Original Paper

Friedman Doctrine: Maximizing Profits is Neither Good for Society Nor Even for the Shareholders

Y. Datta*

1 Professor Emeritus, Northern KY University, Highland Heights, KY 41099, USA
* Y. Datta, Professor Emeritus, Northern KY University, Highland Heights, KY 41099, USA

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Abstract

This paper is an attempt at a critique of Milton Friedman’s article titled: “A Friedman doctrine—The Social Responsibility of Business is to Increase Its Profits” published in the New York Times Magazine fifty years ago. The publication of this doctrine sparked a revolution. Ronald Reagan found it a powerful platform from which to launch his radical free-market agenda. The event marked a turning point when America embarked on a journey towards unfettered capitalism.

Encouraged by the Friedman doctrine American CEOs chose a path toward profit maximization/maximizing shareholder value: a mindset that favored risk aversion and a short-term focus on cost reduction vs. long-term need for innovation, quality and customer satisfaction. And it is this historic psychological shift that has contributed so much to America’s industrial decline.

Economic inequality in America has been going up persistently since 1974, squeezing the middle class. America’s income inequality has now widened so much that it rivals the highest level recorded in 1928 that led to the Great Depression of 1929.

Friedman’s essay has three major flaws. First, it is offered as a doctrine not a theorem. Second, it is grounded in the moral philosophy of self-interest—and greed. Third, it does not distinguish between short-term and long-term shareholders.

Friedman’s theory of profit maximization is too difficult, too unrealistic—and immoral.

Based on an extensive analysis, we have come to the conclusion that profit maximization is neither good for society nor even for the shareholders.

Keywords

Social compact for stakeholder governance, profitability and market share key business objectives, profit a constraint not a business objective, profit maximization too difficult, too unrealistic, and immoral, full-cost pricing, satisfactory profits, price a strategic not a tactical variable
1. Introduction

In an article published in *The New York Times Magazine* fifty years ago Milton Friedman (1970), Professor of Economics at the University of Chicago—who later won a Nobel Prize—declared that the social responsibility of a business is “to increase its profits” and “to make as much money as possible” (italics added).

In the 1962 edition of his book *Capitalism and Freedom* (2002), he asserted that a company had no “social responsibility” to the public or society, but only to its shareholders (Tett, 2019; Note 1). He forcefully alleged that “social responsibility” is a “fundamentally subversive doctrine,” and its advocates in a free-enterprise system are “preaching pure and unadulterated socialism” (Friedman, 1970; italics added).

1.1 The Friedman Doctrine Sparked a Revolution

And it is this doctrine that has guided businesses and economists for the last fifty years (Wolf, 2020). Gillian Tett (2019) reports, that the essay sparked a wide revolution. Ronald Reagan and Margaret Thatcher found the Friedman doctrine as a powerful platform from which to launch their radical free-market agenda. Economists, such as Eugene Fama, declared that free markets were the only valid path of growth and value. Likewise, law professors, such as Lucian Bebchuk, affirmed that corporate boards had no right to ever overrule investors even if they had a short-term focus.

The publication of the Friedman doctrine represented a turning point. This is when economists and business leaders in America embarked on a path toward unfettered capitalism.

1.2 The Friedman Doctrine has led to America’s Economic Decline

Encouraged by the Friedman doctrine, American CEOs set themselves on a journey toward profit maximization—or its counterpart maximizing shareholder value. This new mind-set encouraged risk aversion and short-run behavior: an accountant’s short cut to profits, with a focus on cost reduction rather than long-term concerns about innovation, quality, and customer satisfaction (Hamel & Prahalad, 1994, chap. 1). And it was this momentous philosophical shift—from substance to shadow—that has contributed so much to the American industrial decline (Hayes & Abernathy, 2007).

Lower quality and lack of innovation played a key role in the virtual disappearance of U.S. companies from the consumer electronics industry, and their loss of world dominance in such markets as automobiles, steel and tires (Datta, 1997).

Economic inequality in America has been going up persistently since 1974, squeezing the middle class. America’s income inequality has now widened so much that it rivals the highest level recorded in 1928 that led to the Great Depression of 1929 (Datta, 2011). Finally, a relentless drive toward deregulation led to a massive meltdown of the financial markets in 2008: the worst financial disaster since the Great Depression of 1929 (Datta, 2010c).

1.3 Major Change in Structure and Philosophy of the Corporate World

According to Martin Lipton, a partner in the law firm of Wachtell, Lipton, Rosen & Katz (WLRK), that starting with the 1960s, the fundamental structure—and philosophy--of the corporate world has gone
through a dramatic change (Lipton, 2020, p. 23).

So, before we analyze the Friedman doctrine, we need to examine the history of stakeholder theory, shareholder theory, and the rise of the pension and mutual funds. In addition, we need to look at the implications of the medieval mechanistic scientific ideology of mainstream Economics.

1.4 An Outline of the Paper’s Topics

This is a long paper, and so to make it easy for the readers to navigate through it, we have divided it into three sections as follows:

Section I: Stakeholder and Shareholder Theory

2. Berle and Means’ Stakeholder theory of the Corporation
3. The Pension and Mutual Fund Revolution
4. Stakeholders’ welfare Justifiable on the basis of theory of Property
5. Delaware Law: Board of Directors Manage a Corporation to Benefit All Stakeholders
6. A Social Compact of Stakeholder Governance

Section II: Key Business Objectives

7. Profitability and Market Share Key Business Objectives
8. Drucker’s Framework for Defining Business Purpose and Key Objectives
9. Ansoff’s Practical System of Objectives
10. Need for a New Business Challenge
11. Profit Maximization: too Difficult, too Unrealistic—and Immoral
12. Simon’s Satisfying Behavior Model
13. Price is a Strategic, not a tactical variable

Section III: Examination of the Friedman Doctrine

14. The “Milton Friedman 50 Years Later” Debate
15. Medieval, Mechanistic Scientific Ideology of mainstream Economics
16. A Critique of the Friedman Doctrine
17. Major Flaws of the Friedman Doctrine
18. How Friedman cleverly Framed the debate that stakeholder-welfare is “Socialism”
19. Friedman’s “Pseudo-science” static-equilibrium Methodology
20. Friedman’s quest for analytic Rigor to claim the Mantle of Science
21. How “Shareholder value” “cult” has survived when No law sanctions it
22. Profit Maximization Neither good for Society Nor even for Shareholders

Section I: Stakeholder and Shareholder Theory

2. Berle and Means’ Stakeholder Theory of the Corporation

In 1932—three years after the Great Depression—Berle and Means first published their book The Modern Corporation and Private Property (1968). They documented two powerful movements: (1)
“The growing concentration of industry and, (2) The separation of ownership and control (McCraw, 1990).

What gave their work its strength was its “presentation in extended analytical form, through an ingenious mixture of statistics, highly technical legal argument, and philosophical speculation” (ibid, italics added).

Berle and Means contended that industry has become concentrated; that ownership has been separated from control.

They asserted that the American corporation has “ceased to be a private business device,” and has become a “major social institution” (ibid, italics added).

These two trends severely undercut Adam Smith’s—the patron saint of free markets, and Friedman’s idol—precept of the invisible hand that governed, as if by magic, the workings of a market populated only by small individual owners during Adam Smith’s time around the latter part of the eighteenth century.

Berle and Means (ibid) further point out that the traditional “owners”—the nineteenth century entrepreneurs—had been displaced by a faceless horde of investors: who had “exchanged control for liquidity,” and who were concerned only with short-term profit (McCraw, 1990; Datta, 1997, italics added).

Berle and Means, therefore, asserted that the claims of shareholders’ ownership, their passive property rights, and the claims of management control must yield before the larger interests of society. As such, they advocated a pluralistic view of the large publicly-owned corporation in which top management is charged with “balancing a variety of claims by various groups in the community and assigning to each a portion of the income stream on the basis of public policy rather than private cupidity” (McCraw, 1990; Datta, 1997, italics added).

The legal scholar Jerome Frank compared the book to Adam Smith’s Wealth of Nations, and the historian Charles Beard to The Federalist. The Nation’s reviewer called it “epoch-making,” and The New Republic called it “epoch-shattering” (McCraw, 1990; italics added).

McCraw (1990) believes that Berle and Means’ contribution has affected not just a single discipline but all of the social sciences. It is a classic that falls in the category of such works, as Veblen’s The Theory of the Leisure Class, Tawney’s Religion and the Rise of Capitalism, and Weber’s the Protestant Ethic and the Spirit of Capitalism.

Like these classics, The Modern Corporation and Private Property “spoke directly to the very nature of capitalism. It etched two powerful ideas—industrial concentration and the separation of ownership and control—into the thoughts of a broad body of intellectuals, and thereby gained a permanent place in the life of the mind” (ibid, italics added).

Shortly before he died in 2005, Peter Drucker was celebrated by Business Week as “the man who invented management” (Note 2). Drucker (1991) too, thinks that Berle and Means’ work is “arguably the most influential book in U.S. business history” (p. 114, italics added; also, Datta, 1997).

Ralph Cordiner, then CEO of General Electric, made a call for a similar philosophy. He said that the top management of a large publicly-held corporation was a “trustee” of the enterprise whose responsibility was to manage the corporation “in the best-balanced interest of shareholders, customers,
employees, suppliers, and plant community cities” (Drucker, 1991, p. 108, *italics* added). Cordiner’s slogan soon became quite popular, and many American corporations incorporated it in their “corporate philosophy” statements (Drucker, 1987, p. 16).

Another critic of the shareholder theory, who was ahead of his time, was Prof. Freeman (1998), who, too, called for a *stakeholder* theory of the modern corporation.

### 3. The Pension and the Mutual Fund Revolution

Pearlstein (2013) of *Washington Post* wrote an article titled: “How the cult of shareholder value wrecked American business.” He said that by the mid-1980s companies with *lagging* stock prices became the targets for *hostile takeovers* by *rivals* or corporate *raiders* using newfangled “junk” bonds to finance their purchases. He then went on to say:

- “The mere *threat* of possible takeover imbued corporate executives and directors with a *new* focus on *profits* and *share prices*, *tossing aside* old inhibitions against laying off workers, cutting wages, closing plants, spinning off divisions and *outsourcing* production overseas” (*italics* added).

