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Exploring the Ability of Company Directors to Focus on Stakeholder Interests and the Potential Risks that can Arise

Junmeng Chang

School of Law, University of Leeds, Leeds, United Kingdom

Abstract: Shareholder value has long been dominant, but in recent years the attention of stakeholders has also increased, this study aims to study the company directors focus on the interests of stakeholders and the potential risks that may arise, and to find solutions to the problem, through a comparative approach to explore the strengths and weaknesses of the shareholder value and stakeholder value and to find the intrinsic linkage, the results show that each has its own advantages and disadvantages and The results show that both have their own advantages and disadvantages and that if you want to drive the company's long-term and healthy development, you have to balance the relationship between the two, and you have to take the third way, that is, enlightened shareholder value.

Keywords: Directors; Shareholder Value; Stakeholder Value; Enlightened Shareholder Value.

1. Introduction

For decades, the advantages of shareholder value cannot be ignored, and these advantages are missing from stakeholder value; however, it is undeniable that it is the shortcomings of the shareholder primacy principle itself that have led to a growing voice in favor of stakeholder value, and therefore it is important to look critically at stakeholder value and Understand the reasons why the call has become higher and its own advantages and disadvantages, while at the same time identifying the risks if directors become overly focused on serving the company's stakeholders. The risks associated with serving the company's stakeholders. This article focuses on the conflict between shareholder value and stakeholder value, Exploring the existence of shareholder value and the opposition that has emerged, focusing on the reasons for the emergence of pluralist theory and its own strengths and weaknesses, and discussing in detail the disadvantages that have resulted, and exploring whether an enlightened approach to shareholder value is a good way to address the risks associated with directors' over-focus on stakeholders [1]. The article critically discusses the advantages and disadvantages of both and examines whether enlightened shareholder value is a good way forward to address the risks posed by directors' over-focus on stakeholders.

2. UK Shareholder Value

In the United Kingdom and the United States, issues of corporate governance have been centred around the primacy of shareholders and the maximisation of profits. The reason for this is that shareholders bear the residual risk of the company and are clearly identified in company law as the owners of the company, so that the development of the company is in the hands of shareholders. In this regard, the directors, as managers of the company, have a duty to give primary consideration to the interests of shareholders [2]. However, economic development and globalisation have led to a shift in the traditional shareholder paradigm. Shareholder supremacy is seen as "outdated, over-abstracted, over-static and far removed from the modern business environment and social reality ". To a certain extent the shareholder value theory is under attack [3].

The primary advantage of the principle of shareholder primacy is the efficiency argument. Under this principle the directors are very clear about their objectives and as a result the company is run efficiently and effectively. However, for stakeholder value, it would be unreasonable and inefficient to require directors with specialist experience and knowledge of business matters to deal with balancing the interests of shareholders and stakeholders, as these are not their areas of expertise. Secondly, shareholder value allows companies to be accountable to their owners. Shareholder value makes it clear that they have the interests of shareholders at their core, which also provides a good standard for regulating directors and facilitates monitoring of management, while also protecting the interests of stakeholders, which is lacking in stakeholder value. So the nature and merits of shareholder value in its own right is what allows it to dominate and is the most critical part of the stakeholder value theory that is missing and has clear advantages [4].Shareholder value has always been the dominant view, but because the focus has been too much on efficiency and shareholder interest has led to companies developing for short-term gain without concern for long-term welfare, shareholder value has come under attack to some extent, requiring a greater focus on stakeholder value, but stakeholder value fundamentally changes the function of directors, so there are many irreconcilable risks to stakeholder value. A core concept of the Companies Act 2006 was to address some of the points of conflict between shareholders and stakeholders: whose interests should company law serve? The Company Law Review Steering Group (CLRS) Law Review Steering Group (CLRSG) considered three options: maintaining the status quo on shareholder value, the pluralist theory and a new regime of enlightened shareholder value (ESV). Of these, stakeholder value is the pluralist theory. The above arguments reveal that while the view that directors should focus solely on the interests of shareholders has come under fire, it is also important to note that the positive impact of shareholder value can be lost if excessive attention is paid to other stakeholders.

