Chapter 15 stakeholder model VS shareholder model

Key terms

1. Dividend: a sum of money paid regularly by a company to its shareholders out of its profits.
2. External stakeholders: groups outside a business with an interest in its activities.
3. Funds: a sum of money saved or made available for a particular purpose.
4. Internal stakeholders: groups inside a business with an interest in its activities.
5. Remuneration: the reward for work in the form of pay, salary or wages, including allowances and benefits, such as company cars, health insurance, pension, bonus and non-cash incentives.
6. Shareholder value: a measure of company performance that combines the size of dividends with the share price.

1. Internal and external stakeholders

- **Stakeholder** is a person group or organisation who can affect or be affected by the activities, objectives and policies of a business e.g. employees, owners, suppliers, unions and customers
- **Internal stakeholders ; group of people inside the business**
    - **1) Business owners**
        - **Internal shareholders:** directors, managers, employees
        - **External shareholders:** financial institutions, investment bank, insurance company.
    - **2) Employees**
    - **3) Managers and directors**

- **External stakeholders; group outside a business**
    - 1) External Shareholders ; not involved in day to day running the business.
    - 2) customers
    - 3) creditors: lend money to business.
    - 4) suppliers
    - 5) Pressure groups e.g. trade union or environmental groups.
    - 6) The local community
    - 7) The government
    - 8) The environment

2. Stakeholder objectives

1) Shareholders ⇒ dividend & share price.

2) Employee ⇒ high wage & bonus, good working condition.

3) Manager ⇒ wage, bonus, benefits

4) A customers ⇒ good quality product at fair price.

5) Supplier ⇒ prefer long term contracts and regular orders

6) government ⇒ tax revenue I want business to comply with legislation

7) Environment ⇒ avoid negative impact on environment

8) Local community ⇒ want business to contribute to the success of the community & to be good citizens

Stakeholders influence stakeholder model

- Some corporations take into account the objectives of a wide group of stakeholders.
  ↳ by recognising stakeholders interest, open communication channels, recognising the mutual dependence that exists between different stakeholders, removing negative effects of business activity.

Stakeholders influence shareholder model

- The main objective is to maximise shareholder returns by raising both dividends paid to shareholders and the share price.

The potential for conflict between shareholders and stakeholders

1. Shareholders & employees

↳ Shareholders aim for profit, may try to cut cost by reducing wages for workers.

2. Shareholders & customers

↳ Shareholders aim for profit, may reduce cost by using low quality of raw material.

3. Shareholders and directors and mangers

↳ **Divorce of ownership and control** ; if shareholders lose some of their control over the business. As managers may aim for revenue max rather than profit max.

↳ Shareholders may prefer to have high dividends while the directors may prefer to retain more profit for investment.

4. Shareholders and the environment

↳ when business aims for profit maximization, might ignore effects on environment.

5. Shareholders and the government

↳ The business may avid paying tax to enjoy bigger profits.