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The Dilemma Between Shareholder Value and Long-term Business Sustainability

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ABSTRACT

Purpose: This study investigates the tension between short-term shareholder value creation and long-term business sustainability in publicly traded companies. It explores how firms balance the pressure for immediate financial returns with the need to invest in sustainable practices for future viability.

Research Design and Methodology: The research employs a Systematic Literature Review (SLR) methodology, analyzing existing literature on strategic frameworks such as ESG integration, strategic agility, and shared value creation. The study synthesizes insights from relevant academic sources to comprehensively understand how companies manage the conflict between short-term and long-term objectives.

Findings and Discussion: The findings reveal that companies often prioritize short-term profits due to shareholder pressure, which can hinder long-term sustainability efforts. However, firms that adopt strategic agility and integrate ESG into their core strategies are better equipped to navigate future risks and maintain competitiveness. The study also highlights the effectiveness of shared value creation in helping companies align profitability with social and environmental responsibilities, demonstrating that sustainability practices contribute to long-term shareholder value.

Implications: This study offers practical implications for corporate management, emphasizing the need for a balanced approach that meets both short-term financial goals and long-term sustainability. It calls for increased transparency, stakeholder engagement, and adopting integrated reporting to enhance corporate accountability. Future research could further explore how smaller firms and industries address this dilemma.

Introduction

In the contemporary business landscape, organizations increasingly grapple with a complex and often conflicting dynamic between two fundamental objectives: the maximization of shareholder value in the short term and the pursuit of long-term business sustainability (Bruner, 2021). This tension has been exacerbated by globalization, rapid technological advancements, and heightened demands from a broad spectrum of stakeholders. Firms are constantly pressured to deliver immediate financial results to satisfy shareholders and maintain a market position. On the other hand, they are expected to ensure resilience and competitiveness by investing in sustainability strategies that, while crucial for future success, often do not yield immediate returns. This dilemma is primarily rooted in the traditional emphasis on shareholder value, which seeks to maximize returns to investors over relatively short periods (Park, 2021). In contrast, pursuing long-term sustainability necessitates a more forward-looking approach, requiring businesses to allocate resources to areas that may not immediately enhance profitability but are essential for the organization's survival and growth in the future. Such regions include investment in environmentally sustainable technologies, implementing robust governance practices, and developing socially responsible initiatives. Wu et al. (2017) highlight the challenges many firms face in balancing economic, social, and environmental goals over differing time horizons, as the pressures to meet short-term financial expectations often threaten their long-term viability. This concern is echoed in the work of Johnston & Sjåfjell (2020), who argue that prioritizing short-term shareholder interests frequently undermines a company's capacity to invest in sustainability initiatives that secure its future.

Theoretical frameworks such as Freeman's (2010) stakeholder and sustainability theories provide a foundation for understanding this inherent tension. Stakeholder theory posits that firms should account for the interests of all stakeholders rather than merely focusing on shareholders, advocating for a business model centered on long-term value creation. Conversely, sustainability theory argues for integrating environmental, social, and governance (ESG) principles into a corporate strategy to enhance long-term competitiveness and stability (Hill, 2020). These theoretical underpinnings reinforce the necessity of adopting a balanced approach that simultaneously addresses the short-term demands of shareholders and the long-term imperatives of sustainability. Supporting this view, recent studies by Lindsay & Martella (2020) assert that companies integrating ESG factors into their strategic frameworks are better positioned to confront long-term challenges, thus rendering sustainability a moral obligation and a strategic imperative. In this context, the need for businesses to adopt a balanced, future-oriented approach has become more urgent than ever within today's rapidly evolving global marketplace. Recent studies have highlighted the tension between shareholder value and long-term business sustainability. Companies face challenges aligning economic, social, and environmental goals over different timeframes (Sharma & Sharma, 2024). While debt suspension programs may enhance long-term competitiveness, they can also disproportionately benefit shareholders at the expense of other stakeholders (Savio et al., 2024). Firms with a long-term focus and diverse perspectives are better equipped to balance financial and non-financial objectives (Sharma & Sharma, 2024). Strategic agility, which emphasizes flexibility and stakeholder expectations, is crucial in building sustainable business models (Mina' & Michelini, 2024). Companies with solid social value orientations and leadership demonstrate superior sustainability performance (de la Cruz Jara et al., 2024). The dilemma between maximizing shareholder value and ensuring long-term sustainability is complex. While traditional views focus on short-term profit, integrating sustainability can enhance long-term shareholder value (Henisz, 2023). Cost leadership strategies align more with environmental, social, and governance (ESG) sustainability, while differentiation leaders show weaker connections (Mahmood et al., 2023).