Of the three options considered by the CLRSG, the pluralist theory may not be the best option [5].

3. Reasons for and Benefits of Becoming More Vocal in Support of Stakeholders

The law on stakeholders gives a very broad interpretation, which includes parties that may be affected by or have an impact on the company's activities. The main stakeholders in the law generally refer to employees, suppliers, creditors, customers and the environment. Stakeholder value developed rapidly in the 1990s. It advocates that attention should be paid to those groups or individuals who play a role in achieving the success of the business. Shareholders are only one of many stakeholders and advocate that employees and other supporters should be involved in corporate decision-making. They advocate:

"a fair division of the pie created by the firm since all stakeholders have a role in determining the ultimate size of the pie [6]. "

The general tone of corporate development has always revolved around shareholder value, however, as the problems revealed by the principle of shareholder primacy and the great merits revealed by stakeholder value have caused this traditional shareholder model to come under attack and a shift has been sought. The old theory of vesting ownership of the company in the shareholders has gradually been revisited to correct the excessive focus on short-term financial gain at the expense of the long-term development of the company; thus pursuing the goal of profit maximisation. In the case of technology and service companies like Microsoft and Apple, for example, the challenge for these companies to remain profitable is to retain talent, which is more than just building a company that just needs some office appliances and space, so as society evolves to the point where information, knowledge and human resources, which are intangible assets, are more important than tangible assets, the value of stakeholders becomes more and more important [7]. Because this knowledge and information is created by employees and stored within individuals in the form of experiences, talent has become more valuable and indispensable than ever before, and companies must also change their attitude towards their employees. These arguments suggest that stakeholder value has merit in this respect as it is recognised and justified in the development of the company, It meets certain needs of other stakeholders and is not limited to short-term benefits [8].

4. Disadvantages of Excessive Stakeholder Focus

There are still many opposing views on stakeholder value, which usually arise as a result of the conflict between stakeholder value and shareholder value, and the protection of stakeholders makes it necessary to change the function of directors to some extent to accommodate this change, which envisages that where there is a trade-off between profit maximisation and stakeholder value, directors should also consider and balance all stakeholders The directors should also consider and balance all stakeholders when profit maximisation and stakeholder value need to be traded off, rather than choosing to prioritise the protection of shareholders' interests. Firstly, the first objection is based on the fact that the criteria once used to assess directors' performance in terms of shareholder value no longer apply, and that the current legal framework for stakeholder value is not sufficiently developed to have a uniform standard against which directors' performance can be assessed. Directors are accountable for the interests of the company in company law and are therefore accountable to neither shareholders nor stakeholders, leaving them open to abuse while granting them wide discretion [9].At this point, the principle of shareholder primacy is no longer binding on them, leaving them vulnerable to directors seeking personal gain to the detriment of the company's interests, as in the case of United Airlines, the second largest airline in the United States, due to high labour costs caused by the large number of employees represented on the board. United Airlines, the second largest airline in the United States, went bankrupt due to high labour costs caused by a large number of employee representatives on the board. This argument suggests that the pluralist theory would lose the appraisal criteria for directors, and it begs the question of what the point of the pluralist theory really is and whether it is really worth more than shareholder value [10].

The second opposing view is based on the problem that directors no longer focus on the interests of shareholders making them unclear about their objectives and resulting in lower economic efficiency and competitiveness of the company. Whereas under the shareholder interest paramountcy principle directors are expected to prioritise maximising the interests of shareholders, under stakeholder value directors will be required to consider the interests of employees, creditors etc. whose interests are most likely to conflict with those of shareholders and may be required to block bids. This argument begs the question, if the interests of the company are compromised by considering the stakeholders, does this not also compromise the interests of the stakeholders? So the purpose of considering stakeholders is not satisfied at this point [11].

