Corporations practicing stakeholder management will be more sustainable

Businesses and corporations exist as legal persons in paper. However, management and employees give life to corporations. Businesses have different kinds of stakeholders. These stakeholders are the investors, employees, customer groups, suppliers, local community, government and civil authorities, and other secondary stakeholders like the competitors. Investors are the capital contributors. They employ people to manage the business on their behalves. This is because; the numerous shareholders have no requisite expertise to run their corporations. The management executes the crucial role of acting as the agent of the capital providers. They carry on the corporate responsibility on behalf of owners (Daily, Dalton and Canella, 2003).

The issue of corporate responsibility and ethics is increasingly gaining popularity in the recent times. This is because; companies consist of more than economic just economic relations, facts and figures. Successful corporate management requires social and moral expertise in addition to professional skills (Crane and Matten, 2007). Attributes such as social competence, personal integrity, trustworthiness, and other core competencies become critical in dealing with employees, corporate partners and the decisive public.

In the current risky society, moral codifications should be variables of efficient corporate policy. This is because; a company's survival is not only determined by the market logics but also by societal acceptance. Modern investors base their economic decisions not only on share prices and profits, but also on efficient corporate governance and ethics. Modern crises like environment destruction, extreme corruption scandals in corporations, failure of the worldwide economy to eradicate poverty has put companies and corporations ethics on the lime light by the media. This is a clear indication that the business world is not impervious to moral opinion.

Companies act before the eyes of a global and a limitless public, and as such, dubious economic maneuvers can bring big corporations and industries into disrepute. Customers in the current era of globalization have power at their disposal. This is the power of foregoing consumption. If consumers forego consumption, then the firms products and services will have no or little market. The ripple effect will spill over to results in reduction in earnings. This in return results in less or no profits for the firm. This has an impact on reduction in wealth for shareholders, which is against the reason for which the corporation was established. No firm can afford to behave immorally for purely economic reasons. This has an impact on companies to comply with ethical norms to operate in the long run. This is the reason behind firms having to practice stakeholder management.

There have been disciplines involved in the development of corporate governance. This discussion features three main theories associated with corporate governance and ethics development. These are the agency theory, stewardship theory and stakeholder theory.

Agency theory

Agency theory recognizes the liaison where one party; the principal, entrusts work to another party called the agent. The agency relationship may have some demerits arising from opportunism and self interest on the part of the agent. For example, the agent may not act in accordance with the principal's best interests, or the agent may act only partially in the superlative concern of the principal (Clark, 2004). The agent may possibly also misuse the powers for financial or other advantage by not enchanting appropriate risks in pursuance of the principal's best interest. This results from the fact that he and the principal may have differing attitudes to risk. The asymmetry of information also poses a problem for the agency, whereby the principal and the agent have different echelons of information. In most instances, the principal is at a disadvantage since the agent will have access to more information.

In corporations and issues of corporate control, agency theory sees company governance devices, in exacting the board of director, as crucial monitoring devices. This is more so to ensure that any problems may be brought about by the principal-agent relationships are minimized. The context of ownership separation and control relate to much of the agency theory as related to corporations. In this case, managers are the agents, and shareholders are the principal.

Disjointing of ownership and control

The potential dilemma of the separation of the severance of possession and control was identified back in the 18^{th} century. Adam Smith said that directors of joint stock companies being managers of other people's funds than of their own, it cannot be probable that they should observe over it with the similar vigilance as if it were their own. This formed the basis in which fundamental explanations of investor and corporate affiliations. As countries developed industries and markets, ownership and control of corporations became alienated. Legal systems have fostered good minority shareholder's protection and thus, there has been encouragement for more diversified shareholder bases, more so in the USA and UK (Sison, 2008). Minority shareholder protection is not effective in countries where there is a code of civil law. As a result, there has been less impulsion for a broad shareholder base.

There has been a dilution tendency to at the twentieth century of controlling blocks of shares to the present institutional and widespread ownership. There has been increasing pressures on institutional shareholders who own shares to act more as owners, and not just as holders of shares. The drive for effective shareholders, who act as owners, has come about to since there have been instances of corporate abuses and excesses (Zimmerli et al, 2008). The abuses are like overpayment of directors for poor performance, corporate collapses, and scandals resulting in wiping out of corporate pension and investors losing their investment.

The call for better transparency and disclosure is embodied in the corporate governance codes and international accounting standards. This is to improve the information asymmetry state of affairs, in order for investors to be informed about the entity's activities and policies (Brink, 2011). When shareholders as like owners again, they will be able to apply a more direct pressure on companies and their directors, so that the directors are more accountable for their actions. In this logic, the power of ownership is returned to the owners.

