THE BIG DEBATE

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Can shareholder-owned corporations maximize profits without harming their stakeholders?

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HECK YES!!

CAN SHAREHOLDER-OWNED CORPORATIONS CAN MAXIMIZE PROFITS WITHOUT HARMING THEIR STAKEHOLDERS?

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Claim 1

This question leads one to think of “maximizing profits” with a **shareholder primacy orientation**…I explain how businesses have evolved beyond this, particularly when looking at “maximizing profits” more broadly. This is an *instrumental perspective*

Claim 2

Businesses are conditioned to avoid harming stakeholders…I outline the business level constructs that support this. *This is both instrumental and normative in perspective.*

Claim 3

Combining these two ideas…I argue that maximizing profits/value is not at odds with stakeholders’ interests…in fact, **firms with the best stakeholder relations offer higher overall value.**

#1: SHAREHOLDER PRIMACY IS IN THE REAR VIEW MIRROR

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The arguments

1. Shareholders do not own the corporation and companies understand that today
   a. From legal, economic perspectives
   b. The firm as a nexus of contracts
   c. Team-based corporate production

2. There is evidence that this is in the rear view mirror:
   a. 2019 by the BRT Statement
   b. Similar evolutions in asset management arena and ESG
   c. Even Michael Jensen stepping back from shareholder primacy…!
   d. Even Adam Smith believed in stakeholder fairness of exchange
   e. Caveat: Walking the talk…

The support

1. Stout, L. A. (2001). Bad and not-so-bad arguments for shareholder primacy. S. Cal. L. Rev., 75, 1189.

2. "Business Roundtable Redefines the Purpose of the Corporation to Promote 'An Economy that Serves All Americans, Principles of Corporate Governance" https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans

3. Fishing with Dynamite https://news.darden.virginia.edu/2019/10/25/new-documentary-fishing-with-dynamite/

4. Brown, J. A., & Forster, W. R. (2013). CSR and stakeholder theory: A tale of Adam Smith. Journal of business ethics, 112(2), 301-312.

5. Brown, J. "Will a Global Pandemic and Recession Hit the Reset Button for Corporate Governance and Business/Stakeholder Relationships?" https://sim.aom.org/covid-19-insights

#2: FIRMS ARE CONDITIONED TO AVOID HARMING STAKEHOLDERS

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The arguments

1. There are risk management benefits to multi-stakeholder orientation
    a. Creation of value
    b. Win-win
2. Legitimacy and social judgments are too risky
    a. Backlash beyond primary stakeholders
    b. BP example
3. It is too hard to recapture stakeholder support once lost
    a. It requires a lot of goodwill
    b. It depends on level of moral salience of the harm
4. Evidence from institutional shareholders
    a. Stakeholder activism

The support

1. Barnett, M.L. and Hoffman, A.J. (2008) "Beyond Corporate Reputation: Managing Reputational Interdependence." Corporate Reputation Review, 11: 1-9
2. Bitektine, A. (2011). Toward a theory of social judgments of organizations: The case of legitimacy, reputation, and status. Academy of management review, 36(1), 151-179.
3. Brown, J., Buchholtz, A. and Dunn, P. (2016) "Moral Salience and the Role of Goodwill in Firm-Stakeholder Relations," Business Ethics Quarterly
4. Rehbein, K., Waddock, S., & Graves, S. B. (2004). Understanding shareholder activism: Which corporations are targeted? Business & Society, 43(3), 239-267.
5. Godfrey, P., Merrill, C & Hansen, J. (2009). The relationship between CSR and shareholder value: An empirical test of the risk management hypothesis. Strategic Management Journal, 30(4), 425-445.

#3: FIRMS WITH THE BEST STAKEHOLDER RELATIONS OFFER HIGHER OVERALL VALUE

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The arguments

1. Even hard-core strategists concede that firms must consider a stakeholder perspective to capture higher rents
   a. RBV view
2. The creation of rent is directly associated with perceptions of fairness among stakeholders
   a. Reciprocity
   b. Trust
3. There is parallel to the business case for CSR
   a. Economic profitability measures the effectiveness of business activities
   b. It ensures the future supply of capital
   c. Responsibility-profitability connection
   d. Therefore treating stakeholders with fairness and reciprocity will improve the bottom line.
4. Managing for stakeholders creates higher overall value

The support

1. Barney, J. B. (2018). Why resource-based theory's model of profit appropriation must incorporate a stakeholder perspective. Strategic Management Journal, 39(13), 3305-3325.

2. Bosse, D. A., Phillips, R. A., & Harrison, J. S. (2009). Stakeholders, reciprocity, and firm performance. Strategic Management Journal, 30(4), 447-456.

3. Carroll, A. B., & Shabana, K. M. (2010). The business case for corporate social responsibility: A review of concepts, research and practice. International journal of management reviews, 12(1), 85-105.

4. Harrison, J. S., Bosse, D. A., & Phillips, R. A. (2010). Managing for stakeholders, stakeholder utility functions, and competitive advantage. Strategic management journal, 31(1), 58-74.

TAKEAWAY

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Firms are motivated – both implicitly and explicitly—to treat their stakeholders well under the (almost unattainable goal) of maximizing profits.

"..We cannot choose between growth and sustainability — we must have both."

Paul Polman, Unilever

It does not have to be tradeoff: Shareholder-owner corporations can maximize profits without harming stakeholders