

Grow the Pie

HOW GREAT COMPANIES DELIVER BOTH PURPOSE AND PROFIT

Review by Maarten Smit, CFA, Head of Quantitative Portfolio Management EMEA, SVP at Northern Trust Asset Management

In recent years, few debates have been as prominent in finance as the apparent tension between shareholder value and stakeholder capitalism. In *Grow the Pie*, Alex Edmans offers a compelling and largely convincing resolution: companies can create greater long-term profits precisely by serving employees, customers, suppliers, communities, and shareholders well. Rather than treating stakeholder interests as a constraint on profitability, Edmans argues that purposeful business can expand the total value created, the "pie", from which all stakeholders ultimately benefit.

The book's greatest strength is not its conclusion, which some modern practitioners may already find intuitively appealing, but the intellectual rigor with which it is defended. Edmans avoids the slogans and ideological posturing that often characterize discussions of corporate purpose. Instead, he approaches the topic as a financial economist, carefully distinguishing correlation from causation, anecdotes from evidence, and aspiration from reality. The result is a book that speaks as comfortably to portfolio managers and analysts as it does to corporate executives.

For investment professionals, one of the book's most interesting contributions is the way Edmans connects stakeholder management to intangible assets and market mispricing. Drawing on his 2011 *Journal of Financial Economics* paper on employee satisfaction and equity prices, he argues that markets may underappreciate human capital, culture, innovation, and other drivers of long-term value. This gives the argument practical relevance for investors: stakeholder-oriented companies may benefit shareholders not because purpose is inherently virtuous, but because it can improve productivity, retention, customer loyalty, innovation, and operating performance over time. The book is therefore strongest when it treats purpose not as a slogan, but as one potential source of durable competitive advantage.

Importantly, *Grow the Pie* should not be mistaken for an uncritical endorsement of ESG investing. Indeed, one of the most refreshing aspects of both the book and Edmans's broader body of work is his willingness to challenge prevailing narratives. His 2023 article "The End of ESG" argues that ESG is simultaneously "extremely important and nothing special". ESG factors matter because they may affect long-term value creation, but they should not be elevated above other economically relevant intangibles such as innovation, management quality, or corporate culture. In Edmans's view, considering ESG factors is not a specialized form of investing, it is simply investing.

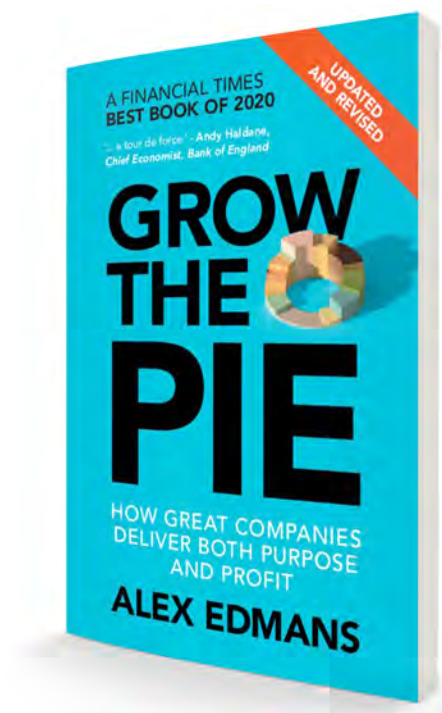
This later publication helps contextualize *Grow the Pie* and reveal why the book remains relevant. Rather than advocating stakeholder capitalism as a moral imperative alone, Edmans consistently applies the same analytical framework: identify activities that create long-term value, assess whether markets fully recognize that value, and invest accordingly. This approach is likely to resonate strongly with CFA charterholders, whose professional discipline is grounded in evidence, valuation, and fiduciary responsibility.

A potential weakness of *Grow the Pie* is that it focuses primarily on examples where serving stakeholders and creating

shareholder value are mutually reinforcing, while giving less attention to situations where genuine trade-offs exist. As a result, the book may leave some readers unconvinced about how managers should balance competing interests when social and financial objectives diverge. The argument is persuasive and well supported by evidence, but the prevalence of successful corporate case studies can sometimes make the conclusions appear more universally applicable than they may be in practice.

Ultimately, *Grow the Pie* succeeds because it reframes a polarized debate. Edmans rejects the false choice between maximizing shareholder value and serving society. Instead, he argues that the most successful companies create enduring value by investing in stakeholders, innovation, and other intangible assets that strengthen long-term competitive advantage. For investors, this is more than a philosophy of management, it is a framework for understanding where sustainable returns may originate.

For VBA Journaal readers seeking a thoughtful, empirically grounded perspective on purpose, ESG, and long-term value creation, *Grow the Pie* is highly recommended. It is one of the rare books that contributes meaningfully both to the theory of the firm and to the practice of investment management.



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