

# [Corporate governance models](https://assignbuster.com/corporate-governance-models/)

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SHAREHOLDER VALUE MODEL & STAKEHOLDER MODEL Below is a comparison of the two models of corporate governance: Shareholder value and Stakeholder. [Source: Governance Models]
The shareholder value is designed in such a way that the only the shareholders and executives will earn high returns on the stocks they have invested. As seen above, the shareholder value focuses wholly on the shareholders and ignores the other stakeholders of the company such as employees, suppliers and customers.
As the time passed and new developments came about in corporate governance, the theory underlying the shareholder value model changed to a certain extent but the theory is still followed as the new theory ‘ The Stakeholder Model’ are yet fully developed. But this model keeps in view all the stakeholders related to the company especially the employees.
TRANSFER OF VOTING AND CASH-FLOW RIGHTS TO EMPLOYEES
Companies have now begun to realize that employees constitute an important part in the corporate community in addition to the shareholders. Due to the continuation of the shareholder value model in this globalization era, employees are still considered as a commodities rather than assets for the company. Keeping this factor in view, companies that follow this model tend to have higher employee turnover, are not willing to induce in long-term contracts and therefore invest less in employee training. This system of corporate governance tends to have a direct bearing on pay inequality.
Cash flow rights mean the portion of a portfolio company’s equity value that different shareholder and management have a claim to. On the other hand, voting rights measure the percentage of votes that shareholders and management have to effect corporate decisions. The decisions are mostly based on majority rule. ESOP was designed to better align the interests of employees and the managers by giving them a right in the company’s decision making as shareholders. As the share’s price rise, the options become more valuable to the employees.
Under the shareholder model, it is believed that as the management is focused on one objective of maximizing shareholders’ wealth, the strategies are planned in that direction and ultimately increases the total wealth of the firm. Thus, everyone in the firm can get a bigger share of the pie if the pie is large. Therefore this model, does not believe in transferring the rights of voting and cash-flows to the employees. A principle of proportional ownership has being identified by the EC as an important factor that could reform the internal markets. It is ‘ one share, one vote’ rule which seeks to strengthen the shareholder rights and thus weakening the protection of the employees. All the measures that are being undertaken to implement this principle create an undesirable wedge between the voting and cash-flow rights.
The stakeholder model characterizes a socialist worldview. But by following the stakeholder model of corporate governance, employees can get the voting and cash-flow rights as they are considered to be as asset like any other shareholder. The new stakeholder model addresses the need to specify the rights of employees, customers, suppliers and such; simplify their role in corporate governance; and establish instruments to protect their interests. Employees are allowed to participate in corporate governance in their capacity as owners.
The model that the firms now use has changed from shareholder value model to stakeholder model of corporate governance as the shareholders do not hold the company’s stock for a long-term. Short-term shareholders are not dedicated to the long-term health of the company therefore there is not enough of a voice to hold corporate directors accountable for their decisions. If the employees are also included in the voting and other decisions of the firm, it should actually improve shareholder value over the long term which is one of the goals of stakeholder model.
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