



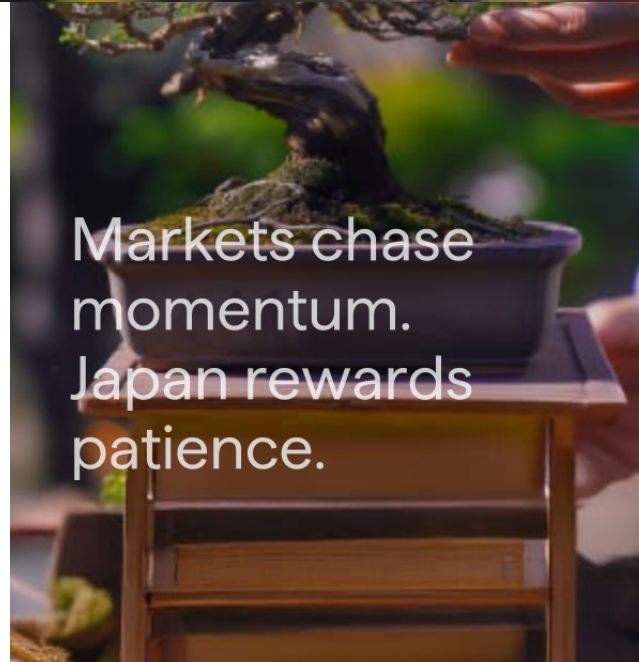
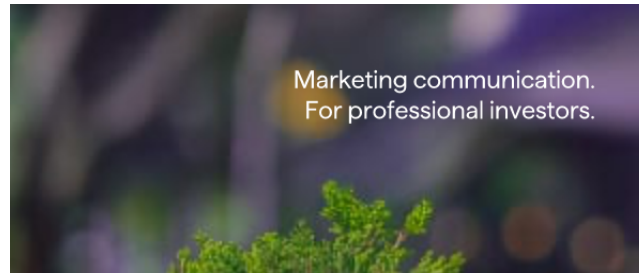
## **Sustainable capitalism should ditch Milton Friedman’s flawed approach**

By [Joseph Mariathan](#) | January/February 2026 (Magazine)

Nobel Prize-winning economist Milton Friedman’s influence on corporate behaviour and investment philosophy continues to resonate decades after his famous 1970 New York Times article declaring that the sole social responsibility of business is to increase profits.

But if capitalism is to be sustainable over the long term, it must be recognised that Friedman’s approach was fundamentally flawed. The narrow focus on shareholder value alone overlooked externalities – the costs imposed on society or the environment that don’t appear on corporate balance sheets.

Friedman’s perspective rested on a clear division of responsibilities: executives should focus solely on profit maximisation, while governments should address social concerns through regulation and taxation. This framework gained particular traction during the 1980s and ’90s as executive compensation became increasingly tied to share price performance through stock options, fundamentally transforming corporate behaviour.



The doctrine's influence embedded shareholder primacy deep within corporate DNA. Public companies became fixated on quarterly earnings reports, with management decisions driven by their immediate impact on stock prices, rather than long-term value creation. This short-termism affected everything from research and development investment to labour practices and environmental considerations.

Fiona Frick, former CEO of [Unigestion](#) and now promoting an integrated vision of risk, return and sustainability through her consultancy, Circe Invest, articulated the fundamental problem with Friedman's narrow framework to me during an eclectic discussion we had over coffee.

“Milton Friedman famously wrote that the social responsibility of business is to increase its profits, and that is it. I believe this view is too narrow,” Frick says. “A company also has a social responsibility, because it depends on society for its customers, its workforce and the infrastructure that allows it to grow. Profit matters, but it cannot be the only objective.”

This perspective highlights what Friedman’s model fundamentally overlooked: externalities. Climate change exemplifies this market failure – when companies maximise profits without accounting for environmental impacts, they can generate returns in the short term while undermining the very ecosystems and social systems their long-term viability depends upon.

Frick provides a concrete example of how sustainability and profitability are becoming inseparable. “A producer of cocoa or coffee is now highly exposed to nature degradation and climate change,” she says. “Entire supply chains can disappear as climate impacts intensify. Food companies increasingly recognise that supporting these producers is not philanthropy. It is protecting the very foundation of their own production.”

Friedman’s clean separation between profit-seeking and social responsibility breaks down in practice because companies can produce private profits for shareholders and public losses for the rest of society which are never accounted for or charged to the company’s shareholders.

Recent years have witnessed a significant reassessment of the Friedman doctrine. The 2019 Business Roundtable statement, signed by 181 CEOs of America’s largest companies, represented a watershed moment when business leaders publicly committed to delivering value not just to shareholders but to all stakeholders – customers, employees, suppliers, communities and the environment.

Friedman’s model assumes well-functioning markets and appropriate regulatory frameworks. When these conditions are absent – as with climate change – profit maximisation alone cannot ensure optimal outcomes. The dramatic growth of ESG investing and impact measurement represents investors’ recognition that social and environmental factors are integral to assessing corporate value and risk and that these factors can and should be measured alongside corporate profitability.

The transition from shareholder primacy to stakeholder capitalism is fraught with risks and, as Frick argues, has to make economic sense. “A good example is Emmanuel Faber [the former CEO] at Danone,” she says. “He placed strong emphasis on stakeholder goals and not enough on his shareholders. The company’s financial performance lagged behind its peers and the share price underperformed. This imbalance created tension with investors and, ultimately, he [was] ousted.”

As this case demonstrates, abandoning Friedman’s profit focus entirely can be as problematic as adhering to it rigidly. The challenge lies in finding the appropriate balance – understanding that stakeholder value creation is a means to sustainable profitability, not an alternative to it.

A significant obstacle to implementing sustainable business practices remains the short-term focus of many shareholders. Frick identifies a fundamental tension: “There is a problem if shareholders are just keeping stocks for three months because, then, who cares about the strategy of a company?”

This observation reveals how modern capitalism has evolved in ways that would surprise even Friedman. As Frick notes, while in the past shareholders may have closely followed a company, today they are generally far removed, perhaps in an index fund.

The most thoughtful approach doesn’t reject Friedman’s emphasis on the profit motive but contextualises it within broader considerations. As Frick says, “shareholders must also recognise that creating long-term value is not compatible with an exclusive focus on quarterly earnings. Excessive short-term pressure can undermine the development of a more sustainable and resilient business model, one that may deliver stronger performance over a three-to-five-year horizon.”

This perspective suggests there is a false dichotomy between shareholder value and stakeholder capitalism. The most successful companies recognise that creating value for all stakeholders is not contradictory to generating shareholder returns but essential to sustainable profitability. Companies that integrate stakeholder concerns into strategic decision-making ones are better positioned to identify opportunities, manage risks and build resilient business models capable of delivering returns over the long term.

Milton Friedman’s intellectual legacy continues to provide an essential reference point in

debates about corporate purpose, even as his doctrine undergoes significant reinterpretation. His emphasis on the discipline of the profit motive remains relevant, but his narrowly defined vision of corporate social responsibility has proven insufficient for addressing the interconnected challenges of the 21st century.

Institutional investors need to take the initiative without waiting for government legislation, to fully understand the impact of their investments for society as well as for shareholders.

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*Joseph Mariathan is a contributing editor to IPE, a partner of Peak Sustainability Ventures and a director of GIST Impact*