

Strategic and International Management

– 2. Stakeholders, objectives, and governance

Strategic and International Management

Agenda

- 1 Foundations of management
- 2 Stakeholders, objectives, and governance**
- 3 Strategic decision making and performance
- 4 Strategy analysis
- 5 Competitive strategies
- 6 Strategy implementation

Strategic and International Management

Agenda

2 Stakeholders, objectives, and governance

2.1 Stakeholders and their relationships

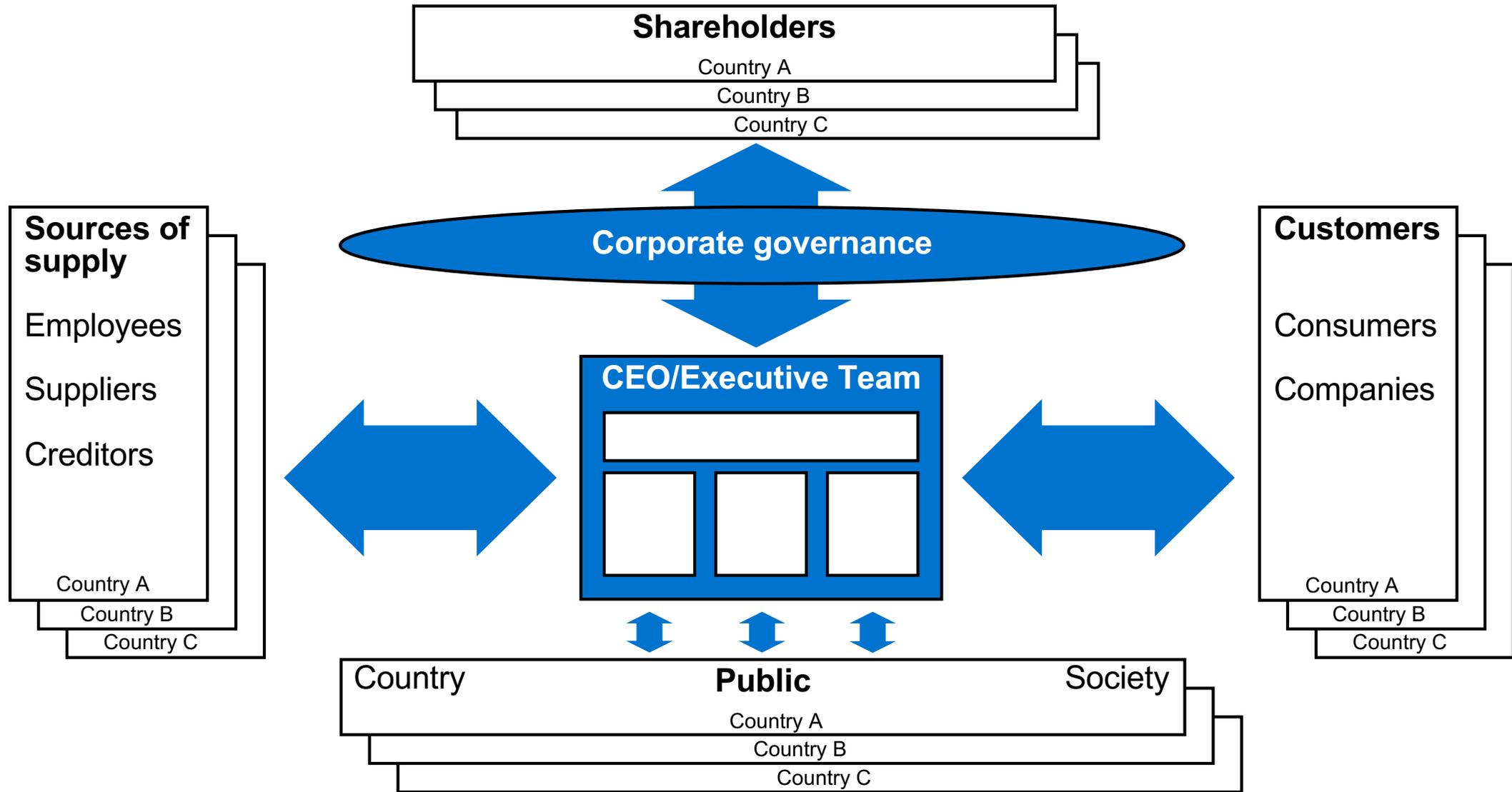
2.2 Objectives for and of corporations

2.3 Relationships and governance

Learnings

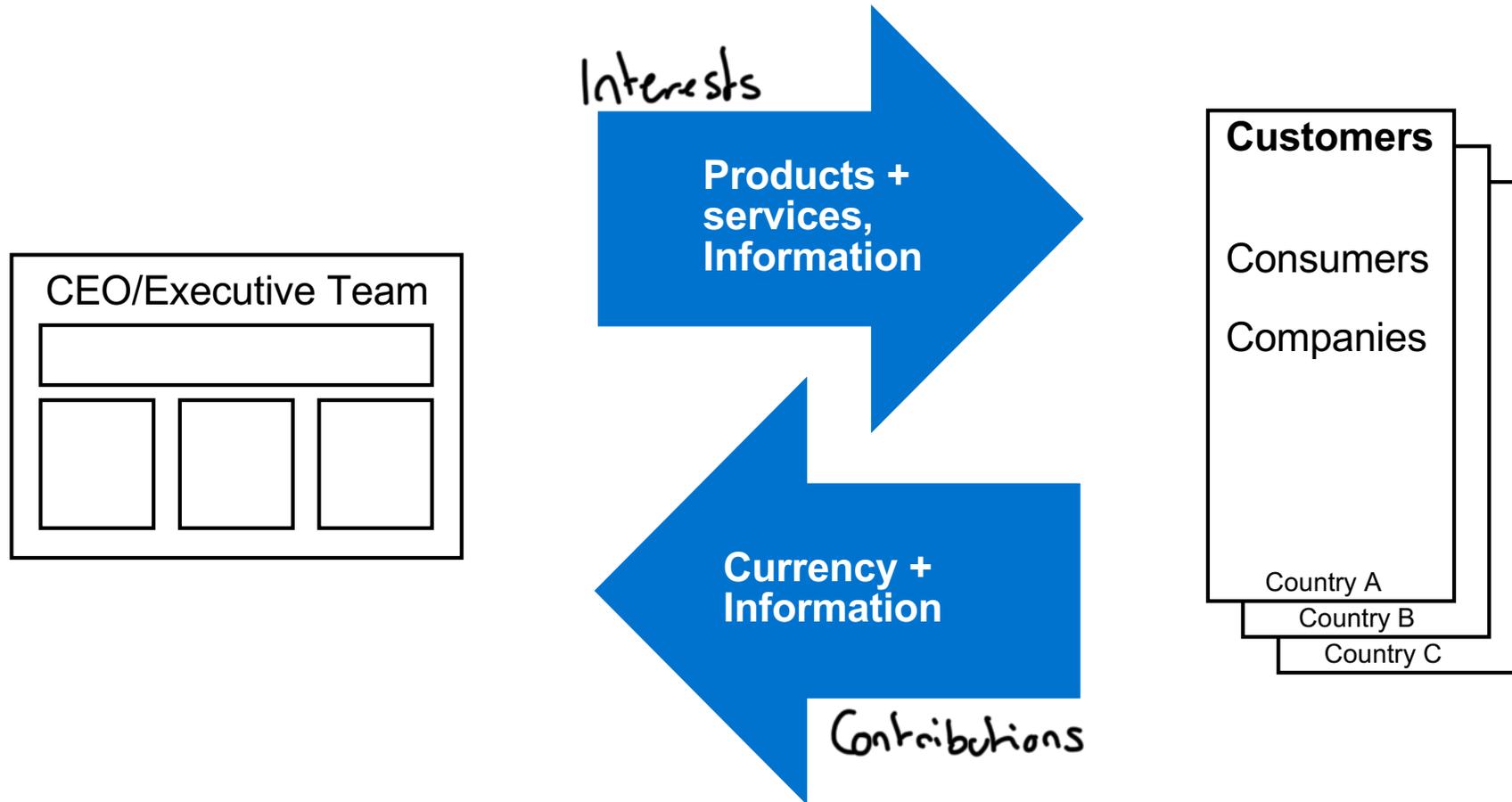
Management is managing relationships to stakeholders

