The shareholder – stakeholder debate

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Evolvement of The Shareholder Model

- Corporations came into being – Stock: A new symbol of wealth and power
- In 1990, the California Public Employees’ Retirement System - “Shareowner”.
The Shareholder Model

- **Shareholder wealth maximization** – The company acts for the aim of maximizing shareholders’ interests. (Long-term interests vs. short-term interests)
- **Shareholder primacy** – Shareholders have ultimate controlling rights of the company.

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*Dodge v. Ford Motor Co.:

- “A business organization is organized and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed for that end. The discretion of directors is to be exercised in the choice of means to attain that end, and does not extend to a change in the end itself, to the reduction of profits, or to the non-distribution of profits among stockholders in order to devote them to other purposes.”*
Figure 1: Plotting Models of the Firm

Shareholder Wealth Maximization

Managerialism

Shareholder Primacy

Stakeholder Theory

Shareholders’ interests vs. Stakeholders’ interests

- Singular objective vs. confusing multiple goals
- The maximization of shareholder interests can be in the form of a pro-stakeholder approach
- The enforceability of the stakeholder approach
- Other stakeholders have contractual protection
Shareholder Primacy vs. Managerialism

- Managerialism: the risk of directors acting for their own good
- Shareholders are provided with limited enforcement and electoral rights in practice

Ownership Concentration in 12 Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Analyzed Firms</th>
<th>Largest Shareholding in %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>English-origin Legal System:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>114</td>
<td>17.07</td>
</tr>
<tr>
<td>Canada</td>
<td>280</td>
<td>29.65</td>
</tr>
<tr>
<td>Great Britain</td>
<td>687</td>
<td>11.78</td>
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<tr>
<td>Ireland</td>
<td>24</td>
<td>12.2</td>
</tr>
<tr>
<td>America</td>
<td>3070</td>
<td>16.83</td>
</tr>
<tr>
<td>America (500 largest firms)</td>
<td>500</td>
<td>10.95</td>
</tr>
<tr>
<td><strong>German-origin, European Legal System:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>30</td>
<td>54.5</td>
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<tr>
<td>Germany</td>
<td>240</td>
<td>51.72</td>
</tr>
<tr>
<td>Switzerland</td>
<td>66</td>
<td>48</td>
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<td><strong>French-origin European Legal System:</strong></td>
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<td>Belgium</td>
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<td>France</td>
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<tr>
<td>Greece</td>
<td>5</td>
<td>51</td>
</tr>
<tr>
<td>Italy</td>
<td>57</td>
<td>47.52</td>
</tr>
</tbody>
</table>
Ownership Structure and Corporate Governance Models

- Dispersed Ownership and Control: Pro-shareholder countries – America and UK
- Concentrated Ownership: Pro-Stakeholder Countries – Continental European countries

The debate

- The Debate on Shareholder and Stakeholder Model start from the prominent debate between Berle and Dodd in the 1930s on *For Whom are Corporate Managers Trustees?*
- The corporate scandals of 2001 and 2002 have re-ignited debate on the purpose of the corporation
Definition of stakeholder?

- Shareholder: Used with the intention of generalising the notion of stockholders as the only group to whom management needs to be responsive
- Stakeholder: various interests who participate in a business (accepted since 1980s)

Who are the stakeholders?

- Stake: a claim; an assertion on a title or a right to something; stakeholders: Groups who have a stake in the firm
- Stakeholders: groups and individuals who benefit from or are harmed by, or whose rights are violated or respected by corporate actions (Freeman, 2001)
Who are the stakeholders?

Stakeholder theory

- A theory for modern corporate law, directors are required to consider the interests of stakeholders and pay attention to various companies’ constituencies.
- Continental European and Japanese insider system or so called “network orientated” system
Characteristics of insider systems

- A relatively underdeveloped stock market
- Bank financing plays a more dominate role
- Company has a concentrated ownership structure
- Remember the insider system in terms of CG