CORPORATE GOVERNANCE

Stakeholder and Modern Governance

Freeman · Mayer · Henderson · Bebchuk

PAPER 03 / 03

A Furtherance reference compendium on the intellectual traditions behind organisational design, leadership, execution, and culture.

IN THIS PAPER

The series closes on the live debate over whom the corporation is for. This paper covers the stakeholder and purpose tradition – and a sharp sceptical counter-voice. The question it answers: should companies be run for shareholders or for a wider set of stakeholders, and can “purpose” be made accountable?

Freeman founds stakeholder theory; Mayer and Henderson argue for purpose as the corporation's reason to exist; Bebchuk supplies the rigorous scepticism – that stakeholder governance may lack accountability. The paper presents the argument, not a verdict.

R. Edward Freeman **Strategic Management: A Stakeholder Approach, 1984**

Stakeholder theory

CORE THESIS

A company should be managed for **all its stakeholders** – customers, employees, suppliers, communities and financiers – not shareholders alone. Value creation is a joint process, and treating ethics and business as separate is a mistake.

FRAMEWORK

Idea	Meaning
Stakeholder map	Identify all groups affected by, and affecting, the firm
Jointness of interests	Stakeholder interests are interdependent, not rival
The separation fallacy	Business and ethics cannot be cleanly separated
Value for stakeholders	Serving stakeholders well is good strategy

METHODOLOGY

Management theory and business ethics, developed over four decades.

SIGNIFICANCE AND CRITIQUE

The leading alternative to shareholder primacy. The critique: making trade-offs and accountability precise is hard when a firm is said to serve everyone.

Colin Mayer **Prosperity, 2018**

Corporate purpose · Oxford

CORE THESIS

The corporation's purpose should be to **produce profitable solutions to the problems of people and planet** – not to profit from creating problems. Realising this requires reforming ownership, governance, measurement and law to embed purpose.

FRAMEWORK

Element	Meaning
Purpose over pure profit	Profit is a means to solving real problems
Committed ownership	Owners aligned to long-term purpose
Reform the plumbing	Governance, measurement, trust and law must change
Trustworthiness	The corporation as an institution worthy of trust

METHODOLOGY
Economics and corporate theory, informing large research programmes on the future of the corporation.

SIGNIFICANCE AND CRITIQUE
A leading academic voice for purpose-based reform. The critique: measurement and implementation are genuinely hard, and the agenda is contested.

Rebecca Henderson Reimagining Capitalism, 2020

Purpose and shared value · Harvard

CORE THESIS
Shareholder-value maximisation is **incomplete and, given externalities, dangerous**. Firms can pursue **purpose alongside profit** and help rewire capitalism – but only together with functioning government, finance and shared values.

FRAMEWORK

Idea	Meaning
Limits of the market	Externalities and weak institutions distort outcomes
Purpose as advantage	Shared purpose can be a real source of advantage
Beyond the firm alone	Business, government and finance must act together
Rewiring capitalism	Reform the system, not only the single company

METHODOLOGY
Strategy and economics, drawing on cases of purpose-driven firms and systemic reform.

SIGNIFICANCE AND CRITIQUE
An influential, evidence-aware case for purpose-driven business. The critique: it is avowedly normative, and the systemic change it calls for is difficult.

Lucian Bebchuk The Illusory Promise of Stakeholder Governance, 2020

The sceptic · accountability · Harvard Law

CORE THESIS
A rigorous **counter-voice**. Bebchuk argues executive pay reflects **managerial power** rather than arm's-length bargaining, and that **stakeholder governance** is largely illusory – lacking accountability and, in practice, insulating managers rather than serving stakeholders.

FRAMEWORK

Argument	Meaning
Managerial power	Pay is set by captured processes, not true bargaining
Pay without performance	Weak links between reward and results
The accountability gap	“Serving everyone” can mean answering to no one
Shareholder empowerment	Stronger shareholder rights as the corrective

METHODOLOGY
Empirical and legal analysis of executive pay and governance arrangements.

SIGNIFICANCE AND CRITIQUE
The leading empirical critic of both weak pay governance and stakeholderism, and a necessary check on the purpose case. The critique: the stance is shareholder-centric and itself contested.

> **A NOTE ON EVIDENCE**
> A caveat on the debate: whom the corporation should serve is a normative question that remains genuinely unresolved. This paper deliberately sets the purpose case (Freeman, Mayer, Henderson) against its sharpest sceptic (Bebchuk) rather than declaring a winner. The accountability challenge Bebchuk raises is real; so are the externalities the purpose school documents. Operators should weigh both, in the light of their own ownership, obligations and jurisdiction.

Synthesis

Contribution	Position	Key idea	Register
Freeman	Stakeholder	Manage for all stakeholders	Theory / ethics
Mayer	Purpose	Profitable solutions to problems	Academic reform
Henderson	Purpose + system	Reimagine capitalism	Strategy / normative
Bebchuk	Sceptic	Accountability gap; empower owners	Empirical / legal

> **FOR THE OPERATOR**
> The modern debate asks whom the corporation is for – all stakeholders (Freeman), a purpose beyond profit (Mayer), a reimagined capitalism (Henderson), against a sceptic who warns that purpose without accountability may serve managers, not stakeholders (Bebchuk). For the operator: purpose and stakeholder thinking can be genuine sources of advantage, but only if paired with real accountability – hold both the aspiration and the discipline. That closes the Corporate Governance series.