# Questioning the Theory of the Firm: The Challenge of Hybrid, Social and Faith-Based Businesses

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*In light of the diversity of hybrid, social, and faith-based enterprises, the paper aims to deepen and widen the descriptive and normative reach of the theory of the firm. Higher ends of business are core philosophical components for an expanded normative theory of the firm. To regard shareholders, managers, and all stakeholders of a business firm in a fully moral light means expanding one's view of such roles beyond merely economic and legal conceptions to encompass their full humanity and associated moral obligations and social responsibilities. Any adequate normative theory of the firm will cast business participants not just as economic actors and as legal agents but as flesh-and-blood moral persons with ethical responsibilities. When the theory of the firm is normativized – not privileging moral rights and obligations of stockholders or stakeholders in advance of consideration of balance of reasons -- the false dichotomy of shareholder primacy versus stakeholder primacy falls away, ceasing to provide a basis for giving categorically incompatible accounts of prima facie moral obligations of business participants.*

*Keywords: Theory of the Firm, shareholder primacy, benefit corporations, hybrid social enterprises, faith-based businesses, corporate social responsibility*

## INTRODUCTION

Some business ethics scholars embrace the Theory of the Firm (ToF) and Shareholder Primacy (SP). Yet given the rise of hybrid firms such as benefit corporations, social enterprises, and faith-based business models, it is unclear to what extent ToF and SP provide satisfactory descriptive and justificatory theoretical accounts of such firms. This paper portrays how the often myopic typological focus of the theory of the firm – which stresses only select features of some firms -- comes into view in light of hybrid, social, and faith-based enterprises. This prompts questions: Is it time to toss out ToF and SP and start over? Is an upgrade in order? Among possible preliminary stances that may be taken on this issue are the following:

(1) *ToF/SP are inapplicable to such firms.* Hybrid firms fall outside the intended proper scope of ToF and SP.
(2) *ToF/SP are applicable to such firms.* Hybrid firms fall completely within the scope of ToF and SP.
(3) *ToF/SP are partially applicable to such firms.* Hybrid firms are only partially within the scope of ToF and SP – that is, the theory of the firm properly characterizes the profitmaking side of their mission, while the social mission side is not.

The paper is structured as follows. Part I provides a brief background on ToF and SP as a lead-in to questioning each of the preliminary stances just outlined. Several candidate interpretations for those stances are then set forth regarding the applicability, *vel non*, of ToF and SP to hybrid firms.

Part I then turns to pointing out fundamental deficiencies in the received theory of the firm, particularly in light of hybrid enterprises such as benefit corporations, as well as faith-based and family businesses. The paper then seeks, in Part II, to outline correctives for those deficiencies. Such correctives come from the specification of a teleological moral-philosophical conceptual framework inclusive of a fuller array of typologies of firms than ToF provides, and which specifies the higher ends of business that ToF occludes.

The paper concludes with a recommendation that the theory of the firm be upgraded to cover a broader range of firm typologies. Beyond expanding its descriptive reach, such an upgraded theory should be a fully normative one in which the higher moral ends of business assume an eminent place as core philosophical components. It should embody a recognition that business activities have moral dimensions that transcend legal requirements and penetrate deeper than economic interests.

## PART 1

### Background on the Theory of the Firm and Shareholder Primacy

*The Theory of the Firm*

Based on neoclassical economics, the received so-called theory of the firm (ToF) is a composite of a triad of theories: the nature of the firm (Coase, 1937), agency theory (Jensen and Meckling, 1976), and shareholder theory (Friedman, 1970). To be sure, there are other economics-based "theories of the firm," such as theories centered on team production (Alchian and Demsetz, 1972), and incomplete contract theory (Grossman and Hart, 1986; Hart and Holmström, 2010; Hart and Moore, 1990; Holmström and Milgrom, 1994). This paper focuses on the components of the nature of the firm and shareholder theory, specifically shareholder primacy.

The theory of the firm has been qualified, modified, and outright challenged by several business ethics scholars. Norman Bowie accepts the postulates of the theory of the firm that managers serve as agents of shareholder-owners and accordingly have a contractual obligation to advance the interests of shareholders. Bowie, asserting the emergence of a consensus surrounding the social responsibility of business, urges that profit-oriented firms are restrained by a "moral minimum." In Bowie's analysis, although it might be morally good for managers to advance some social good and prevent harm, shareholders' duty overrides such moral matters. So long as managers merely follow the "moral minimum" and do no harm, they are responsible for profit-maximization (Bowie, 2017).

Recently some scholars have suggested the need to construct a new theory of the firm that is oriented away from economics more toward the management field. Such writers have raised the possibility of either modifying economic theories of the firm so as to follow the path some have already taken to incorporate managerial components (Radner, 1996) or constructing new theories of the firm that place managerial issues rather than economic concepts at center stage (Alvarez et al., 2020).

Stakeholder theorists have roundly opposed the narrow shareholder focus of the theory of the firm (Freeman et al., 2010). Yet another approach has been to modify the theory of the firm according to the idea of a "social contract" between business and the wider society (Donaldson, 1989).

It is also noteworthy in this connection that in 2019, the Business Roundtable issued a Statement on the Purpose of a Corporation. The statement, made in connection with 181 CEOs, proclaimed that a substantial segment of large corporations are casting away the traditional shareholder-centered model, substituting instead a stakeholder-centered model, according to which a firm commits to generating long-term value for shareholders, while simultaneously giving support to customers, employees, suppliers, local communities, and the environment (Business Roundtable, 2019).

