



Lisbon School
of Economics
& Management
Universidade de Lisboa

MESTRADO EM CIÊNCIAS EMPRESARIAIS

TRABALHO FINAL DE MESTRADO DISSERTAÇÃO

ENTITY CORPORATION: THE INSTITUTIONAL
ARCHITECTURE OF ENTITY PRIMACY

ALFREDO COELHO MONTEIRO

JUNHO - 2026



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STATEMENT ON THE USE OF ARTIFICIAL INTELLIGENCE

Artificial intelligence tools, including ChatGPT and Gemini, were used during the preparation of this dissertation to support language refinement, literature exploration, structural organization, and critical discussion of arguments. The author remains fully responsible for the conception, development, verification, and final formulation of all ideas, arguments, and conclusions presented in this work.

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I would also like to thank the authors whose work made this thesis possible. This dissertation is not an isolated creation, but a continuation of the efforts of those who, before me, tried to understand and correct the structural misalignments of our economic and institutional order.

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Finally, I would like to thank all those who strive every day to leave the world slightly better than they found it.

RESUMO

Este trabalho argumenta que a sociedade comercial moderna está estruturalmente desalinhada com a natureza económica da empresa que organiza. A empresa está economicamente orientada para a maximização do valor total criado, entendido como a soma do excedente do consumidor e do lucro económico. A arquitetura societária dominante, contudo, atribui o controlo residual e o direito económico residual aos acionistas, direcionando assim a organização produtiva para a maximização do lucro económico apropriável pelos acionistas. Deste modo, o lucro económico deixa de ser um recurso para a criação futura de valor e converte-se numa renda económica. Após examinar as principais tentativas de superar a primazia do acionista, o trabalho argumenta que a resolução deste desalinhamento exige uma reforma institucional capaz de reconstituir conjuntamente o propósito societário, a estrutura dos direitos de controlo e a alocação dos direitos económicos. Para esse efeito, propõe a Sociedade Autónoma (Entity Corporation) como uma nova forma societária baseada na primazia da entidade e cujo propósito societário é a maximização do valor total criado ao longo do tempo. Este propósito é consagrado na forma societária como fim legal, enquanto os direitos de voto são separados das ações e reconstituídos como direitos estatutários de controlo, exercidos como uma função fiduciária da entidade. O capital próprio é dividido entre Capital Próprio dos Acionistas (Shareholder Equity) e Capital Próprio da Entidade (Entity Equity), e a Demonstração de Alocação ao Capital Próprio (Equity Allocation Statement) aloca o resultado líquido entre estas duas subcontas, remunerando o capital acionista ao seu custo de oportunidade, ao mesmo tempo que retém o lucro económico dentro da entidade como riqueza institucional. O trabalho conclui que esta arquitetura realinha a sociedade comercial com a natureza económica da empresa.

Palavras-chave: Sociedade Autónoma; Primazia da Entidade; Arquitetura Societária; Primazia do Acionista; Teoria da Entidade; Teoria da Firma

ABSTRACT

This paper argues that the modern corporation is structurally misaligned with the economic nature of the firm it organizes. The firm is economically ordered toward the maximization of total value created, understood as the sum of consumer surplus and economic profit. The prevailing corporate architecture, however, attaches residual control and the residual economic claim to shareholders, thereby directing the productive organization toward the maximization of shareholder-appropriable economic profit. This converts economic profit from a resource for future value creation into economic rent. After examining the principal attempts to overcome shareholder primacy, the paper argues that resolving this misalignment requires an institutional reform capable of reconstituting corporate purpose, the structure of control rights, and the allocation of economic claims together. It therefore proposes the Entity Corporation as a new corporate form based on entity primacy and whose corporate purpose is the maximization of total value created over time. This purpose is embedded in the corporate form as a statutory purpose, while voting rights are separated from shares and reconstituted as constitutional rights of control, exercised as a fiduciary function of the entity. Equity is divided into Shareholder Equity and Entity Equity, and the Equity Allocation Statement allocates net income between these two subaccounts, remunerating shareholder capital at its opportunity cost while retaining economic profit within the entity as institutional wealth. The paper concludes that this architecture realigns the corporation with the economic nature of the firm.

Keywords: Entity Corporation; Entity Primacy; Corporate Architecture; Shareholder Primacy; Entity Theory; Theory of the Firm

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1. INTRODUCTION

Institutions shape behavior by structuring the framework within which individuals and organizations act. As North (1990) argues, institutions are the “rules of the game” of a society or, more formally, the humanly devised constraints that shape human interaction. They structure incentives and define the range of action within which economic actors operate. The legal and regulatory framework that establishes corporate architecture operates precisely as one of these defining sets of rules (Kraakman et al., 2017). Consequently, corporate architecture is not a neutral, merely technical or legal arrangement. Instead, it establishes the practical logic according to which the organization operates, thereby shaping, in an implicit but powerful way, the purpose it tends to serve in practice.

To fully grasp the implications of corporate architecture, a preliminary distinction must be drawn to clarify what exactly this architecture is structuring. This requires separating the concept of the firm from that of the corporation. As Robé (2011) argues, the firm designates the economic organization engaged in productive activity, whereas the corporation designates the legal entity through which that activity is carried on. This distinction is decisive because it shows the corporation is not an end in itself, but the juridical form through which the firm is institutionally organized.

Because the corporation functions primarily as a governance structure, its architectural design cannot be arbitrary. In institutional economics, Oliver Williamson’s “discriminating alignment hypothesis” establishes a fundamental principle: to ensure efficiency, governance structures must be strictly aligned with the underlying attributes of the transactions they organize (Williamson, 1985). Since the firm’s productive activity is carried out through such transactions, applying this framework means that the legal architecture of the corporation must align with the inherent economic logic of the firm it organizes. Otherwise, it will inevitably generate structural inefficiencies.

The central question of this thesis is therefore whether the prevailing corporate architecture is aligned with the economic nature of the firm. More specifically, it asks whether the corporate purpose implicitly produced by that architecture is aligned with the economic purpose of the firm. The thesis develops this question through a theoretical and conceptual approach situated at the intersection of economics, accounting, and corporate law. The argument proceeds by first examining the firm as a productive organization and then turning to the architecture of the modern corporation in order to identify the structural misalignment between the two. It then analyses the principal attempts to overcome shareholder primacy, before developing the Entity Corporation as a new corporate form. Finally, it considers the economic implications of this proposed architecture and identifies

further developments required for a more complete theory of entity primacy.