A final opposing view is that stakeholder value can limit creativity and risk-taking. All those who can influence or be influenced by the company may be stakeholders by definition, so not only can the number be quite difficult to determine but the same person may be affected in multiple ways by different stakeholder identities. However, directors need to balance the interests of different stakeholders and it is difficult to decide which interest should prevail in such circumstances; it is also difficult for the courts to It is difficult to have objective criteria to determine which should prevail without undue interference with the board [12]. This argument suggests that not only will directors not maximise the benefits to shareholders and stakeholders if their objectives are ambiguous, but they will hesitate to make decisions that will undermine creativity and risk-taking, a situation that shareholders and stakeholders do not want to happen. So these arguments suggest that directors may not focus on stakeholder value to the extent that the fundamentals of company law are shaken, and that shareholder interests must not be ignored. The risk of focusing on stakeholder value is, on the other hand, the advantage of losing shareholder value, and both parties should seek a way to make peace.

5. Enlightened Shareholder Principles

Enlightened shareholder value, which can also be understood as being similar to the theory of enlightened value maximisation advocated by Professor Michael Jensen, states that:

"it is obvious that we cannot maximise the long-term market value of an organisation if we ignore or mistreat any important constituency. We cannot create value without good relations with customers, employees, financial backers, suppliers, regulators, communities, and so on [13].”

Addressing the range of issues arising from directors' focus on stakeholder value at the expense of shareholder interests is not the only way in which a re-choice of shareholder value can be successfully resolved. The approach of CLRSG to reform is to stimulate the company's dynamism and competitiveness so that it can continue to generate more value and profits, while minimising the negative impact that its activities may have. It concludes that this is best met by enlightened shareholder value, a product of the interplay of the two approaches, which is considered an emerging third status. For the previous two, as well as explained in general terms, both approaches have advantages and disadvantages, for enlightened shareholder value it is based on maintaining the primacy of shareholders also focusing on stakeholders and seeing them as the best way to ensure the prosperity and higher welfare of the company. The best way to ensure the prosperity and higher welfare of the company. The enlightened shareholder value approach is seen as providing a radical reform, Section 309 of the Companies Act 1985, which requires directors to consider the interests of employees in determining what is in the best interests of the company, is also regarded by the CLRSG as providing a statutory statement of enlightened shareholder value. Overall, the emergence of enlightened shareholder value is the result of a compromise between shareholder value, which has its own superiority and unshakeable fundamentals, and stakeholder value, which has needs that need to be considered by directors and, for the purposes of this paper, the risks that arise from stakeholder value, which also need to be addressed by enlightened shareholder value [14].

6. Conclusion

The purpose of this study is to answers the question about the risks of having a company director focused on stakeholders, it has examined the strengths and weaknesses of shareholder value and stakeholder value, finding the intrinsic link between the two in comparison. It also answers the question that enlightened shareholder value is indeed a good option to resolve the conflict between the two. This study has shown that there is merit in both shareholder value and stakeholder value, but again, choosing only one will not lead to the long-term health of the company. It argues that there are several possible disadvantages of focusing on stakeholder value, and for a company to be sustainable and profitable, it is important not only to avoid focusing on stakeholders, but also to balance the two. The third major finding is that enlightened shareholder value is a solution to the conflict between the two, a third way to explore in addition to the two, which blends the two and is good at weakening the conflict between shareholder value and stakeholder value.

The study highlights the importance of the search for a balance between shareholder value and stakeholder value and the focus of the company's directors on stakeholders can produce undesirable results and be detrimental to the company's growth. Theoretical, it discusses the existence of shareholder value is justified and the pluralist theory, which completely reverses the previous theory and changes the function of directors, is clearly unreasonable and has many difficult drawbacks. In practice, it provides insights for circumventing the drawbacks of stakeholder value exists and the ongoing exploration of enlightened shareholder value is taking the best of the best and contributing to the long-term interests and health of the company. This study consider several limitations the paper has some limitations in that while enlightened shareholder value is a viable solution to the conflict between shareholder value and pluralist theory, and a way of circumventing the disadvantages that can arise when directors focus on stakeholder value, the boundary between enlightened shareholder value and shareholder value is not specifically examined, and the extent to which directors should give attention to stakeholders when considering them is not argued in detail. The future study could on this basis, we continue to explore the differences and boundaries between enlightened shareholder value and shareholder value, and continue to examine the role that the function of the director should play in these theories and whose interests the director is acting in and what attention can be given to the interests of the stakeholders. Only then will there be rules that can be followed to amend even when it is found that there are disadvantages to a company director's focus on stakeholders.

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