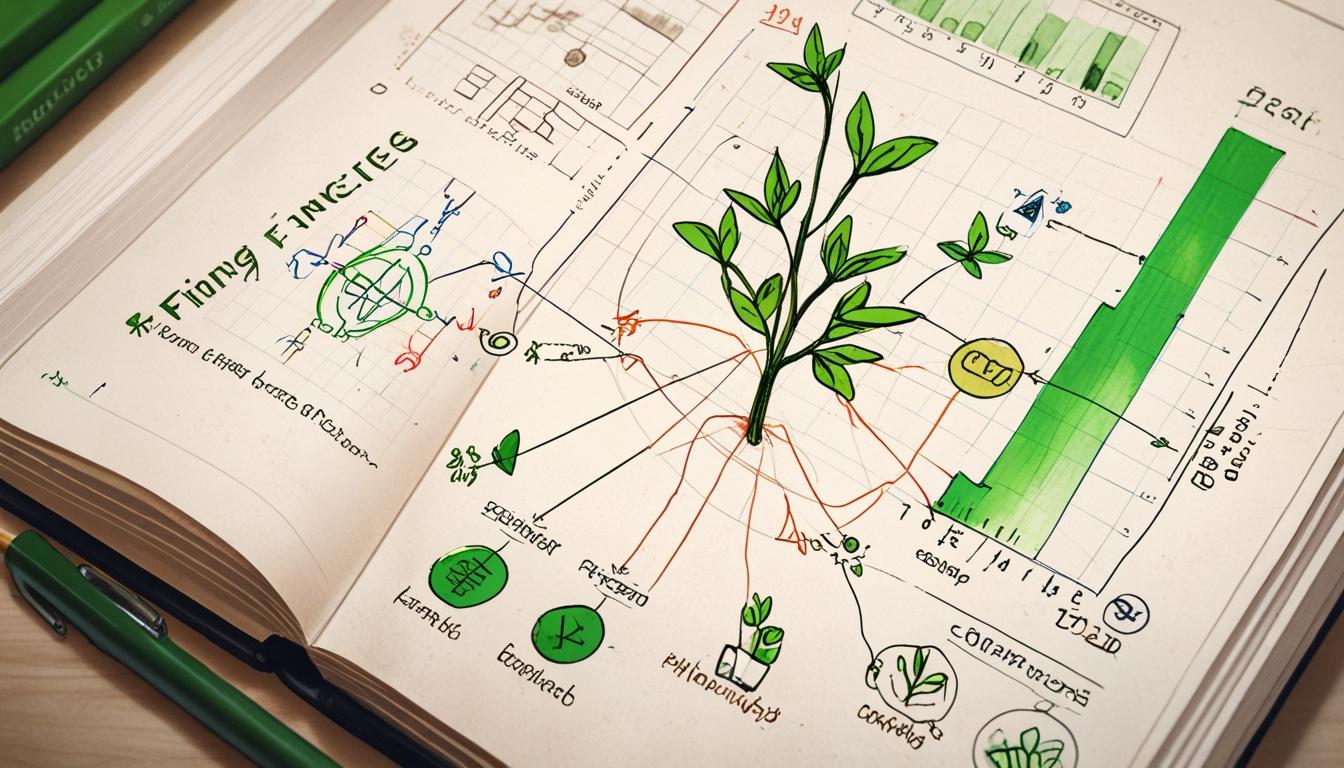
# Alex Edmans rewrites Principles of Corporate Finance to embed ESG and reshape business education



# Rewriting the 'Bible of Finance': Alex Edmans and the New Era of Financial Education

In an age when business practices face intensified scrutiny, the importance of integrating Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) principles into finance education has never been more critical. Alex Edmans, Professor of Finance at London Business School (LBS), is pioneering this integration through the latest edition of “Principles of Corporate Finance,” a textbook long regarded as the 'Bible of Finance.' First published in 1980 by Richard Brealey and Stewart Myers, this essential resource has provided the foundation for countless finance professionals, shaping their understanding of valuation, strategy, and the core tenets of modern finance.

Edmans has taken the bold step of rewriting the entire 1,000-page text for its 15th edition, effectively modernising it to address long-standing criticisms that MBA programmes often emphasise shareholder value at the expense of broader societal considerations. “I don’t do this in a way that might be dismissed as ‘woke’,” Edmans states, maintaining his focus on how responsible business practices can enhance profitability. His earlier work has established that companies can achieve substantial financial returns while making a positive impact on society, outlining how a company’s success is intrinsically linked to the well-being of its stakeholders.