2. THE ECONOMIC NATURE OF THE FIRM

In neoclassical microeconomic theory, the firm is a productive unit that coordinates heterogeneous inputs—such as labor, external goods and services, managerial activity, and capital—to generate outputs in the form of goods or services. As formalized by Samuelson (1947), this transformation is governed by a production function where the firm acts strictly as an optimizing agent. Consequently, its economic purpose is to maximize the output generated from a given set of inputs, or conversely, to minimize the inputs required for a given level of production.

To properly evaluate this productive efficiency, outputs and inputs must be assessed in fundamental economic terms. On the output side, firms do not merely produce physical matter, but rather subjective utility (Menger, 1871). Because this utility cannot be observed directly, its true economic value is ultimately captured by the consumer's willingness to pay, reflecting the maximum amount they are willing to exchange to acquire that specific output (Marshall, 1890). On the input side, the true economic measure of any resource consumed is its opportunity cost: the minimum return required to divert that resource from its next best alternative use (Wieser, 1927; Robbins, 1932).

It follows that an organization is economically productive when the utility it generates exceeds the true cost of the resources it consumes—that is, when what consumers are willing to pay for the output is greater than the full opportunity costs of the inputs. Building directly upon these economic foundations, Brandenburger and Stuart (1996) formalize this fundamental economic gain as value created. At the aggregate level of the firm, it may be formulated as:

$$\text{Total Value Created} = \text{Total Willingness to Pay} - \text{Total Opportunity Costs}$$

With this formulation established, the logical trajectory of the firm becomes clear. If the firm is an optimizing agent, its economic purpose translates inevitably into the maximization of total value created.

Within this strategic framework, the total value created can be mathematically decomposed into two distinct economic components by introducing the mechanism of price, expressed in aggregate terms as revenue. The first component is consumer surplus. As formalized by Marshall (1890), consumer surplus is the difference between what consumers are willing to pay and the price they actually pay, representing the portion of

economic value realized by consumers. In aggregate form, this may be expressed as:

$$\text{Consumer Surplus} = \text{Total Willingness to Pay} - \text{Revenue}$$

The second component is economic profit. Rooted particularly in Knight's treatment of uncertainty and profit, economic profit is what remains once revenue exceeds the full opportunity costs of all inputs employed in production (Knight, 1921). It represents the value captured by the productive organization after all resources have been economically accounted for. This relationship can be mathematically expressed as:

$$\text{Economic Profit} = \text{Revenue} - \text{Total Opportunity Costs}$$

Adding these two expressions cancels out revenue and reconstructs the definition of total value created established above. This confirms that the same magnitude can be decomposed into two underlying economic components:

$$\text{Consumer Surplus} + \text{Economic Profit} = \text{Total Value Created}$$

Consequently, if the economic purpose of the firm is the maximization of total value created, that purpose can also be understood as the joint maximization of consumer surplus and economic profit.

These two components, however, have different positions in the productive process. Consumer surplus is realized by consumers outside the firm. Economic profit, by contrast, is the component that accrues to the productive organization and therefore performs a distinct productive function. As established in the Schumpeterian tradition, economic profit is the essential condition of dynamic efficiency (Schumpeter, 1942). When retained and reinvested, it provides the resources through which the firm can expand future value creation: either by increasing consumers' willingness to pay through superior quality, or the satisfaction of new needs, or by reducing opportunity costs through greater operational efficiency.

This does not mean, however, that all economic profit will always remain within the organization. Under actual market conditions, some input providers may obtain economic rents—returns above their opportunity costs—as a result of scarcity, frictions, or bargaining power (Coff, 1999; Porter, 1980; Robinson, 1933). While these contingent rents may absorb a portion of the firm's economic profit, they do not alter the fundamental economic logic of the organization. If the firm is an optimizing agent ordered toward the maximization of total value created, inputs are to be structurally remunerated at the level

required to secure their continued supply, rather than through the systematic attribution of rents. Economic profit, in turn, is to be retained by the productive organization in order to sustain and expand future value creation.

3. THE ARCHITECTURE OF THE MODERN CORPORATION

Having clarified the economic nature of the firm, the analysis now turns to the corporate architecture through which that productive organization is presently structured.

As a corporation, the firm takes the form of a separate legal entity. It can own assets, enter into contracts, incur liabilities, and bear legal responsibility in its own name (Robé, 2011). This legal form gives the productive organization a distinct juridical existence and allows a broader economic activity involving multiple participants to be structured through a single entity. To properly assess this architecture, it is necessary to examine the two core dimensions of ownership upon which it is built: the structure of control rights and the allocation of economic claims (Hansmann, 1996).

In the modern corporation, the structure of control is organized as a chain of delegated authority. Ultimate control is typically anchored in voting rights attached to shares, granting shareholders the power to elect the board of directors, which in turn appoints and oversees executive management (Kraakman et al., 2017). Executive management then operates as the central coordinating node of the firm, directing its operations and managing the corporation's relationships with the different participants involved in the productive process, including workers, external service providers, financial creditors, consumers, and public authorities. This governance chain gives practical form to the classical agency-theoretic account of the corporation developed by Jensen and Meckling (1976), in which shareholders occupy the position of principals, while directors and managers act as agents entrusted with the exercise of delegated authority.

Beyond this governance structure lies the second defining dimension of the corporate architecture: the allocation of economic claims. Participants who provide inputs to the firm can be remunerated in two primary ways. The first is through predetermined contractual claims, where the compensation for the provided input is fixed ex-ante, as with a predetermined salary for a worker or a fixed interest rate for a lender. These fixed contracts are structurally designed to clear at the market rate required for the continued supply of the input—that is, at its opportunity cost (Fama and Jensen, 1983). The second way is through shares. A share is a bundle of legal rights that does not guarantee a predetermined contractual payout, but rather grants its holder a claim on the firm's discretionary future economic flows (Kraakman et al., 2017).

Crucially, any input provider can be remunerated through this second mechanism. Beyond traditional financial investors, a founder, worker, or other contributor may become a shareholder when the remuneration of their contribution is not paid out on predetermined contractual terms but is instead left in the firm in exchange for shares. Economically, this deferral of compensation is functionally equivalent to a direct equity investment, as the value of the unpaid input now bears the firm's residual risk (Easterbrook and Fischel, 1991). The shareholder must consequently be understood as a supplier of equity capital, even where that capital does not originate in an original cash contribution (Fama, 1980). The share serves as the institutional mechanism that formalizes this capital commitment, granting the supplier a right to future economic flows in exchange for bearing the opportunity cost of committing resources without a fixed return timeline.

