The Stakeholder Value: Contributions and Limitations

Jamila OUBIHI
Faculty of Law, Economics and Social Sciences
Ibn Zohr University
PB 14562, Salam City, Agadir
Morocco

Abdelkbir ELOUIDANI
Faculty of Law, Economics and Social Sciences
Ibn Zohr University
PB 8658, Dakhla City, Agadir
Morocco

Abstract

The stakeholder approach to governance is still in the development phase. Its operationalization is little discussed in the literature. It presents difficulties of measurement. The objective of this subject is twofold. First, present the foundations on which the stakeholder value is based. Second, study the shortcomings faced by its implementation operationalization. Communication will be structured as follows. First, we explain the transition from shareholder governance to stakeholder governance through the questioning of shareholder governance theory and through the emergence of the stakeholder theory. Second, let's clarify the meaning attributed to the stakeholder value and the method by which it was measured. An identification of the limits of this partnership value will subsequently be studied.

Keywords: Corporate governance - Stakeholder value - Stakeholders

Introduction

Whatever the corporate governance model is, there is now a general consensus on the idea that governance plays a crucial role in creating value. However, the performance sought by organizations was purely financial. The overriding principle is the management of the shareholder value creation. Indeed, corporate governance has developed creation and distribution samples of value via several theoretical currents. It is thus shifted from a purely legal and financial approach that emphasizes shareholder model to a broader approach that led to the partnership model. The development of corporate governance has influenced the behavior of firms towards its various stakeholders. In other words, the principal-agent relationship has been exceeded. Value creation is no longer only about the shareholders. They are not supposed to be the only residual claimants. Value creation results of the combined efforts of all the company's partners.

Thus, the approach to stakeholder value is suggested as an alternative to that of shareholder value (Charreaux & Desbrières, 1998). However, this new partnership vision is still in the development phase. Its operationalization is little discussed in the literature. It presents measurement difficulties. The objective of this subject is twofold. First, present the foundations on which stakeholder value is based. Second, study the shortcomings faced by operationalizing its implementation. From a methodological point of view, we don’t only rely on a broad review of the literature about corporate governance, but also on the work to measure stakeholder value.

The communication will be structured as follows. First, we explain the transition from shareholder governance into partnership governance through the questioning of shareholder governance theory, then via the emergence of the stakeholder theory.

Second, we will clarify the meaning attributed to the stakeholder value and the method by which it was measured. An identification of the value limits of this partnership will subsequently be studied.

1. Corporate Governance: The shareholder approach to the partnership approach

The value creation process in disciplinary governance current is a function of two visions. In this sense, we distinguish the shareholder financial visions from the partnership vision. Several considerations justify exceeding the shareholder governance and the emergence of a pluralistic vision of governance.

1.1. Involved in shareholder vision Discount

The shareholder approach is rooted in the foundations of agency theory (Jensen & Meckling, 1976). This theory focuses on the conflicts of interest between the shareholders on the one hand and the other leaders on the other. According to this view, shareholders are supposed to be the only residual claimants. This leads to be interested only in mechanisms aiming to meet their interests. The creation of shareholder value is the most dominant approach of corporate governance.

While the objective of the shareholder model is to put in place a number of mechanisms leading to discipline the officer and limit its discretionary space in order to secure financial investments (Zoukoua, 2006). However, despite that this model makes it possible to obtain an operational indicator of the efficiency of firms with simplicity, it ignores other agents of the firm. In this sense, Arrow and Debreu (1954), state that the failure of the model lies in the incompleteness of contracts with all stakeholders and the impossibility of formalizing ex ante. Criticism of the agency theory lies in the fact that it focuses on the bilateral relationship managers - shareholders. Therefore, it hardly explains the reality of the outside world.

Shareholder vision of governance has gradually been challenged. Indeed, it could not avoid major financial scandals (such as Enron, Vivendi Universal ...), (Bessire, Chatelin, & Onnee, 2007). Similarly, these authors added that this is an approach that is far from being articulated with the concept of social responsibility of the company; Therefore, unable to respond to contemporary challenges from new players. In the same context, Garvey and Swan (1994) challenge the maximization of shareholder value by highlighting the internal organization of the firm. For them, governance issues become important only when contracts are incomplete. Therefore, shareholders are not true residual claimants.

