
THE COST OF PROFIT: WHY PRIORITISING SHAREHOLDERS ALONE FAILS THE MODERN CORPORATE ECOSYSTEM

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ABSTRACT

Corporate governance has long been structured around the principle of shareholder primacy. The doctrine, famously articulated by Milton Friedman in 1970, that a corporation's sole legitimate purpose is the maximisation of shareholder profit. This paper challenges that orthodoxy. Drawing on stakeholder theory, comparative corporate law, and the evolving regulatory landscape in India, it argues that an exclusive focus on shareholder returns produces structural incentives for short-termism, financial manipulation, and the systematic neglect of employees, creditors, and communities. The Satyam scandal and the IL&FS crisis are examined as case studies demonstrating the real-world consequences of shareholder primacy in the Indian context. The paper then evaluates how stakeholder theory, the UK's enlightened shareholder value model, the German codetermination framework, and the 2019 Business Roundtable Statement represent competing attempts to reorient corporate purpose. Against this global backdrop, the paper critically analyses India's existing reform mechanisms including the Companies Act 2013, the Insolvency and Bankruptcy Code 2016, and SEBI's Business Responsibility and Sustainability Reporting framework identifying enforcement gaps that continue to leave stakeholders structurally unprotected. The paper concludes with concrete reform proposals aimed at embedding stakeholder governance into Indian corporate law in a way that is enforceable, not merely aspirational.

Keywords: shareholder primacy, stakeholder theory, corporate governance, India, CSR, ESG, BRSR, Companies Act 2013, directors duties, codetermination.

I. Introduction

Decades have passed, and the corporate world has been working on the shareholder-theory: to maximize the shareholder's profits even if on the cost of others. This is intended to protect the ones investing money in the company often at the expense of others who equally contribute to making the company successful. It includes employees, customers and anyone who is affected by the acts of the company. This view of keeping the shareholders foremost was first presented by Milton Friedman where he puts forth that the only purpose of the business is to increase its profit and that other responsibilities should only be taken up if it is profitable.¹ But at what cost?

The shareholder theory has been severely criticized as being insensitive to the ones who work towards profitable and in some sense have a stake in the company. Through this criticism the shareholder theory, came in the Stakeholder-theory postulated by Freeman, focusing upon the creation of value not just for one stakeholder but for all.² This theory does not look at the stakeholders as only means to achieving the benefit for shareholders but also considers the overall betterment of stakeholders.

In India, the urgency of this debate is sharpened by a series of high-profile corporate governance failures that have demonstrated, with considerable human cost, the dangers of placing shareholder value above all else. The Satyam Computer Services scandal and the collapse of IL&FS are not merely cautionary tales, they are structural evidence of what happens when corporate governance frameworks prioritise short-term financial metrics over the interests of employees, creditors, and the broader economy.

This paper makes three contributions. First, it identifies the structural flaws of shareholder primacy as a governance model, drawing on both theoretical scholarship and Indian case studies. Second, it examines comparative governance models such as the stakeholder theory, the UK's enlightened shareholder value model, and the German codetermination framework to assess what a more balanced approach might look like. Third, it critically evaluates India's

¹ Friedman, Milton. "The Social Responsibility of Business is to Increase its Profits." *The New York Times Magazine*, 13 September 1970.

² Freeman, R. Edward. *Strategic Management: A Stakeholder Approach*. Boston: Pitman, 1984. See also Strand, Robert, and R. Edward Freeman. "The Scandinavian Cooperative Advantage: Theory and Practice of Stakeholder Engagement in Scandinavia." *CBS Centre for Corporate Social Responsibility*, 2013.

current reform trajectory, including the Companies Act 2013, the IBC 2016, and SEBI's BRSR framework, and proposes concrete reforms necessary to move Indian corporate governance from aspirational stakeholderism to enforceable accountability.

II. The Structural Flaws of Shareholder Primacy

A. The Theoretical Foundation and Its Critique

Classical shareholder primacy theory, as elaborated by Friedman and subsequently codified in the agency theory of Jensen and Meckling, holds that because shareholders are the residual claimants of corporate surplus, bearing the risk of loss after all other obligations are met, they alone should determine corporate objectives.³⁴ The managerial function is accordingly cast as the faithful execution of shareholder instructions, minimising the 'agency costs' that arise when managers pursue their own interests at shareholders' expense.

