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Shareholder Primacy vs. Stakeholder Approach: Directors' Challenges in Indian Corporate Governance

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ABSTRACT

This research paper explores the difference between shareholder primacy and stakeholder approaches within Indian corporate governance, exploring the challenges directors face in reconciling these paradigms. The shareholder primacy model prioritizes maximizing shareholder wealth, a core tenet of global governance frameworks. In contrast, the stakeholder approach supports for broader fiduciary duties, urging directors to consider diverse interests such as employees, customers, suppliers, communities, and environmental concerns. India's corporate governance, shaped by the Companies Act, 2013, SEBI regulations, and a mix of promoter-driven firms and independent directors, complicates this balance. Directors must navigate shareholder activism, short-term profit pressures, and stakeholder considerations, influenced further by cultural and structural factors like family-owned business dominance. Comparative insights from governance models in the U.S., UK, Germany, Japan, France, and South Africa reveal varying strategies to balance these interests, from the shareholder-centric U.S. approach to stakeholder-oriented models in Germany and South Africa. This paper provides a hybrid governance model for India, inferring on international best practices to foster balanced, sustainable, and inclusive governance. Recommendations emphasize regulatory reforms, and improved board practices to help directors effectively serve both shareholders and stakeholders.

***Keywords**: Corporate Governance, Shareholder Primacy, Stakeholder Approach, Director, Comparative.*

I. INTRODUCTION

Corporate governance plays a significant role in ensuring fairness, transparency, and responsibility within organizations. Strict shareholder primacy is preferable for controlling agency costs, but business world prefers corporate governance rules that allow directors to consider stakeholder interests, even at shareholder expense[3]. The two paradigms: the

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[3] Stout, L., 2002. Bad and Not-so-Bad Arguments for Shareholder Primacy. *University of California.*

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shareholder primacy model, which prioritizes shareholder value maximization, and the stakeholder approach, which provides for broader corporate responsibility toward various stakeholders, including employees, customers, suppliers, communities, and the environment. Directors' duties have shifted from shareholder value primacy to stakeholder theory, with no direct duty owed to creditors except in insolvency[4]. Stakeholder governance is a viable and sustainable approach for companies, balancing shareholder and stakeholder demands, and introducing three stakeholder categories for practical approaches to discriminating between stakeholder claims[5]. Stakeholder theory reduces corporate exploitation and contributes to long-term success and sustainable development of corporations by considering the benefits of various stakeholders[6]. In India, this concept has intensified due to rapid regulatory changes and the increasing complexities faced by directors. The shareholder primacy model has historically dominated corporate governance, especially in the West, and gained prominence in India during the 1990s economic liberalization. Directors were often focused on maximizing short-term shareholder returns, sometimes at the expense of long-term sustainability. However, the limitations of this model have become clear, with critics pointing out its contribution to corporate myopia, environmental degradation, and social inequalities, highlighted by scandals like Satyam Computers and IL&FS.

The Companies Act, 2013, has a strong stakeholder orientation, but in practice, shareholder interests remain unaffected by corporate governance reforms[7]. It provides the need for companies to balance the interests of various groups. In India, this concept aligns with growing CSR norms, ESG scrutiny, and stakeholder activism, as reflected in the Companies Act, 2013, which mandates CSR spending and enhances corporate responsibility. Directors in corporate governance face the challenge of balancing the often-conflicting demands of short-term shareholder interests and long-term stakeholder needs. Director primacy" model of corporate governance places control in the board of directors, promoting centralized decision making and addressing the tension between authority and accountability[8]. Promoter-driven companies,

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https://doi.org/10.2139/ssrn.331464.

[4] Brown, T., 2018. Two steps forward and ten steps backwards: a retreat from shareholder value primacy, stakeholder theory, creditors and directors duties in the Commonwealth Caribbean. *Commonwealth Law Bulletin*, 44, pp. 157 - 181. https://doi.org/10.1080/03050718.2019.1602066.

[5] Vinten, G., 2001. Shareholder versus Stakeholder - is there a Governance Dilemma?. *Corporate Governance: An International Review*, 9, pp. 36-47. https://doi.org/10.1111/1467-8683.00224.

[6] Xiao, C., 2023. Why Stakeholder Theory is "Non-exploitative". *Academic Journal of Management and Social Sciences*. https://doi.org/10.54097/ajmss.v2i3.7973.

