DISCUSSION PAPER SERIES

DP17616

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BANKING AND CORPORATE FINANCE

CEPR

ISSN 0265-8003

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Discussion Paper DP17616
Published 28 October 2022
Submitted 28 October 2022

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Abstract

There is a heated debate on shareholder versus stakeholder governance. The stakeholder view recognises that companies have broader responsibilities to society than just making profit. But the lack of an integrated measure makes it difficult to hold management accountable against multiple goals. Moreover, the traditional stakeholder model tends to focus on stakeholders who are directly involved with the company, such as employees and customers, with only a minor role, if at all, for stakeholders without such a direct relation but who are affected by the company's conduct, for example through ecological damage and climate change, including future stakeholders. This paper develops an integrated model of corporate governance including current and future stakeholders. It also presents an integrated measure for corporate value. The board can use this integrated value measure to balance the interests of the various stakeholders in a structured way. The new measure can also be used to hold the board accountable for their decisions. Finally, the paper examines the mechanisms to include the interests of the various stakeholders in the board.

JEL Classification: K22, G31, G34

Keywords: Stakeholder model, Sustainable finance

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Corporate governance beyond the shareholder and stakeholder model

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Abstract

There is a heated debate on shareholder versus stakeholder governance. The stakeholder view recognises that companies have broader responsibilities to society than just making profit. But the lack of an integrated measure makes it difficult to hold management accountable against multiple goals. Moreover, the traditional stakeholder model tends to focus on stakeholders who are directly involved with the company, such as employees and customers, with only a minor role, if at all, for stakeholders without such a direct relation but who are affected by the company's conduct, for example through ecological damage and climate change, including future stakeholders. This paper develops an integrated model of corporate governance including current and future stakeholders. It also presents an integrated measure for corporate value. The board can use this integrated value measure to balance the interests of the various stakeholders in a structured way. The new measure can also be used to hold the board accountable for their decisions. Finally, the paper examines the mechanisms to include the interests of the various stakeholders in the board.

Key words: Corporate governance, shareholder model, stakeholder model, sustainability

Acknowledgements

We would like to thank participants in the "Corporation in Society" workshop of Utrecht University, 23-25 May 2022, for very useful comments.

1. Introduction

The debate on the shareholder versus the stakeholder view on the company goes back to the 1930s. Berle, one of Roosevelt's New Deal architects, wanted to include the interests of labour in the control of companies. His mechanism for labour to influence the company was diversified ownership of stocks through savings or pension funds (Berle and Means, 1932). Berle (1931) stressed the disciplining role of shareholders to control company management. By contrast, Dodd (1932) argued that business has obligations to the community, including customers, creditors and employees. At the time, he predicted that 'public opinion will demand a much greater degree of protection to the worker' (Dodd, 1932, p. 1151). In his view, the company should be run in the interests of its stakeholders.

Following the Paris Climate Agreement of 2015 and the EU's Green Deal of 2020, the question arises how the interests of the environment (which we label below as future stakeholders) should be incorporated by a company's board. History repeats itself. Answers range from that business should just follow the legal requirements and not make its own ecological policies (e.g. Bebchuk and Tallarita, 2021; Cornell and Shapiro, 2021) to the recognition of the firm's responsibility to serve its stakeholders (Winter, 2020a; Mayer, 2022). Again, the main arguments of the shareholder proponents are that the government should take care of externalities via regulation (Friedman, 1970) and that the board is accountable to none in the case of multiple goals or masters (Bebchuk and Tallarita, 2021).

The Friedman doctrine has still wide support. But Zingales (2020) shows that two conditions are needed for the Friedman doctrine to hold. The first is that companies do not have market or political power. The second is that companies do not pose externalities or alternatively that the government could address perfectly these externalities through regulation. Both conditions are violated in practice. Large corporations are too big to regulate (Zingales, 2020). Moreover, governments cannot effectively regulate all companies' externalities due to asymmetric information between governments and companies (Shapira and Zingales, 2017).

Analysing the control structure of companies, Tirole (2001) shows that the implementation of the stakeholder model leads to deadlocks in decision-making and a lack of a clear mission for management. The reason for the failure of the stakeholder model is the absence of a measure of the aggregate welfare of the stakeholders (including investors). Tirole (2001) argues that it is harder to measure the firm's contribution to the welfare of employees, of suppliers, or of customers than to measure its profitability. There is no accounting measure of this value, although in some examples one can find imperfect proxies (e.g. the number of layoffs). Moreover, there is no market value of the impact of past and current managerial decisions on the future welfare of stakeholders (i.e. the counterpart of the stock market measurement of the firm's assets).