The question that follows is the extent of the economic flows to which shares give access. Under the modern corporation, the institutional limit of those flows is the residual. This residual constitutes the value remaining within the organization after the predetermined contractual claims of all non-equity inputs have been satisfied (Alchian and Demsetz, 1972). Since predetermined contractual claims are structurally designed to remunerate those inputs at their opportunity cost, the value available for shareholder appropriation may therefore be expressed as:

$$\text{Residual} = \text{Revenue} - \text{Opportunity Costs of Non-Equity Inputs}$$

To understand the true economic nature of this residual, it must be placed against the definition of economic profit established earlier. Economic profit is what remains after the opportunity costs of all inputs used in production have been deducted. Since equity capital is itself a productive input with its own opportunity cost, the residual made available to shareholders under the modern corporation necessarily contains two distinct elements, following Knight (1921):

$$\text{Residual} = \text{Opportunity Cost of Equity Capital} + \text{Economic Profit}$$

The shareholder claim therefore extends beyond the remuneration required for the continued supply of equity capital to encompass the economic profit generated by the firm. As established earlier, a return above the opportunity cost of an input constitutes economic rent. Consequently, the economic profit included in the shareholder claim represents an economic rent structurally attributed to shareholders by the corporate architecture.

Once ultimate control and the residual claim are joined in the same hands, the prevailing corporate purpose becomes clear. The firm is organized to maximize the economic

profit available for shareholder appropriation. Economic profit may be retained and reinvested, but only insofar as this is expected to generate greater future economic profit available for appropriation. In this sense, the prevailing architecture gives institutional form to the shareholder-primacy view famously articulated by Friedman (1970), according to which the responsibility of business is to increase its profits within the “rules of the game”.

4. THE ARCHITECTURAL MISALIGNMENT OF SHAREHOLDER PRIMACY

The preceding analysis reveals the architectural misalignment of shareholder primacy. Economically, the firm is ordered toward the maximization of total value created, understood as the joint maximization of consumer surplus and economic profit. Architecturally, the modern corporation directs that same firm toward the maximization of the appropriable component of that value: economic profit. In Williamson’s terms, this is a misalignment between the governance structure and the underlying economic transactions, from which structural inefficiencies follow (Williamson, 1985).

The first structural inefficiency concerns the function of economic profit. In the economic nature of the firm, economic profit is the internal resource through which the firm sustains and expands future value creation. Under the modern corporation, however, that same resource is made available for shareholder appropriation as economic rent. The result is that economic profit may leave the productive organization instead of remaining within it to shift its production function. This mirrors Lazonick’s critique of shareholder value, in which a “retain-and-reinvest” logic of value creation is displaced by a “downsize-and-distribute” logic of value extraction (Lazonick, 2014).

The second structural inefficiency concerns the decisions taken in pursuit of economic rent. Because the corporation is architecturally ordered toward the maximization of shareholder-appropriable economic profit, the firm may be led to pursue decisions that increase that component of value even when they reduce total value created. The standard monopoly restriction of output illustrates this logic (Tirole, 1988). By restricting output, the firm may increase economic profit, but only by reducing consumer surplus by a greater amount, thereby reducing total value created. The decision is therefore rational within a shareholder-primacy architecture, but inefficient according to the economic nature of the firm.

5. ATTEMPTS TO OVERCOME SHAREHOLDER PRIMACY

Once the misalignment is recognized, the next step is to examine the principal contributions that have sought to overcome shareholder primacy. The first stage of these attempts appears at the level of corporate purpose.

One of the most influential efforts to redefine corporate purpose is found in R. Edward Freeman's stakeholder theory (Freeman, 1984). Against the view that the corporation exists primarily to maximize shareholder returns, Freeman argues that it should instead be managed in the interests of its various stakeholders. His contribution is important because it shifts corporate purpose away from capital alone and toward the broader set of participants affected by the enterprise.¹

However, once the corporation is defined by reference to the interests of its stakeholder groups, the residual question returns as a question of allocation among them. Many of these stakeholders are, in economic terms, suppliers of distinct inputs into production, and those inputs should be remunerated at their opportunity cost. If economic profit is allocated among them, economic rent is not eliminated; it is merely reallocated from shareholders to other input suppliers. For that reason, stakeholder theory represents an important rejection of shareholder primacy, but it does not yet ground corporate purpose in the economic purpose of the firm.

A different line of thought appears in the work of Peter Drucker and Colin Mayer. Drucker (1954) argues that the purpose of business is to create a customer. Mayer (2018), in turn, argues that the purpose of business is to produce profitable solutions to the problems of people and planet, and not to profit from producing problems for people and planet. Although expressed in different language, both formulations define corporate purpose by reference to what the firm's productive activity brings into existence.

Within the framework adopted in this thesis, these formulations may be expressed in more precise economic terms. To create a customer, or to produce solutions to the problems of people, is economically to generate an output whose value to the consumer exceeds the price paid, and therefore to create consumer surplus.² At the same time, Mayer's claim that these solutions must be profitable implies that the firm must also

¹This theoretical framework gained significant empirical visibility with the Business Roundtable's 2019 Statement on the Purpose of a Corporation, in which nearly 200 CEOs of major U.S. companies formally committed to lead their enterprises for the benefit of all stakeholders, explicitly stepping away from shareholder primacy (Business Roundtable, 2019).

²Mayer's formulation is broader than the dimension emphasized here, since his account of corporate purpose also includes the resolution of problems affecting the planet. This environmental dimension is excluded from the core model for reasons of analytical simplicity and is returned to in Section 8.1 through the treatment of externalities.

generate revenue above the full opportunity cost of the inputs employed in production, thereby generating economic profit. Read in this way, both contributions align closely with the argument advanced here that corporate purpose should be grounded in the firm's economic purpose: the maximization of total value created.

These contributions are important because they recover the question of corporate purpose from the narrow logic of shareholder return. Yet, corporate purpose cannot remain a merely interpretive category. Since a corporation's architecture implicitly generates its purpose, any explicit attempt to redefine corporate purpose must be accompanied by an architectural reform capable of giving it institutional force. The next stage in the attempt to overcome shareholder primacy therefore moves from purpose to control, asking how the structure of control rights must be organized if that redefinition of purpose is to become institutionally effective.

Within this stage, the first contribution considered here is Margaret Blair and Lynn Stout's team production theory of corporate law (Blair and Stout, 1999). The authors argue that the public corporation should not be understood as the aggregate property of shareholders, but as the outcome of firm-specific investments made by multiple participants. Because contracts are incomplete and it is impossible to specify *ex ante* the precise division of the surplus among all contributors, these participants must relinquish direct control over their sunk investments to an independent governing body. Under this framework, the board of directors is not a mere agent of shareholders, but a "mediating hierarchy". Its fiduciary duty is owed to the joint enterprise itself, with the mandate to balance competing claims in a way that preserves the survival and long-term success of the productive organization.