[7] Mukhopadhyay, D., & Mandal, R., 2020. The end of shareholder primacy in Indian corporate governance? Says who?!. *Commonwealth Law Bulletin*, 46, pp. 595 - 610. https://doi.org/10.1080/03050718.2020.1812413.

[8] Bainbridge, S., 2002. Director Primacy: The Means and Ends of Corporate Governance. *Corporate Finance: Governance*. https://doi.org/10.2139/ssrn.300860.

where promoters hold significant influence, potentially influencing governance practices. Independent directors often struggle with limited access to information and resistance from promoters, which undermines their ability to fulfil their fiduciary duties effectively. While reforms such as the Companies Act, 2013, and SEBI regulations aim to improve governance by promoting transparency, responsibility, and stakeholder engagement, challenges remain in their effective implementation due to regulatory gaps, weak enforcement, and cultural resistance. A comparative analysis of global practices, such as Germany's two-tier board structure and South Africa's King IV Report, offers valuable lessons for India. By integrating elements from both shareholder-centric and stakeholder-oriented governance models, India can create a more balanced and effective corporate governance framework. This paper argues that directors must navigate a complex landscape, balancing these competing interests while adhering to ethical leadership and a commitment to long-term value creation, ultimately fostering a more sustainable, inclusive, and resilient corporate sector.

II. Theoretical background

Corporate governance plays a significant role in ensuring transparency, accountability, and responsibility towards all stakeholders. Two key paradigms in this field, shareholder primacy and the stakeholder approach, shape the roles and responsibilities of directors, influencing decision-making and governance practices. Shareholder primacy theory states that managers should act in the best interests of the corporation, but may consider non-shareholders' interests, and corporate social responsibility can improve both public and corporate interests[9].

1. Shareholder Primacy Theory

Corporates should adopt a more modern, socially and ethically conscious business model beyond maximizing shareholder wealth to better address ethical and sustainability concerns[10]. The shareholder primacy theory posits that corporate directors should prioritize maximizing shareholder value, a perspective rooted in free-market capitalism. Popularized by Milton Friedman, his view has strongly influenced governance practices, especially in Anglo-American jurisdictions, where short-term profitability and market capitalization are often prioritized[11]. In India, the shift toward this model was accelerated by the liberalization, privatization, and globalization (LPG) reforms of the 1990s, with directors increasingly incentivized to focus on

[9] Hung, J., 2020. Shareholder Primacy Theory vs. Stakeholder Theory. *CGN: Other Corporate Governance: Social Responsibility & Social Impact (Topic)*. https://doi.org/10.2139/ssrn.3564804.

[10] Rzepka, A., 2018. Ethical aspects of shareholder value objective. , pp. 25-35. https://doi.org/10.25944/ZNMWSE.2018.04.2535.

[11] Directors' duties in India: Shareholders or Stakeholders? - Acuity Law, https://acuitylaw.co.in/directors-duties-in-india-shareholders-or-stakeholders/ (last visited Nov 14, 2024).

shareholder returns. However, this model has been criticized for fostering short-termism and neglecting broader stakeholder welfare, factors to corporate scandals.

2. Stakeholder Approach

In contrast, the stakeholder approach advocates for considering the interests of all parties affected by a corporate's actions, including employees, customers, suppliers, communities, and the environment. Servant leadership, a stakeholder-focused approach to management, outperforms other leadership approaches in delivering value and sustainability for both shareholders and stakeholders[12]. R. Edward Freeman's stakeholder theory emphasizes that companies should create value for all stakeholders for long-term success. In India, regulatory reforms like the Companies Act, 2013, have shifted governance towards stakeholder orientation, with provisions for corporate social responsibility (CSR), enhanced minority protections, and increased board diversity. Despite these efforts, directors still face challenges in balancing shareholder and stakeholder interests due to conflicting incentives and inadequate enforcement mechanisms. The stakeholder approach to corporate governance is more realistic and better reflects real-life decision-making, addressing people and planet challenges[13].

Shareholder primacy in corporate governance is resuming its dominance, despite pressure from rival stakeholders and their agents, as corporate law versus stakeholder theory continues to evolve[14]. The Shareholder Primacy Norm (SPN) is not a legal requirement, but it is a powerful social norm among managers and business schools, and can be mitigated by extending voting rights to non-shareholder stakeholders or extending fiduciary duties to non-shareholder stakeholders[15]. Transitioning to a stakeholder primacy business model presents practical challenges, including measurement, compensation, and decision-making balancing[16].