Recent advances in impact valuation enable companies to measure social and ecological quantities and express these in monetised form using cost-based or welfare-based prices (Serafeim, Zochowski and Downing, 2019; De Adelhart Toorop et al., 2019). The monetisation of the different value components enables aggregation. Building on these impact valuation methods, Schramade, Schoenmaker and De Adelhart Toorop (2022) develop a measure of integrated value, which combines financial, social and ecological value. This

integrated value measure allows managers to balance several types of value (financial, social and ecological) at the same time, which often involves trade-offs. Schramade et al. (2022) derive decision rules that help managers *ex ante* to make investment decisions accordingly. The integrated value measure can also be used to hold managers *ex post* accountable for their decisions.

The contribution of this paper is twofold. First, we develop an integrated model for corporate governance that allows for a systematic inclusion of future stakeholders. Conventional stakeholder models include the interests of direct stakeholders, such as employees and customers, alongside the financial stakeholders (e.g. Freeman, 1984; Magill, Quinzii and Rochet, 2015). More recent models (e.g. Mayer, 2022) argue for the inclusion of ecological concerns (climate change, biodiversity and water scarcity) and wider societal concerns (human rights, precarious work), but that is not always done in a systematic way. Moreover, the incorporation of ecological value implies the inclusion of future stakeholders, representing future generations that bear the consequences of ecological degradation.

Second, we introduce the concept of integrated value, that combines financial, social and ecological value, for decision-making and accountability. This integrated value measure addresses the problem of multiple goals and masters posed by Tirole (2001) and more recently by Bebchuk and Tallarita (2021). The measure provides guidance for decision-making balancing the interests of current and future stakeholders. The measure also allows for the prioritisation of specific types of value (Schramade et al., 2022), in line with a company's purpose (Mayer, 2018). The integrated value measure serves also to hold management accountable.

The paper is organised as follows. Section 2 reviews the main corporate governance models and introduces the integrated model. Next, Section 3 discusses how management can balance the interests of a company's various stakeholders. The integrated value measure provides guidance for balanced decision-making. Section 4 examines the mechanisms to include the interests of the various stakeholders in the board. Finally, Section 5 concludes.

2. Corporate governance models

This section reviews the main corporate governance models. These are the shareholder, stakeholder and integrated model. Table 1 summarises the key characteristics of these models.

The shareholder model

In the shareholder model, the goal of the company is to maximise the value of the company. This is the value of the securities provided by the financiers, i.e. shareholders and creditors. Shareholders are in control of the company, because they are residual, non-contractual claimants (Jensen and Meckling, 1976). They get paid after all contractual claims to other stakeholders, such as creditors, employees, customers, and government, are paid. Shareholders thus maximise financial value FV, after the other stakeholders are satisfied.

The shareholder model is consistent with the argument of Friedman (1970) that '*the business of business is business*'. In this view, it is the task of the government to take care of

social and ecological concerns. Mehrotra and Morck (2017) discuss several challenges to the shareholder view: contractual and business ethics. First, it is difficult to incorporate all possible future circumstances in contracts with stakeholders. Unforeseen circumstances, including externalities, can happen, which give rise to the notion of incomplete contracts (Grossman and Hart, 1986; Hart and Moore, 1990). In these cases where the contract does not provide for, the shareholder interest would override the interests of the other stakeholders in the shareholder model.

Second, business ethics concerns are a final line of defence for stakeholders (Mehrotra and Morck, 2017). Obeying the letter of the law regarding the rights of stakeholders can pit shareholder value maximisation against social welfare. Where externalities are important, a narrow focus on shareholder value can create scope for managers making morally dubious decisions. For example, maximising shareholder value ex ante might justify cutting costs and entertaining acceptably small risks of ecological disasters. Even if such a disaster triggers legal actions that bankrupt the committing company, its shareholders are protected by limited liability and so lose only the value of their shares.