Stout (2012) later develops this position by addressing the legal objection that directors are required to maximize shareholder wealth. In *The Shareholder Value Myth*, she argues that this supposed requirement is not imposed by corporate law, but reflects a political and ideological construction that identifies the corporation's interest with shareholder returns. Existing corporate law, heavily protected by the business judgment rule, already grants boards vast legal discretion to interpret their fiduciary duties broadly and to act in what they judge to be the best interests of the corporation as a standalone entity.

Mayer (2018) takes this argument further by claiming that reliance on the permissive cover of the business judgment rule remains structurally insufficient to withstand the systemic pressures of capital markets. For the author, corporate law must instead enact structural reform by requiring firms to define an explicit purpose and placing directors under a legally binding fiduciary duty to pursue it. This shifts the focus from what directors may do to what they must do, seeking to formally anchor the board's mandate in a

determinate, enforceable end.

A related legal response is found in the structure of Public Benefit Corporations (PBCs). Like Mayer's proposal, the PBC framework gives legal force to an explicit corporate purpose. It does so, however, through a broader fiduciary structure: directors are required to balance the specific public benefit identified in the charter, the pecuniary interests of shareholders, and the interests of those materially affected by the corporation's conduct (Strine, 2014). PBCs therefore move fiduciary duty beyond a shareholder-centered orientation and toward a mandatory multi-fiduciary mandate.

While both Mayer's proposal and the PBC framework correctly recognize that the corporation cannot be reoriented by discretion alone, they remain structurally incomplete. Hart's theory of incomplete contracts clarifies why this is the case: because corporate contracts cannot specify every future contingency, effective organizational power ultimately lies in residual control, the authority to decide when contracts are silent (Hart, 1995). In the modern corporation, this residual control is exercised through voting rights attached to shares. Consequently, a redefined fiduciary duty imposed on directors cannot be sufficient while shareholders retain the power to appoint and remove them.³ The architectural misalignment of shareholder primacy cannot be resolved merely at the level of the board; it must be addressed at the level of residual control itself.

At this level, foundation-owned corporations relocate residual control by placing a controlling interest in an otherwise conventional business corporation in the hands of a nonprofit foundation. The foundation itself has no owners, and its governance is typically exercised by a self-perpetuating board acting under the terms of the foundation's charter. This charter commonly binds the foundation to purposes such as preserving the company, supporting its long-term development, and in some cases pursuing additional charitable objectives (Hansmann and Thomsen, 2021; Thomsen et al., 2018). Foundation ownership therefore effectively shifts residual control away from shareholders and places it in an institution structurally insulated from capital-market pressures.

Yet this model also reveals the limit of any reform that remains confined to the control structure. By relocating residual control, it weakens the proprietary logic through which private shareholders govern the firm. But it does not, by that fact alone, reconstruct the allocation of economic claims. Shareholders remain positioned as residual claimants, and their claim therefore continues to extend beyond the opportunity cost of the capital they

³This structural limitation aligns closely with the critique of stakeholderism advanced by Lucian Bebchuk and Roberto Tallarita. They demonstrate that relying on corporate leaders to independently pursue a broader corporate purpose or protect stakeholders is an "illusory promise," precisely because directors and executives remain ultimately accountable to—and face incentives structured by—shareholders who retain the power to elect and replace them. See Bebchuk and Tallarita (2020).

supply to include the economic profit generated by the productive organization. The next stage considered here in the attempt to overcome shareholder primacy therefore shifts from the structure of control to the allocation of economic claims.

The foundational effort to reconstruct this allocation was advanced by Robert Anthony, who sought to implement a profound institutional reform within the Financial Accounting Standards Board (FASB) conceptual framework (Anthony, 1984). The author recognized that the prevailing proprietary accounting model structurally conflated the opportunity cost of equity capital with the actual economic profit generated by the firm. To correct this, he proposed a reconstruction of the balance sheet that divided the traditional concept of equity into two distinct components: Shareholder Equity and Entity Equity. In this framework, Shareholder Equity represents the explicit financial claim attributable to shareholders, while Entity Equity represents the accumulated wealth that belongs to the entity itself.

To operationalize this balance sheet architecture, Anthony (1984) proposed a corresponding transformation of the income statement. The remuneration of shareholder equity capital would be formally recognized as an expense designated as Equity Interest. Because equity lacks a contractual coupon rate, the author proposed two primary mechanisms to determine this Equity Interest rate: either the firm's own pre-tax cost of debt or a standardized benchmark rate determined by a central authority, such as the FASB. This amount would then be allocated to Shareholder Equity, increasing the explicit shareholder claim against the firm, a claim that would be reduced by any dividends paid to them. The resulting net income would then accrue directly to Entity Equity. With the balance sheet and income statement operating together, shareholder capital would be remunerated at its opportunity cost, while the economic profit would be retained by the entity itself.

Building upon Anthony's attempt to separate the financial position of shareholders from that of the entity, Yuri Biondi develops this logic through improved reporting rather than through a formal reconstruction of the accounting standards (Biondi, 2012). Biondi's framework maintains the conventional category of equity, but operationalizes this separation through two internal subaccounts: Shareholders' Equity and Entity Equity. To feed these accounts over time, rather than recognizing the cost of capital as an explicit expense, the net income for the period is allocated into two corresponding streams: Shareholders' Equity Interest, which is added to Shareholder Equity as the fair remuneration for the committed funds, and Residual Earnings to the Entity, which represents the wealth retained by the entity in the period and accrues directly to Entity Equity.

To determine the specific amount of the Shareholders' Equity Interest, Biondi (2012) outlines two primary methods. The first involves applying a fixed interest rate to the accu-

mulated balance of the Shareholder Equity account. Alternatively, the author suggests an “earnings sharing” method, where net income is proportionally distributed between the two equity accounts based on a predefined ratio.

Despite their rigor, the proposals advanced by both Anthony and Biondi remain architecturally incomplete in two fundamental respects.

The first limitation lies in the determination of the cost of shareholder equity capital. By relying on fixed rates, these models treat the cost of equity as a static accounting magnitude. Economically, however, this cost is a dynamic market price that represents the return required to keep capital committed to a specific firm under its particular conditions of risk and opportunity. Those conditions change over time with the risk of the firm’s activity, the opportunities available for the use of capital, and the broader market environment. Consequently, to treat shareholders coherently as suppliers of capital, their remuneration must be determined by mechanisms capable of reflecting actual market conditions.

