

From Profit Maximization to Relational Value Creation: Governance, Objective Functions and Stakeholder well-being in Contemporary Organizational Forms

Keywords: *Stakeholder theory; Stakeholder governance; Relational value creation; Other-regarding preferences; Hybrid organizations; Worker well-being; Socio-environmental externalities.*

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ABSTRACT

Purpose - Over recent decades, profit maximization as the firm’s dominant objective function has been increasingly questioned in both economic scholarship and empirical evidence, considering rising social inequalities, environmental degradation, and declining workers’ well-being. In response, a variety of organizational forms-such as cooperatives, social enterprises, benefit corporations, and hybrid organizations-have emerged, experimenting with stakeholder-oriented governance models and broader objective functions. This paper aims to rethink the firm’s objective function by developing a relational perspective on value creation capable of explaining how these organizations generate economic, social, and ecological value in a coherent way.

Methodology - The study adopts a conceptual and theory-building approach. Drawing on stakeholder theory (Freeman, 1984), institutional economics, and the economics of well-being (Sen, 1999), it develops an integrative theoretical framework that links inclusive and participatory governance arrangements, other-regarding preferences and prosocial motivations of economic actors, and multidimensional outcomes related to workers’ well-being, stakeholder value, and community development.

Findings - The paper advances three main theoretical findings. First, it reconceptualizes the firm’s objective function as plural and relational, where profit represents a condition for economic sustainability rather than the sole measure of success. Second, it shows that

different stakeholder-oriented organizational forms can be understood as alternative institutional configurations through which relational value is created, depending on governance structures and incentive alignment. Third, it highlights how economic value emerges as an outcome of intentionally structured economic, social, and institutional relationships, rather than as a residual result of profit maximization.

Managerial implications - The proposed framework suggests that managers and organizational designers should move beyond a narrow focus on financial performance and explicitly integrate stakeholder relationships, worker well-being, and social and environmental impacts into governance and strategic decision-making. Inclusive governance mechanisms can enhance organizational resilience, reduce negative externalities, and support sustainable value creation over the long term.

Research limitations - As a conceptual study, the paper does not provide direct empirical validation of the proposed framework. Future research is needed to test the model across different organizational forms and institutional contexts, as well as to develop operational measures of relational value.

Originality - The originality of the paper lies in its integration of behavioral micro-foundations, governance structures, and socio-economic outcomes within a unified relational framework. By repositioning value creation as an emergent and relational process, the study contributes to the ongoing debate on the *Renaissance in Economics* and offers a novel theoretical perspective on *stakeholder-oriented* organizations beyond profit maximization.

1. INTRODUCTION

Over recent decades, the centrality of profit maximization as the firm's objective function has represented one of the most stable pillars of mainstream economic thought. Rooted in the neoclassical tradition, the firm has been conventionally conceived as an entity oriented toward

maximizing shareholder value, while its relationships with workers, communities, and the environment have often been treated as external constraints or unintended by-products of productive activity. However, the economic, social, and environmental transformations characterizing contemporary economies have progressively called into question the adequacy of this reductive representation of organizational behavior.

Rising inequalities, the increasing precarization of work, the intensification of environmental crises, and the growing gap between economic growth and social well-being have made it increasingly evident that profit maximization “at any cost” does not constitute a sufficient nor a desirable criterion for assessing the performance of productive organizations (Stiglitz, Sen, & Fitoussi, 2009; Mazzucato, 2018). In this context, a growing body of scholarship has begun to reconsider the social role of the firm and to explore alternative organizational models capable of integrating economic objectives, workers’ well-being, stakeholder value creation, and environmental sustainability (Freeman, 1984; Hart & Zingales, 2017).

Alongside this theoretical debate, recent years have witnessed the diffusion and consolidation of a plurality of organizational forms that explicitly depart from the profit-maximization paradigm. Cooperatives, social enterprises, benefit corporations, and hybrid organizations represent concrete attempts to redefine the firm’s objective function by introducing more inclusive, stakeholder-oriented governance models, as well as institutional mechanisms aimed at internalizing negative social and environmental externalities (Battilana & Lee, 2014; Hansmann, 1996). Despite their heterogeneity, these experiences share the underlying assumption that economic value cannot be separated from the social and institutional relationships within which productive activity unfolds.

