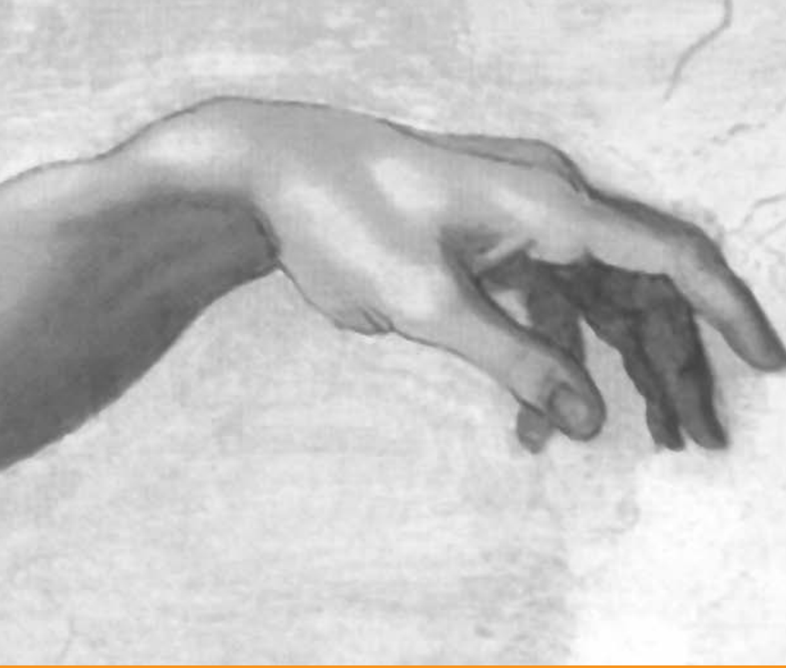

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The Shareholder vs. Stakeholder Debate reconsidered

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Abstract

In the debate about which principle the management of a corporation should follow, the diversity of principles has grown over the last decades, challenging the dominant status of the shareholder and the stakeholder principle. This paper addresses the question of why neither approach has been able to convince scientists and the public of its principles. A reason for that can be found in their particular lines of argument and the concepts which are used to argue for the respective principles. Several methodological problems in their argumentations are discovered and traced back to a problematic employment of the goal-means scheme: as a method to explain a single actor's behavior, the concept can be fruitfully employed, but its usage for explaining social phenomena is often misleading. The paper shows that both approaches can learn from each other to strengthen their own argumentations.

Rüdiger W. Waldkirch, Germany

The Shareholder vs. Stakeholder Debate reconsidered

1. Starting Points

Currently, a vast variety of concepts, terms and principles shapes the public and scientific discussion about the management of organizations.[1] In questions of the success of corporations and their management, one primarily thinks in terms of profit, return on equity or shareholder value. At least since the advent of business ethics, more candidates for 'firms' objectives' have been added: stakeholder value, triple bottom line and corporate social responsibility – to name only three recent developments. For this reason, the uncertainty as to which principle should govern corporate managers' decisions has increased even further. Until today, the social sciences haven't been able to reduce this uncertainty by providing management with one clear guiding principle.

A strongly polarizing pair of concepts has emerged over the last decades, which gives structure to the lively debate: shareholders and stakeholders. This difference serves as a line of demarcation between the conflicting groups as well: on the one hand, there are the advocates of free market economy and entrepreneurship, who regard the shareholder value as a successful semantic formula for the long-standing opinion that firms should be run in the interests of their shareholders. On the other hand, there are mainly globalization critics and some scientists, who share normative doubts about the shareholder value and thus advocate the stakeholder value, a balancing of the interests of diverse stakeholders in managements' decisions. In the face of this mélange, anyone wanting to avoid a further polarization of the public debate is well advised to join Jürgen Schrempp, the former CEO of Daimler, in deleting both terms from one's vocabulary for all public remarks.

In these circumstances, social scientists and especially economists have a strong interest in raising the question of why their approach cannot provide the public with a generally accepted principle for the management of corporations. To put it into different words: why have economists not been able to convince their colleagues in other sciences and the public of their "axiom" (Coenenberg, 2003, p. 3)?

I pursue this question in three steps. In the *first* step, I briefly outline the social background to the questions of the management of organizations and the two answers given by the shareholder and the stakeholder approach. In the *second* step, I lay out the lines of argumentation of both approaches, from which the divergent principles are derived. In the *third* step, I discuss what can be learnt from both argumentations for the issue at hand.

