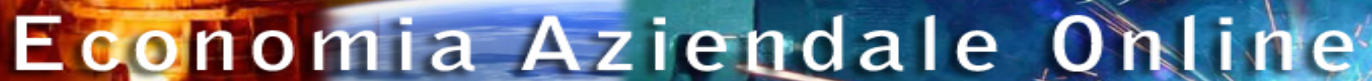

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Where Does the Value of a Corporation Lie? A Literature Review

Casius Chuma, MPhil
Graduate School of Business,
University of Zambia,
Lusaka, Zambia.

Abubaker Qutieshat,
PhD, University of Dundee,
Dundee, Scotland, UK.

Corresponding Author:
Casius Chuma
Graduate School of Business,
University of Zambia,
Postal Address: P.O. Box 32379,
Lusaka. Zambia.

Email: *ccchuma75@yahoo.com*

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ABSTRACT. English

This paper discusses the historical and theoretical perspectives of value in a corporation and the varying positions or views of prominent proponents and opponents of the shareholder and stakeholder theories to draw conclusions about where the value of a corporation lies. The literature has revealed that the corporate world has evolved over the years. The purpose and existence of corporations, coupled with the industrial revolution, have influenced the transformation of the corporate world. At the center of the debate around corporate purpose and the existence of corporations are two theories: the shareholder and stakeholder theories. Although literature recognises Edith Tilton Penrose's theory of the growth of the firm as one of early attempts to contribute towards stakeholder theory, the term "stakeholder" was first used in 1963 and the stakeholder theory was only coined in the early 1980s. However, it is interesting to learn from the literature that the initial corporations founded in the eighteenth century were anchored on serving the public interest, which aligns with the ideology advanced by the stakeholder theory. This suggests that, while the stakeholder theory entered the corporate world discourse much later, the philosophy embodied in it served as the foundation for the first corporation. This implies that the value of the corporation then lied in the public interest. However, the push for the requisite capital investment to finance innovative manufacturing initiatives that characterized the industrial revolution triggered a paradigm shift from the corporate business model centered on serving the public interest to the shareholder business model with the sole purpose of maximizing profits and shareholder value for its owners. It is against this background that in 1970 Milton Friedman coined the "shareholder theory," advancing the argument that the purpose of a corporation is to maximize profit and shareholder value, provided this is done without committing fraud or deception. The ongoing call for corporations to embrace the stakeholder theory – advocating for a business model that goes beyond corporations meeting their financial obligations – to taking into account the interests of all other stakeholders, seems to be the renaissance of the original corporate purpose. The ongoing debate between the two theories is intense, with proponents and opponents of each theory defending their business model and dismissing the other. Literature suggests some positive gains in the paradigm shift from the shareholder theory-driven business model to the stakeholder theory-driven business model. In the recent past, the debate got even more interesting when renowned corporate executives renounced the shareholder theory, followed by the most recent collective statement by CEOs of about 200 major US corporations embracing the stakeholder theory. However, the CEOs of top US corporations' collective embrace of the stakeholder theory does not imply a rejection of the shareholder-based business model. Notwithstanding all the intense debate and the seemingly

shifting paradigm among some of the top corporate executives, the shareholder theory still reigns in the corporate world, and value still lies with the shareholders.

ABSTRACT. Italiano

Questo articolo discute le prospettive storiche e teoriche del valore in una società e le diverse posizioni o punti di vista di eminenti sostenitori e oppositori delle teorie degli shareholder e degli stakeholder per trarre conclusioni su dove risieda il valore di una società. La letteratura ha rivelato che il mondo aziendale si è evoluto nel corso degli anni. Lo scopo e l'esistenza delle corporazioni, insieme alla rivoluzione industriale, hanno influenzato la trasformazione del mondo aziendale. Al centro del dibattito sul fine aziendale e sull'esistenza delle società di capitali ci sono le teorie degli shareholder e degli stakeholder. Sebbene la letteratura riconosca la teoria di Edith Tilton Penrose sulla crescita dell'azienda come uno dei primi tentativi di contribuire alla teoria degli stakeholder, il termine "stakeholder" è stato usato per la prima volta nel 1963 e la teoria degli stakeholder è stata coniata solo nei primi anni 1980. Tuttavia, è interessante apprendere dalla letteratura che le prime corporazioni fondate nel diciottesimo secolo erano ancorate al servizio dell'interesse pubblico, il che si allinea con l'ideologia avanzata dalla teoria degli stakeholder. Ciò suggerisce che, mentre la teoria degli stakeholder è entrata nel discorso del mondo aziendale molto più tardi, la filosofia in essa incorporata è servita da fondamento per le prime società. Ciò implica che il valore della società risiedeva allora nell'interesse pubblico. Tuttavia, la spinta all'investimento di capitale necessario per finanziare iniziative produttive innovative che hanno caratterizzato la rivoluzione industriale ha innescato un cambio di paradigma, dal modello di business aziendale incentrato sul servizio dell'interesse pubblico al modello di business per la produzione di shareholder value, cioè con il solo scopo di massimizzare i profitti e il valore dell'impresa per suoi proprietari. È in questo contesto che nel 1970 Milton Friedman ha coniato la " shareholder theory ", avanzando l'argomentazione secondo cui lo scopo di una società è massimizzare il profitto e il valore per gli azionisti, a condizione che ciò avvenga senza commettere frodi o inganni. La continua richiesta alle società di abbracciare la teoria degli stakeholder – sostenendo un modello di business che vada oltre le società che soddisfano i propri obblighi finanziar – per tenere, altresì, conto degli interessi di tutti gli altri stakeholder, sembra essere la rinascita dello scopo aziendale originario. Il dibattito in corso tra le due teorie è intenso, con sostenitori e oppositori di ciascuna teoria che difende il proprio modello di business e respinge l'altra. La letteratura suggerisce alcuni vantaggi positivi nel cambio di paradigma dal modello di business guidato dalla shareholder theory al modello di business guidato dalla teoria degli stakeholder. Nel recente passato, il dibattito si è fatto ancora più interessante quando dopo che famosi dirigenti aziendali hanno rinunciato alla shareholder theory, è seguita la più recente dichiarazione collettiva dei CEO di circa 200 grandi società statunitensi che hanno abbracciato la stakeholder theory. Tuttavia, l'adozione diffusa della teoria degli stakeholder da parte degli amministratori delegati delle principali società statunitensi non implica un rifiuto del modello di business basato sulla shareholder theory. Nonostante tutto l'intenso dibattito e il paradigma apparentemente mutevole tra alcuni dei massimi dirigenti aziendali, la shareholder theory regna ancora nel mondo aziendale e il valore risiede ancora negli azionisti.

