

**UNIVERSITY OF VAASA
THE SCHOOL OF MANAGEMENT**

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The corporate objective

Meta-synthesis of legal, economic and managerial literatures on the shareholder value
maximization as a corporate objective

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ABSTRACT

Social science usually strives to maximize the social welfare and economics as a science influencing in the society should strive to maximize the social welfare in the economy. Capitalism and the corporate form of business are among the most influential innovations ever made by the humankind, simply because they determine how the scarce resources of our planet Earth are allocated. Many publicly listed corporations are governed through the shareholder value maximization theory which claims to maximize the social welfare when the shareholder value is maximized. The question that remains unanswered is how social welfare becomes maximized when the shareholder value becomes maximized and why the scholars and practitioners are unable to conclude what should be the corporate objective?

Articles from six major databases are systematically collected and reviewed to examine the viability of the shareholder value maximization as a corporate objective. In total of 68 articles were systematically retrieved. Theoretical sampling is employed to elaborate the depth and quality of the synthesis. The goal is to introduce ideas, historical pathways, logics, inconsistencies and misunderstandings to provoke further investigation and discussion. The central objective of the thesis is to either justify the shareholder value maximization as a corporate objective or to refute its position as such.

Results suggest that all existing arguments for the shareholder value maximization can be either deduced to the utilitarian logic or dismissed as irrelevant. The only viable justification for the corporate objective is that it increases social welfare in the utilitarian sense. The thesis provides a timeline and synthesizing graphical presentation of the typology of the shareholder value maximization. The typology and the timeline are unprecedented contributions. The timeline helps to connect different data points to the shareholder value maximization.

The overarching conclusion is that market failures and externalities are significantly weakening the possibilities of the shareholder value maximization to successfully maximize the social welfare. However, shareholder value maximization might still be the best alternative providing the closest approximate of the maximum social welfare.

KEYWORDS: Shareholder value maximization, corporate objective, corporate governance, agency theory, stakeholder

1. INTRODUCTION

“Few people, and least of all we economists ourselves, are prone to offer us congratulations on our intellectual achievements.” Schumpeter (1954:5)

It seems to be undeniably true that most of the economists are offering congratulations for themselves on the intellectual achievement called capitalism. *We have gone to war in defense of our capitalistic and economic theories.* Democratic capitalism is creating wealth in a way that no other system has (World bank 2019; Credit Suisse 2019). This kind of unprecedented prosperity invokes questions about how to equally distribute created wealth within the society and whether there are limits to sustainable growth (e.g. Piketty and Saez 2003)? The contemporary solution for controlling these issues in a democratic capitalism functions through corporate governance mechanism. This seems to be true because corporations are the source of this increased wealth and prosperity in a society.

One of the key areas in corporate governance research is revolving around the corporate objective which is also the general topic of this literature review. Corporate life and corporate strategies are controlled and shaped by the corporate governance system which in turn is shaped and created by the economic science and government regulation (Rappaport 1986; Jensen 2001; Stout 2008; Monks and Minow 2011; Bower and Paine 2017). The shareholder value maximization theory is currently dominating corporate governance system and a culmination of capitalistic and democratic thinking and economic science – the shareholder value maximization theory is a manifest of two hundred years of economic research (see Jensen 2001; Smith 1776). According to the shareholder value maximization theory, a manager should make all the decisions so that they ultimately strive to maximize the total value of the firm and the total value of the firm is often measured with the share price (Jensen 2001; Sundaram and Inkpen 2004a).

“The ultimate test of corporate strategy, the only reliable measure, is whether it creates economic value for shareholders.” -Alfred Rappaport (1986)

The shareholder value maximization theory might have created enormous amounts of wealth for the society, but also conflicts and dispute persists (e.g. Dowie 1977; Ghoshal 2005; Markham 2015; Bower and Paine 2017; Clarke, Jarvis and Gholamshahi 2018). Evidently, short-termism, errors and plainly bad corporate behavior within the economy

exist. Yet, it is questionable whether the negative consequences – misbehaving companies and faulty corporate governance mechanisms – are the causal result of a bad or malfunctioning theory. Another possibility is that the negative corporate events are present because the theory is merely misused to justify doubtful actions or that the shareholder value maximization theory is not at all applied by management. The third option is that the theory is unintentionally misinterpreted. No matter which the case is, it should be revealed and fixed.

The influence of the shareholder value maximization for the economy – either negative or positive – is presumably beyond description. During the recent years, however, the shareholder value maximization theory has been under public attack both academically and politically. Put roughly, the public dispute in the news media is about juxtaposing profits and morals while the exactly similar alignment to two camps in academia is reframed to being about shareholders versus stakeholders. Whose interests should be acknowledged in running a corporation? The issue of the corporate governance is not isolated into the boardrooms of large corporations – it is the issue of interest for a much larger group of stakeholders – it is the issue of citizens.

The shareholder value maximization theory has been attacked in the news media for example by Nocera (2012) and Stout (2015) in *The New York Times*, by Galston (2014) in *The Wall Street Journal*, by Denning (2017) in *The Forbes* and by Cossin (2011) in *The Financial Times*. The result of this literature review clearly indicates that academically the interest towards the theory has been steadily increasing since the 1970s and since the development of the explicit shareholder value theory. In the public media there are many attackers but quite few public defenders for the shareholder value maximization theory but in the academic discourse there are also fierce defenders for the theory. For example Friedman (1970), Jensen and Meckling (1976), Rappaport (1986, 2006), Jensen (2001) and Sundaram and Inkpen (2004a, 2004b) are significant contributors academically defending the theory. Academic writers who directly pose criticism over the shareholder value maximization include for example Lazonick and O’Sullivan (2000), Lazonick (2012) Stout (2002, 2008, 2013) and Bower and Paine (2017). In addition, all authors writing about the stakeholder theory – such as Donaldson and Preston (1995) and Freeman, Harrison, Wicks, Parmar & DeColle (2011), are sometimes counted as direct opposition to prevailing shareholder value maximization theory.

Maybe most notably, the former chief executive officer of the General Electric and a man who were once titled as the ‘father of the shareholder value’ told to *Financial Times* that

“... shareholder value maximization is the dumbest idea in the world” and that “shareholder value is a result, not a strategy ... your main constituencies are your employees, your customers and your products.” – Jack Welch (2009)

The title of the father of the shareholder value maximization was addressed to Jack Welch because he gave a speech in 1981 where he applauded the goals of profit and dividend increases and many believe that other chief executive officers picked that up and shaped their own management objectives accordingly (Welch 2009). What is this all about? Naturally, if current practices do not work, they should be discussed and altered. However, to label contemporary corporate governance system being the dumbest idea in the world is quite dramatic statement. Our textbooks do not argue for the shareholder value maximization, they announce it (e.g. Brealey, Myers and Allen 2008). So how is the shareholder value maximization justified or is the whole science of economics and capitalistic societies misled by the dumbest idea in the world?

The challenging goal of this literature review is to review and synthesize significant academic literature revolving around the shareholder value maximization theory within quite limited number of pages. The focus of the review will be in tracing the logics behind the theory and in tracing how the arguments and the theory developed over the years and from where did the theory originate. Comprehensive academic literature reviews covering this issue do not exist and clear conflicts in the views of both practitioners and academics requires an analysis of what really happened. Is the shareholder value maximization a bad theory or is it merely misunderstood and hence misused?

It would be helpful to remain the focus in the fact that the capitalism itself, the related institutions and the related theories are all designed by humans and that they are innovations of a mankind. Capitalism and related theories are innovations of economists rather than Truths or underlying meta-ideologies inherently attached to the correct form of humanity or living. While the Truths are static, innovations of economists can be altered. Good case could be made that the theories of economists *should* be altered whenever problems are encountered – refutation of a hypothesis is precisely the foundation of science.

1.1. Setting the stage

The shareholder value maximization theory holds that because the shareholders are the residual claimants of the corporation, the corporation should be run so as to maximize the value of the shareholders (Easterbrook and Fischel 1983). The current model for the corporate governance is to govern for the shareholders and for the capital markets. The current model dictates that appropriate model for distributing corporate wealth is to distribute it to shareholders as they are the residual claimants of the corporation (Sundaram and Inkpen 2004a). Furthermore, the shareholder value maximization theory is used as a normative guide in managerial decision making, implying, that managers should make all the decisions so as to maximize the shareholder value (Rappaport 1986; Jensen 2001). This theory is labeled as shareholder value maximization theory, shareholder wealth maximization or simply as shareholder primacy. In short, the shareholder value maximization theory is used as a corporate *objective*.

In the context of corporate governance, a corporation is defined and characterized by few important features which are; limited liability of the owners of the corporation; proportional and dispersed ownership based on shares that are traded without constraint; and the recognition of a corporation being a legal entity (e.g. Stout 2002, 2008, 2013; Monks and Minow 2011). As such, the corporation is among the most influential ideas of human beings so far, and a fundamental cornerstone of the capitalistic and democratic society. The corporation form of business allows the separation of ownership and management which is known as an agency-based system or – as they say in economics research – as an agency *problem* (Jensen and Meckling 1976; Berle and Means 1932). Without the agency theory the shareholder value maximization theory would fall apart because it is the agency theory that assigns the powers of ownership to the shareholding institution and position of an agent to the management and board of directors.

In principle, agency setting allows any individual to establish a corporation of a reasonable size regardless of the initial wealth of an individual because through the capital markets it is possible to accumulate necessary capital. Agency setting also allows shareholders to diversify their holdings as they are not required to take part – or responsibility – in day-to-day management of corporations as the management acts as shareholder's agent and the corporate board of directors elected by the shareholders is keeping managers in discipline. Shareholders are also able to alter their investment positions through efficient capital markets and to invest more to the corporation or withdraw their entire position in the corporation and reinvest to another. The shareholder value maximization theory is guiding how these agency-based limited liability corporations are operating in many modern capitalistic economies, most of all the

shareholder value maximization is dominant in the US and UK. (Clarke, Jarvis and Gholamshahi 2018; Bower and Paine 2017; Brealey et al 2008; Stout 2008; Sundaram and Inkpen 2004a; Jensen 2001; Lazonick and O'Sullivan 2000; Friedman 1970.)

While the capitalism and shareholder value maximization are creating rising amounts of wealth through corporate form of business which is characterized by agency-based management and ownership, they are creating also rising concerns over the Planet Earth's capacity to endure this economic prosperity and ever accelerating growth. Rising are the concerns over inequality, destruction of natural resources, poverty, conflicts, concentrating capital, financialization, erosion of the middle-class, financial instability, exploitation of weaker, short-termism and trade wars to mention few that springs to mind (see e.g. Clarke et al 2018; Davis 2018; World Bank 2018a; Clarke, Jarvis, Gholamshahi 2018; Lazonick 2012; Piketty and Saez 2003). What is undeniably true is that the quality of our lives and the state of our planet are both strongly related and intertwined with actions of these corporations. The claim should not need more justifications than the notion that the corporations do control most of the world's resources and what they do with them is crucial for the health of the planet.

In the capitalistic economies of the US and UK, the shareholder value maximization is used to distribute corporate wealth and more importantly, the shareholder value maximization is used to determine corporate strategies and managerial decisions (e.g. Brealey et al 2008; Rappaport 2006; Jensen 2001; Lazonick and O'Sullivan 2000). In essence then, the shareholder value maximization theory is used to allocate resources that corporations own and hence, the shareholder value maximization will determine much of the future health of our planet and the state of the equality and welfare in the society that we live in. In financial literature the resource allocation is simple; investments of resources are made as long as they yield more than the initial investment requires. Put more academically, corporations should invest if a project's net present value is positive. Positive net present value is increasing cash flows and cash flows are driving the shareholder value and the share price (Brealey et al 2008). So, strictly interpreted the idea that is driving the resource allocation is totally amoral or neglecting all moral judgment in this clearly moral decision of where to invest and why? This apparent lack of moral and ethics is one of the focal points of interests in the thesis. What is the future outlook of the society if maximum share price is the main determinant of how resources are allocated and used?

The shareholder value maximization theory is regularly justified with general utilitarian logic which is common to many economic and other social science theories (Jensen 2001; Sundaram and Inkpen 2004a; Jones and Felps 2013). Utilitarianism is a moral choice and requires moral judgement. That is, the shareholder value maximization is justified to be the corporate objective because that objective creates maximum wealth and well-being for the whole society and not just for the shareholders. In terms of how economists articulate; shareholder value maximization as a corporate objective is accepted and correct because it increases the size of the pie for all (e.g. Sundaram and Inkpen 2004a). This thesis is simply asking the question how so? which is – surprisingly enough – not asked as often as one would imagine when the matter is as important as the corporate objective. To answer the question, historical analysis of the shareholder value maximization is needed. The opening quote of the thesis was from the Schumpeter's (1954:5) seminal book *history of economic analysis* and he continues;

“...much more than in, say, physics is it true in economics that modern problems, methods, and results cannot be fully understood without some knowledge of how economists have come to reason as they do.”

According to the careful literature synthesis, the economic roots of the shareholder value maximization can be found from Adam Smith's (1776) work and legal foundations are established in the US and UK during the 19th century. More recently the shareholder value maximization theory springs from the neoclassical desire for profit maximization (e.g. Weintraub 2008). Capitalistic democracy has altered the way corporations are owned and managed. Still on the 19th century management was clearly based on technocratic professionalism and corporations were founded and managed to serve the society and some higher cause, to build a railroad for example (e.g. Clarke et al 2018:2; Monks and Minow 2011). The separation of the ownership and management suggests that not only owners can be managers but in general anyone could be a top-manager or a director. Similarly, anyone who is willing to invest a small amount of money could be owner. As one would expect, the direct consequence is a need for a measurable goal that is understandable without managerial professionalism or talent and that is visible from the outside of the corporation. The resulting measure is the shareholder value and maximization of it is the objective of managers of this new democratic regime of management. This would be labeled as democratization of management – a phenomenon to which the shareholder value maximization was essential.

According to the shareholder value maximization theory, corporations should maximize the value of the shareholders because shareholders are the residual claimants and hence

they are the only group of stakeholders that are willing to take enough risks to actually increase the size of the pie for everyone (Sundaram and Inkpen 2004a). Through intuitive sense of justice and through the common sense, it would be very attractive to argue that many stakeholders, other than the shareholders, actually hold more meaningful stakes in the corporation and therefore the maximization of shareholder value is not justified and it may appear to be even quite dubious idea. For example, employees invest their time and they take responsibilities in the corporation and furthermore, their livelihoods and pensions are depending from the corporation's success whereas the shareholders invest only a small fraction of their capital to the corporation with no responsibilities whatsoever and shareholders may easily withdraw their stakes in the corporation at any given time. Because of this intuitive or purported injustice, an alternative theory for the corporate governance model and for the corporate objective is available.

The contestant is labeled as the stakeholder theory (Donaldson and Preston 1995; Freeman, Harrison, Wicks, Parmar & DeColle 2011). Shareholder theory recognizes only one goal for the company; to maximize the value of its shareholders. Stakeholder theory is representing the other extreme calling for managers to take into account all stakeholders of the company including employees, society and customers for instance (Jensen 2001; Freeman et al 2011). The debate has been going on actively for over 100 years even though the goal of every single debater seems to be *to increase the overall social welfare*. Scholars are unable to conclude what corporate governance mechanism or corporate objective will lead to the increased welfare (Jensen 2001:302; Sundaram and Inkpen 2004; Freeman et al 2011). The disagreement between the two – the stakeholder theory and the shareholder value maximization theory – is striking. For the others, the shareholder value maximization theory is momentous as the Hippocratic Oath is for doctors (e.g. Jensen 2001:299) while for the others, it is the sole source of the pain and agony in the economy and the society (e.g. Lazonick and O'Sullivan 2000). The debate between shareholder and stakeholder is about juxtaposition of profits and ethics, of share and stake, of profitability and responsibility – if put shortly, it is about a dichotomy of good and evil and it is framed similarly as Hollywood movies and classic philosophical problems from 2500 years ago (see Ribstein 2012; Lewis 2011). This thesis will not take stances in this debate since it would not be fruitful – most likely there would be nothing to add to this vast and problematic body of literature. The thesis strives to objectively assess the shareholder value maximization as a corporate objective and its history and evolution to current dominance.

Depicted juxtaposition or dichotomization often arouses big emotions and unnecessarily obscure things and thinking. Indeed, the public and academic debate over the issue is quite often misaligned to consider which parties should benefit and how much from the results of the business and whose interests – shareholders' or someone else's – are the most important and should be fulfilled before and over the others (Bower & Paine 2017; Freeman 2011; Sundaram and Inkpen 2004a; Lazonick et al 2000; Friedman 1970). Academics forget the point, which was not the battle of stakeholder groups, but to develop functioning theory for corporate governance that uses solid logic in maximizing the social welfare and simultaneously survives moral and ethical examination.

The issue is normative and logical rather than empirical. Hence, typical for the academic papers connected to area is that they are rather rational constructs or normative essays rather than empirical analyses or positive and descriptive studies (e.g. Jensen and Meckling 1976; Jensen 2001; Jones and Felps 2013). In addition to stakeholder theory, the inconsistencies and intuitive injustice of the shareholder value maximization have aroused vast stream of literature considering corporate social responsibility to counter the shareholder maximization (Aguinis and Glavas 2012). Yet another stream that has received large part of the interest is striving to align shareholder interests with management's interests (Jensen and Murphy 1990). This aligning stream is reinforced by regulative interests. Inequality, wealth distribution problems and physical resource allocation problems are rarely connected with shareholder value maximization (see Clarke et al 2018.). The stream that according to this research do not exist is the stream that would examine the link between maximum social welfare and the shareholder value maximization theory (see Jones and Felps 2013).

1.2. Research gap

As a topic of interest, whether you are a manager, policy maker or researcher, the purpose of a corporation in itself is such a jungle that if you would like to read about the topic, you would be swamped to a methodological, ideological and philosophical chaos. There are no comprehensive systematic literature reviews on this issue published in major economic publications. Few can be found among the grey literature and for example paper from Sundaram and Inkpen (2004a) is a literature review but not as comprehensive as one would hope, and it is not systematical.

No one seems to know exactly from where and how the shareholder value maximization came and when – apparently the shareholder value maximization is an idea that *encroached* as Keynes (1936:383) put it. Scholars have different views, and many begin the analysis with Milton Friedman's (1970) article while some are crediting Adam Smith (1776) while in the news articles the credit is given to Jack Welch (Welch 2009). One rationale for this literature review is that the theory of such influence and dominance as the shareholder value maximization theory is, should be something like grounded formal theory (Kearney 1998). Grounded in the sense that theory wishing to set purposes and objectives of corporations should be grounded in somewhere – in what people and society desire or at least in what science and research shows. Formal in the sense that it is general abstraction of corporate goal regardless of a context.

The thesis was intended to be an empirical test of the shareholder value maximization in Finnish context, but in the course of reading about 20 articles on this issue from accepting and refuting perspectives, not one author explained the roots of the theory or explicitly and adequately analyzed the link between maximum social welfare and maximum share price which is the core argument in justifying the shareholder value maximization (see Jones and Felps 2013). In other words, science seemed illogical and the shareholder value maximization seemed to be unjustified theory that is taken as given. Best elaboration of the link is found from Jensen (2001) but it is still shallow as he for example dismisses the critics of exploitation by one citation and leaves untouched the criticism for classic economic theories to which the shareholder value maximization certainly is vulnerable.

It is not acceptable that corporate objective is determined by a theory that uses obscure logics – it should be obvious to every manager that why I am now deciding the way I am deciding. Corporate objective cannot be determined by a theory that unintentionally encroached upon us without no one noticing and arguing for it. "It is the way it is because it has always been" is not good enough justification. The theory through which we allocate our resources must be logically rock solid and under conscious control. The corporate governance system should be morally and ethically justified. The claimed amorality of the shareholder value maximization theory is clearly a false argument as the choice of using the shareholder value maximization for making business decisions is in itself a moral choice made through moral judgement. It seems that there are very few topics crying for a literature review as badly as the debate revolving around the shareholder value maximization and the corporate objective.

“The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist.” (Keynes 1936:383)

The thesis does not follow the general lines of the debate over the issue which is often constructed as being between the stakeholder theory and the shareholder theory. In practice such an arrangement of the problem has led to discussion about the question of *with whose preferences in mind should companies be run?* The debate then gets lost into the jungle of ethics and it becomes reflections on why some social group should be more privileged than the others and how such thinking could be justified, or the discussion turns into listings of pros and cons of the two rivaling theories presented as a proof in favor or against for one or the other.

It seems that everyone’s best interest or intention is in creating more welfare and prosperity for all parties participating in business and there is no conflict whatsoever. The issue though, seems to be that some scholars are worried about that the current corporate governance mechanisms somehow prevent increasement or maximization of social and economic well-being (Freeman, Harrison, Wicks, Parmar & De Colle 2011; Jensen 2001).

1.3. The purpose

What should we – as thinking, feeling, learning, caring, self-aware, remembering, forgetful, aspiring, fallible, and social human beings – try to accomplish in and around the business world? (Gilbert 1996:viii)

The above question posed by Gilbert (1996) resonates through every single page of this thesis and roughly the purpose of the thesis is to address this question. The purpose of this thesis is threefold, as there is practical purpose, theoretical purpose and methodological purpose. In general, the purpose is to write, structure and examine critically the ontology (‘the reason for being’) of the shareholder value maximization theory and to provoke thinking and discussion. This sort of critical ontological analysis considering the shareholder value maximization theory is only rarely provided as the shareholder value maximization is often thought as morally neutral (i.e. amoral) way of making business decisions (see e.g. Dobson 1999:70). The examination of the shareholder value maximization literature provided by this literature review was unable to detect any

comprehensive attempts to critically examine the ontology of the shareholder value maximization. From where did it come from and why – why does it exist?

The shareholder value maximization is grounded in the idea about world where every human being is a selfish agent competitively seeking their own advantage within the free and competitive economy and so guided by the invisible hand the economy and the society will achieve higher good measured by utilitarian logic (Sundaram and Inkpen 2004a; Dobson 1999; Friedman 1970; Jensen and Meckling 1976; Smith 1776). The invisible hand exempts management from the morals and from doing moral decisions and moral self-examination. People, however, are inseparably moral beings and people, rather than corporations, make the decisions. Therefore, it is essential to exhaustively write and document the ontology of the shareholder value maximization theory – the justification of existence of the shareholder value maximization theory.

According to the shareholder value maximization logic, if managers only react to the signals from consumers and from financial markets, they are not doing, and they are not required to do any moral judgement (e.g. Friedman 1970; Dobson 1999). For example, if a beverage corporation is causing pollution by not recycling bottles adequately, the consumers can choose not to buy the products from this corporation which then sends a signal to the managers of the corporation. The investors may choose to withdraw their investments from the corporation. The manager of the beverage corporation then enhances the recycling processes because the manager received a signal of decreasing sales and decreasing share price. When the recycling process is enhanced the manager of the beverage corporation receives another signal from the financial markets and from the product markets which shows rising sales and investments. The decisions are made only based on the market signals, not based on any moral judgement. So became the morals vanished from the shareholder value maximization theory and from the financial economics.

The argument is, however, that the decision to make business decisions based on the shareholder value maximization theory is moral and ethical decision involved with moral judgement. The manager of the beverage corporation might have chosen otherwise, the manager might have chosen to use the stakeholder theory instead. It could be that many managers and directors do not actually make this decision, but they should. By doing business decisions based on the shareholder value maximization theory manager implies indirectly that the theory is accepted. This pre-decision for how to do decisions opens the shareholder value maximization theory for moral criticism and scrutiny. Basically, the

shareholder value maximization theory implies that the party that has the most influence over the share price will be listened; in the above example it would be consumers appreciating recycling. Dobson (1999:71) argues that the shareholder value maximization is only a narrow moral position and a subset of subset of subset of all possible moral positions;

“to choose shareholder wealth maximization is to choose a specific moral context within the broader context of utilitarian moral philosophy. Utilitarianism, in turn, is simply one context or ethical determinant within the broader context of modernist philosophy. Modernist philosophy is simply one ethical determinant within yet broader contexts. Indeed, only when one steps outside this modernist context does one realize that such concepts as cost-benefit analysis, means-end reasoning, and individualism are all ethical determinants among other possible ethical determinants.” (Dobson 1999:71)

Put shortly, the shareholder value maximization is not amoral in any way and therefore ontology of the shareholder value maximization theory can be questioned. The purposes of the thesis can be described as follows:

- (1) The practical purpose of the paper is to address to the managers’ question; ‘should I manage so as to maximize the shareholder value?’ or ‘should I create my strategy so as to maximize the shareholder value?’ or rather ‘can I go with this conventional shareholder value maximization theory or should I consider something else, are there legal and economic premises in place that support the shareholder value maximization theory?’ This practical purpose comes as a byproduct of theoretical and methodological purpose.
- (2) The theoretical purpose is to follow argumentative lines of the shareholder value maximization to the very roots and abductively conclude whether the shareholder value maximization is to blame for malfunctions of corporate life and capitalist societies. Another, rather tangential purpose is to describe the evolution and the history of the shareholder value maximization – to describe how the arguments for current model for corporate governance evolved throughout the history of economic research. Put shortly, the objective is to examine the ontology of the shareholder value maximization.
- (3) The methodological purpose is to examine applicability of meta-synthesis in the field of management and economic literature. The meta-synthesis could assist in

reducing the relevance gap between management science and practice (Tranfield, Denyer and Smart 2003).

While described general lines of the discussion (stake v. share) might be useful in some contexts, it does not answer to the more fundamental questions of *why* companies are misbehaving and *why* the shareholder value maximization theory has run into difficulties or *how* it achieved the dominant position in the first place. The solution is not to choose between shareholder and all stakeholders, rather, the solution would be to more accurately or adequately understand the behavior of human beings and collections of the human beings (such as a firm), which, in essence, would be developing a descriptive positive theory of the world for economics. This can be stated simply because the stakeholder theory (which is practically the only offered alternative) is not free from the exact same faults that are built into the shareholder value maximization theory. Take the short-termism as an example, it is quite safe to argue that managers will not suddenly transform to be more rational in making business decisions if the goal of ‘maximizing shareholder value’ becomes replaced with the goal of ‘creating as much value as possible for stakeholders’. Problems in the practice or in the theory, are not solved by changing privileged group to another or to multiple groups or disputing over different priorities. It is – altogether – not rewarding nor productive to arrange the thesis around the issue of which party should be more acknowledged in running a company.

The thesis attempts to exhaustively re-structure the debate with explanatory ambitions to clarify, locate and possibly identify the problems of the shareholder value maximization theory and corporate objective. While there are entire books arranged around the issue (see Freeman et al 2011), none of them is combining perspectives as the current study. However, the duality makes the shareholder value maximization more challenging theory to examine as it involves two levels of economic activity. The analysis must include the examination of the behavior of individuals (i.e. shareholders, managers) and examination of the institutional framework (i.e. law, boards, corporation).

1.3.1. The research questions

The research questions for the literature review stem directly from the found research gap. Namely, the gap is the fact that the shareholder value maximization is treated as a given state of affairs rather argued for in modern managerial and financial literature (see e.g. Brealey et al 2008; Rappaport 1986). Furthermore, scholars do not provide enough evidence around the theory and how the theory is developed. Even further, the link

between maximum social welfare and the shareholder value maximization theory is dubious or at least not very clear because it is somewhat obscure that how exactly the social welfare becomes maximized through selfish agents maximizing their own utility. The debate over the corporate objective has been revolving actively since early 1900s starting with the US Supreme court case *Dodge v. Ford* in 1919 and got on to full steam when professors Berle and Dodd publicly debated about the issue 1930s. Yet, the questions are unresolved.

How the theory that decides how corporate resources are allocated is justified in economic, managerial and legal literature? What are the grounds of the shareholder value maximization? In general, the literature review strives to answer to the question whether the shareholder value maximization is viable theory for defining corporate objective, or should it be replaced? More specifically, the following research questions will be addressed by this literature review:

1. What is the content of the shareholder value maximization theory?
2. How the shareholder value maximization theory developed and how did it originate?
3. Can the shareholder value maximization be held as responsible for corporate short-termism or immoral choices and their consequences? For example, excess pollution, pinto-madness (Dowie 1977), rising inequality (Piketty and Saez 2003), Enron and accounting scandals (Markham 2015).
4. Since the logic of the shareholder value maximization is utilitarian (e.g. Jensen 2001; Sundaram and Inkpen 2004a), is the shareholder value maximization as a corporate goal maximizing social welfare? How the social welfare becomes maximized through maximizing the shareholder value?
5. What arguments are developed to accept or refute the shareholder value maximization as a corporate objective?

This research synthesis uses abduction as a logical tool in drawing the conclusions from the analyzed and synthesized literature to answer these research questions. The notion of abduction might not be as clear as are deduction and induction. Therefore, abduction is defined here in contrast to these more accepted logical ways for arriving to conclusion. Deduction involves the certainty and necessity of consequences as the deduction dictates that if the premises are true, it is impossible for the conclusion to be false. Induction is somewhat weaker form of inference as induction dictates that it is improbable that the conclusion is false when the premises are true. Abduction is weakest of these forms of logical inference as the abduction dictates that it is implausible for the premises to be true and the conclusion to be false. Abduction is described by the words ‘inference to the best

explanation' (Walton 2005:4). Inference to the best explanation is the best possible outcome of this research as it is impossible to know for certain how and why some theory has evolved and what are the consequences. The research may take an intelligent guess based on evidence. In short, the choice of abduction follows from the uncertainties that the concept of causation creates for deduction and induction (Walton 2005:158). The result is '*explanatory hypothesis as conclusion*' (Walton 2005). The analysis of the shareholder value maximization theory's origins is necessarily at least partly historical. Therefore, certainty cannot be achieved, but inference of the best explanation in general should be possible.

2. METHODOLOGY & DATA

2.1. Introduction

Demand for conducting literature reviews becomes evident when considering the cumulative side of the science – that the science should be cumulative (Chalmers, Hedges and Cooper 2002:12). The ever-increasing amount of research is the reason why it became essential to conduct literature reviews as stand-alone studies (Heyvaert, Hannes & Onghena 2017:1). The pressure for stronger connection between results of policies and practice, and scientific evidence appeared first in medicine in 1980s' and from there it spread all-over the public policy (Mays, Pope and Popay 2005:6). Clearly, it would not be worthwhile for every practitioner, researcher or policymaker to review all primary-level (i.e. original studies) studies and then decide on what actions to take. Until recently, the approach of literature reviews, systematic evidence reviews, and meta-analyses has been quantitative, and the focus has been in reviewing efficiency of the given approach or intervention. Thus, methods for quantitative meta-analyses are well developed.

However, in the complicated setting that managers are operating in, it is not enough to have quantitative meta-analysis of effectiveness of the given approach. Rather, if science and research hope to support the managers and policy-makers in their decision-making process more adequately and in the several phases of the process, a wider range of evidence has to be reviewed, synthesized and cumulated. Generally, issues to be addressed include for example; why is the corporate objective a problem in the first place; from where and how did the shareholder value maximization came about; how important this problem is compared to others; what are the effects for different social groups; is this appropriate; what are the possible options to address this problem (Mays et al 2005:6)?

Traditionally literature reviews in economics have been narrative reviews, but the narrative approach has recently been accompanied by systematic literature reviews (Jones and Gatrell 2014:257). Systematic reviews are rooted in medicine and they are thus mainly developed for reviewing quantitative studies employing uniform and comparable methods and positive philosophical orientation (Macpherson and Jones 2010:110; Chalmers, Hedges and Cooper 2002). Macpherson and Jones (2010:110) continue by questioning if traditional systematic literature review methods are applicable in management and organization studies.

If the usability of traditional systematic literature reviews is questioned within the research domain of management, it certainly can be questioned when the review is attempting to combine information from several fields of studies with even more dispersed methods, philosophies, symbols and language which the case with the shareholder value maximization is. However, the view is that even though systematic review methods would not be fully applicable, the principles are still applicable (Macpherson and Jones 2010:110). Fields that are examining the corporate goals and shareholder value maximization are numerous and do not share common methods and many of the influential articles have no methods at all as they are only reasoning what must be true because of X things that happened in the past or because Y things that we know (see e.g. Jensen 2001; Jones and Felps 2013). The intention of this review is to utilize strengths and principles of the systematic literature review even though intention is not to conduct pure systematic review.

The approach applied in this literature review is stimulated and encouraged by; (1) the lack of systematicity and quality in the management literature reviews (Tranfield et al 2003; Denyer and Tranfield 2006; Macpherson and Jones 2010; Timulak 2014; Jones and Gatrell 2014) and, (2) the solutions that are designed to overcome these weaknesses (Darbi et al 2018; Heyvaert et al 2017; Suri 2011; Mays et al 2005; Tranfield et al 2003) and, (3) by demands to increase the usability of the researched managerial knowledge and theories in practice (Starkey & Madan 2001; Sandelowski et al 1997). In other words, the intention is to reduce the relevance gap within this particular area of interest, explore new research methods and to increase the quality of literature reviews in management.

To achieve the purpose of the thesis, a qualitative research synthesis considering the shareholder value maximization ideology is conducted by connecting and following several perspectives and argumentative lines from the fields of law, management, organization research, economics, finance, philosophy and ethics. Rather than traditional narrative literature review which is generally used in the management studies, a qualitative research synthesis is employed for these purposes mainly to decrease biases and to increase transparency and therefore increase the usability of this research (Tranfield 2003; Suri 2011; Heyvaert, Hannes & Onghena 2017). Orientation of the research synthesis is qualitative meta-synthesis rather than quantitative meta-analysis to reflect ontological and epistemological underpinnings of the review and because supposedly most, if not all, of the studies considering the shareholder value maximization as a corporate objective are qualitative studies or armchair reasonings. The methodological choices and the research design are briefly summarized in the next two

paragraphs and the thesis then proceeds by explaining and discussing in more detail why these methods and this design are appropriate for the research question.