The difference between shareholder primacy and the stakeholder approach reflects deeper philosophical differences about corporate object. Proponents of shareholder primacy argue that focusing on shareholder value aligns corporate actions with investor interests. In contrast, stakeholder theorists emphasize that an exclusive focus on shareholder wealth can lead to

[12] Lemoine, G., Eva, N., Meuser, J., & Falotico, P., 2020. Organizational performance with a broader focus: The case for a stakeholder approach to leadership. *Business Horizons*. https://doi.org/10.1016/j.bushor.2020.10.007.
[13] Rogge, M., 2020. Bringing Corporate Governance Down to Earth: From Culmination Outcomes to Comprehensive Outcomes in Shareholder and Stakeholder Capitalism. *Stakeholder Management & Stakeholder Responsibilities eJournal*. https://doi.org/10.2139/ssrn.3572765.
[14] Proimos, A., 2008. Resilience : the resumption of shareholder primacy. *Corporate Ownership and Control*, 5. https://doi.org/10.22495/cocv5i2p12.
[15] Ronnegard, D., & Smith, N., 2018. Shareholder Primacy vs. Stakeholder Theory: The Law as Constraint and Potential Enabler of Stakeholder Concerns. *INSEAD: INSEAD Social Innovation Centre (Topic)*. https://doi.org/10.2139/ssrn.3165992.
[16] Young, C., 2022. Sustaining a Commitment to a Stakeholder Primacy Business Model. *Compensation & Benefits Review*, 54, pp. 170 - 176. https://doi.org/10.1177/08863687221097408.

negative externalities such as environmental degradation and social inequality, advocating for a broader societal focus and long-term value creation. The theoretical foundations of shareholder primacy and the stakeholder approach provide a framework for understanding the challenges faced by directors in Indian corporate governance. As India continues to evolve as a global economic player, directors must balance these competing interests to shape the future of corporate governance. Embracing a stakeholder-oriented governance model can lead to a sustainable and socially responsible corporate sector that benefits all stakeholders.

III. LEGAL AND REGULATORY FRAMEWORKS IN INDIA

The legal and regulatory framework governing corporate governance in India has evolved significantly over the years, reflecting the complexities of balancing shareholder primacy and a broader stakeholder approach. This transformation rushed economic liberalization in the 1990s, introducing a dynamic interplay between the rights and interests of shareholders and the obligations owed to various other stakeholders. This framework comprises a comprehensive set of laws, regulations, and oversight bodies, all of which shape the role and responsibilities of directors in Indian companies. At its core, the framework requires directors to balance the competing demands of maximizing shareholder value while also safeguarding the interests of other critical stakeholders, including employees, creditors, consumers, and the broader community. Balancing shareholder and stakeholder value is crucial for a company's long-term healthy development, as both have advantages and disadvantages, leading to enlightened shareholder value[17].

The Companies Act, 2013, serves as the primary legislation governing corporate governance in India. It replaced the Companies Act, 1956, with the aim of aligning Indian corporate governance standards with international practices. One of the landmark features of the Companies Act, 2013, is its codification of directors' fiduciary duties. Directors are statutorily mandated to act in good faith, in the best interests of the company, and with due diligence and care as per section 166 0f the companies Act, 2013. This broadens their responsibilities beyond mere profit maximization for shareholders, compelling them to consider the welfare of a wider set of stakeholders, such as employees, creditors, and the communities in which their companies operate. Directors requiring to adhere to fiduciary principles, the Act establishes a legal basis for a balanced approach to governance, emphasizing that directors must pursue the company’s long-term sustainability alongside immediate financial gains.

[17] Chang, J., 2023. Exploring the Ability of Company Directors to Focus on Stakeholder Interests and the Potential Risks that can Arise. *Journal of Innovation and Development*. https://doi.org/10.54097/jid.v5i1.03.

The introduction of independent directors is another significant feature of the Companies Act, 2013. Independent directors are entrusted with the responsibility of providing objective oversight and ensuring that the board's decisions align with the company's interests rather than being influenced by internal conflicts or dominant shareholder interests. They mitigate conflicts of interest, promote transparency, and ensure that decisions are made impartially. Independent directors also serve as a bridge between shareholder concerns and broader stakeholder interests, adding credibility to corporate governance practices. Furthermore, the Act mandates corporate social responsibility (CSR) under Section 135, requiring companies meeting specific criteria to allocate at least 2% of their average net profits toward CSR activities. This provision emphasises the importance of companies' roles within society and emphasizes the need for directors to integrate social and environmental considerations into their business strategies. CSR obligations reflect a shift toward recognizing corporate responsibilities beyond shareholder wealth, thereby institutionalizing the stakeholder approach.