*Shareholder Primacy*

Various writers have endorsed the shareholder primacy doctrine. For at least ninety years a chief tenet of this doctrine has held that managers ought to act so as to advance the interests of stockholder-owners

(Berle and Means, 1932; Friedman, 1970; Jensen and Meckling, 1976; Goodpaster, 1991; Langtry, 1994; Kaler, 2003; Marcoux 2003; Hansmann and Kraakman, 2012; Heath, 2014; Kriegstein, 2015).

Some writers assert that there are fiduciary duties running from directors, executives, and mangers to the firm, rather than to its stockholder-owners (Stout, 2012; Bower and Paine, 2017). Another view maintains that beyond the firm's stockholder-owners there are other stakeholders whose interests ought to be served (Freeman et al., 2010; Pirson, 2017). Yet another position is the contention that the firm should be managed to advance the common good (Melé, 2009; Sison and Fontrodona, 2012) taking as a point of departure in one case, a study of a nonprofit "special employment center" company (Sison, 2007) and, in another instance, an analysis of the concept of work (Garay, 2015).

We may now shift from this background on the theory of the firm and shareholder primacy, returning to deepen the key inquiry of the paper: how do these ideas mesh with hybrid firms?

## Considering Alternative Candidate Interpretations

Recall that the Introduction set forth a set of possible responses to the query about how ToF and SP might be interpreted relative to hybrid firms. The three possibilities raised were as follows: (1) ToF/SP are inapplicable to such firms. That is, hybrid firms fall outside the intended proper scope of ToF and SP. (2) ToF/SP apply to such firms, falling entirely within the scope of ToF and SP. (3) ToF/SP are partially applicable to such firms. As such, hybrid firms are only partially within the scope of ToF and SP – that is, the theory of the firm properly characterizes the profitmaking side of their mission, while the social mission side is not. Let us consider, in turn, each of these possible approaches in greater depth, casting them as alt**e**rnative interpretations $I_1$, $I_2$, and $I_3$.

$I_1$: If one adopts view (1), then ToF and SP appear to lose some of their strength and prestige. These theories cannot be considered as grounding universal law-like descriptive features nor as fashioning apt normative standards for all business. It is simply inaccurate to describe a benefit corporation, for instance, as a firm created to maximize profits for its shareholder-owners. Doing so mischaracterizes the firm by ignoring altogether its social mission.

Nor can it be said that a benefit corporation's prime responsibility is to serve the interests of its investors, since the firm bears obligations to advance the social interests in its charter, and that is what the investors prefer it to do. The investors of a benefit corporation are not simply seeking financial returns for their own sake, as SP would insist. Rather, the investors are expecting the benefit firm to have measurable social impact. Indeed, in the case of a certified B Corp, the firm's responsibility to fulfill such social responsibilities is monitored and enforced by a third-party, B Lab.

Moreover, looking from the more general standpoint of cultural trends, given the rising interest in firms embracing social responsibilities rather than those ignoring or maltreating stakeholders, and the *zeitgeist* of stakeholder governance, ToF and SP may well have passed their expiration dates.

$I_2$: On the other hand, if one assumes view (2), then given that hybrid firms are out of step with the profit-maximizing doctrines that ToF and SP proclaim, such firms might be considered as outcasts or anomalies compared to "real" businesses, given their partial allegiance pro-social missions alongside profitmaking activities.

Accordingly, adopting stance (2), suggests a need to turn to some supplement to or modification of ToF, and SP, or to come up with an alternative model that might replace them, in order to account for an upgraded "nature of the firm" (i.e., one having a dual focus on profitmaking and social mission built into its DNA). This harkens to a clarion call for some alternative conceptions of the "nature of the firm," "agency theory," and an alternative to "shareholder primacy" (all of which various stakeholder theorists have offered, albeit mainly with applicability to profit-oriented firms).

$I_3$: Lastly, if one is inclined to embrace view (3), we end up with something of a Jeckyll-and-Hyde situation. Whereas one side of a hybrid firm remains within the proper scope of ToF and SP (the part that lets the firm make money to sustain itself financially), the social mission side of its mission is better characterized by stakeholder governance.

Some might be inclined to think that the answer is to divide up the territory, as divorcing parents might work out how to divide up their assets and split custody arrangements for their children. "Shareholder theory can keep all the for-profit firms, and we'll let stakeholder theory have the hybrids, social enterprises and nonprofits." But I suspect that many business ethics scholars committed to either shareholder theory or stakeholder theory, respectively, as a matter of intellectual orthodoxy will find that an unsatisfactory approach. They may insist that their treasured viewpoint (shareholder theory or stakeholder theory as the case may be) applies across the board, covering the full spectrum of business enterprises.

Moving forward with an eye to these conceptual interpretive challenges, Part II of the paper begins by elucidating the deficiencies of ToF and SP. Following that, it offers some "breathing space" for business enterprises with the help of two conceptual schematics. The tables attempt to open a window affording an inclusive overview of diverse business firm typologies. The intent is to provide a wider perspective often missing in shareholder versus stakeholder debates that zero in only (or mainly) on profit-maximizing firms. The first table maps diverse firm typologies across a spectrum extending from market economy to social economy. Market economy (Gregory and Stuart, 2004), which constitutes the dominant frame of reference for many for-profit firms, tends to dominate how curricula are structured in business schools. In contrast, social economy covers the sphere of cooperatives, mutual societies, non-profit organizations, foundations, and similar entities. The social economy frame of reference accords recognition to economic sectors characterized by charities and collective not-for-profit initiatives (Mook et al., 2007). The second table presents a teleological hierarchy illustrating relationships of proximate ends of specific firm types to higher moral ends applicable to the full array of enterprises cutting across market and social economies.