Peter Drucker (1991), too, reports that the *most* powerful *setback* to Cordiner-style management was the emergence of the *hostile-takeover* movement of the 1980s. As a result, the “survivors have been *forced* to change drastically how they manage, or at least to change their rhetoric.” Drucker declares that “no top management I know now claims to run its business as a ‘trustee’ for the ‘best balanced interest’ of ‘stakeholders.’”

Today, adds Drucker, “nearly all CEOs of large U.S. companies proclaim that they run their enterprises ‘in the interests of the shareholders,’ and ‘to maximize shareholder value’” (*ibid*., pp. 108-109, *italics* added; also, Datta, 1997).

According to Drucker (1991), the *pension funds* have been the major driving force behind this change. The rise of this new class of investors has been the result of a quiet *revolution* that has taken place in American business: the *shift* in ownership of the large *publicly-held* corporation to representatives of the employee class, that is, *pension* funds and *mutual* funds. In 1991, adds Drucker, these institutional investors controlled about 40 percent of publicly-traded common stock of the U.S. firms. The U.S. security laws, with their emphasis on *liquidity*, require institutional investors to *diversify* their portfolios. As a result, the ownership of company stockholdings is increasingly becoming *fragmented* (*ibid*). With a focus on *liquidity* the trustees of institutional funds therefore tend to act more as *short-term* investors than long-term owners (Bhide, 1994; also, Datta, 1997).

#### 3.1 “Maximizing Shareholder value” has Little Staying Power

For most people maximizing shareholder value in reality means *higher* share prices *within* six months or a year. Drucker (1991) asserts that such short-run capital gains are the *wrong* objective: for *both* the corporation as well as the majority of its shareholders. “As a theory of corporate performance, then, ‘maximizing shareholder value’ has *little* staying power” (*italics* added).
Jack Welch, CEO of General Electric, has said that “on the face of it, shareholder value is the dumbest idea in the world” (Denning, 2013; italics added).

4. Stakeholders’ Welfare Justifiable on the Basis of Theory of Property

Donaldson and Preston (1995) suggest that, ironically, the stakeholder model can be justified on the grounds of the theory of property. The model defines stakeholders with regard to their legitimate interest in the corporation, rather than the other way around. The traditional view is that a focus on property rights justifies recognizing the dominance of shareholders’ interests. However, Donaldson and Preston present the argument that the current thinking regarding the philosophy of property runs in a counter direction. They conclude that the “contemporary theoretical concept of property clearly does not ascribe unlimited rights to owners, and hence does not support the popular claim that the responsibility of managers is to act solely as agents for the shareowners” (pp. 83-84, italics added; Datta, 1997).

5. Delaware Law: Board of Directors Manage a Corporation to Benefit All Stakeholders

Back in the 1970s Martin Lipton was a “lone voice crying out in the wilderness—decades before anyone else”--”how short-term shareholder primacy would become a destructive force in society at large” (Georgescu, 2020).

Lipton (2020, p. 24) says he has supported stakeholder governance theory for over 40 years. He points out that in Delaware—which is the corporate capital of America--it is consistent with Delaware law that corporate “boards may exercise their judgment to manage for the benefit of all of its stakeholders over the long term. That it is the corporation, qua corporation, that commands the fiduciary duty of its board of directors” (italics added).

In a Harvard Law School forum on corporate governance, Horvath and Hastings (2019) confirm Lipton’s position in this matter. They say that a “fundamental precept of Delaware law is that the board of directors—and no one else—is tasked with managing the business and affairs of a corporation. In that role, directors have broad discretion to exercise their business judgment and are presumed to act in the corporation’s best interests.”

6. A Social Compact of Stakeholder Governance

6.1 The Business Roundtable

Prof. Eric Posner (2019, Note 3) reports that in 2019 the Business Roundtable (BRT), a group that represents CEOs of large corporations, declared that it had changed its mind about the “purpose of a corporation.” That purpose is no longer to maximize profits for shareholders, but to benefit other “stakeholders” as well, including employees, customers, and citizens (italics added). Prof. Posner says that Friedman was wrong about his “shareholder theory” because it “provides corporations with too much room to violate consumers’ rights and trust” (italics added, Note 4).

Wartzman and Tank (2019) report that the latest research--based on the Drucker Institute’s measure of
corporate effectiveness--says that “there is a lot of truth to both of these notions.” The “181 CEOs who signed the BRT statement stack up quite well….in delivering value to a broad range of stakeholders” (ibid).

Jamie Dimon, CEO of JPMorgan Chase & Co.—and BRT’s chairman--said the new statement on the “purpose of a corporation” “more accurately reflects how our CEOs and their companies operate,” and at the same time it “will help to set a new standard for corporate leadership” (ibid).

6.2 A Proposed Social Compact of Corporate Governance

A social compact means a voluntary agreement among the members of a society to cooperate for common benefits. It is not a legal document, but a broader social framework for the board of directors to conduct the affairs of the corporation for the benefit of all stakeholders.

We could not have chosen a better ambassador outlining a social compact for stakeholder governance than Martin Lipton for whom “stakeholder primacy is mostly about preserving and growing markets. If society collapses, so do markets” (Georgescu, 2020).

Lipton (2020, pp. 22-25) says he has supported stakeholder governance for two reasons:

- First, to “empower boards of directors to reject opportunistic takeover bids by corporate raiders, and later to combat short-termism and ensure that directors maintain the flexibility to invest for sustainable long-term growth and innovation.”
- Second, “corporations and their boards—consistent with Delaware law—may exercise their business judgment to manage for the benefit of the corporation and all of its stakeholders over the long term.

Lipton (ibid) then presents a social compact about the formulation of corporate purpose and objective in these words:

- “The purpose of a corporation is to conduct a lawful, ethical, profitable and sustainable business in order to ensure its success and grow its value over the long term. This requires consideration of all the stakeholders that are critical to its success (shareholders, employees, customers, suppliers and communities), as determined by the corporation and its board of directors using their business judgment and with regular engagement with shareholders, who are essential partners in supporting the corporation’s pursuit of its purpose. Fulfilling this purpose in such manner is fully consistent with the fiduciary duties of the board of directors and the stewardship obligations of shareholders.”

He suggests that this statement of corporate purpose is broad enough to apply to every business, but at the same time provides clear guideposts for action and engagement. The basic objective of sustainable profitability recognizes that the purpose of for-profit corporations does include creation of value for investors. The requirement of lawful and ethical conduct ensures generally recognized standards of corporate social compliance. Furthermore, the broader mandate to take into account all corporate stakeholders, including communities, is not limited to local communities, but comprises society and the economy at large and directs boards to use their business judgment within the scope of this broader
responsibility (ibid).

The requirement of regular shareholder engagement acknowledges accountability to investors, but also the shared responsibility of shareholders for responsible long-term corporate stewardship. In essence, this is The New Paradigm for corporate governance issued in 2016 by the World Economic Forum (ibid).

Finally, Lipton believes, that most important of all, The New Paradigm will avert the need for legislation regulating corporations and institutional investors and asset managers that would quickly lead to state corporatism (ibid).

6.3 How to Resolve the Conflicts between the Interests of Stakeholders?

The stakeholder model is obviously much more complex than the shareholder model which offers a very simple solution to the problem. However, to reconcile the interests of various stakeholders requires judgment (Mintzberg, 2004, p. 154): but that is of-course an essential everyday part of being a manager, as we have indicated in section 16.

Section II: Key Business Objectives

7. Profitability and Market Share Key Business Objectives

Profitability and market share are generally regarded as the most important business objectives (Datta, 1997). Profitability is defined as a rate of return on investment (ROI). It is important to point out that profit as a measure of performance in Friedman’s scheme of things is only a partial measure. On the other hand, profitability is a far superior measure of financial performance.

7.1 Importance of Market Share in Long-term Success

Drucker (1992, pp. 8, 10) argues that in today’s global competition the goal of an enterprise should be maximization of market share, not the traditional short-run “profit maximization.” The Japanese, according to Drucker, understand very well that in a global market, what matters is the total return over the lifetime of the investment—a very long period indeed. But, such a return over time depends upon “monopolizing market share.”

According to Buzzell, Gale, and Sultan (1976), it is now widely recognized that one of the major determinants of business profitability is market share. They say that most corporate executives and consultants now recognize this relationship. They report that this fact is clearly demonstrated by a project undertaken by the Marketing Science Institute on the Profit Impact of Market Strategies (PIMS).

8. Drucker’s Framework for Defining Business Purpose and Key Objectives

8.1 Purpose of a Business is to Create a Customer

In his classic book, The Practice of Management, first published more than 66 years ago in 1954, Drucker (1961, pp. 29-30; also, Datta, 1997) made a statement that was rather startling at that time. He said that the purpose of a business is to create a customer. He presented the following arguments about what the purpose of a business should be:
● “If we want to know what a business is we have to start with its purpose. And its purpose must lie outside of the business itself. In fact, it must lie in society since a business enterprise is an organ of society. There is only one valid definition of business purpose: to create a customer.”

● “It is the customer who determines what a business is.... What the customer thinks he is buying, what he considers ‘value,’ is decisive—it determines what a business is, what it produces and whether it will prosper.”

● “The customer is the foundation of a business and keeps it in existence. He alone gives employment. And it is to supply the consumer that society entrusts wealth-producing resources to the enterprise” (italics added).

One important point that Drucker is making deserves attention. And that is that the purpose of a business must lie within society. And contrast that with Friedman’s doctrine that is offered in a societal vacuum, as we have shown later in section 17.3.

Drucker also recognizes marketing as the first entrepreneurial function, and innovation as the second.

8.2 Drucker’s Key Objectives of a Business

Drucker (1987, 1991) argues that the major shortcoming of the stakeholder theory was that it did not address the issue of management accountability. So, he says the objective of a business should be to:

● “Maximize the wealth-producing capacity of the enterprise.” This objective integrates short-term and long-term results, and ties together the operational needs of a business with its financial results (1991, pp. 1-2; also, Datta, 1997).