Keywords: Corporation, Value, Shareholder Theory, Shareholder, Stakeholder Theory, Stakeholder, Corporate purpose.

1 – Introduction

1.1 – *Theoretical background*

The discourse on where the value of corporations lies, swings between two schools of thought: the shareholder theory and the stakeholder theory. The former point of view was coined by Milton Freidman in the 1970s (cited by Ferrero, Hoffman & McNulty, 2014) who argues that the sole purpose of a corporate entity is to generate revenue and profits for its shareholders. This business model centered on serving the interests of the shareholders is also referred to as the shareholder business model. On the other hand, it is argued that the purpose of a corporate entity goes beyond just generating profits for its shareholders. This contra position on the purpose of a corporation was coined by Edward Freeman by introducing the stakeholder theory

which suggests that a corporate entity exists not only to create value for its shareholders but for its other stakeholders which comprise groups and individuals such as suppliers, customers, employees, society and the environment/planet that also do have an interest in the business affairs and outcomes of an organization (Phillips, Barney, Freeman & Harrison, 2019). According to Clarkson (1995, as cited by Mainardes, Alves & Raposo, 2011), these groups can be sub-categorised into primary and secondary stakeholders. The former includes individuals and entities that have formal or official contractual relationships with a corporation, such as clients, suppliers, employees, and shareholders, among others. The latter subcategory comprises those stakeholders that have no contractual relationship with a corporation, such as government authorities or the local community.

In light of the foregoing narrative about stakeholders, establishing and operating a business based on the shareholder theory model, which suggests that the ultimate owners of a corporation's assets are the shareholders and that the primary goal of a firm is to maximize shareholder value through dividends and share price, promotes unsustainable business management that disadvantages other key stakeholders such as employees, suppliers, customers, society, and the environment. Striking a balance between the interests of shareholders (shareholding stakeholders) and other stakeholders (nonshareholding stakeholders) is imperative, especially in the twenty-first century where the push for sustainable business management is increasingly gaining traction.

1.2 – *Purpose of study*

This study explores and discusses theories surrounding business management and the perceptions of the proponents and opponents of the theories on the existence and purpose of corporations, to understand where corporations place their value.

2 – Research Design and Methodology

The review of the literature was guided by a qualitative collection method that involved content analysis and hermeneutics—the interpretation of text and concepts. All this falls under the larger auspices of the interpretivist/constructivist research paradigm. According to Kivunja and Kiyini (2017), this paradigm assumes a subjectivist epistemology, a relativist ontology, a naturalist methodology, and a balanced axiology. Subjectivist epistemology implies that the researcher makes meaning of their data through their own thinking and cognitive processing of data (Kivunja & 2017).

By a relativist ontology, it is implied that a researcher believes that the situation studied has multiple realities and that those realities can be explored and meaning made of them or reconstructed through human interactions between the researcher and the subjects of the research (ibid), in this case, the literature. Further, by adopting a naturalist methodology the researcher utilises data gathered through various qualitative means which among others include discourses, text messages, and reflective sessions. Since with the interpretivist/ constructivist research paradigm, the researcher is not independent of the study findings, balanced axiology is used to reflect the values of the researcher, trying to present a balanced report of the findings.

The choice of this methodology was based on its suitability for analysing both printed and electronic material and textual content in general. Further, like other qualitative research methods, document analysis allows a systematic review of documents, as it requires critical

examination and interpretation of texts to elicit meaning and understanding of the content review as guided by the research questions (Bowen, 2009). Therefore, content analysis of the literature under study involved skimming, repeated reading, and interpretation of content. The researcher used Boolean logic (AND, OR, and NOT) and truncation to focus the source search in line with the proposed study topic and the key theories underpinning the study. Guided by the purpose of the study, the researcher perused 100 publications and settled for 53 publications as the source of literature for this study. Given the historical perspective of a corporation and the underlying theories, as well as how they have evolved over time, the literature review has included both old and most recent publications on the subject under consideration.

