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SHAREHOLDER DESERT WORKS WITH A RISK-RETURN MODEL

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A RESPONSE TO Kenneth Silver (2019), "Modern Portfolio Theory and Shareholder Primacy", ***Bus Ethics J Rev*** 7(6): 34–39, https://doi.org/10.12747/bejr2019.07.06

ABSTRACT

Kenneth Silver (2019) criticizes our (Sollars and Tuluca 2018) use of the Capital Asset Pricing Model (CAPM) to determine the return on investment that is deserved by shareholders, and suggests shareholder primacy follows from the principal/agent model, rather than a concern for risk. We argue that Silver has misunderstood CAPM and our use of it, and that, under current law, more is required from articles of incorporation or corporate bylaws for the principal/agent model to apply to corporations.

IN A RECENT Commentary, Kenneth Silver (2019) critiques our use of the Capital Asset Pricing Model (CAPM) to determine the return that shareholders deserve from management. Further, he suggests that the agency theory of Jensen and Meckling (1976) provides a better justification for the principle of shareholder wealth maximization as a "managerial imperative" (Silver, 2019: 34). Silver's remarks suggest that our argument is easily misunderstood, and we welcome the opportunity he provides to clarify our views.

Silver (2019: 38n3) describes it as "telling" that we apply our approach only to public corporations. All we are telling here is the domain of application of our approach. We think that the emergence of robust financial markets for equity, and the concomitant development of financial theory, makes a difference in the way we think about pub-

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