Chapter 16
Stakeholder Management, Sustainability and *Phronêsis*

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Abstract In this conceptual paper I address the question of how business should approach issues of sustainability. I present a theoretical perspective marrying three elements: First, the realization that economic metrics alone are an inadequate basis for environmental choices. Second, I contend that management should adopt stakeholder theory which views the corporation as a vehicle to improve the welfare of all those affected by its actions. Finally, I contend that leaders holding stakeholder views are best served by the Aristotelian notion of practical wisdom – *phronêsis*. *Phronêsis* is a quality of character that applies well in the case of managerial attitudes to environmental concerns, since incorporating sustainability imperatives into corporate decision-making requires practical discernment and leadership in addition to technical skill. I will briefly illustrate my case by examining the values exhibited by Ray Anderson, CEO of the international carpet manufacturer, Interface.

16.1 Introduction

In this conceptual paper I address the question of how business leaders should approach sustainability issues. I argue that when corporations view sustainability merely as a strategic necessity they will generally rely on economic metrics to govern their decisions; that is, they will treat sustainability as a technical problem that can be overcome with ever more sophisticated pricing mechanisms. This approach is limited, and fails to deal well with goods that are intangible or not part of an active market. I suggest that sustainability issues are not just a problem of measurement, but inevitably involve discretionary value judgments that cannot be

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dealt with by increasing factual knowledge or scientific techniques. As a result, corporate leaders will have to develop other perspectives, and include non-monetary factors as well as consideration of the welfare of those affected by business decisions.

Accordingly I suggest that three components are necessary to develop a philosophically robust argument to support sustainability considerations in business decision-making. The first is recognition of the limits of an instrumental view based on financial metrics alone. Managers are often most concerned with quarterly performance, which implies both short-term thinking and economic efficiency as the dominant norms. People naturally discount future costs in the absence of immediate negative feedback, a dynamic Messick and Brewer (1983) describe as a *temporal trap*. This is especially true when resources are held in common. Reliance on market indicators in this way means that environmental issues and negative externalities are often ignored, and concern about future human welfare becomes dependent on the vicissitudes of the market. For example, greater pollution may be tolerated in order to maximize short-term gains, although there may be significant cumulative effects in the future. The second strand is an endorsement of stakeholder theories as an alternative managerial approach that incorporates instrumental considerations of profitability as well as broader and long-term perspectives on the purpose of the firm. Stakeholder theories promote business as a vehicle for enhancing overall welfare, rather than simply maximizing return for a limited set of stakeholders, i.e., investors. If we adopt a view that explicitly takes into account the desirability of sustaining and enhancing human welfare in general it will provide more stable and reliable standards of business success.

Finally, to enact stakeholder management, business leaders need to develop practical wisdom – in Classical Greek, *phronêsis* – into their deliberation processes. This will provide normative standards that include a moral sense, concern for others, and a wide vision about the future of humankind, while at the same time accommodating the complexities of particular cases.

16.2 The Sustainability Crisis

Capitalism is the dominant world economic force. The logic of capitalism involves turning raw materials into consumable goods and services. In order to perpetuate sales, it needs to constantly produce more and more goods to enable economic growth and expand its markets. This means there will be a steady depletion of resources unless we reuse the manufactured material or find alternates. Additionally, the majority of goods are consumed in the developed world, and it is estimated that of the world's six billion people, four million live on less than $2 a day (Prahalad 2006).

The present rate of consumption gives us a "carrying capacity" for the world. At current levels, it is estimated that there will be fewer resources available for future generations. However, there are two likely changes: the population will probably increase, and economic development in countries such as Brazil, India and China will mean greater demand for basic goods such as food, water, sanitation, fuel, electronics and housing. Development will also mean more pollution, with corollary effects on global climate change. It is estimated that by 2050, the global population will be over nine billion and take the resources of two earths to sustain it (Renton 2009). If we adjust our estimates to ask what would happen if everyone adopted the lifestyle of the average American, the answer becomes 5.3 earths (BBC 2005; Fraase 2002).