## PART II

### The Theory of the Firm's Myopic Typological Focus

On its face, the received theory of the firm is narrowly addressed to a particular slice of business organization typologies, excluding many alternative typologies from its scope. Yet various enterprises embody characteristics of both market economy and social economy (Dees, 1998; Boyd et al., 2009; Billis, 2010). Behind this hybridization of business enterprises is a melding of the logic of commercial exchange, typically operating in the for-profit sector, with the logic of gift typically at play in the nonprofit sector (Benedict XVI, 2009). Whereas the logic of commercial exchange is welded to principles of profit maximization, mutual gains, and the pursuit of financial sustainability, the logic of gift (elaborated later in connection with faith-based firms) attaches to principles such as charity, solidarity, and social sustainability.

Especially in light of widespread trends toward globalization and sustainability, there is a need to question the profit-maximizing obsession with large shareholder-oriented firms, turning instead towards greater inclusiveness in bringing other firm typologies into theoretical view, revealing their respective legitimacy as stakeholder-oriented business enterprises that deploy distinctive stakeholder governance (Allen et al., 2015), and unveiling their distinctive ways of creating value. Likewise, about matters of business beneficence, one may question shareholder primacy's staunch insistence that managers should refrain from engaging in acts of charity because the agency relationship establishes fiduciary duties privileging the interests of shareholders – from both legal and moral standpoints – above all others (Friedman, 1970; Hansmann and Kraakman, 2001; Jensen and Meckling, 1976; Kriegstein, 2015; Marcoux, 2015). It is also worth noting that only a small percentage of all U.S. firms are large publicly traded companies, or C corporations. In fact, C corporations make up only about 5-10% of all U.S. firms. Most U.S. businesses are structured as sole proprietorships, partnerships, or S corporations, which are typically smaller, privately held firms. There are 33.2 million small businesses in America employing 46.4 percent of the total workforce, contributing 44 percent to the GDP, and creating 62 percent of all new jobs. About 80 percent of small businesses are sole proprietorships with no additional staff or workers, while 16 percent have under 19 employees, and 4 percent hire between 20 and 499 employees (Main, 2024).

An adequate normative theory of the firm should include business organizations across the spectrum, from non-profit, to faith-based, hybrid, benefit corporations, family-owned, and profit-maximizing firms. A theory of the firm should encompass the realm of social economy as well as that of market economy (see Table 1). In this way, a theory of the firm accommodates a greater diversity of firm typologies and the profit-maximizing enterprises to which the older economics-based theory of the firm has been addressed.

The upshot of expanding the scope of the theory of the firm in this way is to foster equity in that issues of partiality toward shareholder versus stakeholder interests is left open to choice according to how philosophical questions about the purpose of business (including both financial and nonfinancial objectives) and a host of ethical issues about the pursuit of values (beyond granting default privileging to shareholder preferences).

**Taking a Moral-Philosophical Standpoint**

A shift away from the received theory of the firm suggests a turn toward a moral-philosophical point of view to draw legitimacy from a deeper wellspring than one given by the neoclassical economics standpoint. Concepts constitutive of ESG -- environmental responsibility, social responsibility, and responsible governance -- that have become foundational and integral to what was formerly "the theory of the firm" are not matters of plain fact. Instead, they are *interpretive* concepts whose deployment in business conduct and decision making, entails engagement in controversial matters of values. Indeed, while few may wish to admit it, the same holds for the increasingly trendy concept of "sustainability," which from a critical-reflective interpretive stance can demand more precise specification and further justification: Precisely *what* is being sustained? Why *should* it be sustained? H*ow long* can and should it be sustained, and *at what cost*? (DesJardins, 2020).

Arguably, the contestable nature of decision making facing today's business leaders about the conduct of their firms – even those firms ostensibly pursuing profit maximization strategies -- is based as much on moral philosophy as on economics. The immersion of decision making within ESG criteria, for instance, involves reflection on and debate about the deeper purpose of business, responsibilities that concern nonfinancial values, puzzling matters of social justice, and rights controversies flaring over corporate "diversity, equity, and inclusion" (DEI) commitments.

Philosophical notions, particularly those of the common good and human flourishing, are vital for articulating the higher purposes of business, making them congruent with the higher purposes of humankind. Accordingly, such notions are, I would argue, essential guideposts for upgrading the theory of the firm to widen and deepen its scope.

It is important to stress the purposive nature of business firms. Taking such a vantage point follows the approach taken by Aristotle in questioning the purposive nature of all human endeavors (Solomon 2004). This teleological standpoint is also assumed by business ethics scholars who have questioned the broader purposes that business serves (Calvez and Naughton, 2002; Sison and Fontrodona, 2011). The idea of the common good points beyond competitive pursuits of self-absorbed individuals and beyond the claims of special interest groups. The common good refers to the good shared in common by all. Moreover, the common good establishes the shared conditions that are a prerequisite of the quest for human flourishing for all members of society.