Drucker (1991) identifies four major objectives to operationalize this idea:

● Market standing (market share)
● Innovation
● Productivity, and
● Human Resource Development

9. Igor Ansoff’s Practical System of Objectives

According to Ansoff (1988, p. 35; Note 5), the central objective of a business is profitability: Maximize the Rate of Return on Investment—ROI.

He suggests that in order to ensure its survival and success, a firm must optimize the efficiency of its resource conversion process. Ansoff has selected the average rate of return on stockholder equity (ROI) over the company’s time horizon as a measure of this long-term goal (ibid, p. 33).

Ansoff (1988, p. 36) divides the time horizon in two periods: (1) The proximate period extends to the planning horizon (three to five years), and (2) The long-term period from the planning to the time horizon which can be very long.

It is important to understand how salient this distinction really is. Ansoff argues that while efforts to forecast or measure ROI over the planning horizon can be made with reasonable accuracy, accurate forecasts and measurements cannot be made for the long-term period (ibid).
Ansoff (1988, p. 39), therefore, suggests that instead of making futile efforts to measure long-term ROI directly, it is better to do it indirectly by focusing on those characteristics—the real drivers—that help achieve the ultimate goal of optimizing a firm’s ROI over the long haul.

9.1 Long-term Objectives

Ansoff (ibid, p. 39) has therefore proposed a practical system of objectives that include seven such indirect or proxy goals:

- To maintain current market share
- To increase market share
- Growth in earnings to provide resources for reinvestment
- Growth in earnings per share to attract new capital
- Addition of new products and product lines
- Increase in customer population
- Absence of excessive seasonal and cyclical fluctuations in sales and earnings.

9.2 The Key Objective of Flexibility

In an uncertain world, there may be events whose probability occurrence might be low, but if they did happen, they could have a major impact on the corporation as whole. The effect could be negative like a catastrophe, or positive like a breakthrough (Ansoff, 1988, pp. 41-42).

So, to address this problem Ansoff suggests that we should add to the firm’s master-list of objectives an objective of flexibility. Flexibility can be of two kinds: external and internal. Internal flexibility calls for liquidity of internal resources (ibid).

Ansoff says the best way to describe external flexibility is not to put all of one’s eggs in a single basket. External flexibility may be aggressive or defensive or both (ibid, p. 42).

While Ansoff’s flexibility objective is grounded in the real world of an environment that is dynamic and ever-changing, the Friedman doctrine is based on the foundation of a static environment that does not therefore need to recognize uncertainty: as we have shown in section 17.2.

10. Need for a New Business Challenge

10.1 Profit a Constraint Not the Purpose of a Business

Drucker (1974, pp. 71-73, 114) points out, that profit is not the purpose of a business, but only a constraint on its operation. This constraint is the minimum profit—the cost of capital—that every business must earn for its survival. Levitt (1986), too, does not consider profit to be a meaningful expression of corporate purpose. He says this is like saying “that the purpose of life is to eat. Eating is a requisite, not a purpose of life. Without eating life stops…. Without profits, business stops” (Datta, 1997).

10.2 From a Transaction or Contractual Orientation to Relationship Focus

Drucker (1995) says that Womack and Jones (1994), the coauthors of The Machine That Changed the World, make a persuasive argument for managing costs along the entire economic chain. They suggest that the concept of a company based on legal boundaries has become obsolete in today’s global
Kotler (1991, p. 1) adds that the traditional transaction-based approach has a short-term focus on sales. Since such a system does not build customer loyalty, so price sensitivity is high. In contrast, relationship marketing has a long-term outlook. Price sensitivity is lower because it builds customer loyalty “by adding value all along the way” (Datta, 1997).

10.3 Government and Business Must Build America’s Industrial Commons

Pisano and Shih (2009) argue that America’s economic decline of the 1980s and early 1990s didn’t really disappear. “It was just hidden during the bubble years behind a mirage of prosperity, and all the while the country’s industrial base continued to erode.”

Thanks, in a large measure to the Friedman doctrine, for decades, U.S. companies have been outsourcing manufacturing to save costs on the belief that manufacturing at home held no competitive advantage. But that has been a disaster, because today’s low-value manufacturing operations contain the seeds of tomorrow’s innovative new products. What those companies have been ceding is the country’s industrial commons --that is, the collective operational capabilities that support new product and process development in the U.S. industrial sector. Consequently, America has lost not only the ability to develop and manufacture high-tech products--like televisions, memory chips, and laptops--but also the expertise to produce emerging hot products like the Kindle e-reader, high-end servers, solar panels, and the batteries that will power the next generation of automobiles (ibid).

Centuries ago, “the commons” referred to the land where animals belonging to people in the community would graze. As the name implies, the commons did not belong to any one farmer. All were better off for having access to it (ibid).

Industries, too, have commons. A foundation for innovation and competitiveness, commons can include R&D know-how, advanced process development, engineering skills, and manufacturing competencies related to a specific technology (ibid).

To rebuild the commons--and restore its wealth-generating machine--will call for government and industry in America to make two radical changes: (1) The government must change the way it supports basic and applied scientific research to promote the broad collaboration with business and academia needed to address society’s big problems, (2) Corporate management practices and governance structures must also be overhauled so they no longer exaggerate the payoffs of outsourcing production on the one hand, nor discount its dangers on the other. Moreover, they should also stop cutting investments in R&D (ibid).

11. Profit Maximization: too Difficult, too Unrealistic—and Immoral

Sixty years ago, Robert Anthony (1960, Note 6), Professor of Management Control (Cunha, 2002) at the Harvard Business School, wrote a brilliant, provocative exposition with an insight that is still valid.
today. In that essay, he wondered why college graduates trained in economics were so ill-equipped to deal with real-life business problems? He finally concluded that the reason was the assumption that most college economics textbooks made that the objective of a business is to maximize profits.

The question is why economic courses are created on this premise? Anthony believes that this is because “it permits a rigorous intellectual reasoning process,” and provides “correct answers to classroom problems, and rules.” So, he asks that how can one “grade an economics examination if there are a whole range of ‘correct answers?’ “

And when the rules “do not work in practice, they can always be explained away by ‘other things being equal’” response (ibid, italics added).

Sixty years later, the “profit maximization” gospel--which has now morphed into “maximizing shareholder value”— is still being taught today in two of the most popular textbooks on Managerial Economics (Denning, 2013).

11.1 Profit Maximization is too Difficult and Unrealistic

Anthony says pricing is one major area of decision making where profit maximization is inconsistent with business practice (ibid).

11.1.1 Businesses follow Full-Cost Pricing vs. Marginal Analysis of Economic Theory

According to economic theory, to maximize profits a business has to set a price where marginal revenue equals marginal cost. That means a business must estimate the demand at all prices and the marginal cost at all volumes. A business must also estimate the extent to which demand is interdependent with advertising and promotional expenses (ibid).

“This is a fantastically difficult task, so difficult that it is rarely attempted in practice.” Instead, the studies show that a business goes through a much simpler process, and develops a “normal” price. The “normal” price is arrived at by including direct costs, a fair share of the indirect cost, or overhead, and a satisfactory profit margin—as Prof. Simon has argued in section 12. This process is called full-cost pricing (ibid).

The profit that would result from this endeavor would not perhaps lead to maximum profit. However, a business owner is likely to be much more comfortable with a lower profit—developed from a dependable and consistent procedure—than he or she would be if the maximum profit was the result of a process that had to rely on several estimates and guesses that may or may not turn out to be right (ibid).

Moreover, Anthony (ibid) points out that pricing is not the major focus of management attention that the economists suggest that it is. Pricing is one element of the “total marketing mix which also includes merchandising, branding, channels of distribution, personal selling, advertising, promotions, packaging, display, and servicing” (italics added).

Anthony (ibid) suggests that to criticize the assumption of satisfactory return is “comparable to criticizing the physicists for their acceptance of Heisenberg’s uncertainty principle. In both cases, the resulting body of theory is less precise, but it is also more realistic” (italics added).

So, based on the above argument one could conclude that it is “far better to be roughly right than exactly wrong” (Datta, 1980).
11.2 Profit Maximization is Immoral

Profit maximization requires the businessman to use every trick in the book to do the following (Anthony, *ibid*):

- Keep wages and fringe benefits *low*
- To *extract* every possible dollar from the consumer
- To sell as *low* a quality merchandise as he can legally fool the customer into buying
- To use income *solely* for the benefits of the stockholder
- To *disown* any responsibility to the community
- To finagle the *lowest* possible price from his vendors
- The “long run” is a *long way off* and its effect on current decisions unclear
- A businessman’s conscience and *ethical* considerations are *irrelevant*

And to all of the above, we can add: laying-off workers, closing plants, spinning off divisions, and *outsourcing* production overseas,” as Pearlstein (2013) has said earlier.

Anthony then *boldly* declared back in 1960 that “businessmen could not maximize (profits) if they wanted to, and they would not want to if they could” (*ibid*, *italics* added).

As Pearlstein (2013) has shown, unfortunately, the history of the last thirty-five years has revealed, how *wrong* Anthony turned out to be: thanks to the power of the *Friedman* doctrine!

12. Simon’s Satisfying Behavior Model

Herbert Simon (1956, Note 7), a Nobel laureate in Economics, believes that in the real world, firms do not try to maximize profits because of: (1) *imperfections* in data and, (2) the *incompatibility* of interests of the various constituents of an organization.

According to his *satisficing* model, the biggest challenge facing modern businesses is the *lack* of complete information and *uncertainty* about the *future*. So, to address this problem, firms are forced to *incur* costs to acquire this information. Considering these obstacles, a business is *unable* to maximize either profit, or sales, or growth. In reality, they act as *constraints* to rational decision-making because of which the firm has to function under “*bounded rationality.***” Thus, a firm can only aim at attaining a *satisfactory* level of profit, sales, and growth. Consequently, the firm sets up for itself some *minimum* standards of achievement, which it expects will assure its *viability* over the *long run*.

According to this theory, the relevant information the managers (decision-makers) have is *far* from complete. A manager--due to the *complexity* of calculations, *uncertainties* of future, and *imperfection* of the data to be used for determining ‘optimal’ decisions--cannot make really optimal decisions, but he or she is *satisfied* with something *less*. Therefore, this model is termed as ‘*satisfying*’ model.