Both authors contributed to develop a "plural vision" of the company where stakeholders are considered and venue of a cooperative game between these actors (Aoki, 1984). According to Bessire & et al. (2007), the shareholder model is not able to face the challenges from new players, grouped under the nomination of "stakeholders". This limit is support for analyzing value creation in two different streams in order to seek a more representative alternative reality. In this regard, reflection on governance has been extended to all stakeholders.

1.2. Emergence of the partnership vision of governance

As opposed to the concept of ''shareholder value'', ''stakeholder value'' has emerged. Proponents of the latter consider that shareholder value forgets to take into account the interests of other company stakeholders. However, the firm is considered to be a diverse nexus of contracts between the different stakeholders.

Freeman (1984) has defined the concept of "stakeholder "as" an individual or group of individuals who can affect or be affected by the achievement of organizational goals." The concept of "stakeholders" has been treated in several ways (Donaldson & Preston, 1995). According to these authors, managers are expected to consider the interests of all stakeholders. Bonnafous-Boucher and Pesqueux (2006) note, in this regard, that it is appropriate, in addition to profit maximization , to include in the Corporate Governance the interests and rights of non-shareholders. Under this partnership model, the objective of governance is to try to preserve the interests of stakeholders.

Furthermore, in order to identify stakeholders, several authors suggest typologies. For Carroll and Näsi (1997), they distinguish internal stakeholders (owners, managers, employees) and external stakeholders (competitors, consumers, governments, lobby groups, media, community and natural environment). On his part, Pesqueux (2002) provides another classification of stakeholders. The first category interested stakeholders with a contractual relationship with the company directly. These are contractual stakeholders (employees, suppliers, customers, shareholders and investors). As for the second category, it is composed of actors that can affect or be affected by the company without a contract (local authorities, public organizations, NGOs, associations, public opinion). The stakeholder theory is presented in three dimensions: descriptive, normative and instrumental.

Mercier (2001) argues that the descriptive dimension of stakeholder theory concerns relations between the organization and its environment. Indeed, it is a theory that seeks to explain the functioning of the management process and taking into account the interests of stakeholders. As for the instrumental dimension of stakeholder theory, it focuses mainly on the role of leaders. It seeks to help leaders understand the stakeholders and direct them in a strategic way Mercier (2001). Indeed, this approach seeks to explain the characteristics of the behavior of managers in organizations taking into consideration the interests and demands of stakeholders.

The same author cites that Jones (1995) states that firms with contracts of cooperation and mutual trust with their stakeholders acquire competitive advantage over those that do not. According to (Damak-Ayadi, 2003) the stakeholder management enables making the company more efficient in terms of growth, profitability and stability etc.

However, Evans and Freeman (1988) search normative foundations of stakeholder theory, which reflect the normative dimension of the theory. For these authors, recognizing the interests of stakeholders implies that stakeholders are included in the organizational decision systems. For them, the firm must satisfy the purposes of the stakeholders and their interests have intrinsic value.

Although the stakeholder theory knows a significant reputation, it does not escape from criticism. The partnership concept, although it is of particular importance, it remains less operational (Hirigoyen & Caby, 1998).

2. The stakeholder value: embryonic Operationalization

2.1. Stakeholder value: concept and measurement

Stakeholder value has been calculated by an attempt by Brandenburger and Stuart (1996). The reasoning of these authors is based on the analysis of the value chain suggested by Porter (1985). Thus, the measure of created value, provided by them, is to assess the value produced by the customers by "opportunity cost ", and to measure the value consumed in transactions with suppliers as "opportunity costs ". For a buyer, the opportunity cost indicates the maximum price to pay for good. For cons, the opportunity cost for the supplier concerns the minimum price it is willing to admit to complete the transaction.

Stakeholder value is calculated by the difference between willingness-to-pay and opportunity costs. Moreover, each party contributes to the creation of company value. In this respect, Parrat (1999) suggests an explanation to understand these contributions. So,

- For suppliers, there is creation of value when selling prices of goods and services to the firm are greater than the opportunity cost.
- For buyers, we speak of value creation when the company sells their good or service at a price below their opportunity cost.
- As for employees, value is created when they perceive a higher salary to their opportunity cost.
- Concerning the shareholders, there is a wealth creation when the perceived overall compensation is higher than they are entitled to receive.

The reasoning is the same as that of other stakeholders. The measure of value creation is based on the contributions of partners. They are paid according to their implications in the value creation process.