Table 1: Comparing corporate governance models

Dimension	Shareholder model	Stakeholder model	Integrated model
Goal	Shareholder value	Stakeholder value	Integrated value
Optimisation	FV	$STV = FV + SV$	$IV = FV + SV + EV$
Stakeholders	Shareholders	Current stakeholders	Current and future stakeholders
Assumptions	• Shareholder, as residual claimant, 'owns' the company and deserves control • Serving the interests of other stakeholders is instrumental to shareholder value	• Managers act in the interest of the company on behalf of financial and direct stakeholders	• Managers act in the interest of the company on behalf of financial, social and ecological stakeholders
Implications	• Shareholder value provides clear guidance for decision-making and accountability • Social and ecological value considerations come second, if considered at all	• Multiple goals suggest unclear guidance and require balancing rules for decision-making and accountability • Financial and social value considerations incorporated • Ecological value considerations come second, if considered at all	• Multiple goals suggest unclear guidance and require balancing rules for decision-making and accountability • Financial, social and ecological value considerations incorporated

Note: FV = financial value; SV = social value; EV = ecological value; STV = stakeholder value; IV = integrated value.

Such disasters might be discouraged by exposing directors to personal liability should they occur. But directors have usually liability insurance, which limits their personal exposure. Shapira and Zingales (2017) show how a respected company, like DuPont, willingly caused ecological damage by disposing a toxic chemical used in the making of Teflon in its West Virginia Plant. This case was turned into a legal thriller film called Dark Waters. The harmful pollution was a rational decision: under reasonable probabilities of detection, polluting was ex ante optimal from the company's perspective, albeit a very harmful decision from a societal perspective. The DuPont case is an example of how, as Winter (2020a) points out, the modern corporation under this shareholder model has become amoral: the consequences of its conduct towards third parties are irrelevant for decision-making. Shapira and Zingales (2017) examine why different mechanisms of control, like legal liability, regulation and reputation, can all fail to deter socially harmful behaviour. One common reason for the failures of deterrence mechanisms is that the company controls most of the information and its release.

The key question remains how to rank shareholder and other stakeholder interests? Should shareholder interests come first, or should all interests be put on equal footing?

The enlightened shareholder model

Although the shareholder model cannot fully satisfy the interests of stakeholders, there are also problems with the stakeholder model (Tirole, 2001). The manager has to serve all interests. Managers can in that case design their own objective functions and run their company in their own interests (Jensen, 2002). Stakeholder theory thus may leave managers unaccountable, as simultaneously optimising several objectives is difficult to measure and control.

Jensen (2002) argues that shareholder value maximisation is best achieved in practice by catering to all stakeholders – an approach he calls Enlightened Value Maximisation. This view defends stakeholder interests as a means to the end goal of shareholder value maximisation. But Mehrotra and Morck (2017) show that this argument is flawed. It fails to resolve the many situations of clear conflict between the interests of shareholders and different stakeholders. It also fails to value externalities the corporate may inflict on more distant stakeholders, such as the environment.

Nonetheless, Mehrotra and Morck (2017) argue that enlightened value maximisation, or refined shareholder value, may well be the least bad alternative on offer. In contrast to stakeholder theory, the approach has a single roughly measurable objective, refined shareholder value, while explicitly recognising that good relations with stakeholders can boost firm value by easing contracting costs and facilitating surplus creation. Companies put systems in place for energy and emissions management, sustainable purchasing, IT, building and infrastructure to enhanced ecological standards, and all kinds of diversity in employment. The underlying objective of these activities remains economic. Though introducing sustainability into business might generate positive side-effects for some sustainability aspects, the main purpose is to reduce costs and business risks, to improve reputation and attractiveness for new or existing human talent, to respond to new customer demands and segments, and thereby to increase profits, market positions, competitiveness and shareholder value.

Business success is still evaluated from a purely economic point of view and remains focused on serving the business itself and its economic goals (Dyllick and Muff, 2016).

Shareholder value or profit maximisation is still the guiding principle for the organisation, though with some refinements. Jensen (2002) proposes that the company should avoid excessive negative social and ecological impact. Examples of excessive negative impacts are using child labour, unsafe work conditions, and/or heavy pollution in the production process. The problem with this enlightened shareholder maximalisation model is that the interests of other stakeholders are only considered relevant to the extent they are seen as conducive to creating financial value to shareholders. They are not valued as interests to take into account for their own sake that should lead management to not maximise shareholder value. The amoral character of the company continues under the enlightened shareholder value model. This will continue to inhibit that business takes sufficient responsibility for addressing the ecological and societal problems we face.