Notwithstanding the growing attention devoted to these models, the economic literature remains fragmented. On the one hand, numerous studies focus on specific organizational forms or provide comparative analyses of their performance; on the other hand, a unified theoretical

framework capable of explaining how different governance arrangements and objective functions systematically shape workers' well-being, the quality of stakeholder relationships, and organizations' socio-environmental impact is still lacking. In particular, the concept of value often remains implicitly anchored to a residual logic, while the relational dimensions of economic activity continue to be under-theorized.

This paper positions itself within this critical gap and offers a conceptual contribution aimed at rethinking the firm's objective function from a relational value creation perspective. The core assumption is that economic value is not exclusively the outcome of efficient resource allocation processes but rather emerges from a set of structured relationships among economic actors, institutions, and communities. From this standpoint, stakeholder-oriented organizations should not be interpreted merely as normative deviations from the dominant model, but as institutional configurations in which other-regarding preferences, cooperation, and reciprocity are embedded within governance mechanisms and objective functions (Sen, 1999; Ostrom, 2005; Fehr & Schmidt, 1999).

Through a critical reappraisal of stakeholder theory (Freeman, 1984), welfare economics, and institutional economics, the paper seeks to show how different organizational forms can be understood as relational coordination devices capable of improving workers' quality of life, fostering stakeholder well-being, and reducing negative social and environmental externalities. In this sense, the study contributes to the debate on the *Renaissance in Economics* by advancing a conception of the firm that is consistent with an economic vision oriented towards social progress, community development, and ecological sustainability.

The remainder of the article is structured as follows. The next section revisits the theoretical debate on the firm's objective function and the limitations of the profit-maximization paradigm. The third section introduces the conceptual framework of relational value creation, linking governance structures, prosocial preferences, and well-being outcomes. The fourth

section provides a comparative analysis of the main stakeholder-oriented organizational forms. Finally, the conclusion discusses the theoretical implications of the study and outlines avenues for future research.

2. Critical Review of Literature

2.1 The Firm's Objective Function and the Limits of Profit Maximization

Traditional economic theory has long interpreted the firm as an entity oriented toward profit maximization or the maximization of shareholder value. This approach, formalized within the neoclassical theory of the firm, has provided a powerful yet highly simplified analytical framework, in which social, institutional, and environmental relationships are treated as exogenous elements or external constraints (Friedman, 1970; Jensen & Meckling, 1976). Within this perspective, profit represents not only an operational goal but also a normative criterion for evaluating economic performance.

However, a growing body of scholarship has highlighted how this framework has become increasingly inadequate in explaining the actual functioning of organizations and their effects on collective well-being. In particular, the exclusive emphasis on profit maximization tends to overlook the role of firms in generating social and environmental externalities, as well as the contribution of cooperative relationships and intrinsic motivations to long-term value creation (Stiglitz et al., 2009; Mazzucato, 2018).

Since the 1980s, stakeholder theory has represented one of the earliest systematic responses to these limitations, proposing a view of the firm as a node within a network of relationships involving multiple stakeholders (Freeman, 1984). From this perspective, organizational performance cannot be assessed solely in terms of financial returns, but must also account for workers' well-being, the quality of relationships with local communities, and environmental impact. Nevertheless, as several authors have noted, stakeholder theory has often taken on a predominantly normative or managerial orientation, without fully developing an economic theory

of the firm's objective function that genuinely departs from profit maximization (Key, 1999; Zingales, 2020).

