



Stakeholder Value Maximization as a Pathway to Economic Equality: A Welfare Economics Framework

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Abstract. Economic inequality remains one of the most persistent challenges facing contemporary capitalism, renewing debate about the purpose of firms beyond profit generation. This paper explores stakeholder value maximization (SVM) as a pathway to economic equality by integrating stakeholder theory with welfare economics. Existing research on stakeholder governance, value maximization, and inequality measurement is the basis of a weighted social welfare framework that combines the interests of employees, shareholders, and society while incorporating inequality aversion through the Atkinson index. The social welfare framework further demonstrates how it influences the distribution of economic benefits among all stakeholders firm-level policies, wage setting, geographic hiring, and CSR spending. The paper proposes a theoretical framework for evaluating the model using firm-level wage and CSR data, outlines econometric specifications, and examines wealth distribution. The analysis suggests that SVM can contribute to greater economic equality when governance structures align with stakeholder value creation.

Keywords: Stakeholder value maximization; wealth distribution; social welfare function; Gini coefficient; Atkinson index; corporate governance; CSR; inclusive capitalism.

1. Introduction

Traditional capitalism, anchored in shareholder value maximization, has been credited with driving industrial growth and wealth creation. However, its narrow focus on profit and

market efficiency has increasingly been critiqued for overlooking social welfare, environmental sustainability, and distributive justice. This raises a fundamental question: Can contemporary capitalism remain economically efficient while also being socially equitable?

In response, stakeholder value maximization (SVM) has emerged as an alternative paradigm. It broadens the firm's purpose by recognizing the interdependence between businesses and their stakeholders—employees, communities, consumers, and the environment. Aligned with the principles of welfare economics articulated by Pigou (1920), Pareto (1906), and Sen (1970, 1999), stakeholder value maximization argues that firms are not only economic agents but also vehicles of social welfare optimization.

Economic inequality has intensified this debate. Global institutions such as the IMF (2020) and the World Economic Forum (2022) warn that widening disparities threaten social cohesion and economic stability. Still, corporate structures largely remain rooted in shareholder-focused. The existing literature acknowledges this paradox but lacks robust frameworks for evaluating corporate contributions to distributive justice. Studies by Freeman (1984), Stout (2012), and Latty (2011) emphasize the relevance of utility based models and social welfare functions, but do not fully integrate them into corporate governance analysis.

This research addresses this gap by examining how stakeholder-oriented governance can be operationalized to reduce inequality and enhance social welfare within the corporate domain. It contributes by bridging welfare economics with corporate governance theory to offer an evaluative model that measures both value creation and equitable distribution.

2. Review of Literature

The conceptual roots of stakeholder value maximization is a part of welfare economics.

Pigou (1920) argued that the market results do not often maximize social welfare due to externalities, necessitating corrective mechanisms to reconcile private and social interests. Pareto (1906) introduced the idea of allocative efficiency, whereby welfare is improved only if one person is made better off without making another person worse off. This principle did not take into account distributive justice, thus, Bergson (1938) and Samuelson (1947) formalized the Social Welfare Function (SWF) that aggregates individual utilities based on value judgments of fairness and justice.

Sen (1970, 1999) then extended welfare economics by introducing the capability approach, which focuses on equality of opportunities and freedoms rather than on outcomes. They are closely related to stakeholder theory, in that they stress social inclusion and equity. Latty (2011) followed up on this by modeling welfare losses from inequality using observable social welfare functions, linking welfare economics with stakeholder-oriented corporate evaluation.

Friedman (1970) said the primary duty of business was to increase shareholder profits within the limits of the law. This view was challenged by Freeman (1984), who put forward stakeholder theory, arguing that long-term success depends on balancing the interests of multiple stakeholders. Similarly, Jensen (2001) propose value maximization as a unifying objective that reconciles stakeholder interests and firm performance.

