

Prioritising shareholder and stake holder interests



I believe that shareholder wealth maximization is important. But it can not be set as the superior objective over the stake holder's interests.

We are here and there working and running the business with surrounding peoples/facts. As such, we need to care how good/or bad effects might be happened thanks to/ due to our business.

According to the shareholder theory," shareholders provide the capital required to keep the company going".(Andrew Keay, p. 663). And " Maximising shareholder wealth means maximising the flow of dividends to shareholder through time" (Glen Arnold, p. 13). From a long-term perspective, maximising the shareholder value maximises the value of the firm(Sundaram and Inkpen, 2004b, p. 371). The shareholder plays a pivotal role in the deliverance of firm value however they are not the only constituent nor is profit maximisation the only purpose of the firm (Freeman et al., 2004)

Unlike shareholder theory, the stakeholders are usually consist of: shareholders/investors, suppliers, clients/customers, employees, local communities, government/authorities or " any group or individual who can affect or is affected by the achievement of the organisation's objectives" Freeman (1984, p. 46). In Freeman's original work, as cited in Freeman (1999, p. 234), suggests, " if organisations want to be effective, they will pay attention to all and only those relationships that can affect or be affected by the achievement of the organisation's purpose".

And all of these are set under the global environment which is becoming the hot issue recently in all over the world. As the responsible citizen/company, in every daily plan and action, we need to put our attention on this matter.

Upon studying Marks&Spencer's annual report 2010, here and there, we can easily pick up their quality orientation policy & activities, such as:

Sell high quality, great value clothing, outstanding quality food

Committed to building a world-class retailer

Managed cost prudently, listened and responded to customers' changing need

Stayed true to the core values

.....

And on the top of that, we can find in the annual report all the words and phrases relating to better quality performance. Concretely: Quality, Innovation, Service, Trust.....

Furthermore, we can clearly recognize how good Marks&Spencer follow this idea through their launching of "Your Green idea" in last March. Accordingly, they run the "Green actions" for helping the environment.

Of course, the profit issues should also been care clearly with strong and solid backed up with clear data base to be transparent to every stakeholders. But it is the issue following the "right thing" policy." If we do the right thing, the right way then the business will be successful" (Marks&Spncer annual report 2010, p. 46)

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Any company, such as Marks&Spencer has the right to be proud of their long history. Because the long history (here is 125 years) means that they have successfully survived through out the history with many recession, crisis and changing. But in the other hands, they must carry together the huge responsibility to keep their brand name and value in good position. And under the stricter and harder environment, the only smart way for survival is ...” doing the right thing”.

ANALYSIS ON ISSUE 1: Every company must have the governance to manage the company and its business. This governance is carried out based on the company’s strategy & policy which could be many of the following facts: maximize profit, penetrate the business to new areas, expand the existing business, improve the working procedures, enhance the efficiency of staff’s performance, better control internally..... Among these, depend on each company’s policy and strategy; they can set the order of priority for each term.

In theory, Marks&Spencer have to do the right thing, the right way for their major stakeholders. The key question is how important of stakeholders to the existing and developing of Marks&Spncer. With the following descriptions, we can somehow understand the roles of stakeholders:

Shareholders: are the investors for Marks&Spencer . As such, they have to provide the right information and facts, in the right amount and at the right time, in order that they can correctly judge and give out the proper decisions and solutions. As such, shareholder theory offers a “ decision-making rule” to guide managers towards the ethical achievement of shareholder value

maximisation and “ the greatest value for the greatest number of stakeholders” (Sundaram and Inkpen, 2004b, p. 371).

Customers (consist of clients and consumers): they are end users of Marks&Spencer’s products and service through out Marks&Spencer retail channels. Company’s target is enriching consumer life through maintaining customer satisfaction and providing safe and secure commodity and services

Suppliers: It is vital for each company to corporately work with suppliers in consideration of fair trade and the affects of products and service on society and environment. Each company should strive to keep complete attention to social and environmental impacts through setting up the traceability systems to ensure qualification and safety of each dealer products

Employees: For each company, employees are valuable assets for every activities. With improving the personnel system, we need to improve the working environment and bring the best opportunities to motivated employees so that they can contribute to the best of their efforts for the company’s expansion and development

Local communities: M&S conduct various corporate activities with 2, 000 suppliers around the world. As such, at each area, company absolutely need to set up good relationship with local communities as a good cooperate citizen through valuable communication with them and contribute to their development

Particularly, in the case Marks&Spencer, they put their top priority of governance on how to perform every thing in the right way. In other words,

the management focus on setting up the guideline in which every plan, action, procedures should be the correct ones. Or at least, should be on compliance side.

And these “ right thing & right way” should be unifiedly understood & carried out from top management down to new staff, from small business until the big projects of the company.

