

Normatively Reconciling Shareholder and Stakeholder Theories: The Ethical Responsibility of Business Is to Serve Its Shareholders by Serving Its Stakeholders

Muel Kaptein

Department of Business-Society Management, Rotterdam School of Management, Erasmus University, Rotterdam, The Netherlands

Email: mkaptein@rsm.nl

How to cite this paper: Kaptein, M. (2025). Normatively Reconciling Shareholder and Stakeholder Theories: The Ethical Responsibility of Business Is to Serve Its Shareholders by Serving Its Stakeholders. *Open Journal of Business and Management*, 13, 1000-1017. <https://doi.org/10.4236/ojbm.2025.132054>

Received: January 22, 2025

Accepted: March 10, 2025

Published: March 13, 2025

Copyright © 2025 by author(s) and Scientific Research Publishing Inc. This work is licensed under the Creative Commons Attribution International License (CC BY 4.0).

<http://creativecommons.org/licenses/by/4.0/>



Open Access

Abstract

Shareholder theory and stakeholder theory are often regarded as contrasting perspectives. Numerous studies have attempted to reconcile these perspectives by arguing and empirically demonstrating that serving stakeholders can be profitable for shareholders. However, the risk of this instrumental approach is that a company may not feel compelled to serve its stakeholders if empirical evidence for such benefits is lacking or even contradicts the premise in its specific context. Therefore, this article adopts a normative-ethical approach that offers a moral foundation applicable to all companies. By revising a single flawed presumption in the argument of Milton Friedman, the most prominent advocate of shareholder theory, it becomes possible to normatively reconcile shareholder theory with stakeholder theory. From a normative-ethical perspective, shareholders, as owners of the company, should not be focused solely on their own interests but should also consider their company's responsibility to serve the interests of other stakeholders. This stakeholder responsibility of shareholders has significant theoretical and managerial implications.

Keywords

Shareholder Theory, Stakeholder Theory, Corporate Social Responsibility, Business Ethics, Corporate Governance

1. Introduction

Shareholder theory and stakeholder theory are often regarded as contrasting perspectives. Shareholder theory holds that the management of companies should

serve the interests of the company's shareholders. Milton Friedman (1970), the most prominent advocate of this theory (Jahn & Brühl, 2018; Schwartz & Saiia, 2012), famously argued through the title of his essay that "the social responsibility of business is to increase its profits." Other proponents of shareholder theory have argued that shareholders are best served by maximizing total firm market value (Jensen, 2002), shareholder welfare (Hart & Zingales, 2017), shareholder wealth (Inkpen & Sundaram, 2022), and shareholder value (Bainbridge, 2023).

In contrast, stakeholder theory posits that the management of companies should serve not only the interests of shareholders but also those of all other stakeholders. Edward Freeman (1984), the founder and likely most prominent advocate of this theory, argued that "The primary responsibility of an executive is to create as much value as possible for stakeholders" (2008: p. 166). Choosing between these two theories leads to significant differences in a company's management, particularly regarding its purpose, objectives, accountability, and control (Donaldson & Walsh, 2015; Freeman & Freeman, 2023).

Stakeholder theory addresses the contrast between the two theories in several ways. One approach is to declare shareholder theory obsolete, leaving only stakeholder theory. For example, Mayer, Strine, and Winter (2020) argued that shareholder theory is "dead" because it is ineffective, naive, and intellectually incoherent. Other critics offer less severe assessments, describing shareholder primacy as a misrepresentation (Northrop, 2013), a myth (Stout, 2012), a façade (Hayden & Bodie, 2020), insular, faulty (Palladino, 2024), dangerous (Hart, 2024), and toxic (Stout, 2013). A drawback of this approach is that it excludes all proponents of shareholder theory, thereby stifling any scholarly discourse between the two theories, even though this debate remains ongoing (cf. Bejan, 2024). It also neglects the ongoing debate in boardrooms about serving shareholders versus stakeholders (CBS, 2023; Clements & Cunningham, 2024; Favaro, 2021).

Another approach is to use shareholder theory as a counterpoint. In this approach, shareholder theory is used as a contrast to create space for stakeholder theory. For example, Donaldson and Walsh (2015) argued that stakeholder theory is an antidote to Friedman's shareholder approach, thereby creating room to assert that the success and purpose of a firm are not about maximizing shareholder value but rather optimizing stakeholder wealth. Recent scholars who use stakeholder theory as a counterpoint include Busch et al. (2024) and Stoelhorst and Vishwanathan (2024). The drawback of this approach is that it emphasizes the differences between the two theories and sets them in opposition, making it a matter of choosing between them either generally or situationally, as Battilana et al. (2022) suggested with their concept of the dual-purpose company, where management may prioritize shareholders at times and stakeholders at others.

A third approach seeks to reconcile the two theories by presenting instrumental arguments. Freeman (2008: p. 166), aiming to end what he calls the Friedman-Freeman debate, asserted that, "The primary responsibility of an executive is to create as much value as possible for stakeholders because that's how much value

as possible for shareholders is created.” This implies that serving stakeholders is profitable and valuable for shareholders. Busch et al. (2024: p. 785) described this as an “all stakeholders win” orientation. Many studies have sought to provide empirical evidence supporting this perspective (e.g., Barauskaite & Streimikiene, 2021; Okafor, Adeleye, & Adusei, 2021; Velte, 2022). For example, Patel et al. (2016) showed that, for European companies, a stakeholder orientation significantly predicts improved financial performance. However, a drawback of this instrumental approach is that a company may not feel compelled to serve its stakeholders if empirical evidence for such benefits is lacking or contradicts this premise in its specific context (cf. Weitzner & Deutsch, 2019).

In this article, we adopt a different approach: a normative–ethical reconciliation. A normative–ethical approach offers a moral foundation that applies universally to all companies (Donaldson & Preston, 1995). The advantage of this approach is that it does not depend on empirical evidence. The benefit of a reconciliatory approach is that it does not set shareholder and stakeholder theories in opposition or dismiss one in favor of the other. Instead, it acknowledges and respects both theories, seeking their complementarity and fostering dialogue.