The Companies Act, 2013, also introduced mechanisms for protecting the rights of minority shareholders, including provisions for shareholder class actions suits and special resolutions for certain transactions[18]. These measures promote transparency and accountability, empowering minority shareholders and reinforcing directors' obligations to act fairly. Also, the Act mandates specific board composition requirements, including the appointment of at least one-woman director on the boards of certain companies, promoting board diversity and bringing a wider range of perspectives to corporate decision-making. This emphasis on inclusivity aims to ensure that boards are equipped to address diverse stakeholder needs effectively.

Also, the Securities and Exchange Board of India (SEBI) plays a pivotal role in enhancing corporate governance standards. SEBI's regulations, particularly the Listing Obligations and Disclosure Requirements (LODR), focus on transparency, accountability, and effective board functioning among listed companies. SEBI requires listed companies to appoint a specified number of independent directors to promote balanced decision-making. These independent directors must hold separate meetings to address critical shareholder and stakeholder concerns, thereby enhancing their role in corporate governance.

SEBI also mandates the formation of audit committees composed primarily of independent directors. These committees oversee financial reporting, compliance, and risk management processes, thereby safeguarding stakeholder interests and maintaining shareholder trust.

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[18] Amit Kumar & Indrajit Dube, *The Paradox of Corporate Purpose in India: Shareholder Primacy versus Stakeholder Model*, (2024), https://papers.ssrn.com/abstract=4964372 (last visited Nov 14, 2024).

Furthermore, SEBI imposes stringent rules on related party transactions to prevent conflicts of interest. Directors must ensure that such transactions are disclosed, approved by the board, and subject to shareholder scrutiny, thus protecting minority shareholders and enhancing transparency. Disclosure requirements are another important of SEBI's regulatory framework. Listed companies must adhere to comprehensive reporting norms covering both financial and non-financial matters, such as sustainability practices and governance initiatives. Mandating regular and transparent disclosures, SEBI ensures that directors uphold high standards of accountability and transparency, fostering greater confidence among shareholders and stakeholders[19].

Corporate governance framework in India is further strengthened by regulatory bodies such as the Ministry of Corporate Affairs (MCA) and the National Company Law Tribunal (NCLT). The MCA oversees the implementation of the Companies Act and formulates corporate governance policies. It monitors corporate compliance, enforces regulatory provisions, and issues guidelines to ensure adherence to good governance practices. The NCLT, on the other hand, serves as a quasi-judicial body that adjudicates corporate disputes, including issues related to board mismanagement, shareholder grievances, and corporate restructuring. Directors are often held accountable for their actions before the NCLT, which serves as a significant mechanism for enforcing governance standards.

Stakeholder protection mechanisms extend beyond corporate governance laws and encompass environmental, labour, competition, and consumer protection laws. Environmental and labour laws impose obligations on companies and directors to ensure compliance with regulations related to environmental protection, worker safety, and labour rights. Non-compliance can lead to personal liability for directors, focusing the importance of adopting a stakeholder-centric approach. The Competition Act, 2002, aims to promote fair competition and prevent anti-competitive practices, while the Consumer Protection Act, 2019, emphasizes the rights of consumers and imposes obligations on companies to provide quality goods and services. Directors are responsible for ensuring compliance with these laws, balancing shareholder profitability with broader social welfare.

Despite the robust legal and regulatory framework, directors in India face numerous challenges in balancing shareholder and stakeholder interests. Conflicting demands between short-term shareholder gains and long-term stakeholder needs often necessitate difficult decisions. In many companies, promoter influence over board decisions can undermine directors' independence,

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[19] *Id.*

posing a significant obstacle to achieving a balanced governance approach. Also, weak enforcement mechanisms and delays in regulatory oversight hinder effective governance. Directors must also adapt to evolving expectations from regulators, investors, and society, necessitating in progress to their governance practices.

Corporate governance framework in India has also been shaped by global influences, including international governance codes and best practices. Comparative experiences from countries like the United States, the United Kingdom, and Germany highlight the importance of board independence, stakeholder engagement, and strong regulatory oversight. These global structures provide valuable insights for strengthening India's governance framework and ensuring that directors remain accountable to both shareholders and stakeholders.