(1) The review will systematically retrieve a sample of literature to ensure that all arguments refuting or supporting the shareholder value maximization as a corporate purpose are included and considered in the review. Next, the systematically retrieved sample and its bibliometrics are analyzed to introduce and familiarize the review with the broad outlines, categories, thematic areas, quality, major contributors, most cited papers and other emerging important features of the area of literature to be reviewed. The whole sample will be reviewed but the level of analysis for the whole systematically retrieved sample is limited to abstract and title reading and source and reference scanning.

(2) Then, the review will proceed by choosing few major papers or contributors to serve as a starting point for the more rigorous review and argument tracing and synthesis. Whether a source is classified as ‘major’ is judged based on the amount of citations, age of the paper, author of the paper, publication source and format of the paper and, most importantly, inclusion among the most important sources is evaluated based on the informativity and relevance of the source or paper regarding to shareholder value maximization as a corporate purpose. Thereafter, arguments and information traces are followed, rigorously backtracked and forward tracked. The tracking and following procedure is solely guided by theoretical sampling and it continues until the data is sufficiently saturated to find the possible gaps in the argumentative line and to answer to the research questions. The purpose is to explore usability of heretical literature review methods in the field of management to produce information that is valuable for practitioners and research (see e.g. Daft and Lewin 1990).

2.2. Ontological and epistemological underpinnings

Tranfield, Denyer and Smart (2003:208) argue that literature review should be explicit on the values and assumptions that are made in order to reduce bias in the review and to increase its usability by practitioners and other researchers. On the ontological orientation scale from objectivist to subjectivist, or, on the continuum from realist to idealist, this research is positioned somewhere in between – but clearly tilted towards the idealist and interpretative end – since the distinction among the extremes is not a dichotomy (Morgan and Smircich 1980:492).

There are clear reasons for this mid-way setting. First of all, corporate *goal* or *objective* is something that cannot be judged ex-post or a priori, nor can it be examined in with fully realist mindset. Managers and directors are perceived to be the sole source of the corporate objective in this research because the shareholder value maximization is – due to the agency theory – CEO and board driven goal. Thus, the top management team and board becomes the subject of investigation and are perceived to exercise ultimate decision power over the corporate actions and goals. In other words, even though there are formal ways to more objectively state, research and measure organizational goals (e.g. balanced score card, Kotlar, De Massis, Wright and Frattini 2018), in this research corporate goals pursued by a corporation are regarded as solely driven and decided by the top management through their actions and, therefore it is impossible to objectively research what the goal is. Kotlar et al (2018) chronicle different organizational goals, their antecedents and processes, which can be surveyed and described through more positivist and realist lenses. These other approaches to organization's goal become quite empty if the top management is 'secretly' pursuing shareholder value maximization or, if all of the other goals are held only as instrumental in achieving the shareholder value maximization. Therefore, this literature review is interested in the shareholder value maximization as a normative theory rather than in describing what kinds of organizational goals and their antecedents there are.

Once a manager or a director has made the decision, it is next to impossible for the researcher to objectively judge what has been the motivation or objective of the given decision. Similarly, if trying to examine the objective of a decision prior to the decision, the research would again be operating with the subjective and idealist part of the continuum since the only source for information would be the (subjective and retrospective) interpretation of the decision maker and subsequent (subjective) interpretation of the researcher. That is because from the outcomes one cannot objectively deduce the preceding objective or purpose – towering cost cutting might imply that the company would be striving to maximize the short-term shareholder value, but it might well be something else too.

However, one may examine theories, their assumptions, evidence, content and debate which are used to build the theory and then *interpret or conclude* whether the theory is (1) being used by the management based on the decisions and statements they make and, (2) normatively evaluate the theory and, (3) compare the theory to its alternatives. Additionally, raw data (i.e. interview transcripts, field notes etc..) are rarely available in management studies which means that the object of analysis in management literature

review becomes not the data as in medicine, but researcher's *conclusions and findings* which inevitably are influenced by researcher's subjective attributes (Tranfield et al 2003:216).

But, there is clearly an objective side in the case. Organizations and corporations are concrete things, sets of contracts, collections of human beings, bundles of buildings and infrastructure producing concrete tangible outcomes. For example, surveys are presumably highly competent way for acquiring knowledge of corporations, managers and human beings which would indicate more of an objectivist ontology and positivist epistemological view. Further, an important part of the methodology employed in this review – the systematic literature review part – is deeply rooted in positivist disciplines such as medicine and often combined with quantitative meta-analysis rather than meta-synthesis (Tranfield et al 2003:216). It would be difficult to label this review being solely idealist even though the stance is that objective ex-post examination of top management's decisions is impossible. However, the normative guidance and theories that science, business education and practice example offer for managers and researchers can be found from literature and meaningfully synthesized to enhance decision making. In short, some aspects, for example outcomes, can be surveyed, measured and examined quite objectively but corporate goal and conclusions are inevitably subjective, contextual and normative and they may not subsequently follow from the outcomes. Thus, the research is only interested in examining the prevalent normative guide that is established in literature for top management.

According to Heyvaert, Hannes & Onghena (2017:9) idealist reviewers of literature 'go often beyond' what reviewed research has reported. This research synthesis most certainly transcend what the individual articles report on the shareholder value maximization as a corporate goal. For example, this review aims to integrate and bridge between legal, philosophical and economic research and reveal relationships among them. Furthermore, the current review aims to challenge the mainstream research, not merely report and synthesize the findings. The realist assumption would be that only by reflecting what former studies have revealed one can create and cumulate such a knowledge that would benefit managers or policy makers, to create evidence based practice (Heyvaert et al 2017:9). While the pure realist or pure idealist approach might be very well applicable in to several managerial issues, such is not the case with the shareholder value maximization – as once again – the issue is normative (i.e. should shareholder value maximization be the corporate goal) and one cannot construct 'evidence based' advice

from positivist studies because what is needed is normative rules for corporations or normative definition of corporation for theory.

Taken together, the literature review (i.e. research-synthesis) at hand is ontologically somewhere in between objective and subjective, epistemologically in between positive and normative but methodologically qualitative rather than quantitative. In practice, the aim of this paper is not to cumulate empirical evidence base to create the best practice for managers or strictly speaking to test the theory, but to questionize and judge the prevalent contemporary discourse on the shareholder value maximization as a corporate objective, reveal connections and sources, exhibit research gaps to guide future research and, most importantly, to give managers a *way to think and assess the goal of their corporation* and wonder, whether it should be altered. This is hoped to be achieved by revealing the underlying assumptions and developments of the shareholder value maximization and its alternative. Epistemologically, this study presumes that historical pathways are valuable knowledge and that lines of arguments can be cumulated and they can be traced. Once argumentative lines and evidence are traced and cumulated, one may choose whether to act on it or not. That is the purpose this review.

2.3. Meta-synthesis

Tranfield, Denyer and Smart (2003:209) are united with Timulak (2014) and argue that traditionally literature review in management is not systematic but rather narrative, and that the difference between narrative and systematic review is that the systematic review is “*adopting a replicable, scientific and transparent process ... that aims to minimize bias through exhaustive literature searches of published studies and by providing an audit trail of the reviewers decisions, procedures and conclusions*”. Tranfield et al (2003:208) continue that systematic approach to literature reviewing is a necessity if research on the field of management and organizations should advance because current management literature reviews are lacking critical assessment and they are exposed to the author related bias (i.e. what is included in the review and what is excluded is not transparent and might be crooked).

The amount of literature and research – especially the amount of qualitative research – in the field of management is accelerating, and the more it accelerates, the more it will be fragmented due to interdisciplinary nature of the management and epistemological disagreements within the discipline (Tranfield et al 2003:208; Timulak 2014:481).

Because of the lack of unity in the management research, still more interpretative ways to synthesize qualitative studies and to compensate the inability to use the meta-analysis (i.e. quantitative analysis and pooling of raw data from studies with uniform methods and research questions) are being needed by the review authors (Sandelowski, Docherty and Emden 1997:367; Tranfield 2003). The developed solutions for these issues (lack of systematicity and increasing demand for reviews) include for example; realist synthesis, meta-synthesis and other variations to qualitative research synthesis which position themselves in between of the traditional narrative review and (i.e. quantitative) meta-analysis (Tranfield et al 2003:217). Timulak (2014:481) emphasize that literature reviews on qualitative research are generally lacking systematic approach and therefore several techniques employing differing but overlapping methods to synthesizing and reviewing qualitative research are being developed. Common word for these techniques is synthesis.

Synthesis signifies that individual sources are somehow brought together. This can occur for example through juxtaposing sources or by recognizing and deriving common issues, concepts and emerging insights (Mays et al 2005:7). Synthesis is especially needed around the issue of shareholder value maximization as a corporate objective because many papers examining or reviewing the issue are not studies in their traditional sense. The papers addressing to shareholder value maximization are not systematic reviews or studies which would employ scientific methodologies to be evaluated. These papers are best described with words ‘academic reasoning’. Although there are internecine conflicts, interdisciplinary arguments, measurement issues, definition issues and other difficulties hindering descriptive empirical studies examining the shareholder value maximization, managers and policy-makers have to make their decision.

There are quite many and in many parts overlapping definitions for the qualitative research synthesis, but the common feature for them is that they include *creation of new information* by synthesizing research and *making connections* visible by for example juxtaposing or combining views (Mays, Pope and Popay 2005:7). The purpose, principles and features of the research synthesis are quite aptly described by Suri (2011:63);

“[the purpose of the research synthesis is] to produce new knowledge by making explicit connections and tensions between individual study reports that were not visible before. It involves purposeful selection, review, analysis and synthesis of primary research reports on a similar topic. In a rigorous synthesis, readers are provided with sufficient information about the synthesis process so that they can make informed decisions about the extent to which the synthesized findings may be adapted to their own contexts.”

Indeed, there are many synonymic terms and overlapping *approaches* to the qualitative meta-analysis, which could be labeled being a systematic literature review for qualitative studies. *Qualitative research synthesis, qualitative meta-analysis, qualitative meta-synthesis, meta-ethnography, grounded formal theory, meta-study and meta-summary are examples of these overlapping approaches* (Timulak 2014). They are all representing systematic approach to synthesizing qualitative research and the most often used umbrella-concepts for describing them are ‘meta-synthesis’ and ‘qualitative meta-analysis’. Approaches vary in their sampling and in their area of concentration or interest. For example, Dixon-Woods, Agarwal, Jones, Young & Sutton (2005) chronicle twelve different approaches to meta-synthesis and evaluate their orientations, strengths and weaknesses. The current research synthesis can be labeled as meta-synthesis combined with sampling methods acquired from the grounded formal theory or simply, meta-synthesis employing theoretical sampling. (Suri 2011; Timulak 2014; Heyvaert et al 2017.)

According to Sandelowski, Docherty and Emden (1997:366) meta-synthesis is an interpretative method for reviewing literature and it is used to discover and recognize generalizations, grand narratives and theories. Meta-synthesis approach also allows comparison and integration of findings of empirical studies (Sandelowski et al 1997:366). Research question directly determinates the methods for this literature review. Therefore, meta-synthesis is chosen over the other options such as meta-analysis, traditional narrative review, meta-ethnography and realist synthesis. Meta-analysis (i.e. quantitative literature review) would allow only comparison of fully comparable quantitative studies and therefore meta-analysis methods would not be suitable to search justification for corporate objective. Presumably, most of the studies answering to research question are qualitative studies rather than quantitative. (Heyvaert et al 2017; Tranfield et al 2003.)

Purely narrative review would be exposed to researcher related biases which would compromise the broadness of the sources that are included (e.g. researcher only include articles supporting his argument) and proficiency of the review. Realist synthesis is used to synthesize results of different study types, but it is more suitable in capturing *a list* of mechanisms or characteristics (e.g. context) of why something is working or not (Tranfield et al 2003:217). The objective of this thesis is not to determine mechanisms through which corporate objectives are working or not, but to exhaustively understand the shareholder value maximization ideology and its underlying assumptions, arguments and premises. *Therefore, meta-synthesis combined with theoretical sampling is appropriate method for the current literature review.*

The toughest methodological choice is made between conducting a meta-ethnography or conducting a meta-synthesis with grounded theory sampling methods because they are very close to each other's and they are suffering from the same weaknesses and strengths. Meta-ethnography has three different strategies that could be used to synthesize qualitative studies; (1) refutational synthesis, which strives to integrate contrary explanations of some phenomenon, (2) reciprocal translations, which strives to translate concepts of comparable studies together and, (3) lines of argument synthesis, which strives to create 'higher-order'-interpretation of some phenomenon which is grounded in individual studies. As visible, the last strategy closely reminds the one acquired by the current review and the method seems to be fit with the research question and purpose.

Whereas the meta-ethnography is giving no guidance on sampling whatsoever, the theoretical sampling of grounded formal theory is quite established and robust guide for sampling. Sampling method other than exhaustive or selective is a necessity for this meta-synthesis. Still, meta-ethnography is the most promising of the discussed qualitative meta-analysis approaches and it has attracted funded methodological research (Dixon-Woods et al 2005:48). However, meta-ethnography would not deliver significant benefits compared to the chosen meta-synthesis approach, rather, the missing sampling guidance would have weakened the transparency and the validity. (Dixon-Woods et al 2005; Denyer and Tranfield 2006:219-221)

According to the editors of the *International Journal of Management reviews*, Jones and Gatrell (2014:257), systematic reviews have recently attained popularity among the management scholars. Not only have pure systematic reviews attained popularity, but also more innovative mixed review methods are being tested in management research and, for example, Darbi, Hall and Knott (2018:302) employ initial systematic search in the databases Scopus and Web of Science and cumulate the information through *purposeful sampling methods* thereafter. Darbi et al (2018) used their own assessment and the so called 'snowball method' (i.e. chaining or backtracking citations) in choosing excluded and included articles.

The methodology of this review corresponds with experimental strategies for a literature review in management that are recently employed by management scholars (see e.g. Darbi et al 2018). Namely, the chosen method is *meta-synthesis* approach to conducting a systematic qualitative literature review combined with *theoretical sampling*. The design of the review is twofold, and it could be described and motivated as follows; (1) initial systematic searches are made and the results are analyzed at abstract-scanning-level to

increase transparency, to create brief bibliometric analysis and, to capture systematically and exhaustively all relevant articles within a priori defined limits to reduce possibility of bias. (2) Subsequently, the review is completed by applying theoretical sampling for identifying sources that are rigorously read and analyzed to follow argumentative structures and issues with no predetermined constraints until the data is saturated or the research questions are satisfied (Kearney 1998; Tranfield et al 2003; Suri 2011; Timulak 2014:484-485; Heyvaert et al 2017:77-81).

With the initial systematic search the current research synthesis; gains valuable insights on influential and information rich publications; increases transparency; produces a general bibliometric analysis and; ensures that all relevant arguments and information are being acknowledged and considered. From the subsequent theoretical sampling the research gains in-depth and unbounded picture of the state of the shareholder value maximization as a corporate purpose. Furthermore, described methods and approaches are applied in order to tailor the methods of this review to be a perfect fit with the posed research questions, to increase the meaningfulness and depth of the current review compared to simple systematic review and, to overcome issues posed to literature reviews by the epistemological and methodological disputes in the management field¹ (Tranfield et al 2003). In short, it is questionable whether purely systematic review is applicable in the management studies.

One more reason for choosing the meta-synthesis and grounded formal theory as a method is that management scholars have reported about the ‘relevance gap’ – that management science does not contribute to the practice enough and that there is no audience for the findings of the management or organizational sciences outside the scientist community (Denyer and Tranfield 2006:214; Starkey and Madan 2001; Berry 1995:104; Daft and Lewin 1990:1). One reason that is mentioned for the explanation of the existence of such a gap is that management researchers – as social scientists practicing qualitative research – have dispersed philosophical assumptions and they for example set research questions and employ methodologies differently even though they would be researching the same or similar problem (e.g. Sandelowski, Docherty & Emden 1997:366). This review is able

¹ Aggregation or cumulation of research might not be possible or reasonable in the field of management because of differing research question statements. Tranfield et al (2003:212); “Studies in the field rarely address identical problems and share a research agenda or, more importantly, ask the same questions. Therefore, it is unlikely that aggregative approaches to research synthesis, such as meta-analysis will be appropriate in management research as the heterogeneity of studies prevents the pooling of results and the measurement of the net effectiveness of interventions.”

to deal with dispersed philosophical assumptions because due to the theoretical sampling and interpretative focus, reviewed material does not have to be completely comparable.

To summarize, the research design and methods employed for this literature review are supported and inspired by these accounted characterizations of the qualitative research synthesis (Mays et al 2005; Tranfield et al 2003; Denyer et al 2006; Suri 2011; Heyvaert et al 2017), by encouraging ambience for more experimental literature reviews and methods in the field of management research (Daft and Lewin 1990; Macpherson & Jones 2010; Jones et al 2014; Darbi et al 2018) and, by the explicit and distinct demand for literature reviews of enhanced quality in management to inform research and fill the reported relevance gap (Tranfield et al 2003; Jones et al 2014; Timulak 2014). Most of all, however, the choice of methods is driven by the research question. The underlying purpose of the methodological choices is to explore usability of heretical research methods in the field of management to produce information that is valuable for practitioners (see Daft and Lewin 1990).

2.3.1. Sampling

Sampling is among the most important methodological decisions a review author will make (Heyvaert et al 2017), and especially so if reviewer is not able to use exhaustive sampling. Pure meta-synthesis would require a strict systematic literature search and fully transparent inclusion and exclusion criteria and basically implementing exhaustive sampling or selective sampling for the whole analysis (e.g. Heyvaert et al 2017). The initial systematic search enhances possibilities for acquiring broad, unbiased sample of literature that is needed to capture all aspects of societally as influential ideology as the shareholder value maximization, but it does not serve the needs of deeper analysis. Because of the broadness of initial systematic search (i.e. it is selective and exhaustive sample), it would not be reasonable or possible to thoroughly review and analyze every single article within the sample. Rather, it is more constructive to use argumentative lines and informativity of the source as a criterion for exclusion and inclusion of the source in the rigorous review. Hence, theoretical sampling is used to follow most of all arguments, but also ideologies, theories, narratives, major contributors and generalizations. (Timulak 2014; Heyvaert et al 2017.)

In short, primary systematic search ensures that bias is minimized, and transparency is maximized, while subsequent theoretical sampling allows being sensible and creation of new insights without reviewing abundant amount of articles and without neglecting

important information. If strictly obeying pre-determined rules for exclusion and inclusion, the review would miss important material, for example, Friedman's (1970) article on profit maximization as a corporate social responsibility is not included in systematically retrieved sample but it appears to hold great significance for the development of the ideology.

Further, it is necessary to narrow the sample from the initial systematically retrieved sample, but it should simultaneously be also more inclusive because this review cannot be limited only to the top-tier scholarly reviewed papers or to the publications that are from some strictly defined field of science. The problem in conducting only systematic literature search is that the review is not able to rigorously analyze hundreds of papers, but the sample should still be representative. Evaluation of the shareholder value maximization theory requires interdisciplinarity as influential and important literature is not found solely from the peer-reviewed and top-ranked journals published between strict time frame. This review desires to include everything that is relevant rather than everything, because inclusion of everything is not possible and inclusion of top-tier peer-reviewed material in the field of management is not enough to explain phenomenon as large as corporate purpose. *The theoretical sampling* and *data saturation* are terms established by the well-established grounded theory and their content is similar in this study even though the grounded theory per se, is not applied (Kearney 1998).

The theoretical sampling is a technique where sources included to the analysis are decided simultaneously during the analysis process. Decision for inclusion of a source flows through a constant comparison and it is foremostly guided by *relevance and possible contribution for the research problem* (Glaser 1978; Kearney 1998:181; Goulding 2002:79; Suri 2011; Timulak 2014:485; Heyvaert et al 2017:82-83). In other words, if question arises during the analysis, the answer is searched from where it most likely will be found, and studies are included based on their relevance in explaining the phenomenon rather than based on predetermined criteria. According to several meta-synthesists – or systematic reviewers of qualitative literature – theoretical sampling is recommendable and suitable sampling option for meta-synthesis (Dixon-Woods, Agarwal, Jones, Young & Sutton 2005:47-48; Mays et al 2005:11; Suri 2011:70). Most rigorous attempt to use theoretical sampling might be Kearney's (1998) as she employs the grounded theory to literature synthesis.

Another option for sampling would be *chain or snowball sampling* which follows similar logic, but it is much more limited as it is more strictly based on the initial papers or

contributors chosen to start with. In the snowball sampling researcher decides one or few core sources from which to start following information and informants. Snowball sampling is criticized for leading possibly too homogenous sample and for lacking transparency while theoretical sampling suffers only from the criticism considering transparency. Theoretical sampling is considered more appropriate here because sampling might benefit from the possibility to jump off the line of certain contributor for example. Regardless of a chosen sampling method, collection of data stops when the data saturation is achieved. (Suri 2011; Heyvaert et al 2017.)

Data saturation is achieved when inclusion and analysis of an additional source or research paper does not yield new or relevant insights for the literature review (Glaser & Strauss 1967:61; Kearney 1998:181; Suri 2011; Dixon-Woods et al 2005). In other words, the data saturation appears when accuracy of the answer to the research question will no increase by analyzing more studies or sources. For this review, saturation might be deemed to have appeared when contradicting or supporting arguments for shareholder value maximization are becoming repetitive and new insights are not found. Data saturation is criticized for being unreachable for most of the literature reviews and therefore *data sufficiency logic* is designed to offer an alternative for the data saturation (Heyvaert et al 2017:82). Rather than when saturated, in the data sufficiency logic the data collection stops when the review authors themselves decide and justify when the point is achieved that the purpose of the literature review is fulfilled – the gathered evidence is sufficient enough regarding the research question. (Suri 2011.)

The possibilities for achieving data saturation or data sufficiency are strongly linked to the research question. Focused research question would allow rapid data saturation while broad research question might never reach the saturation in terms of available resources and review author's knowledge and skills. Given the research question, this literature review will use data sufficiency logic even though data saturation could also be achievable. Data saturation might appear in this case because the research question is narrowly surrounded by the shareholder value maximization as a corporate purpose or as a theory and therefore research streams studying for example processes by which individuals and organizations set goals or the behavioral theory of the firm are supposedly excluded from the analyzed sample. If the research question would be about corporate purpose in general rather than concentrated around this certain theory, the data saturation would be much less likely achieved. However, due to limited resources in terms of time and writing space, this review will stop data collection when sufficient amount of data is achieved to reliably answer to the research questions; how the shareholder value

maximization theory developed and how did it become dominant; in what kind of evidence the theory is based on (is there logical arguments, empirical evidence, law etc.); what are the underlying assumptions of the theory; should it be replaced?

2.3.2. Shortcomings of the methods and design

Since research questions in management studies vary so much (e.g. Tranfield et al 2003), it is unlikely that simply pooling of systematically retrieved empirical findings would be reasonable in terms of this literature review, especially taking into account the nature of the research problem being no less than the corporate objective. Hence, findings of this review are inevitably interpretative. Interpretative approach is not always a weakness, but this review aims to giving guidance and interpretation decreases credibility of the research for practice. Interpretative approach is a necessity for this review because of ontological and epistemological assumptions made. It is also possible that there are no reliable (descriptive) empirical findings regarding the issue given the perspective of this literature review being shareholder value maximization as a corporate purpose. That is, other researchers might have acquired similar assumptions than the current review which means that there are no objective and descriptive empirical studies. Examining shareholder value maximization as a corporate goal is certainly hindered by definition issues – what constitutes a shareholder value maximization-oriented firm as it might not be explicit – and measurement issues.

If there is empirical evidence to be reviewed, Sandelowski Docherty and Emden (1997:366) are asking two very important questions; can you – and if yes – would it be ethically and epistemologically appropriate to – sum up qualitative data or findings? Sandelowski et al (1997) operate in the different discipline (i.e. nursing and health) than that of management, but the issues are similar in synthesizing qualitative research. They continue (1997:366), that diversity of the practices causes the effect where qualitative research seems to ‘resist synthesizing’. Sandelowski et al (1997:366) argue that since there are philosophically, theoretically, socially and politically varying researchers conducting research through varying lenses of post-positivism and constructivism, feminism and Marxism, and applying different theories from grounded theory to ethnographic studies, *it might be that even ‘finding the findings can be a challenge’*.

Theoretical sampling is employed to acknowledge these challenges because it allows interpretation and comparison of the findings and arguments rather than pooling them. The aim is to follow and synthesize supporting and refuting arguments considering the

shareholder value maximization ideology as a corporate purpose, not to synthesize findings of dispersed qualitative studies. For example, the idea is not in synthesizing studies answering to research questions such as; ‘will the shareholder value maximization theory increase or decrease market value of a corporation within a certain context’. The idea is to extract, analyze and synthesize arguments by which the theory is justified and examine the quality of evidence that is supporting or refuting the theory. To ensure the thickness of qualitative studies the arguments will be followed to the very roots and the review of articles will start from the systematically retrieved pool of articles to ensure that all relevant arguments will be found. Arguments are traced and followed for so long, that the data is saturated. This method – a combination of systematicity and theoretical sampling – should allow to construct rigorous analysis of the validity of the shareholder value maximization as a corporate purpose and to give managers and researchers ability to frame, originate, design, compare, wonder, weigh and judge their corporate purpose and decide if the purpose or objective should be altered.

The theoretical sampling is criticized for lack of transparency but as described, the perfect transparency is a sacrifice that must be made in order to answer to the research questions. Transparency issue is handled with conducting initial systematic searches and by being as explicit as possible regarding the sampling. The theoretical sampling is also hoped to acknowledge some context issues as the shareholder value maximization as a subject of research is highly contextual and restricted to the geographical areas of US and UK. The research is also limited to large publicly listed corporations.

2.3.3. Possible findings

If the review finds that there are gaps in the literature, the review can contribute the scientific field of management by pointing to those gaps that are in need for further research and attention. If, say, there are no gaps, and it seems clear what the corporate purpose is and should be (e.g. law might dictate what it must be), the contribution of this review becomes even more significant, as it will be that the fields of management, law, finance and philosophy among others, can all stop disputing over the corporate purpose and channel thereby released resources to more productive targets. For practice – education and management – the finding would be still more impressive as corporations and managers could then do decisions without hesitation and professors could reliably instruct future leaders in business schools. Corporate purpose holds such a significance, that the managerial, legal and philosophical arguments that are used to build and justify the purpose must consist of an unbroken argumentative chain and be logically rock solid.

The ultimate interest of review is that, once arguments for and against are sufficiently cumulated, reviewed and synthesized, practitioners and researchers will be able to more easily decide what purpose to follow.

3. SYSTEMATIC LITERATURE SEARCH & BIBLIOMETRIC ANALYSIS

3.1. Scoping search [search 1]

The initial systematic search is consulting Scopus database because it includes wide range of large publishers operating in social sciences which are the core source of the literature around the shareholder value maximization theory. There are 5000 publishers and almost 22 000 peer-reviewed journals indexed in Scopus among which are the major publishers from the fields of management and economics. Major publishers include for example Elsevier, Wiley-Blackwell, Taylor & Francis and Sage publishing. (Scopus 2017.)

By using very broad, thematic keywords, with double quotation marks and limiting included subjects to social sciences, economics and business, the initial pilot search retrieved 6 385 results (see table 1). The purpose of the initial search is trifold; (1) to identify the countries where the shareholder value maximization is mostly researched and applied, (2) to compile key words for further systematic literature search strategy and, (3) to identify broad trends of the literature (i.e. is the pace of publications decelerating or accelerating, are there any major journals or authors influencing in the field).

Table 1 Search strategy for scoping search (1)

Search terms included in the initial search:

shareholder value, stockholder value, shareholder wealth, shareholder primacy, corporate objective, corporate purpose, stakeholder theory, stakeholder management, stakeholder approach

The Boolean phrase:

TITLE-ABS-KEY ("shareholder value" OR "stockholder value" OR "shareholder wealth" OR "corporate objective" OR "stakeholder theory" OR "corporate purpose" OR "shareholder primacy" OR "stakeholder management" OR "stakeholder approach") AND (LIMIT-TO (SUBJAREA , "BUSI") OR LIMIT-TO (SUBJAREA , "ECON") OR LIMIT-TO (SUBJAREA , "SOCI"))

3.1.1. Geographical analysis of the shareholder value maximization

Not surprisingly, the countries with the most publications are U.S., UK and Canada as they are together representing over half – 3403 out of the total of 6 385 publications – of the publications retrieved by the initial search. Rest of the publications are quite well

scattered over the globe with publication amount per country declining rapidly after the three top countries.

It is crucial for the thesis to reveal where the shareholder value maximization is being applied, and whether it has spread throughout the world or is it still an Anglo-American phenomenon used mainly in common law countries. Geographical polarization would have been an interesting finding, but so is observed geographical concentration. This concentration to Anglo-America will guide the theoretical sampling into such direction where less importance is given to studies outside of these countries.

Further, it is not fruitful to examine something in a context where it does not exist – especially unfruitful is to examine literature that does not exist. If there are little, or no publications considering the shareholder value maximization from the specific country, the stance could be taken that the shareholder value maximization is not applied as a major corporate goal in that country. Though it might be, that managers are applying shareholder value maximization unintentionally even though the country is not formally under such management doctrine, the research should be focused on areas where the shareholder value maximization is explicit. The basic assumption, however, is that the theory is mainly influential in United States and in United Kingdom and not so much elsewhere in Europe or in Asian countries such as Japan for example. This is also backed up with researchers (see. e.g. Yoshimori 1995; Lazonick et al 2000; Bower 2017). Thus, the examination of the shareholder value maximization in this study is concentrated in the U.S. and UK.

3.1.2. Frequencies of the shareholder value maximization

The amount of publications per year has been increasing significantly every year since the beginning of the 1990s' and the pace of the publications has been only accelerating during the past decade as is visible in the figure 1. Already 112 publications have been indexed to Scopus during the current year of 2019, indicating, that the pace is not slowing and interest towards the topic continues to pike. The authors with most publications within in the sample are stakeholder theorists such as Edward Freeman with 27 publications and his co-writer Harrison with 20 publications. The journals that include the most of the sample's publications are in order, *Journal of Business Ethics* with 390 publications, *Strategic Management Journal* with 74 publications, *Corporate Ownership and Control* with 70 publications, *Journal of Financial Economics* with 69 publications, and *Journal of Cleaner Production* with 61 publications. For economists, the purpose of the corporation seems to be rather ethical question with a strategic twist because of the predominance of the *Journal of Business Ethics* in publication amount.

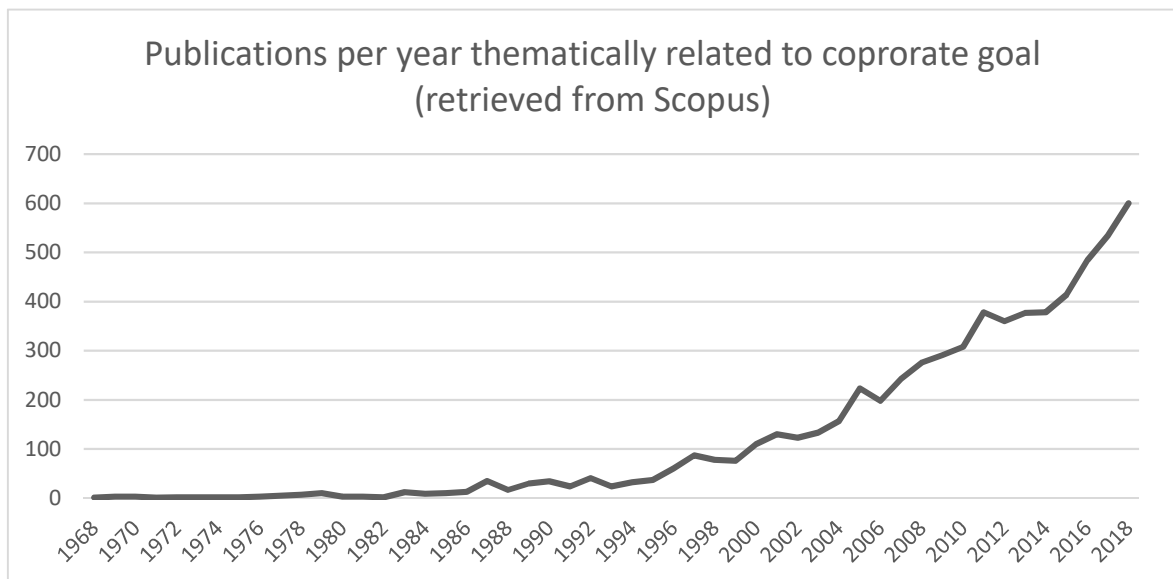


Figure 1 Thematically related publications per year

3.2. Scoping search [search 2]

To further elaborate the examination of broad lines of the shareholder value maximization literature in economics, another pilot is constructed to consult the Scopus database. The second search is designed to exclude stakeholder theorists, corporate social responsibility advocates and financial economists who are interested in effects of some specific event to the shareholder value. The design attempts to capture more accurately the broad lines

of papers treating shareholder value maximization as a corporate objective rather than as a dependent variable or parameter.

The search strategy is described in the table 2. Presumably, by adding the term ‘maximize’ to the thematic concepts, including only articles that are titled with appropriate words and by dropping the stakeholder related concepts, the results represent more accurately shareholder value maximization as a corporate goal. Searching with the described strategy returns 212 results and after further narrowing the results by excluding irrelevant fields of sciences (e.g. engineering) and including only articles (i.e. no book chapters, book reviews etc.), the final amount of results is 152.

