Stakeholder Impartiality: A New Classic Approach for the Objectives of the Corporation

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Abstract

The stockholder/stakeholder dilemma has occupied corporate leaders and corporate lawyers for over a century. In addition to the question whose interests should managers prioritize, the question how those interests could or should be balanced has proven equally difficult. To address the latter challenge, this paper advances a doctrinal innovation that is both new and time-honored - to implement a duty of impartiality with regard to directors’ discretion over stakeholder interests. A sub-component of trustees’ duty of loyalty, the duty of impartiality regulates settings in which several beneficiaries have conflicting interests without dictating substantive outcomes, especially not equal treatment. This paper proposes an analogous process-oriented impartiality duty to consider the interests of relevant stakeholders. Stakeholder impartiality is a lean duty whose main advantage lies in its being workable. It can be implemented in legal systems that have different positions on the objectives of the corporation, from Canada’s and India’s open-ended stakeholderist approaches to Delaware’s staunch shareholderism.

Keywords: corporate governance, fiduciary duties, stakeholders, loyalty, impartiality

JEL Classifications: K22

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[A chapter for a volume on Fiduciary Obligations in Business (Arthur Laby & Jacob Russell, eds, forthcoming)]

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DRAFT - COMMENTS WELCOME

This version: 13 September 2019
First version: 8 September 2019
JEL codes: K22
Keywords: corporate governance, fiduciary duties, stakeholders, loyalty, impartiality

* Professor of Law, Harry Radzyner Law School, Interdisciplinary Center Herzliya, Israel. alicht@idc.ac.il. For helpful comments I am grateful to ___. Accountability for all errors remains with me.
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I. INTRODUCTION

Leo Strine, Jr., the former Chief Justice of the Delaware Supreme Court, recently argued extra-judicially that “[d]espite attempts to muddy the doctrinal waters, a clear-eyed look at the law of corporations in Delaware reveals that, within the limits of their discretion, directors must make stockholder welfare their sole end, and that other interests may be taken into consideration only as a means of promoting stockholder welfare.”¹ For many years, the semi-official position of the U.S. business community, reflected in the Business Roundtable’s Statement on Corporate Governance, has espoused the same principle - that “the paramount duty of management and of boards of directors is to the corporation’s stockholders.”²

In direct response to this position, U.S. Senator Elizabeth Warren (D-Mass.) in 2018 introduced her Accountable Capitalism Act. The Act would require very large American corporations to obtain a federal charter that would obligate company directors to consider the interests of all corporate stakeholders - including employees, customers, shareholders, and the communities in which the company operates.³ In a complete turnaround of its prior position, the Business Roundtable in 2019 promulgated a new statement on the purpose of a corporation, in which prominent corporate leaders announced that they “share a fundamental commitment to all of our

² THE BUSINESS ROUNDTABLE, STATEMENT ON CORPORATE GOVERNANCE 3 (1997).
stakeholders.” As reporters noted, however, the Business Roundtable did not provide specifics on how it would carry out its newly stated ideals.

What for Senator Warren may have been highly aspirational is already a pressing reality for large companies in the United Kingdom. Section 172 of the Companies Act 2006 requires directors to act in a way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members (i.e., shareholders) as a whole. In doing so, directors are required to have regard, among other things, to the interests of the company’s employees, business partners, the community, and the environment. Government regulations promulgated in 2018 require large companies, whether listed or non-listed, to include in their strategic reports a new statement on how the directors have considered stakeholders’ interest in discharging their duty under section 172.

The new U.K. provision brings a major twist to a plot that has been unfolding - in circles, in must be said - at least since Lord Bowen in 1883 famously stated in Hutton v. West Cork Ry.:

A railway company, or the directors of the company, might send down all the porters at a railway station to have tea in the country at the expense of the company. Why should they not? It is for the directors to judge … The law does not say that there are to be no cakes and ale, but there are to be no cakes and ale except such as are required for the benefit of the company.

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6 The Companies (Miscellaneous Reporting) Regulations 2018, Regulation 414CZA.
From Lord Bowen to Chief Justice Strine (and/or Senator Warren and/or Mr. Jeff Bezos & co.), the debate over the objectives of the corporation has been oscillating between two polar positions, dubbed “monistic” and “pluralistic” in the business management parlance. The monistic position endorses a single maximand (that which is to be maximized) - invariably, shareholder wealth or interest - while the pluralistic position supports a multiple-objective duty that would balance the interests of several stakeholder constituencies, shareholders included. How to perform this balancing act is a question that has virtually never been addressed until now. As we shall see below, when the Supreme Court of Canada discussed it in an obiter dictum in BCE Inc. v. 1976 Debentureholders, it explicitly eschewed giving it an answer.8

This paper advances a new, yet classical, approach for the task of considering the interests of various stakeholders by directors and other corporate fiduciaries. I argue that for lawfully accomplishing this task, while also complying with their standard duties of loyalty and care, directors should exercise their discretion impartially. Respectively, judicial review of directors’ conduct in terms of treating different stakeholders should implement the concomitant doctrine of impartiality. This approach is new, as it has not yet been implemented in this context.9 At the same time, this approach is also classical, even orthodox. The duty of impartiality (or even-handedness, or fairness; courts use these terms interchangeably) has evolved in traditional trust law mostly during the nineteenth century. In recent years, it has been applied in trust cases in several common law jurisdictions. More importantly, this duty has been applied during the latter part of the twentieth century in modern, complex settings of pension funds, where fund trustees face inescapable conflicts

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8 BCE Inc. v. 1976 Debentureholders, 2008 SCC 69. See below text to note 35.

9 For an early version of some of the present ideas see AMIR LICHT, FIDUCIARY LAW 203-210 (2013) (in Hebrew).
between subgroups of members. These conflicts resemble the tensions between different stakeholders in business corporations - a feature that renders this doctrine suitable for the task at hand.