2.2 Other-Regarding Preferences and Prosocial Motivations

A major contribution to the critique of the *homo economicus* assumption has come from behavioral and experimental economics, which has challenged the hypothesis of purely self-interested preferences. Empirical and theoretical studies have shown that economic decisions are frequently influenced by considerations of fairness, reciprocity, and cooperation (Fehr & Schmidt, 1999; Bowles, 2004). These other-regarding preferences should not be viewed as marginal anomalies, but rather as structural components of economic behavior.

Despite the breadth of this literature, the link between individual prosocial preferences and organizational arrangements remains only partially explored. Many studies focus primarily on the micro level, analyzing individual choices in experimental settings, while comparatively less attention has been devoted to how such preferences may be institutionalized through governance models, organizational rules, and specific legal forms (Akerlof & Kranton, 2010). This results in an analytical separation between behavioral micro-foundations and organizational configurations, which ultimately limits the explanatory power of economic theory.

2.3 Plurality of Organizational Forms and Stakeholder-Oriented Governance

Alongside these theoretical developments, economic reality has witnessed the emergence of a growing variety of organizational forms that go beyond the traditional dichotomy between for-profit firms and non-profit organizations. Cooperatives, social enterprises, benefit corporations, and hybrid organizations represent concrete attempts to integrate economic and social objectives through alternative governance arrangements (Hansmann, 1996; Battilana & Lee, 2014).

The literature on these organizational forms has emphasized how worker participation, shared decision-making, and the presence of plural objectives can positively affect workers' well-

being, organizational resilience, and the capacity to internalize negative externalities (Ostrom, 2005; Putterman, 2006). However, these contributions often remain sector-specific and descriptive, without being fully embedded within a general theory of value creation.

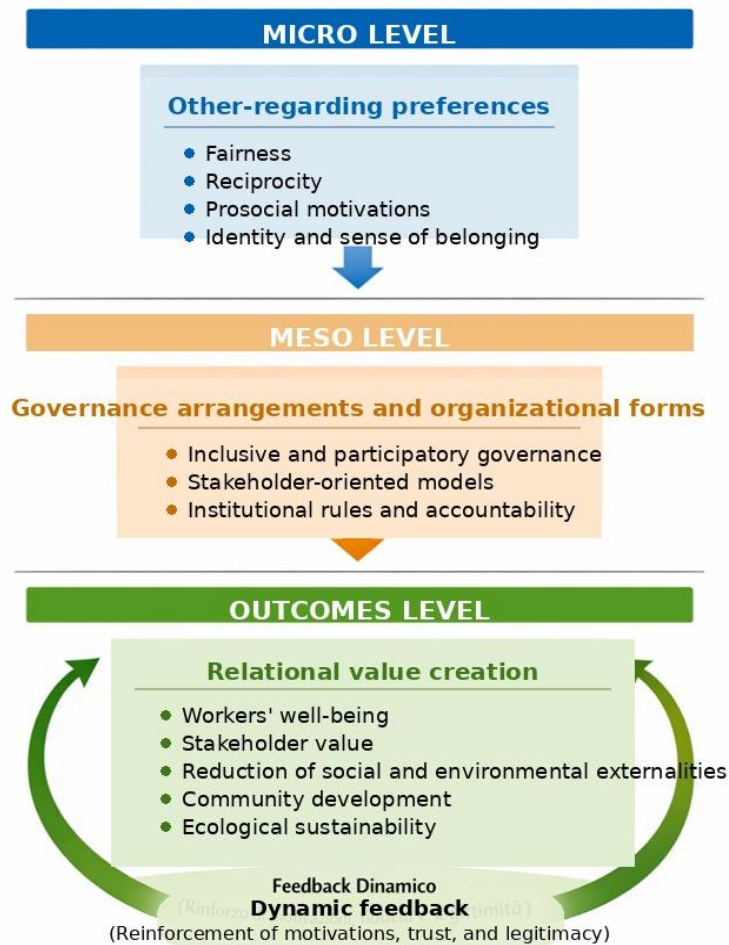
A clear conceptualization of economic and social relationships as autonomous sources of value is still lacking. Value continues to be implicitly understood as a residual outcome of productive activity, rather than as an emergent result of structured relationships among economic actors, institutions, and communities.