Legal and regulatory framework governing corporate governance in India reflects an evolving balance between shareholder primacy and the stakeholder approach. Directors play a significant role in exploring this concept, ensuring compliance with laws, fostering transparency, and creating value for all stakeholders. While progress has been made, continued reforms and effective enforcement are necessary to strengthen the corporate governance framework and enhance directors' accountability. The framework emphasis the need for directors to engage meaningfully with all stakeholders, striking a balance between immediate financial goals and long-term sustainability.

IV. Balancing shareholder and stakeholder interests

Proper distribution ratio of interest is the solution to balancing shareholder value and stakeholder value in companies, reducing potential conflicts[20]. Balancing the interests of shareholders and other stakeholders presents a central challenge for directors in corporate, especially in India's diverse corporate environment. While shareholders traditionally hold significant power and are viewed as primary beneficiaries of corporate actions, other stakeholders, including employees, creditors, customers, suppliers, and the community, also influence corporate decisions. Directors must direct these competing priorities to fulfil their legal and ethical responsibilities, striking a balance between maximizing shareholder value and addressing broader societal and stakeholder needs. Historically, shareholder primacy has dominated corporate governance discourse, rooted in agency theory that positions directors as agents of shareholders. This concept, emphasizing profit maximization and shareholder wealth, gained prominence in India after the liberalization policies of the 1990s. Market-driven growth

[20] Jin, D., 2023. Is Stakeholder Value a Barrier for Shareholder Value?. *Lecture Notes in Education Psychology and Public Media*. https://doi.org/10.54254/2753-7048/28/20231351.

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and regulatory provisions in the Companies Act have reinforced a shareholder-centric framework, focusing on shareholder rights such as voting powers, information access, and mechanisms to hold directors accountable for corporate performance.

In contrast, the stakeholder approach broadens corporate accountability beyond shareholders to encompass the interests of all parties affected by corporate operations. Originating from stakeholder theory, it argues that companies should create value for a diverse group of stakeholders, including employees, communities, and society at large. In India, this approach has gained traction through the Companies Act, 2013, which mandates corporate social responsibility (CSR) spending, board diversity, and a duty for directors to consider the interests of various stakeholders. These measures indicate an evolving recognition that sustainable business practices must prioritize long-term societal and stakeholder welfare alongside immediate shareholder gains. An integrated corporate governance model, including current and future stakeholders, can balance their interests and hold boards accountable through mechanisms like stakeholder councils and sustainability-related performance[21].

Corporate governance in India imposes complex legal expectations on directors to balance these interests. Directors are required to act in good faith, promoting the best interests of the company as a whole, encompassing not only shareholders but also employees, creditors, and the community. Fiduciary duties and duties of care demand that directors act with due diligence and make informed decisions, even when shareholder demands conflict with broader stakeholder needs. Section 135 of the Companies Act further mandates CSR contributions for eligible companies, reflecting societal expectations for businesses to integrate social and environmental considerations into their strategies. Independent directors also play a critical role by providing impartial judgment, promoting transparency, and protecting minority shareholders while considering the broader welfare of stakeholders. SEBI's Listing Obligations and Disclosure Requirements (LODR) regulations enhance transparency by mandating comprehensive financial and non-financial disclosures.

Despite these frameworks, directors face significant challenges in balancing shareholder and stakeholder interests. The pressure to deliver short-term financial gains often conflicts with long-term sustainability goals demanded by stakeholders such as employees and communities. In India, the dominance of promoter-driven businesses poses additional challenges, as promoters often wield significant influence over board decisions, potentially sidelining

[21] Schoenmaker, D., Schramade, W., & Winter, J., 2023. Corporate Governance Beyond the Shareholder and Stakeholder Model. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.4238927.

independent directors and undermining broader stakeholder considerations. Weak regulatory enforcement further exacerbates these challenges, making it difficult for directors to consistently implement practices that prioritize stakeholder welfare. Cultural and ethical dilemmas also complicate matters, particularly in family-owned businesses where familial ties and cultural norms may conflict with broader governance expectations. Directors must navigate diverse stakeholder expectations, ranging from employee job security to environmental sustainability, requiring nuanced decision-making and proactive engagement.

