is a facilitating role in many circumstances, liberating and supporting colleagues and other stakeholders to use their creative imagination and to determine which conversations the organization needs to have.

Many people write about 'responsible' and 'ethical' leadership. However, Plato did not have such a concept because he contrasted 'leaders' with 'tyrants'. A person in charge who abused others or who violated the basic ethics of others was not a leader, according to Plato. They were a tyrant. Perhaps we should return to such a connotation of leadership and call out the 'tyrants' that exist in our businesses and beyond.

## The Way Forward: An Agenda for Change

The five ideas shared in this article lead us to suggest that we need a great deal of change in the way we think about business and leadership. We need a Stakeholder Capitalism mindset which requires several critical shifts, including:

- (1) Giving up dualistic thinking and the tyranny of the 'or'.
- (2) Embracing the definition of problems and solutions rather than ideologies.
- (3) Opening up to nontraditional solutions that include non-business sector stakeholders.
- (4) Embracing difficult societal issues that require time, coalitions, co-creation, creativity and perhaps a loss of control.

## Note

1. This distinction between a general concept and particular conceptions is borrowed from John Rawls, *A Theory of Justice*.

## Disclosure Statement

No potential conflict of interest was reported by the author(s).

## Notes on contributors

**Ed Freeman** (PhD) is Olsson Professor of Business Administration and an academic director of the Institute for Business in Society at the University of Virginia Darden School of Business, US. He is also adjunct professor of stakeholder management at the Copenhagen Business School (Denmark), visiting professor at Nyenrode Business School (Netherlands) and adjunct professor of management at Monash University (Melbourne). He has held honorary appointments as the Welling Professor at George Washington University and the Gourlay Professorship at University of Melbourne. Prior to coming to the Darden School, Freeman taught at University of Minnesota and the Wharton School, University of Pennsylvania.

**Rune Todnem By** (PhD) is Professor of Leadership at University of Stavanger, Norway; UNESCO Chair on Leadership, Innovation and Anticipation; and Editor-in-Chief of *Journal of Change Management: Reframing Leadership and Organizational Practice*. Recent work has introduced the notion of being EPICally MAD (Making A Difference), and the Telos Leadership Lens defining leadership as the collective pursuit of delivering on purpose, suggesting leadership is a responsibility of the many, not a privilege of the few. Building on what should have been a watershed article by Drath et al. (2008),

Rune has also further developed their DAC ontology into the PAC leadership approach with a focus on facilitating for and enabling Purpose, Alignment and Commitment.

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