

Distinguish
shareholders on the
management of a



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Introduction This paper specifically tries to distinguish between shareholder and stakeholder in business context.

Firstly, there will be analysed main ideas of stakeholder theory, main principles of it. Secondly, the importance and characteristics of stakeholder interdependence will be shown. Thirdly, clear identification of main stakeholder groups and relationship between those groups will be outlined. In order, to distinguish shareholders from other stakeholders there will be paragraph analysing identity of this group. This analysis is followed by exceptionally important rights of shareholders which are giving them power to influence both company's direction and through this other stakeholders.

Stakeholder theory and concept According to Freeman stakeholder (1984) can be defined as any individual or group which is affected by or can affect achievement of the organization's objectives (Freedman and Miles 2006). In this context organization is seen as a grouping of stakeholders and its purpose should be to manage their interests, needs and viewpoints. The fundamental role of stakeholder management is lying on top- level managers. Freeman in whose seminal work (1984) emerged new conception of stakeholder theory has elaborated two principles of this model as follows:

1.

The stakeholder - enabling principle. Corporations shall be managed in the interests of stakeholders. 2. The principle of director responsibility. Directors of the corporation shall have a duty of care to use reasonable judgment to define and direct the affairs of the corporation in accordance with the stakeholder - enabling principle. Freidman and Miles (2006)So stakeholders

are those individuals or groups who depend on the organization to fulfil their own goals and on whom, in turn, the organization depends.

In other words, any actors in the environment that is affected by an organization's decisions and policies or/ and can influence the organization traditionally can be defined as stakeholders of an organisation. Individuals may belong to more than one stakeholder group and stakeholder groups can interact with each other in different ways, it depends on issue and situation at particular moment. Specific strategies usually trigger off the formation of stakeholder groups. Identifying the stakeholders Having in mind stakeholder theory organisation should account interests of two main stakeholder groups: 1.

Internal stakeholders; who have to run business, for example, the managers and employees. 2. External stakeholders; who have stake in the outcome, for example, the shareholders, government, customers, suppliers and other interested parties. Together these groups form the stakeholders - the individuals and groups who have an interest in the organization and may therefore wish to influence its purpose, mission and objectives.

In simple words, internal stakeholder group can be perceived as those who 'runs' or owns business, this includes executive officers, Board of Directors, employees and external stakeholders as those who invest, supply or use its product/ service, typical example of external stakeholders of the organization would be financial institutions, customers, suppliers, shareholders and unions. They can seek to influence company's strategy through their links with internal stakeholders. Concept of stake holding can

be defined as those working in the organization or those who have different interest in organisation. Here are few examples of how some groups have stake in a company: shareholders in public or private company has bought some shares, in other words invested money to the business in return expects good future dividends or selling share at a better price in the future; banks which have lent the organization money and expects to be paid back with interest; governmental institutions concerned about employment, taxes and other economic or legislative issues which can be affected by organisations policies or actions; customers which uses product or service can be affected by price, quality and others. Stakeholder groups can have formal interest, such as shareholder through owning companies shares, or informal, such as government legislation influence on a private company.

All stakeholders can be expected to be interested in and possibly wish to influence the future direction of the organization (Lynch, 2003). Stakeholder analysis can be used to identify a link between internal analysis and external analysis. Internal stakeholders are the management, the different departments within the organization and its employees. The needs, wants and motivating factors for each of these groups are different. What may please management could cause unease among the workforce. On their own, any group is able to completely influence the direction and activities of the company.

There are groups, however, who possess greater power than others. External stakeholders cannot simply be identified or listed; they differ between organizations and industries. However, external stakeholders may be grouped into segments which are frequently involved in the organization's

activities: owners (shareholders), suppliers, customers and financiers. Other groups which could also have stakeholder status for an organization are the government (central and local), guilds and associations, and pressure groups who may or may not have an interest in the success of an organization with its present or future activities (Cook & Farquarson, 1998). It is important to understand that different groups of stakeholders vary in both the level of interest in organisations strategy and extent to which it can influence it.

Stakeholders' relationship Stakeholder theory which main principles were overviewed above and empirical research (Clarkson, 1995) indicates that companies do explicitly manage their relationships with different stakeholder groups. Donaldson & Preston (1995) point out that although this is descriptively true, companies appear to manage stakeholders for both instrumental (i. e. , performance based) reasons and, at the core, normative reasons. Building on the work of others, Clarkson (1995) defines primary stakeholders as those “ without whose continuing participation, the corporation cannot survive as a going concern,” suggesting that these relationships are characterized by mutual interdependence.

He includes here shareholders or owners, employees, customers, and suppliers, as well as government and communities. This view of corporations as fundamentally relational, that is, as a “ system of primary stakeholder groups, a complex set of relationships between and among interest groups with different rights, objectives, expectations and responsibilities” (Clarkson, 1995: 107). As Clarkson (1995) argues, making corporate social responsibility a business objective is best undertaken by changing intangible social and environmental issues into tangible stakeholder interests. Thus

stockholder approach fits perfectly within the view of the company that strives to deliver sustainable value to its various stakeholders. Shareholder A shareholder is any person who owns stock issued by a corporation- so a shareholder is an owner of that business.

