# Beyond the False Dichotomy

***This article is dedicated to the memory of Arie de Geus (1930-2019), whom I had the great pleasure of meeting a few times in his later years and whom I interviewed a couple of times.  His insights remain important and fresh today. They reflect the deep respect he had for humanity which was apparent to me within minutes of our first meeting.***

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Peter Drucker is said to have made the argument, “the only purpose of an organisation is to earn and keep a customer”. Others argue employees are the most important stakeholder group. But the primacy of shareholders and maximising shareholder value (MSV) have been the ideology and practice that won the battle over recent decades.

I have never been comfortable with the idea of any group being given primacy. In truth most businesses are simply not sustainable unless they satisfy a range of stakeholders upon whom they depend, either for survival or in order to thrive.

That is not to say all ‘stakeholder’ groups, or ‘interests’ as I prefer to call them, are of equal importance, some can be more easily substituted than others, for example. But I think a wise business considers the value of them all carefully, and what value each of them seeks from their relationship with the firm.

The shareholder v stakeholder debate continues, and will probably

never end, but in my mind the issue of "stakeholder primacy", or whether any interest should have primacy, was resolved long ago thanks to Arie de Geus. He authored The Living Company (1997), and was a former senior executive of Royal Dutch Shell (1951–1980). He sadly died in November 2019, but at a "ripe old age," as the saying goes.
Towards the end of the prologue to his book he says, "Financial analysts, shareholders and many executives tell us that corporations exist primarily to provide financial returns. Some economists offer a rather broader sense of purpose. Companies, they say, exist to provide products and services, and therefore to make human life more comfortable and desirable. 'Customer orientation' and other management fashions have translated this imperative into the idea that corporations exist to serve customers. Politicians, meanwhile, seem to believe that corporations exist to provide for the public good: to create jobs and ensure a stable economic platform for all the 'stakeholders' of society."
He then adds, "But from the point of view of the organization itself — the point of view which allows organisations to survive and thrive — all these purposes are secondary."
In his view, "Like all organisms, the living company exists primarily for its own survival and improvement: to fulfil its potential and to become as great as it can be. It does not exist solely to provide customers with goods, or to return investment to shareholders".
Then he recognised, "if the real purpose of a living company is to survive and thrive in the long run, then the priorities in managing such a company are different from the values set forth in most of the modern academic business literature". And, perhaps most importantly, he recognised, "Such a purpose also contradicts the views held by many managers and shareholders", but, sooner or later, they "find that their companies do not have the right habits to accomplish what they hope to achieve."
To be clear, I think a company that "exists primarily for its own survival and improvement: to fulfil its potential and to become as great as it can be" recognises that doing so depends on satisfying the needs of all the interests it depends on, including customers, employees, and long-term investors. And I have previously proposed, smart companies will articulate in clear terms how they do this in the form of a Value Scheme, a concept I introduced with Valueism, a term I use to define business focused on value creation.
The Value Scheme defines what value it creates to satisfy the needs and wants of all the interested groups, whom I think should all be regarded as in*vestors*, given that they all have a *vested* interest in the success of the firm. All want a 'return on their investment', but not only a financial return. Value to an employee will be a mix of pay, opportunity, pride, job satisfaction etc.
So, the Value Scheme is explicit about the value it will create for each group, where value is defined in terms that matter to that group i.e., by that group. And it should measure that value correctly and be accountable for its performance in those terms.
With that level of clarity, a value creation system can be designed to implement the value scheme and satisfy the goals of the organisation

and all those on whom it relies on to achieve them. Only if it can operate such a system effectively will it be sustainable. So, it is to the benefit of all the long-term vested interests to ensure it is managed in this way. There should be no claim to primacy by any group in this situation.
At the beginning of the prologue to the book, Arie suggested, looked at "in the light of their potential, most commercial corporations are dramatic failures — or, at best, underachievers. They exist at a primitive stage of evolution; they develop and exploit only a fraction of their capability. For proof you need only to consider their mortality rate." He speaks of "wasted potential" and the impact that has on work lives, on communities and on economies — "all affected, even devastated, by premature corporate deaths."
Some businesses, which I refer to as Enlightened Enterprises, understand the real nature of business, as a vehicle for creating value for itself and each stakeholder group, where value is not only measured in monetary terms. Value is instead seen in terms of contributions to the prosperity of each interest group, and of society in general — a much richer and more meaningful concept of value. These are some of the ideas upon which Valueism is based.

## The Debate Continues

This article was first published early in 2020 as the debate about the primacy of shareholder value over stakeholder value continued following the announcement by the influential American Business Roundtable which changed its view on the purpose of the corporation, and similar announcements by the World Economic Forum.
More recently the issue was raised again, upon the 50th anniversary of Milton Friedman's famous article in the New York Times which outlined what came to be known as the Friedman Doctrine. It argued very strongly for the idea of shareholder primacy, later expressed in concepts such as maximising shareholder value as the primary goal of business.

## Changing the Narrative

In 2019 Nobel prize-winning economist Robert J Schiller, professor of economics at Yale, published his book Narrative Economics: How stories go viral and Drive Major Economic Events.
He makes a powerful argument, that popular narratives can become contagious and go viral, changing the way people think about economic decisions – a very apt metaphor for our time.
The Friedman Doctrine, and the primacy of shareholder interests, became a popular narrative. It is now widely discredited, but still dominant in practice. Change demands a new narrative to replace the old one.

## A Conference

The Enlightened Enterprise Academy will host a conference on March 15th 2021 to add weight to the calls for change, and to help clarify what the new narrative should be if we are to achieve sustainable widely shared prosperity, measured in terms of human flourishing and wellbeing, which represents the vision and the goal of the Academy.