Blair's critique in *Ownership and Control* exposed a fundamental conceptual error in this framing.⁵ The shareholder primacy model treats only financial capital as a form of investment deserving governance protection. It ignores the equally significant investments made by employees in firm-specific human capital such as skills, knowledge, and professional relationships that are not readily transferable to another employer. When a firm collapses or restructures, shareholders can sell their shares; employees cannot sell their seniority, their institutional knowledge, or their career investments. Blair argued that this asymmetry provides a strong theoretical justification for extending governance rights beyond shareholders, an argument that has gained considerable force in the subsequent three decades of empirical research on corporate governance outcomes.

B. Short-Termism and the Incentive Problem

The most operationally damaging consequence of shareholder primacy is its systematic bias towards short-term financial performance. When executive compensation is primarily structured around quarterly earnings and stock price movements, managers face powerful

³Friedman, *supra* note 1.

⁴Jensen, Michael C., and William H. Meckling. "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure." *Journal of Financial Economics* 3(4) (1976): 305–360.

⁵Blair, Margaret M. *Ownership and Control: Rethinking Corporate Governance for the Twenty-First Century*. Washington DC: Brookings Institution Press, 1995. See also the review: Blair, M.M. "Ownership and Control." *Challenge* 39(1) (1996): 62–64. JSTOR, <http://www.jstor.org/stable/40721671>.

incentives to prioritise short-term metrics over long-term investment in innovation, workforce development, and environmental sustainability. Jensen and Meckling's agency theory itself acknowledges this risk, i.e., the separation of ownership and control creates conditions in which managers may pursue short-term stock price appreciation rather than genuine long-term value creation.⁶

Empirical evidence of this dynamic in India is significant. Promoter-dominated ownership structures, which characterise the majority of India's listed companies, create a particular variant of the problem: rather than managers gaming shareholder metrics, controlling shareholders use their dominant positions to extract private benefits at the expense of minority shareholders and other stakeholders alike. The combination of concentrated ownership, weak enforcement of minority protections, and aggressive leverage strategies where companies load debt to fund rapid expansion creates systemic fragility. The IL&FS crisis, in which a systematically important infrastructure company accumulated over ₹91,000 crore in debt before defaulting in 2018, is the most vivid recent example of this dynamic.⁷

C. Case Studies: Satyam and IL&FS

The Satyam Computer Services scandal, in which the company's founder and chairman Ramalinga Raju confessed in January 2009 to a decade-long falsification of the company's accounts inflating assets by over ₹7,800 crore, stands as the defining Indian case of shareholder primacy's structural dangers. SEBI's subsequent enquiry established that the fraud was sustained through systematic manipulation of financial records intended to project profitability and maintain share price.⁸ The immediate consequence was not primarily borne by shareholders, many of whom sold before the collapse but by the company's approximately 53,000 employees, whose livelihoods were placed at immediate risk, and by the creditors and clients whose contractual relationships with the company were left in disarray.

The IL&FS crisis of 2018 demonstrated how this pattern of governance failure can generate

⁶ Jensen and Meckling, *supra* note 4.

⁷ Reserve Bank of India / Ministry of Corporate Affairs. IL&FS Group: Debt Resolution and Governance Report. New Delhi: MCA, 2019. The group's total outstanding debt of approximately ₹91,000 crore at the time of default is documented in the RBI Task Force Report, *supra* note 8, and corroborated by Ministry of Corporate Affairs filings before the National Company Law Tribunal, Mumbai Bench, October 2018.

⁸ Securities and Exchange Board of India. "Enquiry Report in the Matter of Satyam Computer Services Ltd." SEBI Order WTM/GA/EFD/30/2014, April 10, 2014. See also: Bhandari, B. *The Satyam Saga*. New Delhi: Business Standard Books, 2009.

systemic economic consequences. IL&FS had accumulated debt across dozens of subsidiaries through a structure of deliberate opacity, and its default triggered a liquidity crisis across India's non-banking financial sector, destabilising mutual funds, shadow banks, and ultimately affecting the savings of ordinary depositors. The Reserve Bank of India's subsequent task force report identified governance failure specifically the failure of the board to exercise independent oversight of management's aggressive borrowing strategy as the primary cause of the collapse.⁹ Both cases illustrate not merely the wrongdoing of individuals, but the structural failure of a governance model that placed financial performance above accountability to employees, creditors, and the broader public.

