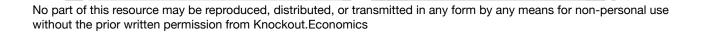
Chapter 15 stakeholder model VS shareholder model

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 \Rightarrow dividend & share price.
- 2) Employee \Rightarrow high wage & bonus, good working condition.
- 3) Manager \Rightarrow wage, bonus, benefits
- 4) A customers \Rightarrow good quality product at fair price.
- 5) Supplier \Rightarrow prefer long term contracts and regular orders
- 6) government \Rightarrow tax revenue I want business to comply with legislation
- 7) Environment \Rightarrow avoid negative impact on environment
- 8) Local community \Rightarrow 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.

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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.

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