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KEYWORDS

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Discussion paper n. 27/2025

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Empowering Stakeholders through Shareholding: A Property Rights Approach to Corporate Governance

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Abstract

Shareholder primacy, the dominant corporate governance model, faces increasing scrutiny in the context of the current climate crisis and rising social inequality. Stakeholder theory offers an alternative that promotes broader corporate accountability, but its practical impact remains limited. This paper proposes stakeholder shareholding, a novel approach that transcends the traditional shareholder-stakeholder divide by leveraging a contingent approach to property rights. Expanding share ownership to diverse stakeholders—including employees, customers, local communities, and environmental representatives, can foster a more equitable distribution of value and improve sustainability while remaining compatible with existing legal and financial structures. A vignette study provides empirical support, revealing statistically significant shifts in value allocation towards stakeholder-owners. Key challenges to stakeholder shareholding include stakeholders' ability to pay for ownership and the competence to exercise ownership rights effectively. The paper discusses these practical implementation challenges and situates the model within the broader context of corporate governance reform and the growing ESG movement.

Keywords: Property Rights, Shareholder Primacy, Stakeholder Shareholding, Stakeholder Theory.

1 Introduction

For decades, maximization of shareholder value has been promoted as the preferred corporate objective (Inkpen and Sundaram, 2022). Friedman (1970) famously argued that the sole responsibility of a corporation is to maximize profits for shareholders, whom he viewed as the only group entitled to these returns. Shleifer and Vishny (1997), in their influential survey, reinforced this perspective, asserting that corporate governance fundamentally concerns how investors protect their capital and secure returns. Although this shareholder-centric focus offers companies a clear and measurable goal (Licht, 2004; Jensen, 2001; Bainbridge, 2023) and can produce broader economic benefits (Fairfax, 2008), the context has changed dramatically. The climate crisis and increasing inequality, as highlighted in the IPCC's Sixth Assessment Report (Intergovernmental Panel on Climate Change, 2022) and the work of Piketty (2014) on wealth disparities, reveal how profit maximization can result in the neglect of both current and future generations.

These challenges have fueled increasing demands for corporate governance reform. A prominent response is stakeholder theory (Freeman, 1984), which posits that corporations have responsibilities to a wide range of stakeholders, including employees, customers, suppliers, local communities and, in some cases, the natural environment (Haigh and Griffiths, 2009). This theory emphasizes the broad consequences of corporate actions and the dependence of a corporation's social license to operate on its commitment to safeguarding stakeholder interests. Tirole (2001) defines corporate governance within this model as "the design of institutions that induce or force management to internalize the welfare of stakeholders" (Tirole, 2001, p.4). Yet stakeholder theory has faced criticism for its vagueness (Orts and Strudler, 2009), incompatibility with market principles (Mansell, 2013), and limited impact on strategy research (Bridoux and Stoelhorst, 2022).

The unrealized potential of stakeholder theory may stem from how stakeholder interests have been integrated into corporate governance so far. Two main models have emerged (Hansmann and Kraakman, 2009). The first, the representative model, advocates for direct stakeholder participation in managerial decision making. A prominent example is the German co-determination system (Sandrock, 2015), which allows employees of large enterprises to appoint representatives to the Supervisory Board. In an attempt to revive this approach, Ferreras (2017) proposes the establishment of two representative bodies within firms, one representing capital investors and the other labor investors, each endowed with equal decision making authority. The fiduciary model instead advances the idea of extending directors' fiduciary duties, traditionally owed to shareholders and the corporation itself (e.g., *Aronson v. Lewis*, 473 A.2d 805, Del. 1984; *Unocal Corp. v. Mesa Petroleum Co.*, 493 A.2d 946, Del. 1985), to encompass all legitimate stakeholders (Sacconi, 2006). This framework redefines corporate directors as essentially trust managers (Dagan and

Dorfman, 2016), tasked with impartially managing the collective pool of assets assigned to them for the benefit of all legitimate stakeholders.

A notable development in this debate is the shift toward novel approaches to investing and ownership. Investors are increasingly formulating their portfolio choices based on environmental, social and governance (ESG) criteria (Friede et al., 2015; Berk and van Binsbergen, 2024) with the objective of achieving "impact" through their choices (Chiappini et al., 2023). Building on these recent developments and heeding Ostrom's recommendation to avoid binary thinking, this paper proposes a third way in corporate governance: *stakeholder shareholding*. This approach moves beyond the all-too-familiar stakeholder versus shareholder dichotomy by capitalizing on the adaptability of property rights. Stakeholder shareholding encourages stakeholders to take on the role of shareholders, tapping the natural openness of financial markets. By acquiring shares, stakeholders gain rights and legal protections, enabling them to influence corporate governance without requiring fundamental structural reforms. This offers a practical pathway to address the legitimacy crisis in the corporate world. However, participation in firm ownership remains effectively limited to those with the necessary financial resources and competence, a notable limitation of our proposal.

To empirically assess whether stakeholder shareholding can mitigate certain consequences of the prevailing corporate governance framework, we conducted a vignette experiment. This study examined how including various stakeholder groups as owners influences the distribution of corporate value. We presented a hypothetical scenario to a large sample of participants with prior investment experience in the stock market, and found that broadening ownership promotes a more equitable and sustainable distribution of corporate value. Although the shifts in value distribution to stakeholders (when they assume ownership status) are modest, the effect is strongly significant. Crucially, our experimental design ensures that this effect can be unequivocally attributed to the change in ownership status. This finding is particularly noteworthy given the established position of shareholder supremacy in corporate governance norms (Smith and Rönnegard, 2016; Samanta, 2019).