III. Stakeholder Theory and Comparative Governance Models

A. Freeman's Stakeholder Framework

Freeman's stakeholder theory reconceives the corporation not as an instrument for extracting returns from a single class of investor, but as a nexus of relationships between the firm and all those whose interests are materially affected by its operations.¹⁰ The operational challenge of this formulation is prioritisation: when the interests of employees, creditors, communities, and shareholders conflict, how should directors decide? Mitchell, Agle, and Wood's framework for stakeholder salience provides a practically useful answer, identifying three attributes, i.e., power, legitimacy, and urgency that determine the relative priority a stakeholder claim should receive in any given governance context.¹¹

Porter and Kramer's concept of 'creating shared value' provides a complementary argument at the level of business strategy.¹² Rather than treating social and environmental responsibility as costs imposed on the business in the interests of stakeholders, shared value theory holds that businesses can generate competitive advantage precisely by addressing social problems. ITC's e-Choupal model, which created a digital agricultural supply network connecting Indian smallholder farmers to markets, illustrates this dynamic: the initiative generated commercial

⁹Reserve Bank of India. "Report of the Task Force on IL&FS." Mumbai: RBI, 2019. See also Ministry of Corporate Affairs, Government of India. "IL&FS Resolution: Progress Report." MCA, 2020.

¹⁰Freeman, *supra* note 2.

¹¹Mitchell, Ronald K., Bradley R. Agle, and Donna J. Wood. "Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts." *Academy of Management Review* 22(4) (1997): 853–886.

¹²Porter, Michael E., and Mark R. Kramer. "Creating Shared Value." *Harvard Business Review*, January–February 2011, 62–77.

returns for ITC while simultaneously improving farmer incomes and rural livelihoods. Hindustan Unilever's Lifebuoy hygiene campaign similarly demonstrates that investment in social outcomes can build brand equity and expand markets in ways that pure shareholder value maximisation logic would systematically discount.¹³¹⁴

B. The 2019 Business Roundtable Statement and Its Limits

The most significant institutional signal of the retreat from shareholder primacy came in August 2019, when 181 CEOs of America's largest companies signed a revised Business Roundtable 'Statement on the Purpose of a Corporation,' formally committing to deliver value to all stakeholders such as customers, employees, suppliers, communities, and shareholders rather than shareholders alone.¹⁵ The statement was widely interpreted as a watershed moment in corporate governance.

Subsequent empirical analysis has complicated that interpretation. Research by Bebchuk and Tallarita, examining the governance changes actually implemented by signatory companies in the years following the statement, found that the signatories had made no meaningful commitments and undertook no governance reforms consistent with their stated stakeholder orientation.¹⁶ Harvard Law School's Program on Corporate Governance concluded in 2021 that the Statement represented 'mostly show.' A five-year assessment published in the Harvard Business Review in 2024 acknowledged that while stakeholderism has gained wider cultural acceptance among business leaders, it 'is a far cry from replacing shareholder capitalism as the central organising principle' of corporate governance.¹⁷¹⁸

The Business Roundtable episode is instructive for Indian policymakers for precisely this

¹³ Bakshi, A. "ITC's e-Choupal as a Benchmark for Rural Transformation: A Case Study." *Academy of Marketing Studies Journal* 27(5) (2023): 1–9. See also Farhoomand, A., and D. Bhatnagar. "ITC's e-Choupal and Rural Transformation in India." *Asia Case Research Centre, University of Hong Kong*, 2008.

¹⁴ Unilever PLC. "Lifebuoy: Handwashing for Life." *Sustainable Living Report*. London: Unilever, 2023. See also Sindhvani, R., et al. "Analyzing Capacity Development Approaches in CSR Implementation and Their Societal Impact: A Case Study of ITC's e-Choupal." In *Corporate Social Responsibility in India*. Springer, 2014.

¹⁵ Business Roundtable. "Statement on the Purpose of a Corporation." Washington DC: Business Roundtable, 19 August 2019. Available at: <https://opportunity.businessroundtable.org/ourcommitment/>.