The structure of this article is as follows. We begin by taking Friedman as our starting point and reconstructing his argument. The challenge is to normatively reconcile both theories by making minimal modifications to Friedman’s line of reasoning, keeping it within the bounds of shareholder theory. This allows us to avoid discrediting Friedman while retaining as many proponents of shareholder theory as possible while simultaneously adjusting it to align with stakeholder theory. The key insight is to reinterpret Friedman’s assertion that shareholders seek maximum returns on their investment as a normative assertion of what shareholders *should* seek. We can then argue that, as company owners, shareholders have a social and ethical responsibility toward the company’s stakeholders. This reconciliation posits that companies do not have an ethical responsibility to stakeholders *despite* their shareholders but rather *because of* their shareholders. Serving stakeholders is in the moral interest of shareholders. In this respect, shareholder theory remains very much alive. **Figure 1** provides a roadmap of the arguments presented in this article. The article concludes by discussing the advantages, practical implications, and limitations of our normative reconciliation of shareholder and stakeholder theories.

2. Friedman’s Argument

Friedman delineated his position on shareholder theory in his book “Capitalism and Freedom,” which was published in 1962, and his essay titled “The social responsibility of business is to increase its profits,” published in 1970. Upon logical reconstruction, Friedman’s arguments can be delineated into six steps that culminate in his assertion that the social responsibility of business is to increase its profits. We reconstruct this rhetorical structure to pinpoint precisely where in Friedman’s argumentation there might be an opportunity to normatively bridge the

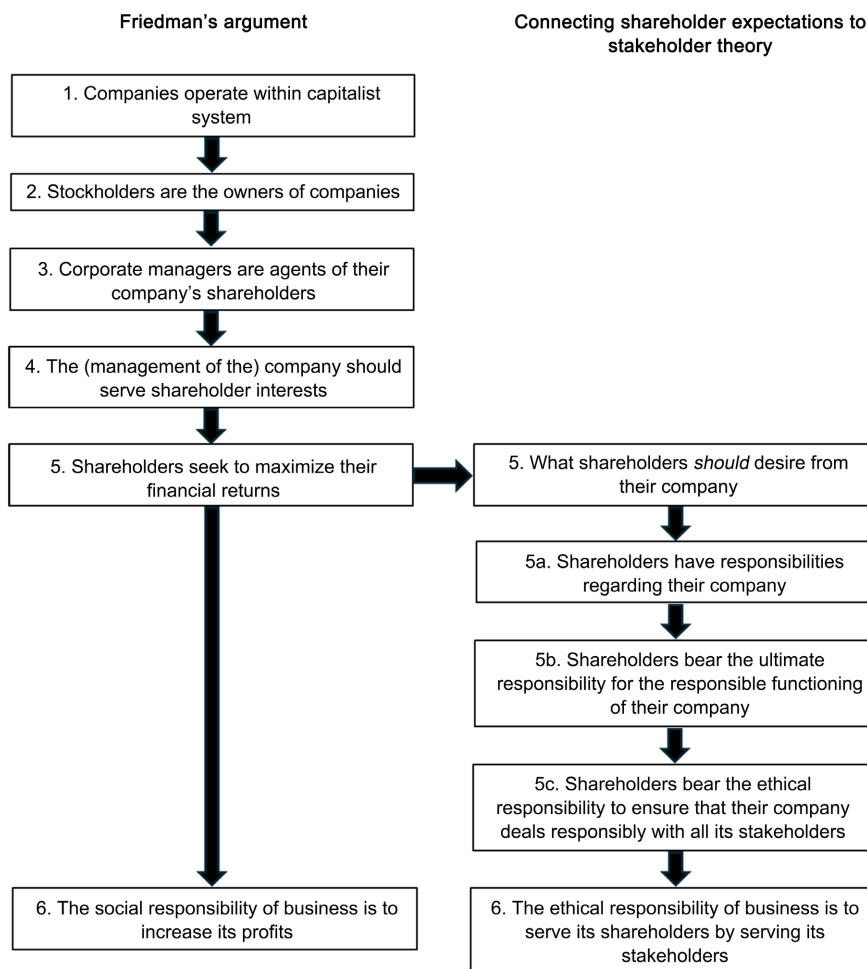


Figure 1. Roadmap of arguments.

gap between shareholder and stakeholder theories. We undertake this reconstruction ourselves, as previous analyses (e.g., Aune, 2007; Boland, 1979; Freeman, 2008; Kolstad, 2007; Muldoon, Gould, & Yonai, 2023; Mulligan, 1986; Schrader, 1987; Schwartz & Saiia, 2012) have drawn arguments from Friedman's work but have not provided the detailed structural breakdown required for our purposes.

Friedman's argument begins by acknowledging, accepting, and assessing the capitalist system within which businesses operate. According to Friedman (1970), the expectations placed on businesses are contingent upon the economic system in which they operate. According to Friedman, in a socialist system, the allocation of scarce resources is determined through political mechanisms, whereas in a capitalist system, allocation occurs through the market mechanism. The value of freedom, which Friedman claims is inherent to capitalism, is reflected in the title of his book, "Capitalism and Freedom." The word "free" appears eleven times in his 1970 essay, including in the opening sentence. According to Friedman, capitalism revolves around a free society, individual freedoms, a free economy, free trade, a free enterprise system, and a free market, all of which are underpinned by principles of private property, democracy, voluntary decision-making, and freedom

from coercion. This freedom is not to be compromised, which is paramount; Friedman (1970: p. 122) repeatedly rejects actions that harm “the foundation of a free society.”

The second step in Friedman’s argument is that stockholders are the owners of companies. In a capitalist system, both companies and private property exist. Companies are not owned by the government but rather, as Friedman (1962: p. 114) asserted, “The corporation is an instrument of the stockholders who own it.” Stockholders, shareholders or equity holders are the “ultimate owners of property” (1962: 114). Friedman (1970: n/a) did not differentiate in this context between “proprietors or owners of closely held corporations or stockholders of more broadly held corporations.”

The third step in Friedman’s argument is the claim that corporate managers are agents of their company’s shareholders. Given that businesses are owned by shareholders, those responsible for managing companies are considered agents, and the owners are considered principals. In his 1962 book, Friedman stated that “businessmen are...the employees of their stockholders” (p. 113). In his 1970 essay, Friedman asserted that the “corporate executive...is an agent” (p. 122) and that the shareholder, as the owner, is “his principal” (p. 122).