CEO communication increasingly ties sustainability to value creation, moving beyond capitalistic goals (Arvidsson, 2023). While benefiting shareholders, stock buybacks can harm social and environmental sustainability, illustrating the need for balance (Khatib, 2024). This ongoing debate presents challenges for corporate governance. Contemporary ownership practices now challenge the traditional focus on shareholder value (Goranova & Ryan, 2022). Research shows that heightened sustainability awareness can enhance long-term shareholder value by improving financial performance, management quality, and risk management (Zumente & Bistrova, 2021). However, actions like stock buybacks may undermine future environmental and social performance (Vaupel et al., 2023). Cost leadership supports sustainability, while differentiation strategies are the opposite (Mahmood et al., 2023). As sustainability becomes more integrated into corporate missions, a balanced approach to corporate governance is necessary to align shareholder and stakeholder interests (Goranova & Ryan, 2022). Despite the growing body of research exploring the balance between shareholder value and long-term sustainability, several empirical and theoretical gaps remain. While numerous studies emphasize the importance of aligning short-term and long-term goals, limited empirical evidence exists on the specific mechanisms companies can adopt to achieve this balance effectively. For instance, while Sharma & Sharma (2024) and Savio et al. (2024) highlight the benefits of long-term orientations and strategic agility, they fall short of providing concrete strategies for implementation across different sectors and organizational structures. There is a need for further research to explore how these practices can be operationalized and scaled to meet both shareholder and stakeholder expectations in various industries. Much of the current literature, such as Henisz (2023) and Mahmood et al. (2023)., focuses predominantly on large, publicly traded companies, often overlooking how privately held firms or small and medium enterprises (SMEs) navigate the same tensions. These smaller firms may not have the same resources or external pressures, leading to different challenges and opportunities in balancing sustainability with shareholder value. This represents a significant empirical gap, as findings from large firms may not be entirely transferable to SMEs or private companies. Theoretically, the debate remains centered around traditional models like Freeman's (2010) stakeholder theory. However, these frameworks may no longer fully capture the complexities of modern business environments, especially in the face of evolving ESG concerns and heightened regulatory expectations. The current models require adaptation to better account for the nuanced trade-offs that companies face when trying to meet short-term profitability demands while ensuring long-term sustainability. Future studies should aim to refine these theoretical models to provide more actionable insights for businesses navigating these conflicting pressures.

This study presents a novel approach by employing a Systematic Literature Review (SLR) to explore the dilemma between shareholder value and long-term business sustainability. The primary contribution of this research lies in its in-depth analysis of how large publicly traded companies, frequently the focal point of relevant literature, navigate the tension between short-term shareholder demands and long-term sustainability investments. Additionally, this study expands the understanding of how the increasingly prominent Environmental, Social, and Governance (ESG) practices can be integrated into business strategies to create sustainable value. The research examines existing practices and refines traditional theories, such as Freeman's (2010) stakeholder theory, by addressing modern challenges related to sustainability demands and regulatory pressures companies face. Based on the gaps identified in previous literature, this study seeks to answer key research questions: (1) How can companies navigate the conflict between short-term shareholder value creation and long-term business sustainability? (2) What strategies effectively balance short-term financial goals with long-term non-financial sustainability objectives in large firms? (3) How does ESG play a role in reinforcing the relationship between shareholders and other stakeholders in achieving this balance? Therefore, this study aims to identify and synthesize findings from prior studies while providing a more comprehensive theoretical and practical framework for large corporations to achieve an optimal balance between shareholder value and long-term sustainability.

Literature Review

The Shareholder Value Maximization Model and Its Limitations

The shareholder value maximization model has long been the dominant paradigm in corporate governance. Rooted in Friedman's (1971) economic theory, this model posits that the primary responsibility of a corporation is to maximize profits for its shareholders, provided the business operates within legal bounds. Over time, this concept has shaped the strategies of many publicly traded companies, where financial performance is often measured by short-term metrics such as quarterly earnings, stock price appreciation, and dividends. While this approach has become widely accepted, it has also faced significant criticism, particularly regarding its long-term sustainability. One of the major critiques of the shareholder value maximization model is that its focus on short-term financial gains can lead to negative consequences for a company's long-term health. As Bebchuk & Tallarita (2020) argue, this intense focus on immediate returns often forces companies to sacrifice critical investments in innovation, employee well-being, and environmental management. Although these trade-offs may boost short-term profits, they ultimately weaken the company's ability to remain competitive in the long term. For instance, cutting back on research and development (R&D) to meet quarterly financial targets may hinder a firm's capacity for innovation, while neglecting employee welfare can lead to lower productivity and higher turnover rates (Arora et al., 2018). Additionally, companies that fail to address environmental concerns expose themselves to operational and reputational risks, potentially damaging their market standing (Flammer, 2021).