The stakeholder model

The stakeholder model (Freeman, 1984) states that managers should balance the interests of all stakeholders, which include financial agents (shareholders and debtholders) as well as direct agents (consumers, workers, suppliers). Adopting the stakeholder view, Magill, Quinzii and Rochet (2015) develop a model where a large firm typically faces endogenous risks that may have a significant impact on the workers it employs and the consumers it serves. These risks generate externalities on these stakeholders, which are not internalised by shareholders. As a result, in the competitive equilibrium, there is under-investment in the prevention of these risks.

Magill, Quinzii and Rochet (2015) suggest that this under-investment problem can be alleviated if companies are instructed to maximise the total welfare of their stakeholders rather than shareholder value alone (stakeholder equilibrium). The stakeholder equilibrium can be implemented by introducing new property rights (employee rights and consumer rights) and instructing managers to maximise the stakeholder value STV of the company (the value of these rights plus the shareholder value).

In a setting with three stakeholder groups (consumers, employees and shareholders), Magill, Quinzii and Rochet (2015) show how companies can maximise the total value for the stakeholders – the value to consumers measured by the consumer surplus, the value to employees measured by workers surplus and the value to shareholders measured by profit. The company balances these three values, depending on the weight given to each stakeholder.

Tirole (2001) formulates three problems with serving various stakeholders in the stakeholder model. First, the stakeholder model may reduce pledgeable income (income available for financiers), as cash flows are distributed to various stakeholders. Second, it may lead to a less clear mission and less incentives for managers, as they have to serve multiple masters. Third, divided control among multiple stakeholders may lead to deadlock in decision-making. But Tirole (2001) recognises that the shareholder model has also its shortcomings, such as biased decision-making leaving scope for important externalities.

The debate on a stakeholder model traditionally has focused on stakeholders with a direct relation to the company, i.e. employees, creditors, customers, suppliers. The ecological and social challenges the world faces, however, make clear that a much wider circle of stakeholders is affected by the conduct of companies. In the seminal Shell decision of the District Court of The Hague of May 26, 2021, for example, it was held that Shell would commit a tort towards people in the Netherlands in general and inhabitants of the *Waddengebied* (the coastal and island area of the north of the Netherlands) in particular by not committing to more specific CO_2 reductions. Future stakeholders by definition are also not included in the classical stakeholder model thinking. The ecological and societal challenges we face cannot effectively be addressed if we stick to this classical stakeholder model.

These problems can be addressed by formulating an aggregate measure of value for the various stakeholders, as done in Section 3 below.

The integrated model

While the stakeholder model incorporates only direct social value alongside financial value into the company's objective, it does not deal with ecological and broader social value. Hart and Zingales (2017) make a distinction between shareholder value, which aims for maximisation of financial value only, and shareholder welfare, which incorporates social and ecological externalities. An important assumption in their model is that these externalities are not perfectly separable from production decisions. So, companies face a choice in the degree of sustainability in their business model. The mechanism in the Hart- Zingales model to guide that choice is voting by prosocial shareholders on corporate policy.

Moving to corporate law, Mayer, Strine and Winter (2020) argue that companies should focus on sustainable wealth creation and that the balance between shareholders and stakeholders need to be restored. They recommend for the US context that large companies (with over $ 1 bn of revenues) should become Public Benefit Corporations that should state a public purpose beyond profit maximisation and should fulfil that purpose as part of the responsibilities of their directors and be accountable for it. Winter et al. (2020b) argue for an explicit duty of societal responsibility for directors. The European Commission's recent proposal for a Directive on Corporate Sustainability Due Diligence (2022/0051 COD) takes a similar direction by stating that the Member States must ensure that directors' when fulfilling their duty of care to further the interests of the company take into account the consequences of their decision for sustainability matters, including, where applicable, human rights, climate change and ecological consequences, in the short, medium and long term (Article 25 of the proposal).

These developments raise the question how to balance the interest of the various stakeholders. Schoenmaker and Schramade (2019) introduce integrated value IV, which combines financial, social and ecological value in an integrated way. The company should optimise this integrated value in the interest of current and future stakeholders. The optimisation requires a careful balancing of the three dimensions whereby interconnections and trade-offs are analysed but none should deteriorate in favour of the others (Schramade et al., 2022). Next, the systematic inclusion of future stakeholders, who will face the consequences of (lack of) ecological actions today, ensures that ecological externalities are

incorporated. While the Hart-Zingales model argues that (pro-social) shareholders decide on corporate policy, the Schoenmaker-Schramade integrated model states that the managing board decides on corporate policy and is accountable to all stakeholders. Section 3 deals with decision-making in a multiple stakeholder setting.