3 – The Corporation and Its Historical Perspective

It would be an oversight to discuss where the value of an organization lies without first discussing what a corporation is and its historical background. A corporation is a juridical person or entity that is distinct from its constituent members and recognized by the relevant public authority (Davoudi, McKenna, & Olegario, 2018). This legal entity has a reason for its existence, which is referred to as its corporate purpose.

There has never been a universal agreement on why corporations exist; thus, the debate on the purpose of a corporation appears to be never-ending. It all depends on the school of thought one believes in. There are two fundamental schools of thought that guide one’s view and the ongoing debate on the purpose of a corporation: the shareholder theory on the one hand and the stakeholder theory on the other, which are discussed in detail in the next section. Based on the former school of thought, the purpose of a corporation is to maximize wealth for its shareholders (Cheffins, 2021). From the latter school of thought, the purpose of a corporation is to serve the interests of all its stakeholders, not just its shareholding stakeholders, often referred to as shareholders (Phillips, Barney, Freeman, & Harrison, 2019; Ferrero, Hoffman, & McNulty, 2014).

While businesses have been around for much longer, corporations are thought to have been around for a much shorter time, with the first corporation taking the form of a social enterprise whose purpose was to serve the public interest, implying that corporations were not initially intended for profit making or maximization, and even those that pursued profits were not solely profit-seeking (Mcbride, 2011). Some may claim that the concept of profit maximization for the business owner can be traced to Adam Smith’s classical economics publication, “The Wealth of Nations," but conversely, the context then was about a sole proprietor or an entrepreneur, not a shareholder (Sneirson, 2019; O'Toole & Mayer, 2013). In support of the foregoing argument, Stout (2012) suggests that the profit and shareholder value maximization purposes of the modern public corporation only gained prominence at the turn of the twentieth century. The United States is known to have led the world in modern corporate development, as the literature suggests that from 1790 to 1860, it chartered about 22,419 business corporations under special legislative acts and several thousand more under general incorporation laws that were introduced mostly in the 1840s and 1850s (Gomory & Sylla, 2013). However, the situation began to change in the nineteenth century when the enactment of laws permitting the formation of corporations for any lawful, specified purpose became widespread, following economic growth both in Europe and the United States. For instance, general incorporation only came to Britain in 1844, followed by France in 1867 and Germany in 1870, with other European countries following suit later on (Gomory & Sylla, 2013).

4 – Shareholder Theory

An individual or legal entity can be a shareholder if they own stock or shares in a company and are thus regarded, at least partially, as the business's owner (Chassagnon & Hollandts, 2014). In this respect, from the shareholder theory perspective, value is measured based on the share price, dividends, and economic profit. Although corporations have been in existence for some time now, O'Connell & Ward (2020) suggest that the origins of shareholder value theory can be traced to the industrial revolution era, in particular, the late eighteenth century when manufacturing entities required the requisite capital investment to finance innovative manufacturing initiatives. This resulted in the transformation of business structures from small, traditionally family-run corporations to large corporations. However, the description of shareholder outlined above resonates with the assertion by Davis (2013) also shared by Stout (2012) as highlighted in the previous section, that corporations known today as public corporations with shares traded on stock markets, primarily driven by profits and shareholder value maximization, are a distinctly twentieth-century phenomenon, suggesting that it was not a coincidence that the shareholder theory by Milton Friedman emerged in the twentieth century.

While corporation ownership by shareholders based on the premise of share or stock holding status in a corporation remains a topic of debate to this day, it forms the basis upon which Milton Freidman in the 1970s (cited by Ferrero, Hoffman & McNulty, 2014) coined the shareholder theory, which advances the argument that the sole purpose of a corporate entity's existence is to generate revenue and profits for its shareholders. This business model, which is centered on serving the interests of the business owners, is referred to as the shareholder business model. Chiu (2008) challenges the shareholder-based ownership of a corporation by suggesting that a share comprises an interest a shareholder has in a corporation that has a monetary value, which therefore does not make a shareholder the owner of a corporation but just an interest holder like any other person that may have a stake in a corporation. However, within the broader framework of the theory of a firm, the principal-agent argument, which positions business executives and managers as agents of the principal (in this case, the shareholders), charges the former with the responsibility to maximize profits and share value on their behalf (Holmstrom & Tirole, 1989).

The principal-agent school of thought, also known as the Agency Theory, appears to promote shareholder primacy, which suggests that corporate managers should prioritize shareholders and shareholder returns by maximizing the value of the corporation's shares, but it lacks legal support, as discussed in this paper. Millon (2013) breaks down the shareholder primacy concept into two parts: First, the one described above, which requires managers to maximize profits and shareholder value, is considered the extreme side of shareholder primacy and is referred to as "radical shareholder primacy." The second category is what is referred to as "traditional shareholder primacy," which existed before radical shareholder primacy and suggests that shareholders have no control over corporate management and managers have no responsibility to maximize profits and shareholder value for their shareholders. The rationale of the traditional shareholder principle was that businesses needed to make profits to survive. Critics of shareholder primacy advance counter-views. Edmans (2021) holds a strong view that shareholder primacy presents a crisis in the way corporations run business. This argument is advanced on the premise that shareholder primacy justifies a corporation's existence to line the pockets of executives and investors, paying scant attention to the wages of workers, customer welfare, or climate change. Carbone and Black (2020) share the foregoing argument by

suggesting that, given the inherent pressure to produce immediate results, shareholder primacy has the potential to persuade CEOs to adopt predatory practices aimed at boosting their earnings at the expense of other stakeholders, including the long-term reputation or profitability of a corporation.