Coordination of external relationships



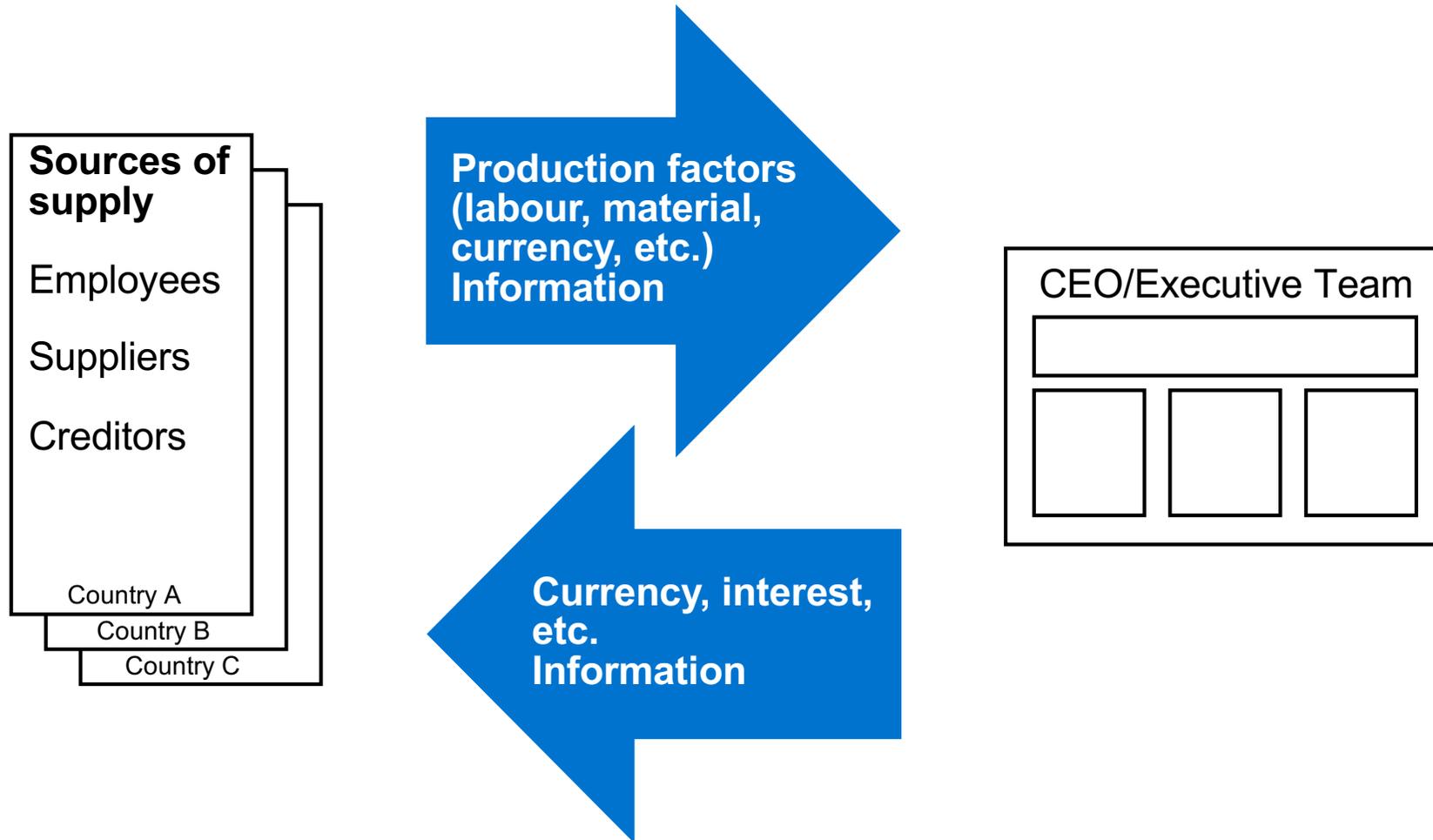
Stakeholder relationships to a corporation are characterized by specific contribution by and benefits for stakeholders

Contribution by and benefits for stakeholders - customers



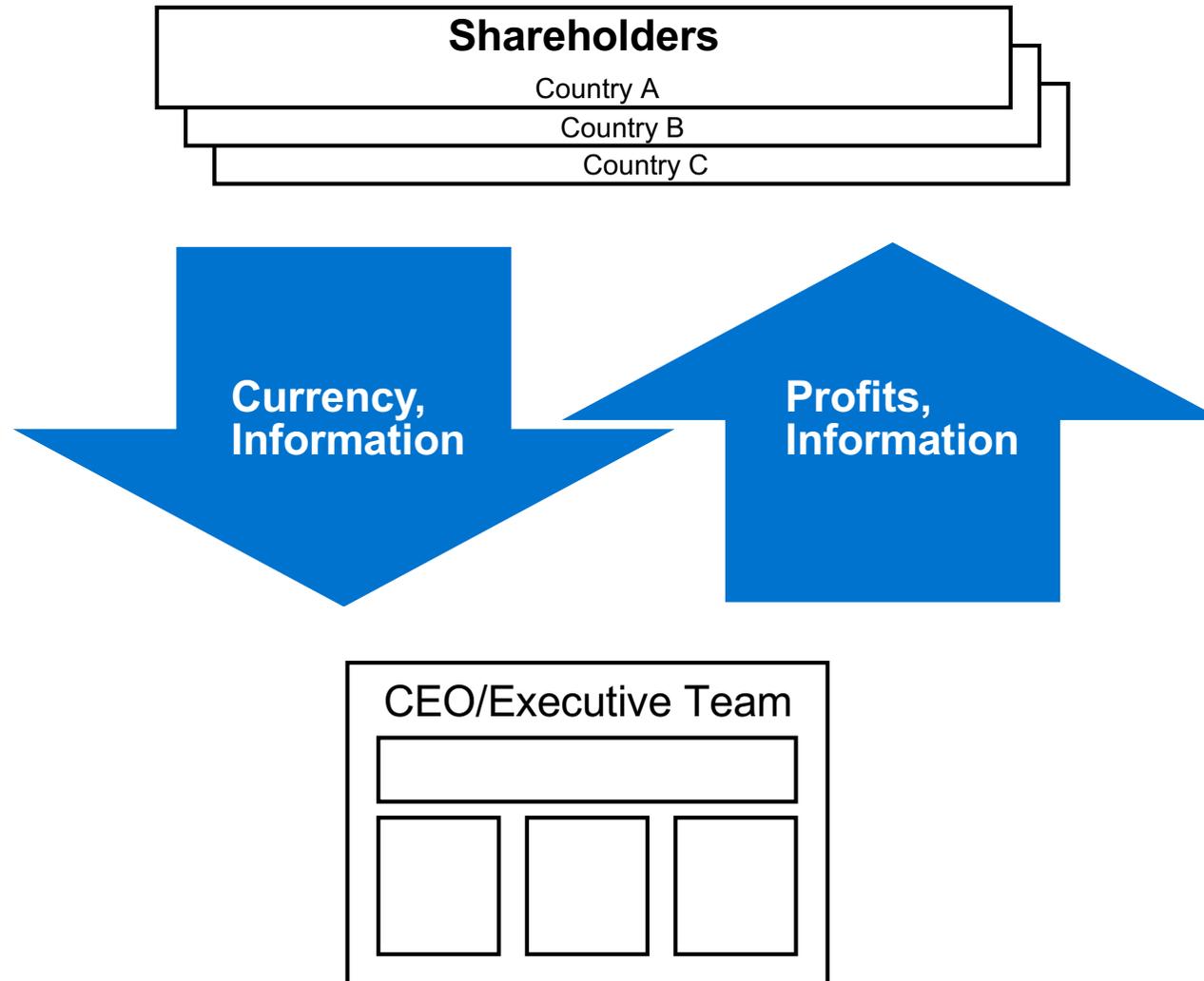
Stakeholder relationships to a corporation are characterized by specific contribution by and benefits for stakeholders