The second limitation concerns the destiny of Entity Equity in terminal events, whether liquidation or acquisition. Anthony and Biondi separate Entity Equity from the explicit shareholder claim during the life of the firm, but they do not determine what becomes of it when the firm comes to an end or is absorbed by another organization. If Entity Equity is ultimately distributed to shareholders at that moment, the economic rent is still attributed to them; its appropriation has merely been postponed until the terminal event. For the separation between shareholders and the entity to be complete, Entity Equity must therefore remain outside private appropriation even when the firm ceases to exist in its original form.

The limitations of these proposals reveal that merely restructuring the allocation of economic claims is insufficient to resolve the underlying problem. The remuneration of shareholder capital cannot be made dependent on market conditions if those who hold control are also the actors who stand to appropriate the economic rent, nor can Entity Equity be definitively separated from private claimants if the control structure remains organized around their interests. What these difficulties show is that the three dimensions of the problem—corporate purpose, the structure of control rights, and the allocation of economic claims—cannot be reconstructed in isolation from one another. They stand or fall together. For that reason, the architectural misalignment of the modern corporation can only be addressed through more comprehensive institutional arrangements that seek to reorganize the corporation as a whole.

It is in this context that steward ownership becomes significant. Unlike the preceding contributions, which intervene only in specific dimensions of corporate architecture,

steward ownership presents itself as a more integrated attempt to overcome shareholder primacy by redirecting the prevailing corporate form through legal and organizational devices. In the foundational literature of the modern movement, articulated most prominently by the Purpose Foundation, this model is defined by two non-negotiable principles: self-governance and profits serving purpose (Manelli et al., 2025; Purpose Foundation, 2025).

Under the principle of self-governance, control is entrusted to stewards: founders, active managers, employees, or other individuals closely connected to the enterprise's operation and mission. To legally operationalize this, steward ownership fundamentally uncouples voting power from economic claims, typically through a dual-class share structure that separates shares possessing voting rights from those carrying rights to economic flows. To guarantee that this control structure is permanent and cannot be privately sold, firms rely on a variety of legal frameworks—such as veto mechanisms, purpose trusts, or foundation ownership—that lock it into the organization's long-term purpose (Manelli et al., 2025; Purpose Foundation, 2025).

Under the principle of profits serving purpose, steward ownership prevents economic profit from functioning as an unrestricted private claim by strictly capping the remuneration of capital. External investment is still attracted through non-voting instruments, such as preferred shares, subordinated debt, or revenue-sharing agreements, but the investor's economic claim is not perpetual. Once a pre-agreed financial limit, such as a specific investment multiple or a fixed internal rate of return, is satisfied, that claim is effectively extinguished through the mandatory redemption or repayment of these instruments. What remains is then secured by a structural asset lock, which precludes the governing stewards from extracting the residual value for themselves. By economically sterilizing the rights of those in control, the model leaves the unappropriated wealth without a private claimant, ensuring that it remains locked within the entity to serve its continuity and purpose (Manelli et al., 2025; Purpose Foundation, 2025).

Steward ownership thus stands as the most advanced attempt yet to overcome shareholder primacy. Its achievement lies in showing how far the prevailing rules of the game can be bent, stretched, and redirected. Its limit lies in the fact that it still operates within those same rules. What is needed, therefore, is not a further refinement of the existing corporate form, but a more fundamental institutional reform capable of reconstituting corporate purpose, the structure of control rights, and the allocation of economic claims, into a new corporate architecture aligned with the economic nature of the firm.

6. THE ENTITY CORPORATION: AN ARCHITECTURE OF ENTITY PRIMACY

If the architectural misalignment of shareholder primacy requires a structural institutional response, the question becomes where such a response can realistically begin. The answer cannot be to replace the entire system of corporate law and accounting doctrine all at once. Such a route would require internationally coordinated institutional reform and would confront the entrenched interests organized around the existing architecture.

The more realistic path is to create a new corporate form that can be recognized within particular jurisdictions, while existing alongside the forms already available and allowing firms to be constituted according to a different institutional logic. Reform therefore enters the system not by abolishing the existing order, but by opening a legal space within it. This is the role of the Entity Corporation: to give legal form to an architecture of entity primacy, in which the corporation is understood as an autonomous entity whose interests are distinct from those of its shareholders (Watson, 2022). The corporate purpose behind this form is the maximization of total value created over time, and that is therefore the purpose this architecture is designed to produce in practice.

What follows is not a full legal codification of that form. It is the definition of its architectural core: the structural elements through which the Entity Corporation becomes recognizable as an entity primacy firm. The analysis begins with the two general dimensions of the architecture: the structure of control rights and the allocation of economic claims. It then turns to two more specific architectural configurations: terminal events, namely liquidation and acquisition, and the admission of new equity capital.

6.1. The Structure of Control Rights

The structure of control rights begins with the purpose to which control is legally oriented. The Entity Corporation is organized around a statutory purpose embedded in the corporate form itself: the maximization of total value created over time. Each particular corporation may pursue a specific productive activity or mission, but it does so within this legal orientation. This purpose establishes the juridical reference point in relation to which residual control must be exercised.

Residual control is therefore reconfigured as a fiduciary function of the entity. Voting rights are not attached to shares; they are constitutional rights of control, established in the corporate charter, through which fiduciary authority over the entity is distributed and exercised. Each voting position carries a specified proportion of fiduciary authority and must be exercised by reference to the entity's legal purpose.

Accordingly, voting rights are allocated on the basis of fiduciary suitability: a substantial and continuing relationship with the entity, together with the competence and independence necessary to exercise judgment consistently with its purpose rather than in pursuit of self-interest. At formation, this fiduciary control will normally belong to the founders, who, by virtue of their structural proximity to the entity's origin and initial direction, are ordinarily the actors best positioned to exercise it.

As the entity develops, the structure of control may evolve. Since voting rights are fiduciary positions, they do not circulate according to the ordinary logic of patrimonial transfer: they cannot be sold, inherited, or unilaterally transferred as private assets. Their allocation may be altered only through the entity's constitutional procedures. In particular, changes in the distribution of voting authority should require a supermajority, allowing control to adapt to the development of the entity without being casually reconfigured or opportunistically captured.

The protection of this fiduciary structure requires legal enforceability. A serious breach of duty by holders of voting rights should be capable of triggering the suspension or removal of their voting authority through judicial process. Such a breach occurs where voting authority is exercised against the entity's purpose or subordinated to the holder's own self-interest. In such a case, the court must ensure that voting authority is reconstituted in the hands of persons capable of exercising it as a fiduciary function.