Table 2 Search strategy for scoping search (2)

Search terms included:

Shareholder value maximization, Shareholder value maximizing, Shareholder wealth maximization, Corporate objective, Corporate purpose

The Boolean phrase:

TITLE (shareholder AND value AND maximization) OR TITLE (shareholder AND value AND maximizing) OR TITLE (shareholder AND wealth AND maximize*) OR TITLE (corporate AND objective) OR TITLE (corporate AND purpose)

3.2.1. Publishing frequency analysis

The yearly distribution of publications is again presented in the figure 2 to illustrate an interesting but unsurprising finding; based on the number of publications per year, the interest towards the shareholder value maximization as a corporate goal is peaking when the recession hits the economy or right after a recession, and along with the recovering economy, the interest towards the theory fades (see figure 2).

The phenomenon holds also for a broader set of publications (6 385 pcs) but it is not as clear and visible as with stricter search terms and fewer results. For example, the recession of early 2000s’ is quite observable in the larger sample of 6 385 publications (figure 1), as the amount of publications is only moderately increasing from 60 pcs to 76 pcs between the years 1996 and 1999, whereas soon after the recession, the publication pace clearly picks up speed and over the next five years, the amount of publications per year doubled. Also, some major critiques concerning the shareholder value maximization – such as Lazonick et al 2000 – were published right after the recession of early 2000s’.

Publication amount per year rises from 110 in 2000 to 600 in 2018 which depicts the sustained rise in the interest toward the topic and efforts to make sense of the corporate purpose and yet, the systematic literature review of the current literature is lacking. Similarly, in the smaller sample of 152 articles, the amount of publications before the Great Recession (2007-2009) is low, and then peaks considerably immediately after the recession and returns to the lower levels when upturn in economy is achieved around 2012.

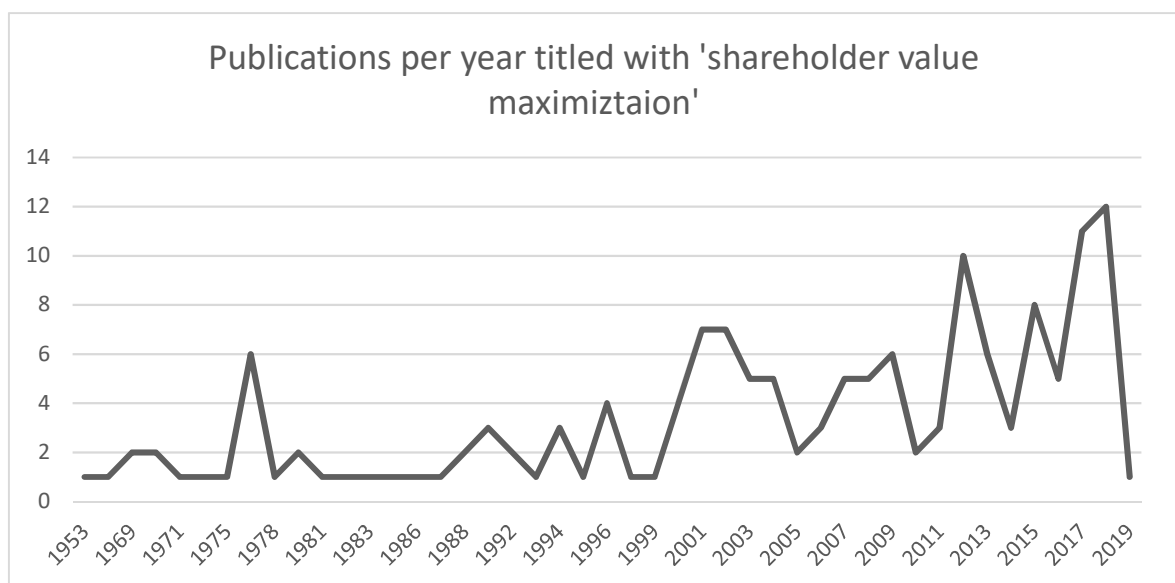


Figure 2 Publications per year titled with 'shareholder value maximization'

In other words, whenever there is a wide economic downturn, prevailing and dominant theory considering the corporate objective, the shareholder value maximization theory, is getting greater attention than at peaceful times. Obviously, this is a natural course of action in a society as if something seems not to be working, it should be fixed or replaced but it is also creating a clear starting point or context for articles published at those peak times and it might harm the objectivity of the articles if they are inspired by economic downturns. Timing of the publication of the material is therefore guiding theoretical sampling.

Recessions and economic losses are surefire case for big emotions and therefore it is relevant to acknowledge the possible influence of these emotions or biased perspectives. It seems that the publication pace has not slowed but accelerated even further as the years

have passed after the last peak brought by the great recession. That may indicate, that the purpose of the corporation remains unresolved and the shareholder value maximization is still disputed among scholars and that qualitative research synthesis producing rigorous analysis of the origins and premises of the shareholder value maximization might have far-reaching implications for research, management and policymakers.

To summarize, the shareholder value maximization is presumably used mainly in U.S. and UK because most of the research is from those countries and the presumption is supported by scholars. Therefore, the analysis will be concentrating on those countries and theoretical sampling is guided by this assumption. Another critical finding is that ethical considerations supposedly are among the greatest concerns of economists even though economics should be positive science (e.g. Friedman 1953). This has huge implications on the succeeding prospects of a theory. Thirdly, economic downturn might influence in the literature and attention has to be accounted for the publication year of the material when sampling. Finally, the interest towards the issue and the thematic area of the shareholder value maximization is still increasing and it has been increasing since the early 1990s’.

3.3. Systematic search [search 3]

3.3.1. Keyword construction

The point of the third search is to capture everything that management and related fields have to say about the shareholder value maximization theory. To construct keywords for the systematic search, the articles, abstracts and titles of the list of 152 results retrieved by the search 2 are scrutinized. Unsurprisingly, the word ‘shareholder’ is the most often mentioned word in the whole sample (titles and keywords) with 67 occurrences. In the author’s own keywords, the word ‘shareholder’ is most often followed by the word ‘primacy’ or ‘value’. Shareholder primacy clearly indicating legal orientation and shareholder value economic or management orientation. Both orientations are considered as relevant but only ‘shareholder value’ is included as search parameter to ensure that the search will capture the core managerial and economic papers rather than the legal ones because managerial point of view is the core of this review.

The legal standpoint is nevertheless recognized as an important field of study for the shareholder value maximization. Therefore, the legal aspects and roots of the shareholder

value maximization are carefully analyzed and discussed, but using theoretical sampling starting from the results of the systematic literature search (Suri 2011:69).

‘Shareholder’ is considered to be an essential element of the search string because synonymic words such as stockholder or stockholder were not mentioned in author keywords. Maximization in some form is also an essential part of the search string because otherwise search will retrieve too many irrelevant results. There is for example abundant stream of literature in the field of finance citing to ‘shareholder value’ in some context, not related to the corporate objective.

Second broad term identified is ‘corporate governance’ which is mentioned 30 times within the whole sample. Corporate governance is rather broad and separate field of studies in itself, but it also has crucial implication for the corporate goal. Only articles that are *combining* corporate governance and shareholder point of view should be considered relevant. Thus, corporate governance literature concerned with precisely managerial view of shareholder value maximization is thought to be included in terms like “corporate objective”.

Third large body of literature identified from the sample was the stakeholder theory with the word ‘stakeholder’ represented 11 times in keywords and 21 times in the whole sample (i.e. title, abstract and keywords), even though the search strategy was intentionally trying to exclude stakeholder theory from the results of the second scoping search. Based on experience from the initial search 1, the risk that shareholder value maximization theory would be swamped by the abundant literature on stakeholder theory within the final sample, the stakeholder theory would not be included in the search strategy. However, stakeholder theory represents at least as remarkable theory of the corporate goal as does the shareholder value maximization that it cannot be excluded from the analysis of corporate goal. Thus, stakeholder theory part of this research synthesis is covered with theoretical sampling technique using comprehensive book by Freeman et al (2011) as a starting point (Kearney 1998; Suri 2011). The Freeman et al (2011) was identified as major contributor in scoping searches.

Finally, corporate objective is mentioned 39 times, corporate purpose 16 times and, corporate goal 9 times. When examining synonyms for the word ‘corporation’ it turned out that corporation (i.e. ‘corporate’) is the word that is exclusively being used in this context. For example, separately the word ‘firm’ was mentioned 15 times and the word

‘business’ appeared 33 times, but neither is followed by the word ‘objective’ or by any relevant words. Thus, there is no need to use synonymic terms of the corporation.

3.3.2. The results

The final search string to gather relevant articles is formulated in the table 3. The search is focused in titles only, because literally thousands of journal articles are using some combination of given search terms in their abstracts and keywords and the list of results would not be reasonably sized for this literature review.

Table 3 Search strategy for systematic search

Search terms included:

shareholder value, shareholder wealth, maximizing, corporate objective, corporate goal, corporate purpose

The Boolean phrase:

"shareholder* value maximization*" OR "shareholder* wealth maximization" OR "maximizing shareholder* value" OR "maximizing shareholder* wealth" OR "corporate objective" OR "corporate purpose" OR "corporate goal"

The databases that are consulted with the search string constructed in the table above are; EBSCO Business Source Premier, ProQuest/ABI Inform, Scopus, Wiley, JSTOR and Emerald. The databases were chosen because of their comprehensiveness in the fields of management and economics. Retrieved results per database are presented in the table 4. Interestingly, two of the chosen databases retrieved zero results while three out of six databases are representing almost all of the results. Total amount of hits is 544 from all databases and the number of titles that is imported for closer scrutinizing is 487 as some titles are discarded immediately for being for example clearly irrelevant or being written in language other than English.

After title reading, deleting duplicates (77pcs), deleting press releases (56pcs) and, deleting irrelevant articles (253 pcs) there are 96 results in the sample. Abstract reading further reduced the amount of publications to 68 pcs which is the size of the final sample (appendix 1). The exclusion and inclusion criteria stem directly from the research questions. Everything that does not clearly relate to the shareholder value maximization as a corporate objective are considered as irrelevant. Unpolished results include for example many event studies examining shareholder value effects in case of some happening (e.g. whether corporate social responsibility has positive effect on shareholder

value), analyses of shareholder value maximization in some very narrow or special industry (e.g. bank industry), lean-management papers, unavailable papers (e.g. many working papers were not available for download), regional analyses other than U.S. or UK and, financial restructuring recommendations which maximize the shareholder value. These are all considered irrelevant and they are removed.

Table 4 Retrieved results per database

Database	Number of hits	Imported for analysis	Included after title reading
ProQuest	294	271	37
Scopus	143	138	44
EBSCO b-s	98	69	7
Wiley	9	9	8
Emerald	0	0	0
JSTOR	0	0	0
TOTAL	544	487	96

3.3.3. Supportive searches

Heterogeneity of the final sample clearly indicates lack of discussion and lack of cumulation of arguments. Simultaneously it indicates a need for synthesizing literature review. Heterogeneity then becomes a desired feature of the final sample as the issue is broad and grey literature and other sources might be equally informative as are journal articles. However, to ensure representativeness, exhaustiveness and the quality of the gathered sample of 96 articles, two supportive searches are conducted in Scopus database. These supportive searches are somewhat broader in terms of inclusion than the systematic search [search 3].

To ensure the quality of the final sample retrieved by the systematic search, two supportive or confirming searches are conducted in databases Scopus and ProQuest ABI/Inform. Both supportive searches are consulting only the highest ranked journals in the fields of business, ethics & management, strategy, organization studies, business education, social science and finance. Fields and journal rankings are according to Academic Journal Guide (2018). Fields enumerated above are chosen because they are seen as central for the shareholder value maximization as a corporate objective. ‘Highest ranked’ stands for 3-4* ranks in the ABS (2018) guide (see table 5). The search strategies for the supportive searches are visible in the table 5. The search strategies describe used keywords and search terms and the following fields describe included top-ranked journals

per field. The Boolean phrase is a search strategy 1 or 2 combined with Boolean operator to include the source titles of the top-ranked journals listed in the table 5.

The supportive search is conducted to ensure that the literature captured by the primary search strategy is broad enough to represent exhaustively the whole spectrum of the shareholder value maximization as a corporate goal. The difference between the first supportive search and the primary systematic search [search 3] is that the supportive search is broader in terms of keywords and that the keywords do not have to be included in title but instead in the title, abstract or in the keywords. On the other hand, the first supportive search is narrower in terms of included sources as it only retrieves articles that are published in the top-ranked journals.

The first search attempts to capture articles that are about profit maximization more generally and articles that are about shareholder value but not maximization. Maximization is not combined with the shareholder value. The second supportive search is otherwise similar, but it searches from title, abstract and keywords also terms ‘review’ and ‘literature review’ to ensure, that possibly existing literature reviews are captured.

Table 5 Supportive searches

Search strategy (1): Scopus (549 results) and ProQuest ABI/Inform (294 results)

TITLE-ABS-KEY ("shareholder value" OR "shareholder wealth" OR "profit maxim*" OR "maximi* porfit*" OR "shareholder* value maximization" OR "shareholder* wealth maximization" OR "maximizing shareholder* value" OR "maximizing shareholder* wealth" OR "corporate objective" OR "corporate purpose" OR "corporate goal" OR "organization* purpose" OR "organization* goal" OR "shareholder primacy") AND TITLE-ABS-KEY (maximizing OR maxim* OR pursu*)

Search strategy (2): Scopus (83 results)

TITLE-ABS-KEY ("shareholder value" OR "shareholder wealth" OR "profit maxim*" OR "maximi* porfit*" OR "shareholder* value maximization" OR "shareholder* wealth maximization" OR "maximizing shareholder* value" OR "maximizing shareholder* wealth" OR "corporate objective" OR "corporate purpose" OR "corporate goal" OR "organization* purpose" OR "organization* goal" OR "shareholder primacy") AND TITLE-ABS-KEY ("literature review" OR "review")

Included journals by field:

(1) Business, ethics and management journals:

"Academy of Management Journal" OR "Academy of Management Review" OR "Administrative Science Quarterly" OR "Journal of Management" OR "Academy of Management Annals" OR "British Journal of Management" OR "Business Ethics Quarterly" OR "Journal of Management Studies" OR "Academy of Management Perspectives" OR "Business and Society" OR "California Management Review" OR "European Management Review" OR "Gender and Society" OR "Gender, Work and Organization" OR "Harvard Business Review" OR "International Journal of Management Reviews" OR "Journal of Business Ethics" OR "Journal of Business Research" OR "Journal of Management Inquiry" OR "MIT Sloan Management Review"

(2) Strategy:

"Strategic Management Journal" OR "Global Strategy Journal" OR "Long Range Planning" OR "Strategic Organization"

(3) Organization studies:

"Organization Science" OR "Human Relations" OR "Leadership Quarterly" OR "Organization Studies" OR "Organizational Research Methods" OR "Group and Organization Management" OR "Organization" OR "Research in Organizational Behavior" OR "Research in the Sociology of Organizations"

(4) Education:

"Academy of Management, Learning and Education" OR "British Educational Research Journal" OR "Management Learning" OR "Studies in Higher Education"

(5) Social science:

"American Journal of Sociology" OR "American Sociological Review" OR "Annual Review of Sociology" OR "Economic Geography" OR "Journal of Economic Geography" OR "Risk Analysis: An International Journal" OR "Social Science and Medicine" OR "Sociology" OR "Sociology of Health and Illness" OR "Antipode" OR "British Journal of Sociology" OR "Development and Change" OR "Economy and Society" OR "Electoral Studies" OR "European Sociological Review" OR "Global Networks - A Journal of Transnational Affairs" OR "Industrial and Corporate Change" OR "Journal of Development Studies" OR "Journal of European Social Policy" OR "Journal of Social Policy" OR "Journal of the Royal Statistical Society Series A" OR "Kyklos" OR "New Political Economy" OR "Politics and Society" OR "Progress in Human Geography" OR "Public Opinion Quarterly" OR "Quarterly Journal of Political Science" OR "Review of International Political Economy" OR "Social Forces" OR "Socio-Economic Review" OR "Sociological Methodology" OR "Sociological Review" OR "Technological Forecasting and Social Change" OR "Theory Culture and Society" OR "West European Politics" OR "World Development"

(6) Finance:

"Journal of Finance" OR "Journal of Financial Economics" OR "Review of Financial Studies" OR "Journal of Corporate Finance" OR "Journal of Financial and Quantitative Analysis" OR "Journal of Financial Intermediation" OR "Journal of Money, Credit and Banking" OR "Review of Finance" OR "Annual Review of Financial Economics" OR "Corporate Governance: An International Review" OR "European Financial Management" OR "European Journal of Finance" OR "Finance and Stochastics" OR "Financial Analysts Journal" OR "Financial Management" OR "Financial Markets, Institutions and Instruments" OR "Financial Review" OR "Insurance, Mathematics and Economics" OR "International Journal of Finance and Economics" OR "International Review of Financial Analysis" OR "Journal of Banking and Finance" OR "Journal of Empirical Finance" OR "Journal of Financial Econometrics" OR "Journal of Financial Markets" OR "Journal of Financial Research" OR "Journal of Financial Services Research" OR "Journal of Financial Stability" OR "Journal of Futures Markets" OR "Journal of International Financial Markets, Institutions and Money" OR "Journal of International Money and Finance" OR "Journal of Real Estate Finance and Economics" OR "Journal of Risk and Insurance" OR "Mathematical Finance" OR "Quantitative Finance" OR "Review of Asset Pricing Studies" OR "Review of Corporate Finance Studies" OR "Review of Quantitative Finance and Accounting"

Results of the supportive search confirm that the primary search is successful in gathering exhaustive, reliable and representative sample of literature concerned of shareholder value maximization as a corporate objective in the fields of economics, management, law and ethics. The results of supportive searches are reviewed by scanning titles, publication years, authors, citations and abstracts to detect relevant and influential articles and most importantly, results are scanned for indications that streams of relevant research exist that are not captured by the primary systematic search [search 3]. Such indications are not found. Only five articles are collected through the supportive searches of which only one is literature review.

3.4. Final sample: an analysis

All conducted searches and analyses indicate evident demand for literature review on corporate objective and more precisely, on shareholder value maximization. First of all, there are no literature reviews published in journals other than the recently published Kotlar, De Massis, Wright and Frattini (2018). Some literature reviews can be found from grey literature, but they are of poor quality. Despite of the systematic and iterative approach to literature search and article gathering, the final set of results is not as impressive as one would assume when the research topic is as colossal and of such an extraordinary importance as the corporate objective is. The results are very heterogeneous as they are; published fragmentedly between 1969 and 2019 ('recession peaks' are visible), published in various publications and various forms (i.e. articles, books, theses, dissertations) and representing varying views (law, economics, management, contractarian, communitarian).

The shareholder value maximization is extremely academic topic and most of all managerial topic. Final sample consists of 68 results from the systematic search [search 3]. The systematic search returned 96 results after title reading, but further analysis on articles revealed 28 articles being either duplicates or irrelevant. The final sample of 68 articles is listed presented in appendix 1.

Out of the final sample of 68 results 59 can be identified to be either scholarly law publication or ABS ranked source for business and economics. There are three results representing grey literature, two books and one dissertation. Out of those results that are ABS ranked (45 results), 51% are top-rated journals with rank of 3 or above, which reflects serious academic interest in the topic of shareholder value maximization as a corporate objective. In the unpolished data there were abundantly not classified sources, meaning that they are neither law journals nor ABS ranked management journals. However, one by one the amount of these not ranked sources diminished as they proved to be irrelevant. Many considered narrow geographical areas and others, for example several working papers, were simply unavailable for analysis. The set of 23 articles that are included and published in a journal having a rank ABS rank of 3-4* is presented in the table 6. This set of articles serves as a foundation for the analysis of the arguments supporting or refuting the shareholder value theory.

Table 6 3-4* ABS ranked articles in the sample

Author	Title	Journal	ABS	Empirical
Sundaram & Inkpen (2004a)	The Corporate Objective Revisited	<i>Organization Science</i>	4*	no
Sundaram & Inkpen (2004b)	Stakeholder Theory and The Corporate Objective Revisited: A Reply	<i>Organization Science</i>	4*	no
Freeman, Wicks & Parmar (2004)	Stakeholder theory and The corporate objective revisited	<i>Organization Science</i>	4*	no
Jones & Felps (2013)	Shareholder Wealth Maximization and Social Welfare: A Utilitarian Critique	<i>Business Ethics Quarterly</i>	4	no
Jensen (2001 & 2002)	Value maximization, stakeholder theory, and the corporate objective function	<i>European Financial Management</i>	4	no
Hansen & Lott (1996)	Externalities and corporate objectives in a world with diversified shareholder/consumers	<i>Journal of Financial and Quantitative Analysis</i>	4	no
Budde, Child, Francis & Kieser (1982)	Corporate Goals, Managerial Objectives, and Organizational Structures in British and West German Companies	<i>Organization Studies</i>	4	yes
Hsieh (2015)	The Social Contract Model of Corporate Purpose and Responsibility	<i>Business Ethics Quarterly</i>	4	no
Chambers & Lacey (1995)	Corporate Ethics and Shareholder Wealth Maximization	<i>Journal of Business Ethics</i>	3	no
Dobson (1999)	Is shareholder wealth maximization immoral?	<i>Financial Analysts Journal</i>	3	no
Beggs & Lane (1989)	Corporate goal structures and business students: A comparative study of values	<i>Journal of Business Ethics</i>	3	yes
Poitras (1994)	Shareholder wealth maximization, business ethics and social responsibility	<i>Journal of Business Ethics</i>	3	no
Redwood, H.	Setting corporate objectives	<i>Long Range Planning</i>	3	no
Mendelow (1983)	Setting corporate goals and measuring organizational effectiveness-A practical approach	<i>Long Range Planning</i>	3	no

Lazonick & O'Sullivan (2000)	Maximizing shareholder value: A new ideology for corporate governance	<i>Economy and Society</i>	3	no
Kury (2007)	Decoupled earnings: An institutional perspective of the consequences of maximizing shareholder value	<i>Accounting Forum</i>	3	no
Cantley (1970)	The choice of corporate objectives	<i>Long Range Planning</i>	3	no
Argenti (1969)	Defining corporate objectives	<i>Long Range Planning</i>	3	no
Parmar, Keevil & Wicks (2019)	People and Profits: The Impact of Corporate Objectives on Employees' Need Satisfaction at Work	<i>Journal of Business Ethics</i>	3	yes
Bento, Mertins, & White (2017)	Ideology and the Balanced Scorecard: An Empirical Exploration of the Tension Between Shareholder Value Maximization and Corporate Social Responsibility	<i>Journal of Business Ethics</i>	3	yes
Clarke, Jarvis & Gholamshahi (2019)	The impact of corporate governance on compounding inequality: Maximising shareholder value and inflating executive pay	<i>Critical Perspectives on accounting</i>	3	yes
Denis (2016)	Corporate Governance and the Goal of the Firm: In Defense of Shareholder Wealth Maximization	<i>Financial Review</i>	3	no
Findlay & Whitmore (1974)	Beyond shareholder wealth maximization	<i>Financial Management</i>	3	no

3.5. Typology of the shareholder value maximization literature

Based on the systematic literature search, there are two academic ways to look at the shareholder value maximization theory. One could examine shareholder value maximization as a lawyer's problem or as an economist's problem. This thesis attempts to address both views with emphasis on economic view. Apparently, the economic part of the literature is roughly dividable to four categories; (1) managerial and business ethics, (2) finance, (3) efficiency and, (4) philosophy of economics. Alternatively, if only considering typology of economic literature of the shareholder value maximization, one

could combine efficiency and philosophy of economics under the category of 'economics'. Then the typology would probably be clearer and more accurate, but it would totally neglect legal examination of the shareholder value maximization theory because for example management is not equal category with law in this context (see figure 3).

The typology is provided in the figure 3 and the figure is then followed by brief discussion. The figure 3 is not exactly a hierarchical typology of the shareholder value maximization theory. Rather, it is mind map and ordered categorization of related and important concepts and literature streams that clearly emerged from the literature retrieved by the systematic search. These concepts, theories and ideas are needed to comprise the shareholder value maximization literature. And more precisely, authors contributing in these concepts and areas might be those that take stances and contribute for the shareholder value maximization and corporate objective. One analyzed article might be in several categories. The typology of the literature considering the shareholder value maximization as a corporate objective is one of the major findings and contributions of this literature review. It may be used as a basis for further literature reviews and as a guide to what is already examined at some level. Most of all it works as template to see what is already connected to the shareholder value maximization theory and what issues around the theory should be examined more.

The first category is managerial studies and business ethics. The most prominent literature streams of all subcategories measured by fame and publication amount seems to be the stakeholder theory and the corporate social responsibility. The stakeholder theory is often seen contrary to the shareholder theory. However, there are three kinds of stakeholder theorists as Donaldson and Preston (1995) suggested. For some, the stakeholder theory offers competitor for the shareholder value maximization, for the others the stakeholder theory is instrumental in achieving the shareholder value maximization. The realization of the fact that other stakeholders have stakes in the corporation and that these stakes can be even more meaningful and riskier compared to shareholder's stakes is the reason for these stakeholder positions and their prominence among the shareholder value maximization literature and in corporate objective literature in general. The same idea is behind the corporate social responsibility – because corporations control the resources

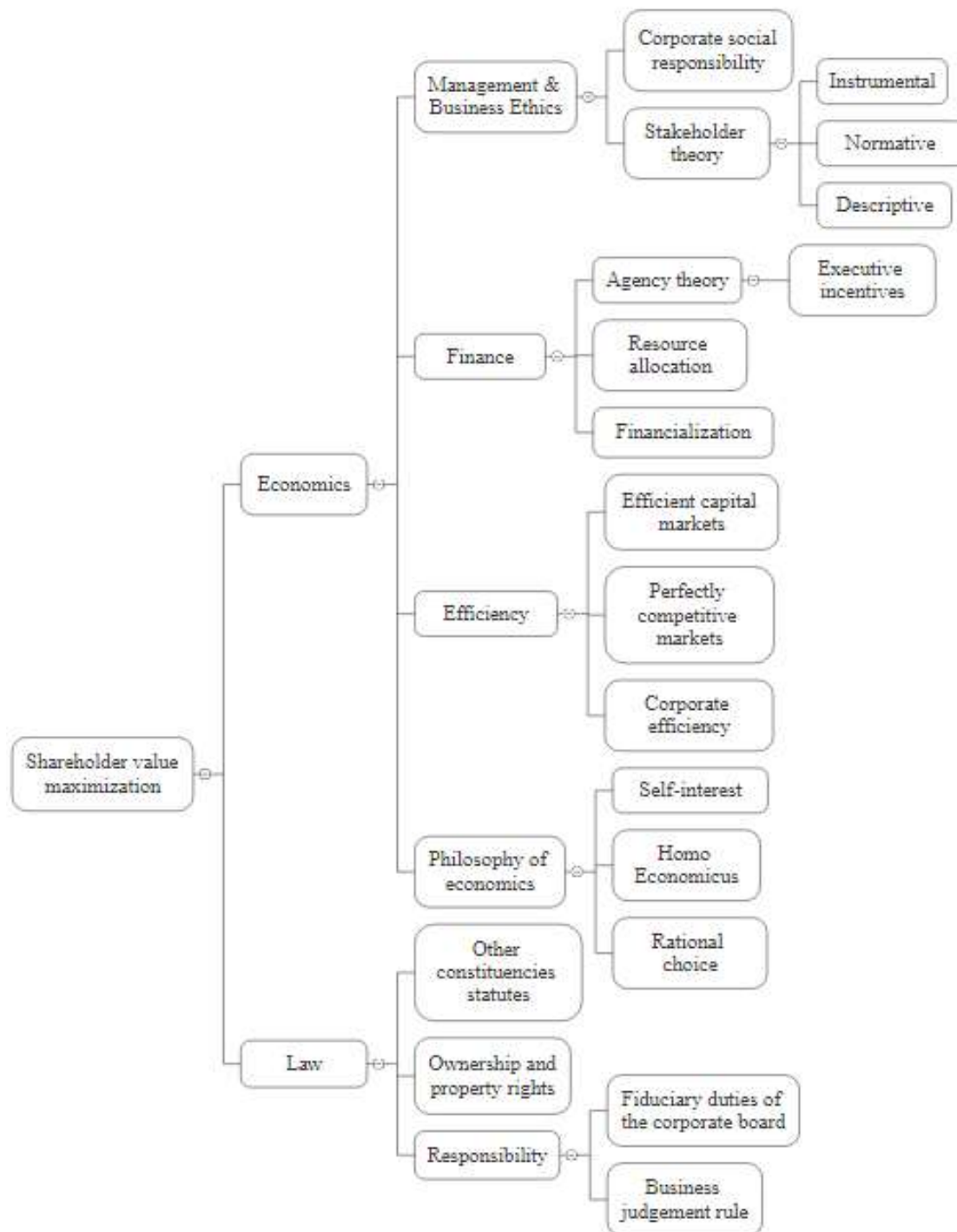


Figure 3 The typology of the shareholder value maximization

and they act within a society, they should be contributing socially as the society is having a stake and a risk in corporation. And similarly, as with the stakeholder theory, for the

others the corporate social responsibility is the goal and for the others corporate social responsibility is instrumental in achieving financial superiority and shareholder value. Some see shareholder value maximization being an impediment for corporations taking the social responsibility. (Donaldson and Preston 1995; Freeman et al 2011; Smith and Rönnegard 2014.)

The second categorization of the literature mentioning shareholder value maximization is financial literature. Along with the managerial corporate objective and strategy literature the financial literature is very important category. Simply because one can find the origins of the modern form of the shareholder value maximization from the financial literature (see e.g. Jensen and Meckling 1976; Friedman 1970; Jensen 1990; Jensen 2001; Sundaram and Inkpen 2004a). Financial literature has concentrated largely in agency problem and agency costs and to aligning managerial interests with shareholder's interests. Resulting literature revolves around designing compensations for chief executive officer to which managerial literature has responded with criticism (e.g. Lazonick and O'Sullivan; Clarke et al 2018). On the other hand, financial literature or financial theories provide shareholder value maximization theory with basic things such as measurement instructions and definition (Friedman 1970; Findlay and Whitmore 1974; Rappaport 2006; Brealey, Myers and Allen 2008). For example, Brealey, Myers and Allen (2008) is one of the most used finance textbooks and it gives definitions for the shareholder value and instructions how to measure it with net present value methods.

Third part of the typology is efficiency literature and fourth is philosophy of economics. These two are strongly interrelated and they are not generally connected with the shareholder value maximization but according to this literature synthesis, they are necessary elements of the evolution and viability of the shareholder value maximization theory. That is, the shareholder value maximization theory rests on philosophical abstractions of the human nature that economics assume. For example, economics assume that people are driven by self-interest and that they make rational choices based on perfect information as they pursue selfish goals (Smith 1776; Jensen and Meckling 1976). Then, the whole agency system – separated and dispersed ownership – is relying on this selfishness and rationality assumption. The shareholder value maximization is the ultimate test for classic economics in that sense. Classic economics also drive the desire for efficiency. Academic literature on economics, finance and management is impregnated with texts considering efficiency and how to achieve it and some even argue that the whole scientific discipline of management is based on efficiency (see Martin 2019). Shareholder value maximization also strives to increased efficiency and for the

shareholder value maximization theory to work and be justified there must exist efficient capital markets and (almost) perfect competition (e.g. Jensen 2001; Jones and Felps 2013).

In the field of law, the shareholder value maximization has been a topic of interest for a bit longer than in the field of economics. That is because the law addresses problems of ownership and responsibility more directly than economics. For example, as the modern corporate form of business were established in 19th century (Millon 1990:206), the problem of minor shareholder oppression became an issue. Then courts were obliged to take stances in cases like Ford v. Dodge (see chapter 4.6.1.). The full establishment of the shareholder value maximization in the field of law was the Berle versus Dodd debate during early 1930s where these two professors debated what should be the corporate objective (Berle and Means 1932; Macintosh 1999). These are the issues of the field of law still today, for example Stout (2002, 2013) addresses the problem that shareholders do not actually own the corporation as they only own the share they bought. Legally examined, the corporation owns itself as a legal entity. The other stream within the law is regulation. There is great deal of regulation that tries to address these legal academic problems of responsibility, accountability and ownership. After all, legal framework is all that a corporation is. The other constituencies statutes are the most prominent regulation directly influencing to the corporate objective and the shareholder value maximization (see chapter 4.6.2.).

Together, law and economics are comprising the literature mostly concerned with the shareholder value maximization theory. These all categories are addressed and discussed in this review with emphasis given to the managerial and strategic view. The field of literature considering the shareholder value maximization seems to be quite vast and dispersed and the origins of the theory are not precise. Therefore, there are no direct founders or school of thoughts from where the ideology of maximizing the shareholder value emerged. It means that literature must be synthesized and analyzed to create a chronological and maybe even causal stream of thinking combining law and economics if one wishes to define the origins of the shareholder value maximization. It might also mean that the shareholder value maximization encroached upon us without no one noticing as Keynes (1936) worded the problem.

4. THE SHAREHOLDER VALUE MAXIMIZATION THEORY

This chapter reviews and synthesizes economic, organizational, managerial and legal literatures on shareholder value maximization as the corporate objective. There are two major and competing theories, the shareholder value maximization theory and the stakeholder theory. This alignment has often led the research and discourse in general to sidetracks and away from the corporate purpose and above all, away from the unavoidable normative content of such debate. If treating these theories as independent variables in regression analysis, the debate considering corporate objective is probably not advanced. The important question is the what *should be the objective of corporation and on what grounds?* What is the justification of its existence? It is not the question of with whose interests in mind corporations should be run or which party is or should be more privileged than the other. It is not the question of how to create financial returns through ethical actions. The question is about normative content of the theory of the corporation and its responsibilities.