Thus we have two intersecting trajectories: the demands on the earth are increasing, while at the same time its resources are diminishing. Some commentators have suggested that the lines have already crossed, so that we cannot sustain our way of life unless extra resources are found or we reduce our demands (Duke 2009). Such changes will require systemic changes, and leadership in political and business spheres that can present a persuasive vision for the future.

16.3 Concepts of Sustainability

The notion of sustainability is ambiguous, and the various meanings will have different implications. In a narrow sense, the term is used to ask what actions corporations must take in order to remain viable given changing circumstances such as emerging markets, changing demographics and limited natural resources. A wise firm would therefore choose sustainable practices as a matter of strategy, since it may have to adjust its supplies, marketing and products to fit inevitable changes. A corporation following this view will act primarily out of an attitude that, say, using recycled materials or less wasteful practices are expedient business practice, even if they may not appear to be the most economically efficient in the short term. Hence moving to recycling or replenishable raw materials turns out to be the optimal long-term strategy available in an economy that relies on growth and constant consumption against a backdrop of finite resources.

The correlative view is that dealing with sustainability is a technical problem where values are calculated in monetary terms, and then a cost/benefit calculus is applied to determine what generates the greatest benefit (for the firm) at the least cost. Thus the consulting firm KPMG reported:

> Overall, 61 % of those [companies] with sustainability programmes found that, despite some increase in investment, the benefits clearly outweighed the drawbacks. This rose to 72 % among the very largest companies, with revenues above $5bn. "Businesses may initially react to this in the same way that they will react to any other signal from their markets. But once they begin to look at their operations through the lens of sustainability, most find that the commercial benefits are obvious and the sustainability agenda takes on a life of its own (Procurement Leaders 2011).

In a similar vein, other commentators have suggested that the proper way to approach sustainability is to monetize natural resources and common goods in order to provide opportunity costs that allow comparisons (e.g., Holliday et al. 2002; Kleine and von Hauff 2009; Chandler 2010).

In general, advocates of Triple Bottom Line (3BL) urge that we go beyond the traditional bottom line and assess the total impact of business activity, not just in terms of its immediate financial success, but also its effects on the physical and social environment. The first bottom line is the traditional financial statement of profit and loss; the second measures environmental impacts, for example waste generation and remediation costs; the third deals with social costs, assessed by indicators such as wages and working conditions or expenses associated with community outreach. In the case of shrimp fishing in India, for instance, although the industry has been lucrative in terms of its economic returns, it has had devastating effects on the local people and land, expenses which are usually externalized and thus not included in the price paid by the consumer. The fathers of triple bottom line accounting, John Elkington and Oliver Dudok van Heel (2002), justify this wider analysis by framing it in instrumental terms: sustainable capitalism needs to ensure there are raw materials available and a middle class that has buying power. Thus the core issue in sustainability is finding the correct metrics. They contend that:

> Sound environmental performance – managed in the right way – drives costs down, revenues up and increases shareholder value. . .The measurement of social and environmental performance needs to be refined through the development of appropriate key performance indicators. Only once we can comprehensively measure sustainability performance (good, bad, and ugly) can we fully quantify its financial benefits (Elkington and van Heel 2002, p. xviii).

Importantly, we can see that if business leaders make the case for 3BL solely on economic grounds, then preservation becomes solely a function of the results of a cost/benefit analysis. If, for instance, disposable water bottles or batteries are more profitable than reusable ones, then the market will follow whatever is most efficient. The issue can also be highlighted by imagining a future state where capitalism is dominant, functioning, and even sustainable, and yet not desirable – perhaps a backdrop of abandoned mine tailings, privatized landscape vistas or religious sanctuaries treated merely as money-making tourist traps.