3. Formalization of the Conceptual Framework: Relational Value Creation

To make explicit the theoretical logic underlying the proposed framework, **Figure 1** provides a graphical synthesis of the relational value creation model developed in this study. The figure aims to clarify how economic value emerges from the interaction between behavioral micro-foundations, governance arrangements, and socio-economic outcomes, thereby moving beyond a conception of value creation based exclusively on profit maximization. More specifically, the model highlights the role of other-regarding preferences and prosocial motivations of economic actors, the mediating function performed by organizational forms and governance mechanisms, and the dynamic and cumulative nature of outcomes in terms of workers' well-being, stakeholder value, and ecological sustainability. The proposed representation also allows for the visualization of feedback processes that, over time, reinforce the legitimacy and resilience of *stakeholder-oriented organizations*.

Figure 1 - *Beyond Homo Oeconomicus and Profit Maximization: A Micro–Meso–Outcomes Model of Relational Value Creation in Stakeholder-Oriented Organizations,*

RELATIONAL VALUE CREATION IN STAKEHOLDER-ORIENTED ORGANIZATIONS



Source: processed by author

The framework connects other-regarding preferences at the *micro level* to governance arrangements and organizational forms at the *meso level*, thereby generating relational value creation outcomes and a reinforcing feedback mechanism that strengthens motivations, trust, and legitimacy over time.

3.1 Basic Assumptions of the Framework

The conceptual framework proposed in this paper is grounded in three main assumptions.

First, the firm is conceived as a relational institution—specifically, as a system of coordination that organizes interactions among individuals holding diverse preferences, values, and interests. From this perspective, economic value is not generated solely through the transformation of inputs into outputs; rather, it emerges from the quality of the relationships that enable such transformation (Granovetter, 1985).

Second, other-regarding preferences and prosocial motivations are not viewed as residual or exogenous elements but constitute a structural component of organizational processes. Their relevance depends on the ability of institutions and governance models to recognize, channel, and sustain them over time (Sen, 1999; Ostrom, 2005).

Third, the firm’s objective function is understood as plural and dynamic, integrating economic performance, employee well-being, stakeholder value, and environmental sustainability. Profit does not disappear; rather, it is repositioned within a broader objective function aligned with social progress.

3.2 Framework Components

The relational value creation framework comprises four interconnected components:

1. **Actor Preferences and Motivations:** Individuals participating in the organization are not driven exclusively by monetary incentives, but also by intrinsic, identity-based, and prosocial motivations (Akerlof & Kranton, 2010). These preferences constitute the micro-foundational basis of relational value.
2. **Governance Structures:** Governance models determine the extent to which these preferences can translate into stable cooperative behaviors. Participatory structures, voice mechanisms, and forms of shared control facilitate the alignment between individual and collective objectives (Hansmann, 1996).

3. Stakeholder and Community Relations: Stakeholder-oriented organizations build long-term relationships with workers, suppliers, users, and local communities. These relationships generate trust, reduce coordination costs, and contribute to community development.
4. Value Outcomes: Relational value manifests in a range of outcomes: improved workforce well-being, reduction of negative externalities, greater organizational resilience, and contributions to ecological sustainability. These outcomes are not mere by-products, but an integral part of the objective function.

3.3 Theoretical Implications

The proposed formalization enables the overcoming of three traditional dichotomies in economic theory: profit versus social impact, individual motivations versus collective goals, and efficiency versus equity. From this perspective, diverse organizational forms are not merely normative alternatives, but rather distinct institutional configurations of the same underlying process of relational value creation.

The framework thus contributes to the debate on the "*Renaissance in Economics*," demonstrating how a relational approach to the firm's objective function can provide a coherent theoretical basis for analyzing productive organizations oriented towards well-being, community development, and environmental sustainability.