The paper proceeds as follows. We first review the theoretical foundations of property rights and their relevance to corporate governance. Next, we describe our vignette design and present the results. The discussion then explores the broader significance of our findings, situating them within current scholarship, and acknowledging limitations. Concluding remarks follow.

2 Theoretical Background

2.1 On Property

Property is defined as ”the formal or informal set of restrictions on the use of scarce resources” (Mattei, 2000, p. 2). Seminal contributions by Coase (1960), Demsetz (1967), Alchian (1997), Barzel (1997), and more recently Foss and Foss (2022), outline the principles of what is commonly abbreviated as Property Rights Theory (PRT). This framework emphasizes the vital role of well-defined property rights in promoting efficient resource allocation and minimizing transaction costs. A central implication of PRT is that the ex-ante allocation of property rights influences investment decisions and drives economic growth (Grossman and Hart, 1986). Clearly defined and enforceable property rights, when allocated to appropriate individuals or organizations, encourage investment and productive activities. In contrast, ambiguous or unenforceable property rights lead to uncertainty, discourage investment, and result in economic inefficiencies (De Soto, 2000).

In corporate governance, PRT has traditionally focused on shareholders as the firm's owners (Alchian and Demsetz, 1972). This perspective divides those who interact with the firm into two groups: those with contractual protections, such as customers and employees, and those without. The latter, known as *residual claimants*, bear the risk of being paid last, only after all contractual obligations are met (Fama and Jensen, 1983). Residual claimants have the strongest incentives to maximize residuals and ensure efficient management of contractual relationships. Equity investors have long been considered well suited to the role of residual claimants due to their relatively uniform preferences and easy access to diversification options (Hansmann, 1996), This claim of uniformity held considerable validity until the emergence of ESG and impact investing, which have shown significant divisions within the shareholder community on major strategic issues. The residual nature of shareholders' claims justifies their position or that of their appointees in corporate governance, as well as the special rights they typically enjoy, such as appointing directors and voting on extraordinary operations, including mergers and acquisitions, that are critical to the corporation's trajectory (see, e.g., §212(a) and §251(c) of the Delaware General Corporation Law).

This shareholder-centric perspective has faced criticism for overlooking the contributions of other groups, such as suppliers and employees, to value creation and for leaving these other groups vulnerable to opportunistic shareholder behavior, especially in light of the unavoidable incompleteness of contracts (Blair, 1995; Sacconi, 2006). Shareholders, exercising "residual" control rights, often leverage their unique prerogatives to tilt the balance in their favor when unanticipated and uncontracted-for circumstances arise. This results in negative externalities, such as pollution and labor exploitation, which undermine societal well-being (Magill et al., 2015). Furthermore, when (residual) value continues to accrue to owners, the principle of *accession*—where ”the owner of an asset will be deemed the owner of any new assets or increments in value prominently connected with that asset” (Merrill, 2009, p. 495)—tends to exacerbate inequalities by marginalizing those without ownership rights (Pistor, 2019). Despite potential criticisms, abandoning accession would likely generate significant uncertainty over ownership, ultimately undermining societal stability and the ability of economic actors to make informed decisions about resource use.

To preserve the fundamental role of property in a well-ordered society while addressing some of its flaws, this article advocates expanding access to the bundle of rights collectively known as the ”shareholder franchise” (Bebchuk, 2007) to new groups. Specifically, we propose extending these rights to include stakeholders such as employees, customers, members of the local community, and environmental activists as shareholders. Stakeholder shareholding reduces transaction costs associated with managing stakeholder relationships through contracts (Foss and Foss, 2005), as these stakeholders would now interact with the firm *qua* owners. However, it also introduces new *ownership* costs for shareholding stakeholders (Hansmann, 1996), a point we will explore further later. Granting ownership titles to stakeholders has the potential to achieve several *desiderata* of a reformed corporate governance system. It binds the incentives of the stakeholders to the firm's long-term success, fostering shared value creation and 'psychological ownership' (Stern and Lewinsohn-Zamir, 2019)–the personal connection of stakeholders to the firm. The inherent ”multiplier effect” of property (Merrill, 2009) suggests that expanded ownership can reduce inequalities among stakeholders over time. Furthermore, granting environmental activists share ownership could potentially drive companies to accelerate their transition plans, or resist attempts to delay them, although recent empirical evidence is not encouraging (Diaz-Rainey et al., 2024).

Next, we explore key points of contention in legal and philosophical discussions of property rights and their implications for their application in strategic management.

2.2 Fault Lines in Property Theory

Two critical fault lines have been identified in property theory. The first concern the *nature* of property, distinguishing between exclusion-based and relationship-based conceptions. The second addresses the *justification* for property rights, contrasting the emphasis on individual autonomy with the social function of property.

The scholarship on the nature of property rights is shaped by two dominant schools of thought (Dagan, 2011). The first school (Merrill, 1998; Smith, 2002) conceptualizes property as a system based on the principle of *exclusion*. It posits that property law functions as a law of things (*in rem*), designed to smooth human interactions over scarce resources by minimizing information costs (Merrill and Smith, 2011). Recognizing something as "owned" delivers a clear and straightforward message to all non-owners: "do not trespass."

This exclusion-based view has implications for how we understand the corporation as a subject of property claims and the authority such claims entail. It aligns closely with the Friedman doctrine, which assumes that shareholders are the rightful owners of the corporation, a contested premise addressed below. The logic of the Friedman doctrine is clear: if shareholders own the firm, and ownership inherently grants the right to exclude, then shareholder primacy is both justified and inevitable. In this framework, shareholder ownership derives its value from the principle of exclusion, which gives shareholders exclusive authority over the use of the corporation's assets (Ripstein, 2013). Consequently, any accommodation of nonowners' interests in the governance of the "thing" the shareholders allegedly own is seen as an infringement on these rights.