To challenge the shareholder theory, the stakeholder theory provides a different view of the corporate purpose and its existence as discussed in the next section.

5 – Stakeholder Theory

There are several descriptions of a stakeholder contained in the literature. This paper focuses on the following two descriptions: A stakeholder is defined as an individual, group, or organization with an interest in a firm's processes and outcomes and on whom the firm relies to achieve its goals (Harrison, Freeman, & Abreu, 2015). Preston, and Sachs (2002, as cited by Munteanu, Danaita, Hurbean, and Bergler, 2012) describe the term "stakeholder" as “individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and that are therefore its potential beneficiaries and/or risk bearers." The latter description of a stakeholder suggests that a stakeholder does not only contribute to wealth creation but is also a risk taker. From the two descriptions of a stakeholder, it is implied that a shareholder is also a stakeholder, except that the interest of this type of stakeholder in the corporation is in the form of shares or stocks that provide the requisite capital to support the processes and outcomes of a corporation. In this respect, what distinguishes the shareholding stakeholders from the nonshareholding stakeholders is the variation in the interest they hold in the corporation, the former’s interest being financial, hence their bias toward financial outcomes and apparent shareholder primacy. The foregoing assertion justifies the call by the proponents of the stakeholder theory to integrate the interests of all stakeholders rather than maximize the position of one group of stakeholders at the expense of the rest of the stakeholders (Freeman, 2001).

The stakeholder theory coined by Edward Freeman advances a divergent view against the position held by Milton Friedman’s shareholder theory on the purpose of an organization by suggesting that a corporate entity exists not only to create value for its shareholders but for all other stakeholders, including groups and individuals such as suppliers, customers, employees, society, and the environment/planet, considering they also have an interest in the business affairs and outcomes of an organization (Phillips, Barney, Freeman & Harrison, 2019). Freeman's seminal work on “Strategic Management: A Stakeholder Approach,” which was published in 1984 (Freeman, 1984) marks the beginning of the evolution of the stakeholder theory. Since then, the idea of stakeholders has become an integral part of both management research and the thought processes of managers. The concept of stakeholders has evolved over the past several decades, moving beyond its traditional definition of individuals with direct economic interests in a company to include a broader range of individuals and groups who can impact business decisions (Mitchell, Agle, & Wood, 1997). This evolution has been driven by various factors, including shifts in the business environment, heightened public scrutiny, and increased awareness of the impact of businesses on society. The interplay between the evolution of business models and the concept of stakeholders has been a continuous process over the past several decades. Although the stakeholder theory was introduced to the corporate purpose discourse in the early 1980s, about a decade after Milton Friedman coined the shareholder theory (Freeman & McVea, 2005), the literature reveals that the term "stakeholder" existed much

earlier than this. According to Parmar, Freeman, Harrison, Wicks, Purnell, and De Colle (2010), the first use of the term "stakeholder" can be traced all the way back to 1963, when it first appeared in an internal memorandum at Stanford Research Institute. Edith Tilton Penrose's theory of the growth of the firm can also be viewed as an early contribution to the development of stakeholder theory (Pitelis & Wahl, 1998). The growth of the firm theory, which focused on the relationships between the firm and its stakeholders, paved the way for the recognition of the significance of these relationships in the success of a firm. This laid the foundation for the development of the broader concept of stakeholder theory and its recognition as a critical factor in the success of a firm. Penrose's theory of the growth of the firm and stakeholder theory are related in that they both address the relationships between a firm and its stakeholders. Penrose's theory focuses on the growth and development of the firm, including the role of the employment relationship in this process. It examines the relationships between the firm, its employees, and its customers, as well as other stakeholders who are involved in the running of the business (Pitelis & Wahl, 1998). Stakeholder theory, on the other hand, is a more comprehensive concept that takes into account the relationships between a firm and all of its stakeholders, including shareholders, employees, customers, suppliers, and the wider community. This theory recognizes that a firm's success is not solely dependent on its financial performance but also on its ability to effectively manage its relationships with its stakeholders.

By seeking to maximize benefits for all stakeholders (Laczniak & Murphy, 2012), the stakeholder theory is seemingly aligned with the utilitarian ideology, which seeks to produce the greatest good for the greatest number (Mill, 2016). As revealed by the literature on the history of corporations, the practice of stakeholder-driven corporate purpose is much older than the theory itself, including the shareholder theory, considering that corporations were founded to serve public interests, not exclusive profit-making. The theory and debate around stakeholder-driven corporate purpose could have been triggered by the shift of focus by corporations from the initially intended purpose to profit and shareholder value maximization. In this respect, the emergence of Milton Friedman's shareholder theory can be perceived as a reactionary response to defend and justify this shift in corporate purpose. On the other hand, Edward Freeman's stakeholder theory can be perceived as a territorial defense to retain the initial corporate purpose upon which corporations were founded. In support of Edward Freeman's stakeholder theory, Elkington (2013) and Edmans (2021) introduced two concepts that advocate for corporations to shift from an exclusive shareholder primacy business model to a stakeholder theory-based business model that takes into account the interests of all stakeholders, including the shareholding stakeholders. John Elkington's "triple bottom line" concept suggests that corporations ought to conduct business sustainably by going beyond meeting their financial obligations and taking into account the effects of the business on people and the planet. In the same vein, Alex Edmans counters the shareholder theory by calling for a solution that works for and involves both business and society. In doing so, Edmans suggests the "Grow the Pie" concept, which articulates how great companies can deliver both purpose and profit. The "pie-growing" concept aims for enterprises to create value for all of society. With this understanding, Edmans contends that corporations are better off if they look to "grow the pie" by serving the needs of all stakeholders rather than by splitting the pie and focusing simply on shareholders and profit. In this case, the corporate purpose is perceived as long-term sustainable growth, which takes into account the interests of all stakeholders rather than just shareholders.