Stout (2012) further dismantled the "shareholder value myth," contending that corporate purpose must extend to social welfare, legitimacy, and sustainability. Moreover, Herremans et al. (2016) state that resource dependence on stakeholders (economic, environmental, and social) shapes engagement strategies and identify five core traits of sustainability reporting tied to engagement: directness, clarity of stakeholder identity, feedback collection, inclusiveness, and learning. Further, depending on the degree of dependency, businesses employ various engagement strategies (informing, responding, and involving). Argues that

reporting serves as a mechanism for communication, feedback, and organizational learning in addition to being a tool for transparency. The scope and depth of reporting are determined by stakeholder salience (influence). For engagement style, external links and board composition are important. The paper grounds diversity in reporting real differences in stakeholder strategy. Calls for more research linking stakeholder engagement processes and sustainability reporting features. Uses interviews and archival data to provide robust insights. Additionally, (Deng, Xin, et al. 2013) discusses two perspectives, namely the stakeholder expense perspective and the stakeholder value maximization perspective; further, the paper analyzes mergers by high corporate governance practices and acquires to generate higher announcement stock yields of the acquirer and for value-bearing portfolios of the acquirer, increase operating performance and stock returns in the long run, and shorten the deal closing time.

Later on, firms act as agents of distributive justice. First, Porter and Kramer (2011) advanced the concept of Creating Shared Value (CSV), where competitive advantage and societal benefit are interlinked with each other. Second, Empirical studies observed that organizations investing in stakeholder welfare achieve long-term stability and trust (Edmans, 2020; Ioannou & Serafeim, 2015). Global institutions such as the IMF (2020) and World Economic Forum (2022) have also emphasized stakeholder capitalism as essential for reducing structural inequalities and ensuring sustainable economic systems. A thorough analysis of the literature on the various reporting formats public sector organizations use to report different aspects of their performance to internal and external stakeholders is provided by Manes-Rossi F, Nicolò G, and Argento D (2020). The study also identifies major theoretical gaps in the field, highlighting the need for stronger integration of legitimacy, stewardship, stakeholder, and institutional theories.

To summarize, measuring stakeholder capitalism mechanisms enables corporations to

align their goals with long-term objectives that are likely to enhance sustainability, use common metrics, and consistently report sustainable value creation for the economy, society, and the planet (World Economic Forum 2020). Therefore, a corporation that takes measures in line with "social responsibility" is compatible with consumer sovereignty and capitalism. Moreover, corporate responsibility is to amplify the societal concerns (Haralambides 2004). Battilana et al. (2022) develop a theoretical framework for how organizations pursuing both financial and social objectives face inherent trade-offs arising from competing stakeholder expectations. In highly liberal market environments, financial-social trade-offs become more intense wherein governance mechanisms play a crucial role in mediating these tensions and enabling organizations to balance dual objectives.

3. Research Gap

The relationship between corporate behaviour and social welfare has been discussed in the previous literature. However, most studies remain limited to normative domain of welfare economics or managerial focus of stakeholder theory. Traditional welfare economics is focused primarily on aggregate welfare and inequality at the national or household level (Pigou, 1920; Sen, 1970), whereas corporate studies have been focused on firm performance and profitability within the stakeholder framework (Freeman 1984; Jensen 2001). Thus, there remains a significant gap in our understanding of how stakeholder value maximization (SVM) can be theorized and empirically tested to advance economic equality.

Furthermore, although inclusive capitalism and corporate social responsibility have gained more prominence (de Jong, 2021), few studies have combined utilitarian welfare modelling with normative principles of equity to evaluate corporate contributions to SVM. The empirical applications of welfare measures such as the Gini coefficient or Atkinson index are scarce in corporate-level analysis. Thus, our understanding of the firm's capacity to act as an agent of equality within the broader economic system is limited.

This paper fills this gap by combining theoretical modelling and normative welfare analysis to investigate whether stakeholder value maximization can be a path to economic equality. This study extends welfare economics into corporate governance by developing a weighted social welfare framework that incorporates employee, shareholder and societal utilities under fairness-based parameters. In doing so, it contributes to an emerging body of research that reframes corporations' role from profit driven entities to functioning as instruments of inclusive capitalism.

4. Objectives:

I. To analyse stakeholder value maximization for promoting economic equality within the framework of welfare economics.

II. To develop a weighted social welfare framework that integrates employee, shareholder, and societal utilities under principles of fairness.

5. Scope of the study and Methodology

The scope of this study encompasses the development of a theoretical and conceptual model that links stakeholder value maximization to economic equality. To obtain a utility function for value maximization of society that leads to economic equality, we must incorporate both the concept of total welfare maximization and the redistribution principles that guarantee economic equality. This can be accurately depicted through an adjusted social welfare function, encompassing overall earnings and distribution.