Contribution by and benefits for stakeholders - suppliers



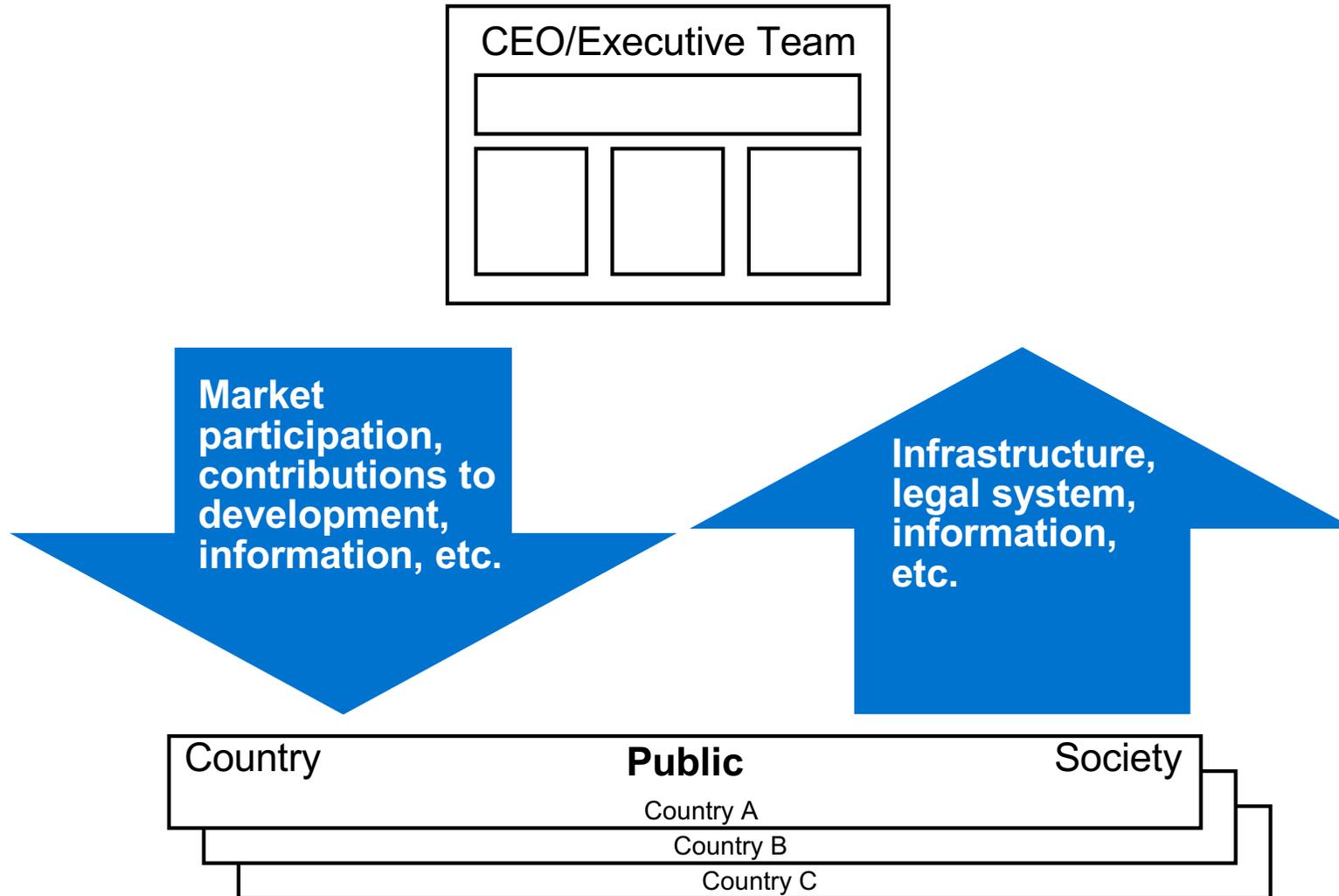
Stakeholder relationships to a corporation are characterized by specific contribution by and benefits for stakeholders

