



Buddhist Economics

The intellectual foundations of the shareholder value model.

I'm Mike Lucas, from the Open University Business School, and I've taught Accounting and Finance in a number of business schools for many years and, before that, I was an accountant and financial manager in industry. Over the years, I've become increasingly dissatisfied with the conventional wisdom in business education and practice, that the main objective of a business should be the maximisation of shareholder wealth. I think that this 'shareholder value model' is undesirable and unsustainable.

The shareholder value model takes its intellectual support from Neoclassical Economics which is rooted in a long tradition of Western individualism, drawing on the work of political philosopher Thomas Hobbes and economist Adam Smith. Smith, in his famous book 'The Wealth of Nations', demonstrated how a system of competitive markets could coordinate the self-interested actions of individuals to achieve a socially desirable outcome. The basic unit of human society in this tradition is the 'individual' with his or her individual preferences. The best economic system is one which best enables the individual to satisfy these preferences. The great achievement of Neoclassical Economics is to show how a system of competitive markets, with business' pursuing the goal of maximising profits (and hence shareholder wealth), achieves this objective better than known alternative systems.