In a way that is analogous to the hybrid firm looking in the two directions of profitability and social good, the common good aims in two directions: to the good of individuals and society. In each case, the dual directions are not necessarily in opposition to one another but rather are correlative. As one scholar puts it: ''any good of an individual that is a real good is rooted in the good of the community, and, conversely, any common good that is a real good is at the same time the good of all individuals who share in that community" (O'Brien, 2009).

As various business ethics scholars have postulated, business is operating at its best when it contributes to the common good (Solomon, 2004; Melé, 2009; O'Brien, 2009; Sison and Fontrodona, 2011). Some scholars have proposed as well that business firm may be examined from the perspective of its own distinctive common good. (Sison 2007; Melé 2009). When considered in conjunction, these postulations suggest that the business firm is engaged in promoting the common good of society when it is engaged in fulfilling its own common good (Sison and Fontrodona, 2011).

**Diversity of Firm Typologies**

From a global perspective, a multiplicity of firms exist in various cultural, political, and religious environments. Firms' objectives are diverse and frequently reveal variation across different countries

(Yoshimori, 1995). To use an analogy, looking to the received theory of the firm to account for all variations of contemporary business enterprises across all continents is akin to expecting European classical music theory of the 18th century to adequately explain contemporary genres of music such as hip-hop and jazz, or say, Indian, Polynesian, Chinese, and African folk music. Consider a triad of firm typologies for which alternative emphasis goes to elements of profitability and financial independence (market economy), poverty alleviation, and solidarity (social economy).

*In Firm Typology A*

Business enterprises are run mainly as for-profit institutions to the end of being financially sustainable in the long term. Financial self-reliance is a precondition of a firm's survival and for remaining capable of continuously expanding its products or services to new clientele. Important as a company's social mission may be, it is sublimated to profit-making capabilities to ensure the firm serves the interests of its shareholders.

*Firm Typology B*

The social and financial missions of business enterprises are merged; a coordination of social and financial functions is at the heart of the "promise" of the company as a sustainable enterprise. To be sure, a business firm has a fundamentally economic character. Accordingly, reasonable efficiency in its management is expected: covering operational costs and realizing some form of added value, surplus or profit. On the other hand, the sustainability paradigm for business emerging over the past several decades presupposes that companies are expected to uphold and even champion social policies. Nevertheless, while the pursuit sustainability presents special challenges for businesses, there is no necessary or incompatibility between the joint pursuit of social and financial objectives.

*Firm Typology C*

Businesses (such as some microfinance institutions and faith-based enterprises such as the Economy of Communion project) are run with principal allegiance to social missions – such as outreach to the poor, environmental protection and promoting other facets of sustainability. The moral justification for business requires a staunch commitment to doing good. Profit is necessary and explicitly intended as a condition to keep doing good.

*Scanning a Wider Spectrum*

Owing to the ToF and the associated SP paradigm, the first of these typologies is sometimes held up as the model or ideal for the nature and purpose of business as such. However, today even some profit-maximizing multinational firms are seeking to demonstrate that they can spread value and profits more broadly across their stakeholders and supply chain. More importantly, holding up only one of these typologies – the for-profit model -- as an embodiment of the exclusive or dominant end-point of business is a conceptual error. The mistake consists of falsely attributing goals or ends of specific kinds of business enterprises to the goal or end of business life in general. It is more perspicacious to launch one's inquiry with the full spectrum of business enterprises at one's disposal – across for-profit, social enterprise, and non-profit varieties – and then inquire as to how best to account for their shared nature and purpose. It is beneficial for us to question and debate what business is and ought to be about. Proceeding from such a broadened outlook, the argument can be made – contrary to the ToF and SP canons that firms exist to maximize profits for shareholders -- that firms exist to advance various aspects of social good, subject to various economic constraints.

A wide swath of various business enterprises may be considered to provide institutional context for this discussion. In the table below, at the top, firms are seen to be arrayed across a spectrum ranging from social economy on the left side to market economy on the right side. Below that, firms are identifiable as Type A, traditional for-profit enterprises; Type B, hybrid social enterprises; and Type C, charitable or nonprofit enterprises. Below that, some various combinations of goals, whether profitmaking or otherwise, are depicted. This is meant to be illustrative, not exhaustive, as other possibilities may exist. At the bottom of the table, these combinations are grouped into the following categories: full subsidy, partial subsidy, trade-offs, and profit-maximizing.

**TABLE 1**
**CROSS-SECTION ANALYSIS OF FIRM TYPES**

<table>
<tr><td colspan="4">Social Economy</td><td colspan="4">Market Economy</td></tr>
<tr><td>Non-profit firms (Type C)</td><td colspan="6">Hybrid firms; Social Enterprises; Faith-Based firms (Type B)</td><td>Traditional For-Profit Enterprises (Type A)</td></tr>
<tr><td>Pure not-for-profit goal</td><td>Non-profit with trading / business activity as part of delivery model</td><td>Organization working toward financial sustainability (some grants)</td><td>Breakeven — all revenues from trading activities</td><td>Profits made, but not distributed back into mission</td><td>Profits made and (some) distributed to investors; profits possibly lower due to social mission</td><td>Commercial, competitive, and profit maximizing; social value proposition built into business model</td><td>Profit-making goal for end of financial sustainability</td></tr>
<tr><td>Full Subsidy</td><td colspan="2">Partial Subsidy</td><td colspan="3">Trade-Offs</td><td colspan="2">Profit-Maximizing</td></tr>
</table>

Referring to the table helps one conceptualize how hybrid enterprises (such as B Corps and some faith-based businesses) are situated between the extremes of for-profit and nonprofit businesses. This point is further elaborated in the next section. The table also helps one see that traditional for-profit enterprises – the targets of ToF and SP -- make up only a subset of the wide variety of firms. The table is not meant to express the relative size or number of the various business enterprises, nor is it geared to representing the relative size or number of various business enterprises in any particular country or region worldwide.