Amendola *et al.* (2025) and Habib *et al.* (2025) both use welfare-economic inequality measures on corporate or ESG data. Amendola *et al.* employ a Gini index on firm-level ESG

scores and regression analysis to control for differences. The dependent variable used by Habib *et al.* is the Gini of national incomes, and they demonstrate how that index is shifted by a corporate policy (CSR reporting). They jointly validate the researcher's approach, enabling the researcher to calculate Gini/Atkinson indices (or weighted welfare scores) from firm-level stakeholder data and relate them empirically to outcomes (e.g., via regression).

6. Theoretical and Empirical Framework

One of the primary frameworks used in this objective is the Atkinson social welfare function, which incorporates inequality aversion. It is used to formulate a social welfare function that maximizes societal welfare while accounting for economic equality.

6.1 Framework: Researchers develop a combined social welfare function that integrates utilities of society, shareholders, and employees, weighed by their respective slope coefficients and consideration of economic equality.

The empirical framework is built upon:

- Social Welfare Function: Measures the aggregate welfare of society. ●

Equality Consideration: Ensures the equitable distribution of utility.

One of the primary frameworks utilized for this objective is the Atkinson social welfare function, which explicitly accounts for inequality aversion. We can formulate a utility function that optimizes societal welfare while considering economic equality considerations.

Through this integrated approach, the methodology bridges theoretical welfare

modelling with corporate value maximization.

Defining Individual Utility Functions

- Utility of employees: Considers wages, job satisfaction, benefits and working conditions.

Let $U^E = [U^E_1 U^E_2 U^E_3 \dots U^E_n]$ be the utility vector of employees

$$U^E_i = f^E(X_k)$$

Where, $U^E_i \in [0,4]$

- Utility of society: represents the collective utility of society, considering factors like social services, education, public goods and overall economic health.

Let $U^{SO} = [U^{SO}_1 U^{SO}_2 U^{SO}_3 \dots U^{SO}_n]$ be the utility vector of society $U^{SO}_j = f$

$$^{SO}(X_j)$$

Where, $U^{SO}_j \in [0,4]$

- Utility of shareholders: Encompasses the returns to shareholders like dividends stock, price appreciation and other financial benefits.

Let $U^{SH} = [U^{SH}_1 U^{SH}_2 U^{SH}_3 \dots U^{SH}_n]$ be the utility vector of shareholders

$$U^{SH}_k = f^{SH}(X_k)$$

Where, $U^{SH}_k \in [0,4]$

Let the individual utility functions be the simple functions of value X_i .e.,

$$U^E_i = X_i, U^{SO}_j = X_j, U^{SH}_k = X_k$$

The total utility ($U_{total,i}$) for an individual i might combined various factors, including

value maximised of employees (U^E), value maximised of society(U^{SO}) and value maximised of shareholders (U^{SH})

Therefore,

The total utility ($U_{total,i}$)= $f(U^E_i, U^{SO}_i, U^{SH}_i)$

$$U_{total,i} = \alpha U^E_i + \beta U^{SO}_i + \gamma U^{SH}_i$$

Where, α , β and γ are weights reflecting the relative importance of each component.

In order to amalgamate these utilities into a unified social welfare measure, we use weights α , β and γ to signify the significance of employees, society and shareholders correspondingly. In essence, the model creates a unified social welfare structure by integrating these utilities into a single measurable framework. Weights enable the study to preserve analytical clarity among stakeholders while capturing how changes in corporate priorities impact distributive outcomes.

6.2 Incorporating Equality

- To incorporate economic equality into the social welfare parameter, we introduce a parameter ε (inequality aversion parameter) which indicates society's aversion to inequality. Further applying an Atkinson Index based approach:

$$W = \left(\frac{1}{N} \sum_{i=1}^N \left((U^E_i)^{(1-\varepsilon)} + (U^{SO}_i)^{(1-\varepsilon)} + (U^{SH}_i)^{(1-\varepsilon)} \right) \right) \quad (1)$$

Where,

W = combined social welfare

N = number of respondents

U^E_i = the utility of employee i

U^{SO}_i = the utility of individual i in society

U^{SH}_i = the utility of shareholder i

6.3 Weighted Social Welfare Function

The Weighted Social Welfare Function involves the amalgamation of individual utilities by assigning weights α to employees, β to society and γ to shareholders respectively. This results in the formulation of a unified utility function.

$$W = \left(\frac{\alpha}{|E|} \sum_{i \in E} (U_i^E)^{(1-\epsilon)} + \frac{\beta}{|SO|} \sum_{j \in SO} (U_j^{SO})^{(1-\epsilon)} + \frac{\gamma}{|SH|} \sum_{k \in SH} (U_k^{SH})^{(1-\epsilon)} \right) \quad (2)$$

where,

$|E|$ = the number of employees.

