

A Review of
William C. Frederick's *Natural Corporate Management*

By

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"Bill," a prominent business ethicist began, "what are you doing? Seriously, Bill, tell us what are you doing, because none of us know what it is!"

Bill Frederick had just concluded a conference lecture on, of course, the relationship between nature and business. His interlocutor's question may have come from one seat in the back corner of the room, but it was asked on behalf of many. Frederick's work does not fit into conventional categories one finds in the field. He does not do philosophy, theology, law, or psychology. His work is not science either in the sense of conducting scientific research. Thus, many are unsure as to how to characterize and engage his work.

At the risk of repeating my earlier odes, however, Bill Frederick is worth listening to. He puts people out of their comfort zone by audaciously claiming that the second law of thermodynamics is highly relevant to business ethics. He is visionary, encyclopedic, and funny. And it is OK if people don't really know what he is doing in the sense of whether he is philosophizing, doing science, or story-telling. He is, to be sure, playing by some new (old) rules.

What is important is that Frederick is placing notions of corporate responsibility into a narrative that anchors its importance for anyone doing business ethics, that he does so in a way that really isn't as scary as it first sounds, and that knowing who we are and where we came from is relevant for what we might decide to do next. What is radical about Frederick is that he implicitly insists that before we settle into our own disciplines to analyze a problem, we should take a step back and locate the subject of analysis and the discipline itself in a wider frame of reference. Or to put it more provocatively, Frederick is doing narrative ethics, but the subject of the story is the cosmos itself, not human beings per se.

Frederick's challenge is not necessarily unsettling, but it is harder to get one's hands around what Frederick is asking scholars to do and to understand why one should undertake it. And it does require a shift in perspective from what humans should be to what humans' role in a larger narrative is. In that regard, *Natural Corporate Management*¹ stands as Frederick's most comprehensive and most accessible book to answer these questions while also, in many ways, being the most provocative.

I. Anchoring Corporate Responsibility

A Complementary Support

While some superb corporate responsibility scholars remain mystified by how Frederick connects business and nature, his arguments have always been one of the most solid supports for the field itself. Whether from practitioner, colleague or student, just about anyone in the field has heard the skeptical remark about the oxymoronic character of business ethics, of how corporate responsibility is a short subject, that it provides “finishing school” manners for students, and how it is flaky and soft. In contrast, the focus on a bottom-line, hard-headed, competitive business is tough, quantifiable, and very much “the real world.” If there is someone the field who has not heard something along these lines, I’d love to meet them.

Frederick’s argument stands things on their head. What is tough and very real is the stuff of how we survive, of Darwinian competition, of selfish genes, and of hardwired behavioral capabilities. It’s hard to argue with science these days and the data and findings it provides. Biology is not fuzzy. Physics is not soft. Chemistry is not idealistic. Frederick provides a narrative that explains that notions of corporate responsibility fit directly into our evolutionary, cosmological heritage and is not a reaction against a 20th Century primacy of shareholder value. In creating this narrative, Frederick actually provides a strong platform for any business ethicist.

For example, business ethicists have long struggled with the answer to the question “why be ethical.” It could be that, as human beings, there are certain moral orientations and practices that makes us human. Some phrasing of this idea are even more elliptical (which is not to argue that they are not untrue). Note that even here, there is some belief about human nature – that we should act ethically – but perhaps a stronger version might be that there can be an evolutionary, competitive advantage by practicing actions that minimize short-term self –interest.

Another argument for being ethical is that it is good business; ethics pays. If so, then the Strategist can respond that we don’t need ethics, we just need better strategists who build in these profit-producing actions. Frederick’s argument acknowledges a strong value in profit, but also demands situating profit-making within the context that gave rise to it and will lead to future profits as well (his ecologizing function).

What is important to see here is that Frederick’s position provides additional support for arguments that scholars in our field make. From this perspective, his challenge is complementary rather than revolutionary.