[1] The literature recognizes different terms for referring to a new social phenomenon: organization, corporation, enterprise, business or firm – to name just a few. Despite the subtleties of language, I will use the word 'organization' as the generic term for this phenomenon and use the terms 'firm' and 'corporation' as synonyms referring to commercial enterprises, organizations in the economic system.

2. Modern society and the management of organizations

The political problem which underlies the discussion of the principles for managing corporations has existed for only about 150 years. During this period of time, society has witnessed the appearance and the spreading of organizations (Chandler, 1977; Luhmann, 2000). In today's world, organizations are omnipresent, making it a 'society of organizations' (Etzioni, 1964, p. 110). In most interactions, some form of organization takes part: states, parties, clubs, NGOs – and, not least, corporations. It is estimated that currently in two-thirds of international trade a global player is involved and in one-third the transaction takes place within a global player.

At least since the 1930s, economists have extensively been debating the two central questions which organizations pose in the political discourse (Knight, 1965; Coase, 1937). Despite differences in the perspectives of their research programs, their efforts aim at reflecting the "reasons of organizations" (Waldkirch, 2002), the reasons for the appearance and the triumphal march of organizations and especially their prototype, the corporation, in today's world. Thus the *first,* fundamental question concerns the *social function of organizations*: why does a democratic society with market economy establish a system of free organizations? Or, in more common words: why do firms exist (in a market economy)? As organizational affairs are usually decided by the organization's management, a *second*, subordinate question concerning the *social task of management* arises: which rights and responsibilities does the management of an organization have? Or, in a different diction: in whose interest ought firms to be run (see Hayek, 1967)?

To provide answers to these two questions, at least two different lines of argumentation have been developed. To put the matter in a nutshell: the shareholder approach thinks that firms serve the shareholders for their mutual gains and that their management has the responsibility to increase the shareholder value – a semantic short cut for whatever is in the best interests of the shareholders. In contrast to this, the stakeholder approach regards firms as a vehicle to increase the mutual gains of all stakeholders and thus wants its management to balance their interests. At a first look, the two answers seem to be diametrically opposed to each other – raising the question of how their proponents argue for the different results and which argumentation is more convincing.

3. The argumentation of the shareholder approach

In order to develop a theory of the firm, the shareholder approach returns to the established *concept of private property*. The theoretical starting point is an assumption, which puts the shareholder approach in the liberal tradition of J. Locke (1992). There are socially defined property rights, on whose basis a theory of the firm can be erected. In the language of contract theory, one would say that the shareholder approach starts out on the assumption that a complete social contract exists, which thoroughly defines the rights and responsibilities of property rights' owners toward the society (Speckbacher, 1997).

Owing to this assumption, the approach gives priority to the owners of these property rights and their decisions about the use of their assets. One of their possibilities is to invest their assets in a firm. As it is usual for many people to invest in a single corporation, this model of the firm can be referred to as a *model of pooling private property (rights)*: several

owners make the decision, which is written down in the firm's constitution, to place their rights into a common pool of resources, which is placed under a central control (Coleman, 1990; Haase, 2000).

This theoretical procedure, the lead-in to the theory of the firm with the assumption of given private property rights, leads to a series of implications:

(1) Within the model of pooling private property, the fundamental political question regarding the reasons of organizations is qualified: not society and its decision to entrust some actors to found a firm, but the owners of some private property rights and their decision to establish a centrally governed common pool of resources are at the center of theorizing. Consequently, the question asked is: *why do individuals found a firm?*

(2) This question is conclusively answered by referring to the *advantages for the participating actors*. Thus, the function of a firm is also determined from the perspective of those actors: a firm serves to *enhance the possibilities of owners to realize their interests.* This view, which is deeply ingrained in the economic and jurisprudential tradition, can be found in an early work of E. Merrick Dodd (1932, p. 1146f.): "[A] firm is an association of stockholders formed for their private gain".