The question of whether shareholders "own" the corporation has been a topic of significant debate (Kaler, 2006; Paranque and Tournois, 2014). Although a comprehensive exploration of this issue is beyond the scope of this article, it is important to distinguish between possession and ownership (Merrill, 2015). Unlike tangible assets such as land, corporations cannot be physically "possessed" by individuals. Corporate governance relies on rights vested in individuals who, in most jurisdictions, hold a defined set of rights, but rarely outright entitlements (Blair and Stout, 2001). This paper acknowledges the tension between those in the Friedman tradition, who argue that shareholders exercise sovereign rights over the corporation, and those who assert that the corporation essentially "owns itself" (Eccles and Youmans, 2016). For our purposes, it is not necessary to pick a side in this long-standing diatribe. To build our case for stakeholder shareholding, we require only the recognition of some degree of shareholder exceptionalism relative to other stakeholders—an exceptionalism that, under certain conditions, could prove valuable for other groups as well were they granted ownership rights.

The second school views property not as an inherent right tied to a specific object, but as the relationships people establish concerning valuable resources (Pejovich, 1972; Munzer, 2013) - the *in personam* perspective. In this view, property is not a "ready-made" and immutable set of negative duties to "keep off," but rather a flexible bundle of use rights that can be arranged and rearranged to fit different situations and needs (Coase, 1960). This approach highlights the ability of individuals to tailor property rights to their specific needs through mutual agreement. It provides greater flexibility in defining and applying property rights, particularly for intangible and composite assets, such as those managed within a corporation. However, when applied to corporate ownership, this approach assumes a level of customization and stakeholder negotiation over asset use that is unlikely to materialize given the inherent difficulties of tailoring an ad hoc property configuration for a specific corporate entity. Property regimes often conform to a few well-defined forms, as reflected in the *numerus clausus* doctrine (Vargas Weil, 2024), which standardizes property rights configurations.

Another key fault line in property theory concerns the *justification* of property rights (Brudner, 2013), specifically the types of interests and values that property law seeks to promote (Chang and Smith, 2016). One tradition, influenced by Roman legal constructs and championed by John Locke, views property as a 'natural' right and an expression of individual autonomy (see, for example, Epstein (1985)). In contrast, a more modern tradition, beginning with Léon Duguit's seminal lectures, emphasizes the social function of property and inclusion (Kelly, 2013; Dehaibi, 2015; Engelen, 2002). Alexander and Peñalver (2011) argue that property rights should adhere to a norm of social obligations, which requires property owners to act in ways that promote human flourishing.

The disagreement between the autonomy and and the social function views has implications for the limitations that should be imposed on ownership, i.e., whether property should reflect "despotic dominion," as famously described by Blackstone (1769), or be conceived as a set of well-defined rights (Hohfeld, 1913; Honoré, 1961) that can be directed to better align with broader social goals.

2.3 A Reconciliation

These well-known fault lines in property theory take on a new dimension in the context of contestable public corporations and fast-paced financial markets. The "public" nature of listed corporations inherently limits exclusion (see also Majumdar (2019)). This makes it feasible to reconcile both the *in rem* and *in personam* perspectives within public companies. The *in rem* perspective is preserved by stating that anyone wishing to influence corporate decision making must acquire property rights in the form of shares, thus maintaining a clear and enforceable boundary between owners and non-owners. The *in personam* perspective is accommodated through the flexible and pro-rata nature of corporate shareholding, which allows individuals to tailor their ownership stake to their desired level of influence and financial commitment. The acquisition of these rights serves two purposes: to influence how corporate assets are utilized, ensuring that the voice of owners is heard, and to exclude nonowners, ensuring that their claims or interests are not heard. Within this framework, renouncing ownership - provided individuals have a fair opportunity to acquire it and have the skill to know what warrants owning and when it is appropriate to acquire ownership (Foss et al., 2021), as we later acknowledge - amounts to accepting exclusion from corporate decision making, effectively relinquishing stakeholder status. This approach shifts the responsibility of defining legitimate stakeholders, which is often daunting (Mitchell et al., 1997), from the corporation to the potential stakeholders, empowering them to decide if their stake deserves ownership and active participation.

The second fault line, concerning the justification for property rights, loses much of its significance when applied to corporations. The potential for despotic control by any shareholder is constrained by regulations, market dynamics, and the constant possibility that new interested parties acquire ownership status. The inherent diversity of shareholder values within publicly traded corporations creates a dynamic environment that can potentially transcend the traditional conflict between individual autonomy and social welfare.

In summary, the interconnection of corporate decisions with social and environmental outcomes requires innovative governance approaches that transcend traditional dichotomies. Stakeholder shareholding offers a pragmatic solution, achievable without the radical legal or structural overhauls required by some forms of stakeholder capitalism (Bainbridge, 2023). We offer stakeholder shareholding as a path to a more equitable and sustainable distribution of corporate value. In the next section, we investigate the potential of this proposal empirically.