Within this structure, the board of directors and executive management continue to exist as the operational organs of corporate authority. The holders of voting rights appoint the board, which in turn appoints and oversees management. The chain of authority remains intelligible, but its juridical foundation is transformed: the entity itself becomes the principal of corporate authority. Voting-right holders act as fiduciary guardians of that principal, while the board and management act as its agents, charged with directing the corporation in accordance with its statutory purpose. The structure of control rights is thereby constituted as the institutional means through which the entity governs itself.

6.2. The Allocation of Economic Claims

Under the Entity Corporation, the allocation of economic claims is organized according to the economic nature of the firm. The ordinary remuneration of non-equity inputs remains governed by predetermined contractual claims, which are designed to clear at their opportunity cost. What is reconstructed is the residual claim. Shareholder capital is remunerated at the level required for its continued commitment to the entity, while the value generated beyond that remuneration is retained by the entity to sustain and expand

future value creation. The entity is therefore the residual claimant.

To operationalize this allocation, the Entity Corporation adopts Biondi's reporting logic and presents equity through two internal subaccounts: Shareholder Equity and Entity Equity (Biondi, 2012). Shareholder Equity records the economic position of holders of shares, while Entity Equity records the residual accumulated by the entity itself. Within this divided structure, shares confer rights to economic flows only up to the amount recorded as Shareholder Equity. Any value beyond that amount belongs to the entity and cannot be distributed to holders of shares.

These two subaccounts possess distinct legal-economic characters and are governed by a strict rule of asymmetric convertibility. Shareholder Equity may be voluntarily converted into Entity Equity through a surrender of shares to the entity, followed by the cancellation of those shares and the reclassification of the corresponding amount as Entity Equity. Under no circumstances, however, may Entity Equity be converted into Shareholder Equity, ensuring that the wealth retained by the entity is permanently shielded from private appropriation.

In each reporting period, the determination of shareholder remuneration and of the residual retained by the entity is formalized through the Equity Allocation Statement. Building on Biondi's framework, once net income has been established by the income statement, the board of directors determines its allocation within the entity's equity structure. This allocation is presented through two distinct streams: Shareholder Equity Interest, which is the portion attributed to holders of shares and added to Shareholder Equity; and Residual Earnings to the Entity, which is the portion retained by the entity and added to Entity Equity (Biondi, 2012).

This discretion, however, is disciplined by the holder's right of exit. If part of net income is retained by the entity, holders of shares may demand exit: the Entity Corporation must, within a defined period, either repurchase those shares or find a buyer for them, in each case at the Shareholder Equity per share value after the period's allocation has been made. If, by contrast, the whole of net income is allocated to Shareholder Equity Interest, no such right arises, since all income available in that period has been attributed to the holders of shares.

To preserve the instrument's classification as equity within the existing accounting framework, this right of exit is not absolute. If the entity is unable or unwilling to facilitate the exit through a buyer or a repurchase, an automatic fallback mechanism is triggered: the initial allocation is voided, and the entirety of the net income for that period is mandatorily allocated to the Shareholder Equity Interest.

The right of exit is the mechanism through which the remuneration of holders of shares is determined by market conditions. The board is incentivized to retain as much value as possible as Residual Earnings to the Entity, since that strengthens the entity's capacity to create future value. Holders of shares, in turn, will remain only if Shareholder Equity Interest is sufficient under the prevailing conditions of risk and opportunity. The remuneration of shareholder capital therefore tends toward its opportunity cost, emerging from the market relation between the entity's demand for capital and the shareholders' willingness to continue supplying it.

In the case of negative net income, there is no allocation to be determined by the board of directors, because there is no positive income to divide between Shareholder Equity Interest and Residual Earnings to the Entity. The loss is absorbed first by Entity Equity until that account is exhausted; only then does it begin to reduce Shareholder Equity. This follows from the residual position of the entity: the account in which residual gains are retained is also the first account exposed to residual losses.

The distinction between the two equity subaccounts also governs the transfer of value from the corporation. Distributions from Shareholder Equity may be made to holders of shares at management's discretion, in light of the entity's liquidity and productive needs. Distributions from Entity Equity, by contrast, may be made only upon the approval of the holders of voting rights, and provided the distribution remains consistent with its legal purpose. Such value may be transferred to another Entity Corporation, where it becomes Entity Equity of that corporation; to a social institution recognized by the State; or to the State itself.⁴ In each case, the condition is the same: Entity Equity may move only toward institutions capable of applying it to the creation of value, and never toward private appropriation.

6.3. Terminal Events: Liquidation and Acquisition

This separation between the shareholder claim and the residual value retained by the entity must also be preserved when the corporation reaches a terminal event, whether liquidation or acquisition.

In liquidation, the assets of the Entity Corporation are realized and applied first to the satisfaction of all outstanding obligations that legally rank ahead of holders of shares. These holders then receive their liquidation entitlement, limited to the amount recorded as Shareholder Equity. Whatever remains belongs to the entity itself and must be directed according to the permitted institutional destinations of Entity Equity: transfer to another

⁴This possibility is particularly important for corporate groups composed of Entity Corporations, since Entity Equity may circulate between entities without becoming privately appropriable.

Entity Corporation, where it becomes Entity Equity of that corporation; donation to a social institution recognized by the State; or transfer to the State itself.

In the case of acquisition, the analysis focuses on acquisition by merger, where the Entity Corporation is absorbed into another corporation and ceases to exist as a separate legal entity. Within the entity's control structure, the transaction may be negotiated by the board of directors, but must ultimately be approved by the holders of voting rights acting in their fiduciary capacity. Holders of shares receive their Shareholder Equity entitlement, which may be satisfied in cash or, with their consent, in shares or another form of consideration of equivalent value. Any settlement below this entitlement, however, requires their explicit consent. The remaining value attributable to the transaction must be directed according to the permitted institutional destinations of Entity Equity.

A specific rule applies where the acquiring corporation is itself an Entity Corporation and would otherwise be selected as the institutional destination of the remaining value attributable to the transaction. In that case, the transaction is treated as an institutional integration rather than as a negotiated acquisition. The holders of shares of the acquired Entity Corporation receive their Shareholder Equity entitlement, while the entity's remaining equity structure is carried over into the acquiring corporation. The Entity Equity of the acquired entity therefore continues as Entity Equity of the acquirer.

6.4. The Admission of New Equity Capital

The architecture of the Entity Corporation must also be capable of governing the admission of new capital under conditions of high risk. Under the ordinary allocation mechanism, once net income has been determined, management may allocate that income between Shareholder Equity and Entity Equity. This mechanism is sufficient where current profit allows capital to be remunerated, within the period, at a level consistent with the conditions required for its continued provision. It does not, however, resolve the case in which new capital is injected before current profit is capable of supporting the return required by the risk assumed.