(3) The shareholder approach focuses the relation between the assets and their individual owners. As the assets are pooled in the firm, the question arises of which principle should guide the decisions about the asset pool and who should ultimately exercise the control over the pool? It is suggested that the individual investors still remain the owners of the pooled assets and they should exercise the control over the pool jointly. Insofar as the given private property rights allow, rather, *demand* from the owners to focus their decisions – within the given constraints of law (sic!) – exclusively in their own interests, the decisions about the asset pool should also focus solely on the common interests of their owners. That is: *firms should be run in the interests of their owners, their shareholders.*

(4) Today, many corporations are no longer managed by their owners themselves, but by professional managers, whom the owners employ to run the firm. This separation of ownership and control, resulting from the transformation of private firms to publicly held corporations, was impressively described by Berle and Means (1932). With the explosion of the atom of private property, a new problem of interaction arises, as the interests of the shareholders and the interests of the firm's managers systematically diverge. Classical economists like Adam Smith (1996) have included this problem of interaction in their research as well as modern scholars, who analyze it in countless versions as a principal-agent problem (Jensen and Meckling, 1976; Fama, 1980). Nowadays, three systematic reasons can be given for its appearance. *Firstly*, management regularly holds better information about the conditions of a successful implementation of the business strategy (problem of hidden information). *Secondly*, management can (partly) hide its actions from shareholders (problem of hidden action). *Thirdly,* it is reasonable to give leeway to managers in order for them to make adaptations to a changing environment, which is beneficial for the firm (Williamson,

1985). In the language of contract theory: the principal-agent contract between the owners and the manager is incomplete (Williamson, 1963; Tirole, 2001). As a consequence of this openness of contracts, *firms might not be run in the interests of their owners, the shareholders, but in the interests of their managers*.

(5) Therefore, the owners have a strong interest – as does, finally, the society itself in order to protect the property rights it has granted (sic!) – to establish institutional arrangements which help to harmonize the interests of the managers with those of the owners. Economists have analyzed quite a number of different institutions which can help with this task: the supervisory board, shareholder activism, the market for mergers and acquisitions, the market for executive managers, the reputation of managers as well as performance-based contracts – to list just a few.(6) As for the 'openness of the future' (K.R. Popper), contracts will never be complete and for that reason open contracts require an important institutional provision: focal points (Schelling, 1960). The openness of the contract between the owner and the manager requires a clear and reliable criterion, toward which the manager can orient his decisions, and a performance system on which he can rely in order to establish the incentive compatibility of the desired behavior. The shareholder value is a new and better alternative for the classical focal point of economics – the profit. It instructs managers to choose the strategy in their leeway, which generates in the long run the most cash for satisfying investors' demands, or, in short: *maximize the firm's shareholder value* (Rappaport, 1986)!

4. The argumentation of the stakeholder approach

As the shareholder approach uses the categories of a long-standing tradition, it was not a difficult task to elaborate its argumentation in the previous part. Compared with this, it is rather difficult to develop the stakeholder approach's line of arguments in the following, because it is by no means a monolithic stream of research. To keep the line of reasoning short and compelling, the reconstruction below focuses on the publications of the most prominent proponent *R. Edward Freeman*.

For the first time, Freeman (1984) combines in his book *Strategic Management* the insights of several strands of research into a coherent stakeholder approach. His book shares with this paper the same diagnosis as the starting point for theoretical reflections: in today's global world, it is very difficult for a firm's managers to orientate themselves. Freeman (1984, Chap. 1) reacts as a scientist to this diagnosis and analyzes why the two central concepts, which the economic tradition has come up with, fail to provide management with the necessary orientation from the production view of the firm and the managerial view of the firm. The first concept directs managers' attention to an efficient, smooth flow of products along the value chain and identifies the suppliers and customers as the firm's two stakeholder groups. The second concept incorporates the separation of ownership and control and thus directs managers' attention towards more stakeholder groups: in addition to the groups of suppliers and customers of the production view, the groups of owners, managers and employees await, in the managerial view, strategic responses from the firm's management. For Freeman, these two views must fail to provide managers with the necessary orientation, as the views insufficiently take the conditions of present society into consideration and thus poten-

tially misdirect managers' attention. Whoever exclusively focuses on the groups of owners, managers, employees, suppliers and customers disregards the relevance of *new actors* for a firm's long-term success, such as consumer advocates, environmentalists, special interest groups and the media. Thus, Freeman (1984, p. 52, emphasis added) propagates a new, enlarged concept, the stakeholder view of the firm: "*Organizations have stakeholders. That is, there are groups and individuals who can affect, or are affected by, the achievement of an organization's mission.*"

Freeman's argumentation for a stakeholder view of the firm is – systematically(!) – based on a single *positive* argument: *in today's global world, corporations cannot be successfully managed in the long run against the interests of its stakeholders*. The impetus of his book is clearly practical and instrumental, as it focuses on the question of "how executives can use the concept […] to manage their organizations more effectively" (Freeman, 1984, p. 27) and that it may even demand counting such "'illegitimate' groups" like "terrorist groups" (both Freeman, 1984, p. 53) as the firm's stakeholders.