Examining the evolution of stakeholder theory provides a deeper understanding of the context in which different business models have developed and the role that stakeholders have played in shaping them. Research has shown that the evolution of stakeholder theory has been influenced by changes in the political, economic, and social environments (Preston & Sachs, 2002). This historical context offers valuable insights into the motivations and objectives of businesses in different historical periods and how these have changed over time. By examining the development of stakeholders and their role in different business models, it is possible to identify trends and patterns in the evolution of both. For instance, research has shown that the role of stakeholders in decision-making processes has changed over time, with an increasing emphasis on considering the interests of a wider range of stakeholders (Mitchell, Agle, & Wood, 1997). Additionally, research has demonstrated that businesses have shifted their focus from short-term profits to longer-term sustainability and social responsibility (Jones, 1995).

Examination of the evolution of the stakeholder theory has further revealed that business objectives are central to stakeholder theory and play a crucial role in shaping the business models that have become established in industrialised systems. The relationship between business objectives and stakeholder theory is complex and dynamic, with business objectives influencing the manner in which businesses engage with their stakeholders and vice versa (Freeman et al., 2010). Business objectives can be defined as the goals or targets that a business seeks to achieve in order to succeed. These objectives can range from financial goals, such as increasing profits or reducing costs, to non-financial goals, such as improving customer satisfaction or contributing to sustainable development. Stakeholder theory recognizes that the success of a business is not solely dependent on its financial performance but also on its ability to manage its relationships with its stakeholders effectively. This means that businesses must take into account the interests of a wide range of stakeholders, including shareholders, employees, customers, suppliers, and the wider community, when setting and pursuing their business objectives.

The relationship between business objectives and stakeholder theory has evolved over time, with a growing emphasis on the importance of considering the interests of a wider range of stakeholders and balancing the pursuit of financial and non-financial goals. For example, research has shown that businesses have shifted their focus from short-term profits to longer-term sustainability and social responsibility (Jones, 1995). Business objectives and stakeholder theory are closely linked, with business objectives shaping the manner in which businesses engage with their stakeholders and stakeholder theory influencing the goals that businesses seek to achieve. Understanding the relationship between business objectives and stakeholder theory is important for comprehending the business models that have become established in industrialised systems and the motivations and objectives of businesses in different historical periods.

Given the above narrative on shareholder and stakeholder theories, including the two stakeholder-aligned concepts, in theory, value creation in corporations hangs between the two fundamental theories, the shareholder theory and the stakeholder theory. However, it is critical to go beyond the theory and understand where corporations place their value.

6 – Where Do Corporations Place their Value: The Empirical Perspective

Literature has demonstrated divergent perspectives on where corporations place their value from an empirical standpoint. The variation in perspectives on where the value of a corporation

lies characterizes the debate between the proponents of the shareholder theory and the proponents of the stakeholder theory. Fundamental to this debate is the question of corporate purpose. The proponents of the shareholder theory hold the view that corporations exist to maximize profit and share value for their shareholders, whereas the proponents of the stakeholder theory hold the view that corporations should generate value for all stakeholders, including shareholders.

6.1 – *Perspectives of Proponents and Opponents of Shareholder Theory*

In the publication "Stop Blaming Milton Friedman," Cheffins (2021) highlights the arguments advanced by proponents of the shareholder theory to justify their firm position that corporations should place their value on serving the interests of their shareholders by maximizing profits and share value. O'Toole & Mayer (2013) also reveal that underpinned by the shareholder theory, the main purpose of corporations is to generate profits and increase shareholder wealth, not to oversee the social or moral development of society. First, proponents of the shareholder theory argue that putting profits first strengthens the managerial discipline required for executives and managers to maximize profits and share value for their principals, the shareholders, as guided by the principal-agency theory because executive performance can be measured using a single metric—return on investment or profit. The proponents of the shareholder theory buttress this argument further by suggesting that everyone associated with a corporation should be doing well if the shareholders are. The rationale behind this argument is that shareholder primacy, in practice, does not entail that shareholders are rewarded first, while the rest share the remnants. They support the foregoing argument by suggesting that shareholders constitute a corporation's residual claimants, as they are only entitled to share what is left over after accounting for claims, such as suppliers' dues, staff costs, and operation costs, among others.