¹⁶ Bebchuk, Lucian A., and Roberto Tallarita. "The Illusory Promise of Stakeholder Governance." *Cornell Law Review* 106(1) (2020): 91–178.

¹⁷ Bebchuk, Lucian A., Kobi Kastiel, and Roberto Tallarita. "For Whom Corporate Leaders Bargain." *Southern California Law Review* 94(5) (2021): 1467–1554. The Harvard Law School Program on Corporate Governance Working Paper No. 2020-06 reached the same conclusion that BRT signatories made no verifiable governance changes.

¹⁸ Paine, Lynn S. "The Business Roundtable's Stakeholder Pledge, Five Years Later." *Harvard Business Review*, August 2024.

reason. Voluntary declarations of stakeholder commitment, unsupported by structural governance reforms, enforceable duties, or accountability mechanisms, do not produce meaningful change in corporate behaviour. The lesson is that stakeholder governance requires legislative and regulatory architecture, not merely rhetorical commitment.

C. The UK's Enlightened Shareholder Value Model

Section 172 of the UK Companies Act 2006 codified what the Company Law Review Steering Group described as the 'enlightened shareholder value' (ESV) model.¹⁹ Section 172(1) requires directors to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so to have regard — among other matters — to the long-term consequences of decisions, the interests of employees, relationships with suppliers and customers, the impact on the community and environment, and the desirability of maintaining high standards of business conduct.

The ESV model is explicitly a hybrid: it extends consideration to stakeholder interests, but does so instrumentally, as a means of promoting long-term shareholder value rather than as an end in itself. In cases of conflict, shareholder interests retain primacy. Comparative legal scholarship has noted that this creates a significant enforcement gap: stakeholders whose interests are harmed by directors' decisions have no direct cause of action under Section 172, since the duty is owed to the company and enforced by shareholders or the company itself.²⁰

India's Section 166(2) of the Companies Act 2013, which requires directors to act in the best interests of the company, its employees, shareholders, the community, and the environment, is textually more ambitious than the UK's ESV model, adopting a pluralist rather than hierarchical formulation. However, as discussed further below, the absence of enforcement mechanisms and judicial interpretation leaves Section 166(2) similarly aspirational in practice.

D. The German Codetermination Model

A more structurally ambitious approach to stakeholder governance is offered by the German codetermination system. The *Mitbestimmungsgesetz* of 1976 requires all German corporations

¹⁹Companies Act 2006 (UK), s 172.

²⁰Naniwadekar, Mihir, and Umakanth Varottil. "The Stakeholder Approach Towards Directors' Duties Under Indian Company Law: A Comparative Analysis." *Oxford University Comparative Law Forum*, 2016. See also Kumar, Sudhanshu, and Alok Verma. "Protection of Stakeholders' Interests in the Indian Corporate Landscape: Examining the 'Ifs and Buts'." *Indian Law Review* 8(2) (2024): 142–169.

with more than 2,000 employees to constitute their supervisory boards (Aufsichtsrat) with employee representatives holding half the seats, subject to the shareholder-appointed chairman holding a casting vote in cases of deadlock.²¹ For companies with more than 500 but fewer than 2,000 employees, the *Drittelbeteiligungsgesetz* requires one-third employee representation on the supervisory board.²²

Empirical research on the outcomes of codetermination presents a broadly positive picture. Gorton and Schmid's 2004 study found that parity codetermination was associated with greater firm valuation and profitability, while Fauver and Fuerst found evidence of lower agency costs in codetermined firms.²³ The German Constitutional Court has characterised codetermination as complementing the economic legitimacy of corporate management with a social one, a formulation that captures its underlying governance rationale precisely.

The relevance of the German model to India lies less in the possibility of direct transplantation than in the principle it establishes: that employee governance representation is not merely a concession to labour, but a structural mechanism for improving board decision-making and reducing the short-termist incentives that shareholder primacy produces. India's promoter-dominated corporate landscape, in which controlling families often hold executive and board positions simultaneously, creates a different ownership dynamic than the dispersed shareholder structures in which codetermination was developed. Any adaptation of the model for Indian conditions would need to account for this structure, potentially limiting mandatory board representation requirements to listed public companies above a defined threshold.