13. Price is a Strategic, not a Tactical Variable

Mainstream economists treat price as a *tactical* variable that can be *manipulated* using marginal revenue and cost analysis in an effort towards profit maximization.
In reality, price is a strategic variable. Customer-perceived quality is the most important factor contributing to the long-term success of a business. However, quality cannot really be separated from price. Quality, in general, is an intricate multi-dimensional concept that is difficult to comprehend. So, consumers often use relative price—and a brand’s reputation—as a symbol of quality (Datta, 1996, 2021).

A business that seeks market-share leadership has to differentiate itself by offering quality better than that of the nearest competition. To make this idea operational requires two steps: (1) The first is to determine which price-quality segment to compete in? Most consumer markets can be divided in three basic price-quality segments: premium, mid-price, and economy. These can be extended to five by adding two more: ultra-premium and ultra-economy (ibid).

The answer lies in serving the middle class by competing in the mid-price segment. This is the socio-economic segment that represents about 40% of households in America (Datta, 2011, 2021). The second step for a business seeking market share leadership is to position itself at a price that is somewhat higher than that of the nearest competition. This is in accord with P&G’s practice based on the idea that although higher quality does deserve a “price premium,” it should not be excessive (Datta, 2010b, 2021). A higher price offers two advantages: (1) It promotes an image of quality, and (2) It ensures that the strategy is both profitable and sustainable in the long run (ibid).

A classic example of price positioning is provided by General Motors (GM). In 1921 GM rationalized its product line by offering “a car for every purse and purpose”—from Chevrolet to Pontiac, to Oldsmobile, to Buick, to Cadillac. More importantly, GM positioned each car line at the top of its segment (Datta, 1996, 2010a, 2021).

We have followed twelve studies that have tried to analyze the competitive profile of U.S. consumer markets. In nine of the twelve—that exclude Men’s and Women’s Razor-Blades, and Ground Coffee—the market-share leader was found to be a member of the mid-price segment, and that its unit price was higher (Note 8) than that of the nearest competition, as we have hypothesized. Those market leaders are:

- Edge Men’s Shaving Gel, Bud Light Lager Beer, Pantene Shampoo, Kraft Grated/Shredded Cheese, Tropicana Refrigerated Orange Juice, Crest Toothpaste, Campbell Chicken Broth/Campbell Chicken Noodle Soup, Lay’s Potato Chips, and Energizer Alkaline AA 4-pack Battery.

Section III: Examination of the Friedman Doctrine

14. The “Milton Friedman 50 Years Later” Debate

To mark the 50th year anniversary of Milton Friedman’s The New York Times Magazine essay of 1970, twenty-seven articles were published in 2020 by the Stigler Center of the University of Chicago in the form of an e-book (Note 9) which we are going to refer to as ‘symposium.’ Prof. Luigi Zingales (Note 10) of the University of Chicago, who promoted the debate, has authored a concluding article to give his overall appraisal of the debate.

However, today, fifty years after the Friedman article was published, the Friedman doctrine has been
resoundingly repudiated by business leaders, the media, and even some economists. For example:

- Martin Wolf (2020, Note 11), a participant in the e-book ‘symposium’ said that for a long time, he, like many in the English-speaking countries and elsewhere, believed in the Friedman doctrine.
  - Now he admits he was wrong.
- In an article published in *Fortune* (Mayer et. al, 2020), the authors declare that fifty years later Friedman’s shareholder doctrine is dead.
- Steve Denning (2018, Note 12) asserts that focusing on maximizing short-term shareholder value—the essence of the Friedman doctrine—’is built on the world’s dumbest idea’ (Note 13).
- Prof. Joseph Stiglitz (Note 14) won his Nobel Prize in Economics in 2001. At that time, he gave a talk at the University of Chicago presenting an early version of his research which established the notion that pursuing profit maximization did not lead to maximization of social welfare. This is because Adam Smith was wrong in saying that the pursuit of self-interest would lead—as if by an invisible hand—to the well-being of society. During the discussion, reports Stiglitz, Friedman simply couldn’t or wouldn’t accept the result of Stiglitz’ research for which had just won a Nobel Prize (Sorkin, 2020).
- Howard Schultz—Emeritus Chairman of Starbucks—in a “rebuke of Friedman’s single-minded focus on profits” (his words), says that, according to the company’s original mission statement, we “wish to be an economic, intellectual and social asset in communities where we operate. We would not do this at the expense of profits, but to grow them” (Sorkin, 2020, italics added; Note 15).
- Oren Cass (Sorkin, 2020, Note 16) points out that:
  - Friedman is wrong that what business owners want is to make as much money as possible: an assertion that is empirically false.
  - Sole proprietors and closely-held firms are generally considerate of their workers, communities and customers.
  - “Shareholders of a widely-held publicly-traded company are not like personally engaged business owners. Distant, diffuse, and often hidden behind layers of legal fiction, they are not accountable, or even known, to the communities in which their companies operate. They often do not know, or care to know, how those companies operate” (italics added).
  - “If Friedman’s argument is that business should make as much money as possible, it is less a celebration of the free market’s power than [a] brutal indictment”.
- Martin Lipton (2020, pp. 22-25), a partner in the law firm of WLRK—and a participant in the e-book ‘symposium’—says that Milton Friedman’s doctrine of “shareholder primacy” became the “doctrinal foundation for an era of short-termism, hostile takeovers, extortion by corporate raiders, junk bond financing, and the erosion of protections for employees, the environment, and society generally” (italics added).
14.1 Serafeim of Harvard Revolutionizes the Way to Calculate Business Success

Prof. George Serafeim of Harvard Business School (Kishan, 2020) throws out Milton Friedman’s playbook of measuring business performance mainly by ‘shareholder value.’ Serafeim is well known for ESG—environmental, social, and corporate governance. Serafeim’s philosophy is that “what gets measured gets managed.”

Serafeim and his Harvard team’s aim is to “value intangible, non-financial factors.” For example, charging credit card companies for the medical costs of depression related to indebtedness; charging airlines for the human toll of flight cancellation; and making food producers accountable for the ill effects of obesity.

Serafeim’s calculations credit automakers for safety of their cars, and companies that hire people in areas of high unemployment.

15. Medieval, Mechanistic Scientific Ideology of Mainstream Economics

15.1 From a Cosmic Organism to a World Machine

Aristotle’s (384-322 BC) scientific philosophy of nature—animate and alive-dominated Western thought for two thousand years after his death (Capra, 1996, chap. 2; Sheldrake, 1994, p. 44; Datta, 1998). However, during the sixteenth and seventeenth centuries, this medieval worldview went through a fundamental transformation. In the words of Capra (ibid, p. 19, italics added; also, Sheldrake, 1994, pp. 3, 49; Datta, 1998):

- “The notion of an organic and spiritual universe was replaced by that of the world as a machine, and the word machine became a dominant metaphor of the modern era. This radical change was brought about by the new discoveries in physics, astronomy, and mathematics known as the scientific revolution associated with the names of Copernicus, Galileo, Descartes, Bacon and Newton.”

Here are the major characteristics of this ideology:

- Galileo asserted that only those phenomena that were quantifiable were to be admitted into science (Capra, 1996, chap. 2; Datta, 1998).
- Descartes invented the method of analytic thinking: breaking a complex system into parts to understand the whole (Capra, 1996, pp. 19-20; Datta, 1998).
- Descartes divided the universe into two distinct realms: mind and matter. He characterized the material universe, or nature—including living organisms—as a perfect machine governed by precise mathematical laws (Solomon & Higgins, 1996, p. 183; Capra, 1991, p. 333; Datta, 1998).
- Descartes’ philosophy was “to objectify the world, to turn everything into an object or thing to be manipulated, and controlled” (Rockefeller & Elder, 1992, p. 150, italics added).
- Descartes placed a special emphasis on certainty and immunity from doubt in scientific research (ibid).

Thus, the Cartesian paradigm was based on certainty of knowledge (Capra, 1991, p. 333). Lodge (1976) says five major theories or principles form the foundation of this mechanistic ideology.
The following three are the most relevant for this study:

- Emphasis on certainty and immunity from doubt
- Reductionism: based on the belief, that in order to understand a system it is necessary to break it apart, and if you know enough about the parts, you can understand the whole. In other words, the whole is equal to the sum of the parts.
- Objectivity means that for knowledge to be scientific it must be objective. As such, it must be quantifiable. Thus, “what cannot be measured presumably is not worth knowing” (Lodge, ibid, p. 315, italics added).

This mechanistic ideology is closely related to the American social philosophy which exalts individualism, sanctions the sanctity of a contract, and worships at the altar of free markets and competition (Lodge 1976, chaps. 1, 10; Datta, 1998).

Later, Newton completed the Descartes–Galileo conceptual framework. Thus, Newtonian mechanics, his grand synthesis, was the supreme achievement of the seventeenth century science (Capra, 1996, p.20; Datta, 1998).

Francis Bacon (1561–1626), who was not a scientist but a lawyer, “was one of the early prophets of the power and promise of science.” He “triumphantly proclaimed that the new science would soon make ‘Nature, with all her children’ the ‘slave’ of humankind” (Rockefeller & Elder, 1992, pp. 150-151, italics added; also, Montuschi, 2010).

15.2 Western Scientific Ideology Treats Humans as Machines

Allan Watts (1991), a Zen scholar, too, makes the point that “the scientist, despite his theoretical naturalism, tends to regard nature–human or otherwise–as a world to be conquered and reordered” (p. 3, italics added).

One fundamental attribute that distinguishes Western cultures from the East is primacy of the individual: grounded in the idea of individual choice, responsibility, and achievement (Naipal, 1990). The idea that so sharply distinguishes Judeo-Christian theology from the fatalism of Eastern religions, such as Hinduism, is the concept of evolution and progress: a notion that provides the world with a basis for optimism and hope (Ferris, 1997, chap. 7; Watts, 1977a, pp. 29-30).

15.3 Physicists Adopted a Holistic Philosophy Long Time ago

With the onset of quantum mechanics during the early part of this century, the physicists abandoned the notion of identifying matter with “things” or “solid objects,” and adopted instead a new holistic view based on the idea of relationships (Capra, 1982, pp. 77-78; Datta, 1998).