Contribution by and benefits for stakeholders - shareholders

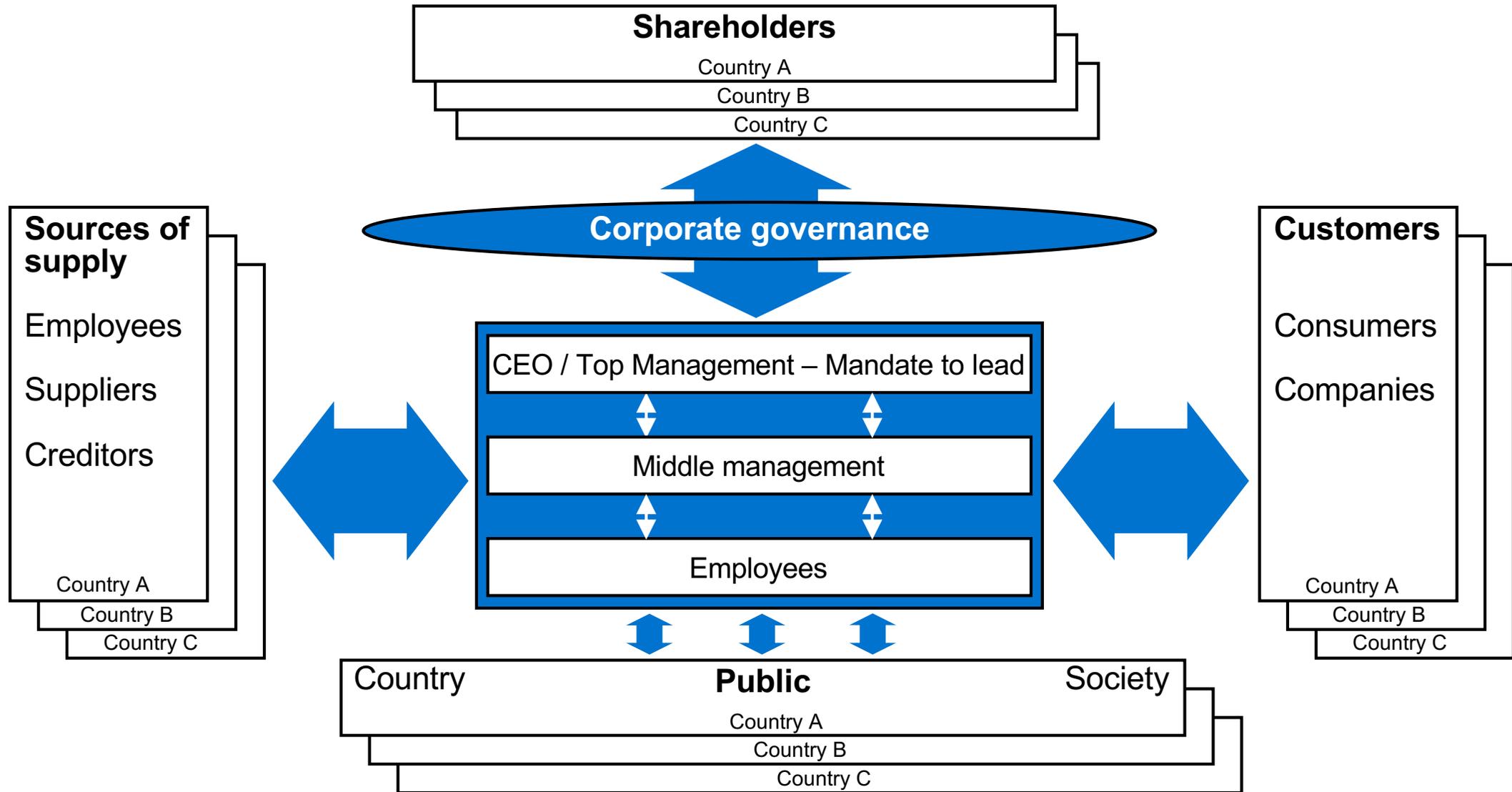


Stakeholder relationships to a corporation are characterized by specific contribution by and benefits for stakeholders

Contribution by and benefits for stakeholders - public



CEOs manage the relationship between the firm and its stakeholders based on corporate governance



Exercise: Stakeholders in different countries add additional challenges

1 Which factors/decisions does management have to consider if customers come from different countries?

3 Which factors/decisions does management have to consider if suppliers come from different countries?

2 Which factors/decisions does management have to consider if employees come from different countries?

4 Which factors/decisions does management have to consider if shareholders come from different countries?

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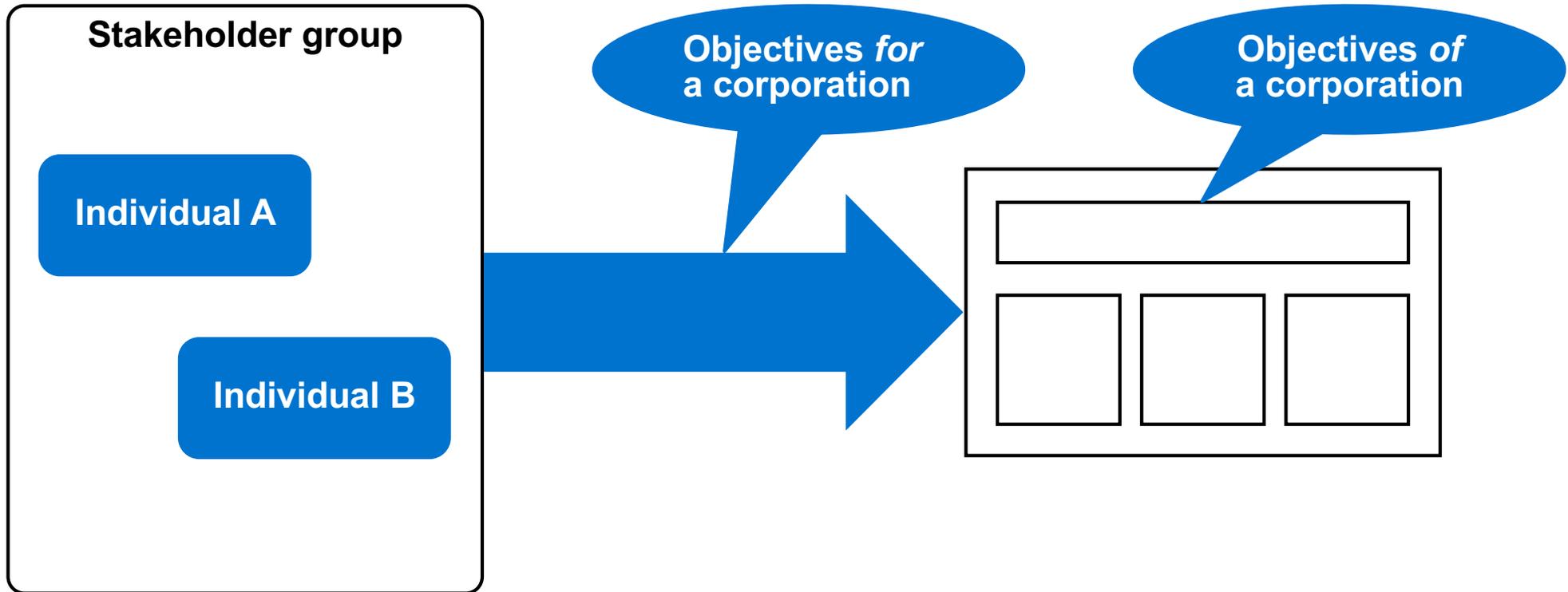
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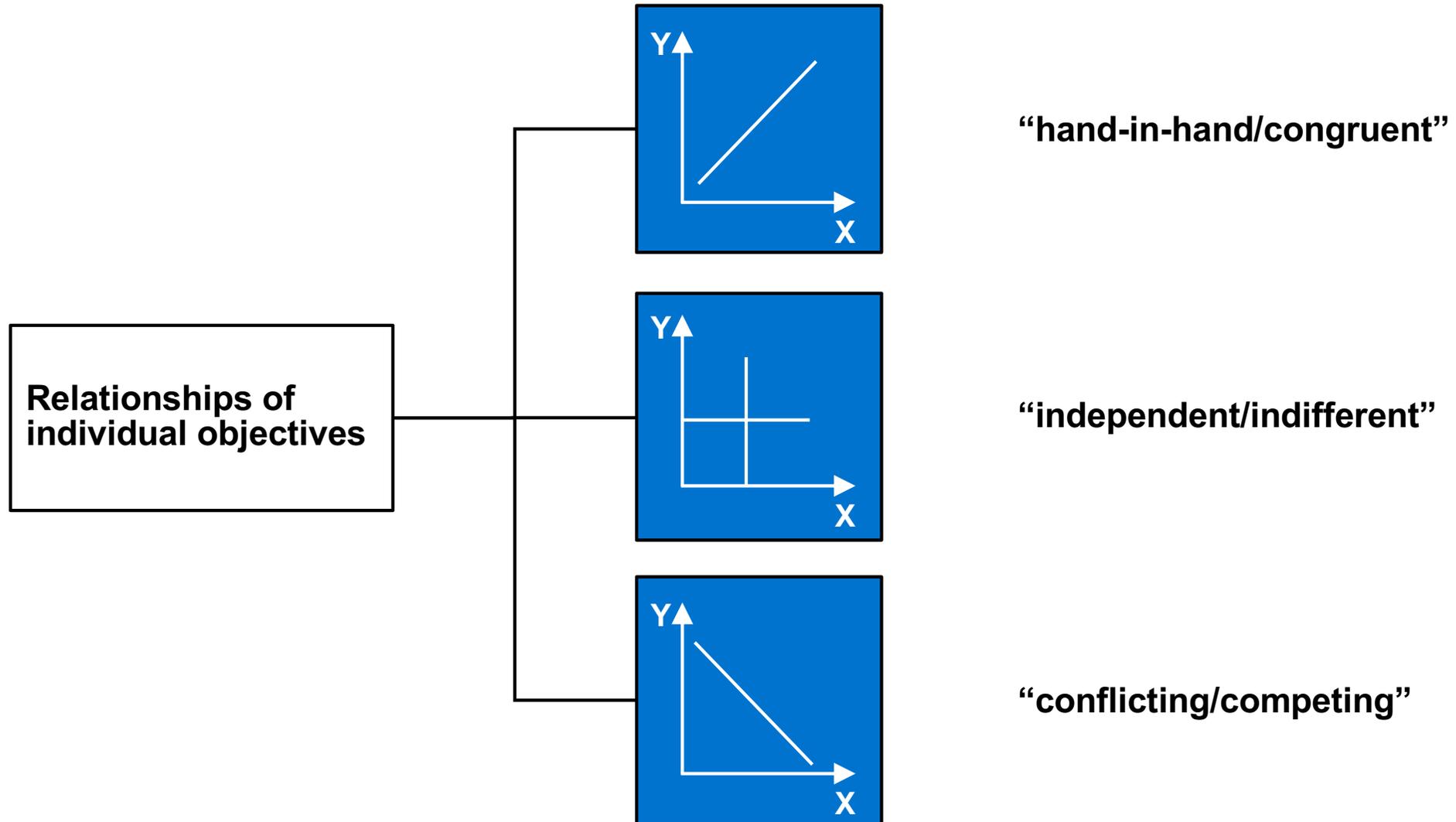
Learnings