In a nutshell, the duty of impartiality accepts that there could be irreconcilable tensions and conflicts among several trust beneficiaries who in all other respects stand on equal footing vis-à-vis the trustee. Applying the rule against duty-duty conflict (dual fiduciary) in this setting would be ineffective, as it would disable the trustee - and consequently, the trust - without providing a solution to the conundrum. The duty of impartiality calls on the trustee to consider the different interests of the beneficiaries impartially, even-handedly, fairly, etc.; it does not impose any heavier burden on the good-faith exercise of the trustee’s discretion. Crucially, the duty of impartiality does not imply equality. All that it requires is that the different interests be considered within very broad margins.

The upshot is a light though not hollow regime whose main advantage is that it is workable. This is precisely where impartiality holds a promise for promoting the discourse and actual legal regulation of shareholder-stakeholder relations through fiduciary duties. A normatively appealing legal regime is unlikely to satisfy even its proponents if it does not lend itself to practical implementation; a fortiori for its opponents. For legal systems and for individual lawyers that champion a pluralistic stakeholder-oriented approach for the objective of the corporation, having a workable doctrine for implementing that approach is crucial - an absolute necessity. Such a doctrinal framework could also prove useful for systems and individuals who endorse a monistic, shareholder-focused approach. That could be the case in the United Kingdom and Australia, for instance, where directors could face liability if they did not consider creditors’ interest in a timely fashion even before the company reaches
insolvency. Moreover, this approach could be helpful where the most extreme versions of doctrinal shareholderism arguably rein, such as Delaware law post-
NACEPF v. Gheewalla\(^{10}\) - in particular, with regard to tensions between common and preferred stockholders post-Trados.\(^{11}\)

II. *E PLURIBUS UNUM?* MONISM AND PLURALISM IN THE CORPORATE OBJECTIVE

This Part lays the ground for introducing impartiality as a workable legal framework for considering multiple stakeholders in strategic decisions aimed for promoting the best interest of the corporation. My goal is neither to justify nor to debunk a pluralistic approach to strategic management. In fact, there is reason to believe that this debate cannot be resolved, as it is values-laden and political in essence. This Part therefore begins with a comparative overview of the positive legal regimes that govern this subject, primarily in common law jurisdictions. Next, it deals briefly with the normative aspect of the subject and points out the implementation challenge that bedevils it.

A. A Positive Comparative Overview

1. The World

A superficial observation might lead one to think that corporate laws around the world have converged to shareholder value as the single maximand of corporate governance. When Henry Hansmann and Reinier Kraakman announced “the end of history for corporate law”, they argued that “there is convergence on a consensus that

\(^{10}\) North American Catholic Educational Programming Foundation, Inc. v. Gheewalla, 930 A2d 92 (Del. 2007).

\(^{11}\) In re Trados Inc. Shareholder Litigation, 73 A.3d 17 (Del. Ch. 2013).
the best means to … the pursuit of aggregate social welfare is to make corporate managers strongly accountable to shareholder interests and, at least in direct terms, only to those interests.”

Some ten years later, they insisted that their ideological or normative claim (which was stated quite positively) “is holding up extremely well.”

The OECD’s Principles of Corporate Governance convey a similar impression. In their third edition since 1999, now published together with the G20 forum of the world’s largest economies and after consultation with business and labor representatives, the Principles purport to reflect a universal consensus. Moreover, they guide international financial institutions and countries in assessing corporate governance reforms. Principle VI on the responsibilities of the board states that “[t]he corporate governance framework should ensure … the board’s accountability to the company and the shareholders.”

On role of stakeholders the Principles provide that “[t]he corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements…” Despite their claim for universality, the Principles adopt a very American approach. By declaring the board accountable to the company and the shareholders, the Principles closely follow the ruling in Guth v. Loft, that “[c]orporate officers and directors … stand in a fiduciary

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15 Id., at 51.
16 Id., at 37 (Principle IV).
relation to the corporation and its stockholders.”¹⁷ Other stakeholders only have the protection of other laws or contracts but not of directors’ fiduciary accountability.

This appearance of uniformity is misleading, however. Legal systems vary considerably on the objectives of the corporation and the board’s mission. The following sections present glimpses into a number of common law systems in this regard. Fiduciary law constitutes an important segment of private law in all of these systems, exhibiting the same basic principles of fiduciary loyalty, yet they differ significantly in the ways they address this issue.¹⁸

2. The United States

U.S. law - in particular, Delaware law - represents the strongest doctrinal version of shareholder primacy. As just noted, Guth directs the directors’ fiduciary obligations to the company and to shareholders, implicitly implying that the interests of the two overlap. This doctrine has been solidified in a number of recent cases. In eBay Domestic Holdings, Inc. v. Newmark, the Delaware Chancery Court stated that “[d]irectors of a for-profit Delaware corporation cannot deploy a rights plan to defend a business strategy that openly eschews stockholder wealth maximization - at least not consistently with the directors’ fiduciary duties under Delaware law.”¹⁹ In a more broadly applicable and prominent context, the Delaware Supreme Court in Gheewalla ruled that -

When a solvent corporation is navigating in the zone of insolvency, the focus for Delaware directors does not change: directors must continue to discharge their


¹⁸ Some scholars argue that common law systems are shareholder-oriented while civil law systems are stakeholder-oriented. See Michael Bradley et al., Challenges to Corporate Governance: The Purposes and Accountability of the Corporation in Contemporary Society: Corporate Governance at a Crossroads, 62 L. & CONTEMP. PROBS. 9 (1999); Hao Liang & Luc Renneboog, On the Foundations of Corporate Social Responsibility, 72 J. FIN. 853 (2017). A full discussion of this hypothesis, which still awaits a rigorous empirical confirmation, exceeds the present scope.

¹⁹ eBay Domestic Holdings, Inc. v. Newmark, 16 A.3d 1, 35 (Del. Ch. 2010).
fiduciary duties to the corporation and its shareholders by exercising their business judgment in the best interests of the corporation for the benefit of its shareholder owners.\textsuperscript{20}

\textit{Gheewalla} is particularly noteworthy because the Court goes to great lengths “to provide the directors with clear signal beacons and brightly lined channel markers as they navigate with due care, good faith, and loyalty on behalf of a Delaware corporation and its shareholders.”\textsuperscript{21} So much so, that by drawing a sharp distinction between solvency and insolvency, it effectively denies, as a matter of law, the existence of a murky zone of insolvency. In reality, however, vagueness and uncertainty characterize this setting, as the Court itself notes.