3 Illustration

3.1 The Vignette Methodology

To assess the plausibility of our theoretical framework, we conducted a vignette experiment (Bicchieri et al., 2014). This experiment explored how varying ownership structures impacted the distribution of corporate value. Our aim was to test the prediction that broader stakeholder ownership leads to a more equitable and sustainable distribution of value compared to the status quo of exclusive ownership by equity capital suppliers. The experiment used 15 distinct vignettes, presented in Table I. Instead of asking respondents what they would do in the situation described, we asked participants to imagine the vignette scenario and estimate how a fictional manager, Casey Smith, would allocate corporate value. This "judge others" strategy (Wason et al., 2002) helps mitigate bias and avoids placing respondents in a decision-making role they are unlikely to encounter.

In each vignette, $100 million had to be allocated among five stakeholder groups: investors, employees, customers, local communities, and representatives of nature. Employees, customers, and local communities are widely recognized as stakeholders. Representatives of nature encompass a range of actors advocating for environmental interests in corporate decision making, including NGOs, environmental pressure groups, and scientists. For clarity, the term "investors" is used to denote traditional equity providers, although all members of the ownership coalition are, technically, shareholders.

Ownership structures were systematically varied across the vignettes, with investors always included

Vignette no.	Label	Owners
1	SE	Investors + Employees
2	SC	Investors + Customers
3	SL	Investors + Local Communities
4	SN	Investors + Representatives of nature
5	SEC	Investors + Employees + Customers
6	SEL	Investors + Employees + Local Communities
7	SEN	Investors + Employees + Representatives of nature
8	SCL	Investors + Customers + Local Communities
9	SCN	Investors + Customers + Representatives of nature
10	SLN	Investors + Local Communities + Representatives of nature
11	SECL	Investors + Employees + Customers + Local Communities
12	SECN	Investors + Employees + Customers + Representatives of nature
13	SELN	Investors + Employees + Local Communities + Representatives of nature
14	SCLN	Investors + Customers + Local Communities + Representatives of nature
15	SECLRN	Investors + Employees + Customers + Local Communities + Representatives of nature

Table I: Overview of Vignettes and Ownership Structures

and additional stakeholders introduced incrementally. This design choice reflects investors' prevailing role in corporate governance while enabling comparisons across different ownership configurations. Including investors in all scenarios also helped mitigate potential skepticism among participants toward vignettes that excluded them. For simplicity, ownership stakes were evenly divided among members of each coalition.

Each participant was exposed to only one vignette (a *between-subjects* design), ensuring independence across observations. The full text of the vignettes is available in the Appendix. Vignette construction followed best practices (Rungtusanatham et al., 2011), employing a consistent narrative across scenarios and varying only the sentence describing ownership.

3.2 Results

Participants were recruited through Prolific, a widely used online platform known for its ability to facilitate high-quality data collection (Peer et al., 2022). We targeted US residents with (self-reported) experience in stock investment to ensure familiarity with ownership concepts. We collect information on the gender, year of birth, ethnicity, political position in the standard US spectrum, and the highest level of education of the participants. Participants took on average 4 minutes to complete the task, earning a flat compensation of $2 for their participation, a pay classified as "very high" by Prolific. Simulations performed with the package G * Power (Faul et al., 2007) find that our data set comprises a cross section of 740 participants, roughly equally divided into 15 vignettes, adequately powered. The descriptive statistics can be found in Table II. Data collection occurred in Fall 2024.

Investors consistently received the largest share of the allocation, but other stakeholder groups also

Variable	Obs	Mean	Std. Dev.	Min	Max
year_birth	740	1982.689	12.649	1944	2006
employees_owner	740	0.541	0.499	0	1
localcommunities_owner	740	0.531	0.499	0	1
nature_owner	740	0.539	0.499	0	1
customers_owner	740	0.543	0.498	0	1
male=1	703	0.602	0.490	0	1
white=1	740	0.684	0.465	0	1
liberal=1	740	0.408	0.492	0	1
College=1	740	0.693	0.461	0	1
investors_share	740	33.719	19.062	0	100
employees_share	740	24.766	11.406	0	70
localcommunities_share	740	13.448	8.031	0	65
nature_share	740	12.746	8.927	0	75
customers_share	740	15.321	9.173	0	73

Table II: Descriptive Statistics

participated in the distribution. To evaluate the impact of ownership status on allocations to different stakeholder groups, we conducted four separate tests: one for each stakeholder group, excluding investors, who were always part of the ownership coalition. The Mann-Whitney U test, a non-parametric method, was chosen for its ability to handle fewer assumptions compared to parametric alternatives (Siegel and Castellan, 1988). Each test compared the allocations received by a specific stakeholder group, depending on whether that group held ownership or not in a specific vignette.

The fixed \$100 million "pie" in each vignette created interdependencies among the tests: increasing one group's slice necessarily decreased the others'. This correlation in outcomes required a Bonferroni correction to mitigate the inflated risk of spurious significance from multiple comparisons. This adjustment modified the significance threshold (α) to control the family error rate in all tests. The corrected threshold was calculated by dividing the standard significance level ($\alpha = 0.05$) by the number of tests ($k = 4$), which yields $\alpha_{\text{adjusted}} = 0.0125$. For all categories, the test statistics reveal significant differences in allocations based on ownership status ($p < 0.001$). As shown in Figure 1, participants allocated *more* funds to groups presented as owners. Although the effect is highly statistically significant, the difference in magnitude is modest– roughly a 3% increase.