Opponents of shareholder theory challenge the traditional view that the purpose of corporations is to maximize profit and create value for their shareholders. For instance, Ellsworth (2002) presents the argument that businesses are not created to make a profit but exist to fulfill a particular purpose: to produce goods and services that serve the needs of present and future customers better than competitors do. This argument resonates with the suggestion by Edward Freeman that business is about purpose, which is creating value for all stakeholders, not just stockholders, given that stakeholders are about the business and the business is about the stakeholders (Freeman & Moutchnik, 2013). The rationale behind the foregoing argument is that if the purpose is right, the money and profits will follow suit naturally. Further, Edward Freeman strengthens the stakeholder theory of corporate purpose by arguing that, to serve the interests of its stakeholders, every business has created and sometimes destroyed value for its stakeholders; therefore, it is incomprehensible how it could do anything else. Edward Freeman challenges the notion that the stakeholder theory is all about corporate social responsibility, civil society, or non-traditional business stakeholders, claiming that it blurs the interests of primary stakeholders such as customers, employees, and suppliers. The proponents of the shareholder theory argue that the individual identity of stakeholders is dynamic, and that the customer or employee who currently benefits from a firm may not be the same person who loses future benefits (Danielson, Heck, & Shafter, 2008). The proponents of the shareholder theory further argue that value maximization is inherently a long-term goal because a firm must continue creating value for employees and customers to generate future cash flows; as such, the

maximization of a firm's long-term cash flow stream should not harm but benefit the firm's stakeholders (ibid). To strengthen the foregoing argument, Danielson, Heck, and Shafter (2008) suggest that the shareholder model should be viewed from a long-term perspective because it provides the best framework that takes into account the competing interests of various stakeholders (including both current and future stakeholders). In this respect, for this to be realized, the focus should be on rewarding managers for maximizing a firm's value in the long run as opposed to rewarding them for increasing the stock price in the short term (ibid).

It is against this backdrop that Sundaram and Inkpen (2004) insist that the objective of shareholder value maximization is critical because it is the only objective that leads to decisions that enhance outcomes for all stakeholders. This conviction by the proponents of the shareholder theory that the sole purpose of corporations is to maximize shareholder value and profits appears to have gained prominence and acceptance among corporations such that at the end of the twentieth century, the Anglo-American business world reached a broad consensus that corporations should be governed according to the philosophy often called shareholder primacy which is premised on the understanding that corporations are owned by shareholders; and that directors and executives should do what the company's owners/shareholders wanted them to do—to maximize "shareholder value," measured by share price (Stout, 2013 b).

Nevertheless, despite the above justification for the shareholder theory, the debate on the shareholder theory, corporation ownership, and shareholder value maximization, in particular, gets even more interesting when people who initiated the practice of the theory in corporations and corporate executives begin to criticize it, suggesting a paradigm shift leaning toward the stakeholder theory. For instance, Jack Welch, the former General Electric chief executive who is known to have ushered in the reign of shareholder value maximization in corporate business, lambasted shareholder value maximization as the dumbest idea in the world (Times, 2009). Apparently, Jack Welch is not the only corporate executive who disagrees with shareholder value maximization and the shareholder theory in general. The former CEO of Unilever, Paul Polman, described shareholder value maximization as a cult and decided to eliminate quarterly profit reports (Reguly, 2014). Holding the same view as Jack Welch and Paul Polman, Martin Lipton, the Wall Street corporate lawyer, describes shareholder value maximization as a poison pill that is concerned about short-term profit without regard to the impact on a corporation's long-term prospects (ibid.). This paradigm shift among key figures in the industry aligns with Stout's (2013 a) assertion that shareholder primacy theory is suffering a crisis of confidence. This triggers the question of whether this suggests the fall of shareholder value primacy in corporations and the renaissance of the stakeholder value approach to business management, considering that corporations were initially structured to serve the interests of a broader constituency.

Stout (2012) suggests the fall of shareholder primacy, arguing that shareholders have no legal basis to claim ownership of a corporation, especially since a corporation is a legal person that owns itself and exists separate from its shareholders and corporate executives. Sneirson (2019) shares the same view by suggesting, for instance, that American corporate law does not mandate that corporate executives put shareholders and shareholder returns first, including striving to maximize the value of the corporation's shares at the expense of the interests of other corporate constituencies—the corporation's creditors, suppliers, customers, employees, and the communities in which the corporation operates. Stout (2012) fortifies the legitimacy of the foregoing arguments by suggesting that a shareholder does not own a corporation but owns a

contract with a corporation in the form of a share that carries very limited rights. Reacting to the argument by the proponents of shareholder value maximization that shareholders constitute a corporation's residual claimants, Stout (2012) challenges the claim by suggesting that corporations are their own residual claimants, with boards of directors enjoying the legal discretion to either retain the residual or use it to benefit many different groups, including not just shareholders but also creditors, employees, customers, and the community.