To resolve this problem, the investor must be granted a priority over future profit capable of compensating for the remuneration that current profit cannot yet support. Since the investor's economic position is held through shares, this priority must operate through the claim attributed to those shares. The future profit promised to the investor is therefore translated into a minimum curve of Shareholder Equity per share, defining the level that must be reached at each point in time before net income may begin to accrue to Entity Equity. Once that required level has been reached, the priority attached to the investor's

shares is exhausted, and the ordinary allocation mechanism may operate again.

This minimum curve begins from the price paid by the investor for each share. If P_0 denotes that price per share, and M_t denotes the minimum accumulated multiple required at time t , then the minimum Shareholder Equity per share required at that moment is:

$$SE_t = P_0 \cdot M_t$$

The remaining question is how these minimum multiples should evolve through time. The mechanism proposed here defines M_t through a ten-year benchmark:

$$M_t = M_{10}^{(t/10)^\gamma}$$

Here, M_{10} represents the minimum accumulated multiple required at the ten-year horizon. This benchmark reflects the conventional time frame of venture-capital funds (Sahlman, 1990) and allows the required return to be negotiated as a clear target multiple rather than as a sequence of annual rates. The parameter γ , with $0 < \gamma < 1$, determines the temporal shape of the function. It preserves the exponential form of the return curve while moderating its convexity, so that the required multiple continues to increase with declining marginal intensity over time. The lower the value of γ , the stronger this moderation.

Substituting the expression for M_t gives the full contractual curve:

$$SE_t = P_0 \cdot M_{10}^{(t/10)^\gamma}$$

The investment contract is therefore defined through three negotiated parameters: P_0 , M_{10} , and γ . Together, these parameters define the minimum level of Shareholder Equity per share that must be satisfied at each moment.⁵

The firm may, however, raise capital in multiple rounds. In that case, each round i may carry its own negotiated path:

$$SE_t^{(i)} = P_0^{(i)} \cdot \left(M_{10}^{(i)} \right)^{\left(\frac{t}{10} \right)^{\gamma_i}}$$

From the standpoint of the firm, the relevant threshold is then the maximum of the

⁵If a dividend is exceptionally distributed before the minimum Shareholder Equity per share curve has been satisfied, that dividend is treated as a partial realization of the protected return. If the dividend occurs at time τ , and D_τ denotes the amount distributed per share, the protected base of the remaining curve becomes $P'_0 = P_0 \cdot M_\tau - D_\tau$. The same multiple function then applies from τ , so that $SE_t = P'_0 \cdot M_{t-\tau}$.

required curves that remain outstanding:

$$SE_t^* = \max \left\{ SE_t^{(1)}, SE_t^{(2)}, \dots, SE_t^{(n)} \right\}$$

This maximum function therefore converts the coexistence of several negotiated curves into a single threshold for the firm. As long as Shareholder Equity per share remains below that threshold, the priority granted to capital has not yet been fully satisfied, and net income must continue to accrue entirely to Shareholder Equity. Once the highest outstanding threshold has been reached, the priority is exhausted, and the ordinary allocation mechanism between Shareholder Equity and Entity Equity may operate again.

The same priority must also be preserved in terminal events. If liquidation or acquisition occurs while one or more negotiated curves remain outstanding, the shareholder entitlement is not limited by the amount then recorded as Shareholder Equity. The entitlement attached to each share instead extends to the highest outstanding Shareholder Equity per share threshold, SE_t^* , applicable at that moment. Only after that threshold has been satisfied may any remaining value be directed according to the permitted institutional destinations of Entity Equity.

Finally, whether new equity capital is admitted under the ordinary allocation mechanism or while negotiated curves remain outstanding, the architecture must protect the existing shareholder claim from arbitrary dilution. Consequently, the admission of new shares at an initial price per share, P_0 , below the applicable shareholder entitlement requires the explicit consent of the shareholders. This entitlement corresponds to the current Shareholder Equity per share under ordinary conditions, or to the highest outstanding Shareholder Equity per share threshold, SE_t^* , when priority curves remain active.

7. ECONOMIC IMPLICATIONS OF ENTITY PRIMACY

Having defined the architectural core of the Entity Corporation, the analysis can now turn to its broader economic implications. The following subsections examine how this architecture reshapes share valuation, monopoly incentives, and the distribution of wealth.

7.1. *Share Valuation and Financial Instability*

Under the Entity Corporation, the shareholder's economic position is limited to the amount recorded as Shareholder Equity. Since this claim is expected to yield a return equal to the opportunity cost of the shareholder capital, and since the market discounts it

at that same rate, there is no additional value for the market to capitalize. In ordinary conditions, the market price of a share should therefore tend toward the recorded Shareholder Equity per share. The more liquid the market for those shares, the stronger this tendency becomes.

This changes the speculative character of corporate shares. In the logic described by Minsky's Financial Instability Hypothesis, rising asset prices may become self-reinforcing when expectations of further appreciation attract additional demand (Minsky, 1986). Within this architecture, however, if speculation pushes the market price significantly above Shareholder Equity per share, the board of directors may intervene by reducing the portion of net income allocated to Shareholder Equity Interest. The expected yield attached to the share then falls, weakening the economic basis of the speculative premium. The architecture therefore introduces a negative feedback loop: the further the market price moves above Shareholder Equity per share, the lower the expected yield available to shareholders becomes, actively discouraging further speculation.

7.2. Monopoly Deadweight Loss

As argued earlier, shareholder primacy makes it internally rational for the firm to use monopolistic market power to restrict output, raise prices, and increase the economic profit available for shareholder appropriation, even if the resulting loss of consumer surplus reduces total value created. In conventional economic theory, this destruction of value is described as deadweight loss: a market failure typically addressed through external regulation (Tirole, 1988). From the perspective developed here, however, the failure does not lie in the static loss itself: in line with Schumpeter (1942), a temporary loss of present value may be justified where it enables a greater creation of future value. The failure lies instead in a corporate architecture that allows the resulting economic profit to be privately appropriated, thereby preventing it from supporting the future value creation that could justify the restriction in the first place.

Under the Entity Corporation, by contrast, this architectural failure is corrected by retaining economic profit within the entity, allowing that profit to perform its Schumpeterian function as a resource for dynamic efficiency. Furthermore, because the entity is structurally ordered toward the maximization of total value created over time, it can restrict output only where the economic profit thereby retained enables a greater expansion of future value. While monopoly power may still give the firm the capacity to restrict output, the corporate architecture no longer gives it an internal reason to use that capacity in a value-destroying way, thereby reducing the need for external regulation.

