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From Shareholder Primacy to the Stakeholder Corporation

Reconstructing Corporate Governance amid Intelligence, Financialization, and the Reorganization of Globalization

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Abstract

Shareholder primacy theory conceives of the corporation as a nexus of private contracts and argues that maximizing shareholder wealth should be its central objective because shareholders bear residual risk and management acts as their fiduciary. Yet this theory neither adequately explains the legal nature of the corporation nor reflects the actual pattern of value creation, risk bearing, and power allocation in the modern firm. A corporation is not a naturally occurring market actor, but a social organization created by law and endowed with institutional privileges such as limited liability, perpetual succession, and corporate ownership of property. Shareholders own shares rather than corporate assets, and their risks can usually be diversified through portfolios. Workers, suppliers, customers, communities, and public institutions, by contrast, contribute to value creation through human capital, firm-specific investment, data, infrastructure, and institutional support while bearing substantial risks that cannot be diversified.

Artificial intelligence, platform economies, the expansion of non-bank finance, and the restructuring of global production chains further expose the limits of shareholder primacy. Algorithms now shape work organization, performance evaluation, and resource allocation; ownership rights are increasingly exercised by institutional investors and financial intermediaries; and multinational corporations can distribute production, profits, and responsibility across jurisdictions. Corporate control has therefore become more detached from the actual bearing of risk. Building on stakeholder corporation theory, this paper proposes a governance framework suited to the contemporary economy: reorient directors' fiduciary duties; bring workers and other key stakeholders into governance; establish employee ownership trusts and mechanisms for sharing technological gains; incorporate the effects of AI, data, and supply chains into board responsibilities; and reduce regulatory arbitrage through cross-border coordination, consistent disclosure, and constraints favoring long-term capital. Stakeholder governance cannot guarantee that every decision will be correct, but it can change the knowledge, interests, and time horizons represented in decision-making, making firms more likely to balance innovation, worker development, long-term productive capacity, and social sustainability.

Keywords: shareholder primacy; stakeholder corporation; corporate governance; artificial intelligence; financialization; global value chains; employee ownership trusts

I. Introduction

Large corporations are no longer merely private institutions for organizing production. They determine the direction of technological research, control vast quantities of data and

infrastructure, and shape working conditions, regional development, public discourse, and the ecological environment. Yet mainstream corporate governance norms still revolve largely around shareholder value: shareholders elect boards, executive compensation is tied to share prices, and capital allocation remains constrained by securities-market valuations, institutional investors, and mergers and acquisitions.

Shareholder primacy theory describes this power structure as the most efficient institutional arrangement. Its basic logic is that shareholders are the owners of the corporation and residual claimants to its profits, and therefore bear the ultimate risk; managers are their agents and will waste corporate resources unless controlled by shareholders; and other participants can protect themselves through employment contracts, debt contracts, and government regulation. Corporate governance is thus reduced to a single question: how to ensure that management faithfully maximizes shareholder wealth.

This theory is not a timeless law of the market. Palladino's analysis of the history of U.S. corporate governance shows that shareholder primacy became fully dominant mainly after the 1970s, alongside neoliberalism, law and economics, hostile takeovers, stock-based compensation, and financialization. During the postwar era of managerialism, power was balanced differently among managers, unions, and shareholders, and corporate growth, long-term investment, and market share often mattered more than short-term share prices. Shareholder primacy is therefore first a historically constructed allocation of power and only second an economic theory (Palladino, 2019).

The purpose of revisiting the objective of the corporation today is not to replace economic efficiency with abstract moral responsibility, but to respond to changes in how value is created. Artificial intelligence has made knowledge, data, and organizational learning critical assets; financialization has created long chains of agency among ultimate savers, asset managers, and corporations; and globalization has distributed production across multiple jurisdictions, suppliers, and groups of workers. The traditional assumptions of 'one identifiable owner, one bounded firm, and a complete set of contracts' increasingly diverge from reality.