The decision to prioritize short-term profits through cost-cutting measures, especially in areas like R&D and sustainability, can undermine a company's adaptability. Khan et al. (2016) note that companies prioritizing short-term financial performance often struggle to adjust to future challenges because they lack the innovation needed to stay ahead in dynamic industries. For example, reducing investment in R&D may leave firms ill-equipped to respond to technological advancements or shifts in consumer preferences. Similarly, companies that cut costs by neglecting environmental sustainability may face heightened regulatory risks and lose favor with increasingly eco-conscious consumers (Khan et al., 2016). Environmental, Social, and Governance (ESG) factors have gained significant importance in recent years, fundamentally altering market expectations. Grewatsch & Kleindienst (2017) argue that the traditional shareholder value maximization model often overlooks the critical role that ESG plays in shaping corporate performance. Companies that ignore ESG considerations in their pursuit of short-term profits risk losing their competitive edge in markets where consumers and investors prioritize sustainability and corporate responsibility (Hill, 2020). The rise of socially responsible investing (SRI) further underscores the limitations of a shareholder-centric model. Investors are increasingly factoring ESG metrics into their investment decisions, which means companies that fail to adapt could struggle to attract and retain investment (Grewatsch & Kleindienst, 2017).

Furthermore, Tapaninaho & Kujala (2019) argue that the evolving market landscape requires a broader approach to value creation that considers multiple stakeholders' interests, not just shareholders. Companies focusing solely on short-term financial gains may be disadvantaged as stakeholder expectations grow, regulatory standards tighten, and environmental risks escalate. Firms that fail to embrace sustainability and corporate responsibility risk being left behind as the business environment becomes increasingly complex and globalized (Kolk, 2016). To address these challenges, alternative models have been proposed to balance financial objectives with broader social and environmental goals. One prominent approach is the concept of shared value creation, introduced by (Porter & Kramer, 2019). This model emphasizes that companies can create economic value while addressing social challenges. By aligning their business success with societal progress, firms can generate long-term sustainability that benefits both shareholders and broader stakeholders. Shared value creation underscores the idea that profitability and social responsibility are not mutually exclusive but can complement each other, leading to more robust overall corporate performance (Kurniawan & Arief, 2023).

The Role of ESG in Aligning Business Practices with Long-term Sustainability

Environmental, Social, and Governance (ESG) has become increasingly important in evaluating corporate performance in today's global business landscape. ESG focuses on three critical areas: environmental responsibility, social impact, and corporate governance. These criteria help investors and stakeholders assess whether a company operates sustainably and ethically (Gerard, 2019). With climate change intensifying, social inequalities widening, and regulatory frameworks tightening worldwide, ESG has become crucial in assessing a company's long-term sustainability. Adopting ESG principles in business practices enables companies to meet regulatory expectations while enhancing their competitive advantage in markets prioritizing sustainability (Liou et al., 2023). Companies today are expected not only to maximize profits but also to demonstrate social and environmental responsibility. ESG provides a comprehensive framework for companies to showcase their commitment to creating long-term value beyond immediate profits. This shift reflects a broader trend from traditional financial performance metrics toward more holistic models that include environmental and social factors in the overall business strategy (Lins et al., 2019).

The benefits of ESG adoption are well-documented. Companies with strong ESG performance tend to experience better long-term financial outcomes. Research by Friede et al. (2015) shows that companies focusing on sustainability better manage risks, attract talent, and foster strong relationships with customers and regulators. For example, businesses that invest in reducing carbon emissions or embracing circular economy practices improve their public image and achieve significant operational cost savings. These efforts contribute to long-term financial stability through improved energy use, waste management, and resource allocation efficiency. Strong governance practices ensure legal compliance and help avoid reputational risks, thus contributing to the company's overall stability and resilience (Settembre-Blundo et al., 2021). Despite its advantages, integrating ESG into business strategies is not without challenges. Boffo & Patalano (2020) highlight that many companies face a disconnect between their publicly stated ESG goals and actual implementation. This gap between promises and actions can erode stakeholder trust and expose companies to reputational risks. In some cases, companies claim to adopt ESG principles without genuinely embedding them in their operations, a practice often referred to as "greenwashing." This practice damages corporate credibility and undermines the effectiveness of sustainability initiatives (Lashitew, 2021).

Balancing ESG initiatives with the need for short-term financial returns presents a significant challenge for companies. Fatemi et al. (2018) highlight that while ESG is crucial for long-term sustainability, the pressure to deliver immediate results often limits the scope of ESG investments. To address this, businesses need flexible strategies, such as phased investments, that allow gradual ESG adoption without compromising profitability. Investors play a crucial role in advancing ESG, as Halbritter & Dorfleitner (2015) note that socially responsible investment (SRI) has gained momentum. Companies that fail to meet ESG expectations risk losing access to capital and market competitiveness. Integrating ESG into corporate strategies offers long-term advantages, especially in navigating external challenges like environmental crises. Amel-Zadeh & Serafeim (2018) argue that firms emphasizing sustainability build stronger reputations with consumers and stakeholders. In a market increasingly driven by transparency and accountability, companies prioritizing ESG differentiate themselves from competitors and foster enduring customer loyalty. Ultimately, ESG enhances long-term competitiveness and financial resilience.