In later publications, a *normative* argument supports and finally replaces this positive argument as the systematic argument for giving precedence to the stakeholder over the shareholder approach in Freeman's view, which is shared by most stakeholder proponents. Evan and Freeman (1988, p. 97) proclaim that their task is to reform the original stakeholder approach "along essentially Kantian lines". Therefore, they categorize the stakeholder approach in a long-standing tradition of moral philosophy, which interprets I. Kant's (1968) basic idea of the autonomy of a person in a specific way. According to this particular interpretation, every person has an intrinsic value, an inalienable right "not to be treated as a means to some end" (Evan and Freeman, 1988, pp. 97,105).[2] As a consequence of this interpretation, stakeholder theorists attribute a claim of unconditional validity to this normative principle, which allows for neither its suspension in any theory or discussion nor its violation by any behavior of people or social institutions, including ownership rights or rights in a firm.

This normative principle is applied as a test with the result that the stakeholder view will pass while the shareholder view of the firm must fail, as it merely focuses on the interests of the shareholders. Consequently, Donaldson and Preston (1995, pp. 82, 85) declare the shareholder view to be "normatively unacceptable" and "morally untenable", which is in line with the early claim by the German business ethicist H. Steinmann (1969), who regards the shareholder orientation as an expression of an immoral monism of interests at the expense of a moral pluralism of interests. Inverting the argument, Freeman demands that the interests of all stakeholders must be represented by the objectives of a firm and its management (Freeman and McVea, 2001, p. 193). A firm is a means of all stakeholders, by which they are provided with mutual gains: "*The very purpose of the firm is, in our view, to serve as a vehicle for coordinating stakeholder interests. It is through the firm that each stakeholder group makes itself better off.*" (Evan and Freeman, 1988, p. 103, emphasis added). Thus, the management of the firm is a trustee of all stakeholders and as such is committed to bal-

[2] It is very interesting that Evan and Freeman (1988) recite an abbreviated version of Kant's dictum. Even I. Kant (1996, p. 429) only demands to treat other persons "*always at the same time as an end, never merely as a means*". Thus, according to Kant, treating another person as a means to one's own end is morally not disputable as long as this treatment is also to the other person's end. To put it in terms of economics: I can use others for my own interest as long as the interests of the others are promoted as well.

ance the interests of all stakeholders in their decisions. Many different reforms of social institutions have been suggested in order to achieve this (among others Evan and Freeman, 1988, p. 104): the participation of stakeholders in a firm's decisions, the introduction of stakeholder dialogs, a stakeholder board of directors as well as a reform of corporate law to strengthen the legal position of stakeholders – only to mention a few.

5. The argumentations reconsidered

At a first glance, this paper might be regarded as a latecomer to the scene. Much has been written about the shareholder vs. stakeholder approach to management and the topic had its peak in the scientific as well as the public debate in the 1990s. In order to justify another paper on the issue, one has to give good reasons. While the debate and the publications have made considerable progress in sharpening the understanding of common grounds, differences and consequences of the shareholder and stakeholder approaches, a certain one-sidedness of the discussion can be identified. Most scholars trained in finance theory or economics hold onto the shareholder value and solve the debate by arguing that stakeholder management may be a useful instrument to increase the shareholder value (e.g. A. Rappaport), whereas most scholars trained in business ethics or strategic management theory try to resolve the dispute by giving the stakeholder approach precedence over the shareholder approach (e.g. Freeman, E. Sternberg).[3] Probably at the core of this difference in the strategy of how to solve the problem are distinct fundamental concepts, mental models and categories, which can explain the focus on different aspects of defining the social function of organizations and the social task of their management. Thus, in the following, the underlying concepts and categories of the two lines of argument will be scrutinized in order to discover hitherto unknown potentials for mutual learning. These can be found in at least four different areas.