The fourth step in Friedman’s argument is that the (management of the) company should serve shareholder interests. Managers should serve the interests of the shareholders of their company because, as Friedman (1970: n/a) posited, “the manager is the agent of the individuals who own the corporation..., and his primary responsibility is to them.” Friedman (1970: n/a) also contended that “The whole justification for permitting the corporate executive to be selected by the stockholders is that the executive is an agent serving the interests of his principal.” Serving the interests of a company’s shareholders is, therefore, the responsibility of that company’s management. Consequently, Friedman (1970: n/a) argued that “irresponsible executives...do not serve the interests of their stockholders.”

The fifth step in Friedman’s argument is that shareholders seek to maximize their financial returns. If corporate management serves the interests of the company’s shareholders, it begs the question of what these interests are. In his essay, Friedman (1970: n/a) stated that the responsibility of the corporate executive “is to conduct the business in accordance with the owner’s desires, which generally will be to make as much money as possible while conforming to their basic rules of society, both those embodied in law and those embodied in ethical custom.” According to Schrader (1987: p. 593), Friedman assumes that “the sole reason for which stockholders invest their money in corporate stock is to gain maximum financial return.” However, Friedman (1970: n/a) acknowledged that shareholder desires can vary: “Of course, in some cases, his employers may have a different objective. A group of persons might establish a corporation for an eleemosynary purpose—for example, a hospital or a school. The manager of such a corporation will not have money profit as his objective but the rendering of certain services.”

The sixth and final step in Friedman’s argument is that the sole social respon-

sibility of a company is to increase its profits. If shareholders seek maximum returns on their financial investment, then the focus of a company's management should be directed toward that goal. This is why Friedman (1962) asserted in his book that there is no other social responsibility for corporate officials and businessmen than "to make as much money for their stockholders as possible" (p. 112) and "making maximum profits for stockholders" (p. 113). Consequently, Friedman (1970: n/a) concluded his essay by stating that in a free society, "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

3. Revising One of Friedman's Assumptions

Normatively reconciling shareholder and stakeholder theories can be achieved by modifying a single assumption underlying Friedman's argument, specifically that made in step five that shareholders are solely interested in profit. As described in step four above, Friedman (1970) posited that a company should act in accordance with the desires of its shareholders. He asserted that managers should act in accordance with the objectives set by company shareholders. Simultaneously, as noted in step five above, Friedman argued that even though there may be diverse objectives and desires, shareholders generally seek profit maximization. Friedman (1970: n/a) stated that managers should "conduct the business in accordance with [the owner's] desires, which generally will be to make as much money as possible." This assumption is pivotal because altering this assumption could have consequences for the subsequent and final step of his argument that would affect our understanding of the purpose of the business. There may be various reasons why Friedman made this assumption (Battilana et al., 2022; Freeman, 2008). However, from a normative perspective, we can assert that Friedman's assumption is incomplete.

The question is not only what shareholders actually desire from management but also what they ought to desire from management. Even if we assume or discover that every shareholder desires profit maximization, such a motive is not necessarily morally or socially acceptable. In Friedman's claims concerning the objective of companies, it is noteworthy that the interests and desires of shareholders are considered empirical facts when, in fact, they also entail a normative-ethical question. The issue is not only what shareholders desire but also what they *should* desire. What can be morally and socially expected from shareholders? This normative-ethical question is relevant and important when Friedman assigns such a crucial role to shareholders in the company; the company is their property, and the management should do what the shareholders, who are their principals and employers, wish the management to do (corresponding to steps two, three, and four in Friedman's argumentation). Hence, it becomes even more important to reflect on what is desirable that shareholders desire from the company. Since

Friedman (1962, 1970) does not address this normative-ethical question in his argumentation, even though he does retrospectively defend the position that shareholder desire for profit maximization is beneficial for society, we raise this question to examine whether it can help reconcile shareholder and stakeholder theories from a normative-ethical perspective.

If shareholders are considered the owners of a company, as asserted by Friedman (1962, 1970) and many others (e.g., Hart & Zingales, 2017; Inkpen & Sundaram, 2022; Jensen, 2002), this provides a—or even the—basis for defining what shareholders should desire from their company. Through a three-step process, we can connect these shareholder expectations to stakeholder theory.

First, shareholders not only have rights but also responsibilities regarding a company. As Shoked (2014) asserted, “Property is freedom” (p. 439). However, he also asserted that this freedom is circumscribed because “Ownership encompasses obligations” (p. 523). The essence of ownership is freedom, and the ultimate decision-making authority that the owner holds is the decision to transfer ownership of the property (cf. Velasco, 2010). When applied to shareholders (as owners of a company), this implies that shareholders, even in the presence of contractual constraints, ultimately have the freedom to sell their own shares in a company and to decide collectively as shareholders whether to sell or liquidate the company. With this ultimate decision-making authority regarding the property comes the ultimate responsibility for the property. Owners are ultimately responsible for, that is, accountable for, their property. Otherwise, they do not have the ultimate decision-making authority (cf. Foss & Klein, 2018). The final authority and the final responsibility go hand in hand. Even when an owner delegates the management of her property (as is the case when shareholders appoint a salary-paid board of directors to run their company), the owner continues to be the owner and, therefore, retains ultimate responsibility. Ownership, therefore, entails not only rights but also duties (Alexander, 2008, 2013). Shareholders, as owners of a company, have both rights and obligations toward the company they own, even in the context of a limited company. While Friedman (1970) emphasized the rights of shareholders toward the company, shareholder theory should also emphasize the responsibilities of shareholders toward the company.

Second, shareholders bear the ultimate responsibility for the responsible functioning of their company. The ultimate social responsibility for property is the property owner’s obligation to ensure the property is utilized in a socially and ethically responsible manner. This is referred to as the “social-obligation norm of property” (Alexander, 2008; Mirow, 2010). As Mirow (2010: p. 192) posited, “Property rights should have their share of social responsibility.” When we attribute social and ethical demands to an object, the owner of that object must ensure that these demands are met. Property ownership entails the responsibility to ensure that property is used responsibly. Shoked (2014) argued that every landowner has a duty to maintain the land. Even if the owner delegates this responsibility or lends out the property, the owner remains ultimately responsible. When applied

to shareholders as owners of a company, this means that shareholders who delegate their corporate responsibilities to company management still retain ultimate responsibility for ensuring that the company functions responsibly (Foss & Klein, 2018). In summary, shareholders have a social responsibility to ensure that their property, namely, the company, functions responsibly. This line of argument aligns with what Friedman's (1970) argument still contends, as it does not yet delve into the specifics of what these responsibilities entail.