In \textit{Trados}, the Delaware Chancery took shareholder primacy to its logical extreme, when it distinguished between common stockholders as residual claimants and thus ultimate beneficiaries of the firm’s value, who are protected by fiduciary duties, and preferred stockholders with contractual rights, who are not owed fiduciary duties on the basis of such rights.\textsuperscript{22} By holding the contractual element to be dominant, \textit{Trados} relegates the preferred to the stakeholder category in the OECD Principles framework. While doctrinally and economically sound, this distinction, too, has a certain air of denial to it, since preferred stocks are actually a hybrid of debt and residual-claim-type equity.

The legal landscape in the United States is broader and more varied than Delaware law. For one, scholars still debate shareholder primacy in fiduciary duties in U.S. corporations.\textsuperscript{23} In addition to case law, there is a substantial body of statutory


\textsuperscript{21} Gheewalla, \textit{id}.

\textsuperscript{22} Trados, supra note 11, at 63; see also Frederick Hsu Living Trust v. ODN Holding Corp., 2017 Del. Ch. LEXIS 67 (Del. Ch. 2017) (same).

law in numerous states - including, in particular, “constituency statues” and benefit
corporation statues - whose effect on the content and exercise of fiduciary duties in
business corporations is at best unclear.24

3. The United Kingdom

U.K. law is more loyal to the classical formula of fiduciary loyalty by making
the company alone the beneficiary of directors’ fiduciary duties. Moreover, it has
traditionally taken a comprehensive approach to the best interests of the company by
referring to “the company as a whole”.25 The Companies Act 2006 preserves this
approach.26 Section 172 of the Act is explicit in designating shareholders as the
ultimate beneficiaries of the company. Crucially, this section requires directors to
consider other stakeholders, yet stakeholders’ interests are subordinated to the
interests of shareholders.27 In tandem, the manner in which this consideration is to be
carried out - e.g., as between shareholder value and combating climate change and
promoting human rights - is left to the discretion of the directors.28

The relations between shareholders’ and creditors’ interests as the subject of
directors’ good-faith judgment as to the best interest of the company are more
nuanced in U.K. law than in Delaware law. Section 172 preserves prior statutory and

24 See, e.g. and respectively, Brett H. McDonnell, Corporate Constituency Statutes and Employee
Governance, 30 WM. MITCHELL L. REV. 1227 (2004); Jonathan D. Springer, Corporate Constituency
Statutes: Hallow Hopes and False Fears, 1999 ANN. SURV. AM. L. 85 (1999); Brett McDonnell,
263 (2017); David G. Yosifon, Opting out of Shareholder Primacy: Is the Public Benefit Corporation
25 See Greenhalgh v. Arderne Cinemas, [1951] Ch. 286, 291 (C.A.); Allen v. Gold Reefs of West Africa
Ltd [1900] 1 Ch 656, 671.
26 Companies Act 2006, s. 170(1).
27 For discussions, see, e.g., Andrew Keay, Tackling the Issue of the Corporate Objective: An Analysis
of the United Kingdom’s Enlightened Shareholder Value Approach, 27 SYDNEY L.R 577 (2007);
Georgina Tsagas, Section 172 of the Companies Act 2006: Desperate times call for soft law measures,
in SHAPING THE CORPORATE LANDSCAPE: TOWARDS CORPORATE REFORM AND ENTERPRISE DIVERSITY
28 See R (on the application of People & Planet) v. HM Treasury (2009) EWHC 3020 (Admin), [35].
case law “requiring directors, in certain circumstances, to consider or act in the
interests of creditors of the company” - namely, in the vicinity of insolvency. In those circumstances, the contours of which are decidedly fuzzy, the director must “have proper regard for the interest of [the company’s] creditors and prospective creditors.” In *BTI 2014 v. Sequana*, the Court of Appeal acknowledged that “the interests of creditors are identified as interests different from, and potentially in conflict with, the promotion of the success of the company for the benefit of its members as a whole.” The Court further indicated that these interests are mutually exclusive, suggesting that they should dominate directors’ discretion sequentially.

4. Canada

At first glance, Canadian law closely resembles U.K. law on the present subject, as Section 122 of the Canada Business Corporations Act, 1985 renders the corporation the nominal beneficiary of directors and officers’ fiduciary duties. A seemingly small difference in the provision on oppression, which refers to creditors, has led to a radical departure of the Canadian approach to the treatment of stakeholders from the traditional rule. In considering a petition by institutional bondholders, the Supreme Court of Canada in *BCE* said:

> [T]he duty of the directors to act in the best interests of the corporation comprehends a duty to treat individual stakeholders affected by corporate actions equitably and fairly. There are no absolute rules. In each case, the question is whether, in all the circumstances, the directors acted in the best interests of the corporation, having regard to all relevant considerations, including, but not confined

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33 *Id.*, at [199].
34 Canada Business Corporations Act, 1985, s. 241(2). *Compare* the parallel provision on unfair prejudice in s. 994 of the Companies Act 2006 (U.K.).
to, the need to treat affected stakeholders in a fair manner, commensurate with the corporation’s duties as a responsible corporate citizen.

Directors may find themselves in a situation where it is impossible to please all stakeholders… There is no principle that one set of interests - for example the interests of shareholders - should prevail over another set of interests.\textsuperscript{15}

The Court thus put on the table what many have swept under the carpet. By using fairness rather than loyalty as the framework of analysis, \textit{BCE} allows for conflicting interested to be weighted against one another. However, as the Court candidly acknowledges, it gives directors no guidance as to how they should resolve that dilemma, and in fact notes that “the court looks beyond legality to what is fair, given all of the interests at play.”\textsuperscript{36}

\section*{5. Israel}

In line with other modern corporate law statutes, the Israeli Companies Law, 1999 includes a specific provision on the objective of the corporation, stating that “[t]he purpose of a company is to operate in accordance with business considerations for maximizing its profits, and within the scope of such considerations, the interests of its creditors, its employees and the public may \textit{inter alia} be taken into account.”\textsuperscript{37} Bearing in mind that only shareholders are entitled to profits when dividends are paid out, this section thus reads like a stronger version of its U.K. counterpart. Both provisions implement a shareholder primacy approach, but while in the U.K. statute considering the interests of other stakeholders is mandatory, the Israeli provision renders it discretionary.