$|SH|$ = the number of shareholders.

$|SO|$ = the total number of individuals in society.

α , β and γ are the weights assigned to the utility of employees, society and shareholders respectively.

Maximizing Social Welfare: The function W objects to maximize the collective utility, taking into account the interests of shareholders, employees, and society.

Economic Equality: The parameter ϵ ensures that higher inequality aversion penalizes disparities in individual utilities, encouraging a more equitable distribution.

Balanced Stakeholder Interests: The weights α , β and γ allow for balancing the interests of different stakeholder groups.

An inequality measure is a real valued function $f(x) = f(x_1, x_2, \dots, x_n)$ with n units in a population having utility x_i , $i=1, 2, \dots, N$. function $f(x)$ is accepted as a measure of inequality, if it satisfied the given conditions:

- **Schur Convexity:** Schur convexity indicates a function increases with increasing inequality (as captured by majorization)

A function $f: \mathbb{R}^n \rightarrow \mathbb{R}$ is Schur convex when vector $x = (x_1, x_2, \dots, x_n)$ and $y = (y_1, y_2, \dots, y_n)$ in $\mathbb{R}^n$ such that $x_1 \geq x_2 \geq \dots \geq x_n$ and $y_1 \geq y_2 \geq \dots \geq y_n$ if $x < y$ i.e. x is majorized by y then, $f(x) \leq f(y)$.

- **Pigou-Dalton Condition:** $x < y$ and x is not a permutation of $y \rightarrow$

$$f(x) < f(y)$$

It asserts that a positive transfer of income from a richer to a poorer unit, other things remaining constant including the relative rank in the distribution, decreases the degree of income inequality. (Marshall and Ohlin, 1979)

- **Scale Invariance:** $f(x) = f(ax)$, for all $a > 0$, i.e. inequality measures remains unaffected if each income is multiplied by a positive constant.

$$0 \leq y(x) \leq 1$$

Where, $y(x) = 0$, if every unit gets equal proportion to income

And $y(x) = 1$, if one unit gets all the income

- **Diminishing Transfer Principle:** It postulates that inequality among rich is less significant than inequality among poor. This means that transfer of one unit of currency from a person earning 5000 units of money to one earning only 1000

units is preferred to the transfer of one unit from a 9000 units earner to a person already earning 5000 units of money.

These necessary conditions simplify one's decision to choose a particular inequality measure for a particular purpose.

6.4 Deriving Lorenz Curve

To derive Lorenz curve, we need to define probability density function and cumulative distribution function.

Let utility X be a non-negative random variable with probability density function $f(x)$ and cumulative distribution function $F(x)$.

➤ **Probability Density Function (PDF):** $f(x)$ of a random variable X is defined as follows:

$$f(x) = \frac{d}{dx} F(x) \quad (3)$$

Where,

$f(x) \geq 0$ for all $x \geq 0$ and integral of PDF $f(x)$ over the domain ' X '=1 i.e.,

$$\int_0^{\infty} f(x) dx = 1 \quad (4)$$

➤ **Cumulative Distribution Function (CDF):** $F(x)$ of random variable X is defined as follows:

$$F(x) = \int_0^x f(t) dt \quad (5)$$

Where $F(x)$ can be interpreted as the proportion of units having utility less than or equal to x i.e. $F(x) = P(X \leq x)$

The CDF is non-decreasing and ranges from 0 to 1 as x value goes from 0 to ∞ i.e. $\lim_{x \rightarrow 0^+} F(x) = 0$ and $\lim_{x \rightarrow \infty} F(x) = 1$.

6.4.1 Lorenz Curve: The Lorenz curve can be constructed using $F(x)$ and $f(x)$ to indicate cumulative share of value distribution.

Lorenz Curve is expressed as: $L(F(x)) = F_01(x)$

Where $F_1(x)$ is the proportion of utility received by an individual with utility less than or equal to x .