Strategic Frameworks for Balancing Short-term Financial Performance with Long-term Sustainability Goals

Balancing short-term financial performance with long-term sustainability goals has become a pressing challenge for modern businesses. Companies today must meet the immediate demands of shareholders while simultaneously pursuing sustainability initiatives that secure their future viability (Kavadis & Thomsen, 2023). To navigate this complex balance, firms can adopt strategic frameworks such as strategic agility, integrated reporting, shared value creation, and phased investment (Shams et al., 2021). These approaches help businesses align their financial performance with long-term sustainability commitments, ensuring profitability and responsible growth. Strategic agility is a critical approach that allows companies to swiftly respond to changes in the market while maintaining their commitment to long-term sustainability. Settembre-Blundo et al. (2021) emphasize that firms with high strategic agility are better equipped to adapt to external pressures, such as consumer preferences or regulatory changes, without sacrificing their sustainability objectives. Agility enables companies to reassess their business environment, adjust strategies quickly, and involve stakeholders in decision-making processes (Çakmak, 2023). By fostering flexibility, companies can achieve financial goals while remaining committed to environmental and social responsibilities.

Integrated reporting is gaining prominence, providing companies with a comprehensive financial and non-financial performance overview. Eccles & Krzus (2010) argue that integrated reporting enhances corporate transparency and accountability, helping businesses communicate their sustainability efforts alongside financial results. By incorporating Environmental, Social, and Governance (ESG) factors into their reporting, companies can demonstrate how their sustainability initiatives contribute to long-term value creation. Integrated reporting also helps bridge the gap between short-term financial performance and long-term sustainability goals, ensuring that stakeholders understand the broader impact of the company's actions. Shared value creation, introduced by Porter & Kramer (2019), is a robust framework that aligns profitability with social and environmental responsibility. This approach encourages companies to find business opportunities that address societal challenges while generating economic value. For example, businesses that invest in renewable energy or community development projects contribute to social progress and enhance their long-term growth potential. Shared value creation fosters the development of sustainable business models that benefit both shareholders and society (Evans et al., 2017). By integrating social impact into their core strategies, companies can drive long-term success while addressing critical global issues.

Phased investment and strategic flexibility are critical for companies that balance short-term financial performance with long-term sustainability goals. Dissanayake (2021) emphasizes that many sustainability initiatives require significant upfront investment, which can challenge companies focused on meeting quarterly targets. A phased approach allows businesses to gradually increase their focus on ESG initiatives, ensuring financial stability while pursuing sustainability. Starting with smaller projects and scaling up as benefits become evident enables firms to integrate sustainable practices without compromising profitability (Baldassarre et al., 2020). The positive impact of these frameworks is clear. Companies that embrace agility, transparency, and flexibility are better positioned for long-term competitiveness in a sustainability-driven market. Eccles & Klimenko (2019) highlight that firms prioritizing ESG while maintaining financial performance can better manage future risks, such as evolving regulations and consumer preferences. Additionally, Clark et al. (2015) argue that companies with strong ESG performance are more likely to retain the trust of investors, customers, and employees. As sustainability becomes critical in investment decisions, these strategic frameworks help businesses attract stakeholders, ensuring profitability and long-term growth.

The Role of Stakeholders in Shaping Corporate Strategies

In modern business, stakeholder theory has become a crucial framework for corporate governance, advocating for creating value for shareholders and all stakeholders involved in a company's operations. Initially proposed by Freeman (2010), this theory challenges the traditional focus on maximizing shareholder profits by emphasizing the inclusion of various stakeholders—such as employees, customers, suppliers, and communities—in corporate decision-making. As businesses increasingly face social and environmental challenges, stakeholder theory has gained traction in building sustainable and responsible corporate strategies (Ashrafi et al., 2020). The evolution of stakeholder theory reflects a broader shift from shareholder capitalism to stakeholder capitalism, a model that encourages companies to balance financial performance with social and environmental responsibilities. While the traditional model prioritized short-term financial returns for shareholders, stakeholder capitalism emphasizes the need for businesses to consider the broader impact of their operations. Jones et al. (2018) argue that companies that adopt stakeholder-driven approaches are better equipped to navigate the complexities of modern markets, which demand a balance between profitability and sustainability. This shift allows companies to build more resilient strategies that align with evolving regulatory and consumer expectations.