A new business language is emerging around 'the integrated value' of the company. Traditional financial reports record assets, liabilities and profits on the basis of only financial and manufactured capitals (financial value). Integrated financial reports broaden this range to six capitals, by adding human, social, intellectual and natural capitals reflecting social and ecological value (Eccles, Krzus and Ribot, 2015).[1] These capitals incorporate the social and ecological externalities and are expressed in money. This single language of integrated reporting enables managers to analyse the trade-offs for decision-making.

3. Balancing interests

The balancing of shareholder and other stakeholder interests is a key question in the reviewed corporate governance models. A company's board has to make a judgement on this balancing of interests in setting corporate strategy, policies and investments. The forming of this judgement is relevant for ex ante decision-making and ex post accountability.

The power of the shareholder model is the single measure of shareholder value which improves decision-making and accountability (Bebchuk and Tallarita, 2021; Cornell and Shapiro, 2021). But it comes at the cost of important externalities, as noted by Tirole (2001). Mayer (2018) and Edmans (2020) show how companies can create long-term value by combining economic (shareholder) and societal (stakeholders) value. Companies operate in a disruptive world where their performance on climate change, consumer trust and employee satisfaction is becoming equally important as their financial performance (Kurznack, Schoenmaker and Schramade, 2021). The balancing of interests for long-term value creation can be done qualitatively and quantitatively.

Qualitative-based judgement

Mayer (2022) argues that directors should act according to the reasons why the company was created and exists and what it is there to do, namely its purposes. These should be the guiding star of the board, not rigid rules of shareholder rights or primacy that trump other interests. It is against those purposes and their associated values that the board's actions and performance should be judged. Directors have the right to act with judgement – business judgement – and in exercising that judgement they should do so in a form that they believe to be appropriate to the circumstances. By making corporate values explicit, corporate purpose makes management accountable for its delivery. Mayer (2022, p. 1876) claims that *'corporate purpose and values make accountability laser sharp'*. He encourages a multiplicity of purposes across companies and competition in models to deliver them in order to stimulate innovation.

[1] Integrated value is related to the capitals approach of the International Integrated Reporting Council (2013), which uses six capitals: financial and manufactured capital (financial value), social and human capital (social value), natural capital (ecological value) and intellectual capital (all three values).

A different approach is taken by Edmans (2020). He develops principles of multiplication, comparative advantage, and materiality, which also do not rely on calculations. Edmans (2020, p.61) stresses that *'value is only created when an enterprise uses resources to deliver more value than they could do elsewhere – the social benefits exceed the social opportunity costs'*. The three interrelated principles should guide a manager's judgement to deliver value in complex situations with multiple stakeholders. The principle of multiplication ensures that the social benefits exceeds the private costs, which is an easy hurdle to pass. The principle of comparative advantage requires the company to deliver more value than other companies with an activity. Finally, the principle of materiality asks whether the stakeholders that the activity benefits are material to the company. The combined application of these principles makes it likely that the activity creates profits through creating value for society.

The common element of these qualitative approaches is that a company should - in accordance with its purpose - deliver value to its main stakeholders. Both Mayer (2022) and Edmans (2020) argue that is not only difficult or impossible to forecast the monetary effect on each stakeholder, but also difficult to weight the different stakeholders. So, you cannot measure overall societal value. That still leaves the problem of holding management accountable to its multiple stakeholders (Tirole, 2001; Bebchuk and Tallarita, 2021).

It is important to distinguish two different aspects of being held accountable. The first is under what circumstances a court may hold that the directors have breached their duties and impose liability for damages. Common law courts typically uphold the Business Judgement Rule, which bars courts from second guessing decisions of a board made in the normal course of running a business. This allows managers to hold their decisions to a 'reasonable man' standard. If a reasonable man might have done the same in their place, the managers may not be second-guessed. Company law in civil law regimes typically hold directors to similar standards of what can be expected of qualified directors acting reasonably in similar circumstances. Both approaches allow for a margin of discretion to make judgements. Only if the margin is transgressed and no reasonable director would have acted in the way the director has, courts are likely to impose liability on directors. Courts have developed various concepts, such as reasonability, proportionality and procedural fairness that guide them on whether and to what extent they should hold directors liable for the company's conduct (Winter 2020a). This prevents directors from being held liable merely because some stakeholder would have favoured another decision.