The second and more general sense of sustainability is a philosophical approach that makes different normative assumptions, advocating practices that will not deplete the resource pool for future generations. In the technical language of the law, this notion is called “usufruct” when referring to a tenancy: a renter has the responsibility of returning property in the same condition as it was provided. The term sustainability used in this way means that there is a duty to preserve. It does not preclude use, as long as the use does not result in depletion. Thus water can be used and recycled, for example, or trees harvested as long as new ones are planted.

In short, business leaders face a tension when dealing with sustainability between the norm of maximizing efficiency and one that looks to promote the welfare of all affected by business, including future generations. Efficiency concerns are contingent, in that they are dictated by the vicissitudes of the market. Moreover, when management of the environment is considered a technical problem, the main difficulty is finding the proper price for vital non-market goods such as water and the air. On the other hand, looking to overall welfare instead may result in sub-optimal returns to shareholders, and may be hard to justify in return on investment terms.

Significantly, any view drawing on economic analysis alone is likely to be based on some assumptions that might be questioned: issues are typically framed in the language of the Western enlightenment based on economic rationality and property rights, and the resulting estimates will often reflect the interests of the prevailing power structures. For example, the opportunity costs associated with air pollution are calculated based on the amount people would pay to not have more carbon in the atmosphere, even though those affected may not think in those terms or consider clean air to be a form of property. Similarly, common environmental goods and intangibles such as traditional knowledge about the healing properties of plants would have to be turned into commodities and given prices which then be used for comparisons. The methodology of measurement and apportion is typically applied by those schooled in Western economics, and when it fails to capture human values completely, proponents tend to not question their fundamental assumptions, but instead dismiss the difficulties as pseudo-problems that will be overcome with greater and more sophisticated application of current techniques.

The difficulties of using contingent valuation techniques are shown in a significant study by Vadnjal and O'Connor (1994) who asked residents of Auckland, New Zealand, how much they would be willing to pay to preserve the pristine volcanic island that sits just outside the harbor. As is often the case, a significant number – over half – gave either zero or an infinite number as the response, but it also turned out that even when respondents gave some figure, it routinely did not match their verbal responses. The authors concluded that it was not a question of refining the survey's technical framework, but instead that the reactions they encountered were driven by justifications that could not be reduced to economic terms alone. The respondents had given a number because that is what the researchers demanded, but it did not reflect their real feelings. Many of those questioned said that it would not be right to interfere with the island, or that it was not a question of compensation.

When business leaders adopt an instrumental approach to sustainability, then, there are baseline assumptions that the metrics involved are both appropriate and accurate. Yet, as the sociologist Max Weber pointed out in 1949, economic and environmental problems may, in fact, be incapable of resolution on the basis of purely technical considerations which assume already settled ends. In the next sections, I will argue that the urgency of addressing sustainability concerns requires both a stakeholder approach to management and *phronêsis* on the part of the individual manager.

16.4 Stakeholder Management

The concept of stakeholder management is perhaps best understood in contrast with a traditional theory of the firm, sometimes called the shareholder approach. Shareholders are the owners of a business through their investments, and they expect returns to be maximized by managers who act on their behalf. A business is seen as a morally neutral entity, since it reacts to fill demands in the market, and hence any moral responsibility will rest on consumers. Employees have the task of improving profitability through greater efficiency, limited by the laws and customs of the communities that they operate in (Friedman 1970).

There are several key elements to this approach: its gauge of success is usually measured in short-term (quarterly) profits; it relies on the law as a gauge of acceptable behavior, even if the work has been subcontracted to host countries with lax regulations or corrupt regimes; it abdicates moral responsibility on the part of business and relies on individuals who may be less aware of the facts than the producer; and it denies that business can often create and shape demands instead of responding to them.

