

## **Beyond Shareholder Value: A Framework for Stakeholder Governance**

*By P.M. Vasudev*  
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**B**eyond Shareholder Value: A Framework for Stakeholder Governance provides profound and topical insights into the topic of stakeholder governance and the changing role of corporations in society. This well-synthesized and organized book is based on rigorous research and critical analysis of emerging corporate governance literature. The author stresses the stance that having a broad goal – beyond profit maximization for shareholders – should define how corporations are governed and serve the wider interests of society. Specifically, building on the stakeholder value model and pragmatic examples from diverse contexts, the book demonstrates that embracing an inclusive and balanced governance perspective is imperative for promoting stakeholder value and improved outcomes for both financial and nonfinancial stakeholders. Thus, an important lesson to be learned from the book is that the shareholder profit maximization maxim is fundamentally flawed in its conjectures, constricted as a legislative choice and ineffective in terms of serving the needs of nonfinancial stakeholders.

Accordingly, the book makes a substantial contribution to research on stakeholder governance by providing an in-depth critical analysis of dominant corporate governance models – shareholder value versus stakeholder value. Drawing on emerging literature, the author

presents a strong case for shifting from shareholder-centric to stakeholder-oriented governance paradigms and offers some practical guidelines on how stakeholder governance should be promoted within modern corporations. This publication is well-focused and inclusive, and the discussion on critical corporate governance issues is well-integrated. Accordingly, this book is an exceptional effort that contains attractive and well-chosen themes and offers a sophisticated analysis of pertinent issues.

The book comprises three distinct parts involving nine well-selected chapters that draw the readers' attention to governance of stakeholders' issues from the past, present and future perspectives. The first part of the book – shareholder value and its discontents – investigates the evolution, origin, context and consequences of the shareholder value concept. It provides a detailed analysis of how the shareholder value model is conceived in the extant literature, as well as its execution, delivery and outcomes. Part 1 investigates the effects of the shareholder value model on corporate governance and business management. Vasudev asserts that the shareholder wealth maximization principle not only causes macro socioeconomic outcomes but also influences the internal operations and functioning of the corporation. In particular, managerial decision-making concerning corporate strategy and enterprise management, as well as governance of corporate financial issues are determined by the shareholder maximization philosophy. Critiquing the underlying assumptions of the shareholder value model and its impact on enterprise functioning and corporate governance, the author

argues that the model is fundamentally flawed and promotes short-termism which could lead to inimical outcomes for nonshareholder groups. From the corporate governance perspective, management's obsession with a profit maximization orientation in the short term and excessive focus on share prices are essentially counterproductive to responsible decision-making and long-term perspectives. On the whole, in Part 1, Vasudev demonstrates that while the shareholder value model of corporate governance remained a predominant framework in the last few decades that shaped managerial philosophy toward maximizing shareholder value, it failed to address the nonfinancial concerns of corporate stakeholders including employees, consumers, communities and the natural environment.

Part 2 of the book – shareholder value as law – examines the shareholder value model from a legal perspective, analyzing important legal decisions made in Canada and the US courts with regard to shareholder primacy. The courts' decisions have endorsed the shareholder profit maximization dictum as a legitimate corporate goal, which is a matter of serious concern. As Vasudev states: "judicial recognition of shareholder value as the corporate purpose underscores the problem with the common law method of legal development in dealing with complex issues such as the normative character of business corporations and their purpose" (p. 105). Accordingly, considering the limitations and short-termism inherent in the shareholder-value maximizing principle practiced and endorsed in the North American context, Vasudev questions the rationality and authenticity of the shareholder value model. The author asserts that pursuing profit maximization alone without acknowledging the concerns of nonshareholder groups could

undermine their genuine interests and outcomes.

Part 3 of the book – stakeholder vision: the journey so far and the future – critically examines an alternative to the shareholder value paradigm: the stakeholder model in corporate governance. The author posits that the stakeholder model is a more holistic, objective and promising way of governing corporations as it enables balancing the stakes of corporate financial and nonfinancial stakeholders. This section part of the book focuses on two distinct issues. First, the historical foundation of the stakeholder model and predominant methods used to promote stakeholder vision are presented. Building on the origins and existing practice of the stakeholder value model in corporations, Vasudev underscores the significance of legislation to encourage well-balanced corporate governance in corporations. However, the author cautions that inadequate legislation and limited provisions for nonfinancial stakeholders in corporate statutes in areas such as employment relations, environmental stewardship and consumer protection would further reinforce the shareholder primacy premise. Against this background, Vasudev suggests that "having shareholder-value maximization as the goal and the incentive arrangements for executives discourage inclusive governance and the meaningful, fair consideration of non-stakeholder interests in policy and decision making." Second, several recommendations have been put forward to promote the stakeholder value maxim and embrace the stakeholder model at the board level. It is suggested that the board of directors have an important role in establishing balance and responsibility in governance, supporting pay equity and promoting specialist panels to effectively manage potential stakeholder

disagreements. Vasudev concludes that "the proposals build on prevailing trends and have the potential to produce better socioeconomic outcomes from the functioning of business corporations" (p. 3).

In concluding remarks, the author claims: "the current environment is seemingly conducive to a transition to stakeholder governance. The inequality, criticism of shareholder-capitalism and signs of awakening in corporate leaderships can be catalysts of change [...] [thus], the shift to a vibrant stakeholder model would continue with the dynamic order and represent a response to contemporary needs" (p. 378). However, the extent to which corporations adopt and embrace the stakeholder governance model depends upon the "political will that is strong enough to overcome systemic inertia and resistance from narrow special interests" (p. 378). Thus, ethically driven and sustainability-inspired leadership is imperative to make the shift toward an inclusive stakeholder governance model adoption within modern corporations by which inherent shortcomings of shareholder-capitalism can be effectively addressed.

Overall, the author has done a reasonably good job in presenting interesting and novel perspectives on corporate governance and will not only contribute to enhancing understanding of corporate governance and legal scholars from a more holistic and healthy stakeholder value perspective but also a standard reference point toward shaping and improving real-world business practice and legal policymaking in the right direction.

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