Third, shareholders bear the ethical responsibility to ensure that the company deals responsibly with all its stakeholders. If stakeholder theory accurately identifies a company's responsibilities to its stakeholders, then shareholders, as the company's owners, bear responsibilities toward these stakeholders. Stakeholder theory has yielded numerous normative-ethical arguments over the past decades, advocating for broader social responsibilities for companies than those directed solely toward shareholders (Freeman et al., 2010). The aim of this article is not to scrutinize these arguments; instead, we posit that 1) the social, ethical responsibilities of companies are not exclusively to shareholders but also to other stakeholders; 2) these ethical responsibilities to other stakeholders may conflict with the short- and long-term self-interests of shareholders; and 3) these self-interests should not always inherently take precedence over responsibilities toward other stakeholders (Battilana et al., 2022; Donaldson & Dunfee, 1999; Kaptein & Wempe, 2002). It is crucial to preserve these core normative-ethical tenets of stakeholder theory in the reconciliation, as without it, there would be no reconciliation, as is the case in assuming shareholders as owners of the company to preserve shareholder theory. In other words, responsibility toward stakeholders other than shareholders can take normative-ethical precedence over serving the self-interest of shareholders. While stakeholder theory typically assigns these responsibilities toward stakeholders to the management of a company as a means of counterbalancing shareholder interests and desires (e.g., Busch et al., 2024; Freeman, 1984; Donaldson & Walsh, 2015), it could and should attribute the responsibilities of companies to the owners of the companies first of all, who are often the shareholders, owing to the assumption of shareholder ownership. Shareholders, as owners, are the ultimate bearers of corporate responsibility. By attributing stakeholder responsibilities to shareholders, the dichotomy between shareholder and stakeholder theories can be eased. In the interest of shareholders (i.e., to realize their ethical responsibilities), a company (and its management) should also serve all other stakeholder interests, and by doing so, the company (and its management) ultimately serves the company's shareholders.

The normative-ethical view that serving shareholders requires serving all stakeholders diminishes the dichotomy between shareholder theory and stakeholder theory and advocates for their complementarity. The strength of shareholder theory, or at least Friedman's version of it, lies in its assumption of a market economy, which most countries have and in which most companies operate. Equally strong is the clarity regarding the ownership of a company (namely, the share-

holders) and the interests that management ultimately should serve (namely, the shareholders). The strength of stakeholder theory is that it reminds companies of their ethical responsibilities to various other parties and individuals beyond shareholders. These strengths are preserved when we assign stakeholder responsibility to shareholders, allowing the company's management to serve shareholder interests by also serving the interests of other stakeholders. The ethical responsibility of a business is to serve its shareholders by serving its stakeholders. The argument that Friedman (1970) used to reject or limit the social responsibility of companies, namely, that by following social responsibility, a corporate executive is not acting in the interest of his employers, is, thereby, refuted. Ultimately, social and ethical responsibility aligns with the interest of employers, namely, shareholders. Given their ethical responsibilities and obligations, shareholders have a moral interest in a company functioning in an ethically responsible manner, which, in terms of stakeholder theory, extends to all of the company's stakeholders.

4. Advantages of the Revised Argument

The above revision of Friedman's argument and the consequent normative reconciliation of shareholder and stakeholder theories offers several advantages. The primary advantage is retaining both shareholder theory and stakeholder theory. The claim that shareholders should desire that (the management of) their company, their ownership, responsibly engages with the other stakeholders of the company implies that both theories can coexist. Shareholder theory endures because company management is still obliged to serve the interests of shareholders. Stakeholder theory endures because a company's management is still obliged to serve the stakeholders' interests. The normative reconciliation of both theories does not necessarily come at the expense of one or both theories; rather, both theories remain intact. In addition to this major advantage, the above reconciliation leads to seven further advantages.

One advantage of the normative reconciliation is that it does not require abandoning the concept of shareholders as business owners (Friedman's step 2) or the capitalist framework (Friedman's step 1) to accommodate stakeholder theory. Various attempts have been made to legitimize stakeholder theory by challenging the ownership rights of shareholders. For example, from a libertarian perspective, it has been argued that not only shareholders but "each stakeholder has property rights" (Freeman & Phillips, 2002: p. 338), such as "employees having a property right to their labor" and that "...in order to respect these property rights, managers must pay attention to stakeholders" (Freeman & Phillips, 2002: p. 338). In her critique of shareholder theory, Stout (2012) suggested that companies own themselves. Other scholars, such as Hayden and Bodie (2020) and Bridoux and Stoelhorst (2022), challenged Friedman's notions of profit maximization and shareholder primacy by advocating alternative governance models. These arguments for stakeholder theory risk dismissing shareholder theory altogether, as shareholder ownership is fundamental to it, and inadvertently legitimizing the notion

that shareholders and their companies focus solely on their own interests—since these arguments emphasize the responsibilities of other stakeholders rather than those of shareholders, as if shareholders have no responsibilities to uphold. The reconciliation approach in this article, however, demonstrates that to make space for stakeholder theory, we need not argue that shareholders are not (solely) owners. In fact, shareholder ownership serves as the foundation for the reconciliation. Similarly, our approach does not require a comprehensive redesign of capitalism to achieve stakeholder capitalism (Freeman, Martin, & Parmar, 2007). Capitalism and stakeholder theory go hand in hand: the fact that shareholders, as owners of companies, are providers of capital to those companies makes them ethically responsible toward the companies' stakeholders.

Another advantage of the above normative reconciliation is that the ethical responsibilities of companies need not be grounded outside of shareholders. Friedman (1970) asserted that companies while maximizing profit, must conform to the basic rules of society embodied in both law and ethical customs. It remains unclear whether this conformity, as discussed by Friedman, is based on the desires of shareholders or is a prerequisite imposed by society. The latter appears to be the case because Friedman argued that all actors in a capitalist system must respect and promote freedom, and this conformity applies to every actor, including businesses. The “ethical custom” mentioned by Friedman provides an opening for some advocates of stakeholder theory. For instance, Schwartz and Saiia (2012) argued that shareholders have ethical obligations, despite being relatively limited and relativistic. According to Schwartz and Saiia, shareholders should not expect the managers of their companies to act in ways that they themselves would find unethical. However, they contend that these ethical obligations should be included in the ethical customs mentioned by Friedman, which leads Schwartz and Saiia to advocate for a “Friedman plus more ethics.” Similarly, Hart and Zingales (2017) leverage this ethical custom to encompass the ethical concerns of shareholders. Our reconciliation situates ethics as not external to shareholders but rather at the core of their identity and actions, thereby establishing an intrinsic connection between ethics and shareholders.