In the last 20 years we have witnessed the emergence of stakeholder theory that has effectively supplanted shareholder accounts as the dominant view in business ethics. A stakeholder is any entity that can help or hurt the firm, or conversely can be helped or hurt by it. These will include investors, employees, suppliers, consumers, and local communities. Stakeholder theory, as articulated by R. Edward Freeman and his colleagues (2010) contends that we need to revisit the idea of a firm: rather than see it as a vehicle to profit a select few, it should be regarded as a way to improve the overall welfare of all stakeholders. This has two aspects. The first is practical and instrumental since a shrewd manager will look to the long-term and have a wider perspective to maintain profitability: If he or she ignores the concerns of environmentalists by using clamshell polystyrene boxes, for example, the firm may suddenly encounter a widespread and well-orchestrated boycott. But more than this, stakeholder views also reflect a philosophical commitment to benefit all parties, based on a Rawlsian idea of a veil of ignorance (Rawls 1971). Rawls believes individuals will be rational and risk averse, leading to patterns that maximize opportunities that aim to make everyone better off as long as it is not at the expense of the least advantaged. This task will be challenging in practice, and Freeman et al. (2004) equate management's task of balancing the interests of all stakeholders as requiring the fabled wisdom of the Biblical King Solomon. Moreover, the kind of reflective equilibrium demanded by Rawls and Freeman requires respect for the values of all stakeholders. In Freeman et al. (2004) words, stakeholder theory:

> Encourages managers to articulate the shared sense of the value they create, and what brings its core stakeholders together. It also pushes managers to be clear about how they want to do business, specifically the kinds of relationships they want and need to create with their stakeholders to deliver on their purpose (p. 364).

Incorporated into stakeholder theory is what Freeman describes as a "normative core." This is a commitment, much like a mission statement, that tells what the organization is about and establishes a baseline of common values for everyone involved.

A striking implication of adopting stakeholder theory is that a business will take social responsibility seriously: part of the very fabric of corporate endeavors will be to be involved with outside interests. Moreover, the law now becomes a threshold of acceptable behavior, not a yardstick, and hence a business may go above and beyond legal requirements. Managers will be responsible to a wider community and cannot justify their actions solely by reference to return on investment. It also means that the perspective has to change from quarter-to-quarter reports to much longer scales.

Stakeholder theory is now widely espoused by companies. Plausibly we might find firms exclusively driven by profit, but when we look at examples we find typical wording such as Exxon's *Guiding Principles*, that say they aim for superior financial and operating results while committed to shareholders, customers, employees and communities, or Tesco's similar commitment to the environment, community and ethical trading (ExxonMobil 2009; Tesco 2011). Sometimes stakeholder management is dismissed as empty rhetoric, but the evidence appears to say this is not so – it turns out that companies espousing stakeholder theory do spend significant amounts on corporate social responsibility projects without any necessary expectation of future returns (Snider et al. 2003).

Hence a stakeholder view that incorporates a mandate for sustainability means a business should go beyond mere prudence in its actions that strategically maximize short-term returns. Recall, too, that stakeholder management also involves a normative component that includes those who have an official or contractual relationship to the firm, and takes the interests of those who may be affected but have no real power into account as well – for example, indigenous peoples who are displaced by economic development. Hence the move to sustainability may require much more radical thinking on the part of executives, perhaps re-imagining the way business thinks about resource use and the nature of property rights.

16.5 Phronêsis

Following Wicks et al. (1994) the future of business leadership is likely to lie in a collaborative approach that involves inclusion and cooperation with various stakeholder groups. *Phronêsis*, or practical wisdom, applies well in the case of managerial attitudes to environmental concerns, since incorporating sustainability imperatives into corporate decision-making will require practical discernment and leadership in addition to technical skill. It is particularly appropriate since *phronêsis* not only implies good judgment, but also a vision of what is good for people in common.

Virtue theory is usually associated with Aristotle (384–322 BCE), mainly drawn from his *Nicomachean Ethics*, a set of scrolls thought to be lecture notes dedicated to Aristotle's son Nicomachus. Aristotle claimed that the human destiny was to achieve *eudaimonia*. Translations vary, but it is usually thought of as *flourishing*, *happiness,* or *well-being*. In his terms, a person who fulfills his or her potential will achieve *eudaimonia*. There are two additional factors to consider: Aristotle's point of reference was the Greek city-state, a *polis*, a community created for the common good. Thus it is more than any particular individual's happiness or well-being that matters, but their potential for benefitting the community as a whole. Secondly, *eudaimonia* is not a static state like contentment, nor is it an affective state as the modern connotation of 'happiness' carries: people need to actively work towards it through a continuing motivational dynamic, which Aristotle refers to as *energeia*.