IV. The Role of Reforms: Are Indian Companies Adapting?

A. Section 166 and the Limits of Directors' Duties

Section 166(2) of the Companies Act 2013 stipulates that a director shall act in the best interests of the company, its employees, shareholders, the community, and for the protection of the

²¹Mitbestimmungsgesetz [Codetermination Act] 1976 (Germany), as amended. See also Gorton, Gary, and Frank A. Schmid. "Capital, Labor, and the Firm: A Study of German Codetermination." *Journal of the European Economic Association* 2(5) (2004): 863–905.

²² *Drittelbeteiligungsgesetz* [One-Third Participation Act] 2004 (Germany), s 1. See also Page, Rebecca. "Codetermination in Germany: A Beginner's Guide." Hans-Böckler-Stiftung Working Paper, 2018.

²³ Gorton and Schmid, *supra* note 17. See also Fauver, Larry, and Michael E. Fuerst. "Does Good Corporate Governance Include Employee Representation? Evidence from German Corporate Boards." *Journal of Financial Economics* 82(3) (2006): 673–710.

environment.²⁴ On its face, this provision adopts a pluralist stakeholder orientation that goes beyond the UK's ESV model. In practice, however, Section 166(2) generates at least three structural problems that substantially limit its effectiveness.

First, the section provides no guidance on how directors should resolve conflicts among the stakeholder interests it identifies. When the interests of shareholders and employees diverge as they characteristically do in restructuring decisions, workforce reductions, or dividend distributions, directors have no statutory framework for determining which interests should prevail. Without such guidance, the practical tendency is to default to shareholder interests, replicating the hierarchy that Section 166(2) appears designed to displace.

Second, there is no independent cause of action available to non-shareholder stakeholders for breach of the duty in Section 166(2). Employees, creditors, and communities whose interests are harmed by directors' decisions cannot directly enforce the duty. The only enforcement mechanism is a financial penalty on the company, an approach that does not provide any direct remedy to affected stakeholders and creates no personal accountability for directors who systematically disregard non-shareholder interests.²⁵

Third, there is as yet no significant judicial interpretation of Section 166(2) that could give the provision operational content. Courts have not been called upon to articulate how the competing interests identified in the section should be weighted, leaving directors in a zone of legal uncertainty that, paradoxically, facilitates the continued prioritisation of shareholder interests under the guise of good faith business judgment.

B. The CSR Framework: Progress and Persistent Gaps

Section 135 of the Companies Act 2013 introduced a mandatory corporate social responsibility obligation, requiring companies above specified financial thresholds to spend at least two percent of their average net profits on CSR activities prescribed under Schedule VII.²⁶ This provision made India one of the first jurisdictions in the world to legislate mandatory CSR spending, and it has produced significant increases in corporate social investment: in the financial year 2023–24, approximately 27,188 eligible companies conducted CSR activities

²⁴Companies Act, 2013 (India), s 166.

²⁵Deva Prasad, M. "Companies Act, 2013: Incorporating Stakeholder Theory Approach into the Indian Corporate Law." *Statute Law Review* 39(3) (2018): 292–302.

²⁶Companies Act, 2013 (India), Sch VII.

through over 59,000 projects, spending approximately ₹34,900 crore.²⁷

However, several structural weaknesses have persistently undermined the quality of CSR outcomes even as spending volumes have grown. The restriction of eligible CSR activities to those prescribed in Schedule VII has historically constrained innovation and encouraged compliance-driven box-ticking rather than genuine social investment.²⁸ The channelling of CSR funds through public trusts, which are regulated inconsistently across states and subject to limited transparency requirements, has created opportunities for diversion of funds that undermine the legislative intent.²⁹

The Companies (CSR Policy) Amendment Rules 2025, which came into force on 14 July 2025, represent a meaningful, if partial, response to these weaknesses.³⁰ The amendments introduce a new web-based CSR-1 registration form for implementing agencies, requiring documentary proof of registration, audited accounts, and compliance history as conditions of eligibility to receive CSR funding. The rules also tighten reporting obligations through a restructured Form CSR-2, and clarify the penalty framework for non-compliance. These reforms address the diversion-of-funds problem more directly than previous iterations of the framework.