The central question of this paper is how governance rights and income rights should be allocated amid intelligence, financialization, and the reorganization of globalization. It argues that corporate rights should be distributed according to three criteria: sustained contributions to value creation, the extent to which the risks borne cannot be diversified, and the impact of

corporate decisions on the basic interests of affected groups. By these criteria, shareholders remain important stakeholders, but they should no longer monopolize corporate governance.

II. Foundations and Limits of Shareholder Primacy Theory

(1) The Corporation Is Not a Natural Market but a Social Institution Created by Law

The ‘nexus of contracts’ theory portrays the corporation as a venue in which shareholders, managers, workers, suppliers, and creditors freely contract. In this model, the corporation has no independent substance, and the existing structure of rights is treated as the efficient outcome of bargaining among rational actors.

The corporation can exist independently of natural persons because law grants it legal personality, limited liability, perpetual succession, independent ownership of property, and the capacity to raise finance in its own name. Limited liability transfers part of the risk of business failure from investors to creditors, workers, communities, and public institutions; corporate ownership of property means that corporate assets belong to the corporation itself rather than directly to shareholders. The corporation is therefore not a purely private arrangement beyond public power, but an organization of production and authority constituted by the state through law.

Because corporate power originates in public institutions, corporate governance cannot ask only ‘what contracts are shareholders willing to accept?’ It must also ask what public purposes condition corporate privileges, who bears the costs created by the corporation, and whether those affected by corporate decisions can participate in the decision-making process.

(2) Shareholders Are Not the Corporation’s Complete Owners

Shareholders possess the rights to dividends, transfer, and voting attached to their shares, but ordinarily do not directly own the corporation’s factories, patents, cash, or other assets, nor do they bear unlimited liability for its debts. Most stock trading in modern public markets occurs between investors rather than through investors supplying new capital directly to corporations. Many ordinary shareholders also invest through pensions, index funds, mutual funds, and other intermediaries, placing them far from the operations of any particular company.

Institutional ownership has further altered the meaning of ‘owner.’ OECD statistics covering 98 markets and roughly 46,000 listed companies show that, at the end of 2024, institutional investors held about 47 percent of global listed equity; in the United States, the figure was approximately 69 percent (OECD, 2025). A substantial share of governance rights is in practice exercised by asset managers on behalf of ultimate savers. Multiple agency relationships separate beneficiaries, fund managers, corporate boards, and executives; the idea that ‘shareholders directly supervise their own enterprise’ no longer describes reality.

(3) Shareholders Are Not the Only Bearers of Risk

Shareholder primacy theory maintains that wages, interest, and payments for goods can be fixed in advance by contract, whereas only shareholder income varies with corporate gains and losses; shareholders are therefore said to be the sole residual risk bearers. This argument, however, ignores differences in how readily risks can be diversified.

Diversified investors can reduce exposure to any single firm by holding many securities and can exit by selling their shares. Workers usually have only one principal employer, while their skills, professional reputation, health benefits, retirement security, and place of family residence may all be closely tied to the firm. Suppliers may build dedicated production lines for a core customer, and communities may invest land, education, and public infrastructure in a major project. Losses caused by closure, relocation, or technological substitution cannot be dispersed as quickly as stock-market risk.

Governance rights should therefore not be determined solely by whether a return is ‘residual’ in an accounting sense. They should also reflect whether participants have made firm-specific investments, whether they possess a realistic ability to exit, and whether the costs of failure can be diversified.

(4) Value Creation Is Organizational, Not the Product of Capital Alone

Sustained corporate innovation requires the integration of strategy, organization, and finance. Capital supplies necessary liquidity and risk-bearing capacity, but new products, process improvements, customer relationships, and organizational knowledge arise from long-term interaction among workers, managers, suppliers, research institutions, and public infrastructure. Buying shares does not automatically produce technological innovation, and price signals cannot replace collaboration, learning, and judgment within the firm.