Assuming $E(x) = \mu$ exist and is non-zero.

Therefore, first moment of distribution function is $F_1(x) = \frac{1}{\mu} \int_0^x tf(t) dt$, (6)

Where, $0 \leq F_1(x) \leq 1$

Therefore, $L(p) = F_1(x)$ where $p = F(x)$, $0 \leq p \leq 1$, therefore

$L(0)=0$ and $L(1)=1$

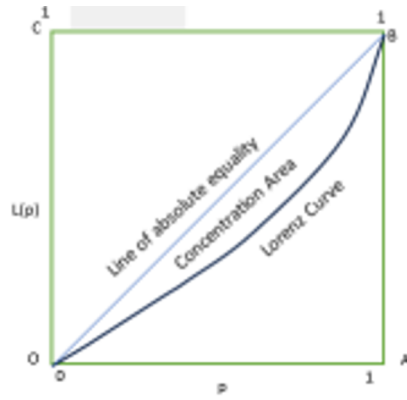


Figure 1: Lorenz curve

Consider,

$$\frac{dF_1(x)}{dF(x)} = \frac{\frac{d}{dx}F_1(x)}{\frac{d}{dx}F(x)} = \frac{x}{\mu} > 0 \quad (7)$$

and

$$\frac{d^2F_1(x)}{dF^2(x)} = \frac{d}{dF(x)} \left[\frac{dF_1(x)}{dF(x)} \right] = \frac{1}{\mu f(x)} = 0 \quad (\text{Pundir, 2005}) \quad (8)$$

When $x > 0$ in equation (7) and (8) this indicates that Lorenz curve slope is positive therefore it is monotonically increasing and convex to $F(x)$ axis therefore $F_1(x) \leq F(x)$ i.e. $L(p)$ Lorenz curve, lies below the line of egalitarian(equality) and egalitarian line is $F_1(x) = F(x)$ where egalitarian line is the line of absolute equality.

6.4.2 The Gini Coefficient: is defined as the ratio of the area under the line of equality. The Lorenz curve gives the graphical representation of inequality whereas Gini coefficient provides the degree of inequality as a single number Gini coefficient is an important tool of measuring inequality, it is defined as:

$$G = \frac{\text{concentration area}}{\text{area under the line of equality}}$$

$$G = 1 - 2 \int_0^1 L(p) dp \quad 0 \leq p \leq 1$$

Where $L(p)$ is the Lorenz curve function. However,

$$G = 2 \sum \frac{iy_i}{y_i} - \frac{N+1}{N}$$

$$G = \frac{1}{N} \left(N+1 - 2 \frac{\sum (N+1-i)y_i}{\sum y_i} \right)$$

This allows the framework to translate graphical inequality into a measurable index that can be applied within the stakeholder value maximisation model.

7. Results and Discussion

Stakeholder value maximization is a concept from financial management, and a considerable number of studies have been conducted on it from the company and shareholder perspectives. Similarly, economic equality and economic inequality are economics concept, where measures such as the Gini coefficient and Atkinson Index are commonly used to assess inequality. The study adopts a novel approach by merging these two concepts and they are looked from perspective of welfare economics. This integration

provides a framework to evaluate not only value creation but also its equitable distribution among stakeholders. To the best of the researchers' knowledge, very few studies have attempted to combine stakeholder value maximization with welfare economics to examine economic equality, thereby highlighting the novelty of the present study.

Freeman (1984) introduced the stakeholder theory, which expanded the notion of corporate purpose by acknowledging that value creation should not be limited to shareholders but should also include employees and society. The proposed weighted social welfare framework contributes to this discussion by incorporating utilitarian principles and inequality-sensitive measures, such as the Atkinson Index and Gini Coefficient, in the evaluation of corporate performance. Such a strategy, however, changes the criteria of assessment from efficiency to a mixture of efficiency and equity and redefines the meaning of real success of a company.

The model embeds the utilities of employees, shareholders, and society, weighing each and adjusting for an inequality aversion parameter. It thus provides a framework to examine the impact of corporate practices such as wage dispersion, CSR allocations and inclusive hiring on equality outcomes.