“The company can pursue the simple goal of maximizing value” (Brealey, Myers and Allen 2008:3)

The theory of maximizing shareholder value is being taught in virtually every business school in the world while scholars are increasingly arguing that the theory is destroying societies and leading to serious problems in form of short-termism for instance (Smith and Rönnegard 2016:468; Bower et al 2017; Ghoshal 2005; Lazonick et al 2000). The textbook by Brealey, Allen and Myers (2008) is one of the most used textbook in finance and it has sold millions of copies and it has been used as a reference by even more business students and professionals. The starting point for the whole book is value, and the notion that the only acceptable goal for a limited liability company is to maximize the value of its shareholders. The incredible influence of shareholder value maximization is visible for example in how it has altered legislation and corporate strategies and executive behavior (e.g. Clarke et al 2018; Smith and Rönnegard 2016; Rappaport 2006; Lazonick and O’Sullivan 2000). This invokes many critical questions; why the fundamental financial theory, shareholder value maximization, has got under so much objection and why it gained so much authority in the first place?; why are financial theories formulating our corporate strategies and why are the financial markets so powerful instance that it can decide who benefits and how much?; why is the shareholder value maximization taught in business textbook without challenging it or arguing for it?.

Based on the analysis of the collected literature, these questions remain largely unanswered. There are many interpretations, opinions and discussions but they are unfinished. The major argument for the assertion that the corporate objective should be shareholder value maximization is the utilitarian argument which claims that shareholder value maximization makes the whole society better off. This argument is posed in many papers and by many authors, but it is discussed shallowly (e.g. Jensen 2001; Sundaram and Inkpen 2004a). The utilitarian argument is countered with evidence from practice (e.g. Bower & Paine 2017) but also logically (e.g. Jones and Felps 2013). The most well-known argument against the shareholder value maximization is the stakeholder theory claiming that shareholder value maximization is unethical and immoral and neglecting the interests of the broader society. The claim is in direct opposition of what the shareholder value maximization theory claims to be (Freeman et al 2011). The stakeholder theory is quite promising in the sense that it has gathered a lot of interest and attention. However, stakeholder theory seems to be vulnerable to similar problems than the shareholder value maximization theory as there are no better solutions for preventing mistakes made by the managers for example.

Systematic literature review reveals that it might be that the theory is misunderstood and misinterpreted by management as the shareholder value maximization is not necessarily pushing corporations to behave badly nor to engage in harmful short-term actions – as the criticism often goes (e.g. Bower and Paine 2017; Rönnegard and Smith 2016; Lazonick 2012; Stout 2002, 2008; Lazonick and O’Sullivan 2000). Indeed, the most influential and famous shareholder value maximization advocates do not support short-term practices that increase the stock price in the short-term but which in turn are value destructive actions in the longer-run, nor do they support immoral or unethical procedures to increase earnings per share (e.g. Friedman 1970; Jensen 2001). However, short-termism exists as the world is running quarter by quarter as one looks for example cases like financial crisis in 2007-2008 (Clarke et al 2018), Enron (Markham 2015), Carillion (Financial Times 2018a), Valeant (Bower and Paine 2017). It remains unclear whether the misbehavior is systematic and intentional or sincerely accidental and whether the shareholder value maximization theory is to be blamed or is it just framed.

Another, significant finding of the literature review is that there is little or no empirical evidence on functionality or dysfunctionality of the maximizing shareholder value theory. Most of the core publications are plainly theoretical constructs and mathematical representations (e.g. Jensen and Meckling 1976) and very little column space is left for

actually testing the consequences of adopting the theory. It is a rational debate with huge practical impacts.

The chapter is divided into five main sections. The first section (4.1.) describes the contents of the shareholder value maximization and along with some definitions it addresses to the research question number one; ‘What is the content of the shareholder value maximization theory?’. The second section (4.2.) addresses the research questions two and three by defining origins and development of the shareholder value maximization and by discussing whether the shareholder value maximization is responsible for misconducts in markets. Sections (4.3.) and (4.4.) further elaborate some issues regarding the shareholder value maximization and especially its responsibilities. The section (4.5.) outlines what legal literature have to say about the shareholder value maximization theory.

4.1. Content, meaning and definition of the theory

Shareholder value maximization theory is a way of assessing success – a way of deciding between better and worse. The shareholder value maximization theory is a tool for weighing between decisions but simultaneously the weighing is restricted by the rules of ethics and the rules of law (Friedman 1970). It is not a way to decide what to do and how to do those chosen things. This is the key issue and key misunderstanding as people tend to think shareholder value maximization being the reason to all bad things in the world (see e.g. Lazonick and O’Sullivan 2000; Freeman et al 2011; Lazonick 2012; Bower and Paine 2017). Adequately used shareholder value maximization theory cannot override ethics, long-run assessment or law. If decisions are short sighted or unethical, they are not in accordance with the shareholder value maximization. Rather, the manager is exercising his own interests or making plain mistakes. It would be important to notice that for example short sighted decisions that are invoked entirely or partially by the incentives that are tied to share price of the corporation are not maximizing shareholder value. Shareholder value maximization is not the correct subject of criticism if management misbehaves and maximizes its own value through incentives while neglecting the shareholder value maximization (Jensen 2001: 308; Sundaram and Inkpen 2004a). Rappaport (2006) describes the problem quite intriguingly in his article:

“When executives destroy the value they are supposed to be creating, they almost always claim that stock market pressure made them do it. ... The reality is that the

shareholder value principle has not failed management; rather, it is management that has betrayed the principle.”. – Alfred Rappaport (2006)

The shareholder value maximization theory tells managers what to do and why, while it takes no stance in how those things should be done. Means are restricted by larger society, moral custom and long-termism for example (Friedman 1970; Jensen 2001; Sundaram and Inkpen 2004a). Shareholder value maximization does not justify the things that are being practiced in corporate life, for example, ending research and development or sacking employees in the name of increasing share price nor does it justify sacrificing dignity and values over profits (cf. Markham 2015; Fuhrman 2016; Bower and Paine 2017). Put simply, shareholder value maximization does not justify bad corporate behavior. One can not maximize the value of shareholders without taking into account all stakeholders (Jensen 2001).

Superficially, the content and definition of the shareholder value maximization seem to be well established. Neither the sample collected through systematic search nor the sample collected through theoretical sampling found evidence that there would be conflicts about the content of the shareholder value maximization. One commonly cited definition is given by Jensen (2001:299);

“value maximization says that managers should make all the decisions so as to increase the total long-run market value of the firm”.

The reason for the conflict is that the concept of ‘maximizing the long-term shareholder value’ includes four terms of which only two are clear-cut and unambiguous. Shareholder is the one who owns the share of a company, there is no trouble here. Then maximization is defined as actions striving to maximize the amount of something with certain resources. But the terms ‘*long-term*’ and ‘*value*’ are more difficult to define in this context as they clearly include some normative, moral and ethical content and they can be, and most likely are, varying between individuals and corporations based on for example demographics. One cannot objectively state what is ‘long-term’ or ‘value’ for a company or an individual while one can mathematically state what is maximizing and one can legally state what is owning a share and then define rights and responsibilities resulting from the ownership. It becomes plain visible, that unless these definitive problems are solved with common consent, one cannot place the very same objective for all corporations. Put otherwise, we cannot demand that all corporations use one corporate objective unless it is clearly defined.

The offered solutions are for example that value stands for the value of the total value of the firm or market value of the firm. According to Jensen (2001), total value of the firm is the ‘sum of the values of all financial claims on the firm’. Finance has a solution for a definition of the ‘long-term’ because financially thinking, one does not have to think time horizons of any management decision as long as the net present value for the decision is positive (Jensen 2001; Brealey et al 2008).

The long-term value maximization means basically investments to the future of the company – in other words it means investments to the subjects of corporate social responsibility. Under the idea of long-term shareholder value maximization corporations are not prevented to invest for example in employee amusement, charities and keeping suppliers in business or otherwise improving the general welfare (American Bar Association 1990:2257-2258). The logic is that these investments are also in the best interest of the shareholders in the long run. For example, keeping employees satisfied and community’s education system in a good shape through donations could ensure the source of competent employees and enhance the employer image, just to give an example. It is explicit that these not-shareholder-related actions should be such that there exists ‘rationally related benefit accruing to stockholders’ or legal actions can be taken against them (Revlon, Inc v. MacAndrews & Forbes holdings).

In short, definitive problems exist between authors but they are not generally about the definition of the theory or about the statement that the shareholder value maximization makes, but about the *meaning* or *interpretation* of the words like long-term for example. Furthermore, the shareholder value maximization is not clear objective in terms of how to achieve it or how to measure it. Argenti (1969:25) crystallizes the ambiguousness of the objective of *maximizing profits* quite compellingly;

“when, for example did a chief accountant ever say to the chairman “I have examined our accounts for 1969 and in my opinion we maximized our profits”. This objective is not clear, not precise, not unambiguous and certainly is not verifiable.”

Argenti (1969) conclude that the shareholder value maximization on the other hand is clear, precise, unambiguous and verifiable – only acceptable goal for a corporation. However, the shareholder value maximization is not free from the criticism Argenti (1969) placed upon the objective of profit maximization as it would be hard to think that the chief accountant would say to the chairman that “I have examined our accounts for 2018 and in my opinion we maximized the value of our shareholders”.

4.2. History & development

To understand the ideological roots of the shareholder value maximization, the information of how the shareholder value maximization ideology developed is extracted from analyzed articles. What follows is an interpretation of history and interpretation of only one author. The value of the timeline and history will be in clarity and novelty – it is presented in graphical form and there is no such historical path on the shareholder value maximization ideology presented so far. For example, Sundaram and Inkpen (2004a) provide a literature review and history of the shareholder value maximization ideology but it is not very comprehensive. Schumpeter (1954:5) offered his justification for chronicling economic history; *“much more than in, say, physics is it true in economics that modern problems, methods, and results cannot be fully understood without some knowledge of how economists have come to reason as they do”*. This is especially true here because clearly, only few seem to understand the logics of shareholder value maximization. For example Freeman et al (2011) and Bower and Paine (2017) are criticizing shareholder value maximization theory for things and consequences that are not allowed by the shareholder value maximization. Researching economic history seems to be worthwhile effort in order to understand the implicit logics of the shareholder value.

The shareholder value maximization is held as an ideology (e.g. Lazonick and O’Sullivan 2000). Ideology means something that we breath, something that is overarching of all. Ideology is not attributable to any one person and therefore it is important to track how it evolved. It is not as in physics that one could say that it was Milton Friedman (1970) who decided that shareholder value maximization theory will be used and what is its content. Physicist may declare that Newton created the theory about mechanics, but this review is unable to declare that some guy created the theory about shareholder value maximization. Instead, this review is able to present one possible sequential and at least partially causal interpretation of what could have reasonably happened. Shareholder value maximization is a result of *“200 years of research in economics and finance”* and therefore its development follows quite general path of economic history (Jensen 2001:299).

Depending from the source, the journey of the shareholder value maximization theory to the current dominance can be interpreted to have started as early as in 1776 and precisely it is rooted in the work of classic economist Adam Smith (e.g. Jensen et al 1976; Jones and Felps 2013). Adam Smith (1776) wrote about the issue of having managers separate from the owners and suspected, that managers who manage other people’s money never handle it with such a care as they would handle their own money. Nowadays this issue is

known as an agency problem and it is widely recognized (e.g. Jensen et al 1976; Eisenhardt 1989). The agency problem is also one of the corner stones of the shareholder value maximization theory because it is the logic behind management's incentive plans which in turn are one of the complications in the shareholder value maximization theory. More generally, corporation's ownership structure follows from the agency problem.

Adam Smith wrote about selfishness and its link to utilitarian argument among the dispersed ownership problem and division of work. Here is how Smith (1776) thinks:

“It is not from the benevolence of the butcher the brewer, or the baker that we expect our dinner, but from their regard to their self interest. We address ourselves not their humanity but to their self-love...” (1776:11)

“He [a person] ... is led by an invisible hand to promote an end which was no part of his intention” (1776:260)

“By pursuing his own interest, he [a person] frequently promotes that of the society more effectually than when he really intends to promote it” (1776:260)

The bottom line is depicted in three quotes. This is the root of the shareholder value maximization theory and the root of modern economics – self-interest, competitive markets and proper division of labor. In addition, investors invest only to the industries that will yield the highest returns for themselves. Self-interest drives people to act correctly and morally in the larger setting creating more social welfare. To create superior social welfare the self-interest mechanism needs markets and those markets need to be of certain kind. In short, markets must be competitive for economy to be efficient and self-interest to deliver a social welfare. To elaborate the position of self-interest as a heart of the modern economic principles one more quote from Adam Smith (1759:9) is adequate:

“The natural effort of every individual to better his own condition...is so powerful, that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often encumbers its operations.”

Smith (1759) underlines that there is no need for the government to intervene as the self-interested agents will make better decisions in allocating and distributing resources and wealth.

Then what could be seen as a rough follow up to Smith's (1776) work is David Ricardo's (1817:90-92) comparative advantage. Comparative advantage takes Smith's (1776) division of labor idea forward as Smith (1776:14) applied it to tribes and within a nation. Ricardo thought that nations should focus on what they do best and that this would lead to more prosperity for all. The simple argument that Ricardo (1817:90-92) set forward here is that since Portuguese are better at producing wine than they are at making cloth, they should concentrate on that and because English are better at making cloth, they should concentrate on that. Then English and Portuguese trade with each other's and they both will have more wine and more cloth to consume. The intention is to *increase efficiency*. In the introduction chapter of Schumpeter's (1954) *History of Economic Analysis*, Mark Perlman (1981) offers an opinion that Ricardo (1817) referred to Smith (1776) and used tighter reasoning and "*thus it seemed classical economics was assembled, if not actually born*".

Martin (2019) argue that industrial revolution was also driven by the desire for efficiency and self-interest.

"These insights [Smith's and Ricardo's] both reflected and drove the Industrial Revolution, which was as much about process innovations that reduced waste and increased productivity as it was about the application of new technologies". (Martin 2019:44)

Then the work of Smith (1776) and Ricardo (1818) was picked up by management scholars like Winslow Taylor who established the modern science of management in his seminal book *The Principles of Scientific Management* published in 1911 (Ciannantonio and Hurley-Hanson 2011). If something – shareholder value for instance – is to be maximized, processes should be as efficient and wasteless as possible. The whole point of 'Taylorism' is to increase efficiency in corporate and individual levels and even though the content of Taylor's scientific management is debated and questioned by many, the influence of Taylor's work for the practice and for the management science goes without doubt (Ciannantonio and Hurley-Hanson 2011). Management science further emphasized efficiency and eliminating waste when Edward Deming put out Total Quality Management approach in the 1980s which was then replaced by other efficiency striving principles such as Lean manufacturing 1990s' (Shirdhara 2009). The stamp of economic efficiency and pursue of economic results is clearly visible in management and management science.

The efficiency desire is essential for shareholder value maximization. The logic of financial economists is that when waste appears in a corporation, it will be ousted from the markets as shareholders sell their holdings or it will be the target of merger or acquisition. Mergers and acquisitions are labeled as ‘market for corporate control’ which refers to the idea that when a corporation is run badly (inefficiently) shareholders will sell or they will buy the whole corporation and replace the management (Jensen 1990). In other words, if the corporation is inefficient and inefficiently managed it is not maximizing the shareholder value and therefore the problem will be solved through market for corporate control.

Shareholder value maximization theory renders application of Ricardian model of trade to corporations as shareholders pursuing for their self-interest should reallocate their capital if inefficiencies appear in a corporation. They should invest in companies that are doing what they are most efficient at doing in. The amount of outsourcing and the number of suppliers in contemporary business models neatly describes this continued strive for ever increasing desire for efficiency and furthering ever more fine-grained division of labor (e.g. Webb 2018). Many companies do not have their own caretakers and simple production processes might be transferred to offshore locations because these processes are not what they do best – they are not their core competencies nor sources of competitive advantage which are essentials of contemporary strategic management (e.g. Peteraf 1993). Described characteristics depicts modern capitalistic economy and system which has created enormous amounts of wealth (see e.g. World Bank 2019). Is there any limit for how long efficiency is desirable, and division of labor should be continued? One undertaking this issue is challenging the modern economic theory. For example, the field of management is quite reliant on the concept of efficiency and endless pursue of specialization and better organizing of work and organizations themselves (Martin 2019).

So far, the reviewed intellectual or theoretical roots has been economical and managerial, roughly answering to the question of how the shareholder value maximization fits in the management science and to the minds of managers – because the root of management is in economics and the root of economics lays in assumptions like self-interest (Smith 1776; Ricardo 1817). Indeed, outlined writings and authors seem to be the root of the shareholder value maximization or at least they describe the ideological and theoretical frame in disciplines of economics and management that is required for the shareholder value maximization and how this frame developed. The fit between shareholder value maximization and management is not obvious because the shareholder value maximization is foundationally financial theory and not management theory.

Management science evolved to desire efficiency and competition and accept the economic assumptions. Accepting modern economics seems to be necessary condition for the shareholder value maximization to be adopted by managers.

In the remaining of this chapter the financial theories are reviewed shortly and finally the graphical timeline is presented. Despite of the early recognition of the problems in dispersed corporate ownership (e.g. Smith 1776), quite recent literature from 1970s' considering corporate governance is where the shareholder value maximization theory is fully founded and articulated. It became mainstream of corporate governance when financial economists picked up the problem corporate objective. Nobel laureate Milton Friedman (1970) is quite often credited (or blamed) for articulating the shareholder value maximization theory out loud for the first time and with huge influence. Most of the papers and influential authors researching the evolution of the shareholder value maximization, such as Lazonick and O'Sullivan (2000) and Stout (2013), conclude that it was the notorious piece from the nobelist Friedman (1970) published in *The New York Times* that pushed the ideology forward. To its truly dominant position, shareholder value maximization got during 1990s. One of the greatest arguments for adopting the shareholder value maximization theory was the excessive pay checks that managers were receiving while the pay was not tied to performance (e.g. Lazonick and O'Sullivan 2000, Shin 2012). The logic is that executive pay should be tied to shareholder gains so that executive managers would not waste shareholder's money. (Lazonick et al 2000; Sundaram and Inkpen 2004a.)

In financial theory, the origin of the shareholder value lays in the agency theory crafted for these purposes by Jensen and Meckling (1976). The work of Berle and Means (1932) could be seen as a preliminary work for Jensen and Meckling (1976) to fully establish agency theory. Other widely cited and influential papers in establishing the agency theory and placing finance in the center of the corporate governance are papers from Fama (1980) and Fama and Jensen (1983a, 1983b). Antecedent of the agency theory literature is the property rights literature and the realization of corporation as a nexus of contracts (Fama 1980). Agency theory is the source of the assertion that shareholders own the corporation and they are therefore entitled to decide what the corporate goal should be, and they should receive the residual of corporation's income (Jensen and Meckling 1976).² Besides the assumption of ownership, the agency theory is a root cause of management's compensation packages. Without the agency theory, the shareholder value

² This assertion is however debated as it is not clear how one could own something without bearing no responsibility whatsoever (Stout 2008; Bower and Paine 2017).

maximization theory would also be defunct. If replacing agency theory for example with the view that corporations are an entity that owns itself, the whole idea of maximizing shareholder value becomes quite weird. An agency relationship is defined by Jensen and Meckling (1976:308) as follows;

“We define an agency relationship as a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent.”

Since the management is only an agent of the shareholders, it is easy to see how this idea of shareholder wealth maximization is attractive logically and empirically. An obvious and unavoidable problem arising from the agency theory arises from Smith’s (1776) assertion of self-interests. This self-interest problem is the one that directed discourse and large part of the scholar’s work is directed to solve the self-interest problem in an agency relationship (Bower and Paine 2017). Shareholders should enforce or monitor that management – as their agent – is behaving according to shareholder’s best interest and that management is not simply maximizing their own welfare as the economic theory suggests. However, there would be huge costs if all diversified shareholders would monitor agents of all their holdings. Shareholders would not be able to do anything else than monitor managers and still the result might not be satisfactory which would mean that modern capital markets would not function – at least not efficiently. The solution is to create conditions in which manager’s and shareholder’s desires are aligned and to establish a board of directors that is elected by the owners of the corporation. This is the contemporary form of corporate governance. To be able to trust more on managers acting adequately on behalf of the shareholders, the agency theory resulted as incentive compensation packages for executive managers that are tied to shareholder wealth (in practice, to share price). This solution – the executive compensation packages and boards – is widely debated (e.g. Lazonick and O’Sullivan 2000). (Friedman 1970; Jensen and Meckling 1976; Bower and Paine 2017.)

Both, Jensen and Meckling (1976) and Friedman (1970) take the assumption of self-interest and apply it without questioning to the management and to the shareholders. Shareholders – regardless of their investment horizon, demographics or risk tolerance for instance – desire only maximum monetary profit and nothing else. Friedman (1970) acknowledges ethical custom while Jensen and Meckling (1976) do not mention such aspects of the problem.

“[managers] responsibility is to ... make as much money as possible while conforming to their basic rules of the society, both those embodied in law and those embodied in ethical custom.” Friedman (1970)

Lazonick's and O'Sullivan's (2000) criticism for the shareholder value maximization is one of the most cited and it also provides the most comprehensive historical analysis of the development of the shareholder value maximization theory. Lazonick and O'Sullivan operate at the more general level than that of individual authors and writings. They claim that because of the shareholder value maximization, corporate strategy transformed from being “retain and reinvest” to what could be called “distribute and downsize”. For the rise of shareholder value maximization in the United States, Lazonick and O'Sullivan (2000) blame financial economists who crafted theories about corporate governance. For example, they were economists who created the idea of markets for corporate control and they were economists who created the idea that financial markets are inevitably better in allocating corporate resources than corporations themselves.

As a result of the merger wave of 1955-1970 in the U.S., there were giant conglomerate companies such as the General Electric. The performance of these conglomerates was decreasing compared to preceding decades (e.g. Jensen 1990; Martin 2019). Japan posited innovative and competitive pressures upon U.S. companies. According to Lazonick and O'Sullivan (2000) this was the very reason why there were space and some sort of ‘vacuum’ for the agency theory and other financial theories to appear and gain such an influence. These giant U.S. corporations were demonstrating poor financial results in terms of earnings per share, and hence, the market for corporate control was needed to discipline management and reallocate the resources that are used inefficiently (Jensen 1990). U.S. also experienced financial deregulation and the rise of an institutional investor as for example pension funds got permitted to invest in corporate equity and to below investment grade bonds which was strictly limited before (Lazonick and O'Sullivan 2000). Lazonick and O'Sullivan (2000:18) describe the results:

“Under the new regime, top managers downsize the corporations they control, with a particular emphasis on cutting the size of the labour forces they employ, in an attempt to increase the return on equity.”

In short, Lazonick and O'Sullivan (2000) argue that it was the takeover markets, or markets for corporate control that fully enabled the shareholder value maximization to claim a position of an ideology. Market for corporate control needed deregulation which gave arise to the institutional investors as pension funds, insurance funds and savings &

loans companies could now invest significantly more freely, stock repurchase became possible and options became beneficial after-tax changes in 1950s, and creation of ‘junk bonds’. According to Lazonick and O’Sullivan, this all led to major job cuts and in general to downsizing instead of growing.

Shareholder value maximization has altered the allocation of resources and profits. Generally, payout ratio – the dividends and repurchases – has skyrocketed, share price based compensation is larger portion of CEOs’ salary than the ‘regular’ salary and CEOs and boards are biased to increase share price instead of other goals. (Lazonick and O’Sullivan 2000.)

In 1999 OECD published ‘*The Principles of Corporate Governance*’ declaring that:

“Common to all good corporate governance regimes, however, is a high degree of priority placed on the interests of shareholders” (OECD 1999:6).

The widely cited criticism by Lazonick and O’Sullivan (2000:14) conclude that OECD “*emphasizes that corporations should be run, first and foremost, in the interests of shareholders*”. The interpretation is quite exaggerated as the OECD also acknowledged that there is no single best way for conducting corporate governance and continue that (OECD 1999:6):

“In addition, the best-run corporations recognise that business ethics and corporate awareness of the environmental and societal interest of the communities in which they operate can have an impact on the reputation and long-term performance of corporations. Competitiveness and ultimate success are the result of teamwork, involving contributions from employees and other resource providers. Reflecting such considerations, the Principles recognise the role of these stakeholders and encourage active co-operation with them in creating wealth, jobs and financially sound corporations.”

Encouraging to co-operation and to involving contributions from other stakeholders is not exactly disregarding these other stakeholders and over emphasizing shareholders’ primacy. However, the OECD might not be the best source for shareholder value maximization advocacy, as it has several member countries from Europe other than the UK, where the shareholder value maximization is not as prominent ideology and instead the corporation itself is in center of the decision making (e.g. Mintz 2006, Maassen 2002). From the latest version of Principles of Corporate Governance (2015), the OECD has

removed the whole idea of “*high degree of priority placed on the interests of shareholders*” (OECD 1999, 2015).

Current state of the shareholder value maximization is best visible in the news and other sources than OECD reports. Business Roundtable consists of U.S. CEOs and it claims to be an “authoritative voice on matters affecting American business corporations” (Business Roundtable 2016). The Business Roundtable *Principles of Corporate Governance* (2016) describes the current sentiment quite well:

“These [contemporary] investors seek a greater voice in the company’s strategic decisionmaking, capital allocation and overall corporate social responsibility, areas that traditionally were the sole purview of the board and management.”

While OECD (1999, 2015) might not push the shareholder value maximization, the Business Roundtable certainly does. For example, Business Roundtable (2016) argue that “*Corporations are for-profit enterprises that are designed to provide sustainable long-term value to all shareholders*”. Further, Business Roundtable (2016) believe that greater shareholder participation is the direction where the American capitalism and corporate governance systems are headed. The report rises very important question which cries for more attention in the future: how does the *responsibilities* of the shareholders evolve and change if they will exercise more power over the corporations and its strategy? Currently, corporations still use this theory and it is still taught in business schools (Rönnegard and Smith 2016; Ghoshal 2005). It is still an ideology even though OECD has removed it from the principles.

The most recent developments are quite promising for the shareholder value maximization theory as shareholder activism and the so-called responsible shareholder have emerged. It stands for the idea that shareholders should demand corporations to act responsibly (see e.g. Eccles and Klimenko 2019). Shareholders are forming influential groups together with institutional investors such as Climate Action 100+ (Climate Action 100+ 2019). Climate Action 100+ is an international group of investors which has pushed for example British Petrol to align its strategy with Paris agreement on climate (British Petroleum 2019; Climate Action 100+ 2019). Another exemplar case would be that Royal Dutch Shell tied its executive compensation to carbon emission targets as a first corporation in the world and accordingly it was solely because of pressures from the shareholders (Financial Times 2018b). In other words, the shareholders themselves act based on their personal values and demand that the corporation reduces the sales of the product that it produces (or creates other businesses). This is promising direction for the

shareholder value maximizing corporations even though Business Roundtable (2016) stated that “*shareholders should not expect to use the public companies in which they invest as platforms for the advancement of their personal agendas or for the promotion of general political or social causes*”. It is a large part of the shareholder value maximization theory that investors, managers and consumers all use their own judgement in comprising the market signals, therefore, Business Roundtable (2016) statement is not very strong. The shareholder value maximization in 2019 is very different compared to what it was hundred or two hundred years ago. Maximum shareholder value is no longer straightforwardly money and share price – the shareholder value can also be breathable clean air and less pollution. Maximum shareholder value is equal to maximum shareholder welfare.

4.2.1. The notion of corporation – contract, relationship or entity

It is important to understand that financial economists, starting from Smith (1776) and culminating to Jensen (2001), are not and were not establishing a theory of the firm. They were establishing a mechanism that works for determining and forecasting prices. The firm itself has been a ‘black box’ for financial economists (Jensen 1990; Findlay and Whitmore 1974). Kotlar et al (2018) provide a great review of the theories of the firm developed in management and organizational science but often these theories describe only one specific problem and they are not generalizable. So far it seems, that no one has deliberately created shareholder value maximization theory and that the shareholder value maximization theory is not intended to be used as a theory of the firm as it currently is used in the US. Lawmakers or regulation have not forced it as it is not in any way a legal obligation and economists or management scientists have not formulated it to be a rule for corporate governance and yet it dominates thinking of managers and teaching in business schools (Ghoshal 2005). Financial markets are creating enormous pressures as almost everything depends from the stock market (e.g. savings and loans are backed by prospering stock market, if the growth hinders, consequences are dramatic see Lazonick and O’Sullivan 2000).

However, without knowing what the corporation is and why would it exist, it is difficult to determine objectives for it. Based on the analysis in this literature synthesis, a corporation can be nexus of contracts as shareholder value theory proposes (Jensen 2001), nexus of relationships as stakeholder theorists (Freeman et al 2011) propose or an entity as some others propose (Donaldson 1982; Fort 1996). Differences in the definition of corporation definitely creates tensions and misunderstandings when scholars are debating

about what should be the goal of such an entity as the corporation. There seems to be deep disagreement about the concept of corporation. They are shortly outlined here to function as a frame for discussion of shareholder value maximization. Jensen (1990) called for financial economists to create a theory of the firm in his 1990 article, but he still referred to the nexus of contracts in 2001 which was already established in the article by Jensen and Meckling (1976). Therefore, it seems that financial theory of the firm is still in progress.

One author is trying to combine law and economics (Fort 1996, 1997). Fort (1996:150) describes a corporation being mediating institution which has economic function, but which also has a purpose of ‘mediating between persons and society’. Fort (1997:174) attempts to combine his theory of the firm as mediating institution, the stakeholder theory and other constituency statutes claiming that, put together, these produce a comprehensive view of a corporation. Fort (1996) argues that in the past, people had more time outside the working environment and business life and therefore people got to fulfill their social needs to cultivate their identity – which they do not get to do now. Hence, the conclusion that businesses and corporations should be seen and organized as mediating institutions which should provide advantages and fulfill individual’s fundamental social needs similarly as family or religious group does (Fort 1996:151). The implication for the corporation is that they should be organized so that either they are very small-scale, or that they have small subparts that allow people to create and feel friendship, negotiate and to be recognized (Fort 1996:153). Fort’s assertion is, that companies can simultaneously benefit all stakeholders through his concept of the corporation, stakeholder theory and other constituencies statutes, but that corporations should prioritize in serving *internal stakeholders – employees and shareholders* – and conclude that employees should be included in the board of directors (Fort 1997).

From the perspective of the stakeholder theory, the corporation is seen as a collection of relationships among those that have a ‘stake in the activities that make up the business’ (Freeman, Harrison, Wicks, Parmar & De Colle 2011:24). It is not very far-off definition of a company when compared to its ‘rival’ from the shareholder camp offered by Jensen and Meckling (1976) who described the company being a nexus of contracts. Of course, if one does not perceive a contract being a relationship, these two definitions are very different. At least it is safe to argue, that where there is a contract, there is also a relationship as for example employees, suppliers and investors have explicit contracts with the company and they do have also a relationship with the company. Community and society could also be perceived to have implicit contract with the company stating it

will at minimum, obey laws and follow norms. Freeman et al (2011:24) continue, that the business is about how stakeholders interact and create value. Again, not very far from the competing camp as Jensen (2001:309) describes his take on the enlightened value maximization theory as follows; *'We cannot create value [maximize the shareholder value] without good relations with customers, employees, financial backers, suppliers, regulators, communities, and so on.* Jensen (2001:309) then continues, that the choice between competing interests among stakeholders – or contract holders – should be made with shareholder value criterion and reminds, that managers and employees need 'a structure' which keeps them away from tempting, but value destructive short-termism. The structure might be for example a purpose, policy, strategy or something equivalent.

4.2.2. The timeline

The timeline is constructed to be able to compare data and relate it to the shareholder value maximization theory and to formally satisfy the research questions two and three. For example, data from income distribution and data from incentives of chief executives are often connected with the shareholder value maximization theory (Lazonick and O'Sullivan 2000; Lazonick 2012; Clarke et al 2018). The formed timeline reveals that these phenomena might indeed be connected to the shareholder value maximization and its development. The timeline is significantly stronger argument for connecting these data points to the theory than only stating that the shareholder value maximization was established in 1970s and at the same time something else happened. With the timeline it becomes visible what happened and when, and how the idea of the shareholder value maximization originated. The timeline does not prove causality, but it gives the perspective. The timeline could be used as a template for any data that researchers want to connect to the shareholder value maximization.

One of the goals of this research is to increase practitioner's ability to judge the current regime of corporate governance. With the timeline it becomes visible that in what kind of thinking and events the shareholder value maximization is based on – what is the history of the current model for corporate governance. The timeline is one of the significant contributions of this research as such does not exist. Furthermore, a list of bullet points does not increase understanding as a picture depicting possibly existing causalities does.

The implications of the timeline are consistent with the overall conclusions of this literature review. The idea of shareholder value maximization starts from classic economists' work and thinking, and it assumes everything that classic economics assume.

Assumptions start from the work of Adam Smith (1776) and include self-interest and limitless rationality of economic agents. These assumptions are forwarded by other economists and U.S. Supreme court judges who influenced heavily in creation of current form of corporation and corporate control. One landmark case was the 1919 case *Ford v. Dodge* where court explicitly expressed legality of the shareholder primacy. Issues were debated in Berle and Dodd debate in 1930s which was followed by a brief quiet time through which the shareholder value maximization dominated the thinking. Since 1950s serious concerns over corporate behavior and corporate social responsibilities have risen among which the stakeholder theory is included.

To its full flourish the shareholder value maximization got between 1970s and 1990s. Globalization and increasing competition decreased the profitability of Western corporations which cleared space for new corporate governance regime (Lazonick and O'Sullivan 2000). This regime was the shareholder value maximization and it was offered by financial economists like Jensen and Meckling (1976) and Rappaport (1986) but also by practitioners like Jack Welch (2009). This development was supported by legal and regulative institutions and through easing financial regulation as for example share buybacks became legal. Option based executive compensation models were advocated by shareholder theory and agency theory and they became cost effective through tax legislation changes. Institutional investors such as funds grew in size and in influence which significantly increased the pressures of the financial markets on corporations (e.g. Lazonick and O'Sullivan 2000; Clarke et al 2018).