Objectives for a corporation are individual, objectives of a corporation normatively set

Objectives *for* versus *of* a corporation



Since a multitude of individuals have relationships to a corporation, individual objectives *for* a corporation may differ



Exercise: Please pick multiple objectives of stakeholders of a company you know and determine how they are related to each other

General

Objective X: <i>payout</i>	by:	Stakeholder <i>Shareholder</i>
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Objective Y: <i>invest (R&D)</i>	by:	<i>Corporation</i>
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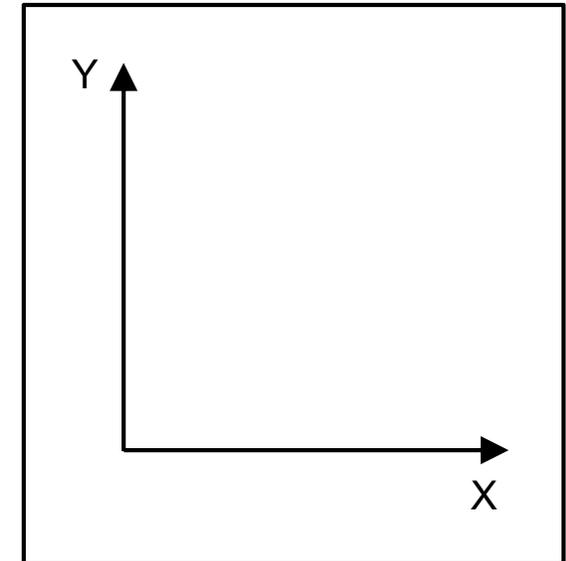
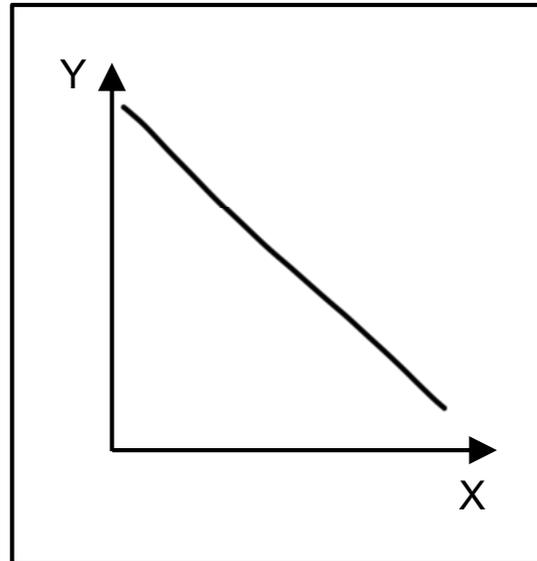
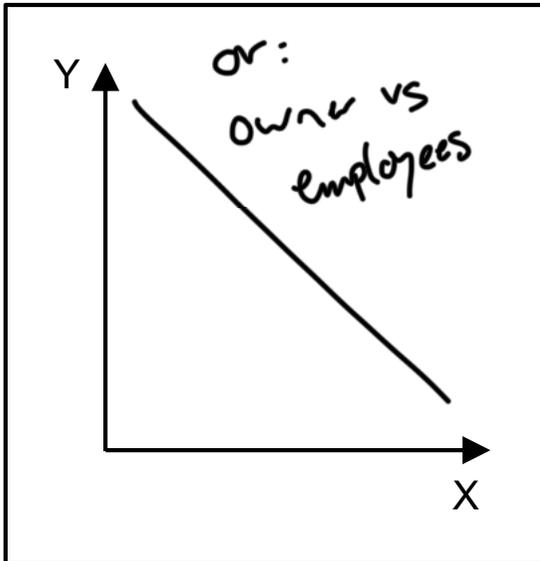
Specific