Our between experimental design allows us to confidently attribute this effect, however modest, to the change in ownership status. Regressions of the amounts allocated to investors and employees, representing the largest allocation categories, on sociodemographic variables were performed to assess whether these variables influenced allocation decisions. Using the same restrictive alpha level as before, none of the coefficients for the sociodemographic variables were statistically significant in any regression. This reinforces the robustness of the findings, indicating that the allocations are driven by ownership status rather

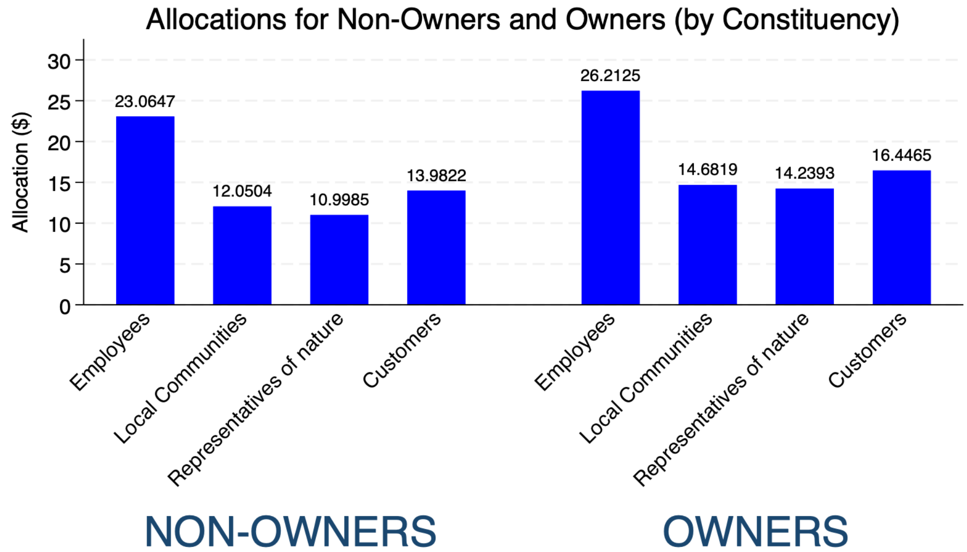

Figure 1: Allocations for Non-Owners and Owners by Constituency. Investors are not shown, as they are present in all vignettes as owners

than demographic factors.

4 Discussion

Traditionally, shareholder primacy, the idea that corporations exist primarily to serve the interests of shareholders, has dominated corporate governance. However, this paradigm has faced increasing scrutiny. Authors like Hart (2024) argue that prioritizing shareholder interests limits corporations' ability to address urgent social and environmental challenges. Rather than rejecting shareholder primacy outright, we propose reinterpreting it as a pathway to a reformed corporate governance. Broadening share ownership by extending the rights and powers traditionally reserved for investors to a wider segment of society allows categories previously excluded or underrepresented from corporate decision-making to make their voices heard. This shift holds the promise of reshaping corporate governance to better reflect societal needs and planetary boundaries.

In our framework, public companies are reconceptualized as coalitions of stakeholders with distinct interests, unified by their shared status as (pro-rata) owners. Our view contrasts with the traditional "political" view of the firm, where management balances stakeholder interests through hypothetical bargaining exercises (March, 1962; Sacconi, 2006), with a new approach that acknowledges conflicts among stakeholders *qua* owners. These conflicts unfold in structured settings, such as shareholder meetings, where agreements must be actively negotiated. By granting stakeholders legal rights traditionally reserved for investors, such as voting rights, this model institutionalizes the coalition of stakeholding parties and endows the coalition with its own distinct ontology that closely aligns with the corporation's (Lawson, 2015). By granting stakeholders ownership, they acquire access to the legal 'coding' of capital, which traditionally has been primarily accessible to shareholders. As Pistor (2019) argues, this 'coding' involves utilizing specific legal modules – such as corporate law - to endow generic assets with the key characteristics of capital, namely priority, durability, convertibility, and universality (Pistor, 2019). Stakeholder shareholding can be viewed as a "recoding" of capital with the potential to reshape the distribution of corporate value.

4.1 Related approaches

The very existence of stakeholder ownership in various forms, including Employee Stock Ownership Plans (ESOPs), demonstrates its feasibility and potential as a corporate governance reform tool. However, these mechanisms often lack a robust theoretical framework. This paper addresses this gap by grounding stakeholder participation in a novel conceptualization of property rights specifically tailored to the corporate context. Elements of this approach are reflected in prior literature. Unhappy stakeholders can acquire shares, Sundaram and Inkpen (2004) argued, while shareholders cannot easily transform into other stakeholder groups. Pluralist approaches to property rights have been used before to argue for greater stakeholder inclusion (Engelen, 2002). However, Engelen (2002) observed that "In many legal traditions workers possess ownership rights, such as control and codetermination rights, as *workers* and not as *investors*" (p. 400, emphasis in the original). The emphasis on these distinct roles by Engelen (2002) highlights a potential divergence from our proposal, suggesting that the author envisions a variant of the representative model.

Companies, in managing risks, often impact other stakeholders (Magill et al., 2015). Yet shareholders, or their fiduciaries, typically have limited incentives to internalize these externalities under a shareholder value maximization framework—especially if they are not compelled by regulation or motivated by a preference to comply with an impartial agreement among stakeholders or some other form of normative commitment (Sacconi, 2006). To address underinvestment in stakeholder safeguards, Magill et al. (2015) propose shifting the focus toward maximizing total stakeholder *welfare*. They study the introduction of tradeable property rights, such as *consumer rights (c-rights)* and *worker rights (w-rights)*, to facilitate the achievement of a stakeholder equilibrium. *C-rights* grant consumers the ability to purchase the firm's product at market prices, and their market value reflects consumer surplus. *W-rights* allow workers to sell their labor to the firm at prevailing wages, capturing worker surplus. These tradeable rights are used to internalize stakeholder surpluses, aligning corporate governance with stakeholder welfare. Whereas Magill et al. (2015) focus on tradeable rights and markets as a mechanism to reveal and internalize stakeholder preferences, our proposal emphasizes corporate ownership. Our proposal integrates stakeholder input into the governance framework through liquid financial markets rather than relying on heavily institutionalized and rigid labor and consumer markets. Recent scholarship supports our approach: Broccardo et al. (2022) demonstrate that even marginally socially responsible investors can achieve socially optimal outcomes through voice.