The results of the study are consistent with **Jensen (2001)** stressed that balancing the interests of different stakeholder groups can lead to long-term value maximization. The proposed framework supports these arguments by providing a measurable way to assess stakeholder value through welfare economic indicators. The results of the researcher are in line with **Edmans (2020)** that firms investing in employee welfare create superior long-term value. Similarly, **Porter and Kramer (2011)** argued that the creation of shared value enhances competitiveness and societal outcomes. Also supported by **Amendola et al. (2025)**, they applied the Gini coefficient to firm-level ESG data and found that inequality

measures can be useful for assessing corporate sustainability practices. Similarly, **Habib et al. (2025)** suggested that the mandatory CSR disclosure significantly affects the decrease of income inequality, which reinforces the importance of stakeholder-centric corporate behaviour in improving distributive outcomes. Likewise, the present framework incorporates employee welfare, shareholder returns, and societal contributions into a weighted social welfare function to evaluate their contribution towards economic equality.

This framework connects normative commitments with empirical measurement, ... Allowing the estimation of stakeholder value as an ethical imperative as well as an economically measurable construct that may inform corporate governance and public policy.

However, there are several problems as the choice of stakeholder weights is at the discretion of management and may distort welfare outcomes. Further, the indices of inequality used to measure the inequalities may not reflect the qualitative aspects of welfare. Furthermore, the redistribution of value by the firms can be effective if there are differences in profit structures, labour intensity and social responsibility standards across sectors.

These limitations suggest that maximizing stakeholder value does not necessarily reduce inequality but requires complementary governance mechanisms and regulatory oversight.

8. Policy Implications

The stakeholder value maximization framework developed by researcher has important policy implications for policy makers, regulators and corporate managers. The findings suggest that the corporate performance should be evaluated not only on the basis of financial performance but also by considering the welfare of the stakeholders and the economic equality. Regulatory agencies such as the Ministry of Corporate Affairs (MCA) and the

Securities and Exchange Board of India (SEBI) encourage organizations to adopt stakeholder-oriented performance indicators along with others financial measures.

The primary objective is to reduce economic inequality and at the macro level government do that. Governments pursue this objective through instruments such as budgets, taxation, public expenditure, and social welfare programmes. In India, the introduction of the mandatory Corporate Social Responsibility (CSR) provision under Section 135 of the Companies Act, 2013, which requires eligible companies to spend at least 2% of their average net profits of the preceding three financial years on CSR activities, represents an important policy initiative to encourage corporate participation in inclusive development. Rather than merely assessing the amount of CSR expenditure, the present framework emphasizes evaluating its distributive impact. For instance, when a company undertakes CSR initiatives in sectors (healthcare, education, etc.) within a particular region, it becomes important to examine whether these interventions improve access to resources, generate employment opportunities, and reduce disparities between relatively developed and underdeveloped communities. The objective is not to bring disadvantaged groups immediately at par with more developed sections of society; rather, it is to ensure that they become better off without reducing the welfare of others, bringing in the concept of Pareto improvement, which suggests that social welfare increases when at least one individual is made better off without making anyone else worse off (Pareto, 1906).

9. Conclusion

The paper contributes to two important strands of scholarship, stakeholder governance and welfare economics, by showing how inequality indices can be systematically embedded in models of corporate value creation, by combining welfare-oriented measures like the Gini

coefficient and Atkinson index with stakeholder-based models. Importance of governance mechanisms is pointed out, which encourages equitable distribution of value. This perspective redefines the corporate success as a twofold mission of attaining economic efficiency and reducing socio-economic inequalities both within and outside the organization. But unlike prior studies, the present study integrates welfare economics through the Atkinson and Gini indices, extending stakeholder theory to distributive justice.

However, the study also finds some limitations, e.g., the normative subjectivity of the weighting schemes, the non-coverage of non-financial dimensions of welfare, and the sectoral differences in the orientation of stakeholders. These limitations point to the need for further research, especially in terms of empirically testing the proposed framework in different industries and institutional settings. Comparative studies of emerging economies like India and developed economies might provide more insights into the contextual conditions in which stakeholder value maximization can contribute effectively to distributive equity.

In conclusion, maximising stakeholder value alone does not guarantee economic equality, it provides a structured, inequality-aware framework that boosts the capacity of firms to act as agents of distributive justice. Such stakeholder-oriented models along with strong governance and regulatory reinforcement can reconfigure corporate capitalism into a more inclusive and equitable economic system.

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