Despite the relatively clear language of the statute, the Israeli Supreme Court in \textit{Mishmar HaEmek v. Manor} - a case dealing with equitable subordination of

\textsuperscript{35} \textit{BCE, supra} note 8, at [82]-[84].

\textsuperscript{36} \textit{BCE, id.}, at [71].

\textsuperscript{37} Companies Law, 1999, s. 11(a).
shareholder loans - interpreted it as requiring the company at all times to balance the interests of all stakeholders, especially creditors.\textsuperscript{38} The Court reasoned that such balancing is called for in light of the duty of good faith that governs the company’s relations with all of its commercial counterparts.\textsuperscript{39} It stands to reason that in discharging the fiduciary duty to act in the interest of the company,\textsuperscript{40} directors and officers should implement this balancing, although the manner for doing so remains elusive, much like in Canada.

6. \textit{India}

India’s Companies Act, 2013 presents the most dedicated attempt to date to implement a formal pluralistic, stakeholder-oriented duty. Section 166 of the Indian Act provides that “[a] director of a company shall act in good faith in order to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment.” The language as well as the legislative history of this provision are clear, that the intention was to put the interests of all stakeholder constituencies on the same level as constitutive elements of the interest of the company.\textsuperscript{41}

On the one hand, the Indian provision echoes the parallel Israeli and U.K. provisions in terminology and style. On the other hand, its content bears substantial


\textsuperscript{39} \textit{Id.}, at [18] (Procaccia J).

\textsuperscript{40} S. 254(a) of the Companies Law. This section codifies the traditional duty of loyalty, which was formerly recognized in case law. \textit{See} Mo. 100/52 Hevra Yerushalmit LeTaasiya Ltd v. Aghion, 6 P.D. 887, 889 (1952), citing \textit{Cook v. Deeks}, [1916] UKPC 10.

resemblance to the Canadian ruling in *BCE*. Specifically, there is no hint in it (or in related materials) as to *how* directors should balance the potentially conflicting interests of different stakeholders. Moreover, as Mihir Naniwadekar and Umakanth Varottil powerfully argue, this provision suffers from additional implementation problems, as stakeholders lack any means for enforcing whatever rights they may have.⁴² “Arguably,” they aver, “the magnanimity of its verbiage and rhetoric in favour of stakeholders merely pays lip service to them and obscures any real teeth or legal ammunition available to non-shareholder constituencies to assert those rights as a matter of law.”⁴³

**B. Some Normative Aspects**

Let us now move from the positive to the normative. In the seminal dialogue between Adolf Berle and E. Merrick Dodd in the 1930s, Berle actually sided with Dodd on the principled normative desirability of a pluralistic approach.⁴⁴ He nonetheless rejected it for being unworkable:

> Now I submit that you can not [sic] abandon emphasis on ‘the view that business corporations exist for the sole purpose of making profits for their shareholders’ until such time as are to be prepared to offer a clear and reasonably enforceable scheme of responsibilities to someone else.⁴⁵

Today, arguments for the monistic, shareholder-centered approach usually invoke the agency problem and economic efficiency more generally. The former argument, from agency, holds that allowing corporate insiders to shift among several

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⁴³ *Id.*, at 97.


maximands of different stakeholders will dilute the accountability of those insiders and enable them to benefit themselves at the expense of all others. Pointing to shareholders as the residual financial claimants in the corporation, the argument from efficiency holds that maximizing profits in the interest of shareholders nearly by definition promotes the interest of all other (financial) claimants, whose interests are largely fixed, akin to debt. Frank Easterbrook and Daniel Fischel concisely summarized both arguments:

One reason is obvious: a manager told to serve two masters (a little for the equity holders, a little for the community) has been freed of both and is answerable to neither… Agency costs rise and social wealth falls. Another reason is no less important but more often missed: maximizing profits for equity investors assists the other “constituencies” automatically… In a market economy each party to a transaction is better off.46

Some proponents of the pluralistic approach marshal ethical and political arguments in support of that view.47 Another strand of the literature, pioneered by Margaret Blair and Lynn Stout, draws on insights about pro-social motivations from psychology and behavioral economics in support of entrusting insiders with discretion to consider all the stakeholders who participate the firm’s team production.48

Economists that have interjected into this debate tend to uphold the shareholderist approach. In what has become the motto of this view, Milton Friedman


famously argued that “the social responsibility of business is to increase its profits.”\textsuperscript{49} Oliver Hart, in an early contribution, noted that calling on management to consider interests of all constituencies “is essentially vacuous, because it allows management to justify almost any action on the grounds that it benefits some group.”\textsuperscript{50} In a recent review of the literature, Vikas Mehrotra and Randall Morck underscore the danger that “[e]xpanding the corporate objective function to include non-equity stakeholders has the side effect of magnifying top managers’ scope for opportunism”; they therefore wryly conclude that “shareholder value maximization might be the worst option save all the others.”\textsuperscript{51}

Acknowledging this risk, Roland Bénabou and Jean Tirole nonetheless aver that investors and other stakeholders could have some demand for corporate managers to adopt socially responsible strategies on their behalf notwithstanding profit sacrifice.\textsuperscript{52} Hart and Luigi Zingales develop this idea by distinguishing maximization of shareholder welfare from maximization of market value, and argue that given that in reality many investors are prosocial, managers should be tasked with the former.\textsuperscript{53} This approach seems to suffer from a serious implementation problem, too, however. Entrusting corporations with promoting investors’ and/or stakeholders’ prosocial

