



Interview with R. Edward Freeman

Entrevista com R. Edward Freeman

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R. Edward Freeman is University Professor and 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. He is also consultant, and speaker, best known for his work on the topics of Stakeholder Management and Business Ethics. He additionally teaches Leading with Meaning, helping organizations create a culture that brings out the best in everyone.

Source: R. Edward Freeman Collection.

Diego de Melo Conti: What motivated or inspired you to develop the stakeholder concept and theory?

R. Edward Freeman: Well, as I have always said, I didn't invent this idea. It originated at Stanford Research Institute and by Swedish theorist Eric Rhenman. I was a young researcher at Wharton and the idea was kind of in the air, but no one had done anything very systematic with it. I tried together with my colleague James Emshoff to figure out how companies would look if they took the idea seriously, especially with respect to their business strategy.

Diego de Melo Conti: What is the stakeholder theory all about? How is a good stakeholder relationship defined as?

R. Edward Freeman: Stakeholder theory is about business. Great businesses create value (and sometimes destroy it) for customers, suppliers, employees, communities, and the folks with the money (shareholders and others). Stakeholder theory puts the stakeholder idea front and center when

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describing how businesses work. The main contribution in my view is that stakeholders are interconnected. How you create value for one affects how you create value for others. Good stakeholder relationships are a function of jointly creating as much value as possible and treating each other with respect and dignity.

Diego de Melo Conti: How to engage and manage stakeholders in an increasingly complex world which is accelerated by technology and innovation?

R. Edward Freeman: You have to talk to them, spend time with them, get to know them and figure out how you can create value with them. There are many ways to engage. Some companies are working with their stakeholders to find the best way to engage. They are co-creating the very methods of engagement. All of this requires a company to have a purpose, and employees that are committed to the purpose.

Diego de Melo Conti: The pandemic highlighted the interdependence of different social actors, as well as companies and their stakeholders. What changes in the stakeholder theory in a post-pandemic world?

R. Edward Freeman: I think that the post-pandemic world makes the point I made earlier about the interconnectedness of stakeholders much more obvious. Also, the so-called “great resignation” should make companies realize that you need to treat employees with dignity and respect and pay them enough to live a fruitful life. On the whole the post pandemic world will accelerate the transition to stakeholder capitalism, unless the politicians screw it up.

Diego de Melo Conti: What is the relationship between Stakeholder Theory and Business Ethics?

R. Edward Freeman: One of the questions that ST tries to answer is How Can We Deal with the Ethics of Capitalism. I think that the best way to do this is to build ethics into the basic business model. Purpose, values, and stakeholders all go together. Easy to say and hard to do.

Diego de Melo Conti: There is now an important discussion/issue about stakeholder capitalism. How can we define this concept? What opportunities does it create?

R. Edward Freeman: Stakeholder capitalism is about a transition to more and more companies realizing that they are creating value for stakeholders, and that stakeholder interests are interdependent. It is fundamentally about a shift in the business model from thinking that Profits, Shareholders, Market Forces, Economic Logic, and Business can be understood by themselves. Stakeholder Capitalism realizes that we need to understand how a business can be successful in terms of (1) Purpose and Profits; (2) Stakeholders and Financiers; (3) Societal and Market Forces; (4) Our Full Humanity and Economic Logic; and, (5) Ethics and Business. These forces go together. The old

story leaves out the ones on the left for the most part. By adopting a Stakeholder view, executives are able to create much more value.

Diego de Melo Conti: What are the fundamental distinctions between market economy and stakeholder capitalism?

R. Edward Freeman: Well, this is a trick question. When we understand stakeholder capitalism as I have outlined it, it just is a better way to understand how value creation and trade (Business) can work. “market economy” as a term pretends that we can isolate “markets” from society or profits from purpose, etc.

Diego de Melo Conti: Do you believe that Stakeholder Theory can help us achieve the different goals and objectives established in the SDG agenda? If so, how?

R. Edward Freeman: Of course. We need to map some of the SDGs into how we create value for our stakeholders, then it is easier to see how our business models can be improved.

Diego de Melo Conti: Now looking towards the future, what will be the new studies and research gaps related to Stakeholder Theory?

R. Edward Freeman: What we need are more fine grained stories of how companies create value for their stakeholders and how these value creation processes are useful for multiple stakeholders. we need much more analytical thinking about how ethics and business can be connected, but with a nuanced understanding of real business. I don't think we need to think about gaps, etc. we need researchers to get engaged with real companies.

Diego de Melo Conti: As a philosopher, what would be your reflection or advice for the next managers and entrepreneurs generation?

R. Edward Freeman: Pursue your dreams and passions. Figure out how to make money and make the world a better place. Do it with style and vigor.

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