

**Responsible Capitalism:  
A new approach for Ireland's business  
OR  
Business for Human Beings**

R. Edward Freeman

The Darden School

University of Virginia

[freemane@darden.virginia.edu](mailto:freemane@darden.virginia.edu)

**Where Are We?**

# Where Are We?

- # Global and cultural challenges
- # Information technology upheavals
- # Political discontinuities
- # New causal realities
- # The Bottom Line:
  - # Continuous “discontinuous” change

# Where Are We?

- Global Financial Crisis
- Public Trust in the Institutions of Capitalism at an all time low
- The Bottom Line:  
Conceptual Crisis in Capitalism

# The Conceptual Crisis in Capitalism

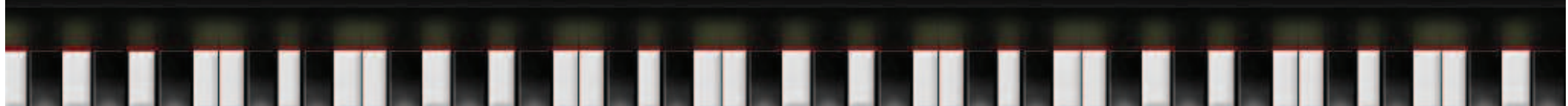
- # We Use a Shopworn, Outmoded, Dated, No-Longer-Useful Idea (theory) about Business.
- # No Regulatory Reforms Will Fix the Theory, Indeed They Are Likely to Make Things Worse.
- # We Need to Abandon the Old Story of Business.

# The Old Story Goes Something Like This...

1. Business is primarily about making money and profits.
2. The only constituency that really matters are shareholders.
3. Capitalism works because people are completely self-interested, and will only act for others if they have the proper incentives.
4. Given the opportunity, business people will cheat or cut corners.
5. Business works because people are competitive and greedy, and as if by an invisible hand: the greatest good emerges.

Read the papers, listen to the news, talk to your children's teachers and friends. You'll hear this story.

**On the Next Slide...**



# What's on the Slide?

- # Financial Statements?
- # Products?
- # Brands?
- # Strategy Statements?
- # Greedy people trying to do each other in?

# Four Main Problems

- # An unworkable story about what makes a business successful.
- # An unworkable story about the role of human beings in business.
- # An unworkable story about leadership and leaders.
- # An unworkable story about the interactions and results.

# Business For Human Beings

- # A story about stakeholders
- # A story about human beings
- # A story about leadership
- # A resulting story about capitalism as an institution

# The Stakeholder Story

# The Stakeholder Story

- # Business is about creating value for customers, suppliers, employees, communities, and financiers (and maybe others).
- # Of vital importance is the intersection of stakeholder interests.
- # The executive's role is to create as much value as possible for customers, suppliers, employees, communities, and financiers (and maybe others) without resorting to tradeoffs.
- # Conflict among stakeholders and critics provide the fuel for creativity and innovation.

# Bill George

- # Serving all your stakeholders is the best way to produce long term results and create a growing, prosperous company...Let me be very clear about this: there is no conflict between serving all your stakeholders and providing excellent returns for shareholders. In the long term it is impossible to have one without the other. However, serving all these stakeholder groups requires discipline, vision, and committed leadership.

# Jack Welch

# "On the face of it, shareholder value is the dumbest idea in the world," he said. "Shareholder value is a result, not a strategy . . . Your main constituencies are your employees, your customers and your products."

# Henry Kravis

# You have to focus on all the stakeholders. It's a new thing for us and something we're really hammering. Long term value is only achieved if growth benefits all stakeholders in a company, from owners to employees, communities and even governments. We are also conscious we are fiduciaries to millions of hard-working men and women and university endowments...Trust must be earned over the long haul and maintained constantly. We have not always adequately explained what we do to the man on the street. Even some of our investors, although happy with the returns we deliver, don't fully understand what we do and why they should invest with us."