**Hybrid Firms and Social Enterprises**

Whereas hybrids function within a market economy by running a "real" business, contrary to the orthodoxy of ToF and SP, their ends are not singularly financial. Contrary to ToF's tenets of agency theory, whereby managers owe duties to advance the interests of shareholders, in the case of hybrids, the duty of managers surpasses that of acting in the interest of shareholders. Instead the duty is bifurcated: the principal duty of managers transcends advancing the interests of shareholders of the firm. The end of the hybrid is to attain financial sustainability and promote good for the community, that is, social and environmental sustainability. As such, hybrid firms adopt governance structures aimed to satisfy the peculiar needs of business enterprises committed to achieving pro-social ends (Sertial, 2012).

The specific details of governance structures are different among hybrid firms. However, the hybrid's architecture normally forges together the goals of, on the one hand, a profit-oriented firm and, on the other hand, the nonprofit charitable organization. An example of a successful hybrid social enterprise is Google.org, which embodies the dual characteristics of a for-profit firm and a company devoted to social betterment. The for-profit firm Google.com extended a grant of 3 million shares to fund Google.org., and committed to donating 1 percent of the company's annual profits to Google.org. Besides providing grants that back social programs, Google.org also engages in for-profit investing. Not all hybrid firms pattern themselves with the particular components of the Google.org structure. Nevertheless the firm is an illustration of a for-profit firm that has successfully adopted a robust and workable pro-social structure.

In terms of the argument of this paper, the existence of viable hybrid firms tends to count against one of the assertions contained in what was designated interpretation I2 -- the claim that hybrid firms are, from the standpoint of ToF and SP, "outcasts and anomalies." One particularly viable variety of hybrid firm that is growing in prominence is the benefit corporation.

*Benefit Corporations*

The designations "benefit corporations" (or "B Corps"), on one hand, and "certified B Corporations" (or "certified B Corps"), on the other, are sometimes confused. There are some shared features, but there are also differences. Both business entities pledge to higher accountability standards by expanding their directors' fiduciary duty to encompass stakeholder interests (Horton, 2020). Some firms adopt the benefit corporation framework to satisfy B Corp certification's legal standards. Most benefit corporations, though, are not certified B Corporations (certified B Corps). To meet certification performance requirements, certified B Corporations are required to complete "B Impact Assessment," attaining a minimum verified score of 80 out of 200 points. In contrast, (non-certified) benefit corporations are not required to reach any minimum verified level of overall social and environmental performance.

The continued emergence of B Corps challenges the economics-based assumption of ToF that the overriding purpose of business is to maximize profits for shareholders. The B Corp movement opens up room within and alongside the market economy for economic activity of individuals choosing to act from motivations beyond profit-taking, what has been called "more than profit" (DesJardins, 2020).

Structured with those mentioned above expanded fiduciary duty and verified performance system, B Corps are backed by investors aiming to reconfigure market infrastructure and set up impact governance arrangements to create a more collective and sustainable prosperity (Kassoy et al, 2016).

The activities of certified B Corps receive verification by the nonprofit B Lab. The firms must satisfy standards of social and environmental performance, public transparency, and legal accountability, all of which are intended to generate value beyond shareholders, redounding to the benefit of society and the planet. Adding to the ranks of certified B Corp firms in the United States are thousands of other firms registered as "benefit corporations" under state corporate statutes. Additionally, many more thousands of businesses use B Impact Assessment as a cloud-based tool for measuring and managing their social impact (Kassoy et al., 2016).

One illustration of a well-known B Corp is Patagonia, which is a privately held company. While Patagonia endeavors to earn profits for its owners, it also channels revenue to environmentally friendly activities, invests in renewable raw materials, and donates to environmental nonprofits. It is noteworthy that successful, familiar B Corps such as Patagonia, along with Illycafè, and a host of others, can be held up as evidence of viable business firms that accord intrinsic value to corporate social responsibility and sustainability – in contrast to firms that value pro-social engagement only instrumentally, where the so-called "business case" can be made for it.

The rising prominence of B Corps, both in the U.S. and globally, is part of a larger harkening to an alternative paradigm supplanting that of traditional shareholder profit maximization. Across numerous parts of the globe, society is ramping up expectations for businesses to be engaged in curing for the ills of environmental devastation, poverty, and economic inequality (Alvarez et al., 2020).

Managers working within the B Corp framework are legally bound to value a range of social concerns reaching far beyond the attention normally given to profits and shareholder returns. As such, the managerial outlook is widened. Business initiatives that might otherwise never have been undertaken by for-profit firms find an alternative source of legitimation. Whereas value is accounted for more broadly, such an augmentation may be significantly constrained by whatever metrics a firm has implemented to capture performance. Such constraints may, however, be welcomed for bringing abstract or unrealistic aspirations down to real-world results that the firm must materialize tangibly, contributing to organizational subsistence.