The fundamental limitation of the CSR framework as a mechanism for stakeholder governance nevertheless remains. CSR obligations are philanthropy mandates as they require companies to spend money on social causes but they do not require companies to integrate stakeholder interests into their core governance structures, board decision-making, or business strategy. A company can satisfy its CSR obligation in full while simultaneously pursuing a business strategy that systematically harms employees, communities, or the environment through its principal operations. Genuine stakeholder governance requires structural reform of the kind that CSR spending mandates cannot deliver.

²⁷ Ministry of Corporate Affairs, Government of India. National CSR Portal Data. New Delhi: MCA, 2025. Available at: www.csr.gov.in. The figures for FY 2023–24 (27,188 companies; ₹34,908.75 crore; over 59,000 projects) are drawn from annual filings in the MCA21 registry as reported in the Rajya Sabha written reply, Unstarred Question No. 2501, 4 August 2025.

²⁸ Companies Act, 2013 (India), Sch VII; see also Ministry of Corporate Affairs, Government of India. Annual Report 2022–23: Corporate Social Responsibility. MCA, 2023.

²⁹ Narayanan, D. "How Indian Companies are Misusing Public Trusts to Launder their CSR Spending." *The Economic Times*, 20 October 2015.

³⁰ Companies (Corporate Social Responsibility Policy) Amendment Rules, 2025, notified by Ministry of Corporate Affairs, Government of India, 7 July 2025.

C. SEBI's BRSR Framework: A Significant but Incomplete Step

The Securities and Exchange Board of India's introduction of the Business Responsibility and Sustainability Reporting framework represents the most substantive regulatory development in Indian stakeholder governance in recent years.³¹ SEBI Circular SEBI/HO/CFD/CMD-2/P/CIR/2021/562, issued on 10 May 2021, made BRSR mandatory for the top 1,000 listed companies by market capitalisation from the financial year 2022–23. The BRSR replaced the earlier Business Responsibility Report (BRR) with a substantially more detailed framework requiring quantitative disclosure of environmental, social, and governance performance across nine principles aligned with India's National Guidelines on Responsible Business Conduct (NGRBC).

In 2023, SEBI further strengthened the framework through the introduction of BRSR Core, which requires the top 150 listed companies by market capitalisation to obtain reasonable third-party assurance of their BRSR disclosures. This requirement bringing ESG disclosures closer to the assurance standards applicable to financial reporting addresses one of the most significant weaknesses of voluntary ESG frameworks, which have been susceptible to 'greenwashing': the selective disclosure of favourable sustainability metrics without independent verification.

The BRSR framework is a genuine advance, but it is a disclosure framework rather than a governance framework. It requires companies to report on how they manage stakeholder relationships, environmental impact, and social outcomes; it does not require companies to achieve specific outcomes, engage stakeholders in governance decisions, or provide remedies to stakeholders who suffer harm from corporate operations. The gap between transparency and accountability — between knowing that a company is performing poorly on stakeholder metrics and having legal recourse when it does so — remains largely unaddressed.

D. Employee and Creditor Protections: Structural Deficiencies

The Stakeholders Relationship Committee mandated by Section 178(5) of the Companies Act

³¹Securities and Exchange Board of India. "Business Responsibility and Sustainability Reporting by Listed Entities." SEBI Circular No. SEBI/HO/CFD/CMD-2/P/CIR/2021/562, 10 May 2021. Further strengthened by SEBI Circular No. SEBI/HO/CFD/CFD-SEC-2/P/CIR/2023/122, 12 July 2023, introducing BRSR Core with mandatory third-party assurance for the top 150 listed companies.

2013 is, by design, a limited instrument.³² It is required only for companies with more than 1,000 shareholders, and its prescribed function is the resolution of grievances of security holders such as shareholders and bondholders rather than the broader range of stakeholders affected by corporate conduct. Employees, local communities, and environmental interests have no formal representation in or access to this committee.

Employees remain the most systematically excluded class of stakeholder from Indian corporate governance structures. Unlike the German model, Indian law imposes no requirement of employee representation at board level or in any formal governance mechanism. The result is that employees have no institutional channel through which to influence policies that directly affect their job security, working conditions, or economic wellbeing, except through trade union activity that operates entirely outside the corporate governance framework.