Property plays a central role in normative accounts of justice that have emerged since John Rawls's seminal *A Theory of Justice* (Rawls, 1999). From liberal egalitarianism to libertarianism, differing conceptions of justice often hinge on how property rights are assigned, justified, and distributed within a society, resurfacing some of the fault lines discussed earlier in the paper. The Rawlsian notion of "property-owning democracy" is especially consequential for stakeholder shareholding. A property-owning democracy aims to disperse wealth and capital ownership rather than relying on *ex-post* income redistribution, as does the traditional welfare state. Rawls (1999) argues that broadly distributing ownership of productive assets creates a more egalitarian social and economic order, fostering greater equality of opportunity and reducing reliance on state intervention. The concept of property-owning democracy, as Rawls acknowledges, derived from Meade (1964), who argued that broader property ownership empowers individuals by granting them greater control within the economy, fostering both personal freedom and economic security. Rawls further develops this idea, arguing that a property-owning democracy better facilitates the principles of justice as fairness by mitigating the concentration of economic and political power and fostering a society of independent, self-governing citizens.

Developments of the property-owning democracy concept by authors such as Hsieh (2005) have been used to justify worker empowerment, an approach known as "workplace republicanism." This approach aims at protecting employees from arbitrary managerial interference by ensuring their participation in workplace governance. Stakeholder shareholding provides a practical pathway to achieving workplace republicanism by granting employees a stake in corporate governance. However, in large corporations, the equity stake held by an individual worker is typically too small to wield meaningful influence, leaving power concentrated in the hands of large blockholders and preventing employees from effectively contesting decisions. Similar challenges have been documented for minority shareholders in closely held corporations (Mantese and Williamson, 2018). This critique underscores the inherent difficulty of translating share ownership into effective influence on corporate decisions.

Although stakeholder shareholding may not fully realize the ideal of non-domination as envisioned by republican theorists like Cordelli (2020) and Hsieh (2005), it could mitigate concerns about concentrated private power and its impact on democratic accountability. The inclusion of a broader array of categories as shareholders, if effectively implemented, could increase the likelihood that corporate decisions align with a plurality of values and interests. However, the effectiveness of stakeholder shareholding in addressing republican critiques hinges on the degree of influence stakeholders can and will exert. Share ownership alone may prove merely ”symbolic,” failing to meaningfully realize nondomination.

The concept of stakeholder shareholding, as presented in this paper, aligns with broader discussions on alternative ownership models and the democratization of capital, such as Collective Capital Institutions (CCIs, Furendal and O’Neill (2024)). These are frameworks, once popular in certain Scandinavian countries, designed to enable shared ownership and democratic oversight of capital, with the objective of reducing disparities in wealth, income, and economic influence. Furendal and O’Neill (2024) argue that CCIs offer a more effective way to address structural constraints on democratic governance and foster the Rawlsian sense of justice compared to some accounts of ”individualized” (rather than collective) property-owning democracy. Their insights, particularly with respect to the need for collective action and the potential for conflict in the CCI, reinforce the importance of carefully designing governance mechanisms and addressing practical implementation challenges in any stakeholder shareholding scheme.

4.2 Limitations

The stakeholder shareholding model faces several limitations that warrant careful consideration.

1. The very foundation of relying on shareholder rights as a conduit to influence could be questioned. Bebchuk (2007) argues that the so-called ”shareholder franchise” is often more myth than reality, with even traditional shareholders frequently lacking meaningful influence over corporate decisions. Extending a potentially weak instrument of control to a broader stakeholder base does not guarantee increased oversight and a less skewed distribution of corporate value. To address this concern, several measures could be implemented to enhance the feasibility of a more pluralistic corporate decision making process. Lowering financial thresholds for purchasing shares, for instance through fractional share ownership and investment platforms fashioned on CCIs, would make ownership a viable option for individuals with limited resources. SEC proxy voting regulations, particularly Rule 14a-8, which allows shareholder proposals to be included in proxy materials, offer a mechanism for amplifying stakeholder voices and collectively influencing corporate governance. Additionally, leveraging existing tools like ESOPs (Landau et al., 2007) offers a direct pathway to stakeholder shareholding by empowering the constituency most intimately connected to the company’s daily operations: its employees. *sloESOP* (Ellerman et al., 2022) is a legal innovation from Slovenia that establishes a financial mechanism for the purchase of company shares on behalf of employees. It addresses some challenges of current ESOPs, like succession. These strategies can be pursued without necessitating any changes

to existing corporate governance frameworks.

2. While stakeholder shareholding aims to rebalance traditional power relations, the inherent diversity of stakeholder interests—from financial returns to job security to ethical sourcing —introduces complexities. Granting all stakeholders equity potentially unifies interests through a shared focus on return on equity, seemingly echoing shareholder primacy. However, conflicting priorities remain, compounded by potential intra-group disagreements. As Michelman (1982) and Heller (1998) highlight, fragmented ownership without robust collective action mechanisms can lead to anticommons failures. Effective governance in this context requires *ad hoc* systems for cooperation, negotiation, and conflict resolution, transforming diverse preferences into coherent corporate strategies. Although the difficulty of brokering an agreement might be comparable to models like Sacconi (2006), a crucial distinction in stakeholder shareholding is that it necessitates the negotiation of an *actual* agreement among the interested parties, rather than an *hypothetical* one.