# Michael Jensen

- # We can learn from the stakeholder theorists how to lead managers and participants in an organization to think more generally and creatively about how the organization's policies treat all important constituencies of the firm. This includes not just financial markets, but employees, customers, suppliers, the community in which the organization exists, and so on.

**Corporate Responsibility is the most important issue of this Century. The winners will be those companies who act responsibly and are perceived to act responsibly.**

**---CEO non US Multinational**

**Sustainability is today what quality was to the 1980s. We thought that quality had a cost attached to it and found out it was profitable. It is simply a way of being.**

**---Italian Executive, Packaging Industry**

*Business is fundamentally about three things:*

- # A sense of purpose or what you stand for.*
- # Creating value for multiple stakeholders.*
- # Servant Leadership*

*---CEO Grocery Chain*

**When you actually go to Country X and you see the conditions that people live in, we owe them the chance to develop themselves and their resources. But, we can't do it in a way that is not sustainable.**

**---European Agribusiness Executive**

**We're trying to fix the factories, even though they belong to our suppliers. Now we are getting pressure to fix child labor in the flower fields. The dye that goes into our products comes from these flower fields. I'm having enough trouble with the factories. What do I do about the flower fields?**

**---Iconic Brand Executive**

**You can't respond to every bit of noise that you hear—but if you don't respond to the “right” noise, then you get hammered.**

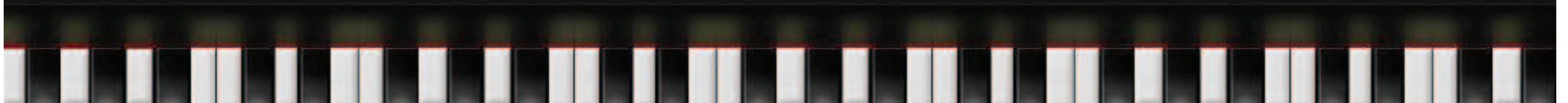
**---Chemical Industry CEO**

**# We weren't hurt much by this subprime mortgage thing. We just didn't see how lending money to our customers they couldn't really afford to pay back, did anyone any good.**