7.3. Economic Profit as Institutional Wealth

By structurally attributing economic rent to shareholders, the architecture of shareholder primacy turns the firm into a central microeconomic engine of macroeconomic wealth concentration. This aligns with Joseph Stiglitz’s argument that systemic inequality is not the inevitable byproduct of efficient markets, but the consequence of foundational “rules of the game” designed to facilitate rent-seeking (Stiglitz, 2015). He further argues that, when a system permits this primary misallocation of wealth, the conventional reliance on ex-post state redistribution as a policy response becomes fundamentally inefficient. It treats the symptom rather than the disease, introducing heavy economic frictions without altering the extractive architecture that produced the concentration in the first place.

The Entity Corporation addresses this concentration at the level of the “rules of the game” themselves. Economic profit is retained within the entity and allowed to circulate only toward organizations aligned with the same productive purpose, transforming it into institutional wealth. In this architecture, the whole of the value created by the firm is therefore ultimately socialized: consumer surplus directly, through the value received by consumers, and economic profit institutionally, by remaining bound to organizations ordered toward the creation of value for society as a whole. Rather than correcting wealth concentration through ex-post redistribution, this architecture establishes a fundamentally different primary distribution of value.

8. FURTHER DEVELOPMENTS

The architecture developed in this thesis does not exhaust the full logic of entity primacy. A more complete version would require two further developments: the incorporation of externalities into total value created and the reclassification of the shareholder claim as a liability.

8.1. Externalities and the Full Concept of Value Creation

This thesis has defined total value created as the sum of consumer surplus and economic profit. This formulation was adopted for analytical simplicity, focusing the analysis on the firm’s direct structure of value creation: the relation between consumers, input providers, and the productive organization itself. By isolating this structure, the thesis was able to show more clearly the misalignment between the prevailing corporate purpose and the economic purpose of the firm.

Yet this definition does not exhaust the full economic value created or destroyed by productive activity. A firm may nevertheless generate effects that fall outside its direct structure of value creation, conceptually defined as externalities (Pigou, 1920; Coase, 1960). Some of these effects may be positive, such as knowledge spillovers, social learning, or environmental restoration. Others may be negative, such as pollution, public health harms, or the depletion of common resources. A more complete formulation of total value created would therefore have to incorporate these externalities:

$$\text{Total Value Created} = \text{Consumer Surplus} + \text{Economic Profit} + \text{Net Externalities}$$

The statutory purpose of the Entity Corporation must therefore be interpreted according to this expanded understanding of value creation.

8.2. Shareholder Claims as Liabilities

The architecture developed in this thesis separates the shareholder economic position from the residual retained by the entity, but still leaves both claims within the broader structure of equity. This makes the model institutionally workable within existing accounting conditions, but it does not carry the logic of entity primacy to its fullest conclusion.

As Paton (1922) argued in his foundational formulation of entity theory, from the strict perspective of the enterprise, there is no fundamental accounting difference between a creditor and a shareholder; both merely hold distinct types of claims against its assets. From this standpoint, what belongs to the shareholder is therefore something owed to a party outside the organization. In that sense, a more complete accounting architecture would no longer describe the shareholder's position as Shareholder Equity, but as Shareholder Claims recognized as liabilities on the balance sheet. Equity would then be reserved exclusively for what belongs to the entity itself.

The same logic would also affect the income statement. Building on Anthony's (1984) argument that shareholder capital is not free and its cost must be explicitly accounted for, what this thesis has described as Shareholder Equity Interest in the Equity Allocation Statement would, in a more complete architecture, become Shareholder Interest: a cost directly recognized in the income statement. Subsequently, this amount would be added to Shareholder Claims on the balance sheet. Net income would then accrue to Entity Equity, representing what remains for the entity: the firm's economic profit plus the opportunity cost of the capital already belonging to it, assuming all other accounting measures accurately reflect true economic values.

The board of directors would determine the Shareholder Interest per share at the beginning of the accounting period, reflecting the cost required for the continued commitment of shareholder capital during that period. Holders of shares who considered that remuneration insufficient would then have a right of exit, requiring the entity either to repurchase their shares or to find a buyer at the corresponding Shareholder Claim per share value. Within this framework, the minimum return curve developed earlier for the admission of new capital would no longer be necessary: instead of promising shareholders priority over future profit, the entity would fully recognize the opportunity cost of shareholder capital in the income statement, even where doing so produced a loss for the period.

9. CONCLUSION

This thesis has proceeded from a simple premise: corporate architecture must be aligned with the economic activity it organizes. On that basis, it has shown that the shareholder-primacy architecture of the modern corporation is structurally misaligned. The firm is a productive organization: its economic function is to coordinate resources in order to maximize total value created over time. The prevailing corporate architecture, however, gives that productive organization an extractive orientation, by structuring it around the maximization of economic profit available for shareholder appropriation. Value creation therefore remains necessary, but not as the final end of the architecture; it becomes the means through which extraction is made possible.

The attempts to overcome shareholder primacy revealed that resolving this problem requires an institutional reform capable of reconstituting corporate purpose, the structure of control rights, and the allocation of economic claims together. It is in this sense that the Entity Corporation is proposed as a new corporate form organized under an architecture of entity primacy, in which the corporation is understood as an autonomous entity. In this form, the corporate purpose is aligned with the economic purpose of the firm, and the structure of control rights and the allocation of economic claims are designed to make that purpose institutionally effective.

Within the structure of control rights, the maximization of total value created over time is embedded in the legal form as a statutory purpose. Voting rights are separated from shares and reconstituted as constitutional rights of control, to be exercised as a fiduciary function of the entity. This function is held by persons capable of acting with competence and independence in accordance with its purpose. The allocation of economic claims is also reconstructed through a dual equity structure. Shareholder Equity represents the claim of shareholders, while Entity Equity represents the residual position of the corpo-

ration itself. Through the Equity Allocation Statement, net income is allocated between these two equity accounts, ensuring that shareholder capital receives the remuneration required to remain committed, while the residual is retained by the entity.

Through this architecture, the misalignment identified at the beginning is resolved. Shareholders are no longer treated as residual claimants of the productive organization, but as providers of capital, which is remunerated at its opportunity cost. Economic profit, in turn, ceases to be appropriated as economic rent and is transformed into institutional wealth, recovering its Schumpeterian function as a resource for dynamic efficiency. In this way, the entity is emancipated from the proprietary logic of shareholder primacy and aligned with its true economic nature.

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