Another advantage of the above normative reconciliation is that it dispels the misconception that ownership equates to selfishness. Schrader (1987) noted the highly dubious nature of Friedman's interpretation of shareholders' desires. This classic fallacy assumes that ownership by shareholders means that they are driven solely by self-interest and only desire profit maximization. While Friedman explicitly made this assumption, it is also implicitly or explicitly perpetuated by, for example, Donaldson and Walsh (2015), LoPucki (2022), and Battilana et al. (2022). Even when profit maximization is broadened to shareholder wealth maximization (Poitras, 1994), shareholder market value maximization (Jensen, 2002), or shareholder welfare (Hart & Zingales, 2017), it is under the assumption that this move is in the shareholders' self-interest and that the company must act in their interests without necessarily recognizing the inherent, moral interests of

shareholders in the company's responsible treatment of other stakeholders. As we have argued above, this assumption falls short normatively.

Another advantage of the normative reconciliation is that it dispels the image of shareholders as egoists and managers as stakeholder saviors. While Northrop (2013) criticized Friedman for reinforcing the inaccurate image that shareholders solely seek to maximize their financial gains, stakeholder theory is not very different in its depiction of shareholders as being exclusively or predominantly motivated by self-interest. For example, when Freeman (1984) discusses the interests of shareholders, he focused exclusively on their self-interest, such as company growth, income, and the stability of stock prices and dividends. Our reconciliation approach contends that shareholders should focus not only on their self-interests but also on the interests of other stakeholders in their company, as this is ultimately in the shareholders' own moral interest. Placing greater emphasis on the ethical responsibilities of shareholders somewhat removes the ethical burden from corporate management. The literature extensively discusses the idea that corporate managers should address stakeholders in a socially responsible way. When this contradicts the interests of shareholders (e.g., Donaldson & Walsh, 2015), however, it places a significant responsibility on corporate management, creating the impression that if management wants to act in a socially responsible manner, it must act contrary to the interests of shareholders. This is why Battilana et al. (2022) discussed the dual purposes of companies. However, socially responsible behavior by corporate management entails nothing more and nothing less than acting in a socially responsible way from the shareholders' perspective as owners of the company. The socially responsible treatment of stakeholders other than shareholders also entails socially responsible management from the shareholders' perspective because shareholders should prioritize such socially responsible behavior. Therefore, it is unjust to expect corporate management to bear their company's entire societal and ethical responsibility. This would erroneously imply that managers are society's exclusive saviors. Additionally, in practice, shareholders may be less inclined to fulfill their societal responsibilities, or they may not do so at all. In such situations, these shareholders are negligent and should be held accountable rather than the company and its management. Shareholders can similarly hold corporate management accountable when the company behaves socially irresponsibly, which would be contrary to the ethical responsibilities of shareholders. This leads us to the next advantage.

Another advantage of the normative reconciliation is that it highlights shareholder responsibilities. Much of the business literature discusses the responsibilities of management, which is logical because management is responsible for the daily operations of businesses. In the beginning of his essay, Friedman (1970: n/a) also focused on management when he stated, "Most of the discussion of social responsibility is directed at corporations, so in what follows, I shall mostly neglect the individual proprietors and speak of corporate executives." Therefore, like much of the literature, Friedman failed to address the responsibilities of share-

holders. If companies are owned by owners and the owners are principals, deriving the responsibilities of management from the responsibilities of the owners is particularly important. By incorporating stakeholder responsibilities into shareholder theory, we avoid portraying shareholders as egoists and legitimizing such behavior. Capitalism should focus on the responsibilities of shareholders. Therefore, using the term “stakeholder capitalism” (Freeman, Martin, & Parmar, 2007) is appropriate if it points shareholders toward their stakeholder responsibilities. In contrast, it is inappropriate if responsibilities are shifted away from shareholders and placed on other stakeholders. Similarly, the term “investor capitalism” is not inherently negative, as suggested by Freeman, Martin, and Parmar (2020).

Another advantage of the normative reconciliation is that it does not require any further specification of the profit orientation of a company. If we reinterpret Friedman’s step five differently, step six no longer frames profit maximization as a company’s sole goal. However, what the profit orientation should be in relation to the other goals and responsibilities of a company (i.e., shareholders) does not need to be answered in this article to facilitate the normative reconciliation of shareholder and stakeholder theories. The determination of profit orientation can be left, in part, to stakeholder theory, even though the theory is often vague with respect to profit orientation, mainly because more attention is given to responsibilities toward other stakeholders. For instance, Donaldson and Walsh (2015) discussed stakeholder value creation but did not explicitly state the role of corporate profit in this context. Nevertheless, it is essential not to consider shareholders and profit to be contrary to stakeholders and to consider ethics because shareholders are also stakeholders who have both duties and rights. Determining desirable profit orientations and their justification within a context where shareholder and stakeholder theories are normatively reconciled can be left for future research. For now, we can at least state that, regardless of the specific interests of stakeholders and the determination of which stakeholders are relevant, the company should, on normative-ethical grounds, serve the interests of shareholders by serving the interests of other stakeholders. Rather than following Friedman’s dictum that “The social responsibility of business is to increase its profits,” the dictum becomes “The ethical responsibility of business is to serve its shareholders by serving its stakeholders.”