*Social Enterprises*

Mohommed Yunus describes a social business as ‘‘a non-loss, non-dividend enterprise, created to do good to people, to bring positive changes to the world, without any short-term expectation of making money out of it’’ (Yunus, 2007). Social enterprises are hybrid firms in that they develop as commercial enterprises yet are not designed to create profits for investors. Here is Yunus’ portrayal of the higher-end pursued by social enterprises:

> In its organizational structure, this new business is basically the same as the existing PMB [profit-maximizing business]. But it differs in its objectives. Like other businesses, it employs workers, creates goods or services, and provides these to customers for a price consistent with its objective. But its underlying objective—and the criterion by which it should be evaluated -- is to create social benefits for those whose lives it touches (Yunus, 2007).

Taken as a surplus of revenue over the firm’s operating expenses, profits are expected, but are not paid out to investors as dividends. Yunus describes the process as follows:

> The company itself may earn a profit, but the investors who support it do not take any profits out of the company, except recouping an amount equivalent to their original investment, over a period of time. A social business is a company that is cause-driven rather than profit-driven, with the potential to act as a change agent for the world (Yunus, 2007).

Yunus supports a complete social enterprise decoupling from the outmoded profit-maximization paradigm. (Yunus, 2010). A “logic of gift” operates alongside a principle of gratuitousness in that individual donative acts establish relationships where future exchanges of various kinds are enabled (Faldetta, 2011).

Yunus also founded Grameen Bank, a microfinance organization and community development bank. Building upon Grameen Bank’s capabilities in social networking across the poor in rural areas, Yunus established Grameen-Danone as an independent social enterprise, operating with investment assistance and expertise from Groupe Danone. This business partnership was able to grow partly due to Yunus’ success in persuading Group

Danone’s management that they would be unable to solve social problems remaining within the structure of a profit-maximizing firm. Yunus maintains that donors are attracted to investing in social enterprises when the firms are well structured and run to provide social benefits more efficiently than when attempted by alternative conventional businesses.

*Faith-based Firms*

In line with Yunus’ vision discussed above, faith-based business models generally proceed from a spiritual conception of humankind rather than a materialistic one. According to such a conception, humans are fundamentally sacred, soul-possessing beings situated in a physical world. Further, from a spiritual perspective, people are understood to harbor both materialistic and non-materialistic drives and motives. For faith-based business models, secular (material) wants and outcomes are, from practical and moral standpoints, respectively, mediated within, and evaluated against, deeper spiritual convictions and sacred commitments (Jackson, 2021).

Some examples of just a handful of the many innovative and successful faith-based business models that cut across the full spectrum of Type A, Type B, and Type C firms, and which are operating successfully across the globe include: Mt. Saint Mary’s Abbey (candy factory of Trappistine Sisters in Wrentham, MA), Leket Israel (largest nonprofit food rescue charitable organization in Israel), Mondragon cooperatives (for-profit employee-owned network of firms in Spain), Scott Bader Co., Ltd. (global for-profit chemical firm founded upon Quaker.

Principles, with common ownership/trusteeship), Organic India (certified B-Corp. embracing a “vehicle of consciousness” business model), Aravind Eye Care System (network of medical facilities, community outreach efforts, factories, and research and training institutes in India), and TAHITO Financial Services (indigenous ethical investing firm based on Māori ancestral principles) (Jackson, 2021).

Another faith-based enterprise, Economy of Communion, is part of the Focolore movement, which aims for unification and poverty alleviation from the love of neighbor and love of humanity (Gustafson and Harvey, 2024). Being led by the logic of gift, the Economy of Communion enterprise uses a distinctive mechanism for the distribution of profits. The profits are separated into 3 parts, the first of which is allocated to the materially poor, the second of which is retained for reinvesting, and the third of which sustains the firm's infrastructure and advances its culture of giving, including educational and formation programs (Uelmen and Bruni, 2006).

Shareholder and owner participation in the Economy of Communion's profit sharing is voluntary in that neither is legally obligated to grant part of their profits to the enterprise. Rather, decisions regarding profit sharing are made from individuals inside the business. This structure extends the for-profit firm the liberty to be involved in the Economy of Communion to the degree it desires without having to comply with strict guidelines. Although such a measure of freedom allows broad ownership opportunities for many individuals, it carries a potential for negative shareholder impact through reducing dividend size. So a shareholder majority must consent to Focolore ideals and be willing, if necessary, to forgo returns. As a result, the Economy of Communion and other social enterprises adopting this business model might find it hard to operate as a publicly traded firm or to operate in arrangements with a separation of management from ownership. Nevertheless, a raising of ethical investment funds through the stock market could be a way of raising capital for an Economy of Communion business model. Economy of Communion businesses could also press for shareholders to renounce dividends and donate them back to the company (Gold ,2010).

The economy of Communion deviates from conventional business models in several respects. Pay structure is arranged such that employees are rewarded for extra effort put forth and for helping to increase the efficiency of the business. Also, special recruitment policies are used, for instance, reintroducing people with hardships into employment, balancing this with maximum efficiency. In addition, Economy of Communion uses participative management, supporting employee involvement in its decision-making processes. Finally, Economy of Communion firms proactively foster a sense of solidarity within their ranks by holding events encouraging interactions between employees and their families (Gold, 2010).

