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Rethinking Corporate Success: A Critical Review of Shareholder Value as a Driver of Corporate Financial Sustainability

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ABSTRACT

This critical literature review challenges the prevailing assumption that shareholder value maximization is sufficient to ensure corporate financial sustainability (CFS). Drawing on 25 peer-reviewed articles from the Web of Science (WoS) database, we synthesize theoretical and empirical perspectives to reveal fundamental tensions between short-term financial returns and the imperatives of resilience, multi-stakeholder accountability, and ESG integration. While Agency theory has historically anchored shareholder primacy, we highlight how Stakeholder theory, the Resource-based view, and Institutional theory expose its conceptual and operational limitations. Key gaps include conflating market valuation with genuine value creation, inadequate measurement approaches, and insufficient attention to emerging-market dynamics. In response, we propose an integrative governance framework structured around four pillars: (1) long-horizon performance orientation, (2) ESG-driven resource capabilities, (3) stakeholder-inclusive governance, and (4) systemic risk resilience. This framework repositions corporate governance as the central mechanism for shifting from narrow value extraction to CFS value creation. We conclude that a narrowly defined shareholder-value approach undermines CFS; instead, a holistic, governance-led approach is essential for corporate endurance and societal well-being in an increasingly complex global landscape.

INTRODUCTION

The doctrine of shareholder value maximization has long been the dominant belief in corporate governance, deeply rooted in the academic curriculum, managerial incentive structures, and financial market expectations since the late 20th century. This model, famously supported by Friedman (1970) and grounded in Agency theory, holds that the only legitimate purpose of the corporation is to maximize returns for its equity investors, with success typically measured by short-term financial indicators such as quarterly earnings per share and stock price growth. However, the first decades of the 21st century have seen a significant and growing loss of confidence in this approach (Klettner *et al.*, 2014). Repeated financial scandals, systemic economic shocks, and urgent, tangible issues such as climate change and social inequality have sparked a fundamental reevaluation of the corporation's role in society. A new consensus among scholars, progressive practitioners, and policymakers calls for an essential shift toward sustainability-focused business models that explicitly incorporate ESG factors as central to long-term value creation and resilience (Elidrisy, 2024; Knoepfel, 2001). This changing landscape underscores the core issue discussed in this review: the escalating debate over whether the relentless pursuit of shareholder value is inherently at odds with, or detrimental to, achieving CFS.

The main issue stems from the risk that an overly strong focus on short-term financial gains can systematically undermine organizations' long-term resilience (Richardson & Waegelein, 2002). When managers' compensation is closely tied to quarterly profits or stock prices, investments with longer-term payoffs, such as research and development, employee training, or environmental capital costs, tend to be postponed or canceled. This shortsightedness can diminish a company's ability to innovate, develop human capital, and maintain its social license to operate, increasing its vulnerability to future disruptions and threatening its CFS. Therefore, it is essential to carefully review existing research on the link between shareholder value and CFS, going beyond surface-level correlations to examine the underlying assumptions, contradictions, and methodological flaws.

The purpose of this critical literature review is to rigorously reassess the validity of shareholder value as a central driver of CFS in today's corporate landscape. It aims not only to summarize findings but also to offer a constructive critique that clarifies concepts, exposes theoretical tensions, and suggests pathways toward a more integrated understanding of corporate success. This effort is guided by three main research questions:

1. How has the concept of shareholder value been defined and applied in academic literature, and how have these definitions evolved?
2. What does the empirical evidence indicate about the nature of the relationship, whether causal or correlational, between pursuing shareholder value and achieving CFS?
3. What are the key theoretical tensions or contradictions that arise when trying to reconcile shareholder primacy with the needs of long-term resilience and multi-

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stakeholder accountability?

This review focuses explicitly on the corporate sector, drawing insights from both developed and emerging economies to offer a broad yet practical perspective. Its purpose is to address the urgent need, both practical and theoretical, to move beyond polarized debates and develop nuanced, actionable frameworks. The review's contribution is threefold:

1. It aims to clarify commonly misunderstood terms such as "value" and "sustainability".
2. It identifies significant gaps and weaknesses in existing theoretical and empirical research.
3. It proposes an outline of a revised framework that could better align corporate governance mechanisms with the goal of improving CFS performance.

Conceptual Clarifications

A thorough analysis must begin with precise definitions of its key concepts, as much of the confusion and debate in the literature stems from conceptual ambiguity (Adams & Whelan, 2009). The terms "shareholder value" and "corporate financial sustainability" are often used but lack precise, consistent, and operational definitions, leading to mixed arguments and incomparable empirical results.

