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THE FRIEDMAN VS. FREEMAN CONTROVERSY – AN EMPIRICAL INVESTIGATION WITH EARLY STAGE VENTURES (INTERACTIVE PAPER)

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≈ INTERACTIVE PAPER ≈

**THE FRIEDMAN VS. FREEMAN CONTROVERSY –
AN EMPIRICAL INVESTIGATION WITH EARLY STAGE VENTURES**

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Principal Topic

Milton Friedman argued that managers benefit their organization the most when they act for benefit of the shareholders. Ed Freeman and other stakeholder scholars argue back that to ensure long term sustainability, managers not only need to satisfy shareholder demands but they need to consider the impact of their actions on multiple stakeholder groups. Shareholder vs. stakeholder orientation and its importance for long term sustenance is a hotly debated topic. We expand on this debate by investigating value creation modalities in two different types of early stage ventures.

Method

The paper attempts to answer two questions. First, how do entrepreneurs create value for different stakeholders? And second, what are the differences and similarities in stakeholder value creation between companies that are explicitly stakeholder oriented vs. those that are not. We use “Human Development and Capability Approach (HDCA)” from welfare economics to develop the concept of “Stakeholder Capability” as primary unit of value creation and assessment in entrepreneurial ventures. We also conduct literature review of entrepreneurial performance and HDCA and combine those to propose six dimensions of value creation: financial, human capital, efficiency, governance, health and environment. Then we expand on this theory by investigating early stage companies from two groups.

Results and Implications

The first group is “B-Corporations”. These are companies that have explicitly stated their intention to serve the stakeholders ahead of shareholders alone. There are currently 517 companies that have changed their legal documents to relieve the managers of their fiduciary responsibilities toward shareholders alone. The second group is from the 2011 “Inc. 500” list. These are the 500 of the fastest growing, private, for profit companies in USA. These two groups are interesting contrasts because they are both considered “successful” and have been selected as such by knowledgeable third parties. The difference arises from different definitions of success. Inc. 500 companies can be considered successful under the “Friedman” model, while the B-Corporations are success stories under the “Freeman” model. They work as natural controls for the other. We carry out in-depth interviews with a sample of founders primarily asking them to comment on the nature of value they are creating for different stakeholder groups. Afterwards, we content analyze the interviews and other secondary data sources to categorize value creation methods by stakeholders and by dimensions. Finally we develop propositions based on similarities and difference in our findings.

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