A final advantage of the normative reconciliation is that it provides a more robust bridge between shareholder and stakeholder theories than has been achieved in previous attempts. On the one hand, there have been instrumental attempts to bridge shareholder theory and stakeholder theory. Such attempts often involve arguing or empirically demonstrating that serving the interests of stakeholders aligns with the (long-term) interests of shareholders (cf. Freeman, 2008; Freeman, Martin, & Parmar, 2020; Porter & Kramer, 2011) and, conversely, that focusing on shareholders’ interests aligns with the interests of stakeholders (cf. Jensen, 2002). The latter argument follows Friedman (1962, 1970) when he claimed that, under certain conditions, shareholder profit maximization serves the best interest

of society. The risk inherent in such empirical claims and justifications involves their dependency on specific facts; even if they can be generally demonstrated, they still may not necessarily hold in all situations. Moreover, research by [Jones and Felps \(2013\)](#) demonstrated that serving shareholder interests through profit maximization is not always in society's best interest. [Battilana et al. \(2022\)](#) argued that financial and social goals are not always compatible but involve trade-offs. On the other hand, there have been normative attempts to bridge shareholder theory and stakeholder theory. One such notable effort is made by [Jahn and Brühl \(2018\)](#), who demonstrated how Friedman's view on individual freedom relates to stakeholder theory, particularly in valuing stakeholders' freedom. However, demonstrating similarities between the two theories does not necessarily imply a direct relationship or reconciliation. While the approach presented in this article does not claim that shareholder theory and stakeholder theory are fully harmonized (just as different versions of shareholder theory or stakeholder theory can vary), it does emphasize that, at least within the scope of this article, they differ less and share more common ground than is often assumed or asserted.

5. Practical Implications and Limitations of the Revised Argument

The normative reconciliation between the shareholder and stakeholder theories outlined above also has important implications for practice. A key practical implication is that a company's management has responsibilities toward stakeholders not despite but because of those responsibilities. Managers' ethical obligations to their stakeholders are derived from the responsibilities that shareholders bear for the company. This means management can hold shareholders accountable for their stakeholder responsibilities if they fail to demonstrate these responsibilities adequately.

Another important practical implication is that shareholders should recognize their responsibilities. [Atif, Bottura, and Yasin \(2024\)](#) identified an "expectation gap" between what the public expects businesses to achieve and what businesses believe they must accomplish in their corporate social responsibility agenda. Bridging this gap rests not only with management but also with shareholders. If shareholders take their corporate social responsibility seriously, it will greatly assist management in integrating this responsibility into the company. In this respect, it would also be beneficial for national corporate governance codes to highlight the shareholders' responsibilities as business owners. Management could, in turn, include explicit expectations regarding the ethical responsibilities of shareholders in their business codes of ethics, similar to how the ethical responsibilities of employees and suppliers are outlined in these codes.

While our approach to normatively reconciling shareholder and stakeholder theories offers advantages and practical implications, it also has limitations. A significant limitation concerns Friedman's assumption that shareholders are company owners. This view is supported by other proponents of shareholder theory

(e.g., Hart & Zingales, 2017; Inkpen & Sundaram, 2022; Jensen, 2002). Since ownership forms the basis in this article for assigning stakeholder responsibilities to shareholders, it follows that if shareholders are not regarded as owners (Chassagnon & Hollandts, 2014; Stout, 2012, 2013; Windsor, 2025), their stakeholder responsibilities—at least on this basis—would be nullified. Conversely, if shareholders are viewed as co-owners, they are then coresponsible for ensuring that their company serves its stakeholders. In cases where a company does not have shareholders but operates under a different ownership structure, the argument presented in this article regarding the responsibilities of owners remains valid. However, the term “shareholders” in the dictum should be replaced with “owners,” resulting in the following formulation: “The ethical responsibility of business is to serve its *owners* by serving its stakeholders.”

Another limitation pertains to the feasibility of attributing stakeholder responsibility to shareholders. Shareholding can be highly fragmented, transient, and distant, making it difficult for shareholders to fulfill their stakeholder responsibilities. Moreover, expecting shareholders to prioritize anything other than maximizing returns may be considered naive. Ethics should not demand the impossible or unreasonable (Kaptein & Wempe, 2002). Nevertheless, research indicates that shareholders are increasingly attentive to the social responsibilities of companies (e.g., Fairfax, 2019; Global Sustainable Investment Alliance, 2021; Yan, Ferraro, & Almandoz, 2019). For example, Morgan Stanley (2019) reported that 85% of individual U.S. investors express interest in sustainable investing, whereas Bloomberg Intelligence (2022) reported that global ESG assets may surpass \$50 trillion by 2025, constituting one-third of the projected total assets under management worldwide. This means that it is not entirely impossible for shareholders to fulfill, at least partially, their stakeholder responsibilities in practice. Moreover, bodies representing shareholders, such as non-executive boards, can play a crucial role in ensuring that company boards—and by extension, shareholders—fulfill their ethical responsibilities. They can achieve this by overseeing corporate activities to ensure that the company serves its stakeholders. Future research is needed to explore how corporate governance structures can be designed to enable shareholders to meet their ethical responsibilities, as well as mechanisms to enforce these responsibilities effectively.

A final limitation of our approach that warrants discussion is that the reconciliation between shareholder and stakeholder theory does not imply their complete harmonization. In this article, we have established a moral bridge between the two theories, but this does not negate the possibility of further critique from the perspective of stakeholder theory on other aspects of Friedman’s argument, his broader body of work, and alternative formulations of shareholder theory. Similarly, the reconciliation does not suggest that stakeholder theory can be fully endorsed from the perspective of shareholder theory. The fact that we have not modified stakeholder theory in the process of reconciliation does not imply that this theory is without objections, limitations, and challenges such as the difficulty of

balancing competing interests among different stakeholders. Further research is therefore needed to explore how and to what extent shareholder and stakeholder theories can be further reconciled on ethical grounds, as well as where they maintain distinct ethical positions. For instance, stakeholder theory could be helpful in more precisely defining the stakeholder responsibilities of shareholders, while shareholder theory could contribute to clarifying the stakeholder responsibilities of management toward shareholders.