X: <i>Fair artist pay</i>	by:	<i>Public</i>
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Y: <i>low price</i>	by:	<i>Customer</i>
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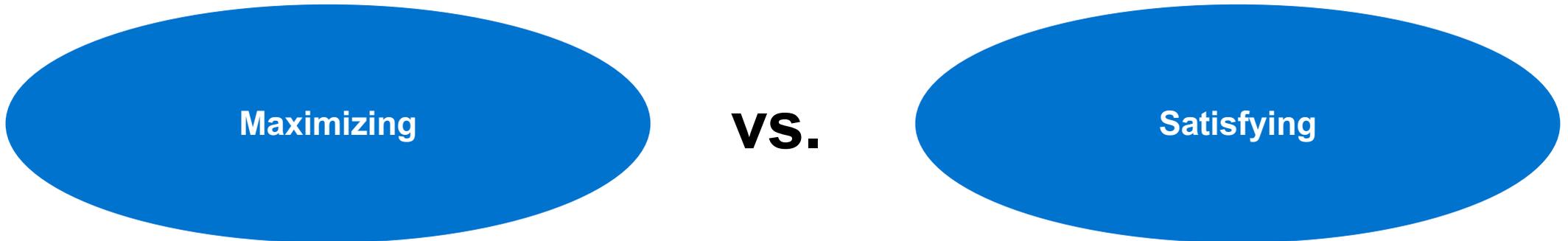
X:	by:	
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Y:	by:	
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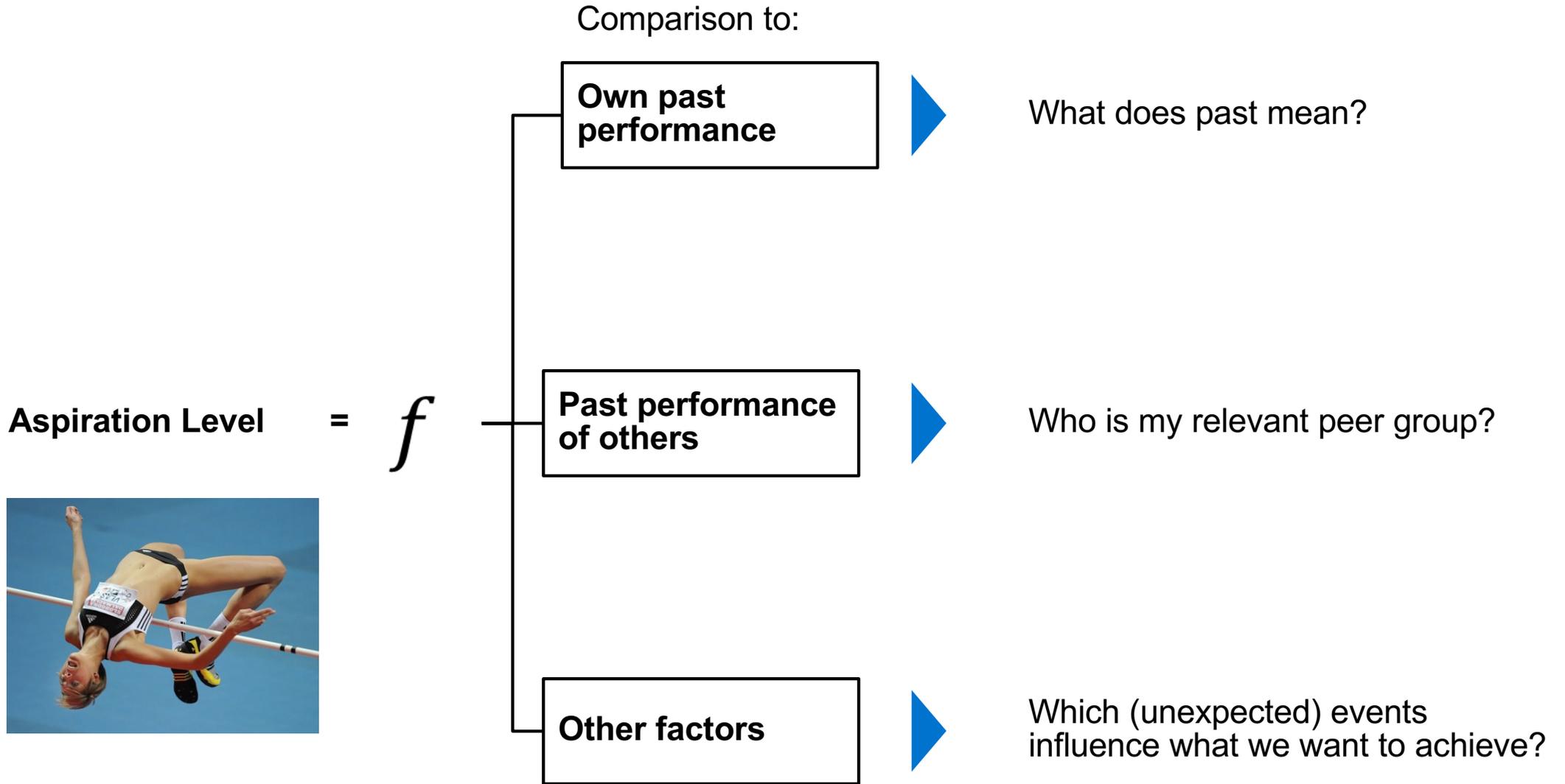