That is why it mentions: “ not only in the board room but also across the business...” (Marks&Spencer annual report 2010, p. 46)

As another samples, we would like extract the key cooperate Governance Essentials from HSBC as follows:

High level of integrity

Timely and accurate disclosure of information

Establish high standard of accountability

Management effectively monitored by the Board

High regards for shareholder value and equitable treatment of shareholders

Key business values

Of course, different companies give out different corporate governance.

However, the closer look will help us easily recognize the common share for these companies is that “ setting the standards to do the correct thing to gain accountability”

For every company, for better development and be friendlier to the environment, we need review and make sure the followings:

Whether our current business running having bad affects to our wider stateholders; including the affect the environment.

How we would create the new business which is better for the environment

And in practice, recently, many many companies handling business in the world are paying their attention on the Corporate Social Responsibility issue. It means they set up their responsibility to society, local community in good harmony with profitability orientation.

For instance this view, The Body Shop International plc, known as The Body Shop, is the second largest cosmetic franchise in the world. In their annual report “ value report 2009” , their quality orientation policy & activities are :

- Ensure that beauty products made from natural ingredients
- Implement ethical trade programme, especially, against testing animals.
- Reduce their impact on the environment such as against climate change, waste and reducing the impact of packaging product.
- Being responsible in use of chemicals

Throughout the Values report 2009, the body shop want to express that “ our Values activity is focussed in the right areas. We have always listened to our stakeholders – a combination of their views, our beliefs, and an analysis of where we can make the most difference, is where we want to direct all our

energy. This is only the beginning of the process - we will continue to evolve and deepen this assessment of the materiality of our actions, ensuring that we are responding to our stakeholders and achieving the greatest social and environmental impact." (Living our Values, Values report 2009)

Of course, in real life business, still we can see many companies violate the compliance matters or doing bad actions or having unhealthy corporate culture. However, together with the new good tendency, such companies will be sooner or later naturally rejected out of the playing ground.

Therefore, any responsible company will find themselves should improve their policy, eliminating the wrong things, catching the good/right things.... for their survival.

ANALYSIS ON ISSUE 2 :

It clearly mentions their aim in this statement in which, the top priority is set for sustainable business, profitable growth with guarantee for full trust from stakeholders for only the right thing to be done from the company. This is totally the proper aim as the overall guideline for all of the staff to follow. Through this, company can definitely gain the solid credibility from all the stakeholders which play the critical part for their stable & consistent development in the long run.

In general, credibility and trustability are very hard to build up, but very easy to collapse, just after 1 simple accident or incident. As such, in order to obtain the credibility, it strongly needs the consistency throughout the company in doing the right thing only. And no exemption, no room for

happening the violation due to accident or incident cases. Therefore, it has been very hard to create the brand name, and even harder to maintain that brand name. In another words, the maximisation process does not focus solely on profit maximisation, for it involves such things as augmenting reputation, which can be seen as the most important intangible asset of a company. Firms have economic incentives to have a good reputation in communities. A company might decline to take on a project that despite being potentially profitable, might alienate the local or wider community and lead to the entity being derided and see its reputation diminish.

Through this statement, we can quickly imagine the target of Marks&Spencer top management is that, whenever stakeholders think of Marks&Spencer, they can trust that Marks&Spencer do the right thing with having the consistent, profitable growth.

Although, the common statement for business running is that “no risk, no profit”. However, the firms should it be managing its portfolio so as to achieve the highest value added for its stakeholders. (George S. Oldfield Anthony M. Santomero)Freeman et al., (2004) suggest that the most recent series of corporate scandals all took place under the veil of shareholder value maximisation. Focusing upon a single objective in a complex and uncertain business world leads to shorttermism and a misguided association with firm performance. They argue that a stakeholder perspective encourages managers to accept their wider responsibilities and the complex moral environment in which they operate.

An example to illustrate for running business without pay attention to stakeholders' interest, VEDAN VIET NAM which is a company under Vedan Group-Taiwan operating plants and facilities include MSG plant, starch and glucose syrup plant, Modified Starch plant, chlor-alkali plant, lysine plant, had caused environmental devastation by polluting the river for 14 years with up to 105. 6 million liters of untreated wastewater per month. The toxic water killed farmers' fish and shrimp and ruined farmland along the river's bank. At this result, Vedan was forced to compensate for farmers in Dong Nai district, HCMC's Can Gio District and Ba Ria-Vung Tau Province, Viet nam nearly VND219. 3 billion.(The amounts equal those calculated by the HCMC environment institute.)

Therefore, as the business establishment, it is regular that company has to take risk to run their business to get profit. However, the key point to help them exist and develop their business is that how they properly control the risk; and set it at the " acceptable risk" only, so then they can obtain the reward herewith profits; and then the shareholder value respectively.

And we can find Marks&Spencer's cores value are " Quality, Value, Service, Innovation and Trust". And this has helped them survive and develop during the last 125 years.

In my conclusion, I personally quite agree and much appreciate what Marks&Spencer have done as described in their annual report. I fully trust that if every company has the similar policy and strategy, it will probably help our Earth for sustainable development.