(1) The shareholder approach blurs the differences between social institutions

By utilizing the concept of private property for modeling organizations, the shareholder approach blurs the distinction between two different social institutions, namely property rights and organizations. Their distinction might be considered negligible for privately owned firms: *cum grano salis*(!) the natural person, the owner, and the artificial actor, the firm, converge and the two rights associated with private property, residual income and residual control, rest in the hands of the same person, the owner of the firm. For publicly held corporations, the shareholder approach acknowledges that the two rights systematically fall into the hands of different persons: the shareholders and the managers of the corporation – creating a situation in which the property rights are attenuated and a divergence of interests may occur. The common reaction to the separation of ownership and control is to introduce into the research programs a problem of interaction between these two parties. However, the theoretical model used for this problem is heavily inspired by the concept of private property in one fundamental aspect, which is problematic: in accordance with the idea of private property, one

[3] There are, however, scholars who engage in finding a unified basis, from which both approaches can be reconstructed. See e.g. the research program of T. Donaldson. Donaldson and Preston (1995, p. 83) regard it as "a subtle irony" that the stakeholder approach can also be justified on the basis of the theory of property.

party of the interaction, the shareholders, is thought of as being the *principle*, whereas the second party, the managers, is regarded as being an *agent* for the principle. The concept of private property lives on in the theoretical modeling of the situation by introducing an asymmetry, the difference between the principal and the agent. This asymmetry is, however, problematic as in an owner-manager relation, both sides have leeway, which they can use to their own benefits at the expense of the other. Not only can the agent exploit the principle, as the model suggests, but the principal also has the potential to exploit the agent, which is neglected in the principal-agent model.

However obvious this way of reaction seems to be for shareholder theorists, it's not the only possible conclusion, as one generally neglected aspect of the well-known work by Berle and Means (1932) shows. Berle and Means (1932) stress the idea that the appearance of modern corporations has shaken the economic concepts of Adam Smith and the economic tradition to its foundations. Thus, it is necessary to reexamine firstly the applicability of these concepts under the conditions of today's global society, before in a second step the conclusions, which are reached by applying them, can be safely transferred to the modern world.[4] Together with other early scientists, the stakeholder approach, as outlined above, shares this notion with Berle and Means, when it recognizes the independence of a firm from its shareholders, argues that it's a social institution *sui generis* and thus dismisses the deduction of the idea that firms ought to be managed in accordance with the shareholders' interests merely from the assumption that the shareholders are the owners of the property rights which constitute the firm. This lies behind the stakeholder approach's emphasis on the fiduciary relation of the managers to the real and 'abstract entity' of the firm (see Evan and Freeman, 1988, p. 103), W. Rathenau's (1918) idea that a firm is not a form of private, but of national interests, and M. E. Dodd's (1932, p. 1160) indication that society defines different sets of rights and obligations for a firm and a private property owner. The first lesson from the stakeholder approach is that the shareholder approach should regard a firm as a social institution *sui generis*, a separate entity which is different from an association of stockholders.

(2) Society should be made the starting point for a theory of organizations

The stakeholder approach's main critique of the shareholder approach concerns the number of actors, which is taken into account by a theory of the firm and its management. In addition to the owners and the managers, the theory's hard core should account for the other stakeholders as well. The *positive* stakeholder approach asks for the consideration of all actors who might currently affect the achievement of the firm or who have the potential to affect it in the future. In the *normative* stakeholder approach, Kant's principle of universality demands that all persons must be able to consent. In short: while the positive approach asks for the consideration of *some more* stakeholders, the normative approach demands that *all people* receive attention in management's decisions.

[4] Means (1983, pp. 467, 486) points out that this is one of the major aims of their 1932 book.

Taking the necessity of people's consent to social institutions literally has a profound effect on theorizing in social sciences, be it normative or positive. The theory of social contracts has carved out that as long as the theory wants to derive judgments on the legitimacy of social institutions or suggestions about their further development, society as a whole, i.e. all people, has to be the starting point of theoretical conceptualizations.[5] Thus, a theory of organizations intending to justify given laws on organizations or to discuss their reforms has to reconstruct 'organizations' from the consent of all people as the starting point. That means that the assumption of given property rights, which underlies the entire argumentation of the shareholder approach, must be abandoned in order to acknowledge the normative idea of the autonomy of persons. The task is to reconstruct organizations and their management as being of advantage not only to the shareholders, but also to all other people.