The Naturalistic Fallacy

The inevitable concern about a naturalist-based normative narrative is the dreaded naturalistic fallacy. So easy is it to trip off the lips of a trained philosopher or theologian, we might as well get it out of the way. The naturalistic fallacy has two important forms for purposes of Frederick's book. The first one is likely to emanate from the stereotypical shareholder-only advocate: Just because things are they way they are does not mean that that is the way things should be. We have all encountered this in our classrooms when a student says, "well, what about so-and-so who did something bad and nothing happened. That's the way things are."

Well, yes it is and that is why those of us in the field make arguments that point out that there is a problem with whatever bad activity has been cited and how we should think of things differently. Just because lousy things happen in business (or elsewhere) does not mean that lousy things should happen. A description is different than a prescription. One would find no discernable difference from a philosopher or from Frederick in responding exactly in this way.

The second formulation of the naturalistic fallacy is more applicable to Frederick's work, though I hope to show that it is a misplaced criticism. This formulation would say that simply because science shows that human nature is a certain way, we are not determined by that science and have the free will to transcend it. This is an argument one could find made against the old sociobiological arguments where human action was predetermined by human nature.

Hearing Frederick talk about how corporate action is impacted by the second law of thermodynamics or Darwinian evolution or selfish genes could easily trigger a repetition of the naturalistic argument. Indeed, one could harness these scientific findings into a deterministic theory and so, a guarded reaction is well-placed to the blending of nature and ethics. Frederick's argument, I will show, has nothing of this nature. His argument is more akin to a Dostoyevskian claim that human beings are indeed determined; they are hard-wired to be free.

With apologies to those who do believe that human nature is a blank slate, every normative approach attends to some degree of human capabilities. We have to take into account what human beings can and cannot do both normatively and instrumentally. Much as we like, we cannot flap our wings and fly like Dumbo around a circus tent. If we want to fly, we have to take into our account our human capabilities and recognize that nature requires us to build a vehicle that, by converting other natural capabilities, can indeed soar into the air with us in tow. Using nature in ethics should not be in question. What should be in question is the identification of a well-formed integration of nature and ethical theory, the very nature (so to speak) of such an integration being the subject of a good deal of debate.

That an integration is possible, even expected, provides safe passage for Frederick's argument. If Frederick were to argue that our selfish genes require us to maximize short-term profitability, one would be right to object. Instead, Frederick's argument is that we should be aware of our genetic propensities and how they affect, for instance, office behavior so that we can use our brains to design ways that more authentically manage businesses for the benefit of the ecosystem. There is no falling prey to a naturalistic fallacy in this approach.

II. The Argument

Frederick sets out his argument right away. On the first page, he says that two short sentences summarize the book: Business and nature are intertwined. Business managers need to understand this linkage of business and nature if they are to do their job well.

He explains his argument in the way of a cascade, where there are fundamental forces at work that cascade down through other phenomena that themselves build upon and set the stage for the next stage of, well, evolutionary development, all of which have relevance to business. These steps – and chapters – are as follows:

Energy: Beginning with the Big Bang and continuing through the creation of life, ecosystems, economics and business firms, energy is fundamental to our very existence. The release of, search for, and capture of energy fundamentally describes our business lives. We are well-advised to be aware of this pervasive force.

Life: Beginning with a single cell and leading to ecosystems, life is a result of energy and itself thereafter generates additional consequences. After all, it is because of human life that any of our work occurs and our ecosystem is comprised and dependent upon many, many other lives.

Darwin: Demonstrating the principle of natural selection on all forms of life, including humans and their groups, evolution has defined who lives and who doesn't, who is more competitive and who is not. Evolution is not of interest unless there is already life and a life that reflects on the evolution. This ongoing competition inherent in natural selection continues to occur.

Genes: "The cellular components that create, activate and direct the form and life functions of all organisms....business behavior is shaped by genetic influences." Explaining that terms like "selfish" (Richard Dawkins's term) genes impute a nonexistent consciousness, Frederick argues that genes nonetheless use vehicles (life) to replicate themselves (evolution) and give rise to a certain kind of life form.