Corporate profit is therefore not a product naturally owned by capital. It is the residual generated after organizing multiple inputs, using public institutions, and producing social effects. Shareholders may have a legitimate claim on profits, but that claim does not establish an exclusive right to govern.

III. New Corporate Governance Challenges in the Contemporary Economy

(1) Artificial Intelligence: Technological Control Is Becoming Corporate Governance Power

Generative AI is not merely an efficiency tool; it is also reallocating information, judgment, and control within firms. A 2025 International Labour Organization study estimated that about one quarter of workers worldwide are employed in occupations exposed to generative AI to some degree, but only about 3.3 percent of global employment falls in the highest-exposure category. Because most occupations still contain tasks that must be performed by humans, job transformation is more likely in the near term than the complete disappearance of occupations (ILO, 2025a). Using a broader measure of AI exposure, the International Monetary Fund estimates that about 40 percent of employment globally and 60 percent in advanced economies is affected (IMF, 2024). Although the two estimates use different methods, both demonstrate the scale of AI's impact and the uncertainty of its distributional consequences.

Who ultimately receives the benefits of technology is not determined by technology itself, but by how firms deploy it. If AI is used mainly to replace labor, intensify surveillance, and cut costs, productivity gains may be concentrated among owners of capital. If it supplements workers' capabilities, improves job quality, and expands innovation, both workers and firms may benefit over the long term. ILO case studies across multiple regions show that worker representatives have begun participating in decisions concerning employment, skills, algorithmic management, and working conditions in AI supply chains. Social dialogue can promote a technological path oriented toward augmenting human capability rather than merely replacing labor (ILO, 2025b).

AI also turns data into a new factor of production. Customer behavior, labor processes, and platform interactions continuously generate data, which are transformed into commercial value

through model training and organizational learning. Existing corporate governance rarely recognizes the contributions of data providers and knowledge workers. If management alone determines algorithmic choices, data use, and the pace of automation under pressure from share prices, firms may privatize the returns to innovation while externalizing unemployment, skill depreciation, privacy violations, and discrimination.

In the age of AI, stakeholder governance should therefore include new rights: workers' rights to information, consultation, and appeal regarding major automation plans; board responsibility for overseeing algorithmic risk, data provenance, and employment effects; and institutional arrangements through which workers share in the productivity and capital gains generated by technology.

(2) Financialization: Corporate Control Is Further Separated from Material Production

Financialization means more than the expansion of the financial industry. It also describes the growing tendency of nonfinancial corporations to organize their operations around capital-market metrics. Share repurchases, mergers and acquisitions, private-equity buyouts, equity incentives, and quarterly performance assessments can redirect managerial attention from long-term productive capacity toward asset prices and cash distributions.

Financial Stability Board statistics show that assets held by non-bank financial intermediaries grew by 9.4 percent in 2024 and reached 51 percent of global financial assets, expanding at roughly twice the rate of the banking system. This sector includes investment funds, money market funds, insurers, pension funds, trusts, and other financial entities (FSB, 2025). Non-bank finance can diversify sources of funding, but longer chains of financial intermediation and greater market-liquidity pressure can also amplify the influence of short-term valuations on corporate decisions.

Within this structure, 'shareholder interests' are neither uniform nor stable. Long-term pension beneficiaries, index funds, hedge funds, private-equity funds, and short-term traders have markedly different objectives, horizons, and risk preferences. When management treats the current share price as a proxy for the interests of all shareholders, it may in practice respond only to the financial actors best able to exert pressure.

The stakeholder corporation does not reject capital markets; it distinguishes among the functions of capital. Investors that provide patient capital for innovation and expansion should receive stable and transparent returns. Strategies that depend on high leverage, asset sales, or rapid exit for profit should not automatically receive priority in controlling labor, technological direction, and the corporation's long-term assets.