Thus, drawing on the work of Brandenburger and Stuart (1996), the measurement of stakeholder value proposed by Charreaux and Desbrières (1998), is based on an overall measure of rent created by the firm, taking into account the different stakeholders, not just shareholders. Both authors have tried to make these calculations in management situations. These researchers suggest that stakeholder value is created when the difference between the sales price of opportunity and opportunity costs is positive. To do this, the manager has an interest to act simultaneously on prices and opportunity costs.

However, despite these operational efforts, the partnership concept is far from unanimous and remains a minority (Caby & Hirigoyen, 2005).

2.2. Stakeholder value: Between contributions and limits

The assessment of performance should not be limited to maximizing shareholder value but the total extended value to all stakeholders. In this sense, Charreaux (1997) suggest looking for ‘’new indicators of overall performance’’.

The importance of measuring the creation of stakeholder value was reported by Figge and Schaltegger (2000). They summarize these in three points:

- Value creation by the firm's partners is an indicator of the financial performance of the company.
- The measure of value creation by stakeholders can empirically verify the correlation between the stakeholder value and value creation. This will be proven when the value management takes into consideration the interests of the partners.
- The measure of stakeholder value creation helps to determine the relative importance of the contribution of each in the value creation process. Also, this contribution can be compared with the average contribution of the same stakeholders in the market.

Certainly, the contribution of value creation for all stakeholders is important. This concept remains unclear and requires operationalization search criteria to judge its performance. Thus, various criticisms are addressed to this model. In this sense, the limits were reported by Albouy (2009). This highlights two main challenges to promote this model. The first relates to the measurement of stakeholder value and the second term is related to its implementation. While conventional measurement tools of finance by value (EVA- Economic Value Added- or the Net Present Value) are questionable, they are even required to manage elements. As for the stakeholder value, Albouy (2009) argues that its operability remains to forge. According to him, the method developed by Charreaux and Desbrières (1998) requires an identification of prices and opportunity costs for the various stakeholders. This is the thing that makes it difficult and less operational. The research on the partnership governance point of view was developed by reference to the stakeholder theory. Despite that it has enjoyed wide coverage in academic circles, various criticisms it receives. Among them Morvan (2005) marks the criticism of the definition of partner and that of the content and scope of the tied relationship with the firm. Indeed, many classifications have been proposed to define partners (Freeman (1984), Clarkson (1995), Igalens and Point (2009)). In this regard, Parrat (2015) notes that the extremities between different types of stakeholders are hard to explain. So to know what category to put a partner is a task that is not always easy.

Morvan (2005) argues that, according to the shareholder approach, shareholders are referred to as key players, and the key objective is to create shareholder value. By cons, in partnership perspective, linking the contracting firm and its partners is a delicate process. According to the same author, the number of players to be considered remains unlimited. Therefore, the satisfaction of a large number of players will complicate governance. Especially, some partners are not identifiable persons or rational moral agents (Sternberg, 1997). The difficulty lies especially with actors such as civil society and the natural environment. Also, if the cost of capital is fixed in the financial markets, however, there is no mechanism that can determine the minimum price of the contribution of several stakeholders. As for Jensen (2001), he believes that the pursuit of several goals by the company led to have none as rational behavior of the firm based on a single goal. Moreover, Sternberg (1997) indicates that the effectiveness of the partnership concept is the pursuit of the goal of creating long- term shareholder value by ensuring the cooperation of key actors in the business.

Conclusion

Certainly, the creation of stakeholder value is part of current debates such as business ethics, sustainable development or social responsibility of the company. However, the applicability of the partnership approach faces the obstacle of its operationalization. Despite its management intake, the shortcomings of the stakeholder theory mention that it is still in the development phase(Jahmane, 2012). Its boundaries seem to help explain the low diffusion of this partnership approach of the company. Although their empirical validations are low, this theory can continue to evolve. Thus, to analyze and expose theoretically the limits of the partnership business perspective can open new perspectives to researchers in management science. Therefore, improve the production process of the company and its performance.

References

Albouy, M. (2009). Valeur actionnariale et responsabilité sociale de l'entreprise. Working paper n°2009-09 E2. Université Pierre Mendès, Grenoble. Centre Etudes et de Recherche Appliquée à la Gestion.

Aoki, M. (1984). The co-operative game theory of the firm: Oxford university press.

Arrow, K. J., & Debreu, G. (1954). Existence of equilibrium for a competitive economy. Econometrica: Journal of the Econometric Society, 265-290.