The latest edition of the textbook reflects a significant shift in his approach, laying out ESG and sustainability concepts throughout rather than relegating them to a single chapter. This structural change aims to prevent these critical topics from being bypassed by both students and educators. As Edmans explains, “If you pigeonhole it into one chapter that only gets read if students choose an elective, you’ve lost the battle.” Instead, he proposes that sustainability should be understood as part of long-term investment strategy, akin to any other significant financial decision.

This approach is echoed in Edmans’ research, which articulates a notable shift in the perception of ESG issues to a standard in the investment landscape. He advocates viewing ESG considerations not merely as ethical add-ons but as essential components that align with financial analysis and decision-making. “ESG is critical for long-term value creation and should be integrated into standard investment analysis," he noted in recent discussions. By presenting ESG through the lens of rigorous economic principles, Edmans aims to dismantle the notion that it is a separate or secondary concern.

Moreover, Edmans’ work addresses the challenges associated with the current backlash against ESG and Diversity, Equity, and Inclusion (DEI) initiatives, particularly evident in the United States. He emphasises the necessity for critical engagement with these critiques. “I think the first thing you should do with any pushback is ask, might they actually be right?” he says, indicating a willingness to consider alternative perspectives even if they challenge his own beliefs. This critical examination underscores Edmans’ belief that true academic rigor involves acknowledging trade-offs and limitations rather than merely advocating unconditionally for a cause.

Fundamental to Edmans’ philosophy is the concept of the "pie-growing mentality," which posits that companies can expand their value creation through responsible business practices. This challenges the traditional notion of profit as a zero-sum game, where societal benefit and shareholder returns are thought to be opposing forces. Instead, Edmans introduces principles such as the 'principle of multiplication' and 'principle of materiality,' advocating for investments that yield benefits for both stakeholders and shareholders alike.

The book not only addresses essential financial principles but also responds to a pressing demand for business education to evolve alongside changing societal norms. As Edmans articulates, the challenges of today’s landscape necessitate a reflection on both content and delivery in business education. This edition prioritises accessibility for students from diverse backgrounds, recognising that modern education must engage with a rapidly shifting social and technological environment. He underscores the need for clear, concise content that meets students where they are, echoing the demands of a generation raised on instant information and digital interactions.

With its official release last month, the updated “Principles of Corporate Finance” is poised to cement its relevance yet again within academic and professional spheres. However, Edmans acknowledges that the consumption of textbooks is declining, as many individuals turn to online resources like Wikipedia and ChatGPT for quick answers. He argues that, despite this trend, the necessity of a rigorously vetted, comprehensive text remains clear in high-stakes financial environments. The legacy of Brealey and Myers, bolstered by Edmans’ insights, hopes to endure this shift while providing relevant content for both practitioners and students.

Reflecting on the privilege of co-authoring an iconic textbook, Edmans expresses the deep personal significance of this project. “It’s very gratifying to think that students in the future will learn finance from a book I co-authored – with rigor, engagement, and relevance," he concludes, envisioning a day when his son might also turn to this text in his educational journey.

In this rebuilding of the 'Bible of Finance,' Alex Edmans is not just rewriting educational material; he is striving to reshape how future generations perceive the intricate relationship between finance and society, advocating for a more nuanced and responsible approach to business education.