**---Regional Bank CEO**

**What's Your Theory About  
How Value Gets Created and  
Traded?**

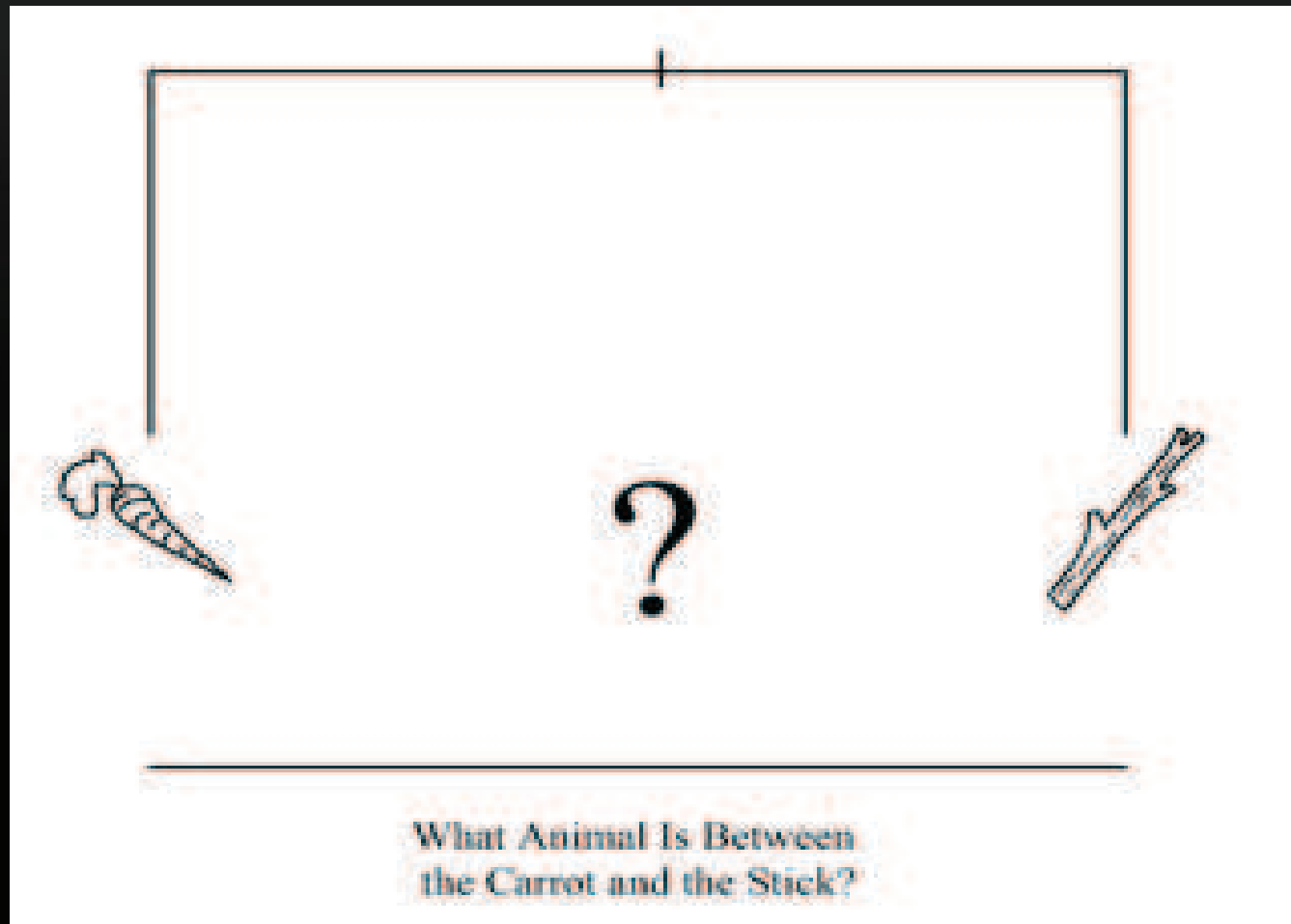
# The Humanity Story



# What's a Human Being?

- # Self-interested Maximizer?
- # Rational Maximizer, self regarding and other regarding?

# Harry Levinson



# Humans as Complex Creatures

- # We use Reason and we have Values.
- # We are Emotional, and we have a History.
- # We are Relational and Social, as well as Individual.
- # We have Aspirations for ourselves and others.

**What's Your Theory About Why  
People Do What They Do?**

# The Leadership Story

# Some Standard Ideas About Leadership

# Power?

# Position?

# Charisma?

# Intellect and Brilliance?

# Communication?

# Some Newer Leadership Ideas

# Howard Gardner

# Jim Collins

# Muhammed Yunus

# Will Miller

# Leader By Choice

# Humility and Determination

# Hope and Compassion

# Human Beings and 25 Years

# Some Ideas To Think About

- # The Future Can Cause the Present.
- # People are Complex, Fully Moral Creatures.
- # Values are About Your Calendar.
- # Feedback and Pushback are Core Processes.
- # Good Leaders Enable Others to Accomplish Great Things.

**What's Your Model of  
Leadership?**

# **The Story of Responsible Capitalism: Business For Human Beings**

# The Story of Responsible Capitalism

- # When we see capitalism as an institution that allows us to bring 100% of our humanity to the task of creating value and trading with each other...it will become the most powerful force on Earth.
- # It is up to us to enact this story.

# The New Story ...

- # Business is primarily about creating value for customers, suppliers, employees, communities and financiers (and maybe others).
- # Capitalism works because human beings are complicated. Sometimes we act in our self-interest, sometimes for others, sometimes we just don't know. Most people are responsible most of the time, and they are capable of governing themselves.
- # Good Leaders understand their role in the process of value creation as enabling others to do great things.
- # When free people make voluntary decisions to collaborate responsibly, society flourishes.

# Business Becomes An Institution Of Hope