Shareholders get to vote on certain issues regarding the control of the business, the most common vote being on the issue of who gets to serve as corporate directors. The benefits of being a shareholder include receiving dividends for each share as determined by the Board of Directors. It is important to mention at this stage of this paper that Freeman's stakeholder theory mentioned above proposed extended focus of managers beyond traditional interest group of shareholders, in order to understand expectations, needs and values of groups which were perceived external to the organization. In this sense, stakeholders of a company can be defined as individuals, their groups or agencies that, either voluntarily or involuntarily, takes part in wealth-creating capacity and activities, and who will be or are benefited from company or can also be its risk bearers. Stakeholder theory has both normative (moral/ ethical) and instrumental (profit/ wealth enhancing) implications. These strategic approaches can be regarded as a responsibility to meet claims of all stakeholders and/ or as a means to maximize organizational wealth.

Donaldson and Preston, 1995). Shareholder rights In order to distinguish shareholders from other stakeholders it has to be outlined some certain exceptional rights of this group to influence company's future and management. In this assignment there are briefly outlined main rights of

shareholders. Shareholders have right to attend and vote at General Meeting.

The right to vote is extremely important as it gives shareholders power to influence company's management. One or more directors can be dismissed or replaced by shareholder/s. Also shareholders votes on resolutions proposed by Board of Directors. It is important to mention that shareholders also can stand for the office of Director. This is probably the most important impact that shareholders have on top - level management of a company - depending of the amount of shares they hold they can have absolute control of the Board of Directors and in the same way they can influence overall business activities. As shareholders are owners of company they have right to receive a fraction of the year's earnings for each share they own, in a form of dividends.

Dividends are proposed by directors at the Annual General Meeting. In addition, they can sell and trade their shares. Shareholders has right to receive information about the company. This information is about any events that might influence company's future, its share price, who are real owners of the company. This includes the right to inspect records and books of the corporation.

So the greater the shareholdings of an individual, the greater are his/her rights and the greater is his/her power within the company. This is so not only because the larger the shareholding the more likely it is to represent a controlling interest, but also because the Companies Act affords greater rights and power to an individual as the size of his/her shareholding

increases. For example, a shareholder owning 5% of a company has the right to have an item placed on the Agenda for discussion at the Annual General Meeting and, once the shareholder's ownership reaches 10% of the company, he/she has the right to actually call a General Meeting of shareholders. In the great majority of Limited Companies, a shareholding in excess of 50% of the issued share capital will be enough to control the company, dictate the makeup of the Board of Directors and to be able to do most of the acts necessary to run the company in its everyday business. It is possible for those owning less than 50% of a company to protect themselves from being at the mercy of those holding over 50% of the shares in the company and this is one reason why shareholders should give serious consideration to agreeing a shareholders agreement or adopting professionally drafted Articles of Association.

Shareholders impact on management and allocation of rewards Corporate governance is the relationship between all the main stakeholders in a company. This includes the shareholders, directors, and management of a company. Examples of this relationship in practice will be outlined to give a more realistic understanding of shareholders impact on management of the company. Compensation of top - level management and all other management of corporation depends on company's policies.

As Kaplan and Norton (1992) suggests performance measurement as well as allocation of rewards has to be in line with corporate policies and must be applied consistently to realize strategy. Gerhart and Rynes (2003) states that in most companies, ultimate decisions over executive pay are made by outsider members of the board of directors who are keenly aware of conflicts

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of interest between managers and shareholders over the level of pay. But also he mentions that there is doubt that executives and other top - managers has some influence on both level and structure of pay. From this research can be stated that shareholders does not have direct influence on management rewards, though shareholders has their influence on allocating directors who are making decisions on management pay.

Conclusions The objective of this paper was to distinguish between stakeholders and shareholders. One of main distinctions is that traditionally shareholders, owner of the corporation do not run it unlike the owners of partnership firms. However they have an important influence on companies activities. In conclusion, it has to be stated that shareholders are one of many other stakeholders groups, who are affected and can be affected by companies policies. Shareholders are one of the most important groups who can affect organisations directions, but also it has to understood that their decisions are not direct.

Shareholder decisions influences who will manage the corporation. There are two main theories of business - stakeholder and shareholder theory. In this paper stakeholder theory was outlined briefly. This theory assumes that business should have more objectives when only to maximise profits for shareholders. Finally, there were main shareholders rights outlined which distinguish this group from all others. These rights describe how depending on the amount of shares kept shareholder can affect company.

Main of these rights is to vote in General Meeting and dismiss or replace managers. In practice, this right is not used so commonly, shareholders are

more likely to sell their shares than to change management of company.

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