## Reference Map:

* Paragraph 1 – [[1]](https://finance.yahoo.com/news/p-q-interview-lbs-alex-220239493.html)
* Paragraph 2 – [[1]](https://finance.yahoo.com/news/p-q-interview-lbs-alex-220239493.html), [[3]](https://www.etfstream.com/articles/alex-edmans-esg-is-a-way-of-creating-shareholder-value)
* Paragraph 3 – [[1]](https://finance.yahoo.com/news/p-q-interview-lbs-alex-220239493.html), [[2]](https://www.tandfonline.com/doi/abs/10.1080/0015198X.2023.2242758), [[3]](https://www.etfstream.com/articles/alex-edmans-esg-is-a-way-of-creating-shareholder-value)
* Paragraph 4 – [[6]](https://corpgov.law.harvard.edu/2023/03/13/applying-economics-not-gut-feel-to-esg/), [[4]](https://www.stewardshipcommons.com/article/alex-edmans/2023/08/08/how-great-companies-deliver-both-purpose-and-profit)
* Paragraph 5 – [[5]](https://www.stewardshipcommons.com/article/alex-edmans/2023/08/23/the-social-responsibility-of-business-includes-profits), [[7]](https://www.stewardshipcommons.com/article/alex-edmans/2023/08/10/company-purpose-and-profit-need-not-be-in-conflict-if-we--grow-the-pie)
* Paragraph 6 – [[1]](https://finance.yahoo.com/news/p-q-interview-lbs-alex-220239493.html), [[6]](https://corpgov.law.harvard.edu/2023/03/13/applying-economics-not-gut-feel-to-esg/)
* Paragraph 7 – [[1]](https://finance.yahoo.com/news/p-q-interview-lbs-alex-220239493.html), [[4]](https://www.stewardshipcommons.com/article/alex-edmans/2023/08/08/how-great-companies-deliver-both-purpose-and-profit)
* Paragraph 8 – [[1]](https://finance.yahoo.com/news/p-q-interview-lbs-alex-220239493.html), [[5]](https://www.stewardshipcommons.com/article/alex-edmans/2023/08/23/the-social-responsibility-of-business-includes-profits)

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## Bibliography

1. <https://finance.yahoo.com/news/p-q-interview-lbs-alex-220239493.html> - Please view link - unable to able to access data
2. <https://www.tandfonline.com/doi/abs/10.1080/0015198X.2023.2242758> - In this article, Alex Edmans emphasizes the importance of applying economic principles to Environmental, Social, and Governance (ESG) issues. He argues that ESG should be viewed as a standard investment, akin to other long-term financial and social returns, and that mainstream economics can effectively address common misconceptions about ESG. By integrating ESG considerations into traditional financial analysis, companies can make informed decisions that align with both societal values and shareholder interests.
3. <https://www.etfstream.com/articles/alex-edmans-esg-is-a-way-of-creating-shareholder-value> - Alex Edmans discusses how focusing on ESG factors can enhance shareholder value. He suggests that ESG investments often yield long-term benefits that are challenging to quantify through traditional financial metrics but are nonetheless profitable. Edmans advocates for integrating ESG considerations into mainstream investment strategies, asserting that they are essential for creating value and should be considered by all investors, regardless of fund mandate.
4. <https://www.stewardshipcommons.com/article/alex-edmans/2023/08/08/how-great-companies-deliver-both-purpose-and-profit> - Alex Edmans introduces the 'pie-growing mentality,' proposing that companies can achieve both purpose and profit by creating value for society. He argues that by investing in stakeholders, companies can expand the overall value they generate, benefiting both society and shareholders. This approach challenges the traditional 'pie-splitting mentality' and emphasizes the potential for companies to grow the economic pie through responsible business practices.
5. <https://www.stewardshipcommons.com/article/alex-edmans/2023/08/23/the-social-responsibility-of-business-includes-profits> - In this article, Alex Edmans challenges the 'pie-splitting mentality' that views profits and societal value as mutually exclusive. He advocates for the 'pie-growing mentality,' where companies create value for society, leading to increased profits. Edmans introduces principles such as the 'principle of multiplication,' 'principle of comparative advantage,' and 'principle of materiality' to guide companies in making investments that benefit both stakeholders and shareholders.
6. <https://corpgov.law.harvard.edu/2023/03/13/applying-economics-not-gut-feel-to-esg/> - Alex Edmans argues that ESG issues should be approached with the same rigor as traditional investments, using insights from mainstream economics. He contends that ESG is critical for long-term value creation and should be integrated into standard investment analysis. By applying economic principles to ESG, companies can make informed decisions that align with both societal values and shareholder interests, moving beyond gut-feel approaches.
7. <https://www.stewardshipcommons.com/article/alex-edmans/2023/08/10/company-purpose-and-profit-need-not-be-in-conflict-if-we--grow-the-pie> - Alex Edmans discusses how companies can align purpose and profit by focusing on creating value for society, a concept he terms 'growing the pie.' He emphasizes that serving society is not an optional extra but should be fundamental to business operations. Edmans introduces principles to guide companies in making investments that benefit both stakeholders and shareholders, advocating for a balanced approach to responsible business practices.