(3) The shareholder approach omits the justification discourse

Jean Tirole (2001, p. 2) points out that, when discussing the shareholder value, most economists and legal scholars focus on the issues of implementation rather than on those of justification. Most of their contributions investigate the conditions which have to prevail in society and the organizations, in order to set the incentives for self-interested managers in such a way that, by following their own interests, they are led to act in the interest of the owners. Questions of operationalizing the shareholder value and establishing the necessary incentives are to the fore.

The above reconstruction of the argumentations of both the shareholder and the stakeholder approach elucidates that the findings of J. Tirole cannot be considered as the intended result of the division of labor, but rather must be regarded as a fundamental weakness of the shareholder approach. Basically, the shareholder approach does not distinguish between a justification discourse for private property and one for organizations and believes, as an economic justification for private property has already been achieved by the liberal tradition of L. von Mises (1993), one can proceed straight away to the implementation discourse.

The normative justification, which can be reliably established only by referring to the society, to all people, is taken for granted with the presupposed private property rights. With the decision of the owners to bundle their private properties, the justification is 'transferred' to the organization as well. To formulate it differently: one thinks that the normative justification of private property also covers firms and the notion of their management in the interests of their shareholders.

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[5] In this tradition of T. Hobbes (1980) and Buchanan (1975) – and even Kant's philosophy of morals can be read in this way (Homann 1999) – norms are defined by exclusively relying on non-normative preconditions: the state of nature, in which life is short and brutish, and all people's interest in realizing mutual gains. The acquisition of the potential mutual gains depends on the establishment of self-enforcing institutions, which give people enough 'reasons' to follow them in their actions. D. Hume (1978) demands to distinguish between positive and normative elements, between 'is' and 'ought'. However fruitful any separation in this tradition is (e.g. Donaldson and Preston, 1995; Jones and Wicks, 1999), in the moment a normative conclusion is drawn, positive and normative elements have to be integrated – and it's a good methodological practice to strive for a systematic integration of the two elements in order to prevent normativistic or empiristic fallacies. Thus, this paper argues that even the positive analysis should start out with society as the starting point. Perhaps it is the same argument which also lies in the basis of Freeman's assertion of the stakeholder approach to be 'holistic' and his eschewing of the separation of business and ethics (Freeman and Velamuri, 2006; Freeman, 2005).

In the face of the two main insights of the stakeholder approach – an organization is a social institution *sui generis* and that attempts of justification ultimately have to refer to all people – it is obvious that transferring the legitimacy of private property to an organization by a decision of some shareholders is not a tenable idea. The strengthening of the critical voices within the public and scientific discourse speaks a decisive language. In this respect, the problem of the shareholder approach is that it can react to this challenge only in a defensive way by appealing to the presupposed private property rights. The reactions of shareholder theorists, which can be observed, are to cling onto the notion of running firms in the interests of the shareholders and to call this notion to be "without doubt", "generally accepted" (Rappaport, 1986) or even an "axiom" (Coenenberg, 2003, p. 3). Lately, Rappaport (2006) reassured us that the shareholder value principle has not failed as such, but management has betrayed the principle in implementing governance structures which are not in accordance with the shareholder value. The paramount flaw of the shareholder approach is that, as long as it focuses on shareholders alone, it cannot develop any convincing argument as to why corporations and their managements are for the benefits of the non-shareholders as well. *The shareholder approach cannot convince its critics, the non-shareholders!*

What does this mean for the shareholder approach? The shareholder approach should abandon its fundamental assumption of presupposed property rights and use the economic method set out by the theory of property rights in the tradition of L. von Mises (1993) to reconstruct the 'reasons of organizations' starting with society, all people, and their contract to establish them. To be clear: this is no argument against the economic method as such, but against an ill-advised use of it. Economic contract theory should always start with the social contract. As Jean Tirole (2001, p. 4) puts it: "The traditional shareholder value approach is too narrow a view for an economic analysis of corporate governance."

(4) Action-oriented categories have misled both approaches

The concepts and arguments put forward in the shareholder and the stakeholder approach raise the question of what has led scientists to the problematic methodological decisions, as described above. It's the common effort of social scientists in diverse disciplines, such as N. Luhmann, K.R. Popper, F.A. von Hayek or R.H. Coase, to discover the categories, concepts and mental models from which erroneous arguments are derived. Many of the hitherto discovered problematic concepts hint at an *action-oriented categorical system*, which seems to be deeply rooted in everyday language as well as the theoretical language of social sciences. That means the *goal-means scheme* and its correlates, which were initially invented to analyze the behavior of a single person, but are very often applied to positive and normative analyses of social structure and social behavior (Waldkirch, 2002). However, this usage provokes fallacies and erroneous arguments in the political discourse. Political fallacies are provoked when the goal-means scheme is applied beyond the explanation and prediction of a single actor's behavior in social sciences.