Emerging trends are reshaping the balance between shareholder and stakeholder interests in India's corporate governance landscape. The growing emphasis on environmental, social, and governance (ESG) considerations reflects an increased focus on sustainable and ethical business practices. Directors are now expected to integrate ESG factors into their strategies to meet the expectations of regulators, investors, and stakeholders. Proactive stakeholder engagement, involving dialogue with employees, customers, suppliers, and communities, builds trust and fosters mutually beneficial relationships. Regulatory reforms and global influences, including best practices from countries like the United States, the United Kingdom, and Germany, continue to shape India's evolving governance standards, emphasizing board independence, transparency, and stakeholder protection.

Stakeholder governance, promoting balance and responsibility in corporate governance, can potentially lead to better socioeconomic outcomes for corporations and their stakeholders[22]. Balancing shareholder primacy and the stakeholder approach is a complex yet significant responsibility for directors within India's corporate governance framework. While regulatory measures provide guidance, practical challenges often complicate directors' efforts to achieve an equitable balance. Embracing transparency, ethical conduct, and proactive stakeholder engagement, directors can foster sustainable business practices that create value for all stakeholders, contributing to a more balanced and inclusive corporate governance system.

V. Challenges

Corporate governance in India has evolved significantly, with a strong emphasis on transparency, accountability, and adherence to regulatory norms. However, directors face numerous challenges in fulfilling their governance responsibilities effectively. These challenges stem from legal complexities, corporate culture, family-owned business dynamics, regulatory inconsistencies, and the pressures of balancing shareholder and stakeholder interests. Directors

[22] Vasudev, P., 2020. Beyond Shareholder Value - A Framework for Stakeholder Governance. *University of Ottawa Faculty of Law Legal Studies Working Paper Series*.

prioritize shareholders' interests, but this does not necessarily mean they prioritize other stakeholders' interests at the expense of employees[23].

1. **Legal And Regulatory Complexities**

Legal and regulatory framework intricates in India, including the Companies Act, SEBI regulations, and various other laws, presents significant challenges for directors. They must stay updated on frequent amendments and ensure compliance to avoid penalties, litigation, and reputational damage. The overlap between different regulations and frequent changes creates confusion, increasing the burden on directors to ensure compliance across all areas.

2. **Promoter Influence and Family-Owned Businesses**

Promoter-driven businesses can create conflicts of interest, with promoters prioritizing personal or family interests. Directors, particularly independents, struggle to maintain autonomy, affecting their ability to oversee governance effectively. This often leads to governance failures, as seen in high-profile cases like Satyam Computers, Videocon and IL&FS, were promoter dominance undermined board independence and decision-making.

3. **Weak Enforcement and Accountability Mechanisms**

Weak enforcement of corporate governance norms by regulatory bodies like SEBI and MCA results in inconsistent compliance. This undermines accountability, with delays in legal proceedings and fears of retaliation deterring independent directors from raising concerns. The lack of coordination between regulatory agencies exacerbates the issue, reducing the deterrent effect of governance regulations and eroding stakeholder trust.

4. **Balancing diverse Stakeholder Interests**

Directors face pressure to balance conflicting stakeholder interests, such as maximizing shareholder value while addressing CSR, sustainability, and employee welfare. Effective decision-making and stakeholder engagement are essential but challenging. Directors must carefully navigate these competing demands while ensuring long-term organizational success and maintaining stakeholder trust in the company's governance practices. The stakeholder equilibrium, where firms maximize the welfare of all stakeholders, can alleviate under-investment in risk prevention and improve corporate governance[24].

[23] Anderson, M., Jones, M., Marshall, S., Mitchell, R., & Ramsay, I., 2007. Evaluating the Shareholder Primacy Theory: Evidence from a Survey of Australian Directors. *Corporate Law: Law & Finance*. https://doi.org/10.2139/ssrn.1031301.
[24] Magill, M., Quinzii, M., & Rochet, J., 2015. A Theory of the Stakeholder Corporation. *Econometrica*, 83, pp. 1685-1725. https://doi.org/10.3982/ECTA11455.

5. Ethical Challenges

Cultural norms and entrenched practices in family businesses can lead to ethical dilemmas, especially when personal relationships conflict with professional duties. Convergence between shareholder and stakeholder models in corporate governance is unlikely due to cultural and economic differences between countries[25]. Directors must foster a strong ethical culture amidst these challenges, which require persistent leadership. The lack of sufficient whistleblower protections and the prevalence of unethical practices, such as financial misstatements and insider trading, further complicate directors' efforts to promote ethical conduct.