Homo: Human beings build on this cascade: Energy, Life, Darwin, and Genes. Importantly, the genus “homo” has its own evolutionary heritage that is part of our human story. Today’s business managers have been shaped by this human evolution.

Brain: Regulating neural signals as humans interact with ecosystems, the brain, too, emerges from this cascade. Business managers are shaped by brain-centered impulses and motivations. It is what we use in order to solve long-term and short-term problems.

Symbol: Humans develop tools, symbols and group-living patterns that lead to how business culture adapts to its social and ecosystem. In earlier work, Frederick more elaborately locates philosophizing in this symbolic, human, brain-centered function.

Organization: Humans and their business firms organize by hierarchy, technological teamwork, and through non-linear, complex systems. They do this through the use of linguistic, technical symbol-making human nature.

Market: Provides a forum for reciprocal, balanced exchanges and also economic exchanges for gain.

Corporation: How all this culminates, at least for purposes of this book, in the corporation leading to a natural theory of the firm. That Natural Theory of the Firm has six components.

The first component is a founding group of entrepreneurs that proposes to engage in commercial enterprise with their work subject to public approval. In other words, someone has to get something going, but without some level of public approval, the entrepreneurs will fail.

Second, the goal of business being to generate profitable returns. In his earlier book, *Values, Nature and Culture in the American Corporation*², Frederick laid out a tri-partite description of natural forces always at work. These were Economizing, (which had to do with the efficient translation of resources in to desired products and services), Ecologizing (which entailed our mutualistic relationship with a wider ecosystem) and Power-Aggrandizing (which was the quest for power and status). Frederick has little positive to say about Power-Aggrandizing, but believes the other two provide a short and long-term framework for business. This second goal is exactly about this interaction, which requires Economizing to maximize earnings and Ecologizing so that it interacts with its constituents over a longer term.

Third the primary economic functions of the firm are capital acquisition and accumulation, production of goods and services, and distribution through market transactions.

Fourth, corporations must be run with governance mechanism, organization, and decision systems with a board, executives, and managers understood in Frederick's framework as passing on older behaviors to the modern era: hierarchical, technological, and nonlinear complex organization.

Fifth, Strategy becomes the competitive thinking that finds and utilize energy resources, adjusting economizing functions within an ecosystem, recognizing genetic components of human behavior, accepting the selection power of natural forces, acknowledging inherited behavioral traits, understanding range and reach of symbolic culture, accepting responsibility and responsiveness of a firm's activities.

Sixth, corporate purpose not limited to instrumental economizing, but instead that the corporate purpose is a function of cosmic evolution that does economizing, but also spreads its economic benefits through an ecologizing philosophy.

In some ways, this theory is a restatement of what others already describe in different language. For example, Frederick ties the typical governance structure for corporations with a hierarchical system (executives to managers to employees) with a marshaling of technological skills to achieve the goals and also having room for self-organization as carrying on archaic behavioral modes of organizing. So what? Well, if we can recognize these patterns, their history and the problems and benefits that have arisen during that history, managers will be in a better position to align their organizational and governance structures to align with the ways that business best work.

To provide my own example of this, I have blended natural law theory and recent bioanthropological findings to argue that human beings can only think of themselves in a community – a mediating institution – of a certain size, which we tend to organize purposefully or chaotically. Beyond that size, it is harder for them to see that their actions and behaviors matter. If this is true, then asking for managers and employees to act ethically may have something to do with their size of the corporate community they are located, making a significant difference in the creation of corporate culture. In fact, when I made my arguments for this idea of business as mediating institution, like Frederick, I offered them not in opposition to stakeholder theory, shareholder theory, social contracts theory, or virtue theory, but as a naturalistic complement to make each of them more effective in their work.³

This, I think, is how Frederick is best interpreted: as providing a treasure trove of information that will provide resources for an even stronger field of corporate responsibility.