Shareholder Value

In the literature, shareholder value is typically understood as the economic return provided to a firm's equity investors. However, its measurement reveals a significant divide. The dominant, practice-focused definition equates value with short-term market signals, using metrics such as Total Shareholder Return (TSR), which combines stock price appreciation and dividends, or accounting ratios like Return on Equity (ROE) and Return on Assets (ROA). This short-term focus is reinforced by financial market structures that reward quarterly earnings surprises and penalize strategic patience. In contrast, a more normative, theoretically grounded view defines shareholder value as the long-term discounted value of future cash flows, which are inherently linked to a firm's competitive advantages and strategic health.

The literature notes that these two ideas often conflict; actions that improve short-term metrics (e.g., aggressive share buybacks, cutting R&D) can harm long-term intrinsic value by undermining the firm's innovative capacity and market position (Wibbens & Siggelkow, 2020; Chandren *et al.*, 2017). This tension underscores a core problem in performance measurement: the tools most readily accessible to managers and markets are poorly suited to capturing the long-term value creation that, in theory, is the true goal of shareholder primacy.

Corporate Financial Sustainability

CFS is a distinct yet related concept that focuses on a company's ability to maintain its financial health and operational viability over many decades. It covers key aspects such as long-term liquidity (the ability to meet obligations consistently), solvency (having the appropriate capital structure), profitability (generating sufficient returns), and increasingly, resilience (the ability to absorb and adapt to systemic shocks). A crucial distinction must be made between CFS and the broader, more common idea of ESG-driven corporate sustainability.

While the latter includes environmental care and social responsibility as goals or components of a social license to operate, CFS primarily concerns a company's economic endurance. However, as research advances, the line between these concepts is becoming less clear; ESG factors are increasingly viewed as material financial risks (e.g., physical and transition risks related to climate change) or as factors that influence intangible assets (e.g., brand reputation, employee morale) that directly affect long-term financial success (Ahmed, 2025; Sandberg *et al.*, 2023; Sulimany *et al.*, 2021). Metrics for measuring CFS remain underdeveloped and often rely on past accounting data rather than forward-looking indicators of resilience and adaptability.

Why These Concepts Are in Tension

The conceptual tension between shareholder value and CFS is not accidental but structural, rooted in differing time horizons, scopes of accountability, and underlying logics (Buckley, 2022). The central conflict arises from opposing pressures to deliver short-term returns to shareholders and to invest in the company's long-term health and survival. Market pressures, intensified by activist investors and performance-based executive pay, can drive a strong focus on "value extraction" through cost-cutting and financial engineering, often at the expense of "value creation" through patient capital investment and stakeholder relationship-building (Biondi, 2020; Boyson *et al.*, 2017). Market orientation enhances organizational adaptability and performance by aligning strategies with customer and competitor dynamics (Kamarudin & Bandera, 2025). This creates a governance dilemma: managers committed to a narrow view of shareholder primacy may feel compelled to make decisions that boost immediate metrics at the expense of the company's future, thereby weakening its financial sustainability.

Additionally, responsible governance today entails managing a complex network of stakeholder relationships, employees, communities, regulators, and suppliers, whose well-being and support are vital to long-term success, yet whose interests may not always align with maximizing short-term earnings (Atif *et al.*, 2023; Strätling, 2007). Therefore, there is a tension between a fiduciary duty model centered on a single, often temporary constituency (shareholders) and the practical challenge of guiding a complex social and economic institution through a turbulent, long-term future.

Corporate Governance as a Mediating Construct

Corporate governance is the critical system of rules, practices, and relationships through which a firm is directed and controlled, linking strategic priorities to performance outcomes. In the tension between shareholder value and CFS, governance serves as the essential mediator. It determines how a firm's focus, whether on short-term returns or long-term resilience, is operationalized through specific structures such as board oversight, executive compensation, and stakeholder engagement channels. For instance, governance mechanisms such as long-term performance plans can mitigate pressure for immediate profits by incentivizing investments in sustainable capabilities (Sulimany *et al.*, 2021; Richardson & Waegelein, 2002).

At the same time, governance serves as a key moderator, shaping the effectiveness of CFS initiatives. The quality of governance, reflected in board independence, accountability, and transparency, directly influences whether ESG integration and stakeholder engagement lead to genuine value creation or are undermined by agency problems. Strong governance can align shareholder and stakeholder interests, facilitating the shift toward sustainable value creation, whereas weak governance may perpetuate a narrow focus on value extraction (Buckley, 2022; Klettner *et al.*, 2014). Integrated financial and management accounting systems enhance corporate governance by aligning external accountability with internal strategic decision-making (Musa & Bandera, 2025). Thus, corporate governance is the pivotal lever that can either entrench or reconcile the core tension examined in this review.

Underlying Theoretical Perspectives

The link between shareholder value and CFS can be understood only by examining the various theoretical perspectives on the corporation. Each perspective offers a distinct rationale for corporate purpose and governance, yielding different predictions and recommendations.