4. A Comparative Typology of Stakeholder-Oriented Organizational Forms

4.1 Transcending the For-Profit / Non-Profit Dichotomy

One of the most persistent limitations in the economic debate on productive organizations is the traditional dichotomy between *for-profit firms* and *non-profit organizations*. While useful for legal and fiscal purposes, this distinction is increasingly inadequate for capturing the complexity of contemporary organizational forms and, above all, the plurality of their objec-

tive functions. As highlighted by Hansmann (1996), organizations differ not only in profit distribution but also in control rights, governance mechanisms, and the methods of allocating created value.

Considering the relational value creation framework proposed here, organizational forms can be interpreted as *alternative institutional configurations* through which prosocial preferences, cooperative relations, and pluralistic goals are more or less effectively embedded into decision-making processes. From this perspective, the degree of stakeholder orientation depends not solely on a declared mission, but on the alignment of governance, the objective function, and relationships with the social and environmental context.

4.2 Cooperatives: Participation, Well-being, and Shared Value

Cooperatives represent one of the most established stakeholder-oriented organizational forms, characterized by the central role of member-workers or users in decision-making. Economic literature has extensively noted how cooperative models foster greater participation, more equitable value distribution, and alignment between individual and collective goals (Putterman, 2006; Dow, 2018).

From a relational value standpoint, cooperatives are distinguished by:

- Democratic governance structures;
- Voice mechanisms and shared control;
- Strong integration with the local territory and community.

These characteristics enhance occupational well-being and mitigate *opportunistic behavior*, strengthening long-term organizational resilience. However, literature also identifies constraints related to *scalability* and capital attraction, which may impact on economic sustainability in highly competitive environments.

4.3 Social Enterprises and Hybrid Organizations: Mission, Impact, and Institutional Tensions

Social enterprises and *hybrid organizations* occupy an intermediate space between the market and the non-profit sector, explicitly combining economic and social objectives. These organizations are often characterized by missions oriented toward stakeholder well-being and the reduction of social and environmental externalities, as well as governance models that seek to *balance efficiency and inclusion* (Battilana & Lee, 2014).

Social enterprises constitute a paradigmatic case of relational value creation because they:

- a. Integrate economic and social goals within the objective function.
- b. Cultivate long-term relationships with beneficiaries, workers, and the community.
- c. Internalize externalities that the market tends to overlook.

Nevertheless, research indicates the presence of *institutional tensions* and trade-offs between mission and financial viability, making the role of governance crucial in preserving the coherence of the value created (Mair, Mayer, & Lutz, 2015).

4.4 Benefit Corporations and Stakeholder-Oriented Firms

Benefit corporations and stakeholder-oriented firms represent a more recent attempt to reformulate the firm's objective function within the boundaries of traditional capitalism. These organizations maintain a for-profit structure but introduce *statutory constraints* requiring management to explicitly consider the interests of a plurality of stakeholders (Hart & Zingales, 2017).

Under the proposed framework, these firms are characterized by:

- A formally pluralistic objective function;
- Accountability mechanisms extended beyond shareholders;
- Heightened focus on social and environmental impact.

In this case, relational value emerges from the redefinition of *managerial fiduciary duties* and the alignment of actors' prosocial motivations with long-term organizational goals. However, the efficacy of these models depends heavily on the quality of institutions and monitoring systems to mitigate the risk of opportunistic behavior or "*purpose washing*."

4.5 A Conceptual Typology Based on Relational Value

Based on this comparative analysis, a conceptual typology of stakeholder-oriented organizations can be proposed, structured along three main dimensions:

1. **Inclusivity of Governance:** Ranging from the democratic governance of cooperatives to more moderate stakeholder engagement in purpose-driven for-profit firms.
2. **Structure of the Objective Function:** Moving from predominantly mutualistic goals to explicitly pluralistic functions integrating profit, well-being, and sustainability.
3. **Intensity of Relational Value Generated:** Measurable in terms of employee well-being, stakeholder relationship quality, the mitigation of negative externalities, and contributions to community development.

This typology allows for the bypassing of rigid classifications, interpreting diverse organizational forms as alternative institutional solutions to a shared problem: coordinating economic activity in a manner consistent with social welfare and *ecological sustainability*.