The second aspect of accountability is the judgement of whether directors have performed well, have taken the best possible decision and have not succumbed to comfortable managerial slack as there is no clear measure to indicate what an optimal decision would be.

Integrated measure

To address this second accountability challenge, an integrated measure that captures overall societal value can be helpful. Schramade, Schoenmaker and De Adelhart Toorop (2022) develop an integrated value measure that combines financial, social and ecological value. Recent developments in impact valuation enable companies to not only measure or forecast social and ecological quantities, but also to express these in monetised form (Serafeim,

Zochowski and Downing, 2019; De Adelhart Toorop et al., 2019). At the moment, these cost-based or welfare-based assessments of social and ecological value are typically less robust than those of financial value. But innovations in technology (measurement, information technology, data management) and science (life cycle analyses, social life cycle analyses, ecological extended input-output analysis, ecological economics) make the quantification and monetisation of social and ecological impacts increasingly possible.

The next question is how to steer on this integrated value measure. Schramade et al. (2022) design decision rules for corporate investment and valuation. The balancing of positive and negative values across the financial, social and ecological domains is a key element of these decision rules. Just summing of positives and negatives allows for the netting of financial, social and ecological values. Imbalances in the social and/or ecological dimension can then continue to build up, as is currently happening. The other extreme, no netting, is very restrictive. Any negative value should then be avoided, which may lead to a standstill of corporate investments. Schramade et al. (2022) suggest to take the middle ground, whereby negative values get a higher weight than positive values. Companies thus have an incentive to reduce negative (social and ecological) values. A credible transition pathway back to positive on the problematic value dimension(s) is then a main focus of management.

A second element of the decision rules is the weighting across the value dimensions. While shareholder driven companies only value the financial dimension, companies that pursue long-term value creation also give a positive weight to the social and ecological dimensions. The model allows companies to choose their degree of sustainability: from moderate (weight of half) and equal weights (weight of one) to purposeful (higher weights for the social and ecological dimensions than for the financial dimension). While the majority of companies may apply moderate or equal weights, purposeful companies act as frontrunners in the return to operating within social and planetary boundaries. Companies can then prioritise specific types of value, in line with their purpose (Mayer, 2018).

Following Schramade et al. (2022), these decision rules can be formalised in an integrated value measure IV as follows:

$$IV = \{FV^{+} + \beta \cdot SV^{+} + \gamma \cdot EV^{+}\} + \delta * \{FV^{-} + \beta \cdot SV^{-} + \gamma \cdot EV^{-}\} \quad \text{with } \delta > 1 \qquad (1)$$

Whereby $FV, SV \text{ and } EV$ represent the financial, social and ecological value. The superscript +/- stands for a positive/negative value respectively. $\beta \text{ and } \gamma$ are the weightings for the social and ecological value dimensions, and δ reflects the higher weighting of negative values.

These decision rules acknowledge the interrelations between the different types of values and allow a structured balancing of stakeholder interests. By setting the parameters ($\beta, \gamma \text{ and } \delta$) of the decision rules for calculating integrated value in advance, management can be held accountable on delivery of integrated value (IV) against these rules. See Schoenmaker and Schramade (2023) for applications of the integrated value measure.

It should be acknowledged that the integrated value measure is not absolute. Not every aspect of various stakeholder interests, including interests of future generations, can be measured and monetised. But applying an integrated value measure may provide useful and necessary guidance for boards in their decision-making by counterbalancing the bias to

prioritise the clearly measurable financial value. This helps board to widen the scope of their concerns and thus to explicitly balance the various interests for which they are responsible.

4. Mechanisms

There are several mechanisms to include the interests of the various stakeholders in board decision-making. Formal stakeholder models, such as co-determination (under which employees and possibly other groups elect directors along with shareholders), typically focus on the particular interests of the involved stakeholder groups rather than the general interest of the company. Moreover, the scope and number of stakeholders evolve over time, while formal mechanisms are static.

One could start by formulating formal board mandates for sustainability at the company level. These formal board mandates can be incorporated in the company's charter or bylaws (Ramani and Ward, 2019). The European Commission's proposal to include sustainability in the directors' duty of care has the same effect (see proposal for a Directive on Corporate Sustainability Due Diligence (2022/0051 COD)). Such mandates make sustainability an explicit board priority and facilitate board sustainability oversight. To make it work, boards have to disclose whether boards and management discuss sustainability during board meetings. Boards can then work with management to identify specific social and ecological priorities for the company, include them in the company's strategy and assess their impact on the company's long-term value. In terms of our model, boards have to set the parameters $(\beta, \gamma, \text{and } \delta)$ for the integrated value. Under the proposed EU Corporate Sustainability Reporting Directive (2021/0104 COD) boards will have to disclose the outcomes and specific results in a wide range of sustainability matters.