The means to achieve *eudaimonia* is by managing our virtues. It is important to distinguish what Aristotle means by virtues from our more common understanding. In everyday language, the tendency is to think of a virtue as a positive trait like generosity or courage. Accordingly, anytime someone is described as virtuous it is an act of praise. Aristotle has a more tempered view. Virtues are still character traits, and we all have them in differing degrees. However, in any given situation, we have to work out the right application of the virtues, which he terms *arete*. For Aristotle operation of the virtues is not so much an on/off switch, but more a way of navigating between extremes. At our best, we are suitably courageous without being rash or timid, or we are friendly without being too cloying or too distant. The moral task is to find the mean, perhaps better thought of as an appropriate balance, in any given case. Having a virtue is not just a means to an end, then. It also involves knowing when the virtue would be appropriate, having the right intentions, emotions, and attitudes.

Aristotle's view is that these are all judgment calls, and there will never be a standard or uniform response where one size fits all, in contrast to later philosophers such as Kant who believed that rationality would provide uniform and universal answers. Aristotle concludes there are three elements in all our ethical decisions: moral virtues, a moral character, and action to put the first two elements into practice. In his words:

> The agent also must be in a certain condition when he does them; in the first place he must have knowledge, secondly he must choose the acts, and choose them for their own sakes, and thirdly his action must proceed from a firm and unchangeable character (Aristotle 2009, Book II, Chap. 4).

The concept of practical wisdom, *phronêsis*, emerges from Book VI of the Nicomachean Ethics. Aristotle distinguishes it from *technē* (craftsmanship) and *epistēmē* (scientific knowledge). He says that *technē* can be instrumental, and does not require judgment. Thus good craftsmanship or scientific knowledge could be put to bad uses. Consider the case of the computer hacker: there is no doubt that he is very smart, but we might think his intelligence is misguided. He has the intellectual capacity required to be a good person, but lacks the wisdom to apply it practically. Aristotle also draws a distinction between practical wisdom and philosophical wisdom – *sophia* – by pointing out that *sophia* is centrally concerned with the person's own interests. In contrast *phronêsis* is centrally concerned with value-based decisions that include the welfare of others. It is defined as "a reasoned state of capacity to act with regard to the things that are good or bad for man" exemplified in the actions of those who "can see what is good for themselves and what is good for men in general" (Aristotle 2009, Book VI, Chap. 5). Interestingly, as Noel (1999) observes, there are a variety of translations of *phronêsis* in English that emphasize its different aspects: *practical wisdom* points to its intellectual and rational dimensions; on the other hand it is sometimes rendered as *prudence*, which emphasizes balancing the virtues towards the mean in any situation; at other times it is translated as *discernment*, which stresses the ability to perceive the broader implications of a state of affairs. Ostwald (1962, p. 312) comments that *phronêsis* "tends to imply wisdom in action," a point developed by Annas (1993) when she says she prefers to use "practical intelligence" because it avoids the connotation of passive reflection implied by the English term wisdom. She explains:

> For Aristotle what is important about a skill is that it is the point at which the agent has risen to intellectual grasp of the universal, of what particular cases share....[Phronêsis] is a

> shared assumption that such a disposition is firm in relying on general principles, but must also always be sensitive to the complexities of particular situations (1993, pp. 67/73).