Agency Theory

Agency theory serves as the primary theoretical foundation for the shareholder value paradigm. It frames corporate governance as a conflict of interest between principals (shareholders) and agents (managers). To align incentives and reduce managerial opportunism or shirking, the theory supports governance mechanisms, such as performance-based pay, vigilant boards, and the market for corporate control, that directly link managerial rewards to shareholder returns. While effective in explaining certain governance behaviors (Cuñat *et al.*, 2012), this view faces significant criticism in the reviewed literature. Its biggest limitation is its tendency to promote short-term focus; by emphasizing short-term stock price changes, it can discourage investment in intangible assets and long-term projects with uncertain, distant benefits (Richardson & Waegelein, 2002). Additionally, Agency theory's limited focus on the shareholder-manager relationship often overlooks the legitimate claims and potential contributions of other stakeholders, whose cooperation is vital for sustained success (Klettner *et al.*, 2014).

Stakeholder Theory

In contrast, Stakeholder theory holds that the corporation is a network of relationships among diverse groups that both influence and are affected by its actions (Strätling, 2007). This theory asserts that managers have a fiduciary duty to balance and serve the interests of all major stakeholders, including employees, customers, suppliers, communities, and the environment, rather than shareholders alone. From this perspective, CFS is not about maximizing returns for one group but about maintaining the health and ongoing viability of the entire stakeholder network. Consequently, CFS is redefined as a shared responsibility among multiple stakeholders, in which long-term value depends on building trust, legitimacy, and mutually beneficial relationships. While this approach provides a broader view of the firm's societal role, the literature highlights practical difficulties in applying it, such as balancing often competing stakeholder interests and holding managers accountable when there is no single, precise measure, such as share price.

Resource-Based View

The Resource-Based View focuses inward, arguing that a firm's long-term competitive advantage and CFS stem from its unique, valuable, rare, and hard-to-imitate resources and capabilities (Lin *et al.*, 2006). This perspective helps bridge the gap between shareholder value and CFS. It indicates that many CFS-related investments, such as developing green technologies, promoting a culture of innovation and ethics, or building strong community ties, are not merely expenses but strategic investments that create intangible assets. These ESG-driven capabilities can boost brand reputation, attract and retain top talent, foster innovation, and gain social approval to operate, all of which directly support long-term financial strength and shareholder value in the proper, long-term sense (Martin *et al.*, 2016).

Institutional Theory

Institutional theory highlights how firms are embedded in broader social, political, and regulatory contexts that shape their behavior through coercive, mimetic, and normative pressures (Knoepfel, 2001). This view explains the growing importance of CFS on the corporate agenda. Pressures from regulators (e.g., mandatory ESG disclosure rules), industry peers (mimetic isomorphism in adopting sustainability reporting), and civil society (normative expectations for corporate citizenship) are motivating firms to adopt more responsible governance practices. Therefore, Institutional theory frames the integration of CFS not only as a strategic move for value creation but also as a response to strong external forces that confer legitimacy and support organizational survival (Gribnau, 2024).

Contradictions Among Theories

The coexistence of these theories exposes fundamental contradictions. Agency theory's emphasis on strict shareholder primacy conflicts with stakeholder theory's call for balanced accountability. The Resource-Based View may support sustainability investments as capability builders, but Agency-theory-driven incentives can penalize their short-term earnings impact (Krueger, 2015). The literature increasingly argues that traditional shareholder value theory, grounded in narrow agency logic, is no longer sufficient to explain or guide corporate behavior in a complex, interconnected world (Biondi, 2020). A noticeable theoretical shift is evident, reflected in concepts such as "enlightened shareholder value" and "entity theory," which seek to expand the shareholder model to include longer-term perspectives and broader stakeholder interests (Buckley, 2022; Klettner *et al.*, 2014). This shift recognizes that genuine, lasting shareholder wealth results from, rather than replaces, responsible and sustainable corporate conduct.

This theoretical pluralism, while revealing contradictions, also provides the foundational logic for the integrative framework proposed in this article. Specifically, Agency theory's concern with incentive alignment informs the Long-Horizon Performance Orientation pillar; Stakeholder theory's emphasis on multi-constituency accountability underpins the Stakeholder Governance Integration pillar; the Resource-based view's focus on capabilities aligns with the ESG-Driven Resource Capability pillar; and Institutional theory's attention to external pressures and legitimacy supports the Risk Resilience and Organizational Continuity pillar. Thus, the proposed framework does not reject these theories but synthesizes their insights to move beyond the limitations of shareholder primacy.

LITERATURE REVIEW

Evolution of Shareholder Value Thinking

The literature traces a significant evolution in the conceptualization of shareholder value. The traditional Friedman-era view, which treated any diversion of resources from shareholder returns as theft, has been gradually challenged and refined (Strätling, 2007). A key turning point has been the rise and mainstream acceptance of ESG concerns. Initially regarded as peripheral to "corporate social responsibility" (CSR), these issues are now increasingly recognized as material financial factors vital to risk management and long-term value creation.