6. Conclusion

In this article, we attempted to normatively reconcile shareholder theory and stakeholder theory by modifying a single assumption in Friedman's argument regarding a company's social responsibilities and objectives. By replacing Friedman's assumption that shareholders desire profit maximization with the proposition that shareholders, as owners, should ideally desire their company to serve all stakeholders, we bridged the gap between serving shareholders and serving stakeholders in a normative-ethical manner. Hopefully, this approach will enable us to move beyond the controversy surrounding shareholder and stakeholder theories.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

References

- Alexander, G. S. (2008). The Social-Obligation Norm in American Property Law. *Cornell Law Review*, 94, 745-819.
- Alexander, G. S. (2013). Ownership and Obligations: The Human Flourishing Theory of Property. *Hong Kong Law Journal*, 43, 451-462.
- Atif, M., Bottura, M., & Yasin, R. (2024). Public Issues and Public Expectations: Disentangling Responsibility Discourse Dimensions in CSR and Sustainability Books. *European Management Journal*, 42, 957-967. <https://doi.org/10.1016/j.emj.2023.07.008>
- Aune, J. A. (2007). How to Read Milton Friedman. In *The Debate Over Corporate Social Responsibility* (pp. 207-218). Oxford University Press. <https://doi.org/10.1093/oso/9780195178838.003.0015>
- Bainbridge, S. M. (2023). *The Profit Motive*. Cambridge University Press. <https://doi.org/10.1017/9781009025799>
- Barauskaite, G., & Streimikiene, D. (2021). Corporate Social Responsibility and Financial Performance of Companies: The Puzzle of Concepts, Definitions and Assessment Methods. *Corporate Social Responsibility and Environmental Management*, 28, 278-287. <https://doi.org/10.1002/csr.2048>
- Battilana, J., Obloj, T., Pache, A., & Sengul, M. (2022). Beyond Shareholder Value Maximization: Accounting for Financial/Social Trade-Offs in Dual-Purpose Companies. *Academy of Management Review*, 47, 237-258. <https://doi.org/10.5465/amr.2019.0386>
- Bejan, C. (2024). On the Shareholders versus Stakeholders Debate. *Journal of Economic Behavior & Organization*, 218, 68-88. <https://doi.org/10.1016/j.jebo.2023.11.031>
- Bloomberg Intelligence (2022). *ESG May Surpass \$41 Trillion Assets in 2022, but not without Challenges, Finds Bloomberg Intelligence*. Press Announcement.

- Boland, L. A. (1979). A Critique of Friedman's Critics. *Journal of Economic Literature*, 17, 503-522.
- Bridoux, F., & Stoelhorst, J. W. (2022). Stakeholder Governance: Solving the Collective Action Problems in Joint Value Creation. *Academy of Management Review*, 47, 214-236. <https://doi.org/10.5465/amr.2019.0441>
- Busch, T., Barnett, M. L., Burritt, R. L., Cashore, B. W., Freeman, R. E., Henriques, I. et al. (2024). Moving Beyond "the" Business Case: How to Make Corporate Sustainability Work. *Business Strategy and the Environment*, 33, 776-787. <https://doi.org/10.1002/bse.3514>
- CBS (2023). *Shareholders vs. Stakeholders: How Business Leaders Should Prepare for the Future of Capitalism*. Columbia Business School.
- Chassagnon, V., & Hollandts, X. (2014). Who Are the Owners of the Firm: Shareholders, Employees or No One? *Journal of Institutional Economics*, 10, 47-69. <https://doi.org/10.1017/s1744137413000301>
- Clements, R. S., & Cunningham, L. A. (2024). *The Directors' Role amid Debates over Corporate Purpose, Stakeholders and ESG*. Harvard Law School Forum on Corporate Governance.
- Donaldson, T., & Dunfee, T. W. (1999). *Ties That Bind: A Social Contracts Approach to Business Ethics*. Harvard Business School Press.
- Donaldson, T., & Preston, L. E. (1995). The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications. *Academy of Management Review*, 20, 65-91. <https://doi.org/10.2307/258887>
- Donaldson, T., & Walsh, J. P. (2015). Toward a Theory of Business. *Research in Organizational Behavior*, 35, 181-207. <https://doi.org/10.1016/j.riob.2015.10.002>
- Fairfax, L. M. (2019). From Apathy to Activism: The Emergence, Impact, and Future of Shareholder Activism as the New Corporate Governance Norm. *Boston University Law Review*, 99, 1301-1345.
- Favaro (2021). The Great Shareholder-Stakeholder Debate. *Financial Executives Internal Daily*.
- Foss, N. J., & Klein, P. G. (2018). Stakeholders and Corporate Social Responsibility: An Ownership Perspective. In *Advances in Strategic Management* (pp. 17-35). Emerald Publishing Limited. <https://doi.org/10.1108/s0742-33222018000038005>
- Freeman, R. E. (1984). *Strategic Management: A Stakeholder Approach*. Pitman.
- Freeman, R. E. (2008). Ending the So-Called 'Friedman-Freeman' Debate. *Business Ethics Quarterly*, 18, 162-166.
- Freeman, R. E., & Freeman, B. (2023). Business in a Post-Covid World: The Move to Stakeholder Capitalism. *Journal of Human Values*, 29, 105-114. <https://doi.org/10.1177/09716858231167100>
- Freeman, R. E., & Phillips, R. A. (2002). Stakeholder Theory: A Libertarian Defense. *Business Ethics Quarterly*, 12, 331-349. <https://doi.org/10.2307/3858020>
- Freeman, R. E., Harrison, J. S., Wicks, A. C., Parmar, B., & de Colle, S. (2010). *Stakeholder Theory: The State of the Art*. Cambridge University Press. <https://doi.org/10.1017/CBO9780511815768>
- Freeman, R. E., Martin, K. E., & Parmar, B. L. (2020). *The Power of and: Responsible Business without Tradeoffs*. Columbia Business School Publishing. <https://doi.org/10.7312/free18850>
- Freeman, R. E., Martin, K., & Parmar, B. (2007). Stakeholder Capitalism. *Journal of Busi-*