Stakeholder theory

Stakeholder theory takes into account the wide group of stakeholders instead of focusing on shareholders only. A repercussion of focusing on investors is that the maintenance of shareholder value is supreme, while when a wider stakeholder group like suppliers, employees, customers and the local community is taken into account, the paramount focus on shareholder value becomes less evident. This is for the reason that many companies endeavor to maximize shareholders wealth, while taking into account the interests of the wider stakeholder group at the same time (Vallabhaneni, 2008). The rationale for privileging shareholders over other stakeholders is because; they are the beneficiaries of the residual cash flow. This means that shareholders have a vested interest in a bid to ensure resources are used to the utmost effect, eventually benefitting the whole society.

Investors and wider stakeholder group may advocate for different corporate governance structures and control mechanisms. For example, the Anglo-American corporate structure has its prominence on shareholder value and a board comprised of totally executive and non executive directors elected by investors (Tricker, 2012). A German model on the other hand enshrines in law that other stakeholder groups like workers have a right to elect their representatives to sit on the administrative board, in conjunction with the directors.

Traditional stakeholder theory states that managers of any firm should take charge of the significance of all other firm stakeholders. There are no defined quantifiable objectives of how the trade-offs against the interest of each stakeholder group might be made, leaving managers unaccountable for their deeds (Wheeler et al, 2003). As a result of this weakness in traditional stakeholder theory, its proponents advocate for progressive value maximization which is the enlightened stakeholder theory. Progressive value maximization makes use of maximization of the long-run company value, as the decisive factor for making necessary trade-offs among different stakeholders.

Stewardship theory

Stewardship theory assumes that managers are the stewards, and their behaviors are allied with goals of their bosses; the principal. This theory puts into perspective a different form of motivation for managers, which is drawn from organizational theory. This theory holds managers as being loyal to the company, with the interest of achieving high performance.

According to this theory, the desire to perform exceptionally is the dominant motive that directs managers to carry out their work (Zimmerli et al, 2008).

Particularly, managers are conceived as being energized by a need to realize, gain inherent fulfillment by successfully executing demanding work, to exercise conscientiousness and authority; eventually gaining recognition from their peers and superiors. This implies that there are non- fiscal energizers for managers. The theory upholds that the corporation requires a structure that makes it possible for harmonization to be achieved most efficiently between managers and owners (Crane and Matten, 2007). The situation is achieved more readily if the Chief Executive Officer is the chair of the board too, in the firm's leadership. This kind of leadership will aid managers to attain superior performance to the point that the Chief Decision-making Officer exercises overall authority over the corporation. Their leadership role is unambiguous and unchallenged.

In this context, authority and control are concerted in a single individual. As a result, the expectations concerning company leadership will be clearer and more unswerving; both for subsidiary managers and other company board members. Thus, there is no opportunity for ambiguity, as to who have influence over a specific issue. The organization will enjoy the gains of unity and direction of a strong command and control. The safeguarding of the returns to investors may be along the path, not of pitting organization under larger control by proprietors, but of giving power to managers to obtain sovereign executive action.

Conclusion

Corporate governance is constantly changing and evolving, with changes driven by internal and external environmental dynamics. The internal environment has a fixed mindset of shareholders' association with other stakeholders and profit maximization. External environments like mergers and acquisitions, human resource assortment, commerce start-ups, globalization and business internalization, advance of information technology, and the collapse of large corporations like Enron have influenced corporate governance in one way or the other. Governance for different states may differ due to due to cultural, social, political and historical circumstances. Governance for developed and emerging nations may vary due to the economic and social milieus of individual country (Brink, 2011).

Good and affective corporate governance cannot be explained by one theory alone, but it is better to combine a variation of theories. The theories to be combined should not only address the social relationship, but also on rules and regulation. This should be in conjunction with stern enforcement surrounding practices of good governance, which go beyond the norms of a perfunctory approach towards corporate governance (Bhimani, 2008).

The best combination could be the stewardship and stakeholder theories. Stakeholder theory ensures that all stakeholders' issues are taken into consideration. Stakeholder theory comes into play as companies are increasingly becoming aware that they cannot operate in isolation. Companies need to have regard to a wider stakeholder component as well (Sison, 2008). This creates a sense of equity among different parties, and as a result, stakeholders are more likely to identify with the firm. This creates a sense of belonging to different organization members.

Under the stewardship watch of the chief executive officer and other managers, the entire organization will be well governed. One group will have a watch over the other, but the stewards should hold the overall command. It is therefore essential that a holistic comprehension be motivated across the business world, which would bring about a diverse standpoint in regards to corporate governance (Mallin, 2007). It is vital to review the light of convergence of the different theories, incorporating subjectivity from social sciences perspective on corporate governance.

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