Studies highlight a shift in managerial and theoretical thinking from a pure shareholder primacy model toward what is often called "enlightened shareholder value" (Martin *et al.*, 2016; Klettner *et al.*, 2014). This hybrid approach maintains the shareholder as the primary beneficiary but argues that addressing broader stakeholder and societal interests is the most effective way to achieve long-term shareholder wealth. However, the literature notes that this evolution remains incomplete and debated, with strong market and institutional pressures often driving practice back toward short-termism, as reflected in studies of market reactions to CSR news (Krueger, 2015) and the ongoing focus on quarterly earnings.

Empirical Evidence Linking Shareholder Value to CFS

The empirical evidence on this relationship is inconsistent and mixed, reflecting methodological diversity and context dependence (Latinovic & Obradović, 2013). On the one hand, several studies report a positive link. For example, Sandberg *et al.* (2023) found that higher ESG ratings correlated with better financial performance (ROA, ROE) in the European food sector, indicating alignment. Cuñat *et al.* (2012) showed that governance improvements that led to positive shareholder returns were also associated with better long-term performance and less wasteful spending.

On the other hand, there is significant contradictory evidence. Krueger (2015) showed that stock markets often react negatively to many types of positive CSR news, viewing them as agency-driven projects rather than value-creating investments. Beloskar and Rao (2022), in a study of mandatory CSR spending in India, found that spending above the legal minimum negatively affected short-term financial results, which they framed as a "social burden." Additionally, event studies of Chief Sustainability Officer appointments reveal highly dependent market reactions, based on the company's prior reputation and industry regulatory exposure (Arora *et al.*, 2020). A significant weakness in much of this empirical work is an overreliance on short-term financial indicators (such as ROA or abnormal returns in event studies) to draw inferences about long-term sustainability, a mismatch that Wibbens and Siggelkow (2020) address with their long-term performance measure, LIVA.

To synthesize the mixed empirical landscape, Table 1 summarizes key studies, their contexts, findings, and the direction of the relationship between shareholder value and CFS.

Table 1: Summary of Key Empirical Findings on Shareholder Value and CFS

Study (Author, Year)	Context / Focus	Key Finding	Direction of Relationship	Primary Metric Used
Sandberg *et al.* (2023)	European food industry; ESG ratings & financial performance	Higher ESG ratings are associated with better ROA & ROE.	Positive	ESG ratings, ROA, ROE
Cuñat *et al.* (2012)	U.S. firms; governance proposals & shareholder value	Passing governance proposals leads to positive abnormal returns and improved long-term performance.	Positive	Abnormal returns, acquisition activity

Krueger (2015)	Cross-sector market reaction to CSR events	Negative CSR news elicits a strong adverse reaction; positive CSR news is often viewed as an agency cost.	Mostly Negative / Contingent	Event study (CAR)
Beloskar & Rao (2022)	India: mandatory CSR spending exceeding legal minimum	Excess CSR spending negatively impacts short-term financial performance.	Negative	ROA, Tobin's Q
Arora *et al.* (2020)	U.S. firms: appointment of Chief Sustainability Officers	Market reaction is neutral on average but positive when the firm has a prior sustainability incident or focuses on a CSE role.	Contingent / Neutral	Event study (CAR), operating performance
Allen *et al.* (2024)	Chinese A-share market: long-term performance	Weak corporate governance is linked to long-term underperformance in stock and accounting returns.	Negative	Stock returns, net cash flows
Wibbens & Siggelkow (2020)	Conceptual/metric; long-term performance measurement	Introduces LIVA; shows that short-term metrics (e.g., ROA) can misrepresent long-term value creation.	Critical of Short-term Metrics	LIVA vs. ROA/ CAR
Sulimany *et al.* (2021)	Saudi Arabia: governance, sustainability, and share price	CFS mediates the relationship between board size and shareholder value.	Mediated Positive	Share price, board size, CFS metrics
Boyson *et al.* (2017)	U.S.; hedge fund activism & mergers	Activism creates value by influencing takeover outcomes, not by undervaluing targets.	Positive via governance	Long-term abnormal returns, operating performance

Shortcomings Identified in the Literature

The critical analysis identifies several ongoing shortcomings.