The action-oriented categorical system misleads the shareholder approach in one central aspect. Its assumption of given, well-justified private property rights must be seen as one correlate of the goal-means scheme. At the latest, globalization makes evident that the notion of given, well-justified property rights is misleading. Nowadays, corporations act worldwide under constantly changing, often missing, partly inconsistent and sometimes divergent

rules for business behavior. Within the political discourse, institutional reforms are permanently discussed, new social institutions invented, old social institutions adapted to changes in the social environment and, as a result of this, the rights and the responsibilities of firms are continuously redefined – as the lively debate about corporate social responsibilities shows. A theoretical approach, which starts from the assumption of a given, lasting set of institutions, will lag behind further as time goes by.

As Odysseus once concentrated on Charybdis and succumbed to the dangers of Scylla, the stakeholder approach dismisses the assumption of given private property rights by pointing to other stakeholders and their interests to be given managers' permanent attention, but takes up another, equally misleading idea: as to the logical precedence of the aim over the means in the goal-means scheme, the stakeholder approach thinks that the stakeholders' interests must be directly anchored in the goals of a firm (Freeman and McVea, 2001; Freeman, 2005). Thus, the morality of a firm can be correctly judged by looking at its objective. However, this notion is as problematic as the idea of given property rights, because it neglects the fundamental insight of economics that the renunciation of a strict consensus can – under certain rules (sic!) – be mutually consented. Justifying private property rights, economists frequently argue that, under certain rules, decisions of individuals which are guided solely by their own interests, bring about a situation of mutual betterment, which could not have been achieved under a regime of common property. Nowadays, corporations act under a whole set of institutions, which protect the interests of all those who are not involved in deciding on the strategies and actions of the corporations. Before the stakeholder approach can argue that the focal point of 'shareholder value' neglects the legitimate interests of some stakeholders, it must have proven that the existing social institutions cannot sufficiently protect the legitimate interests of the others. However, a look into the literature shows that this gap is neither systematically recognized nor systematically filled by a positive analysis, but is usually bridged by referring to Kant's dictum.[6]

6. Conclusion

This contribution started with the diagnosis that neither shareholder value nor stakeholder value as a guiding principle for the management of firms has received universal agreement among scientists nor among the public at large. Searching for the reason for this, the presented argumentation points to methodological problems, which are imbedded in the shareholder and the stakeholder approach. As both approaches fall into different traps, areas for mutual learning could be identified. These also include the advice that the application of the goal-means scheme for analyzing social structure and giving recommendations for institutional reforms has caused these problems. It's one of the great ironies of the history of the theory of organizations that both argumentations, the shareholder and the stakeholder approach, are flawed in the same way.

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[6] One might challenge the argument by referring to literature's discussion of the legal system and its changes (Freeman, 2005; Smith, 2003; Sternberg, 2001), of differences in the firm's obligations to different stakeholder groups (Goodpaster, 1991; Gibson, 2000) or even economic concepts like monopoly power or externalities (Freeman, 2005). The counter would be that these insights are not integrated in the stakeholder approach *systematically*.

It was neither an intention of this paper to provide a final answer to the fundamental question, in accordance with which principle a firm should be managed in today's global world, nor to assess the fruitfulness of the two principles. In this respect, the social sciences may be closer to the beginning of the necessary reflection than to the end of it: the shareholder approach might have a principle fitting for implementation, but lacks good arguments for convincing the stakeholders, whereas the stakeholder approach avoids some major mistakes in the argumentation, but has not come up with a principle fitting for implementation. Besides these areas for mutual learning, it can be emphasized that corporations are principally social ventures for mutual advantages to all people and thus it might be more prudent to speak instead of the shareholder value of a principle for sustainable increase of corporate value. On one hand, this shift in semantics honors the autonomy of the firm and, on the other hand, the pitfall of equating the management of the firm in accordance to the shareholder value with management which does not pay any respect to the interests of the stakeholders is avoided.

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