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\begin{itemize}
\item 49 Milton Friedman, \textit{A Friedman Doctrine - The Social Responsibility of Business Is to Increase Its Profits}, N.Y. Times, Sept. 13, 1970, § 6 (Magazine); see also MILTON FRIEDMAN, CAPITALISM AND FREEDOM 133 (1962) (same).
\end{itemize}
preferences could run into the impossibility of forming a consensus among them, as formalized in Arrow’s Impossibility Theorem.\textsuperscript{54}

Empirical evidence on the desirability of these approaches is equivocal. A number of meta-analyses find a weak but significant positive correlation between firms’ social performance and financial performance.\textsuperscript{55} The evidence thus suggests that doing good and doing well go hand in hand. What remains unclear, however, is the mechanism that engenders these results: Does maximizing shareholder value incidentally help other stakeholders, or do better managers can simultaneously handle several stakeholder constituencies to the benefit of all? For example, there is now evidence to support Lord Bowen’s observations in \textit{Hutton}: Firms with a more employee-friendly culture are valued higher and perform better due to having such a culture.\textsuperscript{56} Yet recent studies find that corporate social responsibility (CSR) activity could be linked to better or to worse corporate governance in terms of insider-related agency problems.\textsuperscript{57}

\begin{enumerate}
\item \textsuperscript{54} See Mehrrota & Morck, \textit{supra} note 51, citing Kenneth J. Arrow, \textit{A Difficulty in the Concept of Social Welfare}, 58 J. POL. ECON. 328 (1950); Frankel et al., \textit{supra} note 51 (same).
\item \textsuperscript{57} See, e.g., Wolfgang Breuer et al., \textit{Corporate Social Responsibility, Investor Protection, and Cost of Equity: A Cross-Country Comparison}, 96 J. BANK’G FIN. 34 (2018); Allen Ferrell et al., \textit{Socially}
Whether or not one is persuaded by the empirical evidence, the normative
debate probably cannot be resolved because of another, more fundamental difficulty.
I have argued that the two polar positions in this debate express different values,
where values are defined according to social psychological theories as conceptions of
the desirable. This theoretical framework is richer than the selfish-vs.-prosocial
dichotomy that dominates the literature. The shareholderist approach is conceptually
compatible with values of self-enhancement and openness-to-change, while the
pluralistic approach is compatible with self-transcendence and conservation values.
This framework furthermore lends itself to theorizing about cross-cultural differences
at the national level. In a joint study with Renée Adams and Lilach Sagiv, we have
shown that board members and CEOs of Swedish public corporations exhibited a
systematic approach to different shareholder-stakeholder conflict that map onto a
dimension of shareholderism versus stakeholderism. Higher personal preferences
for power, achievement and self-direction values and lower preferences for
universalism (caring about others in general) predicted stronger shareholderism.
Together, this value profile is consistent with a Schumpeterian entrepreneurial spirit,
which in turn, is consistent with equity’s role in business firms. In a subsequent study

Responsible Firms, 122 J. FIN. ECON. 585 (2016); Philipp Krüger, Corporate Goodness and
Shareholder Wealth, 115 J. FIN. ECON. 304 (2015); Jan Schmitz & Jan Schrader, Corporate Social
Responsibility: A Microeconomic Review of the Literature, 29 J. ECON. SURV. 27 (2015); Patricia Crifo
& Vanina Forget, The Economics of Corporate Social Responsibility: A Firm-Level Perspective
Survey, 29 J. ECON. SURV. 112 (2015); see also Ronald W. Masulis & Syed Walid Reza, Private
Benefits and Corporate Investment and Financing Decisions: The Case of Corporate Philanthropy,

58 See Licht, supra note 44, at 657-658, citing, in particular, Shalom H. Schwartz, Universals in the
Content and Structure of Values: Theoretical Advances and Empirical Tests in 20 Countries, in 25
ADVANCES IN EXPERIMENTAL SOCIAL PSYCHOLOGY 1 (Mark P. Zanna ed. 1992).

59 Renée B. Adams, Amir N. Licht & Lilach Sagiv, Shareholders and Stakeholders: How Do Directors
with Adams, we confirm this relationship in a multinational sample of directors and also observe robust relations between shareholderism and cultural orientations.\footnote{Amir N. Licht & Renée Adams, Shareholders and Stakeholders around the World: The Role of Values, Culture, and Law in Directors’ Decisions, working paper (2019), https://ssrn.com/abstract=3407873.} These findings indicate that directors address the issue with an intention to “do the right thing”, the law notwithstanding. Their stances on this issue seem tied to their inner-most beliefs and their social environment. Direct legal regulation of directors’ conduct in shareholder-stakeholder dilemmas thus could face formidable difficulties.

III. STAKEHOLDER IMPARTIALITY

A. The Classical Doctrine

Consider a simple scenario: In preparation for meeting his maker, one settles a trust, instructing the trustee to care for the financial needs of his loved ones at her absolute discretion. The survivors include a widow and a number of orphans of different ages. The widow is ageing and is looking at existing and foreseeable medical expenses, whereas the orphans are quite healthy now and will likely enjoy a longer life than the trustee can imagine. Assume for simplicity that the estate consists only of cash and that only securities are to be purchased (thus excluding real property, etc.). In addition, it is undisputed that the trustee operates with the punctilio of an honor the most sensitive and that she is perfectly prudent and fully skilled for the task. What should be the makeup of the trust’s investment portfolio in terms of the ratio between stocks and bonds? With regard to equities, should the trustee invest in high-tech start-up companies? Respectively, should she prefer government bonds over corporate bonds?
The trustee in this setting faces an irreconcilable conflict between the interests of the two classes of beneficiaries, that stem from their different life expectancies. This, in turn, calls for different investment strategies for fulfilling the financial needs of each generation. The widow’s needs militate for liquid, low-risk, fixed-income securities. The children can better tolerate market fluctuations so would rather have high-volatility, high-yield investments. Any decision by the trustee could adversely affect one or both of the beneficiary classes. It could thus be challenged upon standard fiduciary law analysis - and the trustee could be called to account - on the basis of breaching the no-conflict rule by way of dual fiduciary or duty-duty conflict, or for failing to act in subjective good faith, or for acting in light of an ulterior motive. Fiduciary law’s standard response - to disable the trustee - is no answer, as the problem does not lie with the trustee but rather with beneficiaries. Splitting the estate in two is no cure either: similar tensions will immediately emerge between the commerce-oriented child who would benefit most from a capital infusion and the artsy, dreamy one who needs a stable source of income for living expenses.