6. Navigating Director risks in the wake of corporate failures

Director's face heightened personal liability risks, especially following corporate failures like IL&FS and Yes Bank. This has led to increased caution, making it harder to attract experienced directors willing to take bold decisions. As legal liabilities expand, directors are more cautious about taking decisions that may expose them to personal financial or reputational risk, thereby limiting their ability to act decisively in the best interest of the company.

7. Board Composition and Diversity

Achieving meaningful board diversity, especially gender diversity, continues to be a challenge in India. Boards lacking diversity are more susceptible to groupthink, which can hinder innovation and fail to meet the varied needs of stakeholders. This, in turn, can negatively impact the overall quality of corporate governance.

8. Regulatory Expectations Vs. Practical Realities

Directors are expected to meet stringent regulatory and oversight requirements within limited resources and timeframes. The practical realities of inadequate information, management resistance, and complex structures make effective governance even more challenging. Directors often face competing priorities, including fulfilling their strategic responsibilities while managing day-to-day governance duties, which requires careful time management and organizational support.

VI. COMPARATIVE PERSPECTIVE

The comparative perspective highlights the diverse approaches to corporate governance across different countries. The US follows a shareholder-centric model emphasizing shareholder value, while the UK adopts the "Enlightened Shareholder Value" approach, balancing shareholder

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[25] Shirwa, H., & Onuk, M., 2020. Corporate Governance Models and the Possibility of Future Convergence. , 4, pp. 18-34. https://doi.org/10.5296/jcgr.v4i1.17057.

interests with broader stakeholder concerns. Germany's stakeholder-oriented model, featuring a two-tier board structure, it prioritizes long-term value creation, and Japan blends stakeholder loyalty with modern governance reforms. India, with its evolving governance framework, seeks to balance shareholder primacy with stakeholder interests, influenced by family-owned business dynamics and increasing ESG considerations.

1. United States

The US follows a shareholder-centric model, prioritizing shareholder value through a unitary board structure[26]. U.S. corporate law does not require directors to maximize shareholder wealth, but instead allows them discretion to sacrifice shareholder wealth for the benefit of other constituencies and the firm itself[27]. Stakeholders in corporate governance in Anglo-American jurisdictions appears to be gaining support, but legislation like constituency statutes and enlightened shareholder value offer little legal support for stakeholders due to limited stakeholder power to challenge directorial actions[28].

Directors are legally accountable to shareholders, with corporate law, especially Delaware law, reinforcing this principle. Regulatory acts like Sarbanes-Oxley and Dodd-Frank have strengthened oversight, but a shift toward broader stakeholder considerations is emerging, driven by institutional investors promoting ESG factors. Despite this, balancing shareholder interests with wider stakeholder demands remains challenging.

2. United Kingdom

The UK adopts the "Enlightened Shareholder Value" (ESV) model, requiring directors to prioritize shareholder success while considering broader stakeholder interests[29]. This approach emphasizes long-term value creation and board independence, guided by the UK Corporate Governance Code. Reforms such as the Financial Reporting Council's Stewardship Code promote stakeholder engagement, but balancing short-term financial pressures with long-term goals remains challenging. UK corporate governance is in flux, with shareholder primacy in core institutions but stakeholder interests better represented beyond core institutions, suggesting the debate on shareholder primacy has not been concluded[30]. UK corporate governance

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[26] Callanan, G., Tomkowicz, S., Teague, M., & Perri, D., 2023. Juxtaposing the "shareholder" and "stakeholder" views of corporate governance: a pedagogical structure for classroom discussion. *Journal of International Education in Business*. https://doi.org/10.1108/jieb-11-2022-0078.

[27] Stout, L., 2011. New Thinking on "Shareholder Primacy". *Accounting, Economics, and Law*, 2. https://doi.org/10.1515/2152-2820.1037.

[28] Keay, A., 2010. Moving Towards Stakeholderism? Constituency Statutes, Enlightened Shareholder Value and All That: Much Ado About Little?. *Finance Educator: Courses*. https://doi.org/10.2139/SSRN.1530990.

[29] Adamu, H., 2015. A Critical Analysis of the Director's Duty to Act in What He Believes to Be the Best Interests of the Company: A Proposal for Amendment. *LSN: Corporate Governance International (Topic)*.

[30] Armour, J., Deakin, S., & Konzelmann, S., 2003. Shareholder Primacy and the Trajectory of UK Corporate

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practices are shifting towards a more stakeholder-focused approach, but lack accountability mechanisms for directors[31].