Aristotle believes that someone with *phronêsis* has the ability to realize the overall good in terms of the *telos*, or ultimate goal, and then work out the practical steps to bring it about. There are several elements to this argument. First, *phronêsis* is concerned with particulars. Recall this means that unlike philosophers such as Kant, it does not seek out universal and unchanging truths that are then applied to a situation. Rather, individuals have to use their personal judgment to work out what is best to do given a particular set of circumstances. Secondly, it relies on perception. Perception in this sense is different from merely seeing: we might see various shapes and colors, but here perception is the ability to discern whole entities such as a building or a cow. Similarly, practical wisdom is the ability to integrate a variety of data and literally perceive the bigger picture, and put isolated incidents into a broader context that then enables the person (the *phronimos*) to discern the right action.

Moreover, *phronêsis* involves maturity. Aristotle believes that talent can be manifested at a young age, for instance in the case of children who master musical instruments or mathematics while very young. However, *phronêsis* is more than technical ability, and he maintains that it only comes about through experience and learning from our elders.

Hence the case method used in business and law schools follows Aristotle's lead, in the sense that while professionals need to have technical skills, they should also be trained in making practical decisions that require discernment. Further, Aristotle maintains that while there may be universal scientific rules, moral choices are always matters of reasoned judgment that balances various interests in particular circumstances. A truly good person, then, has the rational ability to know what is good, combined with an idea of what we should aim for and how to achieve it.

Phronêsis is an integrative and reciprocal dynamic in the sense that it is not compartmentalized into various parts of one's life, but informs them all. As an analogy, Aristotle points out that there are petty figures who get into political gamesmanship, but the truly dedicated politician will manifest the same wise approach to management in all aspects of his life, whether it is over property, a household or a state. The various activities of our life are integrated for him in the same way that the head of a family cannot just be concerned with its own good while neglecting the state, for it is necessary for the family's benefit that the state does well, and similarly, the state cannot thrive without well-ordered families.

Strategic instrumental views about business and sustainability pivot on there being a predictable benefit as a result for a limited set of those affected – similar to the compartmentalization effect. The benefit is often viewed in the short term, and typically applicable to investors and employees. A stakeholder approach incorporates both long term thinking while looking at the effects of corporate decisions on all those involved, including consumers, the community, and future generations. *Phronêsis* manifests this wider circle of moral concern, and, moreover, goes beyond abstract prescriptions by providing impetus for action in particular cases. In the words of Halverson (2004):

> There is a hierarchical dependence between phronêsis, epistêmê, and technê such that the selection and use of technê and epistêmê in practice require the development of phronêsis. Phronêsis acts as an executive faculty that identifies which aspects of the environment are worthy of action, employs the appropriate means, and evaluates the results. The phronêsis of leadership guides how and when these technai are used and how theories need to be adapted to practice, and is able to evaluate when these tools have done their work properly (p. 100).

Thus *phronêsis* is pragmatic, context-dependent and oriented towards action. The key distinguishing feature is that it deliberately addresses fundamental value questions in its leadership discourse. Rather than dealing with apparently intractable problems such as pricing the environment by repeating failed technical mechanisms (using *technê*) or accumulating ever more data (*epistêmê*), a phronetic leader will step back to ask if the fundamental assumptions and values behind the enterprise are the correct ones in that given context. This distinction is sometimes referred to as single and double loop learning (Argyris and Schön 1978). In broad terms, a single loop approach tries to improve the effectiveness of current practice, whereas a double loop approach questions the underlying values that fuel the practice in the first place.

16.6 *Phronêsis* in Action

Phronêsis involves principle-driven action in particular cases. As an example, take the innovations brought about by Ray Anderson. In his autobiography, *Mid-Course Correction* (1999), Anderson, the CEO of the world's leading manufacturer of modular carpeting, Interface, describes how his perspective changed after reading about sustainability in Hawken's *Ecology of Commerce* (1994). Hawken (1994) himself says:

> Competition in the marketplace should not be between a company wasting the environment versus one that is trying to save it. Competition should be between companies which can do the best job in restoring and preserving the environment, thereby reversing historical price and cost incentives of the industrial system that essentially sends the wrong signals to consumers (p. 90).