This generic dilemma became prominent in late-eighteenth-century England.\textsuperscript{61} A typical settlement would authorize the trustee to manage the estate for the benefit of a life-tenant (the widow) and the remainderman or the residuary (the orphans). Oftentimes, the distinction between the life beneficiary and the remainderman overlapped with different financial (equitable) interests in the estate - to income and to capital, respectively. But this seemingly clear distinction caused as many problems as it solved. For example, what should be the rule if capital assets require current expenses for maintenance? Should dividends from shares be treated as income or

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\textsuperscript{61} The following draws on the compelling account in CHANTAL STEBBINGS, THE PRIVATE TRUSTEE IN VICTORIAN ENGLAND 65-97 (2002).
\end{flushright}
capital? Early nineteenth century cases have established technical rules of apportionment in light of the financial circumstances of the era. Those rules have since been revised or abolished, in line with developments in finance.

Of greater importance here is the substantive conceptual framework for the comparative treatment of beneficiary classes. Originally, the trustee’s obligation to treat beneficiaries impartially and fairly as part of her duty of loyalty was understood to imply equal treatment. According to Stebbings, this was “in accordance with the maxim ‘Equality is Equity’ and with the very foundation of Equitable jurisprudence in concepts of fairness and even-handedness.” This is feasible when the beneficiaries are on equal footing. This laudable principle is incompatible, however, with handling differential interests of differently-situated beneficiaries. Moreover, in the social circumstances of Victorian England, in which many trustees were relatives or close friends of the settlor or beneficiaries, it proved hard to resist pressures to adjust trust administration to the needs of particular beneficiaries - sometimes, with solid justification. The technical rules of apportionment further triggered litigation over equality issues and motivated settlors to opt out of these rules. Due to a confluence of these and additional factors, by the early twentieth century, equality was abandoned as the substantive content meaning of the trustee’s duty of impartiality.

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62 See, e.g., Howe v. Earl of Dartmouth (1802) 32 ER 56, (1802) 7 Ves Jun 137; Earl of Chesterfield’s Trusts (1883) 24 Ch D 643; Allhusen v. Whittell [1861-1873] All ER 149, (1867) LR 4 Eq 295.

63 In the U.K., for instance, the rules in Earl of Dartmouth, Earl of Chesterfield’s Trusts, and Allhusen were abolished by the Trusts (Capital and Income) Act 2013.

64 STEBBINGS, supra note 61, at 67.

65 See, e.g., Hutchinson v. Morriss (1839) 160 ER 818, 3 Y & C Ex. 547 (“[I]t is the duty of trustees … to divide the profit so made rateably amongst the cestui que trusts.”)

66 STEBBINGS, supra note 61, at 70-71.

67 STEBBINGS, supra note 61, at 79.
Today, the duty of impartiality (or even-handedness, or fairness) “regulates trustee/beneficiary conflicts when the trust terms create a conflict that abridges the sole interest rule.” 68 It is recognized and implemented largely similarly in all the major common law jurisdictions. Its application has spread during the late twentieth century beyond private trusts - most notably, to administration of pension funds. This obligation is further implemented with respect to executors in corporate insolvency. The following provides a brief survey of its contemporary content meaning.

Succinctly, the duty of impartiality imposes on the fiduciary an obligation to consider the interests of her beneficiaries. Not more than that, but not less either. “[U]nder a discretionary trust,” noted the court in *Kain v. Hutton*, “there is no right to distributions but only a right to be considered.” 69 In *Cowan v. Scargill*, probably the most famous case in the modern era, Megarry VC stated that it is “the duty of trustees to exercise their powers in the best interests of the present and future beneficiaries of the trust, holding the scales impartially between different classes of beneficiaries.” 70

In *Nestle v. National Westminster Bank*, Hoffmann J clarified:

> [T]he trustee must act fairly in making investment decisions which may have different consequences for different classes of beneficiaries. There are two reasons why I prefer this formulation to the traditional image of holding the scales equally between tenant for life and remainderman. The first is that the image of the scales suggests a weighing of known quantities whereas investment decisions are concerned with predictions of the future. … The second reason is that the image of the scales suggests a more mechanistic process than I believe the law requires. The trustees have in my judgment a wide discretion. … It would be an inhuman law which required trustees to adhere to some mechanical rule for preserving the real value of the capital when the tenant for life was the testator's widow who had fallen upon hard times and the remainderman was young and well off.” 71

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*Nestle* was approved on appeal, where Staughton LJ and Leggatt LJ said, respectively:

At times it will not be easy to decide what is an equitable balance. If the life-tenant is living in penury and the remainderman already has ample wealth, common sense suggests that a trustee should be able to take that into account, not necessarily by seeking the highest possible income at the expense of capital but by inclining in that direction. …

The very process of attempting to achieve a balance, or (if that be old-fashioned) fairness, as between the interests of life-tenants and those of a remainderman inevitably means that each can complain of being less well served than he or she ought to have been.⁷²

The courts have emphasized that impartial administration of the trust does not entail equal treatment. In *Edge v. Pension Ombudsman*, the Court of Appeal rejected an attempt to find fault in pension fund trustees who failed to give equal weight to the interests of all groups of savers.⁷³ In *Forbes Trustee Services Ltd v. Jackson*, the court noted that “[s]ome inequalities in treatment are inevitable, but [trustees] must not pursue a course of action which clearly favours one class of members over another.”⁷⁴ The law in Australia, New Zealand, and Canada is virtually similar;⁷⁵ so is trust law and federal ERISA law in the United States, where the trustee is required to have “due regard” to the interests of the different beneficiary classes.⁷⁶ For example, *Siskind v. Sperry Retirement Program* held that “[i]t was reasonable for the plan fiduciary to approve an amendment that would provide increased benefits to

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⁷⁶ See, with regard to private trusts, Restatement (Third) of Trusts, § 78-79; Uniform Trust Code § 803 (2005); Uniform Principal and Income Act § 103 (2000); Varity Corp. v. Howe, 516 U.S. 489 (1996). With regard to ERISA, see, e.g., Siskind v. Sperry Retirement Program, 47 F.3d 498 (2d Cir. 1995); Morse v. Stanley, 732 F.2d 1139 (2d Cir. 1984).
those employees whose jobs were at greater risk of elimination, [because] employees at overstaffed plants and employees at ‘lean’ plants are not similarly situated.”