(3) The Reorganization of Globalization: Chains of Responsibility Break More Easily Than Value Chains

The world economy is not simply 'deglobalizing.' It remains highly interconnected while undergoing regionalization, digitalization, and geopolitical reorganization. WTO data show that global trade in goods and commercial services rose to USD 34.89 trillion in 2025, with services reaching 27.5 percent of total trade—the highest share since 2005. At the same time, trade flows are increasingly shaped by geopolitical relations, tariffs, national security, and industrial policy (WTO, 2026).

Cross-border investment likewise combines recovery in aggregate volume with a high degree of concentration. UNCTAD's World Investment Report 2026 shows that global foreign direct investment rose by 6 percent to USD 1.6 trillion in 2025, yet the twenty largest host economies received more than 80 percent of global FDI. New investment was also heavily concentrated in AI-related digital infrastructure and a small number of strategic sectors (UNCTAD, 2026). Global capital has not stopped moving; it is increasingly concentrated in locations with technological, market, and institutional advantages.

Global value chains allow corporations to allocate production, profits, and responsibility across jurisdictions. Brand companies can control product standards, prices, data, and orders while leaving employment relations, environmental costs, and capacity risks with formally independent suppliers. Shareholders receive global returns at the parent-company level, while the risks borne by workers and communities are fragmented among countries. Traditional corporate law, bounded by the single legal entity, struggles to address this structure of effective control.

Stakeholder governance must therefore extend beyond direct employment. Corporate boards should oversee working conditions, environmental effects, technology transfer, and community risks in critical supply chains. Governance representation and benefit-sharing

mechanisms should also extend, in proportion to actual control and economic dependence, to long-term suppliers and platform workers.

(4) Sustainability: Externalities Have Become Long-Term Risks to the Firm Itself

Climate change, natural-resource constraints, and social inequality were once treated as external corporate concerns, but they are re-entering corporate financial statements through supply disruptions, insurance costs, asset impairment, regulatory change, and social conflict. The global development of sustainability disclosure regimes shows that capital markets increasingly require firms to explain how environmental and social factors affect long-term value.

Disclosure alone cannot automatically alter the power structure. If boards remain committed solely to maximizing shareholder wealth, sustainability may be reduced to reputation management or risk pricing. Genuine stakeholder governance must change disclosure, participation in decision-making, and the distribution of returns at the same time, allowing those affected environmentally and socially to enter the governance process.

IV. A Stakeholder Corporation Model for the Contemporary Economy

The stakeholder corporation does not require the firm to satisfy every claim of every group equally. It establishes a principled method for allocating power. Whether a stakeholder should participate in governance should be judged primarily by four factors: whether it makes a sustained contribution to corporate value creation; whether it has made firm-specific investments that are difficult to transfer; whether corporate decisions can materially affect its basic rights and long-term livelihood; and whether its interests can be adequately protected through market contracts or general regulation.

Under these criteria, workers should be core governance participants alongside shareholders. They contribute continuously to production, invest firm-specific human capital, bear highly undiversifiable employment risks, and possess extensive internal knowledge. Long-term suppliers, critical technology partners, and communities exposed to major environmental impacts may receive different degrees of participation, consultation, or procedural rights according to the structure of the firm.

Shareholders nonetheless remain important. Public capital markets provide liquidity, price discovery, and risk finance, while long-term investors also bear systemic market risk. The purpose of stakeholder governance is not to abolish shareholder rights, but to transform shareholders from the sole principal into one of several key principals and to reposition the board from an agent of shareholders to the fiduciary governor of the corporation as an independent entity.

This model has three interconnected levels:

1. Shared governance rights. Key stakeholders participate in board elections, major technology decisions, and deliberation over long-term strategy.
2. Shared income rights. Workers participate in residual distributions through employee ownership trusts, profit sharing, and mechanisms for sharing technological gains.
3. Expanded scope of responsibility. Boards assume verifiable procedural responsibility for supply-chain, data, algorithmic, environmental, and community impacts.