**Teleological Analysis of Business Firm Typologies**

Building upon the preceding discussion, we can turn to distinguishing between the proximate, higher pro-social, and the highest (transcendent) ends of an array of business enterprises. The teleological structure of Table 2 below shows how successively higher ends of business (and values presupposed and endorsed by such ends), attach to various business enterprise designs. One advantage of such an approach is to connect abstract philosophical notions, such as the common good (Sison and Fontrodona, 2012) and human flourishing (Melé, 2009) to more concrete institutional characteristics of business enterprises.

In Table 2, "proximate ends" designate the comparatively more immediate purposes of conducting business, as understood within the particular typology. Here, identifying the immediate purpose of business helps to characterize the typology and is taken in a more specific and concrete sense than the purpose revealed in the higher pro-social ends. But this higher end remains subordinate to yet another end, which is the absolute last end, one "for the sake of which all other things are desired, and which is not itself desired for the sake of anything else." (Aquinas, 2006).

In terms of how the triad of firm typologies is specified, it is seen that the proximate end of firm typology A is profitmaking with an eye toward financial sustainability. The proximate end of firm typology B is hybrid development pursued by merging financial and social objectives. The proximate end of firm typology C is alleviating poverty and other problems through social outreach. However, it is possible to discern the higher pro-social ends of mutual benefit, shared value, social contract, solidarity, and sustainability, which apply to all business enterprise varieties. There are transcendent ends – which constitute yet higher ends- that are similarly applicable to all of the typologies. Such highest ends are congruent with arguments systematically advanced by business ethicists that moral responsibilities attach to all business ventures.

**TABLE 2**
**TELEOLOGICAL MORAL-PHILOSOPHICAL PORTRAIT OF FIRMS**

| | | | |
|---|---|---|---|
| Transcendent ethical ends (across all firm typologies). | Common good (Sison & Fontrodona, 2012); Human flourishing (Melé, 2009); Moral minimum (Bowie ,2017); | | |
| Pro-social ends | Mutual benefit, social contract fulfillment, solidarity, sustainability | | |
| Proximate ends | Assistance, welfare | Merging financial & social goals | Profitability maximization |
| Modus operandi | Logic of gift | Hybrid economic logic | Logic of exchange |
| Economic Sector | Social economy | Crossbreed economy | Market economy |
| Governance | Stakeholder-centric | Stakeholder-centric | Shareholder/ Stakeholder centric |
| Business Enterprise typology | Charitable/nonprofit Enterprises (typology C) | Social Enterprises; B Corps (hybrids of typologies A & B; B & C) | For-Profit Enterprises (typology A) |

**Seeking a Fully Normativized Theory of the Firm**

*A Thought Experiment*

Suppose that all corporations are legally required to incorporate in a hybridized form that privileges neither the interests of shareholders nor the interests of stakeholders. It is against the law to set up a profit-maximizing corporation that serves only, or even predominately, the interests of shareholders. Under threat of involuntary termination, all firms must be geared toward the dual objectives of making money *and* materially advancing social good. Based on this hypothetical assumption, what will a normative "theory of the firm" look like? It will, I argue, be a theory in which, *a priori*, neither "shareholder primacy" nor "stakeholder primacy" would reign supreme, at least when considered as fully normative categorizations. I claim that such a theoretical scenario follows from the moral counterpart to this legal thought experiment. I call this postulation the "fully normativized theory of the firm."

It is along such lines that I voice a reminder that both shareholder-privileged and stakeholder-privileged theories of the firm can encompass a wide spectrum of typologies of firms. Further, I propose a robust normativization of the theory of the firm to go beyond normativizing shareholders and managers within the confines of shareholder primacy so as to encompass *prima facie* normativization of *all* relevant moral agents: shareholders, managers, firms, and any non-shareholding stakeholders that may warrant moral consideration given the firm-type operating in a specific case context at hand.

By "normativization" here is meant regarding shareholders, managers, and all stakeholders of a business firm in a fully moral light that does not presume *a priori* either shareholder primacy or stakeholder primacy in a doctrinal sense. Shareholders have moral claims on firms in light of their ownership thereof. Yet equally, stakeholders also have moral claims on firms in light of those firms' impacts upon them. Taking this kind of broadened normativized perspective on ToF involves regarding business participant roles not simply as conventionally designated legal and economic roles (e.g., as principals and agents), but instead seeing them more broadly as constructed roles for humans that carry *prima facie* moral obligations extending well beyond economic and legal considerations.

Competition *Defeasibility of Priority*

From this broadly humanistic normativization standpoint, one cannot plausibly claim fundamental moral preference or default across-the-board priority – that is, primacy- for either stakeholders or stakeholders *per se*. Depending on the case and context, any attempted privileging for either shareholders or stakeholders can be defeated by first-order or sometimes second-order reasons. Under the *balance of moral reasons*, which are not knowable in advance of prior commitments to shareholder primacy or to stakeholder importance, in any particular case at hand, shareholders may or may not warrant moral privileging over other stakeholders, and vice-versa. Thus any purported claim that a manager occupies a fiduciary role to shareholders is matched by a host of potentially overriding associational obligations that may run to other stakeholders, all of which must be interpreted per the firm typology at hand together with considerations of the firm's enmeshment in the issues at and the particular values of the firm.