Further, Stout (2012) counters the argument by the proponents of shareholder primacy that tying executive performance with profit generation is essential for them to maximize profits and share value for its principals, the shareholders, by suggesting that this is bad business practice because it results in enriching some corporate executives and hedge fund managers that manipulate stock prices to enhance their performance income, at least in the short run. In the subsequent publication entitled "The Toxic Side Effects of Shareholder Primacy," Stout (2013 a) further argues that the shareholder primacy business model is not good because of its short-term benefits, which come at the expense of a corporation's ability to generate future products and profits, to the collective detriment of creditors, employees, consumers, suppliers, and long-term shareholders alike. The foregoing concerns were raised earlier by Smith (2003), who suggested that corporate scandals that led to the fall of American top corporations such as Enron, Global Crossing, and ImClone reflect the failure of shareholder theory—that the primary duty of managers and executives is to maximize shareholder returns. However, there are counter views to the foregoing argument, suggesting it is based on an incomplete and misguided interpretation of the shareholder theory, considering that the shareholder theory is anchored on business ethics, as argued by Milton Friedman, and that corporations have the responsibility to earn profits, as long as those profits are earned honestly, without deception or fraud (Elrick & Thies, 2018). Conversely, Ferrero, Hoffman, & McNulty (2014) challenge shareholder theory on the grounds that it promotes the privatization of profits or gains while socializing or externalizing losses incurred by a corporation. As a result, shareholders are shielded from taking responsibility for losses because they benefit from limited liability, whereas other stakeholders bear full liability in cases where a corporation goes bankrupt, citing the potential loss of money owed to them by a firm that has gone bankrupt, including the loss of future business from it; similarly, the community in which an organization operates loses tax revenue, whereas employees lose their jobs. Crowther (2003) shares the foregoing by suggesting that, primarily, the creation of value for shareholders is largely attained by externalizing costs to other stakeholders such as customers, society, and the environment.

6.2 – *Perspectives of Proponents and Opponents of Stakeholder Theory*

Literature reveals that to a large extent, the proponents of the stakeholder theory do not dispute value creation but are against shareholder primacy, which hinges on the agency theory that corporate executives and managers ought to maximize value for only one group of a corporation's constituency at the expense of the other stakeholders. According to Ellsworth (2002), the value a corporation creates for society is not synonymous with wealth creation for its shareholders, highlighting the importance of aligning the interests of all stakeholders. In support of the stakeholder theory of creating value, Harrison & Wicks (2013) suggest the need to first recognize the heterogeneity nature of the utility value of stakeholders (different stakeholders are likely to value different things) as opposed to the simplified homogeneity portrayal of shareholder interests, and second, recognize that the purpose of a corporation, and

thus its performance, is based on the amount of value the firm provides to its various stakeholders. In this respect, determining the value from the stakeholder perspective and how to create it ought to take into account that various stakeholders value things differently. However, Phillips (2004) suggests that considering the fact that different people value things differently makes it difficult for a corporation to know precisely what stakeholders want, this should be handled systematically by making stakeholder interaction and discourse the responsibility of managers at all levels of a corporation, not simply a responsibility of specialized departments like human resources and public relations. It is further argued that stakeholders should be given the same attention as shareholders because there is no special obligation due to shareholders that surpasses the corporation's obligations to non-shareholder stakeholders. Hence the need to accord all individuals and groups that have a stake in a corporation the opportunity to have a say on how it is managed.

While the proponents of the stakeholder theory anchor their justification for a paradigm shift from the shareholder theory to the stakeholder theory as the basis for determining how corporations are structured and operate in terms of corporate purpose and serving the needs of all their stakeholders, the opponents of the theory challenge this supposition that it lacks legitimacy. The stakeholder theory is perceived by its opponents as focusing on diverting the attention of a corporation from its primary purpose of creating wealth to concentrating on who should share its wealth (Ambler & Wilson, 1995). However, the argument by Goodpaster (1991) as cited by Enyinna (2013) that stakeholders are identified for instrumental reasons (citing the economic benefit of a corporation as one such reason) seems to suggest that there is a difference in terms of the primary corporate purpose of stakeholder theory and shareholder theory. The former identifies stakeholders beyond shareholders to achieve the same primary corporate purpose as the one advanced by the shareholder theory—an economic benefit for the corporation. Employees are identified to help the organization generate revenue and profits; suppliers are identified to supply the raw materials or intermediate goods to produce goods that deliver customer value propositions to generate revenue and profits; customers are identified to constitute a market for the finished goods and services; competitors are identified for the corporation to remain competitive and profitable; the environment is not only a source of raw materials (natural resources) but provides physical space for a corporation to operate; and the community in which a corporation operates provides both human capital or labor and a market for the finished goods. Based on Goodpaster's reasoning, all the aforementioned stakeholders lead to the economic benefit of the organization.

Ambler and Wilson (1995) advance counter-views on the stakeholder theory by raising various challenges associated with it. First, while the stakeholder theory advocates for a corporate purpose that takes into account the interests of all stakeholders, it lacks guidance on how corporations can take into account the interests of their stakeholders, given the varying interests, while retaining a clear vision and a focused purpose. Second, the stakeholder theory is characterized by several challenges that relate to how to determine a legitimate stakeholder, confusion of purpose, vagueness, and confusion surrounding corporate success, lack of the know-how to measure the stake, obscurity of competition, undue litigation possibilities, lack of clarity in the distribution of power, and last but not least, the lack of clarity of society's interests given the twenty-first-century global village context. In the same vein, Hendry (2001) argues that despite the stakeholder theory having received wider attention no one within the business ethics community has made a case to justify the stakeholder theory as a viable practical

alternative to the shareholder theory, subsequently relegating the stakeholder theory to the margins of corporate governance. This has made shareholder theory flourish even in stakeholder-oriented societies such as Germany, Japan, and Korea (ibid).