16. Western Scientific Ideology Refuses to Recognize the Natural Traits that Make Humans: Human

In the words of Alan Watts, it is ironic that Western scientific ideology has belittled the individual by treating humans as machines; and by refusing to recognize the salience of those natural characteristics that make humankind human: creativity, intuition, judgment, courage, persistence, spirituality, and so
on (1977a, pp. 29-30).
However, in the real world of business, these are the very human qualities that are the hallmark of the strategic management process.
For example, the right answer to the question: “What is our business?” is usually anything but obvious; it requires judgment and courage (Drucker, 1974, pp. 77, 79).
Managerial aspirations, willingness to take risk, consistency of purpose, persistence, commitment—and even luck—also play a critical role in determining the long-term success of a business (Andrews, 1983; Barney, 1986; Hamel & Prahalad, 1993; Mintzberg, 1992).
Chester Barnard more than 50 years ago, recognized the superiority of intuition over rational processes for top management (Denhart, 1979; Wolf, 1974, pp. 91-96; also see Mintzberg, 1973). Quinn (1980) says that strategy deals with the unknowable to which there is “no objectively right answer” (pp. 56, 181; chap. 2, italics added). He adds that the strategic planning process is usually fragmented, evolutionary, and mainly intuitive.
According to Mintzberg (1994), the assumption of the Western scientific ideology is that the whole is equal to the sum of the parts: a proposition that is patently false. As such, defining what the nature of a business should be, or determining its key objectives calls for a picture that looks at the whole, and therefore this process is not about analysis, but synthesis.

17. A Critique of the Friedman Doctrine

- Friedman a conservative ideologue: Not an unbiased scholar
- Libertarian free market ideology
- Doctrine offered in a societal vacuum due to belief in reductionism ideology
- Friedman did not say if profit maximization good in the long-run for society
- Focus on legal contracts vs. relationships
- Concept of a corporation based on legal boundaries now obsolete
- America must rebuild its Industrial Commons

17.1 Friedman a Conservative Ideologue: Not an Unbiased Scholar

- Joseph Stiglitz (Sorkin, 2020), Nobel-prize winning economist, says that Friedman had done distinguished analytic and empirical work in economics. However, later he became “largely a conservative ideologue” (Note 18, italics added). Darren Walker, CEO of the Ford Foundation suggests that Friedman’s thinking became theology (Sorkin, 2020).
- Stephanie Mudge (2008) observes that Friedman’s articulation of markets as the “source and arbiter of human freedoms” has a semi-evangelical tone.
Friedman was no mere economist: he was a kind of celebrity. He became a regular on the talk-show circuit (Note 19). The Public Broadcasting System (PBS) commissioned a ten-episode series, called Free to Choose that starred Milton Friedman (Andersen, 2020, p. 97).

17.2 Libertarian Free Market Ideology

Milton Friedman’s University of Chicago represents a school that has been ideologically wedded to the free market, such as those espoused by Adam Smith (McCraw, 1990). Stiglitz (Sorkin, 2020) contends that Friedman was wrong to subscribe to Adam Smith’s ideology that the pursuit of self-interest would lead—as if by the magic of by an invisible hand—to the well-being of society.

According to Friedman (1970):

- In an “ideal free market resting on private property, no individual can coerce any other, all cooperation is voluntary, all parties to such cooperation benefit or they need not participate” (italics added).
- A “corporate executive is an employee of the owners of the business. His ‘responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to their basic rules of the society, both those embodied in law and those embodied in ethical custom (italics added).”

As mentioned earlier, Luigi Zingales (2020a) promoted the Friedman ‘symposium’ in 2020. In his concluding article he has tried to give a balanced evaluation of the debate that in the view of Wolf (2020) is quite “devastating.”

Zingales (2020b) asks “under what conditions is it socially efficient for managers to focus only on maximizing shareholder value?” This question calls for answers to the following three queries (italics added):

- First, companies should operate in a competitive environment, which means that firms be both price and rules takers.
- Second, there should not be externalities (or the government should be able to address them perfectly through regulation and taxation).
- Third, contracts are complete, in the sense that we can specify in a contract all relevant contingencies at no cost.

Zingales (ibid) concluded that in reality, none of these conditions can be satisfied.

Wolf (2020) offers the following explanation as to why this is so:

- The invention of the corporation permitted the creation of huge entities, in order to exploit economies of scale. Given their size, the idea of businesses as price-takers is totally unrealistic.
- Externalities, some of them global, are quite pervasive.
- Corporations also exist because contracts are incomplete. If it were possible to write contracts that specified every eventuality, the ability of management to respond to the unexpected would be superfluous. Anyway, such ability is possible only in a static environment: not in a dynamic world that corporations actually face in the real world.
Most of all, corporations are not rule-takers but rather rule makers. They play games whose rules they have a large role in creating, through the political process.

Zingales (2020b) points out that Friedman got the law wrong because corporate managers are not the employees of shareholders, but that of the corporation.

17.3 Doctrine Offered in a Societal Vacuum

Mintzberg (2004, pp. 151, Note 20) italics added) points out that economists, such as Milton Friedman, justify self-serving behavior. This is based on the idea that a “business has no business attending to social goals” because these are for the government, and that each should stick to its own knitting. Mintzberg then adds (ibid, italics added):

- “How convenient would be a world as black and white as this bit of economic theory. It does not exist. In the real word of decision making, the economic and the social are all tangled up…Every economist knows that all social decisions cost resources. Well then, how can an economist argue for economic decisions that have no social consequences? They all impact socially.” Then he goes on to say:

- “So, business people who take this separation seriously create havoc with the social consequences of their actions. They do as they wish for economic gain while conveniently slipping the social consequences off their ledgers, as what economists call “externalities,” meaning that the corporation create the costs while society pays the bills.”

Finally, Mintzberg (ibid, p.151) underscores a very important point. He says that whereas business “may not exist to serve social needs, it cannot exist if it ignores them.” Then he quotes the following observation from the Russian novelist, Aleksandr Solzhenitsyn while he was living in America:

- “A society that is based on the letter of the law and never reaches any higher is taking very scarce advantage of the high level of human possibilities. The letter of the law is too cold and formal to have a beneficial effect on society. Whenever the issue of life is woven of legalistic relations, there is an atmosphere of moral mediocrity, paralyzing man’s noblest impulses” (italics add).

17.4 Friedman did Not Say if Profit Maximization Good in the Long-run for Society

Prof. Luigi Zingales (2020b) observes that Friedman’s (1970) contribution can be looked at two ways. One is what is optimal for shareholders, and what is optimal for society? The title seems to suggest the second interpretation. Yet, in the essay his focus is only on the first: what is good for shareholders.

As mentioned above, Friedman has presented his doctrine in a societal vacuum. It is not therefore surprising that Friedman did not care to dwell on what is optimal for society. This is because he has ingeniously framed the debate for shareholder primacy by characterizing concern for society and social responsibility as subversive socialism, as we have discussed later in section 19.

17.5 Focus on legal Contracts vs. Relationships

According to Prof. Zingales (2020b), Friedman advocated the contractarian view of the corporation—i.e., that “corporations are just a nexus of contracts freely drawn by the various parties involved.” According to this view point, corporations are no different than a collection of individuals.
Therefore, they should not have any social responsibility different from that of individuals. It is important to stress, thus, that this does not mean “no responsibility.” Friedman, at the end of the NYT essay, makes clear that corporations have the social responsibility to play within the rules of the game, “which is to say, engage in open and free competition without deception or fraud.

In the words of Prof. Stephano Zamagni (2020, Note 21), the problem with the contractual view of corporations is that the idea of the firm as a nexus of contracts is “theoretically groundless and legally contradictory.” In reality, the modern corporation is essentially a public entity, since it has the power to impose its rules on those who operate within it and exercises real influence outside of its boundaries. What that means is that the governance of a corporation is not something that concerns only the shareholders. Yet the contractarian view is based on the premise that the corporation is the product of a contract, i.e., of an agreement between private individuals (italics added).

17.5.1 From “Doing Good by Doing Well” to One of “Doing Well by Doing Good”

Zamagni (ibid) suggests it is reductionist to characterize the firm as a mere “nexus of contracts” between different parties, attributing to it only one purpose: profit maximization as the only metric of business success. The firms are capable of doing much more—and better—than solely maximizing profits. Perhaps it is time to move on from the rhetoric of “doing good by doing well” to one of “doing well by doing good.”

17.6 Concept of a Corporation Based on Legal Boundaries now Obsolete

As we have seen in section 10.2, the idea of defining a corporation based on legal boundaries has become obsolete in today’s global competition, now increasingly being driven by the Japanese-originated system of lean production. So, we need to make a transition from lean manufacturing to the lean enterprise: a network of producer, customers, and suppliers closely linked in a common chain as one economic whole.

17.7 America must Rebuild Its Industrial Commons

As we have shown in section 10.3--thanks to the Friedman doctrine--U.S. companies have been outsourcing manufacturing for decades to save costs. But that has been a disaster. What those companies have been ceding is the country’s industrial commons --that is, the collective operational capabilities that support new product and process development in the U.S. industrial sector (Pisano & Shih, 2009).

Consequently, America has lost not only the ability to develop and manufacture high-tech products--like televisions, memory chips, and laptops--but also the expertise to produce emerging hot products like the Kindle e-reader, high-end servers, solar panels, and the batteries that will power the next generation of automobiles (ibid).

18. Major Flaws of the Friedman Doctrine

- Profit maximization idea offered as a doctrine not a theorem
- Friedman’s moral philosophy: Self-interest—and greed
- No distinction between short-term and long-term shareholders
18.1 Profit Maximization Idea Offered as a Doctrine Not a Theorem
As mentioned in section 15, Prof. Zingales (2020b) has penned a concluding article giving his overall appraisal of Friedman’s legacy. The title of his article is: “Friedman’s Legacy: From Doctrine to Theorem.” Clearly, Prof. Zingales must have realized that this was a major deficiency in Friedman’s work because it was offered as a doctrine, and as such, could not then be regarded as a serious endeavor worthy of consideration. Darren Walker, chief executive of the Ford Foundation, says that “Friedman’s thinking became theology—the intellectual scaffolding that allowed its disciples to justify decades of greed is good excess” (Sorkin, 2020, italics added).