Objectives are typically set as an aspiration level

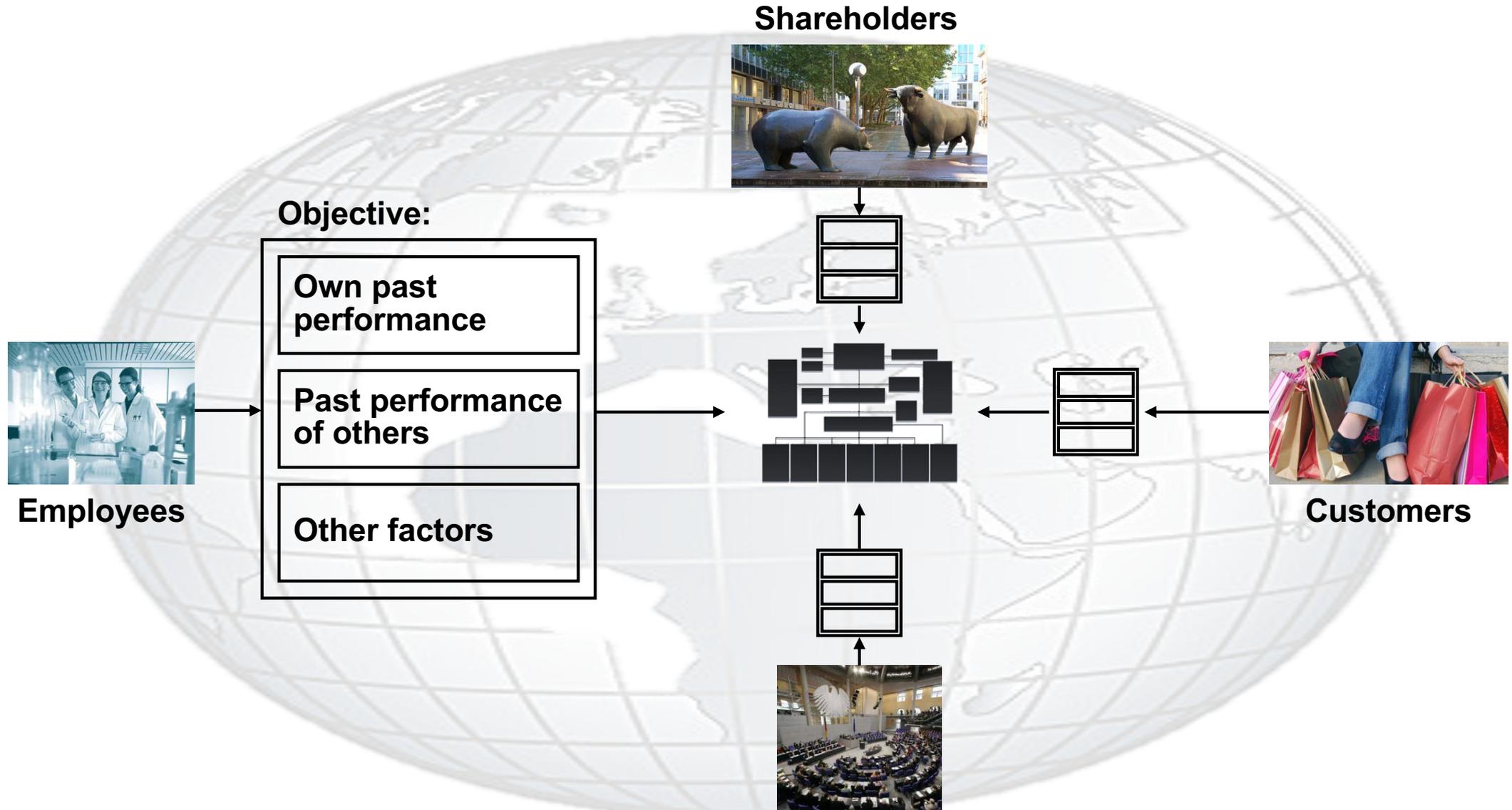
Maximizing versus satisfying objectives



The aspiration level is a function of comparisons and path dependent factors

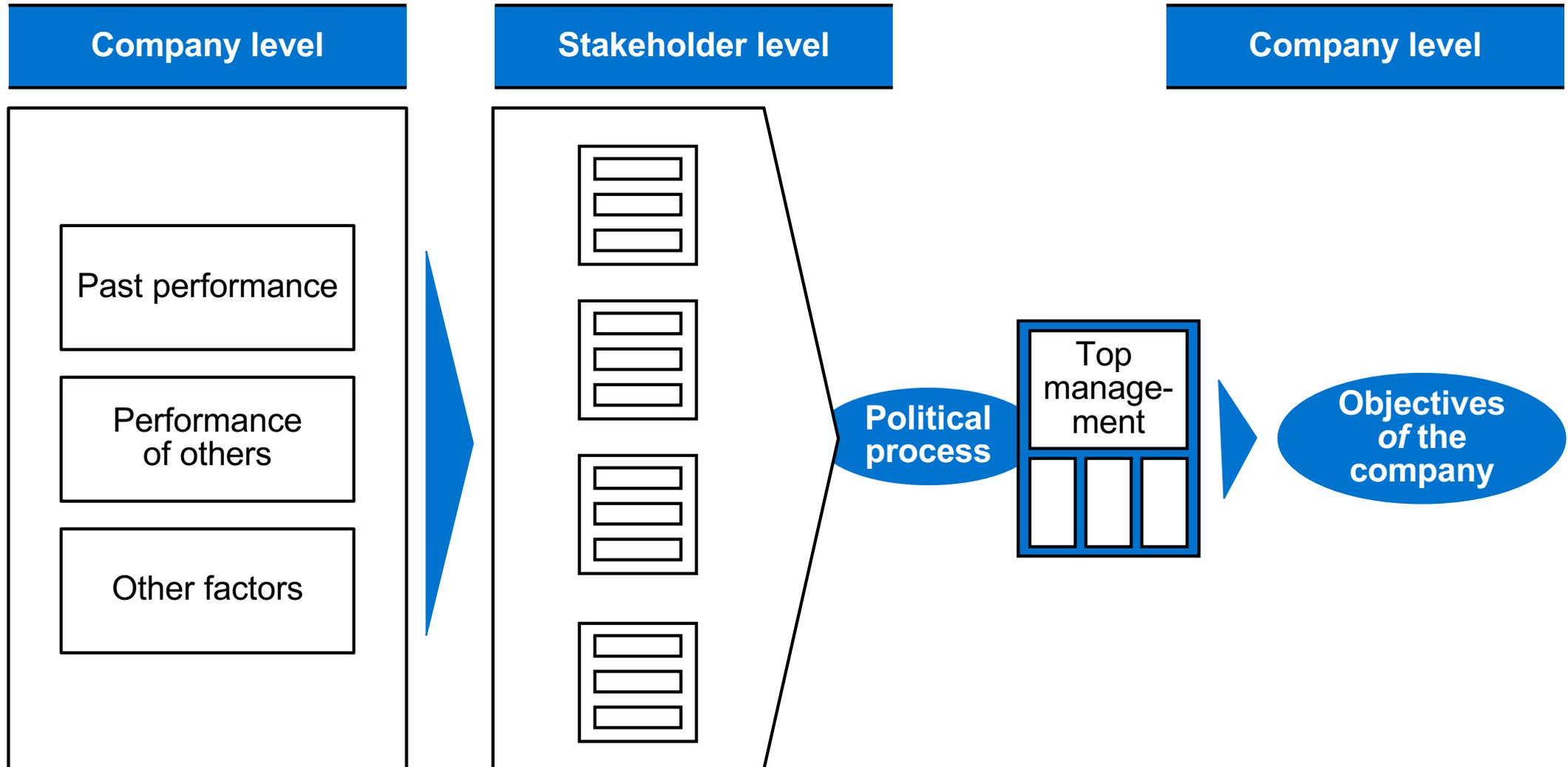


Stakeholders' expectations entail multiple objectives firms should fulfill



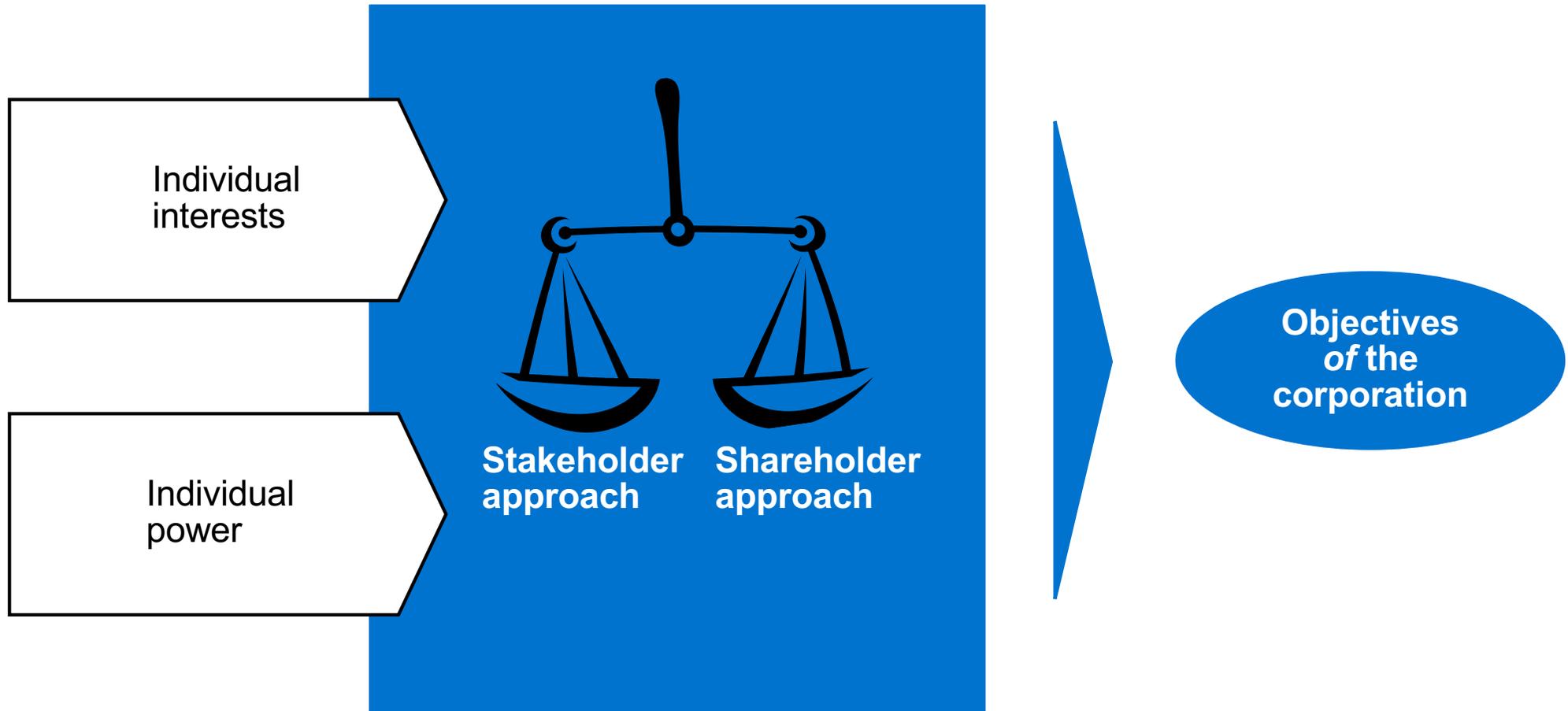
Top management organizes a political process to determine objectives of the company

From results to objectives



Top management is influenced by interests and power

Generic objective systems as boundaries for objective setting



Literature and business practice heavily discuss two approaches that always follow normative judgments ...

Stakeholder and shareholder approach – a comparison

	Stakeholder approach	Shareholder approach
Perspective	Companies as coalitions of stakeholder groups	Companies exist to create welfare for their owners