The composition of a board and the expertise of its members are also relevant. Coffee (2020) argues for broadly representative and diverse boards that are sensitive to the company's impact on society. Such broad and diverse boards are not only diverse on gender, ethnic and age characteristics, but also on expertise. Without directors with the proper expertise, boards do not possess the collective skillset and background to examine the impacts of complex social and ecological issues on corporate strategy. However, international evidence shows that less than 5 per cent of executive and non-executive role specifications require sustainability experience or a sustainability mindset (Reus, 2018; Sørensen and Handcock, 2020). This seems a missed opportunity for companies in their pursuit of broader stakeholder interests. Winter (2020a) proposes boards to work with an X-team model. An X-board consists of a core group of members that comprise the formal board and additional members that can advise on specific (sustainability) matters. Additional members could be advisory members of the board who would not share in the collective responsibility of the full board. This could speed up the increase in knowledge that is available in boards without overcrowding boards with members for each specific topic.

To foster accountability, a company can establish a stakeholder council with the relevant stakeholders. The board would at least once a year discuss the sustainability performance of the company. The board can also consult the stakeholder council on important decisions, with societal impact. To promote transparency, the stakeholder council reports

annually about its activities and advice in the company's integrated annual report. Winter et al. (2021) have proposed to include the setting up of stakeholder council as a best practice in the Dutch Corporate Governance Code. A challenge is to include not only current stakeholders, but also future stakeholders. An interesting mechanism, developed in Japanese local politics, is Future Design (Saijo, 2020). Future design aims to solve the dilemma between current stakeholders, who bear the cost of long-term investment, and future stakeholders, who reap the benefits.

The idea of future design is simple. If there is no one to protect the interests of future generations, then designate people to take on the role of future generations and have them stand in for future generations. This is the same reasoning as role-playing scenarios used frequently in, for example, war games. Saijo (2020) calls these people who are to take on the role of future generations the 'imaginary future generation' or 'imaginary future persons'. People, when they become an 'imaginary future generation' really change their lines of thought and points of view, becoming clearly aware of the interests of future generations. As a result, they actually think and act in the interest of future generations.

Finally, incentive mechanisms play also a role. While variable executive pay is mainly related to financial performance, companies are starting to include sustainability targets in executive remuneration. Using an international sample of ISS Executive Compensation Analytics, Ormazabal et al. (2022) show that the adoption of sustainability metrics in executive compensation contracts is rising fast: from 1% in 2011 to 38% in 2021. They also find that adoption of sustainability variables in managerial performance is accompanied by improvements in sustainability performance and meaningful changes in the compensation of executives. Linking executive compensation to sustainability goals helps boards to make management accountable for sustainability performance (Ramani and Ward, 2019). The EU proposal for a Directive on Corporate Sustainability Due Diligence (2022/0051 COD) mandates the obligation to adopt a plan to ensure that the strategy and business model of the company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5°C when setting variable remuneration (Article 15 of the proposed Directive). Another incentive mechanism is deferral of variable compensation, for example by up to 3, 5 or 7 years. Such deferral helps to align executives' interests with the long-term interests of their company. The deferral of bonuses means they can be forfeited if evidence emerges of unexpectedly poor financial, social or ecological performance by the executive, their team or the company overall.

5. Conclusions

This paper moves the corporate governance debate beyond the shareholder and stakeholder model. To address the societal and ecological challenges, the debate has to be shifted beyond the inner circle of shareholders and other direct stakeholders (employees, customers, creditors). Broader society and future stakeholders are also affected by the company's conduct through ecological damage (e.g. climate change) and social damage (e.g. human rights violations or underpayment in the value chain).

Such a broad remit for corporate governance requires mechanisms to balance the interests of all these stakeholders. This paper presents an integrated measure for corporate value, that includes financial, social and ecological value. The board can use this integrated value measure to balance the interests of the various stakeholders in a structured way. The integrated value measure can also be used to hold the board accountable for its decisions. By taking its moral responsibility in society, the company's board can ensure that the company retains its social license to operate.

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