III. A Reflection

Looking at Frederick's Cascade and his Natural Theory of the Firm, one is struck by the fact that his argument is that businesses are not isolated phenomena which can and need only think of making more money. Instead, they are embedded in a billions of years old context of being profitable within a context of supportive systems, public approval, and an ecosystem and history that has given rise to them. While Frederick does not say this himself, one could characterize his argument as claiming that is unnatural for companies to not take on corporate responsibility obligations.

From this perspective, contemporary businesses ethicists might not look at Frederick's work as a new kind of sociobiological challenge to free will, but instead, a complementary set of terms, tools, and insights to explain why corporate responsibility makes a great deal of sense.

Carrying this idea further, it is worth noting that when Frederick concludes his chapters as to what the importance of energy or evolution or symbol-making, etc. for contemporary business, he uses language such as "becoming aware" or "considering" or "respecting" the processes or phenomena he has laid out. This isn't exactly deterministic. Frederick does not argue that nature requires any particular set of outcomes; he is arguing that a deep awareness of who and what we are may just make us think more deeply about our embedded relationship with others and with nature itself. How we do that might become articulated in religious norms, social contractarian ones, or something else that would be more commonly found in business ethics circles today. Yet, using just those frameworks would be enriched with a deeper sense of who and what we are as human creatures in the particular world we inhabit.

This strikes me as great, good stuff. In my own work, I have taken specific frameworks of Frederick – and used his work as justification for reaching out to other naturalistic sources – to argue that our understandings of trust are deeply grounded in Fredericks' tri-partite description of natural forces: Economizing, ecologizing and power-aggrandizing (though I have a much more positive view of power-aggrandizing than does Bill). I've also argued that in building corporate culture, we should orient the size of organizations to correspond with neurobiological studies of the number of relationships (and therefore sizes of groups) with which human beings optimally interact. And, I have drawn upon anthropological studies of peaceful societies to show how well they match with common-sense ethics practices to suggest that ethical business behavior might contribute to peace. Frederick's influence and arguments have certainly been crucial to my work in publishing and in teaching, enough so that I can confidently recommend Frederick's approach. But are there downsides? Yes.

One downside is that there is a lot of scientific information in Frederick's work that is tough to get one's hands around. As much of admirer I am of his work, I

still don't think I get the significance of entropy to business decisions. And so, just how much can a person learn and integrate? Fortunately, this particular book goes a long way in helping to make this work accessible to business ethicists, but it remains a (worthwhile) challenge.

Indeed, I think it is a challenge we must face. Twenty-five years or so ago, Environmental Sustainability held no revered place in business schools or in business. Scholars advocating its importance were likely to be dismissed, indeed as business ethics were then as well. Both have surged in importance in business schools for a number of reasons too complex to begin to address in this short review. Scandals have certainly focused public attention on unethical conduct. Technology has provided the capability of capturing and broadcasting bad conduct worldwide in a matter of seconds, thus impacting corporate reputations and markets. Science too – the science of the ecosystem – has made all of us far more aware of the dangers of radically selfish conduct and those scientific explanations and models have bolstered arguments scholars have been making for years.

But let's be aware of the implications of sustainability and of Frederick. Sustainability's argument is that the earth is not just about us. We share it with many other creatures. Frederick's book provides another chapter in an effort to demonstrate that our natural history has much to offer to how we improve business conduct. Whether one accepts the specific six points of his naturalism is not as important as recognizing the importance of these resources to our discipline and the point of view of this narrative. Drawing us into engage in that argument is Frederick's legacy and one for which we should all be grateful for and about which, we should all place on ourselves the responsibility for figuring out exactly what he is doing and where we humans fit in that cosmological narrative.

NOTES

¹ WILLIAM C. FREDERICK, *NATURAL CORPORATE MANAGEMENT: FROM THE BIG BANG TO WALL STREET* (2012).

² WILLIAM C. FREDERICK, *VALUES, NATURE, AND CULTURE IN THE AMERICAN CORPORATION* (1995).

³ TIMOTHY L. FORT, *ETHICS AND GOVERNANCE: BUSINESS AS MEDIATING INSTITUTION* (2001).