4.6 Implications for the Renaissance in Economics

The analysis of stakeholder-oriented forms demonstrates that relational value creation is not a theoretical abstraction, but an observable, *institutionally mediated* process. In this sense, the proposed typology contributes to the "Renaissance in Economics" project by providing conceptual tools to integrate economic, social, and ecological dimensions into organizational analysis.

The plurality of forms analyzed suggests there is no single "optimal model," but rather a variety of configurations whose effectiveness is contingent upon the institutional, cultural, and territorial context. This reinforces the idea that economic renewal must be grounded in a richer, relational understanding of value and economic action.

Table 1 - Comparative Typology of Stakeholder-Oriented Organizational Forms: Governance, Objective Function, Relational Value Intensity, and Key Trade-offs

Organizational form	Governance model	Objective function	Intensity of relational value	Main trade-offs
Cooperatives	Democratic governance; direct member participation; voice mechanisms	Mutualistic and plural (members' wellbeing, economic sustainability, community value)	<i>High</i>	Limited scalability; access to capital; decision-making complexity
Social enterprises / hybrid organizations	Mixed governance; balancing social mission and economic sustainability	Integrated economic and social objectives	<i>Medium-high</i>	Tensions between mission and market; risk of mission drift
Benefit corporations / stakeholder-oriented firms	For-profit governance with statutory constraints and stakeholder accountability	Profit compatible with social and environmental impact	<i>Medium</i>	Dependence on institutional quality; risk of purpose washing

5. Discussion and Theoretical and Policy Implications

The contribution developed in this study builds on the coherent integration of four theoretical traditions, brought together through a single relational lens for analyzing value creation.

First, stakeholder theory is adopted not in its predominantly normative or managerial reading, but as a theory of the firm conceived as a system of relationships among stakeholders (Freeman, 1984). From this perspective, value creation cannot be reduced to a single economic output; rather, it depends on the quality and stability of interactions among the actors involved in productive processes.

Second, the paper draws on institutional and evolutionary economics, interpreting organizations as institutions that structure incentives, behaviours, and expectations over time (North, 1990; Ostrom, 2005). The organizational forms discussed are not treated as deviations from a dominant model, but as alternative institutional solutions to the coordination problem in contexts marked by social and environmental complexity.

Third, welfare economics and the capability approach provide theoretical grounding for including workers' and stakeholders' well-being among the relevant outcomes of economic activity. In this view, quality of life, autonomy, and individuals' effective opportunities cannot be reduced to monetary magnitudes; they are closely connected to governance arrangements and the organization of work (Sen, 1999).

Finally, the contribution integrates insights from behavioural and relational economics, treating other-regarding preferences and prosocial motivations as microfoundations of the proposed conceptual framework (Fehr & Schmidt, 1999; Bowles, 2004). These motivations are not considered anomalies relative to rational behaviour, but structural components of economic action whose salience depends on the institutional and organizational context.

The integration of these perspectives allows for the transcendence of fragmented approaches, facilitating a unified interpretation of relational value creation as a phenomenon that is simultaneously economic, social, and institutional in nature.

5.1 Theoretical implications: rethinking the firm's objective function

From a theoretical standpoint, the proposed framework enables the development of three primary implications.

First, the firm's objective function is reconceptualized as plural and relational. Profit remains a necessary condition for economic sustainability, but it is not the sole criterion of organizational success. Value instead emerges from the interaction among governance

arrangements, actors' motivations, and stakeholder relationships, thereby overcoming a reductive view grounded exclusively in the maximization of a financial variable.

Second, the comparative analysis of organizational forms suggests that no universally optimal model of the firm exists. Cooperatives, social enterprises, benefit corporations, and hybrid organizations should be interpreted as alternative institutional configurations, each characterized by specific trade-offs among inclusiveness, economic efficiency, and socio-environmental impact, rather than as marginal exceptions to a standard model.