1. There is an overemphasis on market valuation as the primary measure of value, which fails to capture intrinsic worth and is influenced by investor sentiment and short-term fluctuations, as Allen *et al.* (2024) discuss in the context of Chinese A-shares.
2. Many studies show that financial models fail to adequately incorporate long-term, systemic risks such as climate change, biodiversity loss, or social unrest, treating them as externalities rather than as significant risks to balance sheets (Knoepfel, 2001).
3. There is an apparent misalignment in how different stakeholders define "value," with shareholders often emphasizing financial returns while other stakeholders focus on employment, environmental preservation, or community well-being (Atif *et al.*, 2023).
4. The literature offers a weak, underdeveloped understanding of what constitutes "long-term value." It is often used rhetorically without a precise definition or measurement, thereby allowing a short-term perspective to prevail (Dočekalová *et al.*, 2022; Wibbens & Siggelkow, 2020).

New Arguments Emerging

In response to these shortcomings, new and compelling arguments are gaining support. There is a strong push for integrated reporting that combines financial, social, and environmental performance into a single, coherent narrative, moving beyond siloed CFS reports (Adams & Whelan, 2009). Scholars advocate CFS-driven governance models in which sustainability is not a separate committee function but is embedded in the core fiduciary duties of the board and executive team, including tax strategy (Gribnau, 2024). Perhaps the most influential emerging critique is the distinction between "value creation" and "value extraction." Biondi (2020) and others argue that much of what is presented as shareholder value maximization is, in fact, financial engineering that extracts wealth from the corporate entity through buybacks, excessive dividends, and leverage, without generating new productive capacity (Chandren *et al.*, 2017; Boyson *et al.*, 2017). They argue that actual value creation entails reinvesting in innovation, human capital, and resilient operations to secure the firm's long-term survival and prosperity.

MATERIALS AND METHODS

This study uses a Critical Literature Review (CLR) approach, chosen for its ability to provide a thorough, analytical, and interpretive synthesis of a complex and debated body of knowledge (Baharom, 2025; Adams & Whelan, 2009). Unlike a systematic review, which emphasizes quantitative aggregation and replicable search procedures, a CLR critically engages with the arguments, assumptions, and intellectual development within a field. Its purpose is to go beyond simply listing findings to examine the underlying logic, ideological biases, and conceptual consistency of the literature on shareholder value and CFS.

The article selection process began with a thorough search of the WoS Core Collection, known for its high-quality, peer-reviewed journal coverage. The initial search combined keywords related to shareholder value ("shareholder value," "shareholder primacy," "value maximization"), financial sustainability ("corporate financial sustainability," "financial sustainability," "long-term performance," "organizational resilience"), and governance ("corporate governance," "firm performance"). This was refined into a structured search query that limited results to English-language articles published in business or economics journals between 1996 and 2025, focusing on final-stage journal articles and reviews. The initial search yielded 50 articles. After applying inclusion and exclusion criteria, favoring articles that directly addressed the conceptual or empirical links between the core constructs and excluding those focused solely on technical financial modeling without corporate governance or CFS discussions, the final set of articles was narrowed to 25 for detailed analysis (see Figure 1).

Limitations of the Critical Literature Review Approach

Although this CLR offers a comprehensive and analytical synthesis of the field, several methodological limitations should be acknowledged.

1. The review is non-systematic in the quantitative sense; it does not use statistical meta-analysis and therefore cannot provide aggregated effect sizes or definitive causal conclusions.
2. The article selection was limited to the WoS database and English-language publications, potentially excluding relevant studies from other databases (e.g., Scopus, Google Scholar) or non-English contexts that could offer alternative perspectives, particularly from the Global South.
3. The interpretive nature of the critical analysis, while a strength in uncovering assumptions and contradictions, also involves subjective judgment in identifying themes and evaluating arguments.
4. The review focuses on conceptual and empirical literature through the end of 2025; rapidly evolving developments in sustainability regulation, reporting standards, and market practices may outpace the published literature covered here.

These limitations suggest that, while the review provides a robust critical foundation and a proposed framework, it should be complemented by future systematic reviews, empirical testing, and ongoing monitoring of governance innovations.