Anderson realized that to create a billion dollars worth of product his company had extracted 1.224 billion pounds of material from the earth's natural stored capital, and of that about 800 million pounds was coal, oil or natural gas that was burned up in the process (Anderson 1999, introduction). He then worked tirelessly to transform his company into one that became sustainable and even restorative. Presently seven of Interface's 26 plants operate with 100 % renewable energy. They have reduced greenhouse gas emissions by 30 % in the past decade and claim to have avoided over $370 million in waste costs between 1995 and 2007. The firm aims to establish "cyclical capitalism, a form of business that refreshes itself and the world around it" (Fishman 1998). It has introduced what it terms the "Evergreen Lease" where instead of selling their product, customers lease it so that the firm can ensure that it is recycled. The dramatic shift has not only involved the company itself, but also altered its relationships with suppliers, customers, and employees. Anderson et al. (2010) recently reflected that businesses have to move beyond surface-level changes, and make sustainability a central feature of the organizational culture. This kind of shift is unlikely to emerge spontaneously in a firm, especially given the pressures to demonstrate efficiency in the short term. Instead it requires a fundamental adjustment in the way managers and investors see the nature of the company. In Anderson's words:

> To achieve this degree of change, leaders must put forth bold visions – so bold that they take the breath away – and they must engage their organizations in different, deeper conversations about the purpose and responsibility of business to provide true value to both customers and society. Moreover, the whole enterprise must be proactively engaged in such a system wide way that mental models become explicit, multiple stakeholder perspectives are incorporated into the process, and collective interaction yields new knowledge, structures, processes, practices and stories that can drive the organization forward (p. 97).

Hence spearheaded by a leader we can see how one firm has instantiated a comprehensive vision of the future, along with an institutional dedication to incorporate stakeholder views in order to facilitate the common good.

16.7 Possible Objections

There are three lines of criticism to the argument I have presented. The first is a claim that monetization and subsequent decision-making on that basis are the only practical means to determine policy about sustainability. This claim has considerable merit as it has the promise of determinacy. Yet it is important to see monetization as a means rather than an end. Consider that there are fundamental questions about the nature and application of Western notions of property. Many people would simply disagree that the best way to establish value is to create a hypothetical market: for instance, the spice turmeric has been known as an antiseptic agent for thousands of years, and the idea of patenting that knowledge and then restricting it as a property right may represent a particularly Western way of looking at the world. Similarly, a poor country may accept payment to take hazardous waste, and we could take the price paid for the service as an environmental indicator. However, doing so ignores other factors such as the relative power structures and political systems of the countries involved.

Thus applying financial metrics to questions of sustainability may be a reasonable move as long as there is unanimity about using a cost/benefit analysis to establish human preferences. Moreover, it would also necessitate that sufficiently sophisticated pricing mechanisms are in place that include common goods, and ways to balance differing interpersonal utility functions. In the absence of those conditions, business has to operate in the socio-political sphere where there are not only economic assessments of commodity exchange but also aesthetic, scientific, cultural and philosophical values that come into play as well. As O'Connor and Frame (2008) observe:

> Simply invoking "sustainability" as a reference concept does not serve as a decision criterion. If sustainability is to be a desideratum, we must recognize explicitly the role of human actions (and collective policy choices more particularly) as generating decisions about the distribution of sustainability: which interests, realms of value and forms of life will be sustained, and which ones left behind, relinquished, or destroyed? (p. 5)

Secondly, virtue theory is not the only basis for ethical judgments; Freeman (1984; Freeman et al. 2004, 2010) noted that stakeholder management could be drawn from a range of theoretical bases. For example, a deontological approach might maintain that there is a moral duty to maintain the earth for future generations because of the respect due to them as humans, or a utilitarian might make an argument based on maximizing the utility of all affected by a business decision. This point may be conceded easily: after all, it would be odd if moral theories did not coincide on their conclusions although they may differ on the particular form of reasoning: for example, slavery or violation of bodily integrity will be impermissible by multiple theories. However, the reason that virtue theory has been advocated for business dealings about the environment is because it does not promote abstract and impartial rules, but accepts that managers have to make difficult decisions in various contexts and in the face of conflicting interests without resorting to mere contingent, instrumental and market-driven calculations in considering these interests. In such complex cases, I believe, we are forced to depend on the good judgment of managers who are aware of both the over-riding principles and the concrete particulars in any given case.