3. The unique position of employees within the stakeholder ecosystem presents a persistent challenge that stakeholder shareholding alone may not fully resolve. The reason is that while employees who hold shares can readily sell those shares in the open market, they cannot similarly sell their jobs (Dow, 2001), though solutions like tradable w-rights have been proposed (Magill et al., 2015). However, granting employees—and other stakeholders—formal control rights through shareholding can serve as a crucial check on managerial power, mitigating the potential for abuse of authority (Sacconi, 2006). By the ability to influence corporate decisions *qua* owners, employees, and other stakeholders gain a formal mechanism for holding management accountable and challenging actions that negatively impact their interests. This enhanced accountability, while not eliminating the inherent vulnerability stemming from the need for employment, can introduce a countervailing force that potentially reduces the likelihood of exploitative or unfair labor practices.

4. Effective participation in corporate governance requires both formal rights and the competence to exercise these rights effectively (Foss et al., 2021). While acquiring corporate ownership, particularly in public companies, is often straightforward, developing the skills necessary for informed financial and strategic decision making is far more challenging. Anggraeni et al. (2019) further highlights the uncertainty surrounding stakeholder willingness and capacity to engage meaningfully in governance processes. Even with the right to participate, stakeholders might lack the time, resources, or inclination to actively involve themselves in corporate decision making, potentially leading to disengagement and undermining the intended benefits of broader ownership. Addressing these challenges requires significant investment in stakeholder education and training programs to equip individuals

with the necessary financial literacy, understanding of corporate governance principles, and incentives to involve themselves in decision making processes.

5. Access to capital markets and the ability to acquire shares remain significant barriers to equitable participation in a stakeholder shareholding model. Traditional economic theory assumes that ownership naturally gravitates towards those most willing to pay, effectively equating willingness to pay with demand. However, this assumption overlooks the significant financial constraints that can exclude willing but budget-constrained stakeholders from participating in ownership, raising fundamental equal-opportunity concerns. This creates a barrier to entry that disproportionately impacts lower-income individuals and local communities in the Global South.

In conclusion, the activation of the transformative potential inherent in stakeholder shareholding is contingent upon facilitating access, enhancing competence, and instituting effective conflict resolution mechanisms.

5 Conclusion

This paper departs from the dominant applications of PRT in strategic management, which, as exemplified by Foss and Foss (2022), predominantly emphasize firm boundaries established by property rights and the role of property in fostering innovation and entrepreneurship, echoing Frédéric Bastiat's famous adage that "*A law contrary to property is a law contrary to industry*." Focusing instead on the internal governance of large publicly traded corporations, we analyze the implications of embedding stakeholders as owners. This focus on governance structures, rather than individual incentives, allows us to explicitly address equity and sustainability, often neglected in efficiency-focused PRT applications.

Our framework provides a lens for understanding the ESG movement and offers a concrete path to achieving impact. Unlike traditional corporate governance reform proposals requiring novel regulations, our approach empowers stakeholders to acquire equity through liquid financial markets, granting them direct ownership and mitigating the risk of exclusion from governance. We leverage property rights theory to revitalize stakeholder theory, thus progressing on the research agenda started by Asher et al. (2005). The limitations of environmental and social stewardship by external advocates (Goldhaber, 2024) further underscore the need for direct ownership to achieve meaningful corporate change. Without formal ownership rights, external pressure may not translate into substantive action. The theoretical foundations of this paper are rooted in a view of the firm as a sui generis entity with unique legal, historical, and financial characteristics, simultaneously a subject and a holder of property rights through corporate personhood (Watson, 2022).

The success of so-called universal owners like large pension funds in pushing climate action through collaborative engagement within Investor Climate Alliances (ICAs) demonstrates the great potential of property rights in strategy setting (Miazad, 2023). The success of these initiatives also reveals the potential for ownership to be used for anti-competitive purposes, under the guise of addressing a global crisis. This necessitates a careful balance between empowering stakeholders through ownership and safeguarding against its potential misuse.

Our vignette study provides initial evidence that broadening ownership to diverse stakeholders promotes a more balanced and sustainable distribution of value. Further empirical validation using real-world data is crucial. In a study of American companies applying to the Great Place to Work Institute competition, Blasi et al. (2015) find that 'shared capitalist' forms of pay, such as employee ownership plans, are associated with participation in decisions and positive perceptions of company culture. These findings support the notion that stakeholder shareholding has significant potential. Another interesting case comes from Canada. In July 2024, TC Energy announced plans to sell a stake in a contested pipeline project to a consortium of Indigenous communities (*Reuters*, July 30 2024). This transaction represents a significant move towards Indigenous participation in major energy infrastructure projects. However, issues are already emerging before the transaction is even finalized (*Globe and Mail*, November 19, 2024).