A key benefit of stakeholder engagement is its potential to enhance long-term sustainability. Esser et al. 2018) highlight that companies involving stakeholders in strategic decision-making tend to achieve more sustainable outcomes. By engaging stakeholders, businesses can better align their objectives with societal expectations, fostering more robust relationships with key constituencies. For example, incorporating feedback from employees, local communities, and customers helps companies anticipate shifts in consumer preferences and regulatory landscapes, enabling them to adjust their strategies more effectively. This collaborative approach improves a company's ability to respond to external pressures, ensuring its strategies remain relevant and competitive. Governance models that prioritize stakeholder engagement also contribute to more sustainable business practices. Yunus et al. (2020) emphasize that stakeholder-driven governance encourages companies to manage environmental and social risks more effectively. By incorporating stakeholder perspectives into their governance structures, companies can anticipate and mitigate potential risks associated with ESG (Environmental, Social, and Governance) factors. This governance model also enables companies to capitalize on emerging market opportunities that increasingly value corporate responsibility. Stakeholder governance helps companies embed sustainability into their core strategies rather than treating it as an afterthought.

Active stakeholder collaboration can be a powerful driver of innovation and competitive advantage. Firms that engage their stakeholders proactively are more likely to identify innovative opportunities that benefit both the company and society. Chatfield & Reddick (2016) suggest that stakeholder collaboration fosters creativity and resource-sharing, which can lead to the development of new sustainability initiatives, such as renewable energy adoption or waste reduction programs. These innovations strengthen the company's reputation and position it competitively in a market that increasingly demands transparency and sustainability. Building trust and legitimacy through stakeholder engagement is also crucial for long-term success. In an era where corporate transparency and social responsibility are vital to maintaining public trust, companies that consistently involve stakeholders in their strategic decisions are more likely to retain the confidence of investors, customers, and regulators (Kandpal et al., 2024). Greenwood & Van Buren III (2010) assert that maintaining open, honest communication with stakeholders builds long-lasting relationships based on trust, enhancing the company's social legitimacy. This trust is essential for companies seeking to operate sustainably over the long term, as it ensures continued support from key stakeholders and mitigates reputational risks.

Research Design and Methodology

Study Design

This research employs a qualitative systematic literature review (SLR) as the study design. The SLR method was chosen to systematically collect, analyze, and synthesize existing research on stakeholders' role in shaping corporate strategies. This approach enables a comprehensive exploration of literature by following a structured protocol, ensuring the inclusion of relevant studies while minimizing bias. Utilizing a qualitative SLR, the study aims to capture diverse perspectives, frameworks, and findings from multiple sources, thereby providing a holistic understanding of the research topic.

Sample Population or Subject of Research

The sample population for this study consists of peer-reviewed academic articles, books, and credible reports published between 2014 and 2024, focusing on stakeholder theory, corporate governance, sustainability, and related areas. The inclusion criteria prioritize studies that explore the role of stakeholders in shaping corporate strategies, particularly in terms of sustainability, innovation, and governance. Articles were selected based on their relevance to the research questions, methodological rigor, and alignment with the overarching theme of stakeholder influence on corporate decision-making.

Data Collection Techniques and Instrument Development

Data collection was conducted through an extensive search of academic databases, including Web of Science, Scopus, and Google Scholar, using specific keywords such as "stakeholder theory," "corporate strategy," "sustainability," and "stakeholder governance." A set of inclusion and exclusion criteria was developed to filter relevant studies. Studies were selected based on predefined criteria such as publication date, stakeholder engagement focus, and corporate strategy relevance. No direct instruments were used as the research relies solely on secondary data from existing literature.

Data Analysis Techniques

The data analysis process followed a thematic analysis approach. Once the relevant literature was gathered, the articles were coded based on recurring themes such as stakeholder engagement, corporate governance models, sustainability, and innovation. The findings were then synthesized to identify patterns, gaps, and relationships between stakeholder theory and corporate strategies. This process allowed the study to integrate insights from different sources into a cohesive narrative, highlighting key trends and emerging perspectives.

Findings and Discussion

Findings

The Conflict Between Short-term Shareholder Value and Long-term Sustainability

The ongoing conflict between short-term shareholder value and long-term sustainability remains one of the most critical challenges publicly traded companies face today. Shareholders, particularly those focused on short-term gains, pressure company management to deliver immediate financial returns through increased profits, dividends, or stock price appreciation (Bebchuk & Tallarita, 2020). This demand for short-term results is often exacerbated by the pressure to meet quarterly earnings targets, which has become a hallmark of modern corporate governance. As a result, management teams are frequently compelled to prioritize strategies that maximize short-term financial performance, often at the expense of long-term investments in sustainability (Arora et al., 2018). The research reveals that this intense focus on short-term shareholder value can harm a company's ability to invest in sustainable practices. Companies prioritizing meeting quarterly earnings expectations may divert resources from critical sustainability initiatives, such as reducing their carbon footprint, improving supply chain transparency, or investing in corporate social responsibility (CSR) programs (Grewatsch & Kleindienst, 2017). While essential for long-term success, these initiatives are often viewed as costly in the short term and do not provide immediate financial returns. Consequently, management may delay or downscale these investments to ensure short-term profitability, even when they know the long-term risks of neglecting sustainability.