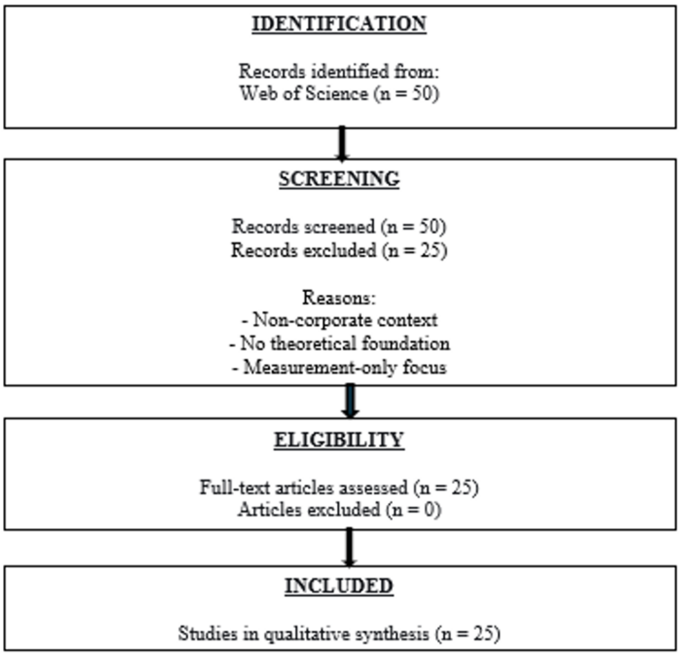

Figure 1: Articles Selection Process

RESULTS AND DISCUSSION

Proposed Framework: Integrating Shareholder Value & CFS

To move beyond critique and toward synthesis, a revised framework is proposed to reconcile the legitimate pursuit of investor returns with the need for CFS. This framework argues that corporate governance must shift from a model focused solely on shareholder value to one centered on creating CFS value, grounded in four interconnected pillars.

1. Long-Horizon Performance Focus: Governance and incentive systems need to be fundamentally restructured to emphasize long-term metrics. This includes adopting measurement tools such as LIVA (Long-term Investor Value Appropriation), proposed by Wibbens and Siggelkow (2020), which evaluates value creation over

5-10-year periods, and reducing the emphasis on quarterly earnings guidance. Executive compensation should be tied to multi-year performance aligned with strategic CFS goals rather than to short-term stock price, as indicated by the positive outcomes of long-term performance plans (Richardson & Waegelein, 2002).

2. ESG-Driven Resource Capability Perspective: The firm should be managed explicitly as a portfolio of tangible and intangible resources. ESG factors must be analyzed not as costs but as critical inputs for building strategic capabilities: environmental innovation, social license, governance integrity, and human capital (Martin *et al.*, 2016; Lin *et al.*, 2006). Investment decisions should be evaluated by their contribution to this resource base, the primary driver of long-term cash flow generation and resilience, as evidenced by positive links between ESG and performance in some contexts (Sandberg *et al.*, 2023).

3. Stakeholder Governance Integration: The board's fiduciary duty should be understood as acting in the company's best long-term interests (Buckley, 2022). This involves establishing formal mechanisms for stakeholder input, such as employee representatives on boards, community advisory panels, and investor-stewardship conversations, to ensure that managerial decisions consider a wide range of impacts and dependencies. This supports entity theory and moves beyond shareholder primacy, potentially reducing extreme cash hoarding that protects shareholders at the expense of other stakeholders (Atif *et al.*, 2023).

4. Risk Resilience and Organizational Continuity: Governance must focus on identifying, assessing, and mitigating systemic, long-term risks to the business model. These include climate-related financial risks, supply chain vulnerabilities, and social inequality. Building resilience through scenario planning, stress testing, and adaptive capital allocation becomes a key governance function, ensuring the organization can withstand shocks and continue operating, a principle that underpins sustainability indices (Knoepfel, 2001).

This framework fundamentally repositions the variables at play. The traditional model posits shareholder value maximization as the independent driver of CFS outcomes. In contrast, this integrative model proposes the four governance pillars as the independent variables that collectively generate the desired dependent outcome: CFS value creation. This outcome is conceptualized as the synergistic achievement of long-term shareholder value and robust CFS, thereby reconciling the tension highlighted throughout this review.

The proposed framework, summarized in Figure 2 and detailed in Table 2, presents testable relationships among four independent governance variables (long-horizon orientation, ESG-driven capability, stakeholder integration, and risk resilience) and the dependent variable, sustainable corporate value creation. As shown in Figure 2, our proposed framework integrates four pillars to reconcile shareholder value with CFS. Table 2 also synthesizes the core constructs discussed in this review, providing definitions and empirical operationalizations drawn from the literature. These relationships are theorized to be moderated by contextual institutional and market factors.

This integrated framework underscores that corporate governance is the essential lever for change. By redefining performance, reallocating resources, expanding accountability, and prioritizing resilience, governance can align the company's operations with a model in which delivering CFS returns to shareholders results from responsible, forward-looking stewardship of the entire enterprise (Sulimany *et al.*, 2021).

Table 2 details the key variables of the proposed framework, including their definitions, operational indicators, and exemplary measures drawn from the reviewed literature.