18.2 Friedman’s Moral Philosophy: Self-interest—and Greed
In the words of American journalist William Greider (2006), Friedman was the “most influential economist of the second half of the twentieth century” in the eyes of his admirers. However, he was also the “most destructive public intellectual of our time” (italics added). Greider further adds that his most profound harm was as a moral philosopher as he “championed an ethic of unrelenting, unapologetic self-interest that pushed aside human sympathy” (ibid, italics added).

In the words of Mintzberg (2004, p. 147, italics added):

• “In recent years we have been witnessing a glorification of self-interest perhaps unequalled since the 1920s. Greed has been raised to some sort of high calling; corporations are urged to ignore broader social responsibilities in favor of narrow shareholder value; chief executives are regarded as if they alone create economic performance.”

“A society devoid of selfishness may be difficult to imagine, but a society that glorifies selfishness can be imagined only as cynical and corrupt.”

Mintzberg (2004, pp. 147-148) cites the work of Jensen and Meckling (1994) exalting self-interest. They argue that “there is no such thing as a need.” “Individuals are willing to sacrifice a little of almost anything...for a sufficiently large quantity of other desired things” (italics added).

Mintzberg (ibid) then adds:

• “In other words, when pushed to the limit, everyone is a willing prostitute. Everyone, everything, every value, has its price. We cherish nothing.”

Mintzberg concludes the discussion with the following pithy comment:

• “How true. How sad” (italics added).

18.3 No Distinction between Short-term and Long-term Shareholders

• Erika Karp (The New York Times, 2020; Note 22) points out that Friedman made the mistake of not including two words: “long-term.” Had he talked about “long-term principle and long-term consequences, business might have been more thoughtful about deploying financial, natural, and human capital. “Respect for the value of each form reinforces the value of the other” (italics added).
19. How Friedman Cleverly Framed the Debate that Stakeholder-welfare is “Socialism”

Prof. Roger Martin (2014, Note 23) has provided an important insight into Milton Friedman’s doctrine of shareholder primacy. He points out that the participants in the Inclusive Capitalism Conference argued that Friedman was wrong to make the trade-off between shareholders and the rest of society so entirely in favor of shareholders, and that greater balance is needed in that trade-off.

Prof. Martin argues that because they make the argument as mentioned above, Friedman has won the debate “the way a great debater wins.”—by “cleverly framing the terms of the debate”: a debate that is still going on for half a century (italics added).

Friedman employed several different tactics to frame the debate: (1) He has tried to occupy a high moral ground by equating capitalism with freedom. However, as we have noted in the next section, his single-minded deification of shareholders clearly means that he is interested in their freedom alone. (2) Friedman knew that the term “socialism” had a negative connotation in America, especially during the time he wrote the NYTimes article in 1970. So, to deflect attention from his exclusive concern for shareholders, he invoked the specter of social responsibility and subversive socialism to elicit sympathy and support for his cause. (3) And most importantly, because the theory of profit maximization is utterly incompatible with the welfare of key stakeholders, like customers and employees.

19.1 Friedman Equates Capitalism with Freedom: But only for Shareholders

In his book titled Capitalism and Freedom (1962) Friedman equates capitalism with freedom. This is what Mintzberg (1996) has to say about that:

- “I take issue with Milton Friedman...who has been fond of comparing what he calls “free enterprise” with “subversive” socialism. The very notion that an institution, independent of the people who constitute it, can be free is itself a subversive notion in a democratic society. When the enterprises are really free, the people are not” (italics added).

19.2 Corporate Concern for Stakeholder-welfare Equals “Socialism”

Friedman regards corporate concern for stakeholders as part of social responsibility and therefore socialism, as mentioned earlier. He wrongly believes that the welfare of stockholders and stakeholders is a zero-sum game.

As Mulligan (1986) has shown, commitment to social responsibility does not have to be at the cost of stockholders’ welfare, and that both can go together side by side: an insight also revealed by Starbucks’ Schultz, as we have stated in section 14.

Mulligan (ibid) also points out that Friedman does not clearly say what he means by socialism.

Finally, as we have argued in section 23, we have turned the Friedman doctrine on its head, and that is: Profit maximization is neither good for society nor even for shareholders!

20. Friedman’s “Pseudo-science” Static-equilibrium Methodology

Blackford (2017, Note 24) has characterized Friedman’s methodology--of what the latter calls “positive science”-- discussed below as “pseudo-science, as if” methodology based on a theory of static
20.1 The Analogy of the Expert Billiards Player

Milton Friedman (1953) published his essay “The Methodology of Positive Science” in 1953. In support of his theory, Friedman uses the example of an expert billiard player:

- “It seems not at all unreasonable that excellent predictions would be yielded by the hypothesis that the billiard player made his shots as if he knew the complicated mathematical formulas that would give the optimum direction of travel, could estimate accurately by eye the angles etc., describing the location of balls, could make lightning calculations from the formulas, and could then make the balls travel in the direction indicated by the formulas. Our confidence in this hypothesis is not based on the belief that billiard players, even the expert ones, can or do go through the process described; it derives rather from the belief that, unless in some way or other they were capable of reaching essentially the same result, they would in fact not be expert billiard players” (italics added).

Blackford (2017) says Friedman’s argument is circular. He further suggests that “how do we know expert players play this way? And if they did not play this way, they would not be expert players” (italics added).

Blackford (ibid) points out that “Friedman poses the (expert billiard player) analogy in the midst of a convoluted argument by which he attempts to show that a scientific theory (hypothesis or formula) cannot be tested by testing the realism of its assumptions. All that matters is the accuracy of a theory’s predictions”: “not whether or not its assumptions are true” (italics added).

Blackford (ibid) further says that Friedman’s logic is firmly engrained in his “belief,” and only then it makes sense.

20.2 The Law of Falling Bodies

Friedman then makes an attempt to demonstrate his belief by examining “the law of falling bodies.” He says it is an accepted hypothesis that the acceleration of a body dropped in a vacuum is constant—g. So, Friedman argues, it is meaningless to suggest that this law assumes a vacuum. The only thing that is the accuracy of the predictions obtained if we assume bodies fall as if they are falling in a vacuum (ibid).

20.2.1 Aristotle Theory of Motion

According to Blackford (ibid), Aristotle hypothesized that a constant force when applied to an object will cause it to accelerate at a constant velocity. But he also assumed that heavier bodies—like a stone—fall with a greater velocity than lighter bodies (like a feather).

20.3 Galileo’s Theory

In contradiction to Aristotle’s theory, Galileo observed that heavier bodies do not fall with a greater velocity than lighter bodies. He also did not accept Aristotle’s theory that a constant force when applied to an object will cause it to move at a constant velocity. Instead, he introduced the concept of momentum. He suggested that a body at rest tends to remain at rest, and a body in motion tends to remain in motion. So, he theorized that when a force is applied to an object it causes that object to accelerate at a constant rate, not at a constant velocity (ibid).
20.3.1 Newton’s Second Law of Motion

Newton’s theory of gravity assumes: (1) That force is equal to mass times acceleration and (2) That, there is an inverse-square relationship between the force of gravity and the distance between the centers of gravity of the earth and a falling body. These two assumptions imply that the rate of acceleration must increase as a falling body and earth approach each other (ibid).

20.3.2 Einstein’s Theory of Relativity

Thanks to Einstein’s theory of relativity, Newton’s assumption of the independence of space and time was rejected by empirical evidence, and was replaced by an assumption of continuum of space and time (ibid).

20.3.3 Friedman Ignores the History of the Law of Falling Bodies

Blackford (ibid) points out that Friedman first refers to and then ignores the history of the law of falling bodies. However, he has not cared to acknowledge the advances made since then by Galileo, Newton, and Einstein.

20.3 Advances in Physical Sciences due to constant Testing of Hypotheses

All the advances in the physical sciences that have happened since the time of Galileo became possible only by (ibid):

- Galileo rejecting Aristotle’s unrealistic assumptions.
- Newton rejecting unrealistic assumptions of Galileo.
- Einstein rejecting unrealistic assumptions of Newton.

20.4 Friedman Denies that a Scientific Theory an Embodiment of Its Assumptions

Friedman says truly “important and significant theory will be found to have assumptions that are truly inaccurate descriptive representations of reality, and in general, more significant the theory, the more unrealistic the assumptions” (ibid, italics added).

Blackford (ibid) insists that “a scientific theory is, in fact, the embodiment of its assumptions” (italics in the original) through which the theory can be understood and explained. To test its validity, the reason and logic of its assumptions provide the premises upon which to compare a theory’s predictions with empirical evidence.

Blackford (ibid) questions why should society take mainstream economists seriously if their theories—and their arguments—are based on false assumptions?

20.5 Friedman Calls for Tradition and Folklore, and the Tenacity with which Hypotheses are Held

Friedman says a scientist should look to “the tradition and folklore of a science revealed in the tenacity with which the hypotheses are held.” to find the truth (italics added). He then goes on to say that since the “capacity to judge…is something that cannot be taught [and] can be learned…only by experience and exposure in the ‘right’ scientific atmosphere” we must look to the wise men and women of the discipline who have been exposed to “the ‘right’ scientific atmosphere” to find where the “thin line is drawn which distinguishes the ‘crackpot’ from the scientist” (Blackford, ibid, italics added).

Blackford (ibid) argues that if physicists had adopted Friedman’s approach through the course of history, we would still be living in a Ptolemaic universe under which it was believed that the sun
revolved around the earth!
In our judgment, what Friedman seems to be saying above is that his message is so sacred and holy that it should be disseminated only by an ordained member of the church!

21. Friedman’s Quest for Analytic Rigor to Claim the Mantle of Science
Two points emerge from the above discussion. One is that Friedman—and the entire mainstream Economics establishment—are trying to emulate physical sciences to develop theories for a living organism that is extraordinarily complex: a large corporation. This is an entity that doesn’t necessarily have to accept the environment as given: but one that can be altered—even dramatically—by human action.