To date, the shareholder value maximization has prevailed as dominant model for corporate governance in academia, education and in practice. However, new wave of thinking has arrived in form of activist shareholders. The widespread criticism over the shareholder value maximization theory has led to the awakening of the shareholders themselves. Shareholders have formed activist groups to increase their influence and even notorious institutional investors are part of activist shareholders movement (Eccles and Klimenko 2019). Latest achievements of activist investors in battle against externalities and market failures include for example that the Royal Dutch Shell tied its executive compensation to carbon emission targets.

It seems, that shareholders might be the source of resolution for the tensions in and around corporations and corporate behavior. The shareholder value maximization has always been able to modify itself and develop over the time so that it has been consistent with the needs of society. The next modification might be shareholder awakening. Most

importantly, from what the maximum social welfare consists of changes over time. In 1776 the goals of corporations were different from what they should be today, but the shareholder value maximization might still be able to deliver the closest approximate of currently desired maximum welfare in society. Some parts of the battle over the stakeholders and shareholders and corporate responsibilities in general are caused by this transformation process of the shareholder value maximization and capitalism in general. Corporations need to address more on social responsibilities and things other than money, but that does not mean that the theory does not work. The new – responsible investor is arising ahead of new form of capitalism.

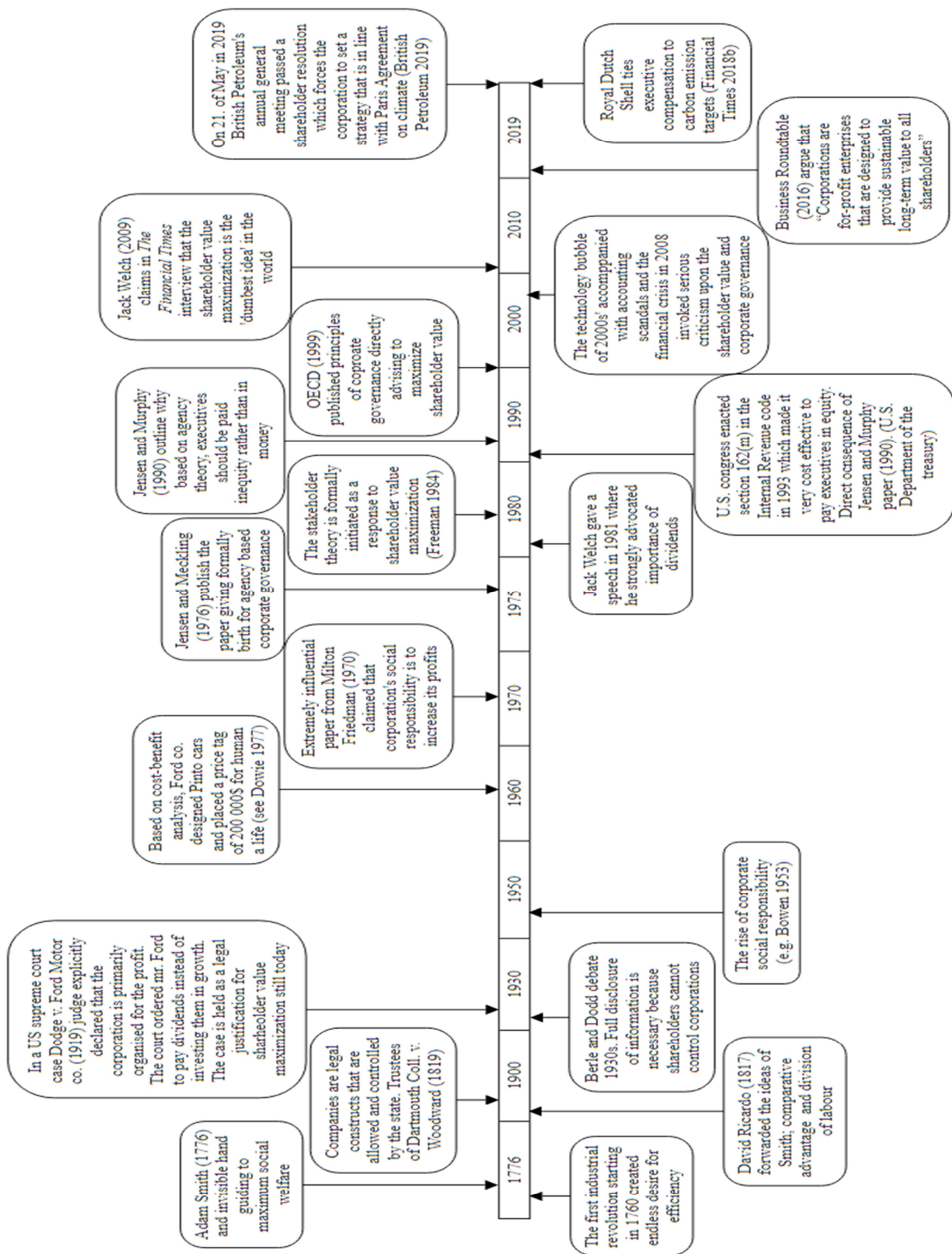


Figure 4 The development of the shareholder value maximization theory 1776-2019

The thesis provides two examples of empirical usability of the timeline, but future research might test different data sets and hypotheses against the timeline. The comparison between the timeline in figure 4 and Piketty's and Saez's (2003) work in figure 5 is exemplar. These two comparisons are also direct statement for research question 3, posed to reveal if the shareholder value maximization could be held responsible for problems like inequality in society. From the 1970s, when the shareholder value maximization theory and the agency theory were fully established in Friedman (1970) article and in Jensen and Meckling (1976) article, the income share of the top 10% has increased dramatically. If one would place Piketty's and Saez's (2003) income share figure and the shareholder value maximization's development timeline superimposed, the rising income inequality and the establishment of the shareholder value maximization start from exactly same point. The inevitable conclusion is that the shareholder value maximization as a corporate governance mechanism is causing the rising inequality in the U.S, at least partially. The figure 5 is based on Piketty's and Saez's (2003) famous work, but it is updated to year 2017 by Fraser institute (2019).

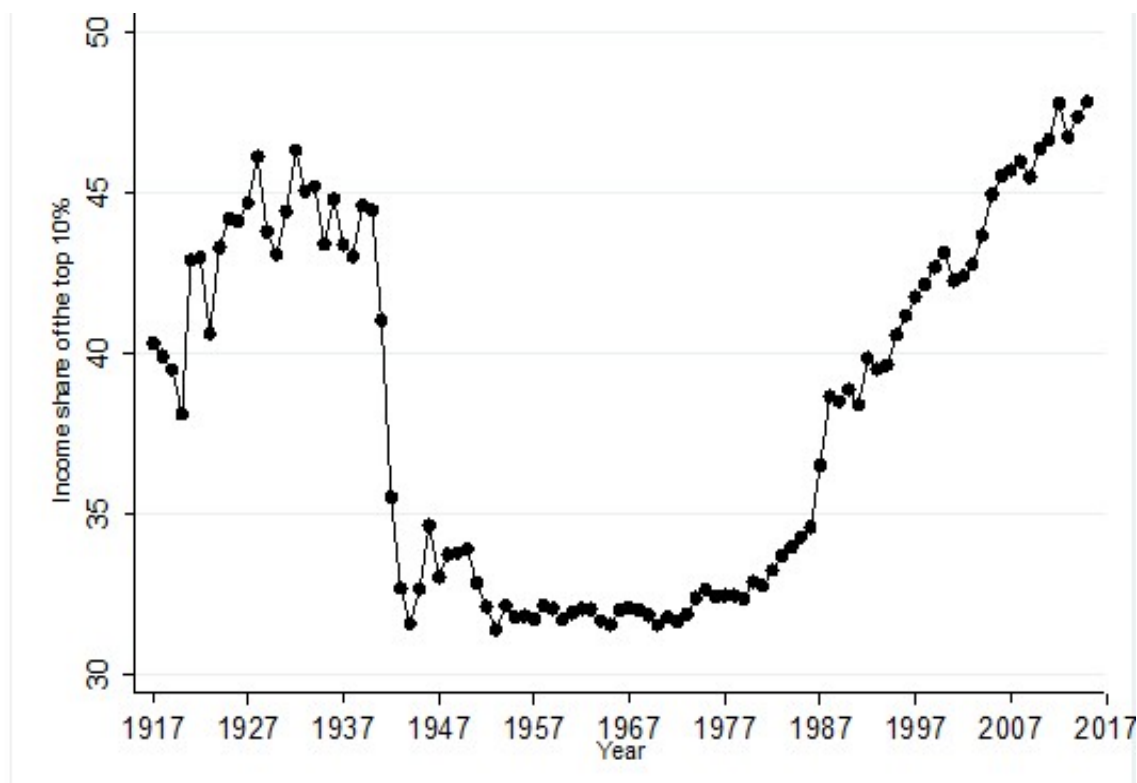


Figure 5 Income share of the top 10% in the US 1917-2017. (Abducted from Fraser institute 2019)

Another simplistic example of the significance of the timeline is the data from chief executive compensation from the U.S. The chief executive compensation ratio to workers calculated by Clarke et al (2018:10) is depicted in the figure (6). There are 350 largest U.S. based corporations included ranked by sales. Again, if the executive compensation ratio by Clarke et al (2018) and the shareholder value maximization timeline would be placed on top of each other, one would see simultaneous events. Not surprisingly, the rise of the chief executive compensation also begins from the 1970s simultaneously with the publication and establishment of the shareholder value maximization theory and the agency theory.

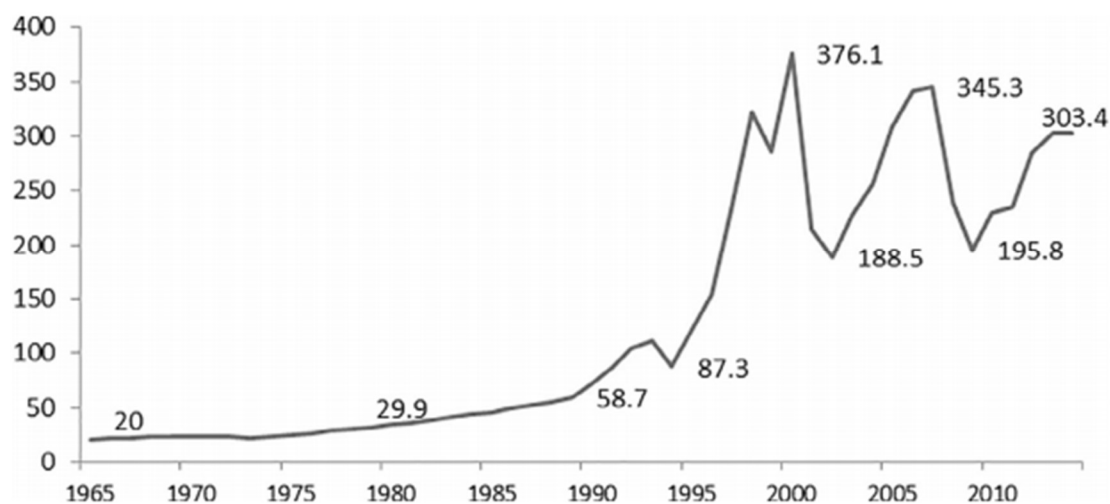


Figure 6 CEO compensation ratio to workers 1965-2010

4.3. Classic economics, assumptions and philosophical setting

The intention of this chapter is to outline connections between classic economics and shareholder value maximization theory and to address to some important philosophical problems. The chapter is created to answer to the question of whether the shareholder value maximization is able to maximize the social welfare or not. The shareholder value maximization requires for example assumptions of self-interested and rational agents, perfectly competitive markets, efficient capital markets and equilibrium. Each of these assumptions need a list of sub-assumptions to work. Some of these are discussed to show the point which is that the shareholder value maximization theory is not perfect, and it

cannot work perfectly and that is not something we should expect. Yet, the shareholder value maximization might approximate the best possible outcome.

The shareholder value maximization originates from the classic economics, from Adam Smith 1776 for example, and in a way the shareholder value maximization is a culmination of the modern economics springing from the classic economics as it rests on economic assumptions such as self-interest, rationality, competition, equilibrium, efficiency and maximization. Economic theories are designed to work with a given set of assumptions which are often quite far away abstractions of real-world conditions. For example, two probably greatest economic assumptions are that people are rational and driven by the sole self-interest (Smith 1776; Miller 1999). Self-interest is the fundamental assumption and force that must hold for the shareholder value maximization to work. Self-interest is a basis for the agency theory which in turn defines the ownership structure of the corporation and places emphasis on shareholders and promote the organizational design in which incentive systems are necessary (Jensen and Meckling 1976). Incentive systems then create pressures to downsize for instance, because managers and directors were enacting what they thought they should be enacting – the self-interest (Miller and Ratner 1998; Miller 1999; Lazonick and O’Sullivan 2000).

However, people might not be as self-interested or selfish as economic theories assume, rather they become self-interested as they believe that is how they should act and that is how the others are acting (Miller and Ratner 1998; Miller 1999; Ferraro et al 2005). There is whole discipline criticizing these assumptions, especially the rationality of humans and how good they are for example at avoiding on minimizing risks (see Kahneman and Tversky 1979). The discipline is called behavioral economics and it strives to bring humanity and human error into the economic modelling. In that sense it would mean that all traditional economic theories are based on self-fulfilling false assumption of a human nature. It also means that economic theories are not descriptive theories as they are claimed to be (Friedman 1953; Hands 2012).

4.3.1. Self-fulfilling nature of the shareholder value maximization theory

Findlay and Whitmore (1974) chronicle numerous reasons backed by empirical studies for why the shareholder value maximization is not a descriptive theory. Yet, it is regarded as one over 40 years since Findlay’s and Whitmore’s (1974) suggestion not to do so. It is like an ideology – declared but not necessarily justified. It seems that Ferraro et al (2005) are correct in their claims that economic and financial theories can become self-fulfilling

and to start to live their own life in the minds and language of people. Then the theory is no more controllable, and the impact is much greater as the theory goes without question and misunderstandings cumulate. For example, Clarke et al (2018) claim that,

“... there is the debilitating displacement of goals as the objectives of the corporation under the leadership of equity incentivised CEOs switches from the single minded focus on the development and success of the company to highly individualistic CEO strategies on how to align the performance of the corporation with the maximisation of their personal earnings”.

Clarke et al (2018) point for example to the financial crisis of the 2008 and claim that the bankers were fulfilling agency theory and shareholder value maximization theory as they used bank's money reserves for share buybacks and increased risks of their investments to return higher yield for investors and thereby sacrificing the resilience and the future of the bank. These bankers got rich in the process. In other words, the claim is that bankers caused a financial crisis not because they were self-interested in the first place but because that is what the shareholder value maximization theory advocated and financial markets required, that is how they were taught and that is how people spoke and expected them to act. The incentive system is stemming directly from the agency theory and shareholder value maximization theory.

The idea or conception that corporations are obliged by law to maximize profits or the shareholder value is an interesting and exemplar case of self-fulfilling, faulty and unquestioned theory that nevertheless prevails. Part of the motivation for conducting the literature review on this topic sprung from the realization that surprisingly many fellow business students actually believed that corporations are obliged to maximize profits. The obligation of profit maximization is so pervasive that with one search on Google for “legal obligation and profit” one returns more than 65 million hits and the first three include New York Times publications and Cornell Law school's website writing about ‘common misunderstandings about corporations’.

“There is a common belief that corporate directors have a legal duty to maximize corporate profits and “shareholder value” — even if this means skirting ethical rules, damaging the environment or harming employees.” (Stout 2015 in NY Times)

“Some widely-held beliefs about business corporations are erroneous. ... corporate directors are not required to maximize shareholder value” (Cornell Law School 2019 website)

It is a belief that clearly springs from the neoclassical economic theories – from the desire for profit maximization, from the ideal of optimizing and maximum efficiency – and from some hundred years old U.S. Supreme court declarations (e.g. Ford v. Dodge; Weintraub 2008). For example, the profit maximization in literature can be termed as “profit maximization *rule*” (see for example Keen and Standish 2006:82). However, this literature review was unable to detect a source for the misunderstanding in the theory or in the law, meaning, that in the sample, there was not a single paper or source that would have confirmed that managers are obliged to maximize the shareholder value. Therefore, it is relatively viable argument that such source that would claim that corporations are obliged to maximize profits or shareholder value do not exist. The conclusion is that the language that corporate law and financial and economic theories use revises and influences significantly in the way people think and act as Ferraro et al (2005) and Keynes (1936:383) argue. Maximizing shareholder value has become a self-fulfilling prophecy in that sense. The two quotations below neatly describe this.

“The firm doesn’t have to worry about the investment horizons and risk tolerances of its shareholders. The company can pursue the simple goal of maximizing value” (Brealey, Myers and Allen 2008:3)

“Language affects what people see, how they see it, and the social categories and descriptors they use to interpret their reality. It shapes what people notice and ignore and what they believe is and is not important” Ferraro et al (2005:9)

First quote is from widely used finance textbook and it is followed by the argument made by Ferraro et al (2005) for their theory about self-fulfilling economics. They kind of cross-proof each other.

4.3.2. Economic assumptions

Many authors examining the corporate objective from the normative point of view start their analysis with nobelist Milton Friedman’s (1970) article published in the *New York Times* where he articulates that the corporate social responsibility is to increase its profit (e.g. Jones and Felps 2013; Bower and Paine 2017; Clarke et al 2018). Milton Friedman (1970) describes roundaboutly some of these economic assumptions that must hold. Most often cited parts of the article are those that describe corporate objective quite strictly while the article offers ethical considerations too. The article is worth quoting at length because it mirrors basic economic assumptions that are foundational for the shareholder value maximization theory and they still represent contemporary state of the economics

and teaching in the business schools (Rönnegard and Smith 2016; Ghoshal 2005). In his article Friedman (1970) writes;

"...there is one and only one social responsibility of business--to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud..."

What does it mean to say that the corporate executive has a "social responsibility" in his capacity as businessman?... that he is to make expenditures on reducing pollution beyond the amount that is in the best interests of the corporation or that is required by law in order to contribute to the social objective of improving the environment...

...the corporate executive would be spending someone else's money for a general social interest. Insofar as his actions in accord with his "social responsibility" reduce returns to stockholders, he is spending their money. Insofar as his actions raise the price to customers, he is spending the customers' money. Insofar as his actions lower the wages of some employees, he is spending their money...

...But if he does this, he is in effect imposing taxes, on the one hand, and deciding how the tax proceeds shall be spent, on the other."

The three fundamental economic principles and assumptions underpinned by Friedman (1970) in his article and partly in the above quote are; (1) the corporation should externalize all costs that it is not forced to internalize by the government; (2) economic agents are rational and only self-interested utility maximizers and hence, they maximize the total value for themselves and consequently for the society; (3) the corporation is seen as a nexus of contracts (see also Jensen 2001 for economic assumptions). Fourth important assumption – not quite visible in Friedman's (1970) article – made for the shareholder value maximization is that resources are scarce because that justifies eternal desire for efficiency (Sundaram and Inkpen 2004a:356). The goal of efficiency justifies almost any action in the name of efficiency made by the current management as the market for corporate control would step in if the current management would resist increasing efficiency (Jensen 1990). These principles and assumptions must be in place for the shareholder value maximization theory to be appropriate and functional. Even though these principles might still be representative of the mainstream economics, they are not without recognized problems.

Friedman (1970) was arguing that what is now known as 'corporate social responsibility' is in government's responsibility and companies contribute through legal system and

taxation. Contrary to what is often held as a Friedman position in this debate, Friedman (1970) is not suggesting that companies should start misbehaving, hurt moral customs or ethics nor pay abundant bonuses to chief executives – quite the opposite. Friedman (1970) did not suggest that companies should be run with short time-horizon and thus undermine the future of the company and future cash flows.

4.3.3. The concept of objective

What is more to these huge economic assumptions and requirements, also the word ‘objective’ and timeframe in which the shareholder value should be maximized are causing problems for the shareholder value maximization theory. The word objective and its practical or operational definition is well articulated by Cantley (1970:37). Cantley’s (1970) practical setting reveals some of the reasons for debates around shareholder value maximization theory and stakeholder theory. Operational definition of the corporate objective:

“1. Objectives are used to rank alternatives. This is their central function in decision-making, i.e. in choosing between the forecast outcomes of alternative courses of action.

2. Objectives are used as measures – for targets, and for subsequent assessment of the satisfactoriness of performance, i.e. for control.

3. Objectives provide common framework of reference to ensure the consistency of decisions and measures in different parts of the organization.” (Cantley 1970:37.)

Cantley’s (1970) operational roles for the corporate objective are paradoxical. The last two operational roles imply that corporations should have variety of objectives for different business areas and units. However, the first operational role insists one single scale for how to measure utility for the ranking. Practically thinking, corporations must make decisions on daily basis and they are most likely confronted with set of alternatives from which they must choose. Are corporations choosing from these alternatives consistently to achieve some uniform corporate utility? Is the shareholder value maximization explicit and consistent corporate utility in every situation? At least the shareholder value maximization does not fulfill Cantley’s (1970) requirements for objective’s operational roles. The operational role number one roughly equals the shareholder value maximization and the reason why the stakeholder theory exists is that the shareholder value maximization is unable to address to these last two operational roles of objective.

Scholars are disagreeing on time spans of the objective. At least artificially disagreeing – artificially because it is difficult to believe that scholars examining the field for 30 years would not understand what the shareholder value maximization means by the word long-term (i.e. the best interest of the corporation) (cf. Friedman 1970; Freeman 2011; Lazonick 2012). This means that the critics of the shareholder value maximization use examples of short-termism as examples of how the shareholder value maximization theory is a bad theory and causing bad corporate behavior (see e.g. Lazonick and O’Sullivan 2000; Bower and Paine 2017; Clarke et al 2018). Short-termism means for example sacrificing research and development to achieve higher profits for quarter or otherwise harming the corporation’s long-range plans in order to achieve monetary return in short-term, for the corporation or for the management. The short-termism is not allowed by the shareholder value maximization theory.

The reason for this conflict in short- and long-term in assessing the shareholder value maximization is found from the paradoxical nature of the classic economics. As Cantley (1970:38) states, “classical economics is static”. It means that the objective from classic economics, the profit maximization, is assuming that maximization of this year’s profits is irrespective of next year’s profits. In other words, the classical economics leaves no tools for comparing short-term and long-term because it assumes that maximizing profits for this year is exactly the same as maximizing profits for any forthcoming year. Also the word maximize is by no means unproblematic as it neglects the uncertainty and assumes that managers are able to make decisions that return the greatest profit or the greatest value to the shareholders (Cantley 1970). However, the maximizing actions cannot be observed. This apparent lack of ability to rank objectives and rank decisions between short-term and long-term opens the space for the stakeholder theory and for criticism towards the shareholder value maximization.

4.3.4. Philosophy – positive and normative economics

Philosophical examination helps to deal with unrealistic assumptions of economics and to explain the concept of abstractions without which the shareholder value maximization theory does not function. Philosophically, the issue of business and ethics is quite old one as some 2500 years ago Aristotle were writing about commerce and its objectives that the money-making is only practiced because it is compulsory (Dobson 1999:71).

“Wealth is evidently not the good we are seeking; it is merely useful and desired for the sake of something else.” (Aristotle in Lewis 2011:3)

Presumably, the reason – or part of it – why the shareholder value maximization theory has run into problems academically and practically can be found from the intersection of philosophy and economics and more precisely, from the prevailing conditions in economic research and teaching. Status quo is, and has been, that economics is positive science and it has no normative content or at least that ‘mainstream/standard/positive economics’ will explicitly distinguish from normative economics (Hausmann 2018; Hands 2012; Gul and Pesendorfer 2008; Friedman 1953). Some, for example Saunders, Lewis and Thornhill (2007:102), do not even recognize ‘normative’ being a thing in their exhaustive textbook on research methods for business and management. However, the case is that economics is normatively prescribing corporate objective to being ‘maximize the long-term shareholder value’. Might this disorder be one explanation for the problems in the theory?

Contrary to the traditional and mainstream economics and finance conception that economics is positivist science (Brealey et al 2008; Jensen and Meckling 1976; Friedman 1953) – the core microeconomic theories, and particularly the shareholder value maximization theory, is perceived to be normative theory as it is not positive in the sense that it would describe real economic agents, firms or individuals for example. Nor is the theory of the shareholder value maximization based on empirical observations of real individual agents’ behaviors which are then generalized as would positivist theory be developed. It is questionable if it would be even possible to observe ‘maximization’ or ‘preference’ or ‘utility curve’ or ‘rationality’ which are all essential concepts of economic theories relevant for the shareholder value maximization. Rather, the theories are normatively describing an ideal of an agent – what the agent should be like. Recognition of the normative nature of the shareholder value maximization theory will allow understanding not only the problems within the theory, but also problems that it has in relation to its alternating stakeholder theory and the dispute whose privileges are more important.

Analyzed literature reveals that authors advocating shareholder value maximization theory often believe that economics – and; especially finance – is intended to be purely positive and descriptive discipline of science (e.g. Friedman 1953) but shareholder value maximization is by no means value-free and often it is even formulated with using words such as ‘should’ (e.g. Findlay and Whitmore 1974; Jensen 2001). Shareholder value maximization seems to be a normative ideal of corporate behavior in financial economics which does not, however, describe reality but is still widely used not only in finance but

also in other disciplines as a descriptive theory. Models, for example valuation models, that assume positive shareholder value maximization are then exaggerating the problems.

Financial economists are held responsible for the development of the shareholder value maximization theory (Jensen and Meckling 1976; Lazonick and O'Sullivan 2000; Jensen 2001). However, the shareholder value maximization theory is not consistent with underlying theories nor with the claims that economics is purely positivist science. For example, utility functions of each individual and investor are unknown. Yet, the utility maximization is the principle which outlines one homogenous goal common for all heterogenous investors and stakeholders (Jensen and Meckling 1976). In other words, classic economics allows the assumption that all agents want their utility – the financial return in case of the shareholder value maximization theory – to be maximized (e.g. Smith 1776). If classic economics would allow an idea that shareholders might desire something else than financial returns, or that these financial returns should come under certain conditions the shareholder value maximization theory would not exist. In Jensen's (2001) 'enlightened shareholder value maximization theory' there are some indications about development into this direction where utility curve of the shareholder value maximization theory might include also something else than financial returns. This is because Jensen (2001) proposes maximizing the whole enterprise value in a long-term rather than maximizing share price and the enterprise value can include various determinants. In short, shareholder value maximization theory is very simplistic and straightforward using all of the major classic economic assumptions and abstractions. This raises problems for applicability of the shareholder value maximization theory in practice.

Furthermore, the shareholder value maximization is regarded as a corporate objective and sometimes it is even regarded as being an only such objective for a corporation (e.g. Friedman 1970). This is true even though the shareholder value maximization is not a viable descriptive theory of the corporation and it was never intended to be such a theory as financial economists refer to the theory of the firm with the words 'black box' (e.g. Jensen 1990; Jensen and Meckling 1976:306). Yet, shareholder value maximization is regarded as an objective and as a purpose of the firm and it has influenced in how management thinks and how business school students are educated and how they will be thinking in the future (Ghoshal 2005; Rönnegard and Smith 2016). To be clear, a theory that is not defining or describing the firm is defining and describing the objective for the firm. How this inconsistency could possibly have taken place is one of the major interests of this literature review.

The misconception between normative and positive and between what is thought to be at hand and what actually is at hand seems to be the root cause of the problems around the shareholder value maximization theory (Hands 2012). Practitioners are using theories that are taught as being positive descriptions of business mechanisms and they are living up to that which leads to unwanted results visible everywhere (e.g. Friedman 1970; Jensen 2001; Welch 2009). For example short-termism is allegedly caused by the shareholder value maximization doctrine (e.g. Lazonick and O'Sullivan 2000; Lazonick 2012; Clarke et al 2018), could it be, then, that the short-termism is alive and well because the shareholder value maximization theory – when interpreted positively – requires that managers are rational enough to persist such a short-term endeavors while in reality, they are not (it is visible for example in numerous accounting scandals in the corporate history e.g. Markham 2015). So, we have a normative theory that we think, and more importantly, enact as a positive descriptive theory. In some sense, the theory has become self-fulfilling (Ferraro et al 2005).

In many academic papers and books, the shareholder value maximization is implicitly thought to be separate and lone-standing theory that is setting the corporate objective function and guide for managers and corporate governance. In other words, scholars implicitly express that they do not need to consider preceding economic theories and their assumptions because they do not do it – they only accept and apply without arguing (e.g. Jensen 2001; Sundaram and Inkpen 2004a). However, the philosophical examination of the problem reveals that the shareholder value maximization theory can be seen merely as an extension to the (normative) rational choice theory accompanied with the agency theory, or, more simply, as *the rational choice theory applied to corporations and their governance* (Vanberg 2012). Now it becomes visible that shareholder value maximization is vulnerable to all criticism concerning its preceding theories. The shareholder value maximization theory assumes similarly to rational choice theory that aggregated social welfare is a result of individual's rational, self-interested, utility maximizing and consistent decisions. Vanberg (2012:505) reminds that while the rational choice theory is intuitively very appealing way to explain agent's behavior (i.e. it would be hard to imagine anyone acting against their preferences), it has no empirical content and therefore the theory is irrefutable and so it cannot explain real world. In other words, the argument that people choose what they prefer cannot be refuted. Then, the whole system of the agency theory and the shareholder value maximization theory with all its presuppositions are questionable as well. For example, do all shareholders prefer maximum monetary return on their investment over and above everything else, social concerns for example. Are monetary and share price-based compensation models in essence, guiding managers

to take desired actions if managers are not rational self-interested maximizers of their own benefit – if they are not rational individuals set forth by the rational choice theory. What is more to this, the dichotomy of normative and positive economics is again at play.

One of the most important critiques for the rational choice theory from this standpoint accrues from ontological considerations of an individual and whether critical entities for the economics and the shareholder value maximization theory exists. For example, it is quite questionable if ‘Homo economicus’ – defined as mainly self-interested and rational being described through utility function – actually exists (Davis 2012). Davis (2012) employs Aristotle’s existence conditions to evaluate ontology of the homo economicus and concludes that it does not fill these conditions and cannot exist. If the homo economicus does not exist, then our corporate governance mechanisms are based on a construct of academic reasoning with no relation to real world nor real individuals or corporations – a loose approximant at best.

Making constraints of an individual more relaxed or giving more resources for the individual might cause that the decisions of the individual are closing the decisions that the rational individual would make. For example, missing knowledge or lack of time prevents agents from making utility maximizing decisions and this fact is undermining Jensen’s (2001) arguments about objective function of a firm. Similarly the decisions would improve if more time and information are given.

The purpose of economics is to analyze institutions, such as trading mechanisms and organization structures, and to ask how those institutions mediate the interests of different economic agents. This analysis is useful irrespective of the causes of individuals’ preferences. Standard economics ignores the therapeutic potential of economic policies and leaves it to therapists, medical professional, and financial advisers to help individuals refine their goals.” Gul and Pesendorfer (2008:32).

The above Gul and Pesendorfer (2008) quotation is from an influential paper published in an economics handbook. What it says is that it is not economists’ task to define policies nor goals. Yet that is exactly what economists have done – they have defined the corporate purpose as it does not follow from the law or from other policies or scientific disciplines. If economists would have only been asking how companies are run and how their objectives are defined to ‘*mediate the interests of different economic agents*’, they would have ended up with descriptive theory. Now they ended up crafting a normative theory while apparently imagining that they were only describing the state of the world in positive sense.

The intention of the thesis is not to say that all economic theorizing starting with the rational choice theory is doubtful or unnecessary (maybe the contrary), but to examine why the theory about shareholder value maximization is under huge dispute and why so many corporate malpractices have emerged. Corporate objective and its influence over the state of the affairs is beyond description as corporation is at the very heart of democratic and capitalistic form of society. One reason for complications in the shareholder value maximization theory certainly is that economists and practitioners think that they have a positive theory while in fact, they have for that very reason, flawed normative theory (presumably, one cannot accidentally develop functioning normative theory with intention to develop positivist descriptive theory).

The argument is, that if the economists writing about shareholder value maximization or criticizing it, would understand the premises behind the theory, they could understand why it is problematic and under so much debate and more importantly, it could be taught better in business schools over the world to shape mindset of soon to be managers. In other words, it should not come as a surprise that there are problems in practice and badly behaving companies, if the principal theory for the corporate governance is thought to be positive theory based on other positive theories and it is taught as such, but actually it is based on loose assumptions and normative content. Furthermore, shareholder value maximization theorists should address more to the underlying heavyweight theories and their empirical validity and content. Ontological consideration of the shareholder value maximization should be taken seriously.

The shareholder value maximization is a normative theory that is resting on the shoulders of other normative theories, but it is treated as a positive description of the reality as almost all contemporary economic theories are, excluding behavioral economics (e.g. Hausman 2018). Any theory is foredoomed to failure if its preceding theories are misused or misunderstood in the process of developing the theory. For example, if one believes that the rational choice theory adequately describes the real individual and individual's preferences and one then accumulates theories over that untruthfully strict positivist view of the economy, the resulting theories cannot be very adequate in practice – at least not adequate in the positivist sense.