Another critic of the stakeholder theory, Ellaine Sternberg, calls the theory a mistaken doctrine (Sternberg, 1999), protesting the assertion that organizations ought to go beyond just taking the interests of their stakeholders into account by remaining accountable to them. This alters Edward Freeman's original meaning of "stakeholders," which included shareowners, employees, customers, suppliers, and society, to suggest that the new connotation includes any group or individual who can affect or is affected by the achievement of the corporation's objectives. The radical shift accommodates even competitors as among those that have a stake in a corporation and the outcomes of its activities. This relates to the challenge presented above by Wilson (1995) concerning how to determine a legitimate stakeholder. Regardless of calling it a mistaken doctrine, Sternberg (1999) acknowledges that the stakeholder theory, in its radical form, requiring organizations to be accountable to all their shareholders, has become a staple of management theory and a topic of discussion among academicians. Sternberg (1999) made these observations 23 years ago, but it appears Sternberg was ahead of his time, as radical stakeholder theory is not only a staple of management theory and a topical issue in academic discourse, but it has also begun to receive significant acceptance on the corporate menu, completing the transition from theory to its endorsement in 38 American states as official policy to guide directors, among others, and in the United Kingdom. For instance, two decades later, in August 2019, the CEOs of nearly 200 major U.S. companies released a statement embracing the stakeholder theory—the idea that corporations should look after the needs of not only shareholders but also employees, suppliers, community members, and others (Hwang & Nili, 2020). Some critics are skeptical about this proclamation. For instance, Stiglitz (2019) wonders whether these corporate executives meant what they proclaimed. Whether or not this is something to be taken seriously, time will tell.

7 – Conclusion

From the literature review, it is evident that value creation has a long history in the business world. However, value creation within the context of a corporation can only be traced back to the eighteenth century, mainly in the USA, where social enterprises were established with the initial purpose of serving the public interest, implying that the existence and purpose of corporations then were underpinned by providing goods and services that served the public interest. This suggests that, although the stakeholder theory was only coined in 1984 by Edward Freeman, corporations only commenced utilizing the stakeholder theory-based business model in the eighteenth century. Conversely, during this era, the term "stakeholder" never existed, as it was only first used in 1963, about two decades before Edward Freeman coined the stakeholder theory.

As time progressed, mainly toward the end of the eighteenth century and the dawn of the nineteenth century, the corporate landscape began to transform from being public/stakeholder-centered to being shareholder-inclined, owing to the industrial revolution and, in particular, the manufacturing industry's quest for requisite capital investment to finance innovative manufacturing initiatives. This resulted in a shift away from small corporations, which were traditionally run by families, and toward large corporations such as Ford Motor Company,

which was founded on the shareholding business model, with Henry Ford owning the majority of the stock.

This paradigm shift in the business model of the corporate world suggests a shift in the perception of corporate value from creating value in the public interest to creating value for the shareholders. This implies that from this point on, the value of a corporation lied in its shareholders. Hence, the argument of Milton Friedman's shareholder theory is that corporations or businesses exist for the sole purpose of generating revenue and profits for their shareholders, provided this is fulfilled without committing fraud or deception. Over the years, the debate between the proponents and opponents of shareholder and stakeholder theories has grown in intensity. However, notwithstanding the intense criticism that the shareholder theory has received from its opponents, shareholder-inclined value creation has continued to dominate the corporate world over the years.

Although corporate executives such as Jack Welch, Paul Polman, and Martin Lipton have criticized shareholder value maximization, it is only recently, in August 2019 to be exact, almost four decades after the stakeholder theory was coined, that a collective mindset shift among corporate executives has been observed, as evidenced by a statement issued by the CEOs of nearly 200 major U.S. corporations embracing the stakeholder theory—the idea that corporations should look beyond shareholders. Whether or not this spells the turning point of the corporate world, it is too early to conclude that this suggests the beginning of the demise of shareholder primacy, which dictates that the value of a corporation lies with its owners, the shareholders, as this was just a statement.

In any case, the proclamation by the corporate executives does not suggest they have renounced shareholder primacy as Jack Welch, Paul Polman, and Martin Lipton did that in their individual capacities, making it interesting to watch how it unfolds. Based on the shareholder theory premise that shareholders own corporations, probably it would even carry more weight if the shareholders themselves came forward to renounce the shareholder primary. Regarding the renouncement of the shareholder primacy the corporate executives, much more is expected from the corporate world in terms of walking the talk if the paradigm shift is to come to fruition. In practice, the shareholder theory still reigns in the corporate world, and value still lies with the shareholders.

The probable driving force for its continued reign could be anchored on the argument that, while the stakeholder theory could have a different normative corporate purpose of inclusiveness, ultimately it advances the same instrumental corporate purpose as that of the shareholder theory—deriving economic benefit for the corporation. Within the context of sustainable business, the continued dominance of the shareholder primacy-inclined approach to business by corporations where value placed on the shareholders poses a threat to people and the planet.

7.1 – *Implication for Future Research*

While the debate between shareholder theory and stakeholder theory-based business models will continue to be a hot topic, America's top corporate executives' embrace of the stakeholder theory piques the interest of future researchers. In this respect, future research needs to focus on assessing the extent to which the collective proclamation made by the corporate executives of the top U.S. corporations to embrace the stakeholder theory-based business model is actualized.

7.2 – *Study Limitation*

This study is limited to literature largely sourced using the Google Scholar search engine. Further, the study only utilized literature that was published in English.

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