- ness Ethics*, 74, 303-314. <https://doi.org/10.1007/s10551-007-9517-y>
- Friedman, M. (1962). *Capitalism and Freedom*. The University of Chicago Press.
- Friedman, M. (1970). The Social Responsibility of Business is to Increase its Profits. *New York Times Magazine*, 13, 122-126.
- Global Sustainable Investment Alliance (2021). *Global Sustainable Investment Review 2020*. <https://www.gsi-alliance.org/wp-content/uploads/2021/08/GSIR-20201.pdf>
- Hart, O., & Zingales, L. (2017). Companies Should Maximize Shareholder Welfare Not Market Value. *Journal of Law, Finance, and Accounting*, 2, 247-274. <https://doi.org/10.1561/108.00000022>
- Hart, S. (2024). *Beyond Shareholder Primacy: Remaking Capitalism for a Sustainable Future*. Stanford University Press. <https://doi.org/10.1515/9781503638747>
- Hayden, G. M., & Bodie, M. T. (2020). The Corporation Reborn: From Shareholder Primacy to Shared Governance. *Boston College Law Review*, 61, 2419-2485.
- Inkpen, A. C., & Sundaram, A. K. (2022). The Endurance of Shareholder Value Maximization as the Preferred Corporate Objective. *Journal of Management Studies*, 59, 555-568. <https://doi.org/10.1111/joms.12715>
- Jahn, J., & Brühl, R. (2018). How Friedman's View on Individual Freedom Relates to Stakeholder Theory and Social Contract theory. *Journal of Business Ethics*, 153, 41-52. <https://doi.org/10.1007/s10551-016-3353-x>
- Jensen, M. C. (2002). Value Maximization, Stakeholder Theory, and the Corporate Objective Function. *Business Ethics Quarterly*, 12, 235-256. <https://doi.org/10.2307/3857812>
- Jones, T. M., & Felps, W. (2013). Shareholder Wealth Maximization and Social Welfare: A utilitarian Critique. *Business Ethics Quarterly*, 23, 207-238. <https://doi.org/10.5840/beq201323215>
- Kaptein, M., & Wempe, J. F. D. B. (2002). *The Balanced Company: A Theory of Corporate Integrity*. Oxford University Press. <https://doi.org/10.1093/acprof:oso/9780199255504.001.0001>
- Kolstad, I. (2007). Why Firms Should Not Always Maximize Profits. *Journal of Business Ethics*, 76, 137-145. <https://doi.org/10.1007/s10551-006-9262-7>
- LoPucki, L. M. (2022). The End of Shareholder Wealth Maximization. *University of California Davis Law Review*, 56, 2017-2065.
- Mayer, C., Strine, Jr., & Winter, J. (2020). 50 Years Later, Milton Friedman's Shareholder Doctrine is Dead. *Fortune Magazine*.
- Mirow, M. C. (2010) The Social-Obligation Norm of Property: Duguit, Hayem, and Others. *Florida Journal of International Law*, 22, 191-226.
- Muldoon, J., Gould, A. M., & Yonai, D. K. (2023). Conjuring-Up a Bad Guy: The Academy's Straw-Manning of Milton Friedman's Perspective of Corporate Social Responsibility and its Consequences. *The American Economist*, 68, 171-188. <https://doi.org/10.1177/05694345221145008>
- Mulligan, T. (1986). A Critique of Milton Friedman's Essay 'The Social Responsibility of Business is to Increase its Profits.' *Journal of Business Ethics*, 5, 265-269. <https://doi.org/10.1007/BF00383091>
- Northrop, E. (2013). The Accuracy, Market Ethic, and Individual Morality surrounding the Profit Maximization Assumption. *The American Economist*, 58, 111-123. <https://doi.org/10.1177/056943451305800204>
- Okafor, A., Adeleye, B. N., & Adusei, M. (2021). Corporate Social Responsibility and Financial Performance: Evidence from US Tech Firms. *Journal of Cleaner Production*, 292,

- Article 126078. <https://doi.org/10.1016/j.jclepro.2021.126078>
- Palladino, L. (2024). *Good Company: Economic Policy after Shareholder Primacy*. University of Chicago Press.
- Patel, V. K., Manley, S. C., Hair, Jr., Ferrell, O. C., & Pieper, T. M. (2016). Is Stakeholder Orientation Relevant for European Firms? *European Management Journal*, *34*, 650-660. <https://doi.org/10.1016/j.emj.2016.07.001>
- Poitras, G. (1994). Shareholder Wealth Maximization, Business Ethics and Social Responsibility. *Journal of Business Ethics*, *13*, 125-134. <https://doi.org/10.1007/BF00881581>
- Porter, M. E., & Kramer, M. R. (2011). Creating Shared Value: How to Reinvent Capitalism and Unleash a Wave of Innovation and Growth. *Harvard Business Review*, *89*, 62-77.
- Schrader, D. E. (1987). The Corporation and Profits. *Journal of Business Ethics*, *6*, 589-601. <https://doi.org/10.1007/BF00705775>
- Schwartz, M. S., & Saiia, D. (2012). Should Firms Go “beyond Profits”? Milton Friedman versus Broad CSR 1. *Business and Society Review*, *117*, 1-31. <https://doi.org/10.1111/j.1467-8594.2011.00397.x>
- Shoked, N. (2014). The Duty to Maintain. *Duke Law Journal*, *64*, 437-513.
- Stanley, M. (2019). *Sustainable Signals: Individual Investor Interest Driven by Impact, Conviction and Choice*. Morgan Stanley Institute for Sustainable Investing.
- Stoelhorst, J. W., & Vishwanathan, P. (2024). Beyond Primacy: A Stakeholder Theory of Corporate Governance. *Academy of Management Review*, *49*, 107-134. <https://doi.org/10.5465/amr.2020.0268>
- Stout, L. A. (2012). *The Shareholder Value Myth: How Putting Shareholders First Harms Investors, Corporations, and the Public*. Berrett-Koehler Publishers.
- Stout, L. A. (2013). The Toxic Side Effects of Shareholder Primacy. *University of Pennsylvania Law Review*, *161*, 2003-2023.
- Velasco, J. (2010). Shareholder Ownership and Primacy. *University of Illinois Law Review*, *3*, 897-956.
- Velte, P. (2022). Meta-Analyses on Corporate Social Responsibility (CSR): A Literature Review. *Management Review Quarterly*, *72*, 627-675. <https://doi.org/10.1007/s11301-021-00211-2>
- Weitzner, D., & Deutsch, Y. (2019). Why the Time Has Come to Retire Instrumental Stakeholder Theory. *Academy of Management Review*, *44*, 694-698. <https://doi.org/10.5465/amr.2018.0342>
- Windsor, D. (2025). Integrating Three Theories of 21st-Century Capitalism. *Corporate Governance: The International Journal of Business in Society*, *25*, 7-30. <https://doi.org/10.1108/CG-03-2023-0093>
- Yan, S., Ferraro, F., & Almandoz, J. (2019). The Rise of Socially Responsible Investment Funds: The Paradoxical Role of the Financial Logic. *Administrative Science Quarterly*, *64*, 466-501. <https://doi.org/10.1177/0001839218773324>