
Shareholders versus stakeholders

2017-18

INTERNAL AND EXTERNAL STAKEHOLDERS

Stakeholder: person, group or organisation who can affect or be affected by the organisation's *actions, objectives, policies*.

- ▶ *Internal stakeholders*: those who have *direct interest* in company's well-being
 - ▶ *Business owners*
 - ▶ *Employees*
 - ▶ *Managers and directors*
- ▶ *External stakeholders*: those who may have interest in company's activities
 - ▶ *Shareholders*
 - ▶ *Customers*
 - ▶ *Creditors*
 - ▶ *Suppliers*
 - ▶ *Local community*
 - ▶ *Positive impact*
 - ▶ *Negative impact*
 - ▶ *Government*
 - ▶ *Environment*

STAKEHOLDER OBJECTIVES

- ▶ *Shareholders*: maximise *shareholder value*
- ▶ *Employee objectives*: maximise *financial rewards & welfare*
- ▶ *Managerial objectives*: maximise *power*
- ▶ *Customer objectives*: want businesses to *meet their needs*
- ▶ *Supplier objectives*: want *long-term contracts, fair prices, ...*
- ▶ *Government objectives*: want businesses to *grow, comply with legislation, ...*
- ▶ *Environmental objectives*: minimize impact on environment
- ▶ *Local community objectives*: build links to community, minimize pollution and congestion

STAKEHOLDER APPROACH

CLARKSON PRINCIPLES

Corporations should:

1. *Acknowledge* and monitor concerns of legitimate stakeholders
2. *Listen* and communicate with stakeholders
3. *Adopt* mechanisms sensitive to stakeholders' claims and requirements
4. *Interdependence* and distribution: recognise the interdependence of interests, and distribute benefits accordingly
5. *Cooperate* with other public and private entities – to reduce any negative impacts of the business, and to pay compensation
6. *Avoid* activities that infringe rights of stakeholders, e.g., right to life, property, and clean environment
7. *Transparency* of activities, reporting of actions taken to address stakeholders' requirements

SHAREHOLDERS AND STAKEHOLDERS

POTENTIAL CONFLICTS

- ▶ *Shareholders and employees*
- ▶ *Shareholders and customers*
- ▶ *Shareholders and directors and managers*
- ▶ *Shareholders and the environment*
- ▶ *Shareholders and the government*

KEY TERMS

- ▶ **External stakeholders:** groups outside a business with an interest in its activities
- ▶ **Internal stakeholders:** groups inside a business with an interest in its activities
- ▶ **Shareholder value:** a measure of company performance that combines the size of dividends with the share price
- ▶ **Stakeholder:** those with an interest in the activities of a business

KEY TERMS

REVISION OF CHAPTER 28

- ▶ **Collateral:** An asset that might be sold to pay a lender when a loan cannot be repaid
- ▶ **Incorporated business:** A business model in which the business and the owner(s) have separate legal identities
- ▶ **Limited liability:** A legal status that means shareholders can only lose the original amount they invested in a business
- ▶ **Long-term finance:** Money borrowed for more than one year
- ▶ **Rights issue:** Issuing new shares to existing shareholders at a discount

KEY TERMS

REVISION OF CHAPTER 29

- ▶ **Business plan:** A plan for the development of a business, giving details such as the products to be made, resources needed, and forecasts such as costs, revenues and cash-flow.
- ▶ **Cash-flow forecast:** The prediction of all expected receipts and expenses of a business over a future time period which shows the expected cash balance at the end of each month
- ▶ **Cash inflows:** The flow of money into a business
- ▶ **Cash outflows:** The flow of money out of a business
- ▶ **Net cash flow:** The difference between the cash flowing in and the cash flowing out of a business in a given time period
- ▶ **Solvency:** The degree to which a business is able to meet its debts when they fall due