As noted, company liquidators and administrators are subject to a similar duty as well.

Cases holding fiduciaries to account for breaching the duty of impartiality are rare. Still, the trustee’s exceptionally ample discretion to act in the best interests of the body of beneficiaries as a whole does not mean unbridled discretion, let alone immunity from liability. For example, in *Mulligan*, the trustees were held liable for indulging the wishes of the widow by investing solely in high-interest fixed-income assets that did not provide any capital appreciation. The opposite scenario took place in *re Smith*, where the trustee was removed from office for heeding the objections of the remainderman to purchasing higher-yielding investments that would have benefitted the life-tenant. In *Boe v. Alexander*, a pension fund trustee was found to have breached his duty to balance the interests of all the beneficiaries.

**B. The Proposed Approach**

It is the thesis of this paper that the duty of impartiality holds substantial promise as a doctrinal framework for addressing the interests of stakeholder constituencies in business firms. In this view, directors and other corporate fiduciaries with strategic responsibilities will be obliged to treat the company’s stakeholders impartially when they make business judgments in the best interest of the company as a whole - an obligation that will be discharged by considering the

77 *Siskind, id.*, at 506.
79 *Mulligan, supra* note 75.
80 See Re Smith, (1971) 16 DLR (3d) 130 (ON SC), affirmed (1971) 18 DLR (3d) 405 (ON CA).
interests of the company’s various stakeholders. This obligation of stakeholder impartiality will form part of directors’ duty of loyalty and will be discharged with skill and care that are reasonably required in the circumstances.

The proposed duty draws on the traditional duty of trustees only as a source of inspiration for its conceptual framework. This is because trustees’ duty of impartiality in discretionary trusts cannot be applied directly in a corporate setting. While trust beneficiaries are direct objects of trustee duties, it is the company (as a whole) that is the object/beneficiary of directors’ duties. Shareholders are only secondary notional beneficiaries, whose interest as a general constituency proxies for the company’s interest in legal systems that endorse shareholder primacy. (Delaware and other U.S. laws are an exception, with their dual corporation-and-shareholders-oriented duty of loyalty under Guth.83)

The duty of impartiality of liquidators may be viewed as a mid-way version, closer to the proposed duty of regular directors than the trustee’s duty, because the liquidator’s duty of loyalty, including impartiality, is formally oriented to both creditors and shareholders without ignoring the company’s legal personality.84 On this notional continuum, between regular trustees and liquidators, one could locate trustees of pension funds. The latter owe direct loyalty to the beneficiaries, but different beneficiary classes comprise large and changing numbers of individual beneficiaries akin to shareholders, bondholder, and employees. Common to all three types of fiduciary duties - of trustees, liquidators, and directors (as proposed) - is the discretion that these fiduciaries are required to exercise in good faith in the interest of

83 See supra text around note 17.
84 It is also directed to the court. See Gooch’s Case, supra note 78; see, generally, In re Pantmaenog Timber Co Ltd [2003] UKHL 49.
a body of ultimate beneficiaries as a whole. At the same time, only directors exercise *business* judgment - with a view to taking up risky projects with uncertain payoffs - while trustees’ and liquidators’ mission and judgment are custodial in nature - with a predominant task of preserving the estate to reasonably ensure payout distribution.

Substantively, stakeholder impartiality would require directors to give proper consideration (“due regard” in U.S. usage) to stakeholders’ interests. The duty’s contribution to extant obligations - e.g., under section 172 of the U.K. Companies Act - lies in providing content and structure. First, this model explicates the obligation as requiring deliberation only, and thus, by construction, not requiring to take other kinds of action - e.g., to ameliorate certain adverse effects (while not forbidding it either). Second, this model clarifies that the duty is process-oriented rather than outcome-oriented. Specifically, it rejects an obligation to strive for, let alone achieve, any kind of equality among the different stakeholder constituencies. Together, these features ensure that the proposed model is workable - that directors and courts can implement it “with clarity and force”, as Berle and Brudney have insisted.  

While the proposed stakeholder impartiality envisions an admittedly lean content of the duty, it is anything but hollow. As a primarily process-oriented duty, directors will be able to discharge it by conducting a structured and well-documented deliberation that is reasonable in the circumstances, in line with jurisprudence on the business judgment rule and with a similar duty of trustees to exercise an informed discretion in a proper procedure. Procedures that merely focus on giving due regard to participants are nonetheless not devoid of content. They can engender desirable

85 See *supra* text to note 44 et seq.

86 See, e.g., In re Walt Disney Co. Derivative Litigation, 907 A.2d 693, 750 (Del. Ch. 2005).

87 See Abacus Trust Company (Isle of Man) v. Barr [2003] EWHC 114 (Ch), [16] and references therein.
outcomes despite, and perhaps thanks to their lean substantive content. Several mechanism may engender such outcomes - for instance, procedural justice à la Tom Tyler\textsuperscript{88} and dual-process mechanisms that facilitate the operation of higher-level deliberation.\textsuperscript{89} At the same time, by eschewing regulation of substantive equality of outcome, the proposed duty does not encroach on directors’ business judgment, thus preserving a sphere that is free of post hoc legal intervention.

Stakeholder impartiality as a legal doctrine need not overlap with stakeholder-oriented strategic management according to theories inspired by Edward Freeman’s work. According to Freeman’s capacious definition, a stakeholder could be “any group or individual who can affect or is affected by the achievement of the organization’s objectives.”\textsuperscript{90} This is a positive axiomatic definition; it entails neither particular normative implications (which stakeholders deserve what), nor any instrumental implications (what would happen if some stakeholders got something).\textsuperscript{91} The latter aspects would be determined separately, using different methodologies.