V. Institutional Paths to Implementation

(1) Reorient Directors' Fiduciary Duties and the Corporate Purpose

Corporate law should make clear that directors' fiduciary duties run to the corporation as an independent entity dedicated to continued operation and innovation, rather than solely to shareholders' immediate wealth. When deciding on layoffs, automation, mergers and acquisitions, production relocation, share repurchases, or major uses of data, boards should explain how they assessed the effects on workers, long-term investment, supply chains, and society.

This does not mean that courts should replace boards in selecting business strategies. It means strengthening procedural responsibility: boards must obtain sufficient information, hear the views of materially affected groups, compare alternatives, and explain the relationship between their decision and the corporation's long-term purpose. The business judgment rule may remain, but its procedural premise should expand from 'was the board loyal to shareholders?' to 'did it prudently consider key stakeholders and the corporation's long-term capabilities?'

(2) Establish Worker Directors

Workers should elect a portion of the directors in firms above a specified size. Worker directors should not merely represent demands concerning pay and benefits; they should also participate in technology strategy, capital expenditure, executive compensation, mergers and acquisitions, and risk governance. Their value lies in bringing internal knowledge and a long-term employment perspective into the boardroom, thereby reducing management's one-way accountability to capital markets.

Worker directors cannot replace trade unions. Unions conduct collective bargaining and address working conditions, while board participation concerns the firm's overall strategy. The two provide workplace power and corporate governance power respectively and should function as complements.

(3) Create Employee Ownership Trusts and Mechanisms for Sharing Technological Gains

Each year, a corporation may contribute a specified proportion of newly issued shares or profits to a collective employee trust. The trust holds the shares over the long term rather than selling them when individual workers leave; it exercises voting rights collectively and distributes part of the dividends to workers under transparent rules.

This arrangement is preferable to simply granting shares to individuals. Individual holdings are easily sold upon departure or during market volatility and rarely generate durable governance power. A collective trust can persist, enabling workers both to share in profits and to participate in governance. To prevent trustees from becoming detached from workers, the trust should incorporate democratic elections, disclosure, term limits, and conflict-of-interest rules.

Extraordinary productivity gains from AI can provide an important source of funding for employee trusts. When automation reduces unit labor costs or significantly increases output, part of the gains should support employee ownership, shorter working hours, skills training, and income security rather than being converted entirely into shareholder distributions and executive compensation.

(4) Establish Artificial Intelligence and Data Governance Mechanisms

Boards of large corporations should establish technology and social impact committees. Their responsibilities should include, at a minimum: reviewing the sources and legality of training data; assessing algorithmic discrimination, privacy, and security risks; explaining the effects of automation on jobs and skills; overseeing working conditions in outsourced data labor and AI supply chains; and establishing appeal mechanisms for workers subject to algorithmic evaluation, scheduling, and discipline.

Before introducing systems likely to cause major job restructuring, firms should conduct labor-impact assessments and engage in substantive consultation. Worker representatives should have access to sufficient information and independent technical support so that 'participation' does not become merely formal.

(5) Bring Supply-Chain Responsibility within the Boundaries of Governance

The boundaries of corporate responsibility should be determined by actual control, economic dependence, and value capture, not solely by legal form. Lead firms that exercise long-term control over prices, standards, orders, and data should be required to assess and mitigate risks in critical supply chains, including occupational safety failures, wage arrears, environmental harm, and abrupt order cancellations.

Governance of transnational supply chains requires consistent baseline disclosure, grievance channels, and cross-border regulatory cooperation. Otherwise, when one country raises governance standards, corporations may evade responsibility through outsourcing, relocation, and redesigned contracts.

(6) Build a Financial System That Supports Long-Term Governance

Stakeholder governance requires complementary financial institutions. Regulators can strengthen disclosure by institutional investors concerning investment horizons, voting policies, and conflicts of interest; constrain transaction structures centered on high leverage and asset extraction that transfer long-term risks to corporations and workers; and encourage pension funds, sovereign wealth funds, and development finance institutions to supply patient capital.