The IBC 2016 has substantially improved creditor rights in insolvency proceedings, introducing a time-bound resolution process and a creditors' committee with decision-making authority over resolution plans.³³ However, the IBC's protections are activated only at the point of insolvency. It does not address the pre-crisis phase in which companies pursue aggressive leveraging strategies that expose creditors to losses. The absence of meaningful creditor representation in corporate governance outside insolvency proceedings means that creditors' interests are typically ignored until the point at which they can no longer be disregarded.

V. The Way Ahead: Towards Enforceable Stakeholder Governance

A. The Global ESG Momentum and India's Position

The global shift towards ESG investing has created market-side pressure for Indian companies to adopt more substantive stakeholder governance practices, independently of regulatory mandates. Institutional investors including sovereign wealth funds, pension funds, and major asset managers have increasingly embedded ESG criteria into investment decision frameworks. Eccles, Ioannou, and Serafeim's landmark empirical study demonstrated that companies with stronger sustainability practices demonstrate superior organisational processes and financial performance over the long term, and greater resilience to economic downturns.³⁴

³²Companies Act, 2013 (India), s 178(5).

³³Insolvency and Bankruptcy Code, 2016 (India).

³⁴Eccles, Robert G., Ioannou, Ioannis, and George Serafeim. "The Impact of Corporate Sustainability on

Indian companies are increasingly exposed to this investor pressure through their access to international capital markets and participation in global supply chains. SEBI's BRSR framework has been explicitly designed to align Indian sustainability reporting with internationally accepted frameworks, including the Global Reporting Initiative (GRI) and the Task Force on Climate-related Financial Disclosures (TCFD), facilitating cross-border comparability. This alignment creates both a commercial incentive for Indian companies to improve ESG performance and an accountability mechanism through investor engagement.³⁵

Tata Steel's long-standing CSR programme demonstrates that stakeholder governance and commercial sustainability are compatible objectives in the Indian context. The company has historically allocated five to seven percent of its net profits to community development initiatives, including healthcare, education, and livelihood support for tribal communities across Jharkhand, Odisha, and Chhattisgarh, benefiting over 40,000 households, while maintaining competitive financial performance.³⁶ What distinguishes Tata's approach from mere compliance is its integration of social investment into business planning rather than its treatment as an afterthought to the profit-generating activities of the firm. The Nielsen Global Sustainability Report 2023 corroborates that this alignment with stakeholder interests generates commercial value, finding that a significant proportion of Indian consumers are prepared to pay a premium for products and services from companies demonstrating genuine social and environmental responsibility.³⁷

B. Proposed Reforms

The structural reforms necessary to translate India's nominally stakeholder-oriented legal framework into genuine stakeholder governance are identifiable with reasonable specificity. Four reforms warrant particular attention.

Organizational Processes and Performance." *Management Science* 60(11) (2014): 2835–2857.

³⁵ Securities and Exchange Board of India. "Business Responsibility and Sustainability Reporting by Listed Entities." SEBI Circular No. SEBI/HO/CFD/CMD-2/P/CIR/2021/562, 10 May 2021, para. 4 (alignment with Global Reporting Initiative Standards and Task Force on Climate-related Financial Disclosures recommendations). See also SEBI. "Master Circular for Listed Entities." SEBI/HO/CFD/PoD2/CIR/P/2023/120, 11 July 2023.

³⁶ Srivastava, A.K., Negi, G., Mishra, V., and S. Pandey. "Corporate Social Responsibility: A Case Study of TATA Group." *IOSR Journal of Business and Management* 3(5) (2016): 17–27. See also Tata Steel Limited. *Corporate Social Responsibility Report*. Jamshedpur: Tata Steel, 2023.

³⁷ Nielsen. "The Sustainability Imperative: New Insights on Consumer Expectations." *Nielsen Global Sustainability Report*. New York: Nielsen, 2023.

First, Section 178 of the Companies Act 2013 should be amended to broaden the mandate of the Stakeholders Relationship Committee beyond security holders to include employee representatives and community voices. This reform does not require the adoption of the German codetermination model wholesale; it requires only that the existing committee mechanism be extended to provide institutional access to the stakeholders who are currently most systematically excluded from corporate governance processes. For listed companies above a defined threshold of employees or public impact, the statute should prescribe minimum standards of stakeholder representation.

