ETHICS AND STAKEHOLDER CAPITALISM

Shareholder versus Stakeholder

Friedman · Freeman · Jensen · Porter & Kramer

PAPER 01 / 02

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

> **IN THIS PAPER**
> This paper opens the Ethics and Stakeholder Capitalism series in Furtherance's reference library. It covers the foundational ethical debate over whom a business is for. The question it answers: is the purpose of a company to maximise returns for its owners, to serve all its stakeholders, or something that reconciles the two?

Friedman states the shareholder doctrine at its sharpest; Freeman mounts the stakeholder rebuttal; Jensen proposes a reconciliation in enlightened value maximisation; Porter and Kramer offer the business-case synthesis of shared value. The paper presents the argument, not a verdict.

Milton Friedman **The Social Responsibility of Business, 1970**

Shareholder primacy · the doctrine

CORE THESIS
The social responsibility of business is to **increase its profits** – within the rules of the game, meaning law and ethical custom. Managers are agents of the shareholders; spending corporate money on “social responsibility” is spending others' money without a mandate, a matter better left to individuals and government.

FRAMEWORK

Element	Meaning
Shareholder primacy	The firm is run for its owners
Managers as agents	Executives serve shareholders, not their own causes
Within the rules of the game	Law and ethical custom bound the pursuit of profit
Proper channel	Social goods belong to government and individuals

METHODOLOGY
A normative argument from economics and the agency relationship.

SIGNIFICANCE AND CRITIQUE
The foundational statement of shareholder primacy, dominant for decades. The critique: it underplays externalities and stakeholders – and its own “rules of the game” qualifier is often forgotten by both admirers and critics.

R. Edward Freeman **Strategic Management, 1984**

Stakeholder theory · the rebuttal

CORE THESIS
Business should be managed for **all its stakeholders**, and doing so is both better strategy and more defensible ethics. Treating ethics and business as separate is a mistake – value creation is a joint, stakeholder process, not a transfer to owners alone.

FRAMEWORK

Idea	Meaning
Manage for stakeholders	Serve customers, employees, suppliers, communities, financiers
The separation fallacy	Business and ethics cannot be cleanly divided
Jointness of interests	Stakeholder interests are interdependent
Value creation and trade	Good business is stakeholder value creation

METHODOLOGY
Management theory and business ethics (developed further in the Corporate Governance series).

SIGNIFICANCE AND CRITIQUE
The principal ethical alternative to Friedman. The critique: making trade-offs and accountability precise is hard when the firm is said to serve everyone.

Michael Jensen Value Maximization and Stakeholder Theory, 2001

Enlightened value maximisation

CORE THESIS
Pure stakeholder theory gives managers **no principled way to make trade-offs** – you cannot maximise in several dimensions at once. Jensen proposes **enlightened value maximisation**: use long-run firm value as the single scorecard, while recognising you cannot maximise it while neglecting stakeholders.

FRAMEWORK

Idea	Meaning
Single objective function	A firm needs one measure to make trade-offs
Long-run value as scorecard	Maximise long-term value, not short-term profit
Stakeholders as means	You cannot build long-run value while ignoring them
Enlightened synthesis	Reconciles the value and stakeholder positions

METHODOLOGY
Financial economics applied to the objective of the firm.

SIGNIFICANCE AND CRITIQUE
The influential attempt to reconcile the two poles. The critique: it still privileges value, and “long-term value” is elastic enough to rationalise many choices.

Porter & Kramer Creating Shared Value, 2011

Shared value · the business case

CORE THESIS
Companies can create **economic value in ways that also create societal value** – “shared value” – by treating social problems as business opportunities. This moves beyond peripheral corporate philanthropy to embedding social value in strategy and competition.

FRAMEWORK

Lever of shared value	Meaning
Reconceive products and markets	Serve unmet and underserved social needs
Redefine productivity	Address resources, supply chains and employees
Build supportive clusters	Strengthen the local ecosystem the firm depends on
Shared value vs CSR	Integral to strategy, not peripheral goodwill

METHODOLOGY
Strategy analysis reframing social value as a source of competitive advantage.

SIGNIFICANCE AND CRITIQUE
An influential framing that makes the business case for solving social problems. The critique: it can under-play genuine trade-offs — not every social problem is profitable to solve, and real tensions between profit and social good remain.

> **A NOTE ON EVIDENCE**
> A caveat on stance: this is a normative debate, not an empirical one with a settled answer. The shareholder view has a serious agency-and-accountability argument; the stakeholder and shared-value views have a serious externalities-and-legitimacy argument. This paper sets them out fairly so operators can reason from their own ownership, obligations and jurisdiction rather than adopt a slogan.

Synthesis

Position	The firm is for…	Key idea	Register
Friedman	Shareholders	Profit within the rules	Doctrine
Freeman	All stakeholders	Manage for stakeholders	Ethics / strategy
Jensen	Long-run value	Enlightened maximisation	Reconciliation
Porter & Kramer	Shared value	Social value as strategy	Business case

> **FOR THE OPERATOR**
> The foundational debate runs from shareholder primacy (Friedman), through the stakeholder rebuttal (Freeman) and its enlightened reconciliation (Jensen), to the shared-value business case (Porter & Kramer). For the operator: the poles are less far apart in practice than in principle — long-run value and stakeholder trust tend to move together — but the trade-offs are real and worth facing honestly. The next paper turns to how purpose and ESG are being put into practice, and contested.