A third objection is that by moving to particular cases, *phronêsis* justifies a form of moral relativism, since the situation in each will be distinct, and therefore not allow comparisons or the application of general rules. However, it is important to not confuse judgments within a context with judgments *sui generis*, that is, unique unto themselves. Aristotle tells us that *phronêsis* is born of a character developed over a lifetime, where experiences and teaching blend to bring about moral decisions in individual cases. Furthermore, as alluded to in my earlier discussion of *phronêsis*, the decisions are made with an understanding that humans are responsible for the welfare of others and to deliberately foster a certain defined ends. Thus while the decisions are certainly practical, immediate and context-dependent, they nevertheless are informed by consistent and overarching general principles.

16.8 Conclusion

To summarize my argument, managers currently have incentives to seek immediate returns, while at the same time business practice in general tends to ignore the issues of long-term human welfare. Future market activity will require adequate resources, especially in the light of growing population and increasing demands globally. One possibility is to maintain a tactical perspective which considers the issues to be technical problems that can be dealt with using the existing tools of economic analysis alone. Seen in these terms, there is no need to question the underlying values or significantly adjust current practice. Managers who take this view will be prone to reliance on quantitative metrics, short-term reporting models and the vicissitudes of the market.

However, given the realities of developing economies worldwide and finite raw materials, managers need to move from a purely instrumental decision process to one that imaginatively includes multiple perspectives and a longer timeline. Stakeholder theories provide one structure for such thinking. Moreover, traditional managerial characteristics of technical skill and factual knowledge need to be supplemented by the ability to master moral discernment and apply it judiciously to specific practical situations. In short, stakeholder theories demand that contemporary leaders develop and inculcate the classic quality of *phronêsis*. This is illustrated in the charts below:

16.8.1 Shareholder Management

Corporate aims	Sphere of moral concern	Management qualities	Aristotelian virtue	Preparation	Outcome
Maximize short term profits	Benefit to investors	Technical expertise	*Technê*	Practical training	Long-term unsustainable economic model
		Information acquisition	*Epistêmê*	Data collection	
				Factual knowledge	

16.8.2 Stakeholder Management

Corporate aims	Sphere of moral concern	Management qualities	Aristotelian virtue	Preparation	Outcome
Increase welfare of all affected by firm	All stakeholders	Technical expertise	*Technê*	Practical training	Long-term sustainable economic model
		Information acquisition	*Epistêmê*	Data collection	
				Factual knowledge	
		Practical wisdom	*Phronêsi*s	Moral perception	
				Life experience	

A stakeholder approach to sustainability utilizes explicit broad normative standards while at the same time confronts the complexity of particular corporate decisions. This kind of stakeholder theory might be more properly regarded as leadership rather than management, since it is both values-based and visionary. In the terms I have used, it surpasses *technê* and *epistêmê* by moving to *phronêsis*. Specifically, it looks beyond benefits to a certain group – investors – and is concerned with the welfare of everyone affected by the actions of the firm. As Bass and Steidlmeier (1999) explain:

> The common good is not a mere aggregate of individual interests, or a "greatest happiness" of a majority. It is a truly common good, that is only possible by civic virtue, cooperative action by all participants. Authentic transformational leadership goes beyond the individual leader or follower, the aggregate of individual interests, or a calculus of greatest utility. Fundamentally, the authentic transformational leader must forge a path of congruence of values and interests among stakeholders (p. 200–201).

Joanne Ciulla (2004) has noted that leadership is not a person or a position, but a complex moral relationship between people that is manifested in practical decisions and deliberate outcomes. *Phronêsis* marries goodness of character with action, and in that way it is superior to alternative moral theories and provides a framework for business leaders to make appropriate choices to assure a sustainable future.

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