This tension between short-term financial performance and long-term sustainability is further complicated by the rising expectations from stakeholders, including regulators, consumers, and employees, who increasingly demand that companies take meaningful action on environmental, social, and governance (ESG) issues (Kandpal et al., 2024). Companies failing to address these demands risk losing their competitive edge in the long term. For example, companies that ignore sustainability concerns may face regulatory penalties, damage to their reputation, and loss of consumer trust, all of which can negatively impact financial performance in the future (Eccles & Klimenko, 2019). The research highlights that the conflict between short-term shareholder value and long-term sustainability is not just a strategic dilemma but also a moral and ethical one. Many businesses are beginning to recognize their broader societal and environmental responsibilities (Freeman, 2010). They are grappling with balancing these responsibilities with their obligation to deliver financial returns to shareholders. This complex interplay between short-term financial goals and long-term sustainability objectives forms the foundation of the ongoing debate on the role of business in society.

Practical Strategies to Balance Short-term Financial Goals with Sustainability

In response to the growing tension between short-term financial performance and long-term sustainability, this research identifies several effective strategies companies can adopt to balance these seemingly conflicting objectives. One of the most significant strategies identified is strategic agility. Strategic agility refers to a company's ability to rapidly adapt to changing market conditions, stakeholder demands, and external challenges while maintaining long-term sustainability (Settembre-Blundo et al., 2021). Companies that demonstrate strategic agility are better equipped to pivot quickly when necessary, allowing them to remain competitive in the short term without sacrificing their long-term sustainability goals. Strategic agility enables companies to reassess their priorities and adjust their strategies promptly (Mina' & Michelini, 2024). For example, a company may temporarily shift resources to meet short-term financial targets while keeping its long-term sustainability commitments intact. This approach allows businesses to remain responsive to shareholder demands for financial performance while still investing in sustainability initiatives that will yield long-term benefits. Adapting quickly to external pressures, whether from shareholders, regulators, or the broader market, is critical to maintaining this balance.

Another critical strategy identified in this research is the adoption of integrated reporting, which combines financial and non-financial information, including ESG performance, into a single report. This approach offers stakeholders a comprehensive view of the company's performance, highlighting how investments in sustainability contribute to long-term value creation (Eccles & Krzus, 2010). Integrated reporting bridges the gap between short-term financial goals and long-term sustainability by ensuring transparency and accountability. This shows that ESG efforts are integral to business success rather than mere costs Savio et al. (2024). The concept of shared value creation, introduced by Porter & Kramer (2019), provides a framework for balancing profitability with social and environmental responsibility. Shared value involves identifying business opportunities that generate economic value while addressing societal challenges, such as developing renewable energy solutions or sustainable products. This strategy allows companies to align business success with societal progress, creating long-term shareholder value while addressing critical global issues. The research underscores that shared value creation enables companies to overcome the trade-offs between financial performance and sustainability (Porter & Kramer, 2019). By adopting this approach, businesses can benefit both shareholders and society, maintaining a competitive advantage in a market that increasingly prioritizes corporate responsibility. Integrating shared value into core business strategies helps companies balance short-term financial objectives with long-term sustainability, ensuring alignment with shareholders and societal expectations.

The Role of ESG in Strengthening the Relationship Between Shareholders and Stakeholders

The role of Environmental, Social, and Governance (ESG) practices in bridging the relationship between shareholders and other stakeholders is another critical finding of this research. ESG has emerged as a crucial framework for companies balancing short-term financial performance with long-term sustainability (Zumente & Bistrova, 2021). Effective ESG implementation helps companies meet the growing demands of stakeholders—such as consumers, employees, and regulators—and enhances shareholder value by reducing risks and creating new growth opportunities. The research demonstrates that companies that integrate ESG principles into their core strategies are better positioned to manage risks associated with environmental and social challenges (Fatemi et al., 2018). For example, companies that invest in reducing their carbon emissions or improving their labor practices are less likely to face regulatory fines, lawsuits, or reputational damage (Grewatsch & Kleindienst, 2017). These companies are also more likely to attract socially conscious consumers and investors, who increasingly prioritize ESG performance in purchasing and investment decisions. As a result, companies that prioritize ESG fulfill their responsibilities to stakeholders and strengthen their long-term financial performance (Boffo & Patalano, 2020).