4.4. Financial markets and the shareholder value maximization

“Our suggestion is that the financial academic community formally recognize the inadequacy of the SWM [shareholder value maximization] model as a description of reality and begin to research the possible avenues for redressing the imbalance of power within the firm.” Findlay and Whitmore (1974:33)

One field of literature that is clearly distinguishable within the sample is finance. In this chapter, the issues aroused by authors in the sample are discussed, synthesized and analyzed. Theoretical sampling is applied to increase depth of the analysis. Corporations are not only influenced by the pressures of the industry that they operate in, but they face significant demands and pressures from the financial markets. Financial markets is the institution that is demanding for corporations to maximize the shareholder value. Financial markets is also the clear reason for why societies and especially managers think that the shareholder value maximization is a legitimate objective for corporations. Suchman's (1995) definition for legitimacy is depicting how the shareholder value maximization is legitimized by the institution of financial markets;

“Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.” (Suchman 1995:574)

Finance as a field of science and its innovations from collateralized debt obligations and derivatives to the shareholder value maximization theory have substantially influenced in lives and livelihoods of everyone in the globalized economy, most notably the last financial crisis caused large impacts (Clarke 2010; Dunbar 2011; Akerlof and Shiller 2009). The financialization is a quite new term. Financialization means that non-financial corporations are becoming more like investment banks and financial organizations rather than productive industrial corporations (Clarke et al 2018; Davis 2018). Maybe one the most momentous examples would be the General Electric and its financing arm. Financialization relates to the shareholder value maximization and it makes the finance and financialization to be global and universal issue, more so than before (Clarke 2018; Davis 2018). The shareholder value maximization theory urges corporations to turn themselves to financial institutions because shareholder value maximization theory is strongly intertwined and dependable on capital markets.

Markets tend to reward those companies who invest in short-termism and quarter profits (e.g. Lazonick and O'Sullivan 2000; Bower and Paine 2017). It is somehow interesting,

how companies do not actually use the shareholder value maximization as a positive theory that it strives to be. For example, under the shareholder value maximization regime, dividends should not be constant or rising steadily as dividends are issued from the residual which necessarily fluctuates. Quite the opposite, corporations have steady dividend streams and dividends might even be boosted when the earnings decrease which means that it is a managerial decision and not driven by the shareholder value maximization (Findlay and Whitmore 1974).

Lazonick and O'Sullivan (2000) argue that there are huge share buybacks and that it describes the transition of corporate strategies from retain and reinvest to the downsize and distribute. Authors report how the amount of share buybacks and dividends increased dramatically between 1978 and 1996 (2000:24) and that the buybacks were actually illegal manipulation of the share price before Reagan's government. The increasement in the payout ratio is higher than would be justified in relation to increasement in profits. The important notion is that dividends and buybacks are paid after investments are already made. Dividends and buybacks should be paid only from the residual in its literal meaning. However, the financial theory is again making huge assumption: corporations should have preference in retainment, innovation, investment and growth over the distribution of wealth and boosting the share price. The logic is that once the corporation cannot make investments that would yield more than the required cost of capital, it must distribute the money back to the shareholders. Then, the increased dividends and buybacks means that US corporations stopped being innovative. (e.g. Brealey et al 2008.)

The shareholder value maximization theory provides numerous financial hypotheses that can be empirically tested. Studies conducting these tests might exist, but this analysis identified none. For example, the shareholder value maximization provides direct hypothesis for corporate investment that; whenever the rate of return for a corporation increases, the payout ratio should decrease and the amount of retained earnings should increase because the corporation is able to increase shareholder wealth through its own investments more than by distributing it to the shareholders. Does it happen in practice and is there studies examining this? None were identified by this review. Hypotheses derived from the shareholder value maximization theory should be investigated in order to test empirical validity of the shareholder value maximization. The conclusion of this review is that if these empirical tests exist in the financial literature, they are not connecting the research with the shareholder value maximization theory. The connections should be made for obvious reason to enhance corporate objectives, strategies and investment decisions. The conclusion that these studies exist in some form but that they

are not connected with the shareholder value maximization theory is very likely true as for example dividend policy and investments are popular topics among finance scholars.

One interesting financial point is made by Hansen and Lott (1996) who argue that imperfect competition in product markets, investors holding diversified portfolios and existence of externalities lead to a rejection of the value maximization as a unanimous preferred goal among shareholders. Not only do they reject the value maximization, but they also give suggestion about what the corporate objective should be under those conditions. Simply, the argument that Hansen and Lott (1996) provides for the corporate goal discussion is that shareholders should want corporations to maximize value of a *portfolio* rather than value of the single company. Value maximizing company would externalize as much costs as possible. If there are externalities arising from actions of a company that have adverse influence in other companies, shareholders would want corporations to internalize these externalities. Argument is attractive but Hansen and Lott (1996) fail to elaborate how the idea will work in practice.

4.4.1. Net present value and the discount rate

Jensen (2001) suggests that corporations should maximize the value of the firm and that it would be essentially same as maximizing the shareholder value. The way how finance is most often valuing corporations is through the net present value (NPV) of the corporation which is achieved through discounted cashflow method. Discounted cash flow method is the most often used valuation tool and it is strongly connected to the shareholder value maximization theory in two ways; (1) managers should make the resource allocation decisions based on discounted cashflow method in order to maximize shareholder value (2) shareholders value the share price with the discounted cash flow method (Brealey et al 2008; Jensen 2001; Findlay and Whitmore 1974).

Discounted cash flow method can take into account all factors from the cost of capital to the ethical values of the person doing the valuation or even prevailing weather conditions if necessary. These are extreme examples, but the point is that everything could be included in the value of a corporation or in the value of an investment when applying discounted cash flow method to valuation. The ability to address the endless range of factors is the greatest strength of the discounted cashflow method but it is also its greatest weakness. The ability to address several factors is based on alteration of the discount rate. Discount rate is also very vulnerable to any biases of the person doing the valuation. Under shareholder value maximization, corporations should make investments that are

yielding more than the cost of capital to maximize the value of the shareholders (Findlay and Whitmore 1974:26). Thus, the shareholder value maximization and discounted cashflow method are determining how corporations allocate scarce resources.

To elaborate little bit further, an investor who is thinking of buying a share must make the valuation of the share to see if it is worthwhile to buy the share at the price that it is currently trading. While the investor is doing the valuation the discount rate should be carefully established. At the minimum, the discount rate acknowledges the risk related to cashflows that are being discounted. However, an investor might increase or decrease the discount rate based on investor's own discretion. For example, if valuing an oil company's shares, it might be reasonable to adjust the discount rate upwards a little bit because oil is part of the large environmental problems and it is likely that sales of oil will be diminishing in some time frame in the future. More importantly, if the investor is *personally* environmentally and socially inclined, the investor might alter the discount rate based on that. For example, if the investor believes that a corporation is acting counter to his morals and ethics, the price of the share of that corporation appears to him less appealing than of some other corporation acting more aligned with the investor's personal values. This is what some hope to be happening as institutional investors and activist investor groups are using their influence over corporations that are perceived to be socially or environmentally irresponsible (e.g. Eccles and Klimenko 2019).

As the shareholder value maximization theory is often criticized for being concentrated in the short-term or at least that it is causing short-termism, one important notion should be explicitly made here. The present value method is inherently long-term – if all shareholders and investors use the discounted cash flow method in evaluating the present value, the share price takes into account every single cashflow to the corporation, also those accruing in future (Brealey et al 2008). Another similar criticism often put forward is that these financial models, shareholder value maximization and present value as a decision rule cause short-termism (see e.g. Lazonick and O'Sullivan 2000; Bower and Paine 2017; Clarke et al 2018). It is however very important to understand if the theory is poor or if something else is wrong. The claim of this thesis is that the shareholder value maximization theory is not the reason for short-termism. Executives that are maximizing their own utility through stock options and short-term share price increase attained for example by cutting research and development or firing employees are not maximizing shareholder value. The inconsistency is that shareholders should then be able to price this short-termism of the executives, but they do not. That might be because it would be very hard to tell when the executive is behaving only to exercise their own stock option. The

criticism should be pointed for executives, not for the shareholder value maximization theory if the executives are not behaving according to the theory. Consumers should not buy products that are produced counter to their ethics and investors should not invest or at least the distinction between investors values and corporation's behavior should be priced through modification of the discount rate.

4.5. US corporate law & the shareholder value maximization theory

Purely economic analysis of the corporation would not be enough to explain shareholder value maximization and essence and evolution of the corporation. The examination of the legal story of the shareholder value maximization is well informed to begin with the quotation by Stout (2008:176);

“Corporations are purely legal creatures, without flesh, blood, or bone. Their existence and behavior is determined by a web of legal rules found in corporate charters and bylaws, state corporate case law and statutes, private contracts, and a host of federal and state regulations.”

Law is so important field of literature for corporations and for the shareholder value maximization theory that both would cease to exist if legal institutions would cease to exist. Another – although quite childish – point for conducting legal analysis is that the shareholder value maximization theory is normatively prescribing the corporate objective. The shareholder value maximization is fundamentally a normative statement or theory because it is not based on observed empirical evidence but to idealized result of an economic theory. This means, that economics is not liable for placing such a theory to the center of our corporate governance system since the economics claim to be purely positive science and accordingly, it leaves all normative guiding for the other scientific disciplines such as arts or for completely different domains such as policy makers or regulators (Friedman 1953; Gul and Pesendorfer 2008). Therefore, if the usual suspect – economics – is not the source for the persistence of the shareholder value maximization in current corporate practices, it is essential to examine what legal and regulative aspects there are considering the theory.

Shareholders are having legally very special position if compared to other stakeholders. Other stakeholders (e.g. supply contract, employment contract) have contractual relationship with the corporation, but the law ensures that shareholders can exercise certain actions – choose the board, approve crucial transactions – over the corporation

without explicit contracting (Smith 1998). In addition, there are significant regulations and institutions affecting to corporate governance such as business judgement rule, property rights, fiduciary duties and different antitrust laws for instance (see Monks and Minow 2011; Stout 2002;2008). Through the analysis of legal texts, understanding of the necessary institutional conditions for the shareholder value maximization will be established for the purposes of the evaluating the viability and argumentation of the theory. Reviewing the legal aspects is especially helpful because law and legal cases depict early developments and history of the shareholder value maximization very well.

The proper reason for reviewing legal details at length, is concerned with the idea that some of the most prominent arguments supporting the shareholder value maximization theory – such as, that shareholders *own* the corporation and are therefore *rightful residual claimants* (e.g. Easterbrook and Fischel 1983; Sundaram and Inkpen 2004a) – are legally dubious or indefinite (Stout 2002). It is also equally meaningful finding if the law dictates that companies are *obliged to maximize* the shareholder value because then economics and management or other sciences and corporations themselves are less able to modify the practices of corporate governance and corporate actions. It seems necessary to understand what the legal boundaries are when assessing current corporate governance theories – it is not a fault in the theory or governance model, if the model cannot be applied in reality because legal environment is preventing it. For example, if legal bodies expect that companies pay dividends rather than use the retained earnings to expansion strategies, then the implications for how to improve governance model are different than if the companies are choosing freely what do with their earnings (see Dodge v. Ford).

The purpose here, is not to interpret the *legality* of the rulings or to assess the validity or the morals of the presented legal texts. The purpose is to adequately account to important legal concerns regarding arguments in favor of the shareholder value maximization and to depict important events considering the theory and its related concepts, and, to support the construction of the timeline presented in the chapter 4.2.2. One last point for the support of legal analysis is that going through a regulative point of view and legal debate is a necessity if one wishes to understand present regime of corporate governance, because fundamentally, corporations are a legal constructions – what would a corporation be without law? Further, understanding the present regime is an absolute necessity if one wishes to conclude *what should be the purpose of the company*.

Legal examination is concentrated in – but not constrained to – the Anglo-American countries (U.S. and UK) because the shareholder value maximization originated there.

Outline of the early developments of the shareholder value maximization theory and conditions for the theory are outlined here through U.S. court rulings. Common law is based on declarations of judges and therefore rulings made by U.S. supreme court judges are considered to hold great significance for corporations and therefore for the development of shareholder value maximization theory (Duhaime's law dictionary). The thesis is not arguing that these following rulings in particular, are those, that have influenced significantly to the development of the shareholder value maximization, but the rulings are suitably and comprehensively describing the concepts of corporation, corporate objective, ownership and managerial responsibilities, which are all essential parts of the shareholder value maximization. Only the implications for the shareholder value maximization are analyzed, meaning, that the rulings are not generally or factually (i.e. what are the facts of the underlying case) presented as it would not be necessary because the most of the cases are not concerned with corporate law or corporate governance per se, but the implications for the shareholder value maximization come as a side effects or collateral results.

4.5.1. U.S. Supreme court rulings 1800-1919

Trustees of Dartmouth Coll. v. Woodward

First, in the 1819 United States supreme court ruling in Trustees of Dartmouth Coll. v. Woodward, the supreme court concluded that a corporation is an artificial *person* that is not tangible. And furthermore, because of existing only through legal perspective, it can only hold those features or characteristics that are given to it in its charter (i.e. in articles of incorporation). Stated otherwise, a corporation is nothing but a legal construct that is constituted through a contract between a state (i.e. or government) and a corporation. This means for example, that a state could at any time close down the corporation if it did not obey. Further, justice Story defined a corporation being a collection of individuals that possess certain features that they do not hold as an individual, such were possibility to perpetual succession and ability to being sued or sue based on this collectivity. In short, a corporation is a collection of individuals who has made an agreement with the state and it will pursue only those objectives that are prescribed in its charter. This is the aggregate theory of the corporation (i.e. aggregation of the individuals) in which important feature is that the corporation cannot be separated from its owners (Millon 1990:201; Fort 1996:149). (U.S. Supreme Court ruling 1819.)

Above court ruling adequately depicts two important corporate procedures of the 19th century; corporations were operating under predetermined rules and they were created and strictly controlled by the state. These government-controlled procedures had two important and direct consequences; (1) corporations were mainly serving public interests (railroads, banks, ferries, canals etc.) and, (2) they were restricted by predetermined charters filed with the state (Supreme court ruling 1819; Berle and Means 1932:32; Fort 1996:149; Sundaram et al 2004a:356). In other words, corporations were founded to serve all *stakeholders* following the state's decision.

Corporations founded for private interests were extraordinary at the time (e.g. Sundaram et al 2004a; Monks and Minow 2011). An illustrative example of how exceptional the private corporation was at the time can be found from the corporate governance textbook by Monks and Minow (2011:107), where they relate early corporations to municipalities and the given examples of those municipality-like early corporations are universities and towns. These early corporations were created to be a counter force for the otherwise unlimited power of the king and basically the only reason for their establishment was to serve public good – the state or the citizens would not have approved the corporation otherwise. Monks and Minow (2011) continue that still on the eighteenth century, corporations that wanted to raise capital through a stock issue needed a permission from the state. This means that the state could decide what was being practiced in a corporate form as it specifically approved each new corporation and *its purpose*.

Dodge v. Woolsey

The state's overseeing power over companies were further reinforced in the supreme court ruling in the 1885 case Dodge v. Woolsey. The case is about collecting taxes, but it ended up confirming that states do exercise superior power over corporations. More importantly for the shareholder value maximization, the case concluded that;

“A stockholder in a corporation has a remedy in chancery against the directors, to prevent them from doing acts which would amount to a violation of the charter or to prevent any misapplication of their capital or profits which might lessen the value of the shares, if the acts intended to be done amount to what is called in law a breach of trust or duty.”

A chancery is a division of the High Court of Justice which decides on cases that are related to principle of equity (Oxford dictionary of English). Here the ruling clearly says that there is a relationship between directors and shareholders which gives a very strong

position for the shareholders. Shareholders are promised to have reparations or compensation if the management is behaving adversely or unfavorably – with the condition that the actions of management must fulfill the concept of breach of trust. The court ruling protects shareholders from ‘misbehaving’ directors, but it also strengthens significantly shareholder rights and further defines ownership of the company. (U.S. Supreme court ruling 1885.)

Santa Clara County v. Southern Pacific R. co.

Finally, only one year after, in the 1886 court ruling chief justice Waite declared explicitly that *corporations are natural persons* suggesting, that they are enjoying similar rights than individual human beings – quite clear change to the previous stance that corporations are only legal construct and a contract between a state and a corporation. More precisely, Mr. Waite said that the Fourteenth Amendment to the Constitution applies to corporations. The Fourteenth Amendment says that a state cannot forbid equal protection of laws from any *person* within its jurisdiction.

In the ruling, it is visible that the contractual relationship between a corporation and a state, where the state is superior party, ended, and it was replaced with the idea of ‘corporate personhood’ or ‘corporate entity and identity’. The corporation is no longer a contract or group of individuals, it became an individual in itself. Fort (1996:149) named this as a ‘*real entity approach*’ which ended the era of *aggregate theory of the corporation*. Aggregate theory signified that corporations did not exist separately or outside of its owners (cf. Trustees of Dartmouth Coll. v. Woodward). This decision logically complicated the sharing of responsibilities in the corporation and obscured ownership as it arouses questions like; if a company is comparable to the individual human being, how can it be owned and who bears the responsibility of its actions? Human beings, individuals, cannot be owned. While shareholders ‘own’ the corporation, they do not control it (e.g. Stout 2002). (U.S. Supreme court ruling 1886.)

Dodge v. Ford Motor Company

The facts of the Dodge v. Ford Motor Company are as follows, Henry Ford was the majority shareholder of the Ford and he also founded the corporation while John and Horace Dodge were minority shareholders. Mr. Ford wanted to withhold the dividend and use the excess retained earnings for the benefit of the company and the other stakeholders; to build better and cheaper cars, expand the business and to offer increased pay to

employees. Dodge brothers laid charges against Ford in court, claiming that Ford unnecessarily restricted dividend payments and violated shareholder rights regardless of the fact that Ford Motor Company was extremely profitable. Allegedly, Ford had also other reasons for preventing the dividend than benefiting the company as he pursued for buying back the shares of the Dodge brothers and to shrink the amount of liquid assets that the Dodge brothers held because Dodges were trying to launch their own car factory (Stout 2008:167). The court's decision was in favor of the Dodge brothers and the Ford Motor Company was ordered to pay special dividend instead of reinvesting in the Ford company. (Dodge v. Ford Motor Company 1919; Stout 2008)

The ruling in itself would probably not have been very influential for the corporate law, because the ruling does not suppose that there is some general primacy of the shareholders over the others, rather the decision is about minority shareholder oppression which was a well-established legal custom (Stout 2008; Smith 1998). The reason, why the case is used as a justification of the shareholder value maximization and why it became so famous authority in the field of corporate law – it is taught in a number of corporate governance and law courses and in business schools – is that the decision text explicitly states (or plainly remarks as Stout (2008:165) put it) that;

“A business corporation is organized and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed for that end. The discretion of directors is to be exercised in the choice of means to attain that end, and does not extend to a change in the end itself, to the reduction of profits, or to the nondistribution of profits among stockholders in order to devote them to other purposes.” (Dodge v. Ford Motor Company 1919:684)

Lynn Stout (2008; 2002) is one of the most prominent critics of the shareholder value maximization. Stout (2008:165; 2002) represents the legal side of the debate, and she argues that this one single Michigan supreme court ruling is accountable for the current predominance of the shareholder value maximization. To support this argument, Stout (2008:165) referenced to two books and to one law article (none of which are available for the current study) which supposedly verify that the *Dodge v. Ford Motor Company* ruling is the one and only legal authority for the shareholder value maximization. According to Macey (2008:180) the Dodge v. Ford case is the only case that is ‘operationalizing the rule that corporations must maximize the profits’. Further, the point is made that Michigan court did not have to take a stance in a way that it did in a quotation above as Stout (2008:165) continue, that “*this was merely judicial dicta [i.e. legal saying], quite unnecessary to reach the court's desired result*”.

This is further elaborated by Smith (1998:320) as he concludes that the Michigan court in Dodge v. Ford did not think that they are articulating a ‘meta-principle of corporate law’ – which it unintentionally ended up doing. The court was deciding on a dispute over majority and minority shareholders and the legal premise for the ordered special dividend was that Ford, ‘as a controlling shareholder, had breached his fiduciary duty of good faith to his minority investors’ and not because Ford had violated his duty to maximize shareholder value or profit creation purpose of the company (Stout 2008:167). Majority shareholders are not allowed to oppress minority shareholders. Given the presented analysis of the Dodge v. Ford ruling so far, it seems that there has never been any legal authority for the proposition that corporations’ foremost purpose is to maximize shareholder value and that managers have legal duty to do so. Yet, the Dodge v. Ford decision is “routinely” cited as a legal authority for the shareholder value maximization and managerial duties. (Stout 2008:167; Sundaram et al 2004a:351.)

The inconsistencies in the Dodge v. Ford case do not end to the fact that it is widely misinterpreted. The most sophisticated corporate courts in the U.S. are found from the Delaware, and most of the U.S. companies are therefore incorporated in Delaware and Delaware courts are therefore kept as a superior and as the most respected authority for the corporate law in the U.S. (American Bar Association 1990; Stout 2008:167; Monks and Minow 2011). One dubious feature of the Dodge v. Ford is, that given the Delaware’s leading status in corporate law, why would Michigan court have such an influence on corporate law?

Stout (2008:166) argue that the Dodge v. Ford case is not being cited by Delaware courts anymore and that *the case is deemed to be irrelevant as a source of corporate law*, and elaborates further (2008:266), that only one unpublished Delaware court case has cited the Dodge v. Ford during the last thirty years and it was related to minority shareholder oppression, not to corporate objective. Accordingly, only ‘laypersons and *many law professors* continue to rely on the Dodge v. Ford’ (Stout 2008:166). Indeed, it is disturbing then, that for example Yoshimori (1995:34), in his survey sent to 418 large companies in several countries, found that 75,6 % of companies in the U.S. and 70,5 % in the UK think that ‘the shareholder interest is the first priority of companies’ over the interest of all stakeholders. In other words, people in the U.S. and in the UK think that shareholders value maximization holds some sort of primacy over the others, even though there are no legal grounds for that kind of thought because even at the time of the Yoshimori’s (1995) survey, it had been some twenty years since Dodge v. Ford case was cited by a Delaware court (even then, not to argue for corporate purpose and shareholder

value maximization, but concerning minority shareholder oppression). According to Stout (2008:176) law professors are still using the Dodge v. Ford case because it offers a nice and simple explanation to corporation's purpose and existence and thus, a true conversation about it can be avoided.

Put shortly, in the first decision the court defined a corporation being a contract between a state and a corporation and the state oversees and grants or terminates the contract (U.S. Supreme Court ruling 1819). This was the situation of early corporations. The second decision about 70 years later raised explicitly the position of ownership of the corporation over the directors and shielded shareholders against the actions of management while leaving responsibility and other related issues untouched (U.S. Supreme court ruling 1885). The third decision considered human beings and corporations being equal in the face of law, meaning, that corporations are enjoying similar rights than human beings. The third decision raised the question of how to solve the conflict between shareholder's property rights and personhood's rights? (U.S. Supreme court ruling 1886). And finally, and most importantly, the Dodge v. Ford case in 1919 set forth once and for all the principle of the shareholder value maximization but not with adequate legal premises but through a misunderstanding. The whole principle seem not to have any legal sovereignty whatsoever.

With these four decisions it became obscure where the corporate responsibility lies, with the control or with the ownership?³ And further, it is unclear if shareholders can be thought to be owners of the company as if being precise, they only own the share they bought, they do not own a corporation. This is the exact opposite to views advocated by several extremely influential economists supporting the shareholder value maximization; Milton Friedman (1970), Jensen and Meckling (1976), Easterbrook and Fischel (1983) all argue that *shareholders own the company, and because of the ownership, shareholders are rightful residual claimants*. If one would own something, one could control it, and, for example, shareholders should be able to enter to the company's facilities. Similarly, it would be clear that once you own and control something you are responsible for any returns, losses or other results and consequences of that something.

³ Before corporate form of business and these laws, businesses were organized as partnerships where the relationship of responsibility and ownership is much clearer (e.g. Monks and Minow 2011).

4.5.2. Are corporations legally obliged to maximize shareholder value?

Stout (2008:169) argues that shareholder value maximization is not a modern principle of corporate law nor corporate governance. To see if the argument holds, the three parts that constitute the U.S. corporate law – (1) internal law of the corporation (i.e. the articles of incorporation, (2) state corporate codes and, (3) corporate case law – are all reviewed. Law scholars are not able to agree what the law intends the corporate purpose being as for example; Stout (2008) arguing that the law do not require corporations to pursue shareholder value maximization is in sharp contrast to Macey (2008) who insists that legal authorities and law are unmistakably presupposing corporations to maximize the shareholder value. Not only are the law scholars unable to solve this fundamental question of ‘what the law requires and states’, but the situation became even more complicated when the state corporate codes were gradually supplemented with the so called ‘*other constituencies statutes*’ (e.g. Hansen 1991; Millon 1991; McDonnel 2004).

First, the internal law of companies is quite straightforwardly covered in this setting if one perceives the company being a nexus of contracts articulated by Jensen and Meckling (1976) which is the understanding of a corporation of many law scholars (Easterbrook and Fischel 1983:401; Macey 2008:179). The whole corporation is contract-based institution and therefore shareholders and stakeholders may freely choose what goals to pursue while the shareholder value maximization represents a *default rule* (Macey 2008:179). In other words, the internal law is crafted by corporations themselves and if they wanted, they could cite the Ford v. Dodge case and define in the charter that the corporate purpose is to create maximum profits for the shareholders. Companies, however, do not use such a language but the organizational purpose is mostly defined to be ‘anything lawful’ (Delaware law: tit. 8 §101; Stout 2008:169).

The interpretation taken here, is that because the corporations do not commonly elaborate their purpose any further, the default rule (maximizing shareholder value) will apply to those corporations. This is contrary to Stout’s (2008:169) view that because corporations do not specify that their purpose is ‘to maximize shareholder value’ it means that the rule would not apply to them. Still, in a free economy and society, a contract-based institution has a legal possibility to choose its goals and therefore the view of the current research is that of Macey’s (2008) namely, that unless stated otherwise, the default rule applies. And default rule is needed because ‘conducting all lawful actions’ does not constitute a purpose at all as doing everything could not be counted as purpose. However, the difference in defining objectives in the articles of incorporation or charter is notable when

comparing to the original forms of corporation as the corporation's charter used to be restrictive and controlled by state (Trustees of Dartmouth Coll. v. Woodward). Now any limitation in objectives is avoided and simultaneously any actual definition of the objectives is avoided as corporation's objective is anything lawful. Based on this change in a pattern from a small, clear and restricted to large, ambiguous and unlimited the corporations are perpetuating themselves and the survival of the corporation becomes acceptable objective. Limiting charters would not be serving the goal of survival as surviving necessarily means that corporation must be adaptive.

Second, if the internal articles of incorporation or charters do not force the doctrine of the shareholder value maximization upon corporations, neither does the state corporate codes. Codes are not requiring companies to maximize the shareholder value, rather the contrary is true as a result of so called '*other constituencies statutes*' which are explicitly *allowing* (*i.e. permitting, not requiring*) the boards to consider also interests of the other stakeholders such as employees, suppliers and customers (Freeman et al 2011:164; Stout 2008:169; McDonnell 2004:131; Hansen 1991:1355; American Bar Association 1990). The condition, however, for accounting to interests of these other constituencies is that actions taken must still be in line with the short-term and long-term interests of the shareholders (Dodge v. Ford 1919; American Bar Association 1990: 2262; Macey 2008). Delaware courts have also concluded that there have to be 'rationally related benefits for the shareholders' (American Bar Association – Committee on corporate laws 1990:2269). Discourse around the other constituencies statutes is a legal counterpart of the economics and management debate about corporate purpose, and more specifically, counterpart of the debate between stakeholder theory and shareholder value maximization, and it therefore needs further elaborating. Other constituencies statutes are asking the same two questions as are the stakeholder theory and shareholder value maximization; (1) what is the purpose of the corporation – is it to serve only shareholders vs. serving society at large and, (2) for whom are the directors and managers responsible – for the shareholders only or for the society and stakeholders at large (see Orts 1992:123).

Other constituency statutes differ among states, but generally their implication is that managers and directors may consider effects of their business decisions also from the view point of other stakeholders than shareholders as long as the decision serves the corporation's best interest as well (American Bar Association 1990:2262; Hansen 1991:1355). McDonnell (2004:1231) and American Bar Association (1990:2268-2270) are raising several critical points regarding these statutes that over 30 states have acquired; (1) they are vague in how managers and directors should balance or weigh the interests

of these different constituencies, (2) the interests of the different constituencies are inevitably conflicting, (3) the accountability of managers will be diminished as the objective becomes obscure and unmeasurable, (4) the decision making process would presumably be poorer and slower as the amount of discretion increases, (5) *and most disturbingly, directors are not suited or mandated for reallocation of wealth*. American Bar Association Committee on Corporate Laws conclude (1990:2271), that other constituencies statutes are not recommendable way to enhance position of other stakeholders and further, that other constituencies statutes would only explicitly address the stance that the courts have already held, but unnecessarily empowering managers as a byproduct.

What is extremely interesting and captivating considering the structure and organization of the current research, is that the five points of criticism for the statutes – presented above – are following almost precisely the same logics and patterns as is the criticism confronting the stakeholder theory in the economic literature (see e.g. Freeman et al 2011; Sundaram and Inkpen 2004a; Jensen 2001; Friedman 1970). Captivating, because lawyers and economists are principally going through the exact same debate around exactly the same issues without almost never intersecting with the exception of the collaboration of Berle and Means (1932). More cooperation might have been fruitful but since there is none, this kind of literature research might be able to combine these ‘different’ fields of study and create a new framework. For example, stakeholder theorists Freeman et al (2011:163) state that law is not very frequently linked with business, but it is still ‘important for the study of organizations’ and continue (2011:164), that the importance of the legal theory of the theory of the firm is the reason why the stakeholder theory has gained foothold in the field of law. So why is it that economists and lawyers do not read each other’s texts?

Orts (1992:41) is having a different, but connective, view that the law is not manifesting for either one option, but the other constituencies statutes allows the managers and directors to choose with which criterion to manage (only shareholders or more broadly stakeholders) by increasing legal validity of decisions concerned with other stakeholders than shareholders. This would mean – strictly interpreted – that the business judgment rule and the duty of care would be expanded to span also stakeholders other than the shareowners. For example, managers, if contested in court, should be then able to show that they have considered all relevant information considering all stakeholders and their interests. According to Orts (1992) this is not the case as the other constituency statutes are only an explicit recognition of the idea that managers are *allowed* to consider all

stakeholders (see Freeman et al 2011:168). Further, Millon (1991) argues that statutes provide enforceable rights to stakeholders other than shareholders. This view is not approved by McDonnell (2004:1231) for example, as accordingly several states have explicitly denied the right from enumerated stakeholders to sue based on the other constituency statutes and in others the embargo is implicitly expressed. Millon (1991:225) also interpreted that because of constituency statutes a manager may freely turn down any profitable business plan if it would harm any of the stakeholders. This is not supported by Delaware courts (American Bar Association 1990:2269).

In short, the other constituencies statutes are created by most of the states in in the U.S. for protection against hostile takeovers. They have since spanned to consider other situations and all management decisions in general. Constituency statutes and the modern case law are allowing, but not requiring, managers to take into account also other stakeholders when doing business decisions. There are serious criticisms concerning the statutes but also many that believe them being a beneficial for society at large. It does not come quite clear within the scope of the current research, whether the constituency statutes are enforceable in court or are they only for broadening the discretion of the managers. Similarly, it does not come clear within the scope of this research if those statutes actually expand management's fiduciary duties to cover also others than shareholders. Most of the articles considering the statutes are quite dated as they were written in the 1990s. Stout (2008:170) argue that other constituency statutes mean that corporations need not to maximize shareholder value under the state codes, but does not elaborate what they mean for the management more broadly. According to Macey (2008:179) other constituency statutes cannot be used as a rational justification in a situation where managers would benefit other constituencies at the expense of the shareholders.

Burwell v. Hobby Lobby Stores Inc.

The analysis of whether the law forces corporations to maximize shareholder value or not is concluded with the recent Burwell v. Hobby Lobby Stores case from the 2014. Quote from the court opinion describes the current state of the U.S. corporate law;

“While it is certainly true that a central objective of for-profit corporations is to make money, modern corporate law does not require for-profit corporations to pursue profit at the expense of everything else, and many do not do so.” (Burwell v. Hobby Lobby Stores Inc 2014:23)

“... there is no apparent reason why they [for-profit corporations] may not further religious objectives as well.” (Burwell v. Hobby Lobby Stores Inc 2014:23)

The U.S. courts came from treating corporations as profit-making machines to treating them as organizations that may pursue any lawful goal – even religious ones. Normative conclusions following the conceptions about what constitutes a corporation have totally changed over time. The fact that there is no requirement for shareholder value maximization should be emphasized in business schools and law schools because misunderstanding seems to be widespread and detrimental if managers do believe that they are obliged to maximize shareholder value at over and above everything else (see Stout 2015 and Cornell Law School 2019).

4.5.3. Conclusion

Shareholder value maximization is only a *default rule* to which shareholders may make any alterations if they wish because the corporate law and the corporation itself are totally contractual concepts (Macey 2008:179). Accordingly, shareholders do not usually do any altering to the default rule in public corporations implying that shareholders want corporations to maximize the shareholder value even though it is not forced by law. However, the Dodge v. Ford represents what many seem to believe that corporation's objective should be if the corporation wishes to prosper which might create the sense that the law would be forcing corporations to shareholder value maximization. In other words, the Dodge v. Ford case created normative discourse around the corporate objective (Stout 2008). Macey (2008:179) believe that legally the problem of the shareholder value maximization rule is that it is not enforceable. The conclusion is that corporations are not forced to maximize shareholder value based on internal charters or based on state corporate codes. The corporate case law which was third option for enforcing corporations to do something, is contrarily allowing corporations to pursue any lawful objective (Burwell v. Hobby Lobby Stores Inc).

5. THE ARGUMENTS

This chapter confronts the core research questions posed for the literature review as it strives to capture and explain the utilitarian logic of the shareholder value maximization theory and to depict argumentative lines for, and against the theory. It is very important to understand the behavior of corporations and equally important would be understanding the justification of it. Therefore, arguments are synthesized from the most appreciated sources. The conclusion is that there is only one acceptable argument for or against the shareholder value maximization theory. The argument is that the theory guides corporation's behavior so that social welfare becomes maximized and hence the theory is justified. The only viable counter argument for this is that the shareholder value maximization theory does not maximize the social welfare. Everything else is guiding the discussion away from the goal of economics and social sciences and more importantly, away from the contents of the shareholder value maximization. For example, the shareholder value maximization theory is should not be blamed if chief executive officers are not behaving according to the theory.