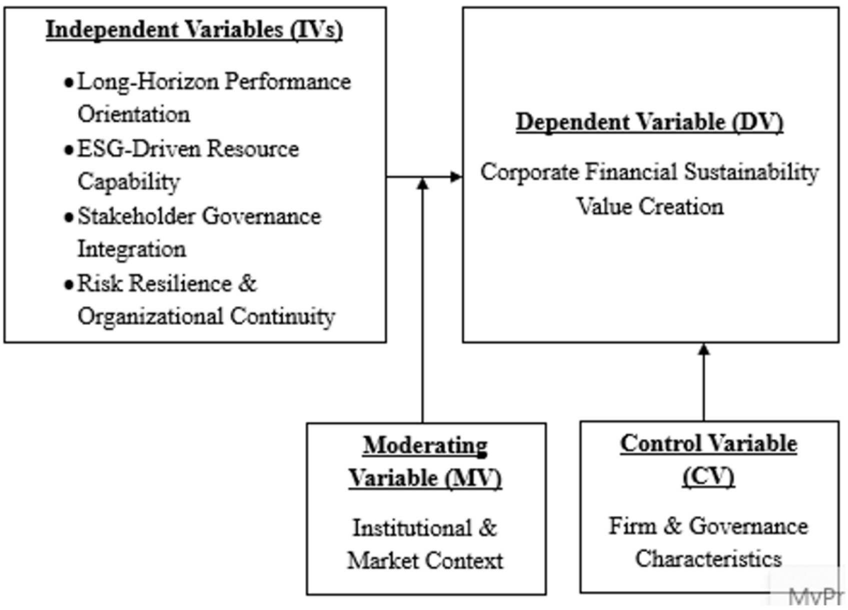

Figure 2: Proposed Integrative Framework for CFS Value Creation

Table 2: Key Variables in the Shareholder Value–CFS Framework

Variable Type	Variable Name	Definition	Key Dimensions/ Indicators	Exemplary Measures from Literature
Dependent Variable (DV)	Corporate Financial Sustainability Value Creation	The achievement of balanced, durable value that benefits the firm, shareholders, and society over the long term.	•Long-term shareholder returns •Financial resilience •Stakeholder trust & legitimacy •ESG performance integration	•LIVA (Long-term Investor Value Appropriation) (Wibbens & Siggelkow, 2020) •ESG-adjusted economic value added (Dočekalová *et al.*, 2022) •Integrated performance scores
Independent Variable (IV1)	Long-Horizon Performance Orientation	The degree to which governance and incentives prioritize long-term metrics over short-term results.	•Use of long-term performance metrics •Executive compensation tied to multi-year goals •De-emphasis of quarterly guidance	•Existence of long-term performance plans (Richardson & Waegelein, 2002) •Compensation duration index •LIVA adoption (Wibbens & Siggelkow, 2020)
Independent Variable (IV2)	ESG-Driven Resource Capability	The extent to which ESG factors are leveraged to build strategic, intangible assets and capabilities.	•ESG investment intensity •Innovation in sustainable products/ processes •Human capital development •Brand/reputation capital	•ESG ratings (Sandberg *et al.*, 2023) •Green patent counts •Employee satisfaction scores •CSR expenditure (Beloskar & Rao, 2022)
Independent Variable (IV3)	Stakeholder Governance Integration	The formal inclusion of stakeholder interests in governance structures and decision-making processes.	•Stakeholder representation on boards •Adoption of stakeholder-oriented statutes •Entity theory governance practices	•Dummy for constituency statute adoption (Atif *et al.*, 2023) •Board diversity (employee/ community reps) •Stakeholder engagement index (Buckley, 2022)
Independent Variable (IV4)	Risk Resilience & Organizational Continuity	Proactive governance focuses on identifying, mitigating, and adapting to systemic long-term risks.	•Climate risk integration •Supply chain resilience •Scenario planning & stress testing •Adaptive capital allocation	•TCFD (Task Force on Climate-related Financial Disclosures) alignment score •Cash holdings for resilience (Atif *et al.*, 2023) •Business continuity investment
Moderating Variables (MV)	Institutional & Market Context	External factors that strengthen or weaken the relationship between the IVs and DV.	•Regulatory environment •Market development stage •Industry ESG materiality •Ownership structure	•National CSR mandate index (e.g., Malaysia's Companies Act) •Emerging vs. developed market dummy (Allen *et al.*, 2024) •Industry classification (Knoepfel, 2001) •Institutional ownership % (Boyson *et al.*, 2017)
Control Variables (CV)	Firm & Governance Characteristics	Factors that may influence the DV and should be accounted for in empirical models.	•Firm size •Profitability •Leverage •Board independence •CEO duality	•Total assets, ROA •Debt-to-equity ratio •Proportion of independent directors •Dummy for CEO/Chair separation

Research Gaps & Future Research Agenda

The critical review highlights several important gaps, creating a promising agenda for future research. Theoretically, there is a need for more robust frameworks that genuinely integrate finance, governance, and CFS, moving beyond merely adding variables to existing models. The conditions under which "enlightened shareholder value" remains stable and is not undermined by short-term pressures need further investigation (Klettner *et al.*, 2014). Measurement issues are widespread; developing validated, standardized, and forward-looking metrics for both CFS and long-term shareholder value creation is a key challenge, as emphasized by the introduction of LIVA and critiques of ESG rating convergence (Sandberg *et al.*, 2023; Wibbens & Siggelkow, 2020).