By exploring the potential for stakeholders to gain influence through ownership, we offer a new lens to understand the complex interaction between property rights, organizational dynamics, and organizational outcomes. However, acknowledging the potential for collective action problems within and between diverse stakeholder groups requires investigating how various governance mechanisms can mitigate these challenges and facilitate effective decision making. Crucially, while Hansmann (1996) provides a valuable framework for analyzing discrete ownership options -such as labor-managed firms, purely investor-owned firms, and cooperatives - where ownership is chosen to minimize the sum of ownership costs and the contracting costs among non-owners, it did not foresee the emerging potential for hybridity in ownership. This potential for hybridity, much like the potential for hybridity in governance structures first described by Williamson in his discussion of Coase's seminal paper of 1937, necessitates a revision of Hansmann's framework. In our proposed model, where diverse stakeholders, including employees, customers, community members, and environmental representatives, participate as owners alongside traditional shareholders, the traditional distinction between ownership and contracting costs blurs. Governance costs within such a broadly owned firm would likely resemble the contracting costs Hansmann describes, potentially offsetting any reductions in traditional ownership costs. It remains to be seen whether these hybrid ownership structures will remain rare, as observed with labor-managed firms (Dow, 2001), or emerge as an attractive organizational and governance form. This uncertainty further underscores the need for theoretical development to adequately analyze the efficiency and equity of such hybrid structures. Our research previews a spectrum of intermediate ownership forms, highlighting the need to understand their unique challenges and potential.

Stakeholder shareholding formalizes stakeholder rights that have traditionally been addressed through engagement tools such as constituency statutes, advisory boards, independent directors, and legally mandated consultations. Future research should compare these alternative approaches and assess their results to advance the ultimate goal of more equitable and sustainable corporate governance. A critical aspect of this research agenda is understanding when the costs of informal stakeholder engagement outweigh the benefits of formally including stakeholders as shareholders through property rights.

Stakeholder shareholding offers a new path to protect stakeholder interests. By facilitating the direct acquisition of ownership stakes, it empowers stakeholders to assert their claims on corporate value and influence governance decisions from within. The model emphasizes stakeholder agency, shifting the focus from passively awaiting legislative action or stakeholder engagement by companies to proactively securing a voice in corporate affairs through ownership. By building on the foundations laid out in this paper and addressing limitations, future research can further illuminate the potential of stakeholder shareholding to reshape corporate governance toward a more equitable and sustainable model, one that creates value for all stakeholders.

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A Appendix: Vignettes

A.1 Common block to all vignettes

Casey Smith is the CEO of a large oil and gas company called O&G. Casey must decide how to distribute the monetary value, quantifiable as $100 million, among various groups: investors, employees, customers, local communities, and representatives of nature. Definitions:

- Investors: Individuals or entities who invest capital in O&G.
- Employees: Individuals who work for O&G, contributing their time and skills to the company's operations.
- Customers: Individuals or businesses that purchase O&G's products.
- Local communities: Populations living in areas where O&G operates.
- Representatives of nature: Individuals or organizations that advocate for the rights and interests of the natural environment, with a particular interest in strong climate action.

{Ownership sentence (see below)}

Casey is accountable to the owners of O&G and may face repercussions if the owners' expectations are not fulfilled.

Ownership does not prescribe how the value is distributed. Casey has the discretion to allocate the $100 million among all groups without facing legal, ethical, or policy constraints, making this decision independently.

Casey's allocation of monetary value impacts each group differently. Investors receive dividends, employees are provided with enhanced wages and benefits, customers enjoy improved product quality and customer service, local communities benefit from local development, and representatives of nature see investments in environmental conservation and climate action.

In your assessment, how will Casey distribute the $100 million in value among the following groups? Please provide estimates for each:

- a) Investors: $
- b) Employees: $
- c) Customers: $
- d) Local communities: $

- e) Representatives of nature: $

A.2 Sentences that identify each vignette

A.2.1 Vignette 1: Investors + Employees (SE)

Investors and employees hold equal ownership stakes in O&G.

A.2.2 Vignette 2: Investors + Customers (SC)

Investors and customers hold equal ownership stakes in O&G.

A.2.3 Vignette 3: Investors + Local Communities (SL)

Investors and local communities hold equal ownership stakes in O&G.

A.2.4 Vignette 4: Investors + Representatives of nature (SN)

Investors and representatives of nature hold equal ownership stakes in O&G.

A.2.5 Vignette 5: Investors + Employees + Customers (SEC)

Investors, employees and customers have equal ownership stakes in O&G.

A.2.6 Vignette 6: Investors + Employees + Local Communities (SEL)

Investors, employees, and local communities hold equal ownership stakes in O&G.

A.2.7 Vignette 7: Investors + Employees + Representatives of nature (SEN)

Investors, employees and representatives of nature hold equal ownership stakes in O&G.

A.2.8 Vignette 8: Investors + Customers + Local Communities (SCL)

Investors, customers and local communities have equal ownership stakes in O&G.

A.2.9 Vignette 9: Investors + Customers + Representatives of nature (SCN)

Investors, customers and representatives of nature hold equal ownership stakes in O&G.

A.2.10 Vignette 10: Investors + Local Communities + Representatives of nature (SLN)

Investors, local communities, and representatives of nature have equal ownership stakes in O&G.

A.2.11 Vignette 11: Investors + Employees + Customers + Local Communities (SECL)

Investors, employees, customers, and local communities have equal ownership stakes in O&G.

A.2.12 Vignette 12: Investors + Employees + Customers + Representatives of nature (SECN)

Investors, employees, customers, and representatives of nature have equal ownership stakes in O&G.

A.2.13 Vignette 13: Investors + Employees + Local Communities + Representatives of nature (SELN)

Investors, employees, local communities, and representatives of nature have equal ownership stakes in O&G.

A.2.14 Vignette 14: Investors + Customers + Local Communities + Representatives of nature (SCLN)

Investors, customers, local communities, and representatives of nature have equal ownership stakes in O&G.

A.2.15 Vignette 15: Investors + Employees + Customers + Local Communities + Representatives of nature (SECLRN)

Investors, employees, customers, local communities, and representatives of nature hold equal ownership stakes in O&G.