Executive compensation should also move from a single share-price metric to multidimensional measures of long-term innovation, labor productivity, employee development,

safety, environmental performance, and supply-chain resilience. These measures must be auditable and relevant to corporate strategy so that stakeholder governance does not become another formalistic compliance exercise.

VI. Principal Objections and Responses

(1) Would Multi-Stakeholder Participation Reduce Decision-Making Efficiency?

Bringing multiple stakeholder groups into governance does increase consultation costs. But shareholder primacy does not eliminate conflict; it excludes labor, environmental, and community costs from internal corporate decision-making and leaves society to bear them afterward. For irreversible decisions such as AI deployment, factory closures, and cross-border relocation, moderately higher ex ante consultation costs may reduce implementation resistance, litigation, reputational damage, and the loss of knowledge.

The key to institutional design is not to let everyone veto everything, but to differentiate levels of rights: workers may hold fixed board seats; severely affected communities may have consultation and grievance rights; managers continue to conduct day-to-day operations; and enhanced procedures apply only to specified major matters.

(2) Can Different Interests Be Measured Accurately?

Shareholder value appears easy to measure, but share prices are themselves influenced by interest rates, market sentiment, and short-term trading and are not equivalent to the firm's long-term value. Stakeholder governance recognizes that different interests cannot be fully converted into a single metric and therefore places greater emphasis on procedure, representation, and reasoned explanation.

Not every issue requires a common quantitative measure. Boards can use financial indicators, employment and skills indicators, technology-risk assessments, supply-chain audits, and environmental data simultaneously, while publicly explaining the trade-offs among different objectives.

(3) Would Reform Raise the Cost of Finance?

If reform constrains short-term extraction, some capital may demand higher returns or move to other markets. Yet stakeholder governance may also reduce employee turnover, supply-

chain disruption, resistance to technology, and regulatory risk while strengthening long-term productive capacity. The policy objective should not be to attract every type of capital, but to attract capital compatible with the firm's long-term innovation and social objectives.

(4) Would Corporations Evade Governance Requirements by Relocating?

This is the most practical challenge under globalization. The answer is not to abandon reform but to broaden coordination: apply unified or federal corporate-governance rules to large cross-regional firms; link obligations to market access, listing, public procurement, and subsidies; promote mutual recognition of supply-chain disclosure and due-diligence standards; and strengthen information sharing among tax, financial, and labor regulators.

VII. Conclusion

Shareholder primacy theory presents a distribution of power formed in a particular historical period as the only efficient arrangement naturally generated by the market. It overlooks the corporation's legally constituted institutional character and underestimates the role of workers, suppliers, customers, communities, and public institutions in value creation and risk bearing.

Artificial intelligence, financialization, and the reorganization of globalization have not eliminated this problem; they have made it more pronounced. Algorithmic management extends corporate power deep into the labor process; institutional investors and non-bank financial intermediaries further separate corporate control from ultimate savers; and global value chains allow value capture to cross borders while responsibility is fragmented and outsourced. Under these conditions, voluntary managerial commitments to social responsibility cannot by themselves alter the underlying structure of interests.

The core of the stakeholder corporation is not a demand that firms abandon profit, but a redefinition of the institutional conditions under which profit is generated. Firms should continue to innovate, raise finance, and compete, but governance rights cannot be allocated solely according to ownership of financial assets, nor can income rights be detached from organizational value creation. Worker participation on boards, employee ownership trusts, AI governance, supply-chain responsibility, and long-term financial constraints together form a new institutional foundation.

These institutions will not automatically produce correct decisions, nor can they replace trade unions, competition policy, environmental regulation, or public investment. They can, however, change who has the right to supply information, who can participate in weighing alternatives, who shares in technological progress, and the time horizon over which firms make decisions. Ultimately, stakeholder governance seeks to ensure that the corporation is not merely an instrument for short-term asset appreciation, but a social institution of production that assumes public responsibilities, organizes long-term innovation, and distributes jointly created gains.

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