Recent jurisprudence in Australia and New Zealand demonstrates this point with regard to executors’ duty of impartiality. In light of legislation that gives certain persons not mentioned in a will a right to nonetheless claim benefits from the estate within a limited period of time, the question arose whether the executor owes a duty


\textsuperscript{90} R. EDWARD FREEMAN, STRATEGIC MANAGEMENT: A STAKEHOLDER APPROACH 46 (1984).

of impartiality to such potential claimants. The courts have split on this question, and a full discussion, albeit instructive, is beyond the present scope.\textsuperscript{92} The key point is that such potential claimants clearly fall within Freeman’s definition of stakeholders, as they affect the administration of the estate. Nevertheless, a court may decline to recognize them as such as a matter of law and thus deny them the coverage of the duty of impartiality. A fully analogous analysis would be in place with regard to corporate stakeholder impartiality.

To ensure that stakeholder impartiality is not merely whitewash for hard-nosed shareholder primacy (for those who are concerned about this possibility), non-shareholder stakeholders must be able to enforce their right to impartial treatment.\textsuperscript{93} While beneficiaries of trusts and estates can bring a personal claim against the trustee, in companies only shareholders can bring a derivative claim - a point that \textit{Gheewalla} has forcefully underscored.\textsuperscript{94} Past experience indeed has shown that this is not a fanciful concern. In \textit{Parke v. Daily News} the court applied \textit{Hutton} to condemn paying employees beyond their legal entitlement.\textsuperscript{95} Section 309 of the U.K. Companies Act 1985 was then amended to require the directors to have regard to the interests of the company’s employees in general, as well as the interests of its shareholders. That section (now repealed) further provided that “the duty imposed by this section on the directors is owed by them to the company (and the company alone) and is enforceable in the same way as any other fiduciary duty owed to a company by its directors” - that is, excepting the company or a liquidator, by shareholders in a derivative action. Len


\textsuperscript{93} Recall the critique by Naniwadekar and Varottil, \textit{supra} test to note 42.

\textsuperscript{94} See \textit{Gheewalla}, \textit{supra} note 10, and text to note 20 \textit{et seq}.

\textsuperscript{95} \textit{Parke}, \textit{supra} note 7.
Sealy famously quipped that “[Section 309] is either one of the most incompetent or one of the most cynical pieces of drafting on record.”

In order to prevent repetition of such a farce, members of stakeholder constituencies should have personal standing, or a direct cause of action, against the directors with regard to the latter’s compliance with the duty of impartiality. Granted, such an arrangement would exceed the conventional array of rights and duties among and between the company, its directors and officers, and the shareholders. In tandem, relatively little will suffice to show proper discharge of this obligation - basically, evidence that the directors have indeed given their mind to the relevant stakeholders. There will be no need to mention any actual or potential substantive effect, as this is not called for by the duty, although it would be allowed to do so. One must not dismiss such evidence - typically, records of board meetings and related documents - as useless bureaucratic hassle, since the duty is process-oriented by design.

Stakeholder impartiality could prove particularly useful in legal systems that endorse a pluralistic approach to the objectives of the corporation, Canada being a prime example. Recall how the *BCE* court openly acknowledged that “there is no principle …” *BCE* was decided in a legal framework of oppression/unfair prejudice, that in Canada includes the creditors. This is an outcome-oriented doctrine that aims to protect some minimum legitimate expectations; it connotes substantive fairness, not procedural fairness. It is not surprising therefore that the Court found itself in want of means for providing consistent guidance on the doctrine’s content. To clarify: the rule in *BCE* is not meaningless or hollow; it is just not particularly workable, if at all. In contrast, if *BCE* were to be read as implying stakeholder impartiality, it is

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97 *See supra* text to note 35.
submitted that both market participants and the courts would be better able to comply with its ruling and promote the legal policy it reflects. A similar analysis would apply to section 166 of India’s Companies Act, which formally designates the interest of all stakeholder constituencies as objectives of Indian companies.

Stakeholder impartiality could prove useful also in shareholderistic systems. For example, implementing this approach in the U.K. would provide boards of companies that are subject to the new reporting regulations mentioned in the Introduction a clear framework for establishing compliance with their duties under Section 172. Perhaps surprisingly, this approach might be applied in Delaware, too. Recall that in *Trados* and *ODN*, the courts denied preferred stockholders the protection of directors’ duty of loyalty because common stockholders were deemed more deserving of this protection as residual claimants.98 These decisions marginalized the residual equity feature of preferred stock. If stakeholder impartiality had been implemented in those cases the result might have remained the same, but the legal analysis would have been more loyal to the reality of the financial interests involved.99

IV. CONCLUSION

About twenty years ago, Henry Butler and Fred McChesney complained that “[f]or centuries legal, political, social, and economic commentators have debated

98 See *supra* note 22.

99 For proposals to implement impartiality analysis with regard to preferred stock, see LICHT, *supra* note 9; Shachar Nir, One Duty to All: The Fiduciary Duty of Impartiality and Stockholders’ Conflict of Interest, working paper (2019), on file with Author.
corporate social responsibility *ad nauseam.* Nauseating as it may be to some, the debate over shareholders and stakeholders as the focal objective of the corporation appears as lively as ever, even though the positions voiced in it now have a long lineage indeed. This essay does not attempt to resolve this debate, among other things, because the present author believes it can never be resolved. The goal of this essay is more modest yet still ambitious - to push the discourse forward by advancing a doctrinal framework for considering the interests of various stakeholders in those legal systems that already do or may in the future require directors to do so - e.g., in the United Kingdom and, in a very difference modus, in Canada - but also in legal system that currently focus solely on shareholder interests - e.g., in Delaware. Stakeholder impartiality, as proposed in this essay, is at the same time novel in corporate law yet classical in fiduciary law. Courts that will want to experiment with it thus will be able to rely on a solid body of jurisprudence that would facilitate its implementation. It is hoped that some indeed will.

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101 See supra text to note 58 et seq.
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