

The conflict of managers and stakeholders entitlement and needs

[Business](#)



There is a claim that managers given the man to govern and manage a business organization or those who have a fiduciary responsibility often lose their focus on the stakeholder's entitlement and needs. As a matter of fact, in most cases there arises a conflict between the managers and the stakeholders. This happens because one of the parties which comprises of the managers of a company are expected to act on behalf of the stakeholders best and prioritized interests. The managers fail to act as required and instead make decisions that best suit their self-interests instead of the stakeholder's interests. This happens as a result that the managers tend to be motivated by their own self-interest and their interests differ most with the stakeholder's interest. In this case the stakeholders are the principal while the managers are the agents. This problem is referred to as principal-agent problem.

I agree with this claim because managers use the power and authority allocated to them by the shareholders for their own personal benefits. This problem is very difficult to deal with in most cases. However, the cost of dealing with this problem is far much expensive that the shareholders may end up losing a lot of money in the effort to ensure that they deal with the problem and eradicate it completely. Trying to do away with this conflict may outweigh the results of the managers. Therefore, the principal who are the shareholders opt to use several mechanisms to reduce this problem through several mechanisms which ensure that the results of the managers who are the agents in this case are not outweighed.

In a company, shareholders expect the managers to maximize their wealth by making good decisions in the interest of the shareholder. However, the

managers work hard and make decisions that that will best suit them and maximize their own personal wealth. There are several mechanisms that can be of good use to solve this conflict. One of the mechanisms used to solve this principal-agent problem is through the use of incentives types of compensation based on performance of the managers. This motivates the managers to work hard and make decisions that lead to maximization of the shareholder's wealth. This mechanism ensures that the managers understand the risk of undertaking any costly actions which may lead to losses. The second mechanism of solving this problem is the threat of firing of the managers if they do not perform in the best interest of the shareholders. This mechanism helps in shaping the performance of the managers accordingly as assigned.