Bessire, D., Chatelin, C., & Onnée, S. (2007). Qu'est ce que une bonne gouvernance ? XXVIII ème Congrès de l'Association Francophone de Comptabilité, Poitiers.

Bonnafous-Boucher, M., & Pesqueux, Y. (2006). Décider avec les parties prenantes: approches d'une nouvelle théorie de la société civile: La Découverte.

Brandenburger, A. M., & Stuart, H. W. (1996). Value-based business strategy. Journal of Economics & Management Strategy, 5(1), 5-24.

Caby, J., & Hirigoyen, G. (2005). Création de valeur et gouvernance d'entreprise. Paris: Economica.

Carroll, A. B., & Näsi, J. (1997). Understanding stakeholder thinking: Themes from a Finnish conference. Business Ethics a European Review, 6(1), 46-51.

Charreaux, G. (1997). Le gouvernement de l'Entreprise: Corporate Governance, Théorie et Faits, ouvrage collectif.

Charreaux, G., & Desbrières, P. (1998). Gouvernance des entreprises: valeur partenariale contre valeur actionnariale. Finance Contrôle Stratégie, 1(2), 57-88.

Clarkson, M. E. (1995). A stakeholder framework for analyzing and evaluating corporate social performance. Academy of Management Review, 20(1), 92-117.

Damak-Ayadi, S. (2003). La théorie des parties prenantes : Théorie empirique ou théorie normative ? 24ème Congrès de L'Association Francophone de Comptabilité, Louvain.

Donaldson, T., & Preston, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications. Academy of Management Review, 20(1), 65-91.

Evans, W., & Freeman, R. (1988). A stakeholder theory of the modern corporation: Kantian capitalism. In Ethical theory and business, T. Beauchamp & N. Bowie (Eds.) Englewood Cliffs: NJ: Prentice Hall.

Figge, F., & Schaltegger, S. (2000). Was ist ''Stakeholder Value ". Vom Schlagwort zur Messung.

Freeman, R. E. (1984). Strategic Management: A Stakeholder Approach: Pitman.

Garvey, G. T., & Swan, P. L. (1994). The economics of corporate governance: Beyond the Marshallian firm. Journal of Corporate Finance, 1(2), 139-174.

Hirigoyen, G., & Caby, J. (1998). Histoire de la valeur en finance d'entreprise. Valeur, Marché et Organisation, JP Bréchet (éd.), Presses Académiques de l'Ouest, 133-174.

Igalens, J., & Point, S. (2009). Vers une nouvelle gouvernance des entreprises: l'entreprise face à ses parties prenantes: Dunod.

Jahmane, A. (2012). La fidélisation des parties prenantes centrales (Actionnaires et Personnels) et leur impact sur la performance financière de l'entreprise. Thèse de doctorat en Sciences de gestion, Université de Lille 1.

Jensen, M. C. (2001). Value maximization, stakeholder theory, and the corporate objective function. Journal of applied corporate finance, 14(3), 8-21.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of financial economics, 3(4), 305-360.

Jones, T. M. (1995). Instrumental stakeholder theory: A synthesis of ethics and economics. Academy of management Review, 20(2), 404-437.

Mercier, S. (2001). L'apport de la théorie des parties prenantes au management stratégique: une synthèse de la littérature. Xième Conférence de l'Association Internationale de Management Stratégique.

Morvan, J. (2005). La gouvernance d'entreprise managériale : Positionnement et rôle des gérants de fonds socialement responsables. Thèse de doctorat en Sciences de Gestion, Université de Bretagne Occidentale, Brest.

Parrat, F. (1999). Quand l'actionnaire pèse trop lourd. L'expansion Management Review (93), 81-88.

Parrat, F. (2015). Théories et pratiques de la gouvernance d'entreprise: pour les conseils d'administration et les administrateurs: Maxima.

Pesqueux, Y. (2002). Organisations : Modèles et Représentations Paris: PUF.

Porter, M. E. (1985). Competitive advantage. New York: The Free Press.

Sternberg, E. (1997). The defects of stakeholder theory. Corporate Governance: An International Review, 5(1), 3-10.

Zoukoua, E.-A. (2006). La complémentarité des approches théoriques de la gouvernance : Application au secteur associatif. 27ème Congrès de l'Association Francophone de Comptabilité, Tunis.