The research highlights that ESG practices help companies build stronger relationships with their stakeholders, which is essential for long-term success (Clark et al., 2015). By addressing the concerns of stakeholders—whether they relate to environmental impact, social justice, or corporate governance, companies can enhance their legitimacy and trust within the communities they serve. This valuable trust enables companies to navigate crises more effectively, attract and retain top talent, and foster customer loyalty (Amel-Zadeh & Serafeim, 2018). In this way, ESG is a strategic tool that strengthens the bond between shareholders and other stakeholders, ensuring that financial and non-financial objectives are met. ESG provides a framework for companies to communicate their long-term sustainability goals to shareholders (Henisz, 2023). Many investors are increasingly seeking companies committed to sustainability and solid financial performance. By implementing and reporting on ESG initiatives, companies can show shareholders that they are responsibly managing long-term risks and opportunities (Eccles & Klimenko, 2019). This alignment between shareholder expectations and stakeholder needs is critical for achieving sustainable growth and ensuring companies can thrive long-term. As consumers, regulators, and investors place increasing value on sustainability, companies that fail to prioritize ESG may lose competitive advantages and access to capital, undermining their financial health over time (Clark et al., 2015). Thus, ESG is a vital bridge, fostering alignment between financial imperatives and broader social and environmental concerns.

Adapting Freeman's Stakeholder Theory to Modern Challenges

This research explores how Freeman's (2010) stakeholder theory can be adapted to address the modern challenges companies face, particularly sustainability and social responsibility. Freeman's original theory emphasized the need for companies to create value for all stakeholders—not just shareholders—arguing that long-term success relies on balancing these various interests. However, this research suggests that stakeholder theory must evolve to reflect companies' growing pressures to address global challenges such as climate change, inequality, and regulatory demands Tapaninaho & Kujala (2019). The research finds that companies can no longer focus solely on the needs of internal stakeholders, such as shareholders, employees, and management. Instead, they must also consider the demands of external stakeholders, including governments, communities, and environmental organizations (Khan et al., 2016). These external stakeholders play an increasingly important role in shaping corporate strategies as their expectations for corporate responsibility continue to rise. To meet these expectations, companies must adapt their stakeholder engagement processes to incorporate various perspectives into their decision-making processes (Grewatsch & Kleindienst, 2017). This includes involving stakeholders in sustainability, risk management, and long-term planning discussions. The research highlights that adapting stakeholder theory to modern challenges involves a greater emphasis on transparency and accountability. Companies must be willing to share their progress on sustainability initiatives and be held accountable for their commitments (Boffo & Patalano, 2020). This transparency builds trust with stakeholders and enhances the company's reputation and legitimacy in the marketplace. By engaging stakeholders early and consistently, companies can develop more comprehensive and adaptive strategies better suited to the complexities of the modern business landscape, ultimately contributing to shareholder value and long-term sustainability.

Discussion

This study reveals a significant tension between shareholders' short-term interests and publicly traded companies' long-term sustainability goals. The findings suggest that pressure to meet quarterly earnings expectations often leads to strategic decisions prioritizing short-term interests, sacrificing investments in sustainability practices crucial for businesses' future viability. Corporate management frequently finds itself in a dilemma, trying to satisfy shareholder demands for quick financial returns while ensuring the company invests in more profound sustainability efforts, such as reducing carbon emissions, improving employee well-being, or adopting environmentally friendly technologies. The pressure to deliver rapid results often forces companies to cut costs in critical areas that could yield long-term benefits. For instance, many companies opt to delay investments in green technology because there is no immediate impact on short-term profitability. The study highlights that while companies acknowledge the importance of sustainability practices, the pressure from shareholders for short-term profits makes it challenging to balance both objectives. However, the research also indicates that companies successfully managing the tension between short-term interests and sustainability goals are better positioned to face future challenges. These companies can implement adaptive and flexible strategies by leveraging strategic agility to adjust to changes in the business environment. With this agility, companies can continuously evaluate their short-term priorities and make necessary adjustments to remain competitive without compromising long-term sustainability goals.

The study emphasizes the importance of incorporating Environmental, Social, and Governance (ESG) as an integral part of business strategy. ESG helps companies meet social and environmental goals and is a crucial tool to mitigate risks stemming from external factors, such as regulatory changes and evolving consumer preferences. Companies integrating ESG into their core strategies can better manage operational, reputational, and legal risks. For example, companies investing in renewable energy or fair labor policies can avoid the negative impacts of stricter environmental regulations and growing social pressure. The concept of shared value creation, developed by Porter & Kramer (2019), is a practical approach to addressing the dilemma between economic profit and social responsibility. The study finds that companies adopting the shared value creation approach can generate economic profit while delivering positive social impacts. This approach enables companies to identify financially rewarding business opportunities while addressing pressing social and environmental issues, such as developing eco-friendly products and improving community welfare. The research provides numerous examples of companies that have integrated sustainability practices into their business models, maintaining their competitive edge in the market. By embedding sustainability values into their strategies, companies can build a strong reputation and increase stakeholder trust. This demonstrates that sustainability practices deliver social benefits and are crucial in creating long-term value for shareholders.