Empirically, there is a notable scarcity of multi-country comparative studies examining how different national governance systems (e.g., liberal market vs. coordinated market economies) shape the relationship between shareholder value and sustainability. Likewise, research on emerging markets is limited. However, settings with distinct institutional pressures and ownership structures (such as those in Saudi Arabia, as reported by Sulimany *et al.*, 2021, and in India, as reported by Beloskar & Rao, 2022) may yield essential insights. Future research should also adopt interdisciplinary approaches, drawing on insights from finance, strategy, law, and sociology to examine the practical application of integrated governance models and the role of investor activism in promoting either short-termism or long-term sustainability (Boyson *et al.*, 2017).

Implications

Implications for Educators & Academia

The theoretical and empirical tensions identified in this review carry significant implications for business education and academic research. Educators in business schools and executive training programs must revise curricula to move beyond the entrenched narrative of shareholder primacy. Coursework in finance, strategy, and corporate governance should integrate critical perspectives on the limitations of short-term value maximization and emphasize models of CFS value creation, such as the framework proposed here. Pedagogical approaches should include case studies that highlight the long-term financial risks of neglecting ESG factors and the governance innovations that enable resilience.

Furthermore, academic researchers are urged to pursue the interdisciplinary and methodological opportunities outlined in Section 7. These include developing new metrics for long-term performance, conducting comparative institutional studies, and engaging in action research with organizations transitioning to sustainable governance models. By aligning teaching and research with the need for a rebalanced corporate paradigm, academia can play a pivotal role in developing the next generation of leaders and the knowledge systems necessary for CFS.

Practical and Policy Implications

The findings of this review have important implications for stakeholders across the board. For corporate leaders and boards, the key is to redesign governance boldly. This involves adding long-term CFS KPIs to strategic plans and executive scorecards, restructuring compensation to reward outcomes aligned with long-term horizons (Richardson & Waegelein, 2002), and fostering a board culture that resists short-term financial pressures and focuses on the organization's resilience (Buckley, 2022). For policymakers and regulators, the goal is to reshape the rules to support sustainable business. This can mean requiring integrated CFS reports (using standards like the IFRS Sustainability Disclosure Standards), reforming corporate law to make it clear that directors have a duty to consider long-term interests and stakeholders (as shown in constituency statutes studied by Atif *et al.*, 2023), and creating tax or procurement incentives for companies that clearly invest in CFS-driven innovation and resilience (Gribnau, 2024). For investors and asset managers, the focus should shift to a new investment approach. Moving from short-term gains to long-term, stewardly returns means developing tools to evaluate companies' integrated performance and resilience, actively engaging with portfolio companies to prevent value-destroying short-term practices, and supporting patient capital arrangements that follow the LIVA principle (Wibbens & Siggelkow, 2020).

CONCLUSION

This CLR systematically deconstructs the notion that shareholder value maximization is the ultimate driver of CFS. The analysis shows that the traditional model, grounded in a narrow view of Agency theory (Cuñat *et al.*, 2012), is conceptually flawed and lacks strong empirical support as a standalone guide to long-term corporate success. The pursuit of short-term shareholder returns often conflicts with the investments and stakeholder relationships needed for lasting financial resilience (Buckley, 2022; Biondi, 2020). In contrast, the existing literature indicates a shift toward more "enlightened" perspectives and offers some evidence of alignment (Sandberg *et al.*, 2023; Klettner *et al.*, 2014). It is also rife with contradictions (Beloskar & Rao, 2022; Krueger, 2015), measurement issues (Wibbens & Siggelkow, 2020), and a persistent bias toward short-term thinking.

The critical insights highlight the need for a significant rebalancing. Shareholder value, properly understood as the long-term discounted worth of a successful enterprise, is an important outcome. However, it cannot be the sole or primary driver; it must be seen as the result of a more complex, holistic process of CFS value creation. The proposed framework, with a long-term perspective, ESG-integrated capabilities (Lin *et al.*, 2006), stakeholder-inclusive governance (Atif *et al.*, 2023), and risk resilience (Knoepfel, 2001), provides a path for this rebalancing. Ultimately, ensuring the long-term survival and success of companies in the 21st century requires moving beyond the shareholder primacy model. This means adopting a governance approach in which CFS is achieved through the responsible management of all resources, financial, human, social, and natural, that both the corporation and society rely on.

The future of corporate success in an era of climate disruption, social fragmentation, and economic volatility hinges on this fundamental reorientation. The urgency of shifting from shareholder primacy to a stewardship-based, CFS governance model is not merely theoretical; it is a practical imperative for ensuring the long-term viability of firms, the stability of financial systems, and the health of the societies in which they operate. The framework proposed herein offers a pathway forward; the time for its adoption is now.

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