Second, the directors' duties provisions in Section 166 should be strengthened with two complementary amendments: a requirement that directors articulate, in board minutes and annual reporting, how they have had regard to each category of stakeholder interest in significant decisions; and a provision enabling stakeholder groups to make representations to the National Company Law Tribunal (NCLT) where they have evidence of systematic disregard of non-shareholder interests. The UK's Section 172(1) Statement requirement, i.e., a mandatory annual disclosure of how directors have discharged their duties to stakeholders provides a workable model that could be adapted for Indian conditions.

Third, SEBI's BRSR framework should be progressively extended beyond its current disclosure function towards outcome accountability. This would involve the phased introduction of binding minimum standards on specific ESG parameters beginning with those for which quantitative measurement is most reliable alongside mandatory stakeholder engagement processes as a condition of listing compliance. The progression from BRSR to BRSR Core, with its third-party assurance requirement, demonstrates that SEBI is already moving in this direction; the regulatory will exists to accelerate this trajectory.

Fourth, the government should examine the feasibility of introducing executive compensation disclosure requirements that link a defined proportion of senior management remuneration to long-term ESG performance metrics, as disclosed under BRSR. This reform addresses the incentive structure that underlies short-termism: if executives are materially rewarded for delivering against stakeholder metrics over multi-year periods, the systematic bias towards quarterly financial performance that shareholder primacy produces would be structurally moderated.

VI. Limitations of This Analysis

Several limitations of this paper's analysis should be acknowledged. The paper engages primarily in doctrinal and comparative legal analysis and does not present original empirical data on the governance outcomes of Indian companies; the conclusions it draws are accordingly qualified by the available secondary evidence. The Indian corporate sector is not monolithic: the governance dynamics of public sector undertakings, family-owned conglomerates, and multinational subsidiaries differ significantly, and the reform proposals advanced here may require tailoring to each context. Finally, stakeholder theory itself faces a legitimate critique that, in the absence of operational precision about how competing interests should be prioritised, it may function more as a rhetorical resource for directors resisting accountability than as a genuine governance discipline.³⁸ The paper does not claim to resolve this tension; it argues only that the structural deficiencies of shareholder primacy are sufficiently demonstrated to warrant serious engagement with the stakeholder alternative, imperfect as its current formulations remain.

VII. Conclusion

This paper has argued that shareholder primacy, as a governing principle of corporate purpose, produces structural incentives for short-termism, financial manipulation, and the systematic neglect of employees, creditors, and communities. The Satyam and IL&FS cases demonstrate these consequences with particular force in the Indian context. They are not aberrations; they are the predictable outcomes of a governance model that treats the maximisation of short-term financial returns as the exclusive criterion of corporate success.

The global governance debate has moved significantly since Friedman's 1970 essay. The Business Roundtable's 2019 Statement acknowledged the inadequacy of shareholder primacy, even if signatories' subsequent conduct demonstrated that rhetorical commitment does not automatically translate into structural change. Comparative models from the UK's enlightened shareholder value approach to the German codetermination framework illustrate the range of legislative mechanisms through which stakeholder interests can be embedded in corporate governance architecture.

³⁸Stoelhorst, J.W., and P. Vishwanathan. "Beyond Primacy: A Stakeholder Theory of Corporate Governance." *Academy of Management Review* 49(1) (2024): 107–134.

India's existing framework such as Section 166, the CSR mandate under Section 135, the BRSR framework, and the IBC which contains the building blocks of stakeholder governance but lacks the enforcement architecture to give them operational force. The 2025 CSR Amendment Rules and the progressive strengthening of BRSR represent real regulatory progress. What remains missing are mechanisms that give non-shareholder stakeholders institutional voice in governance decisions, impose personal accountability on directors for systematic disregard of stakeholder interests, and align executive incentives with long-term ESG performance.

The reform agenda is neither radical nor economically threatening. The evidence from jurisdictions that have implemented stakeholder governance mechanisms including the empirical record of German codetermination and the ESG performance research of Eccles, Ioannou, and Serafeim suggests that well-designed stakeholder governance is compatible with, and may enhance, long-term financial performance. The question for India is not whether to embrace stakeholder governance in principle as its corporate law already does so nominally but whether to build the institutional and enforcement architecture to make that embrace meaningful.