The findings are closely linked to Freeman's (2010) stakeholder and sustainability theories regarding theoretical alignment. Stakeholder theory emphasizes that companies should consider the interests of all stakeholders, not just shareholders, focusing on long-term value creation. This aligns with the study's findings that companies accounting for stakeholders' interests, such as employees, customers, communities, and the environment, are better equipped to tackle long-term challenges and enhance their competitive advantage. On the other hand, sustainability theory advocates for integrating environmental, social, and governance (ESG) principles into corporate strategy to improve long-term competitiveness and stability. The study supports this view, demonstrating that companies embedding ESG into their strategic frameworks are better positioned to handle long-term risks and challenges, such as regulatory changes and evolving consumer preferences (Grewatsch & Kleindienst, 2017). These theories provide a solid theoretical foundation to support the study's findings that balancing short-term and long-term objectives is essential for corporate sustainability. Research by Khan et al. (2016) and Porter & Kramer (2019) highlights that companies strategically integrating ESG factors into their business models are better equipped to face long-term challenges. This underscores the idea that sustainability is not just a moral obligation but a strategic necessity that helps companies remain competitive and relevant in a rapidly evolving global marketplace (Eccles & Klimenko, 2019).

The findings of this study are consistent with many previous studies that have explored the dilemma between shareholder value and long-term sustainability. For example, (Eccles & Klimenko, 2019) found that companies prioritizing sustainability are more successful long-term because they can better manage risks associated with regulatory changes and evolving consumer preferences. These findings align with the current study, which shows that companies integrating ESG into their business strategies are more capable of reducing operational risks and enhancing their competitiveness in global markets (Henisz, 2023). However, some studies have suggested that focusing on sustainability can negatively affect short-term profitability. For instance, research by Khan et al. (2016) indicates that companies that concentrate too heavily on sustainability may face short-term financial pressures, as sustainability investments often require significant costs and may not yield immediate financial returns. Nevertheless, this study demonstrates that companies balancing short-term and long-term investments through strategic agility can maintain profitability while continuing to invest in sustainability (Settembre-Blundo et al., 2021). Previous research by Svendsen (1998) also found that companies investing in sustainability tend to have stronger relationships with their stakeholders, including customers, employees, and communities. This study supports those findings by showing that active stakeholder engagement in strategic decision-making can help companies navigate the dilemma between shareholder value and sustainability (Clark et al., 2015).

The findings from this study offer several practical implications for businesses and management. First, companies must develop strategies to invest in sustainability without sacrificing short-term profitability. This can be achieved through strategic agility, where companies continuously evaluate their priorities and make necessary adjustments to remain competitive while maintaining their commitment to sustainability. Second, implementing integrated reporting can help companies enhance their transparency and accountability to stakeholders. By combining financial and non-financial information into a single report, companies can provide a more comprehensive picture of their performance, including how their investments in ESG contribute to long-term value creation. Finally, companies should actively engage stakeholders in their strategic decision-making processes. Companies can ensure that their adopted strategies benefit shareholders and deliver broader social and environmental benefits by involving stakeholders. This will enhance the company's reputation and help it build greater stakeholder trust, ultimately supporting its long-term sustainability.

Conclusion

This study has explored the tension between short-term shareholder value creation and long-term business sustainability in publicly traded companies. The findings reveal that the pressure to meet quarterly financial targets often leads companies to prioritize short-term profits at the expense of long-term sustainability investments. Companies that successfully manage this tension by adopting strategic agility, incorporating ESG into their business strategies, and applying shared value creation are better positioned to address long-term challenges. These strategies help companies balance the demands of shareholders with broader societal and environmental responsibilities, ensuring future competitiveness and stability.

The value of this research lies in its contribution to both theoretical and practical understanding of how companies can navigate the complex relationship between short-term financial performance and long-term sustainability. By offering insights into strategic frameworks such as ESG integration, strategic agility, and shared value creation, the study provides practical implications for corporate managers. These findings emphasize the need for a balanced approach in decision-making that benefits not only shareholders but also stakeholders. The study underscores the importance of transparency, stakeholder engagement, and long-term thinking as crucial factors for companies seeking sustainable growth in today's rapidly evolving business landscape.

However, this study is not without limitations. The analysis focuses primarily on large publicly traded companies, which may limit the generalizability of the findings to smaller businesses or private enterprises. Additionally, the reliance on secondary data in literature reviews could benefit from empirical studies to validate the conclusions drawn. Future research could expand on this by conducting case studies or quantitative analyses across different industries and company sizes to better understand how firms can balance shareholder interests with long-term sustainability goals. Researchers could also explore how emerging trends, such as digital transformation and artificial intelligence, impact ESG practices' integration into corporate strategy.

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