*Rejecting the 'Incompatibility Thesis'*

It follows that one must reject the following incompatibility thesis, which holds that "[stockholder and stakeholder] theories present distinct and incompatible accounts of a business person's ethical obligations, and hence, at most one of them can be correct" (Hasnas, 1998, p. 20). Rejecting the incompatibility thesis entails that: (i) when generalized to be applicable and relevant across the spectrum of firm typologies; and (ii) when normativized to equip one to discern and interpret -- without prejudicing or biasing beforehand the moral obligations of shareholders, firms, and managers -- the dichotomy of shareholder primacy versus stakeholder primacy falls away, ceasing to serve as "distinct and incompatible accounts of a business person's ethical obligations." The moral obligations of businesspersons are not absolute; they exist within an ethical framework where various prima facie duties must be balanced. While law-based and economically oriented fiduciary duties incline them to prioritize shareholder interests, they must also prioritize the welfare of stakeholders. This balancing act reflects Ross's view that ethical decision-making involves navigating competing moral claims rather than adhering strictly to only one set of obligations (Ross, 1988).

The conceptual categories of "shareholders," "principals," "agents," "fiduciaries," "stakeholders," "managers," "firms," and so forth, are interpretive concepts. In the theory of the firm, moral agency is not an entirely self-contained practice that produces obligations automatically. Associative obligations – such as managerial fiduciary obligations toward shareholders as well as social obligations toward various stakeholders – are derivative from more general moral duties. Correspondingly, fiduciary obligations do not preempt the moral neighborhood. A brute assignment of agency responsibility to a purported agent for some purported principal, while imposed by law, custom, or economic efficiency may be morally inert.

Antecedent to managers committing to either shareholder primacy (extending priority to those providing resources to the firm) or to stakeholder primacy (extending priority to those vital to the survival and success of the firm), or remaining agnostic to such a dichotomy, it is necessary to consider what the relevant moral obligations are. What matters is the context, which will include considerations such as: firm typology, proximate ends, higher/pro-social ends, and associative and performative obligations with those inside and outside the firm. Altogether, the manager will revert to the overall *balance of reasons* for their moral obligations. These obligations do not spring forth merely as legal, economic, or prudential matters, nor can they spring forth merely from convention. Neither shareholder primacy nor stakeholder primacy can claim absolute moral authority or comprehensive ideological allegiance independently of a case – and the integrity of interpretation flowing from any case depends upon the set of associational or performative obligations appropriate for the firm typology and all of its ends.

*Corporate Governance Compatibilism*

The rejection of the incompatibility thesis leads to what might be termed corporate governance compatibilism. Whereas legalistically-oriented and economics-based approaches to ToF tend to portray shareholder and stakeholder models as irreconcilable, shareholder and stakeholder theories can coexist harmoniously from a wider moral standpoint. Shareholders, as owners, have fundamental moral claims due to their financial investment and risk-bearing role. Simultaneously, stakeholders, including employees, customers, and communities, possess fundamental moral claims because corporate actions directly impact them. Yet fundamental moral claims need not be equated with absolute moral claims. This perspective mirrors philosophical compatibilism, reconciling determinism with free will by suggesting that both can be true without contradiction.

## CONCLUSION

Scholars who embrace either the shareholder primacy thesis or the received theory of the firm (or both, given their connectivity) find a challenge when faced with various hybrid business entities such as social enterprises, faith-based enterprises, and benefit corporations that are run by a diversity of purposes and intersectional responsibilities.

This paper has suggested that if shareholder primacy and the theory of the firm are meant to provide sufficiently comprehensive theoretical accounts of business enterprises or of business in general, whether in a descriptive or justificatory capacity, then the question arises how such accounts square with firms that are not designed or intended to maximize profits for shareholders, as shareholder primacy and the theory of the firm would maintain. Raising this question led to a consideration of several possibilities.

One was the possibility that shareholder primacy and ToF are restricted in their reach, extending only to certain types of firms, that is, publicly-traded for-profit enterprises. Along this line of thought, it was noted that hybrid companies (as well as non-profit companies) occupy a position beyond the proper reach of SP and ToF. Such firms fall outside the circle of concern of shareholder primacy, which is that of addressing the overriding mission of business as a profit-maximizing endeavor.

If this is the case, it was argued, then it is time to draw a line of demarcation to reign in SP and ToF, with an acknowledgement from their adherents that such theories, far from providing universal or even comprehensive up-to-date knowledge of the "nature of the firm" are suitable for describing and justifying only selected features of some forms of business enterprise. If this approach is followed, I argued, then there needs to be some substitute descriptive and justificatory theory fit for such non-profit-maximizing firms.

An upgraded theory of the firm ought to be widened into a theory of firms that covers the broader range of diverse firm typologies under its umbrella. In addition, an upgraded theory of the firm should be deepened into a theory in which higher moral ends occupy a position as core assumptions instead of as adjustments or accommodations made as correctives for deficiencies in the economics-driven postulations of the theory of the firm, in particular, the shareholder primacy doctrine.

Part II of this paper sought to sketch in broad outline some lines along which an alternative moral-philosophical theory of the firm -- one grounded in notions such as the common good and human flourishing -- might be constructed to underwrite hybrid firms and social enterprises more cogently than ToF and SP are capable of accomplishing.

An implication of the analysis provided in this paper that may upset some scholars is that it takes some of the wind out of the sails of SP and ToF by showing why these doctrines, at least as they currently stand, do not provide a satisfactory normative theory for the panoply of contemporary business enterprises.

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