3. Germany

Germany's stakeholder-oriented system features a two-tier board structure, with employee representation on the supervisory board. The German Corporate Governance Code promotes transparency, accountability, and long-term value creation, integrating social and environmental sustainability. However, balancing diverse stakeholder interests can slow decision-making, and the rise of activist investors challenges the system's responsiveness.

4. Japan

Japan's corporate governance combines a stakeholder approach with features like the Keiretsu system. Japanese firms are aligning with UK/US governance, but diverse sub-models combining both models' elements are likely to define the future of corporate governance[32]. Germany and Japan show simultaneous continuity and change in corporate governance, potentially leading to hybridization of national models or renegotiation of stakeholder coalitions in both countries[33]. Traditional loyalty to stakeholders is balanced by reforms aiming for transparency and board independence. Efforts to modernize governance face resistance due to cultural norms, and challenges include slow decision-making and shareholder engagement, especially with global investors.

5. India

Corporate governance system in India blends shareholder and stakeholder interests, with the Companies Act, 2013, and SEBI regulations shaping the framework. Directors are accountable to both shareholders and broader stakeholders. However, family-owned businesses pose challenges, as promoter influence often conflicts with independent oversight. While ESG considerations gain prominence, regulatory compliance and enforcement remain key issues for ensuring effective governance and accountability.

Historical shareholder-stakeholder debates in the US, Germany, and France show differences in shareholder-manager balance and stock ownership structure, highlighting the need for

Governance. *Corporate Finance: Governance*. https://doi.org/10.2139/ssrn.1930885.

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institutional theories to protect businesses from excessive shareholder influence[34]. American and British CEOs prioritize shareholder value, while European CEOs focus on stakeholder engagement, with Shell's stakeholder orientation leading to long-term shareholder returns[35]. Stakeholder-oriented firms can be more valuable in a stakeholder society than shareholder-oriented firms, with some firms choosing to be stakeholder-oriented to increase their value in certain circumstances[36].

India's evolving governance model presents an opportunity to balance the interests of shareholders and stakeholders, emphasizing inclusive growth, accountability, and ethical practices. Adopting best practices from global corporate governance models, India can enhance its corporate framework. The U.S. focus on board accountability and transparency, the UK's Enlightened Shareholder Value approach, and Germany's stakeholder-oriented two-tier board system offer valuable insights for strengthening board oversight, transparency, and stakeholder engagement. Negotiated shareholder value is emerging in Germany, a variant distinct from Anglo-American practice, with a focus on negotiating major changes within the stakeholder coalition, leading to less strong performance incentives for employees[37].

Furthermore, Japan's long-term relationships through the keiretsu system, France's boardroom diversity initiatives, and South Africa's King IV Code on ethical governance and sustainability provide additional lessons for fostering ethical leadership and inclusivity in Indian corporate governance.

A hybrid approach integrating elements from these global models could significantly strengthen India's corporate governance. Enhanced board accountability, stakeholder inclusivity, independent oversight, long-term stakeholder collaboration, diversity, and ethical practices would create a more robust governance structure. This integrated model can guide directors in navigating governance intricacy while aligning business objectives with broader goals of sustainability, transparency, and equitable stakeholder engagement, helping India build a resilient and competitive corporate governance ecosystem.

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VII. Conclusion and suggestions

Corporate governance framework in India is at a critical juncture, where balancing the interests of shareholders and stakeholders is essential for sustainable growth. The growing complexity of modern business requires a governance model that considers not only shareholder returns but also the broader impact on employees, communities, and the environment. Challenges like promoter dominance and regulatory inefficiencies, reforms focusing on strengthening board independence, enhancing transparency, and promoting ethical governance are essential. By incorporating best practices from international models and integrating technology, India can create a governance ecosystem that ensures accountability, fosters trust, and drives long-term value for all stakeholders.

To improve corporate governance, India should prioritize reforms that enhance board independence, such as increasing the role of independent directors and enforcing the separation of the Chairperson and CEO roles. Incorporating stakeholder interests into decision-making, improving regulatory coordination, and introducing stricter penalties for non-compliance will strengthen accountability. Additionally, promoting diversity, adopting ethical and sustainability principles, and professionalizing management in family-owned businesses will improve governance practices. Utilizing digital tools and data analytics can also enhance efficiency and transparency, ensuring a governance framework that balances shareholder and stakeholder interests effectively for sustainable growth.

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