Third, the paper helps to overcome the traditional separation between the micro and meso levels of economic analysis. Other-regarding preferences are not treated merely as individual traits, but as resources that can be amplified or inhibited by organizational arrangements. In this sense, governance plays a pivotal role as the mechanism that translates individual motivations into observable collective outcomes.

5.2 Policy implications: governance, work, and community development

The policy implications of the proposed framework are particularly relevant to current debates on work, sustainability, and local development.

First, the results point to the value of shifting public policy attention from supporting specific legal forms to strengthening the quality of governance arrangements. Incentives, regulatory tools, and financing mechanisms can be designed to promote organizational models that foster participation, accountability, and stakeholder inclusion, regardless of the legal form adopted.

Second, the centrality of workers' well-being implies a revision of labour policies, orienting them not only to the quantity of employment but also to the quality of employment relationships. From this perspective, stakeholder-oriented organizations can contribute to reducing precariousness, work-related stress, and the misalignment between economic performance and individual well-being.

Finally, the framework highlights the role of productive organizations in community development processes and in the ecological transition. Through stable relationships with territories and a greater capacity to internalize social and environmental externalities, such organizations can act as key agents of sustainable development, mitigating the trade-off traditionally perceived between economic growth and environmental protection.

5.3 Contribution to the Renaissance in Economics

Within the context of the *Renaissance in Economics*, this work contributes to a *theoretical paradigm shift* that transcends both *homo economicus* and profit maximization as the sole criteria for analysis. The *relational lens* employed enables the integration of economics, organization, and well-being into a coherent framework capable of engaging with contemporary social and ecological challenges.

More specifically, the paper shows that value creation can be interpreted not as a purely technical process, but as an institutionally mediated phenomenon rooted in relationships among individuals, organizations, and communities. This conceptual shift represents a meaningful step toward an economic perspective that is more consistent with social progress and long-term sustainability.

6. Limitations and opportunities for future research

6.1 Limitations of the paper

This study has several intrinsic limitations, consistent with its conceptual nature.

First, the paper does not provide direct empirical evidence. Although the proposed framework is grounded in a broad and well-established body of literature, the absence of empirical validation limits the ability to draw causal conclusions about the links among governance, relational value, and stakeholder well-being.

Second, the proposed typology simplifies a highly heterogeneous organizational reality. The organizational forms analyzed may vary significantly depending on institutional, cultural, and territorial contexts, which the framework does not explore in depth.

Finally, the concept of relational value, although theoretically grounded, remains partially under-specified at the operational level and requires further efforts in conceptualization and measurement.

6.2 Opportunities for future research

These limitations open important avenues for future research.

A first direction concerns empirical validation of the framework, through comparative studies across different organizational forms, examining the relationship between governance arrangements, workers' well-being, and socio-environmental impact.

A second direction involves the development of *multidimensional relational value indicators* capable of integrating economic, social, and environmental dimensions, thereby moving beyond purely financial metrics.

A third research avenue concerns institutional and territorial analysis, exploring how different regulatory and cultural contexts influence the capacity of stakeholder-oriented organizations to create relational value over the long term.

Finally, further studies could investigate the role of worker participation and democratic governance as mechanisms of organizational resilience in contexts of economic crisis and ecological transition.

7. Conclusions

This paper advances a relational reconceptualization of value creation in stakeholder-oriented productive organizations, moving beyond a narrow focus on profit maximization as the firm's

sole objective. By integrating stakeholder theory, institutional economics, welfare economics, and behavioural/relational economics, it develops a coherent lens that connects prosocial microfoundations, governance arrangements, and socio-economic outcomes. In this view, economic value is not treated as a residual output of financial optimization, but as an emergent property of structured relationships among individuals, organizations, and communities. The resulting framework clarifies why diverse organizational forms-such as cooperatives, social enterprises, hybrid organizations, and benefit corporations-should be understood as viable institutional configurations with distinct governance trade-offs, and it provides a foundation for future empirical and policy-oriented work on multidimensional value creation.

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