5.1. The argument for the shareholder value maximization

Sundaram and Inkpen (2004a) revisited comprehensively the debates concerning the corporate objective and then they offer an opinion about what the corporate objective should be based on logic and previous analyses. Sundaram et al (2004a:353) constructed a set of five arguments to support shareholder value maximization. The pro-shareholder theory arguments are as follows per Sundaram et al (2004a:353); (1) *'the goal of maximizing shareholder value is pro-stakeholder*, (2) *maximizing shareholder value creates the appropriate incentives for managers to assume entrepreneurial risks*, (3) *having more than one objective function will make governing difficult, if not impossible*, (4) *it is easier to make shareholders out of stakeholders than vice versa*, and, (5) *in the event of a breach of contract or trust, stakeholders, compared with shareholders, have protection (or can seek remedies) through contracts and the legal system*.

The initial intention of this chapter was to use these five arguments as a template or framework to categorize all arguments from other authors who are defending the shareholder value maximization in the set of retrieved final sample of articles. This was because most of the arguments appeared to be very similar with each other, but their

presentation or reasoning seemed to vary. Thus, categorizing them under determined labels would increase the intelligibility and strength of those arguments and such labelling and categorization of shareholder value maximization arguments is not provided by any author so it would have had novelty value in that sense. Also, if the attempt to classify fails, it could be interpreted to signify that there is no consensus what constitutes the justification for the shareholder value maximization. Either way, the finding would be valuable and have implications for this thesis but also for the management practice and for the future research.

The categorization attempt failed. The interpretation is that the attempt failed not because of the lack of similarity in arguments but because the thesis would be less valuable if it would sacrifice the brilliance and expertise that authors provide in details. Details matter, because almost all of the arguments defending the shareholder value maximization could be deduced to utilitarian argument of enhancing social welfare. Nevertheless, Sundaram's et al (2004a) paper is offering a wide range of credible and broad arguments and therefore, if those arguments are supported also by the other scholars, they could be accepted and applied. The article is widely cited, and it is published in a highly appreciated *Organization Science*.

This chapter answers to the research questions numbers four and five. For this purpose, articles from the systematically retrieved sample are ranked based on Academic Journal Guide (2018) and highest ranked articles are thoroughly read and analyzed. The analyzed articles and their main contents are presented in the table 7. The surprising finding is that there are not variety of viable arguments for and against the shareholder value maximization theory – there is only one argument for the theory and one argument against it. Either the theory maximizes the social welfare and it should be accepted as corporate objective, or it does not maximize the social welfare and the theory should be altered or replaced. For example, the arguments from Sundaram and Inkpen (2004a) paper, other than the utilitarian argument, are arguing for details how the shareholder value maximization could create value. Sundaram and Inkpen (2004a) are not arguing that shareholder value maximization should be the corporate objective because “maximizing shareholder value creates the appropriate incentives for managers to assume entrepreneurial risks”. Rather, Sundaram and Inkpen (2004a) are arguing that the shareholder value maximization should be the corporate objective because “maximizing shareholder value creates the appropriate incentives for managers to assume entrepreneurial risks” and that in turn creates social value more than any other system.

Thus, only the utilitarian argument either for, or against is relevant for this literature review. Other arguments are only instrumental for the social welfare argument.

The first column of the table 7 shows the authors of the paper in question. Second column indicates whether the paper contains empirical evidence or not and in to the third column there is marked “a” if the paper accepts the shareholder value maximization or promotes it and “r” if the paper is refuting the idea of shareholder value maximization and “-“ if the author takes no stance on shareholder value maximization as a corporate objective. The two last columns are describing the goal of the analyzed paper and shortly the main contents. ABS rankings, titles and publishing journals for these articles are presented in the table 6. As visible, only 5 out of 23 most important articles are containing empirical evidence. The portion of accepting or refuting the shareholder value maximization theory is surprisingly evenly distributed as there are 9 articles accepting and 10 articles refuting the theory and 4 articles did not express any opinion or normative statement about what the corporate objective should be. In general, if the study is empirical, it takes no stance on accepting or refuting the arguments of shareholder value maximization.

Table 7 Main contents of 3-4* ABS ranked articles for synthesis

Author	Emp	a/r	Goal	Main content
Sundaram & Inkpen (2004a)	no	a	To justify the shareholder theory	The corporate objective should be maximizing shareholder value through maximizing long-run cashflow. Exploitation is thus inconsistent with the shareholder value maximization theory.
Sundaram & Inkpen (2004b)	no	a	To justify the shareholder theory	Same as Sundaram and Inkpen 2004a.
Freeman, Wicks & Parmar (2004)	no	r	To justify the stakeholder theory	Calls for managers to take into account all stakeholders in the decision making. The argument is that the shareholder value maximization allows misconducts and immoralities for the corporations by separating ethics and business. The language used by the shareholder value maximization is detrimental.
Jones & Felps (2013)	no	r	To offer utilitarian critique for shareholder value maximization	The shareholder value maximization is based on utilitarian logic and it would be adequate corporate objective in some strict conditions. For example, perfect competition would be required for the shareholder value maximization to work, but it does not exist.
Jensen (2001 & 2002)	no	a	To prove that shareholder value maximization is only logical option for firm objective	To show that corporations cannot have more than one objective against which managers must weigh their decisions. The shareholder value maximization maximizes the firm value and through that it will maximize the social welfare also. Stakeholders should be acknowledged in the process.

Hansen & Lott (1996)	no	a	To prove that shareholders prefer portfolio maximizing over single firm value maximization	The maximization of the value of one single firm means that it must externalize some costs and these costs will be paid by some other corporation. Diversified investor will not want this as if one investment gains the other might lose, thus, investors prefer portfolio maximizing over single firm value maximizing.
Budde, Child, Francis & Kieser (1982)	yes	-	To determine if managerial policies vary systematically between countries	The main goals of corporations in Britain and Germany are profit maximization and profitability. Financial manager and executive officers were interviewed.
Hsieh (2015)	no	r	To use social contract in justifying corporate objective	Offers an option for Friedman's (1970) shareholder primacy in which the purpose of the corporation is not to increase its profits, but to create social value. Society would be limiting the actions of corporations.
Chambers & Lacey (1995)	no	a	To justify ethical side of the shareholder value maximization	Offers an idea where the shareholder value maximization works ethically through markets. That is, if people care about ethics, they will price them. Investors pay less for shares that appear to be unethical to them because they are less desirable. Consumers may not buy products from corporations that are misbehaving according to their moral.
Dobson (1999)	no	a	To reveal that the shareholder value maximization theory is not value free or amoral	The shareholder value maximization is not positive theory or value free. The shareholder value maximization is moral through markets. Financial markets translate the moral concerns of society to financial signals based on which corporations alter behavior.
Beggs & Lane (1989)	yes	-	To analyze importance of the corporate objectives among future corporate leaders	The business students and CEOs perceived by the students rank long-run profit maximization and a survival of the corporation to most important objectives.
Poitras (1994)	no	r	To evaluate ethicality of the shareholder value maximization theory	Based on financial theory, ethical issues should be reflected by the markets share prices should fluctuate based on ethical choices the corporation makes.
Redwood, H.	no	a	To show that efficiency is necessary for corporations' survival and how to design corporate objective	Corporations must use its resources efficiently and being efficient needs objectives. These objectives are inevitably financial.
Mendelow (1983)	no	r	To create a system for determining objectives for a corporation at the strategic planning level	A system for integrating stakeholder demands to strategic planning and to prioritize these demands against each other's.
Lazonick & O'Sullivan (2000)	no	r	To show negative consequences of adopting shareholder value maximization theory	Shareholder value maximization has taken the position of an ideology and it is uncontrollable. Shareholder value maximization has led to the destruction of American middle-class and prosperity as corporations have changed their strategic emphasis from investing and growing to downsizing and short-term profitability.

Kury (2007)	no	r	To examine how institutional frameworks has driven accounting scandals	Institutions create pressures for managers. For example, Worldcom and Enron are the result of institutional pressure which is induced by the shareholder value maximization theory.
Cantley (1970)	no	-	To test viability of common corporate objectives such as profit maximization	Defines operational roles for the corporate objective to test viability of different objectives. Operational roles of corporate objective are paradoxical.
Argenti (1969)	no	a	To review most common corporate objectives	Argues that the shareholder value maximization is clear and verifiable objective and thus only one that is acceptable until capitalism vanishes.
Parmar, Keevil & Wicks (2019)	yes	r	To examine whether corporate goal influences well-being of employees through the self-determination	Value creation for all stakeholders of the firm as a corporate objective increases well-being and competence of employees compared to firms that use shareholder value maximization as a corporate objective.
Bento, Mertins, & White (2017)	yes	-	To understand how ideologies may influence in appraisal in companies and implementation of CSR measures to balanced scorecard	Managerial evaluation translates into bonus decisions and people tend to emphasize financial measures over corporate social responsibility measures.
Clarke, Jarvis & Gholamshahi (2019)	yes	r	To investigate the damaging impact of maximizing shareholder value	Shareholder value maximization is creating inequality through facilitating financialization of nonfinancial corporations.
Denis (2016)	no	a	Promote the idea that interests of society and interests of the shareholders are not in conflict	There is no conflict between stakeholder theory and the shareholder value maximization theory, only definitional misunderstandings regarding for example agency model and finance definition of corporate governance. Enforceable contracts ensure that all stakeholders get fair treatment.
Findlay & Whitmore (1974)	no	r	Examine if the shareholder value maximization is viable descriptive theory to teach in business school	Finds three different views on firm, shareholder value maximization, management value maximization and general behavioral model where constraints are enforced, and compromises arise. Questions the usefulness of the shareholder value maximization in positive finance.

5.1.1. Shareholder value maximization and utilitarianism argument

The first point that Sundaram and Inkpen (2004a) are making is that shareholder value maximization actually maximizes the value for the other stakeholders too. The argument is popular, and it is for example in line with Jensen's (2001) – who is one of the founding fathers of the theory – argument that maximizing value for the shareholders maximizes the total value of the firm, and thus, it maximizes the welfare of the whole community and the economy more broadly (i.e. other stakeholders). This argument is probably the most important and the most powerful because of its reasoning is based on fundamental economic theories and utilitarianism which, in essence, is the core idea of virtually all social sciences (Jones and Felps 2013). If this argument does not hold, then the whole system of the modern capitalism and economic theories is endangered. For example, Clarke et al (2018) argue that in practice the shareholder value maximization accelerates financialization of non-financial corporations and through financialization the shareholder value maximization increases inequality.

The angle from which Sundaram et al (2004a) arrive to this argument is somewhat different of Jensen's (2001) although the central idea is similar. Sundaram et al (2004a) think that the *control rights* should be given to the shareholders rather than to anyone else because shareholders are entitled to the *residual claims* of the firm and are thus, the only group motivated to maximize the value of the firm. Shareholders are more willing to maximize the firm value than other claimants who has *fixed claims* on cash flows, such as bond holders and employees. This is simply because bond holders are only interested in increasing the firm value as long as the point is achieved when they will get their claims and not a bit more because the bond holder's opportunities to earn value are restricted and an additional increase in the firm value would increase the risk which would then decrease the value of the bond or endanger the claims. Comparably, employees would appreciate steady cash flows over risky investments to ensure their remuneration and pension savings. Therefore, only shareholders, as residual claimants whose benefits are potentially infinite, are willing to maximize the total firm value beyond the levels of 'satisfactory' or 'good enough' by taking risks that would be excessive to other stakeholders. Along with the control rights comes the right to manage the corporation and decide what to maximize, thus, Sundaram et al (2004a:354) conclude that, '*by going beyond the requirements of such committed claims, managers increase the size of the pie for all constituencies*'.

This view is also expressed by Easterbrook and Fischel (1983:403) who examine the meaning of voting in corporations and approached the issue from the legal perspective. Though they are not arguing to maximize anything, Easterbrook and Fischel rationalize that shareholders are the ones that are, and should be, possessing the '*discretionary rights*'. With discretionary rights authors refer to the right to choose and oust the management and to decide if the corporation should undertake risky projects for instance. Ultimately, the issue is that if a corporation would be managed by favoring preferences of some other group than the shareholders, the firm value would not reach the same sky-high levels as it now does, and the economy would not prosper as it now does. In other words, if the corporate objective would be for example to 'maximize the value of bondholders', everyone would be worse off (Easterbrook et al 1983; Jensen 2001; Sundaram et al 2004a).

The interpretation of this argument is then the following; by maximizing the value of shareholders rather than the value of any other stakeholder party, *the management is maximizing the value of the firm*. Then, why would maximized firm value lead to maximized value and welfare for all stakeholders? The rationale how maximizing shareholder value through maximizing the total value of the firm and hence maximizing the total welfare is articulated like this; if a firm's output, products and services, are valued by its customers at more than what the firm valued the inputs that it used while producing the output, then the economy as a whole has benefited from the process because *value added* has increased (e.g. Jensen 2001:302). The value of the firm, then, is the market value of the cashflows that it produces in the long-term and when these cashflows are maximized, so becomes the amount of welfare producing outputs and the total firm value maximized, which, in essence, is the shareholder value maximized. In other words, by maximizing the market value of the firm, one is maximizing the value added to the economy as a whole and the value added for *all stakeholders*. No doubt, this must be intuitively correct and of course, when everybody is benefiting, it is also pro-stakeholder as Sundaram et al (2004a) worded the argument. (Jensen 2001.)

5.1.2. Utilitarian argument - discussion

There are two major critiques for the argument that the shareholder value maximization is maximizing the total welfare of the society; (1) externalization of costs and (2) exploitation of stakeholders. Of course, both of these critiques mean that the shareholder value maximization would not be maximizing the social welfare. Sundaram et al (2004a:356) themselves rise few issues with the theory. First, that even though the

shareholder value would become maximized the company might only transfer the value to the shareholder instead of investing and ‘increasing the size of the pie’ for the other stakeholders too. The distribution of wealth is an adequate consideration especially if taking into account huge CEO compensations which might well be encouraging CEOs to promote excessive dividends for example (e.g. Lazonick et al 2000). However, if merely transferring the wealth to the shareholders through stock repurchases and dividends instead of investing, neither the company or the CEO will be long lasting. However, the distribution concern is not necessary if the shareholder value maximization is treated as a long-term goal – as it is meant to be treated (e.g. Jensen 2001). It cannot be thought to be maximizing the long-term value of the shareholders (or the cashflows) if there are no investments in the future or into the wellbeing of the employees for example.

Jensen’s (2001:303) logic is that because the owners of inputs are voluntarily selling them to the manufacturing company, they are valuing the inputs less than the company spending them. What if the value of inputs is compromised? For example, a factory worker earning €10 per hour would be according to voluntariness condition valuing his time at less than €10 per hour or else he would not sell the time at that price. The place for questioning lays in the word *voluntary*. Is the blue-collar worker truly and totally voluntarily giving up his time at €10? The negotiating power of one individual is basically nonexistent especially considering low paid jobs. Everything that is sold is not contributing to welfare of the society. People are buying things based on illogical reasons and there are things that people ‘must’ buy. In short, companies might exploit other stakeholders by low wages and value transfers for example⁴.

Further problem in Jensen’s (2001) and Sundaram’s et al (2004a) argument and in the welfare maximization argument in general is that it assumes that consumers, or more broadly, people are able to value things properly, in a useful manner for the society. However, it is quite obvious that people might value things based on other premises than welfare and therefore welfare might not be maximized when the ‘value’ of firm’s outputs is valued by people being greater than the resources it used and the amount of production is maximized. The assumption is that the collage of people’s valuations is leading to favorable outcome in general – to set of outputs that is creating the maximum welfare – while the reality is that someone might value excessive consumption of fossil fuels or

⁴ This is if the markets are not competitive

unhealthy nutrition and the society as a stakeholder could be better off without this valuation and consumption. These unjustified valuations are one form of externalities.

The problem of externalization is an important one but also complex one. Externalization and exploitation of stakeholders are representing one of the focal points in assessment of the shareholder value maximization theory. On the one hand, there are authors arguing that neither Friedman's (1970) article or economic principle are – and hence the shareholder value maximization is not – inconsistent with the stakeholder theory or corporate social responsibilities (Jensen 2001; Sundaram & Inkpen 2004a:359). More precisely, shareholder value maximization cannot be criticized for exploitation of stakeholders or for externalizing social and environmental costs. If a corporation would be exploiting stakeholders and merely transferring value from other stakeholders to shareholders, the corporation would be unable to be profitable and maximize the shareholder value in the long-run. Freeman et al (2011:10) actually labeled Friedman (1970) being an “early stakeholder theorist” because accordingly, Friedman sees benefiting stakeholders as instrumental in achieving the maximum shareholder value in long-run. As visible, the fundamental logic of the shareholder value maximization is more and more dependable on the concept of *long-run*. Shareholder value maximization theorists dismiss wealth distribution critics and externalities critics by arguing that they are inconsistent with the shareholder value maximization since it must be considered in the long-run. The concept of ‘corporate objective’ inevitably refers to the long-run because corporations perpetuate themselves.

On the other hand, there are authors who think externalization of social and environmental costs as being the sole and direct consequence of the shareholder value maximization ideology (e.g. Lazonick and O'Sullivan 2000; Ghoshal 2005). This view is supported by numerous examples of misbehaviors and wrongdoings conducted by corporations (Markham 2015). For example, Ford Motor company utilized cost-benefit analysis in designing Pinto cars and concluded that it more beneficial for Ford's shareholders to let customers burn to death in a case of collision than to create safe car (e.g. Dowie 1977). So, there are corporations externalizing everything that is possible, no matter if it is illegal or immoral. Might this be a consequence of the *language* or *symbolism* used by economists and the shareholder value maximization theory (Ferraro et al 2005), it is not a consequence of the shareholder value maximization theory as it does not allow for immoralities, illegalities and most of all, it does not allow for engaging in actions which deviate from ‘*the best interest of a corporation*’ and the assumption of the very long time horizon (Jensen 2001; Sundaram and Inkpen 2004). For example, a lawsuit, bad

reputation, employee turnover, dead customer, polluted environment, fines and sanctions clearly all deviate from the best interest of any corporation.

If one simply accepts the argument of long-termism as a defense for the shareholder value maximization theory, then the most fundamental point of analysis becomes whether the shareholder value maximization is intentionally misunderstood or is unintentional unawareness of the content of the theory the reason for misconducts. Strictly interpreting, the shareholder value maximization advises a manager to, at any cost, increase the cash flow and to reduce costs and risks. One simple way to reduce costs would be externalizing costs (i.e. polluting excessively, or discriminate employees), but in the long run it will not be the best interest of the corporation and hence, according to the shareholder value maximization theory managers should refrain from these kinds of actions.

If one does not simply take the long-run argument and believe that it will solve all problems described by Lazonick & O'Sullivan (2000) and Clarke et al (2018) for example, the fundamental point of analysis becomes the question of how we can restrict companies from externalizing costs? There are primarily two mechanisms through which corporation will stop exploiting stakeholders and externalizing its costs; market mechanism and government mechanism (e.g. Coase 1960). Governments impose laws upon corporation and markets should intervene by for example ousting the management if it is deemed to be responsible for misconducts. The point of (economic and managerial) criticism related to this, however, lays not in these mechanisms but in the economic assumption; that economic agents are rational, self-interested utility maximizers and that markets are perfectly competitive. For example, if markets are not competitive, the information is not evenly distributed, meaning, that shareholders are not able to oust the management as they do not know in real time what happens. Further, even if the information would be available to the shareholders, they might not be able to follow news streams constantly. To the legal structures preventing exploitation there is nothing to add here, the discussion is provided in section four. In short, these legal structures exist, and they are abundant but they are no means perfect or functioning in a way that totally prevents companies from externalizing costs.

Jensen (2001) acknowledged the issue that if externalities exists, the objective to maximize firm's output will not maximize the welfare for the broader society and he is not satisfied by simply arguing for the long-termism. By externalities Jensen (2001:302) means incurred costs that are not borne by the individual or corporation who made the decision to take the actions that led to those costs. A classic example would be air

pollution. Accordingly, the problem is avoided by assigning all alienable decision rights (i.e. property rights) to some individual within an economy because then externalities can no longer exist (Jensen and Meckling 1995; Jensen 2001:302).

Jensen (2001) and Jensen and Meckling (1995) cite Coase (1960) and his groundbreaking work in understanding economic consequences of social costs and transaction costs to prove their case for how to eliminate externalities. Coase Theorem suggests that there are two options to overcome social costs (i.e. externalities); (1) they should be either bargained between the two parties or (2) regulated by the government. According to Coase (1960), bargaining will lead to a pareto-efficient situation (which, economically thinking, is overall welfare maximized) but only if transaction costs are low enough, when actors has a liability to compensate harms that they cause with their actions, and when mutually satisfactory solution is available (see Coase 1960:4-6, for a farmer vs. cattle riser example).⁵ There are again quite many assumptions and conditions for Coase theorem and they are aggregating the assumptions needed by the shareholder value maximization. However, based on Coase's (1960) work, Jensen (2001:303) argues that externalities cannot exist if alienable decision rights are defined and assigned to someone, because then the solution will automatically be pareto-efficient.

It should be acknowledged, that social welfare is not maximized automatically when the Pareto-efficiency is achieved as Pareto-efficient point can be unequally distributed. Monks and Minow (2011:50) suggest that government is needed to solve the tradeoff between corporate profits and social goals. In short, externality becomes an internality either when alienable decision rights are defined and assigned to someone and thus, the full consequences of any decision are borne by the individual, or when the government regulation is used to determine who bears the costs and what is the social goal. Democracy is thought to be the justification for the government regulation as the government should be able to balance and represent the interests of the society and it can be replaced if the society's interests' changes (Monks and Minow 2011:50).

Put more simply, the discussion above would imply that for example air should be a property and its ownership should be assigned to some individual or otherwise social

⁵ According to Coase this could occur for example in a case between a cattle riser and a farmer when choosing whether to use the available land for farming or for cattle straying (if cattle destroys the crops). When the net gain of cultivating the land is \$2, and the cattle would be destroying crops worth more than \$3, it would be reasonable for the cattle farmer and for the farmer to agree that cattle farmer will pay \$2.5 for the farmer for not to plant any crops at all. Now both, the cost for keeping the cattle and farmer's net gain, are more than they would be without bargain.

welfare is not maximized through maximizing the shareholder value because this unowned property (air) is then exploited by self-interested economic agents trying to maximize their personal welfare and the self-interest seeking then leads to overproduction and excessive pollution from the perspective of the whole society. If the decision rights over the air would be assigned to some individual, then an actor who wishes to pollute, should buy the right to pollute from the owner of such right and if the bargain is found between the two parties, the welfare of the whole society is maximized as both sides of the deal are better off with the deal than without it. However, assigning perfectly defined decision rights over every single thing in the world might be practically impossible task and hence the government is intervening into the economy by curbing polluting for instance. How well, is another question. The argumentative line seems to be consistent in paper – if the shareholder value maximization is treated as a very long-term goal, it maximizes the society's welfare. The consistency in paper seems to fall apart when applying the shareholder value maximization in practice and as a managerial guide and when examining the *conditions and assumptions* that must be in place.

Is the maximizing shareholder value good for the other stakeholders and for the economy as a whole? In short, probably yes. More jobs, more donations to charity, more great products with better prices, more innovations. The question is; *good compared to what?* It might be that when compared to existing alternatives the shareholder value maximization theory is the most simple and low cost theory to achieve the result that is *closing* the maximum social welfare available for us even though it has side effects. It does not mean that the shareholder value maximization theory is correct, perfect, should not be improved or replaced. It only means that the analysis provided so far implies that it is the best alternative compared to other existing ones.

List of assumptions that must hold for the shareholder value maximization to function is quite massive and Pareto-efficiency is not equal to social optimum as Pareto-efficiency says nothing about distribution of the wealth. It seems that the theory might not literally or precisely maximize the welfare of the society as there are externalities, wrong doers, transaction costs, poor distribution of wealth and other imperfections. However, the fact that the theory is not perfect does not make it a bad theory or something that should be automatically replaced or labeled to being 'the dumbest idea in the world', rather, *its weaknesses should be acknowledged when applied and taught and discussed more profoundly in business education*. It should be large part of the management education that what manager should do, when the market failure appears, and government fails to govern. The implementation of the theory has made the economies prosper.

5.2. The argument against the shareholder value maximization

It might have been Bowen (1953) who first formally recognized the social responsibility of corporations and refuted the profit maximization being the sole purpose of a company and of a manager as he writes (1953:3):

“The decisions and actions of the businessman have a direct bearing on the quality of our lives and personalities. His decisions affect not only himself, his stockholders, his immediate workers, or his customers – they affect the lives and fortunes of us all.”

In general, the only viable counter argument for refuting the shareholder value maximization is that the utilitarian logic does not hold, and that the shareholder value maximization does not lead to maximum or increased welfare in a society. The arguments against the shareholder value maximization are not the ones that are often presented as such, for example corporate social responsibility is not an argument that is against the shareholder value maximization as a corporate objective (see e.g. Aguinis and Glavas 2012). The corporate social responsibility does not offer any alternative for the corporate objective and it is merely instrumental argument in arguing that the shareholder value maximization does not maximize the social welfare. Same is true for the stakeholder theory in which the core point is that other stakeholders suffer when corporations are run solely based on shareholder value maximization (Freeman et al 2011). Therefore, the only viable counter argument for the shareholder value maximization theory is that the shareholder value maximization does not maximize the social welfare. If the shareholder value maximization theory fails to maximize the social welfare, it has no justification whatsoever. However, arguing that corporations should participate in social endeavors is not counter argument for the shareholder value maximization theory as a corporate objective.

Taken further, there are many argumentative lines within the advocates of the shareholder value maximization theory and within those who strive to refute the theory. For example, some argue that shareholder value maximization offers a decision rule for management that is not offered by any alternative model for governance (Jensen and Meckling 1976; Jensen 2001; Denis 2016:471). What value does a decision rule hold if it does not lead to enhanced social welfare? Another example, Sundaram and Inkpen (2004a) argue that shareholder value maximization should be the corporate objective because if there is more than one objective function, management would be impossible. The argument could continue arguing that if the corporation has more than one objective function (e.g. to maximize welfare of many stakeholders), then the social welfare does not become

maximized. Third example, Freeman et al (2011) argue that corporations should take into account also other stakeholders in their decision making and that is of course because so the social welfare would be maximized in utilitarian sense. The point is, that in every single argument and in all detected streams of literature, there is inherently built into the arguments the overarching goal of increasing or decreasing social welfare. Nothing else exists in this discussion and everything else is guiding the discussion to the sidetracks where it has largely been.

5.2.1. The stakeholder theory

Because stakeholder theory has attained enormous academic attention and because the stakeholder theory is thematically intertwined with the shareholder theory, the short sidetrack is taken to review the stakeholder theory briefly. Stakeholder theory is developed in response to the shareholder value maximization theory and to serve as a pragmatic guide for managers in daily decision-making situations (Freeman et al 2011). Roots of the stakeholder management theory are more distinct than that of shareholder value maximization's, but the roots also more recent (Freeman 1984). Stakeholder theory is not established in 200 years of economics research, but it is a serious competition for the shareholder value maximization in academia. Even though the roots lay in more recent history, the stakeholder theory suffers from serious definition issues (e.g. Donaldson and Preston 1995; Freeman et al 2011).

Scholars defining the terms 'stakeholder' and 'stakeholder theory' have been using various and sometimes conflicting arguments and evidence (Donaldson and Preston 1995:66-67). One of the most fundamental and used definitions for the stakeholder is given by Edward Freeman (1984) who initiated the term 'stakeholder approach' in his book *Strategic Management: A Stakeholder Approach*. Accordingly (1984:53), *a stakeholder is anyone who is, or can be, affected by the achievement of an organization's purpose* – possibly even the terrorists. Freeman et al (2011:26) acknowledge themselves that there are several definitions for the word stakeholder, and they give another, more narrow definition for the stakeholder which states that stakeholders are *'those groups without whose support, the business would cease to be viable'*. The latter, more narrow definition is described with the word primary stakeholders while in the broader definition there are also instrumental or secondary stakeholders such as stakeholder's stakeholders included (Freeman et al 2011:26). Freeman et al (2011:26) do not believe that despite of the thirty years of studying, the 'true definition' of the stakeholder is found and the

definition will change or evolve and further, Freeman et al (2011) extend the idea that there is no reason to try to define one theory that works for all businesses.

Donaldson and Preston (1995) defined a typology for the stakeholder theory. Donaldson and Preston (1995:66-67) argue that stakeholder theory is descriptive, normative and instrumental at the same time. The stakeholder theory is; *descriptive* because it describes what the corporation is a collection of interests that are simultaneously competitive and cooperative; *instrumental* because it strives to explain and measure possible changes in traditional performance indicators if a company applies stakeholder approach and; fundamentally *normative* placing an intrinsic value over the interests of stakeholders which means that desires of any stakeholder are considered in their own merit and regardless if these considerations promote other goals such as the shareholder value maximization would be.

Already at this point it is evident that the stakeholder theory is quite ambiguous which might not be ideal feature of a tool for managerial decision making. Initiators of the theory are not able to define the stakeholder and do not believe that such a definition exists (Freeman et al 2011). If a theory wishes to replace the shareholder value maximization theory as such a general rule and change the direction of the discourse, a definition for the stakeholder and the stakeholder theory are needed.

According to the shareholder value maximization theory, a corporation should be run so as to maximize its long run value. Analogous statement for the stakeholder theory would be: the stakeholder theory is '*about creating as much value as possible for stakeholders, without resorting to trade-offs*' (Freeman et al 2011:28). Here, 'not resorting to trade-offs' means that if trade-offs have to be made between conflicting stakeholder interests then the managers have to '*figure out how to make the tradeoffs, and immediately begin improving the trade-offs for all sides*' (2011:28). The primary advice that the stakeholder theory offers for managers to handle the conflict situations is to avoid conflict situations by stating that '*executives must find a way to rethink the problems so that these interests can go together, so that even more value can be created for each*' (Freeman et al 2011:28).

This places responsibilities for managers that are very loosely defined. Jensen's (2001:299) definition of the implications of the stakeholder theory; '*stakeholder theory says that managers should make decisions so as to take account of the interests of all the stakeholders in a firm*'. Jensen's (2001) account on this clearly shows how impractical the stakeholder theory could be as a decision rule. Problems in definitions and especially

problems in making trade-offs with the stakeholder theory as decision rule has been acknowledged and for example different categorizations for the stakeholder is developed (see e.g. Mitchell, Bradley and Wood 1997; Bradley, Mitchell and Sonnenfeld 1999).

The stakeholder theory is criticized for not being a theory at all because it has not derived testable propositions and the key terms are defined too ambiguously (Freeman et al 2011:63). Freeman et al (2011) suggests that the theory should be treated as ‘a genre of management’ theory that revolves around the idea of importance of stakeholders rather than as a specific theory in itself. However, the theoretical sense of the stakeholder literature is exactly what most of the stakeholder critics are criticizing. If stakeholder theory would be treated as a way of thinking or as a genre of management, many criticisms would lack foundations. Similarly, as with shareholder value maximization, it seems that critics are not criticizing what stakeholder authors has meant but what has been quite purpose-orientally possible to interpret. However, the only valid point of evaluation when evaluating the corporate objective from the normative point of view, is to ponder whether the social welfare is increased or not.

If the stakeholder theory strives to replace the shareholder theory as a corporate objective, it should be able to show how it will reward other stakeholders more than what they get with the current shareholder system. For example, employees cannot ever take more out of the corporation than what they produce. That is consistent with the shareholder theory, but also with the stakeholder theory. If employees would extract more than what they produce, the excess part would be away from the future investments and employees would start to suffer as the certainty and continuity of their jobs would become endangered. The argument is that there is no better alternative in the utility maximizing sense for the other stakeholders than the shareholder value maximization which is restricted by moral and ethics.

5.2.2. The link between shareholder value maximization and social welfare

Utilitarian argument for the shareholder value maximization relies on interrelated concepts like efficient capital markets (Fama 1970), perfect competition (Hayek 2016; McNulty 1968), economic equilibrium and economic efficiency (Jones and Felps 2013). If these concepts do not exist in the world where the shareholder value maximization operates, then the shareholder value maximization does not maximize the social welfare. This might be the strongest case against the shareholder value maximization as a corporate objective. It is not possible in terms of this thesis to examine and discuss in

detail these concepts although it would be adequate to do so. Perfect competition alone represents such a large body of literature that it would require a new main chapter to this review which is not possible. However, their meaning is discussed because otherwise the utilitarian argument would be left ignorant.

The basic idea is that economic efficiency follows from perfect competition – if there is no competition or not enough competition, inefficiencies have room to appear and conversely when the competition is perfect there cannot be any inefficiencies. Tendency of markets to find an economic equilibrium is causal consequence of perfect competition. If corporations are not efficient, then they are not maximizing the social welfare even if their profits or share price would be rocketing. If there is no competition the corporations are not maximizing the social welfare as monopolies for example clearly are not welfare maximizers. Monopoly is an extreme example and the minimum amount of competition necessary for shareholder value maximization to work is discussable, but basically the requirement is perfect competition because shareholder value maximization is assuming economic equilibrium and economic efficiency. Furthermore, the problem is that unless also the capital markets are efficient, the share pricing system falls apart and then the shareholder value maximization theory is without a measure and managers are left without market signals. In short, market failures and externalities significantly weaken the possibility of shareholder value maximization to maximize the social welfare. (McNulty 1968; Jensen 2001; Jones and Felps 2013.)