Second, the physicists know that we live in a world that is constantly changing, and as such, they expect their theories to be dynamic. Nevertheless, Friedman is only interested in a theory that is static, and therefore easy to deal with, a point Prof. Zingales (2020b) has acknowledged earlier.

21.1 Friedman’s Theory can handle only One Variable at a Time
Friedman’s aforementioned example of the law of falling bodies clearly indicates that his focus is only on a single variable at a time. We believe that is the framework which is behind his doctrine.

The only publicly-available variables for a corporation that can meet the above-mentioned requirement are profit, or share price. Since both are intimately linked to shareholders, that is how Friedman must have arrived at the idea of shareholder primacy.

21.2 Friedman Ignores the Two most Important Stakeholders: Customers and Employees
As we have noted in section 8, Peter Drucker has indicated that the purpose of a business is to create a customer. Prof. Raghuram Rajan (2020, pp. 17-21; Note 25), a participant in the e-book symposium discussed earlier, emphasizes that workers or employees, too, are important stakeholders because their “sweat equity” is embedded in the firm.

Since Friedman’ methodology can handle only one variable at a time, he conveniently dismissed the corporate concern for the two most critical stakeholders—customers and employees—as socialism.

21.3 Friedman did not Distinguish between Short-term and Long-term Shareholders
Friedman also did not distinguish short-term from long-term shareholders. We can come up only with one possible explanation. His simplistic model would fall apart if he did that.

21.4 Friedman’s Seems to Exalt the Importance of Analytic Rigor
In his NYTimes 1970 essay he criticizes the proponents of social responsibility for their “analytical looseness and lack of rigor” (italics added). Although he did not clearly provide any clue regarding how his doctrine met that test, we believe he chose to focus on a single stakeholder—the shareholders—and its counterpart profit or price/share—because these variables can be easily measured objectively, at least on the surface.

In our humble opinion Friedman’s quest—and that of the mainstream economists—for analytic rigor is an attempt to claim the mantle of science.
22. How “Shareholder Value” “Cult” has Survived when No Law Sanctions It?

Earlier, in section 4 we have shown that stakeholders’ welfare can be justified on the basis of theory of property. In section 5, we have learnt that according to Delaware law, the board of directors manage a corporation to benefit all stakeholders.

Washington Post reporter, Pearlstein (2013) reveals that the “imperative to ‘maximize’ a company’s share price has no foundation in history or in law.” Moreover, there is no empirical evidence that it makes the economy or society better off.

Prof. Lynn Stout (2012, Note 26; Pearlstein, 2013) has been searching for years for a corporate charter that even hints at maximizing profits or share price. Still she has found none. Pearlstein (2013) argues that “maximizing shareholder value” has created an elaborate infrastructure that supports it, and that includes:

- Business schools that indoctrinate students with the shareholder-first ideology.
- Corporate lawyers who advise against any action that might lower share price.
- Wall Street establishment that is totally fixated on quarterly earnings and short-term trading.
- Top executives who get “gluttonous” pay packages tied to short-term performance of the company stock.

As we have indicated at the beginning of this paper, the push for shareholder primacy was first created by Ronald Reagan and Margaret Thatcher who found the Friedman doctrine as a powerful platform from which to launch their radical free-market agenda. However, as Kurt Andersen (2020) has revealed below, it was largely an invisible and powerful force that was driving this ideology.

22.1 Charles Koch: Master-mind behind Developing a Libertarian Infrastructure

The driving force behind a decades-long effort to create an infrastructure for espousing libertarian, conservative ideology were the billionaires Koch Brothers, Charles and David Koch (Note 27). For one of the annual libertarian conferences Charles Koch sponsored during the 1970s, he wrote a paper in which he pointed out that their “radically different social philosophy” could attract “undesirable criticism.” So, he recommended that how his libertarian organization is run should not be widely advertised.” Even when he “stepped out from behind the curtain two decades later,” he told a reporter: “I don’t want to dedicate my life to getting publicity” (Andersen, 2020, p. 70; italics added).

The Koch Brothers cast their net far and wide and decided that they were going to play a long game. They followed a multi-pronged approach to achieve their objective:

- Supporting existing conservative think tanks (Note 28)
- Creating new conservative think tanks (Note 29)
- Transplanting conservative think tanks to George Mason University, VA (Note 30)
- Direct involvement in America’s political process
  - Tea Party movement that strongly opposed Obamacare (Note 31)
  - Getting conservative judges elected to the Supreme Court
  - Subsidizing libertarian programs at more than three hundred universities and colleges (Note 32)
In 2008 the U.S. Supreme Court ruled in the *Citizens United* case that a U.S. corporation is legally a person! The major implication of this momentous event is that it allows U.S. corporations to spend an unlimited amount of money in U.S. elections without disclosure (Datta, 2011).

During the tenure of President Trump, the Republicans were able to add two conservative judges to the U.S. Supreme Court, thus drastically tilting its composition in favor of conservative judges with six vs. three liberal ones.

It is interesting to note that the wealth of Koch Brothers, after adjusting for inflation, is twenty times more than it was forty years ago (Andersen, 2020, p. 279). In contrast, as we have mentioned earlier, America’s income inequality has now widened so much that it rivals the highest level recorded in 1928 that led to the Great Depression of 1929.

The formidable institutional infrastructure that Koch Botheres and the conservatives have shrewdly been able to create has given them a mega-voice that has drowned out the voice of everyone else.

### 23. Profit Maximization Neither Good for Society Nor Even for Shareholders

Prof. Stiglitz (2019, p. 35) reports, that from 1947 to 1980, the U.S. economy grew at an annual rate of 3.7%. However, from 1980—when the Friedman doctrine was in full swing—to 2017 the average growth rate has been only 2.7%; a major decline of about 30%.

Clearly, the above results do not support Friedman’s assertion that his theory should not be judged by how realistic it is, but by its ability at prediction. Instead of beating around the bushes, we would like to come directly to the nub of the problem. So, we are going to make the following assertion that may even come as a shock:

- *On logical grounds alone, the theory of profit maximization is neither good for society, nor even for shareholders.*

Friedman’s doctrine is grounded on the foundation of concentrating on the welfare of just one stakeholder:--the shareholders--to the disregard of everyone else. An obvious logical implication of this mind set is, that if you are going to maximize the reward of one stakeholder, then you must then also minimize the benefits of everyone else, by trying to extract maximum concessions from them, as Prof. Anthony (1960) has so eloquently expounded in section 11.

The foundation of this mindset is that it treats customers and employees as a burden whose costs must be minimized, rather than as assets that need to be nurtured. Clearly, the profit a business earns is the result of contributions made by all the members on the team.

According to Senge (1990), the old days when a Henry Ford, Alfred Sloan, or Tom Watson learned for the organization are gone. In an increasingly dynamic, interdependent, and unpredictable world, it is simply no longer possible for anyone to “figure it all out at the top.” The old model, the “the top thinks and the local acts,” must now give way to a new way: thinking and acting at all levels (p. 7, *italics* added; Datta, 1998).

It is easy to motivate employees when they feel pride in their work, and believe they are making a
worthwhile contribution to the business: for example: making customers happy. However, it is going to be extremely difficult to encourage employees when you tell them that they are working to maximize profit or shareholder value.

Thus, when one compares the results of one’s performance, in the first case (Friedman) the result is most likely to be 2+2=3, as opposed to 2+2=5 in the second case.

Friedman has not explained how a business can maximize its profits. The only reason we can think of that he did not do so, is that it would be quite an embarrassing admission if he did so. That’s why he used an ingenious ploy by equating stakeholder welfare as part of social responsibility, and therefore socialism.

In our humble opinion, the reason Friedman framed the debate this way is, as he had an extremely weak hand. This is because the theory of profit maximization is neither good for society nor even for shareholders.

24. Drucker Institute’s “Management Top 250, 2020”

The Drucker Institute, a unit of Claremont Graduate University, developed a holistic company ranking based on the principles of its founder, Peter Drucker, using data from a wide range of providers [https://www.drucker.institute/2020-drucker-institute-company-ranking/].

The ranking measures corporate effectiveness by examining performance in five areas (Note 33):

- Customer satisfaction
- Employee engagement and development
- Innovation
- Social responsibility
- Financial strength

The ranking is based on an analysis of 33 data inputs provided by 14 third-party sources. The five areas are weighted nearly equally in calculating a score that is the basis of this ranking.

Microsoft, Apple, IBM, and Amazon top the list of first four. Among the first 50 we found the names of many major corporations that have also done very well. These are: Cisco (6), Intel (7), Procter & Gamble (8), Johnson & Johnson (9), H.P. Inc. (10), Merck (11), PepsiCo (15), Ford Motor Co. (19), General Electric (20), Colgate Palmolive (21), JPMorgan Chase (30), Walmart (34), Coca-Cola (40), and General Motors (46).

25. Conclusion

Let us first start with critique of the Friedman doctrine, and this is what we found:

- Friedman a conservative ideologue: Not an unbiased scholar
- Libertarian free market ideology
- Doctrine offered in a societal vacuum due to belief in reductionism ideology
- Friedman did not say if profit maximization good in the long-run for society
- Focus on legal contracts vs. relationships
• Concept of a corporation based on legal boundaries now obsolete
• America must rebuild its Industrial Commons

Friedman has said that corporate managers are the employees of shareholders. But he got the law wrong because they are employees of the corporation.

We found three major flaws in the Friedman doctrine:
• Profit maximization idea offered as a doctrine not a theorem
• Friedman’s moral philosophy: Self-interest—and greed
• No distinction between short-term and long-term shareholders

Friedman’s critics were saying that he was wrong to be entirely in favor of shareholders, and that greater balance is needed in the trade-off between shareholders and the rest of society. And that is how Friedman has won the debate by cleverly framing the terms of the debate: a debate that is still going on for half a century. Friedman’s methodology of what he calls “positive science,” has been characterized by Blackford as “pseudo-science, as if” theory based on the idea of static equilibrium. According to Friedman, a theory should not be judged by how realistic it is, but, rather, by the accuracy of its predictions.

Friedman—and the entire mainstream economics establishment—are dedicated to prediction based on their theory. Mintzberg rightly (1977) cautions that before we tell how it “should” be done, we must first understand how it “is” done and why.

We believe Friedman became a prisoner of his own free market ideology—and the static equilibrium methodology—that could handle only one variable at a time; a focus on objectivity and quantification; and a strong need for prescription and prediction.

As Greider (2006) has mentioned earlier, Friedman’s most profound harm was as a moral philosopher, as he championed an ethic of unrelenting, unapologetic self-interest.

As we have seen in our long discussion, Friedman’s invoking the specter of socialism is a clear indication of his bias against the role of government. Greider (2006) reports that Art Hilgart, a retired industrial economist, recalls hearing a Friedman lecture in 1991 in which the latter recommended destruction of Medicare, welfare, the postal system, Social Security and even public education. When a brave young woman asked what this would do for poverty, Friedman responded: “There is no poverty in America.”

Prof. Robert Frank (2021; Note 34) reports that Friedman is said to have joked that if the federal government were put in charge of the Sahara, in five years there would a shortage of sand!

This anti-government attitude has been fostered by free-market enthusiasts. For example, President Ronald Reagan clearly said it in his first inaugural address: “Government is not the solution to our problem; government is the problem” (ibid, italics added).

Frank (2021) suggests that in many cases individually rational behavior is collectively irrational. For example, buying 5,000-pound cars when 2500-pound cars would be almost better for everyone else, would clearly be a social waste. So taxing cars by weight would be a relatively easy solution. Yet,
opponents of government might say such an action is \textit{social engineering}.

But Frank (\textit{ibid}) argues that \textit{so} are speed limits and traffic lights.

In an incisive article we have cited earlier, Mintzberg (1996) says that after the fall of Eastern Europe many \textit{wrongly} concluded that Capitalism had won. As a result, U.S. and U.K. are more likely to favor \textit{private} sector over the public. However, Mintzberg believes that this is \textit{not} going to help society.

He adds that capitalism did \textit{not} triumph at all: \textit{balance} did. We in the West have been living in a \textit{balanced} society: with strong private sector, strong public sector, cooperatively-owned organizations, and non-government organizations (NGOs).

Encouraged by the Friedman doctrine, American CEOs set themselves on a path toward \textit{profit} maximization--or its counterpart maximizing \textit{shareholder} value. This new mind-set encouraged \textit{risk aversion} and \textit{short-run} behavior: with a focus on \textit{cost reduction} rather than \textit{long-term} concerns about innovation, quality, and customer satisfaction. And it was this momentous philosophical \textit{shift}—from substance to \textit{shadow}—that has contributed so much to the American industrial decline.

\textit{Lower} quality and \textit{lack} of innovation played a key role in the virtual \textit{disappearance} of U.S. companies from the consumer electronics industry, and their \textit{loss} of world dominance in such markets as automobiles, steel and tires.

Thanks, in a large measure due to the Friedman doctrine, for decades U. S. companies have been \textit{outsourcing} manufacturing to \textit{save} costs on the belief that manufacturing \textit{at home} held \textit{no} competitive advantage. But that has been a \textit{disaster}, because today's low-value manufacturing operations contain the seeds of \textit{tomorrow}'s innovative new products. What those companies have been \textit{ceding} is the country's \textit{industrial commons} --that is, the \textit{collective} operational capabilities that support \textit{new} product and process development in the U.S. industrial sector.

Consequently, America has \textit{lost} not only the ability to develop and manufacture \textit{high-tech} products--like televisions, memory chips, and laptops--but also the \textit{expertise} to produce \textit{emerging} hot products like the \textit{Kindle e-reader}, \textit{high-end servers}, \textit{solar panels}, and the \textit{batteries} that will power the next generation of automobiles.

What those companies have been \textit{ceding} is the country’s \textit{industrial commons}--that is, the \textit{collective} operational capabilities that support \textit{new} product and process development in the U. S. industrial sector.

Economic \textit{inequality} in America has been going up persistently since 1974, squeezing the middle class. America’s income inequality has now \textit{widened} so much that it rivals the \textit{highest} level recorded in 1928 that led to the Great Depression of 1929.

One argument that has been advanced in favor of the profit maximization theory that it provides correct answers to problems, and therefore makes grading students’ papers easier. This is also the theory that is the \textit{bedrock} of the \textit{tenure} and \textit{promotion} system in colleges and universities in mainstream Economics.

But this is also the theory that is \textit{brainwashing} business students--the future \textit{leaders} of tomorrow--into \textit{destructive} behavior.
But most importantly, as Pearlstein (2013) has argued, that in the “recent history of management ideas, few have had a more profound—or pernicious—effect than the one that says corporations should be run in a manner that “maximizes shareholder value” (italics added).

But, as Prof. Anthony has so powerfully explained, Friedman’s theory of profit maximization is too difficult, too unrealistic—and immoral.

Martin Wolf of the Financial Times (2020), in commenting on the Friedman doctrine has said this:

- “But, as H L Mencken is supposed to have said…”for every complex problem there is an answer that is clear, simple, and wrong.” This is a powerful example of that truth” (italics added).

Finally, on Prof. Blackford’s (2017) paper’s opening page (at the top right-hand corner), there is a statement attributed to Mark Twain which goes as follows:

- It ain’t what you don’t know that gets you into trouble. It’s what you know for sure that just ain’t so (italics added).

Finally, in Table 1 we have presented a comparative version of Friedman’s world of business, vs. the one in the real world.

### Table 1. Friedman’s World of Business vs. Real World of Business

| Name of Topic          | Friedman’s Business World | Real Business World                                                                 |
|------------------------|---------------------------|-------------------------------------------------------------------------------------|
| Scientific ideology    | Mechanistic               | Holistic                                                                            |
| Scientific methodology | Static equilibrium        | Dynamic                                                                             |
| World view             | Reductionism: the whole is equal to some of the parts | Focus on the whole                                                                     |
| Primary mode of        | Analysis                  | Synthesis                                                                            |
| investigation          |                           |                                                                                     |
| Scientific paradigm    | Certainty of facts        | How realistic the facts are                                                          |
| Main scientific principle | Objectivity and quantification | Relevance                                                                          |
| Level of uncertainty   | None                      | We live in an uncertain world for which we need an objective of flexibility          |
| Major business objective (s) | Profit Maximization       | Profit maximization too difficult, too unrealistic, and immoral.                    |
| Price                  | Tactical variable         | Profitability, market share, and flexibility                                         |
| Nature of the corporation | Contractual: based on legal boundaries | Strategic variable                                                                   |
| A network of producer, customers, and suppliers closely linked in a common chain, as one economic whole. |
| Nature of decision-making process | Analytical rigor          | Intuition, judgment, creativity, courage, persistence.                               |
| Need for building America’s Industrial Commons. |
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Notes

Note 1. Gillian Tett is chair of the editorial board and editor at-large, *US of the Financial Times*.

Note 2. https://www.drucker.institute/perspective/about-peter-drucker/

Note 3. Professor at the University of Chicago Law School.
Note 4. file:///C:/Users/ydatt/Downloads/Milton%20Friedman's%20_Shareholder_%20Theory%20Was%20Wrong%20-%20The%20Atlantic.html

Note 5. Igor Ansoff has been called ‘the father of strategic management’ by Henry Mintzberg (Wood & Wood)

Note 6. Robert Anthony did more than anyone else to introduce a conceptual structure to management control that helped him to transform the field of managerial accounting from the province of accountants to the tool of managers. https://en.wikipedia.org/wiki/Robert_N._Anthony

Note 7. https://fragileeconomics.com/2020/06/satisfying-behavioral-theory-business-objectives.html

Note 8. One exception was Head & Shoulders shampoo, a runner-up, whose unit price was higher than that of the market leader Pantene. However, a big reason for this is that the former is anti-dandruff specialty shampoo that always costs more than a regular shampoo.

Note 9. Milton-Friedman-50-years-later-ebook (1).pdf

Note 10. Luigi Zingales is the Robert C. Mc Cormack Distinguished Service Professor of Entrepreneurship and Finance at the University of Chicago - Booth School of Business.

Note 11. Associate Editor and Chief Economics Commentator at the Financial Times.

Note 12. Senior Contributor of Forbes.

Note 13. Focusing on maximizing short-term shareholder value”—the essence of the Friedman Doctrine—“is built on the world’s dumbest idea’.

Note 14. In 2011, Stiglitz was named by Time magazine as one of the 100 most influential people in the world. https://en.wikipedia.org/wiki/Main_Page

Note 15. https://nytimes.com/2020/09/13/business/dealbook/milton-friedman-essay-anniversary.html#

Note 16. Executive Director of American Compass.

Note 17. Specialization, Reductionism, Objectivity, Rationalism, and Materialism.

Note 18. https://www.nytimes.com/2020/09/13/business/dealbook/milton-friedman-essay-anniversary.html#

Note 19. "Greed is Good. Except when it’s Bad." Sept. 2013 is an important day in business and policy circles.

Note 20. Henry Mintzberg is Cleghorn Professor of Management Studies at the Desautels Faculty of Management at McGill University, Montreal, Canada.

Note 21. Stefano Zamagni is a Professor of Economics at the University of Bologna.

Note 22. Erika Karp is CEO of Cornerstone Capital Group.
Note 23. Prof. Martin is a former dean of the Rotman School of Management at the University of Toronto.

Note 24. George Blackford is a former Chair of the Department of Economics at the University of Michigan-Flint.

Note 25. Prof. Rajan is the Katherine Dusak Miller Distinguished Professor of Finance at Chicago Booth.

Note 26. Prof. Lynn Stout is the Distinguished Professor of Corporate and Business Law at Cornell University.

Note 27. David Koch, the younger brother of Charles, died in 2019.

Note 28. For example, The Heritage Foundation, Hoover Foundation.

Note 29. Founded Cato Institute in 1977.

Note 30. Andersen (2020, p. 142).

Note 31. Andersen (2020, p. 278).

Note 32. That includes such prestigious universities and colleges as MIY, NYU, Amherst, Wellesley College, Stanford, and so on (Andersen, 2020, p. 274).

Note 33. Explore the Management Top 250 - WSJ

Note 34. Robert H. Frank is the Henrietta Johnson Louis Professor of Management and Professor of Economics at Cornell’s Johnson Graduate School of Management. prof robert frank biography - Bing.