Then what is needed for the perfect competition? Hayek's (2016) article is a reprint from the year 1946 but it summarizes perfect competition with three points that are still adequate (2016:362); *"according to generally accepted view, perfect competition presupposes:*

- 1. A homogeneous commodity offered and demanded by a large number of relatively small sellers or buyers, none of whom expects to exercise by his action a perceptible influence on price.*
- 2. Free entry into the market and absence of other restraints on the movement of prices and resources.*
- 3. Complete knowledge of the relevant factors on the part of all participants in the market."*

There are other, and much broader lists of assumptions but quoted three by Hayek (2016:362) are those that are usually represented in all listings and they are thus perceived to be the most important ones (see e.g. Jones and Felps 2013; McNulty 1968). With one glance on the list it is easy to see that perfect competition is an ideal that may not exist in many industries. Efficient capital markets requirements are no less unrealistic (see Fama 1970). For example, efficient capital markets require that there would be no entry barriers or transaction costs. However, entry barriers and transaction costs do exist in most of the industries and they truly posit a challenge for doing business and competing.

One quite strong argument against the shareholder value maximization theory is that the conditions that the theory would require does not exist in real world and they cannot ever exist. The shareholder value maximization would work, but it never can because of these unreal conditions. This, however, does not say that the shareholder value maximization theory does not provide the closest available approximate of maximum social welfare.

6. DISCUSSION

Much of the discussion is accounted in suitable passages connected with the related theory and empirical parts of the thesis, but this chapter offers some final thoughts which could not be placed into the text. The assumption was that there are many streams of different arguments for such a large-scale theory as the shareholder value maximization. However, they all seem to conclude or sort of culminate to the utilitarian logic. The same goes for the refuting arguments as it seems that there are roughly two kinds of arguments against the shareholder value maximization. There are arguments that are questioning the utilitarian logic of the shareholder value maximization and then there are arguments that question some small part of the theory and do not replace its position as a corporate objective. The arguments that question only a small part of the theory are mostly ending up being criticism for the economics and abstractions that economics make. In short, all arguments – both refuting and accepting the shareholder value maximization – can be reduced to utilitarian logic and to pareto-optimal utilitarian resource allocation. It is the underlying objective of the whole research of economics.

Therefore, the only real argument for the shareholder value maximization is the utilitarian one, and the only real counter argument would be that the shareholder value maximization does not actually maximize the social welfare in the utilitarian sense. In practice, the counter argument is the stakeholder theory or the case that the necessary conditions (e.g. perfect competition) for the shareholder value maximization theory does not exist. Everything else – literature streams like the corporate social responsibility and financialization for instance – are inherently built into the shareholder value maximization and to utilitarian argument. The strongest case would be that the necessary conditions for the shareholder value maximization cannot realistically exist, but still the shareholder value maximization theory might be the theory leading to the closest approximate as no viable alternatives were detected during the exhaustive literature review. It is not adequate to treat these independent sub-concepts of the corporate governance – such as the corporate social responsibility – as distinct arguments for refuting the shareholder value maximization theory because they can be deduced to the utilitarian argument. Furthermore, the corporate social responsibility or the stakeholder theory are not corporate objectives in the same sense as the shareholder value maximization is. For example, the corporate social responsibility does not provide any argument for replacing the shareholder value maximization theory as a corporate objective. Corporate social responsibility is the objective of non-profit organizations but

not commercial corporations. The corporate social responsibility and stakeholder theory are built into the shareholder value maximization when it is restricted by moral, ethics and law.

Clearly, problems exist; there are market failures, externalities, misunderstandings and opportunistic chief executive officers for example. This, however, does not mean that the shareholder value maximization should be replaced. Shareholder value maximization theory should be altered to more explicitly focus on restrictions such as the law and moral and responsibility – change the language of the theory. If one would like to make such an enormous economic reform one could either try to enhance current regulating institutions such as securities and exchange commission so that they create circumstances of perfect competition or one could try to alter the normative base on which managers and corporations operate (Jones and Felps 2013:211). The thesis strives to open the normative basis for alteration.

6.1. Misunderstandings in the literature

The distinction between rule utilitarianism and act utilitarianism is important for understanding the misunderstandings between authors in this field. This distinction is explicitly articulated in the context of shareholder value maximization by Jones and Felps (2013). Act utilitarianism guides the agent to make decisions so as to create greatest social benefit with this one certain decision currently at hand, while the rule utilitarianism guides the agent to make the decisions so as to create greatest social benefit in the long run by following certain rules (Jones and Felps 2013:212). The distinction is that individual and separate decisions justified by the rule utilitarianism might be immoral when judged based on act utilitarianism. To elaborate, lawyer defending criminal prosecuted of murder might deliberately let him go jail by not defending him well and so fulfill the criterion of act utilitarianism as the murderer would be taken away and some justice would have been achieved. The other justification is that the lawyer could defend the criminal properly and so create justice system that produces social welfare in longer run which would be in accordance with the rule utilitarianism.

Shareholder value maximization is normative guide and an exemplar case of rule utilitarianism. This means that all decisions taken under the shareholder value maximization might not be clearly moral and acceptable or directly creating social welfare. For example, shareholder value maximization might cause quite terrible

sufferings at individual level when a corporation is forced to lay off workers. Under act utilitarianism the corporation should strive to keep all the jobs at any cost, but under the rule utilitarianism unproductive businesses should be dismissed immediately and by so doing free the resources for better use. Rule utilitarianist systems require that everyone follow the same rules, otherwise the result might not be the desired maximum welfare or functioning justice system. If some CEOs are following the shareholder value maximization and some are not, the process falls apart. Then the question is if everyone is following the rules and the answer is ‘probably not’. According to very descriptive concluding remark from Jensen (1990:870), they are not:

“While modern capital-budgeting procedures are implemented by virtually all large corporations, it appears that the net present value (or more generally, value-maximizing) rule imbedded in these procedures is far from universally followed by operating managers. In particular, the acceptance of negative-value projects tends to be common in organizations with substantial amounts of free cash flow (cash flow in excess of that required to fund all value-increasing investment projects) and in particular in firms and industries where downsizing and exit are required. The finance profession has concentrated on how capital investment decisions should be made, with little systematic study of how they actually are made in practice.”

It seems that many authors forget this utilitarian logic of the shareholder value maximization and social sciences. Everyone writing about the corporate objective seems to have common goal even though the means to get to that goal seem to be contrary to each other’s. Sundaram and Inkpen (2004b:371) summarize this thought neatly in their response to the dispute with Freeman et al (2004) in the *Organization Science*;

“Regardless of the camp to which we belong, one premise should be clear: All of us seek a path to a promised land in which accountable corporations managed by ethical decision makers create the greatest value for the greatest number of stakeholders.”

This indeed is the intention of every single writer that this literature review has encountered during the analysis. However, daunting seems to be the extent to which scholars misunderstand each other’s texts revolving around the corporate objective. Take the core dispute over stakeholder theory and shareholder theory as an example. One of the core arguments of stakeholder theorists (Freeman et al 2004; Freeman et al 2011) is that ethics cannot be separated from the business and therefore narrow shareholder value maximization is not appropriate objective for a corporation but rather, managers have to take into account desires of other stakeholders too to create value and to not to slide into misconducts. As Freeman et al (2004:367) put it;

“if making money for shareholders is my primary duty and I do not have responsibilities to other groups, it might be considerably easier for me to rationalize questionable practices that place harm at the feet of nonshareholder stakeholders (such as workers or suppliers, to whom I allegedly have no moral responsibilities) in the name of increased profitability”.

The above quotation explicitly expresses the view that corporate misbehavior is causally related to the shareholder value maximization and Freeman et al (2004) themselves are separating ethics from business. If Freeman et al (2004) would apply their own axiom of inseparable ethics and business, they would realize that shareholders are themselves ethical and moral human beings. At least, the fault of the shareholder value maximization is not in its *content* but in how it is presented, displayed, discussed and taught. Now the conclusion should arrive that *“even if as a shareholder, my primary motive is to maximize monetary value of my investment, I would still expect that managers of the company will act in humane and ethical ways towards all stakeholders and environment. Otherwise I will withdraw my investment because for me maximized value includes ethics. I would not accept money from dictators or from mobsters”*. Shareholders as ethical human beings should oust the unethical management or at least withdraw the investment. Realization of shareholder as an ethical human being should put an end to criticism akin to Freeman et al (2004).

Literally on the same page Freeman et al (2004:367) write that shareholder view does not ‘condone’ but actually shareholder view ‘finds these actions deplorable’ referring to exploitation of the stakeholders. As they seem to after all understand this, it is remarkable that they fail to elaborate the thought any further or at least that they are somehow inconsistent with themselves during the same page. At first the ideology is responsible for decreasing ethics but suddenly they realize that it is not the case. The point that Freeman et al (2004:367) have right is that the language that we use and the way we speak tend to affect in how managers behave (e.g. Ferraro, Pfeffer and Sutton 2005:9). That certainly is point of accurate criticism for the shareholder value maximization theory. It is also true that it might be very hard for shareholders to act responsibly and ethically if they have adopted the behavior patterns related to shareholder in shareholder value maximization theory. However, the criticism of language that the shareholder value maximization theory uses could be made without accusations of shareholder value maximization theory being unethical or excluding values from the managerial decision making. It might through the language give easier excuse for managers for their misconduct, but it is not the theory that is flawed. Of course, the theory must be treated as normative theory which it is to realize this.

Sundaram and Inkpen (2004b:370) are giving unambiguous reply for Freeman et al (2004) as they write, “*managers have moral and ethical responsibilities to all stakeholders, including shareholders*”. The core argument, the synthesis from papers accepting the shareholder value maximization is that the shareholder value maximization is inherently ethical and requires mutual value creation with corporation’s stakeholders because otherwise the corporation will not be sustained and the concept of ‘long-run’ is inseparable part of the shareholder theory (e.g. Jensen 2001; Sundaram and Inkpen 2004a).

Many scholars that are refuting the shareholder value maximization theory are using real-life examples to depict how destructive the theory has been. Among these real-life examples most often is mentioned the collapse of Enron (e.g. Freeman et al 2004:367). Enron might be often mentioned because it is connected to the recession of the early 2000s’ and many papers criticizing the shareholder value maximization theory are published around those times, so it has been suited example. The shareholder value maximization is however misguidedly criticized for those misconducts because they are more of accounting scandals and insider self-dealing (Markham 2015). Furthermore, the criminals themselves acknowledge that they were not engaging to criminal actions in order to benefit shareholders or because that is what they thought was right thing to do based on the shareholder value maximization theory (Sundaram and Inkpen 2004b). Enron’s chief financial officer Andrew Fastow was pleaded guilty and he faced a 10-year prison sentence and forfeiture of \$29 million. In his plea, Fastow admitted that (The Wall Street Journal 2004:A14);

“I also engaged in schemes to enrich myself and others at the expense of Enron's shareholders and in violation of my duty of honest services to those shareholders”

The debate would take different routes if for example Mr. Fastow would have told in his plea that the shareholder value maximization is what he was doing.

7. CONCLUSION

“Our argument is that it [maximize shareholder value] should be the goal because it is the best among all available alternatives, and thus the preferred goal for managers formulating and implementing strategy.” – Sundaram and Inkpen (2004a:350)

Dichotomization of the literature over the corporate objective is so strong, that people involved seem to be from the different universe. The set-up is similar to what is explicit and familiar in politics; there is a dichotomy between left-wing and right-wing opinions. The goal is the same, but the approach is different. For the shareholder value advocates profit is the main goal and the welfare is the side product. For the stakeholder theorists or for the opponents of the shareholder value maximization theory the profit is a byproduct of pursuing some higher cause, for example social welfare. These levels of thinking and operating will probably never meet, and absence of common ground hinders the discourse. This literature synthesis strives to bring these two universes closer to each other.

The bottom line is that there is this financial and economic theory that treats a corporation as a nexus of contracts, that accepts everything that capitalism, classical economics and neoclassical economics assumes and that is justified most prominently by the utilitarian argument. The theory is the shareholder value maximization. The shareholder value maximization suggests that the corporate objective should be maximizing shareholder value which is measured with the market price of the share of the corporation. The question that needs to be addressed is how this social welfare becomes maximized through selfish actions of rational economic agents and maximum share price? Many argue that the shareholder value maximization is not maximizing the social welfare and that it is rather detrimental for the society and it thus fails to be justifiable theory of social science and it fails to be justifiable corporate objective.

The conclusion is that the social welfare does not become maximized through the shareholder value maximization theory, but the shareholder value maximization still provides probably the closest approximate of the maximum social welfare. Furthermore, the latest developments in the shareholder value maximization theory and the corporate governance are quite positive and promising for the society as scholars and practitioners are calling for investors to take more responsibility and investors have responded by taking more responsibility (see Eccles and Klimenko 2019). Maximum shareholder *value* is no longer straightforwardly maximum amount of money and maximum share price at

the expense of everything else (if it ever was) – the shareholder value can also be about breathable clean air and greater job satisfaction.

The evident existence of market failures and externalities significantly weaken the possibility of shareholder value maximization to succeed in maximizing the social welfare. This point taken further means that in business schools, there should be courses teaching what managers should or could do when market failure appears. How I, as a manager, am going to do the decision when market signals are mixed or flawed? Adam Smith's (1776) solely self-interested butcher, brewer and baker of the 18th century is not very adequate starting point for theories in 21st century. Suggestions for improvement;

1. Alter the language of the shareholder value maximization theory to be more responsible and not so money centered, because there are other values than money. Furthermore, theories tend to create behavior that they predict (e.g. Ferraro et al 2005). Less attention should be given for economic assumptions such as the self-interest because they might not be as accurate as they once were.
2. Emphasize in business school teaching and discussion about what to do in the case of market failure. What should manager do when the market is not able to price correctly and is guiding for example towards detrimental actions. What to do with externalities? Students are future leaders and they should be aware of market failures and externalities.
3. Support the rise of the responsible shareholder. As the shareholder power increases through alliances or activism, scholars should pay attention to the responsibilities of the shareholders and if they should increase also.
4. Corporations should strive to maximize the shareholder value. However, it must be acknowledged that the value includes also other determinants than the share price. Investors as breathing, feeling, caring and thinking social beings are interested in more than only money. Such thing could be for example clean air. In other words, corporations should strive to maximize shareholder *welfare*.
5. Future research should concentrate in measuring the social welfare and measuring empirically whether the shareholder value maximization theory is used. It would be important to stay out of the side tracks and to concentrate in utilitarian justification of the theory.

Large part of the literature considering the shareholder value maximization and the corporate objective in general is concerned with the idea that shareholder value maximization somehow neglects other stakeholders. That is merely another way to say that the shareholder value maximization does not maximize the social welfare. Can a manager maximize the long-term value of shareholders without understanding or acknowledging interaction between stakeholders? The problem seems to be in the definitions and to be more precise, the conflict between the stakeholder theory and

shareholder theory is appearing because of uncertainty about *what is implicitly built into the shareholder value maximization theory, and what is not?* The shareholder value maximization is designed to serve as long-term goal, but many critics seem to neglect that feature. The issue is crying for attention and it is not voiced explicitly in literature. The similar issue appears with the critics arguing that the shareholder value maximization does not fit into the ethical custom. Ethics and morals are inherently built into the shareholder value maximization as one cannot maximize the shareholder value if one is violating ethics. Even the notorious Friedman (1970) article concludes that profits must be maximized with the *restriction* of ethical custom. Nevertheless, the shareholder value maximization theory is attacked by claims that it is unethical or immoral theory (Freeman et al 2011). It is not and it never was immoral or amoral.

At the very beginning of this thesis there is the quote from the Jack Welch where he calls the shareholder value maximization being a “*dumbest idea in the world*” – the very same idea that he himself were so famously advocating in the 1980s. The problem in Welch’s – and of so many others’ – understanding is that they do not realize, or they refuse to realize, that the shareholder value maximization is inherently long-term goal. The overarching idea arising from the literature synthesis is that the shareholder value maximization theory and stakeholder theory or the corporate social responsibilities are not in anyways conflicting with each other’s but complementing each other. They are the same thing in the different language. In that sense, the shareholder value maximization could learn from the stakeholder theory given that the language of the theories is important. A corporation must create added value in long-term – it is the minimum requirement for a corporation to be viable and socially acceptable. It took 28 years for Jack Welch to understand what the shareholder value maximization is, and once he did, he didn’t recognize it being the shareholder value maximization theory. In 2009 Welch said that the shareholder value is the dumbest idea in the world and continued:

“Shareholder value is a result, not a strategy ... your main constituencies are your employees, your customers and your products.” - Jack Welch (2009)

He also noted that share price should not be the ‘overarching’ goal but rather the increase in the long-term value of the company. Now, in 2009 Welch described the shareholder value maximization theory as it has always been – it is just that not everyone bothers to pay attention to understand it. This similar pattern is still happening. Someone hears about the shareholder value maximization and immediately thinks that “oh, okay, it means that as a manager I may rip off other stakeholders and maximize profits by giving away

employees and not investing in the future of the corporation”. It does not mean that, and it never did. There was not a single author found who would have academically defended the short-term shareholder value maximization – the long-term is inherent part of the shareholder value maximization.

The major conclusion and the most fundamental insight of the literature synthesis is that the shareholder value maximization theory is connected to rising inequality in the U.S. and most likely in other economies also. This connection is rarely noted in the academic literature, but it is implicitly present in many papers. The relationship between the shareholder value maximization and unequal income distribution is deduced by comparing the timeline and income distribution data. By comparison of data and development of the shareholder value maximization theory the connection appears to be quite evident. Very few explicit expressions of the connection between the shareholder value maximization and inequality and social problems exist but for example Lazonick and O’Sullivan (2000) and Clarke et al (2018) are making this point.

The main academic attention has been directed to the agency theory and how to align the interests of the shareholder and the manager. This literature review suggests that this attention should be redirected in developing more descriptive and viable theory of the firm and its objectives. In practice, the theory should be rephrased not to advocate sole self-interest for example. In business schools it should be explicitly taught that these theories are not remedy for making all decisions in this complicated world and in a complicated setting of business and management. It should be made explicit how long is the list of unrealistic assumptions that must hold in order for the shareholder value maximization to work correctly and produce the maximum welfare for the whole society.

At least part of the debate between Freeman’s stakeholder theory and Friedman’s shareholder value maximization theory is aroused because the utilitarian logic of shareholder value maximization is so ambiguous or at least not obvious. That is, how is the shareholder value maximization maximizing the overall social welfare and so fulfilling its place as a normative guide for managers and corporations. Freeman does not understand – or refuses to understand – how the shareholder value maximization is supposed to maximize the welfare in whole society. Based on the analysis on this literature review, the problem might lay in the language that economists and the shareholder value maximization employ. It is not overly clear how individual agents and corporations acting selfishly create desirable and improved outcome for all of us (e.g. Jones and Felps 2013:215). Furthermore, the shareholder value maximization is

dependable of so many other theories, concepts and assumptions that it is only fair to question its position as a dominant ideology for corporate governance.

Financial economist's – such as Jensen and Meckling (1983) – assumptions are falling apart. Investors are not solely risk averted and self-interested. They care about social responsibility and environment and they accept value destructive projects (Eccles 2019). Surprisingly it seems that especially institutional investors care. The overarching conclusion is that shareholders do not want their monetary value maximized but their *overall value* maximized. It means that violation of shareholder's moral, environmental or ethical values and preferences decreases the value of monetary wealth. For an easy example, a corporation that is creating excess returns by polluting environment and exploiting developing countries is not maximizing shareholder value – only the shareholder's monetary value is maximized. Therefore, many of the shareholders will sell their holdings in a corporation that exercises immoral actions. The shareholder value becomes maximized only when the monetary value is maximized within moral boundaries set by the investor.

7.2. The responsible shareholder and stakeholder

One of the most interesting findings of the synthesis is that it was unable to determine or identify anyone who would be promoting shareholder value maximization in a way that would disregard other stakeholders. All shareholder value maximization authors admit and explicitly express that stakeholders are important and that corporations cannot create value if they exploit stakeholders. Even Milton Friedman (1970) allows ethical consideration and everyone agree that society's goals are the most fundamental interest – meaning – that managers may sacrifice shareholder wealth to create wealth for the society as a whole. The obvious question is then, why do we have this stakeholder theory in the first place? It is a large body of literature.

The true understanding of the shareholder value maximization includes understanding that it is not about maximizing short term monetary value of the small privileged group of shareholders. Shareholder value maximization is, or at least it is intended, to be about maximizing the value of the corporation through maximizing the value of the share price. *The very focal point is, that the share price reflects the values of the society.* Or at least the share price *should* reflect the values of the society. If some *stakeholder* group thinks that a corporation is engaged in harmful business, it may influence to the share price by

not buying products from that corporation or through legal procedures for instance. For example, if society values recycling, then corporations that recycle adequately should be demonstrating higher sales and higher share prices. This, however, means that the responsibility of decisions is loaded to society as a whole and therefore corporate managers would be exempted from moral self-examination. Another direct problem or unresolved criticism is the dissemination of information – does the society have enough information about corporations to practice adequate moral judgement?

The market mechanism solution is not perfect, but quite many shareholder value maximization critics are criticizing the theory as if the theory would imply that the share price and returns on shareholder's investments should be maximized at any cost and anyone else's interests are not considered in the decision-making process. A corporation that does not respond to moral concerns of the stakeholders will not be financially successful. By doing dishonorable business and unsustainable short-term decisions one cannot maximize the shareholder value – maximizing the shareholder value requires taking into account all stakeholders of the corporation and a long time horizon. The misunderstanding arises from the fact that the information in the modern capitalistic society is in form of financial data and that creates associations. In other words, corporations understand only financial metrics and markets are translating society's values and other relevant information from stakeholders to financial data and metrics. Through market mechanism the social values are, or should be, translated into a language that a corporation understands and to which it knows how to respond. To function, shareholders and all stakeholders must be responsible and moral.

TO CONCLUDE WITH:

"One of Sir Winston Churchill's most famous remarks was his defense of democracy; "It has been said that democracy is the worst form of government except all those other forms that have been tried from time to time."

– Sir Winston Churchill (in Dobson 1999:74)

As we leave the 20th century, a similar defense could be applied to shareholder wealth maximization. Given its moral premise of might makes right, shareholder wealth maximization is the worst justification for corporate behavior—with the exception of all other known justifications." (Dobson 1999:74)

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APPENDIX (1)

The final sample

Author	Title	Journal	Year	ABS
Alpaslan, Can M.	Ethical Management of Crises: Shareholder Value Maximisation or Stakeholder Loss Minimisation?	<i>The Journal of Corporate Citizenship</i>	2009	1
Anonymous	Maximising shareholder value: an ethical responsibility?	<i>INSEAD articles</i>	2008	na
Arce, D; Xin, Sherry	Profits, layoffs and priorities	<i>Journal of Business ethics</i> (3)	2011	3
Argenti, J.	Defining corporate objectives	<i>Long Range Planning</i>	1969	3
Attenborough, Daniel	Winner of the SLS Annual Conference Best Paper Prize 2011 Giving purpose to the corporate purpose debate: an Equitable Maximisation and Viability principle	<i>Legal Studies</i>	2012	law
Ayres, Robert	The Economic Consequences of Shareholder Value Maximisation	<i>INSEAD articles</i>	2017	na
Bainbridge, Stephen M.	In defense of the shareholder wealth maximization norm: A reply to Professor Green	<i>Washington and Lee Law Review</i>	1993	law
Beggs, Joyce M.; Lane, Michael S.	Corporate goal structures and business students: A comparative study of values	<i>Journal of Business Ethics</i>	1989	3
Bento, Regina F.; Mertins, Lasse; White, Lourdes F.	Ideology and the Balanced Scorecard: An Empirical Exploration of the Tension Between Shareholder Value Maximization and Corporate Social Responsibility	<i>Journal of Business Ethics</i>	2017	3
Blount, J.; Nunley, P.	Social enterprise, corporate objectives, and the corporate governance narrative	<i>American Business Law Journal</i>	2015	law
Boatright, John R.	The Corporate Objective after eBay v. Newmark	<i>Business and Society Review</i>	2017	law
Budde, A.; Child, J.; Francis, A.; Kieser, A.	Corporate Goals, Managerial Objectives, and Organizational Structures in British and West German Companies	<i>Organization Studies</i>	1982	4
Cantley, M. F.	The choice of corporate objectives	<i>Long Range Planning</i>	1970	3
Cardao-Pito, Tiago	Classes in Maximizing Shareholders' Wealth: Irving Fisher's Theory of the Economic Organization in Corporate Financial Economics Textbooks	<i>Contemporary Economics</i>	2017	na
Cassidy, Denis	Maximizing shareholder value: The risks to employees, customers and the community	<i>Corporate Governance: The international journal of business in society</i>	2003	2

Chambers, Donald R.; Lacey, Nelson J.	Corporate Ethics and Shareholder Wealth Maximization	<i>Journal of Business Ethics</i>	1995	3
Clarke, T.; Jarvis, W.; Gholamshahi, S.	The impact of corporate governance on compounding inequality: Maximising shareholder value and inflating executive pay	<i>Critical Perspectives on accounting</i>	2018	3
Colombo, Ronald J.	Religious Conceptions of Corporate Purpose	<i>Washington and Lee Law Review</i>	2017	law
Denis, Diane	Corporate Governance and the Goal of the Firm: In Defense of Shareholder Wealth Maximization	<i>Financial Review</i>	2016	3
Denning, Stephen	From maximizing shareholder value to delighting the customer	<i>Strategy & Leadership</i>	2012	1
Denning, Stephen	Why maximizing shareholder value is a threat to U.S. business	<i>Strategy & Leadership</i>	2017	1
Dobson, John	Is shareholder wealth maximization immoral?	<i>Financial Analysts Journal</i>	1999	3
Dockery, E.; Herbert, W. E.; Taylor, K.	Corporate governance, managerial strategies and shareholder wealth maximisation: A study of large European companies	<i>Managerial Finance</i>	2000	1
Dorward, Neil; Wiedemann, Paul	Robustness as a corporate objective under uncertainty	<i>Managerial and Decision Economics</i>	1981	2
Fatemi, Ali M.; Ang, James S.; Chua, Jess H.	Evidence supporting shareholder wealth maximization in management controlled firms	<i>Applied Economics</i>	1983	2
Findlay III and Whitmore	BEYOND SHAREHOLDER WEALTH MAXIMIZATION	<i>Financial Management</i>	1974	3
Fraiberg, Jeremy D.	FIDUCIARY OUTS AND MAXIMIZING SHAREHOLDER VALUE FOLLOWING BCE	<i>The Canadian Business Law Journal</i>	2009	law
Freeman, R. E.; Wicks, A. C.; Parmar, B.	Stakeholder theory and The corporate objective revisited	<i>Organization Science</i>	2004	4*
Giraud, G; Renouard, C.	In search of an alternative to shareholder value maximization	<i>IDEAS working paper series from RePEc</i>	2011	na
Hansen, R. G.; Lott Jr., J. R.	Externalities and corporate objectives in a world with diversified shareholder/consumers	<i>Journal of Financial and Quantitative Analysis</i>	1996	4
Heminway, Joan MacLeod	Shareholder Wealth Maximization as a Function of Statutes, Decisional Law, and Organic Documents	<i>Washington and Lee Law Review</i>	2017	law
Hiller, J.	Long-run profit maximization: an empirical test	<i>Kyklos (3)</i>	1978	3
Hirsch, Peter Buell	The sound of smashing looms and the future of corporate purpose	<i>Journal of Business Strategy</i>	2018	1
Hsieh, N.-H.	The Social Contract Model of Corporate Purpose and Responsibility	<i>Business Ethics Quarterly</i>	2015	4
Jensen, Michael C.	Value maximization, stakeholder theory, and the corporate objective function	<i>Business Ethics Quarterly</i>	2002	4

Johnson, Lyman	UNSETTLEDNESS IN DELAWARE CORPORATE LAW: BUSINESS JUDGMENT RULE, CORPORATE PURPOSE*	<i>Delaware Journal of Corporate Law</i>	2013	law
Jones, Thomas M.; Felps, Will	Shareholder Wealth Maximization and Social Welfare: A Utilitarian Critique	<i>Business Ethics Quarterly</i>	2013	4
Kanungo, Rabindra N.; Conger, Jay A.	Promoting altruism as a corporate goal	<i>The Academy of Management Executive</i>	1993	na
Keay, Andrew R.	Ascertaining the Corporate Objective: An Entity Maximisation and Sustainability Model	<i>Modern law review</i>	2008	law
Kotlar, J.; De Massis, A.; Wright, M.; Frattini, F.	Organizational goals: Antecedents, Formation Processes and Implications for Firm Behavior and performance	<i>International Journal of Management Reviews (3)</i>	2018	3
Kury, Kenneth Wm. K. Wm.	Decoupled earnings: An institutional perspective of the consequences of maximizing shareholder value	<i>Accounting Forum</i>	2007	3
Lankoski, L.; Smith, c.	Alternative objective functions for firms	<i>Organization and environment (2)</i>	2018	2
Lazonick, William	The New Normal is Maximizing Shareholder Value: Predatory Value Extraction, Slowing Productivity, and the Vanishing American Middle Class	<i>International Journal of Political Economy</i>	2017	1
Lazonick, William; O'Sullivan, Mary	Maximizing shareholder value: A new ideology for corporate governance	<i>Economy and Society</i>	2000	3
Martin, John; Petty, William; Wallace, James S.	Shareholder Value Maximization - Is There a Role for Corporate Social Responsibility?	<i>Journal of Applied Corporate Finance</i>	2009	1
McSweeney, B.	Maximizing shareholder-value: A panacea for economic growth or a recipe for economic and social disintegration?	<i>Critical Perspectives on International Business</i>	2008	2
Mendelow, A. L.	Setting corporate goals and measuring organizational effectiveness-A practical approach	<i>Long Range Planning</i>	1983	3
Millon, D.	Enlightened shareholder value, social responsibility and the redefinition of corporate purpose without law	<i>Book</i>	2012	Book/law
Mocsary, George A.	Freedom of Corporate Purpose	<i>Brigham Young University Law Review</i>	2016	law
Mramor, D.; Valentincic, A.	When maximizing shareholders' wealth is not the only choice	<i>Eastern European Economics</i>	2001	1
Parmar, B. L.; Keevil, A.; Wicks, A. C.	People and Profits: The Impact of Corporate Objectives on Employees' Need Satisfaction at Work	<i>Journal of Business Ethics</i>	2019	3
Paulo, S.	The United Kingdom's Companies Act of 2006 and the capital asset pricing model: Attaining the corporate objective	<i>International Journal of Law</i>	2010	law

Poitras, Geoffrey	Shareholder wealth maximization, business ethics and social responsibility	<i>and Management Journal of Business Ethics</i>	1994	3
Quinn, John	The Corporate Objective: Corporations, Globalisation and the Law	<i>The Journal of Business Law</i>	2012	2
Redwood, H.	Setting corporate objectives	<i>Long Range Planning</i>	1977	3
Roe, Mark J.	The shareholder wealth maximization norm and industrial organization	<i>University of Pennsylvania Law Review</i>	2001	law
Saint, Daniel K.	The firm as a nexus of relationships: Toward a new story of corporate purpose	<i>Dissertation</i>	2005	Grey
Santos, Michael R.; Vega, Gina; Barkoulas, John T.	AN IMPROVED PEDAGOGY OF CORPORATE FINANCE: A CONSTRAINED SHAREHOLDER WEALTH MAXIMIZATION GOAL	<i>Academy of Educational Leadership Journal (peer-reviewed)</i>	2007	na
Singh, Alaka Ajit; Glen, Jack; Zammit, Ann; De-Hoyos, R.; Singh, Alaka Ajit; Weisse, Bruce; Deâ€ Hoyos, Rafael; Singh, Alaka Ajit; Weisse, Bruce	Shareholder value maximisation, stock market and new technology: Should the US corporate model be the universal standard?	<i>International Review of Applied Economics</i>	2005	1
Springett, Nigel	Corporate purpose as the basis of moral leadership of the firm	<i>Strategic Change</i>	2004	2
Stout, L.	The troubling question of corporate purpose	<i>Accounting, Economics and Law</i>	2013	2
Strine Jr, Leo E.	Corporate Power is Corporate Purpose II: An Encouragement for Future Consideration from Professors Johnson and Millon	<i>Washington and Lee Law Review</i>	2017	law
Strine, Leo E.; Strine Jr., L. E.	Corporate power is corporate purpose I: Evidence from my hometown	<i>Oxford Review of Economic Policy</i>	2017	2
Sundaram, Anant K.; Inkpen, Andrew C.	The Corporate Objective Revisited	<i>Organization Science</i>	2004	4*
Sundaram, Anant K.; Inkpen, Andrew C.	Stakeholder Theory and â€œThe Corporate Objective Revisitedâ€ : A Reply	<i>Organization Science</i>	2004	4*
Van Der Linden, B.; Freeman, E.	Profit and other values: Thick evaluation in decision making	<i>Business Ethics Quarterly (4)</i>	2017	4
Voss, Bristol Lane	The Value Mandate: Maximizing Shareholder Value Across the Corporation	<i>The Journal of Business Strategy</i>	2001	1
Walker, M. M.	On the shareholder wealth maximization objective of corporate governance: The case of leveraged recapitalizations	<i>Managerial Finance</i>	1996	1
Wilson, Ian	The agenda for redefining corporate purpose: five key executive actions	<i>Strategy & Leadership</i>	2004	1
Windsor, D. Boatright	Shareholder Wealth Maximization	<i>Book</i>	2011	Book
Wishnick, David	Corporate purposes in a free enterprise system: A comment on eBay v. Newmark	<i>Yale Law Journal</i>	2012	law

Yahanpath, N.; Joseph, T.	A brief review of the role of shareholder wealth maximisation and other factors contributing to the global financial crisis	<i>Qualitative Research in Financial Markets</i>	2011	1
Zalewski, D. A.	Corporate objectives - Maximizing social versus private equity	<i>Journal of Economic Issues</i>	2003	2