Definition of success	Maximization of the profits of all groups	Maximization of discounted future cash-flows of owners
Consequences	Interpersonal benefit-cost comparisons necessary Prioritization necessary	Instrumentalization
Primary objective	Stakeholder Value	Shareholder Value

...and comparisons

Formal descriptions of stakeholder and shareholder value (approaches)

Shareholder Value

$$SV = \sum_{t=0}^{\infty} (I_t - O_t) * (1 + c)^{-t}$$

Stakeholder Value

$$STV = \sum_{j=1}^N \sum_{t=0}^{\infty} (B_{jt} - C_{jt}) * (1 + r_j)^{-t}$$

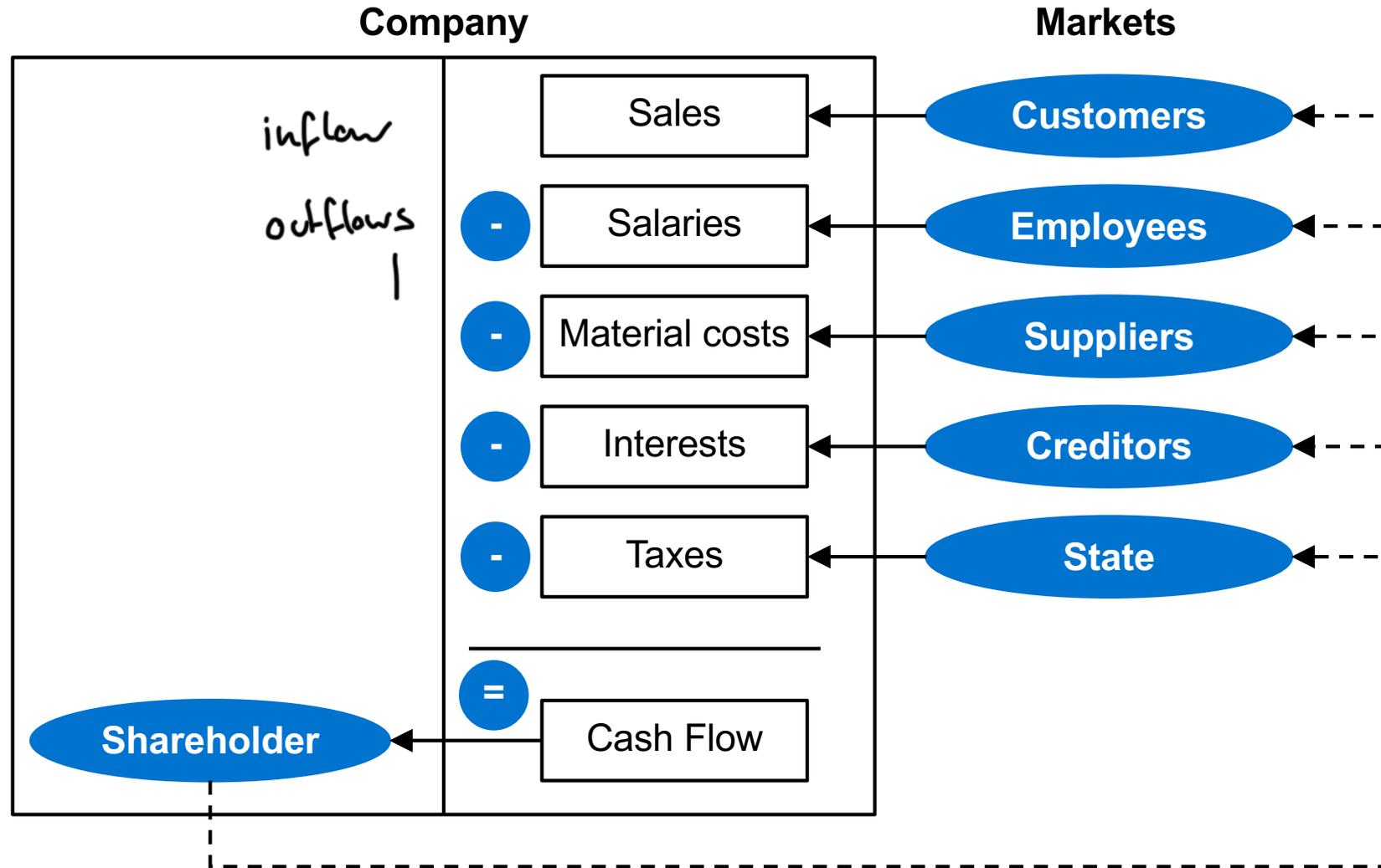
sum of all stakeholders,
may be unequally distributed

SV	Shareholder Value
STV	Stakeholder Value
I_t	Payments to owners in period t
O_t	Pay-offs of owners in period t
c	Equity cost of capital
t	Current period

B_{jt}	Benefit of stakeholder j in period t
C_{jt}	Cost of stakeholder j in period t
r_j	Time preference rate of stakeholder j
j	Considered stakeholder
N	Number of stakeholders

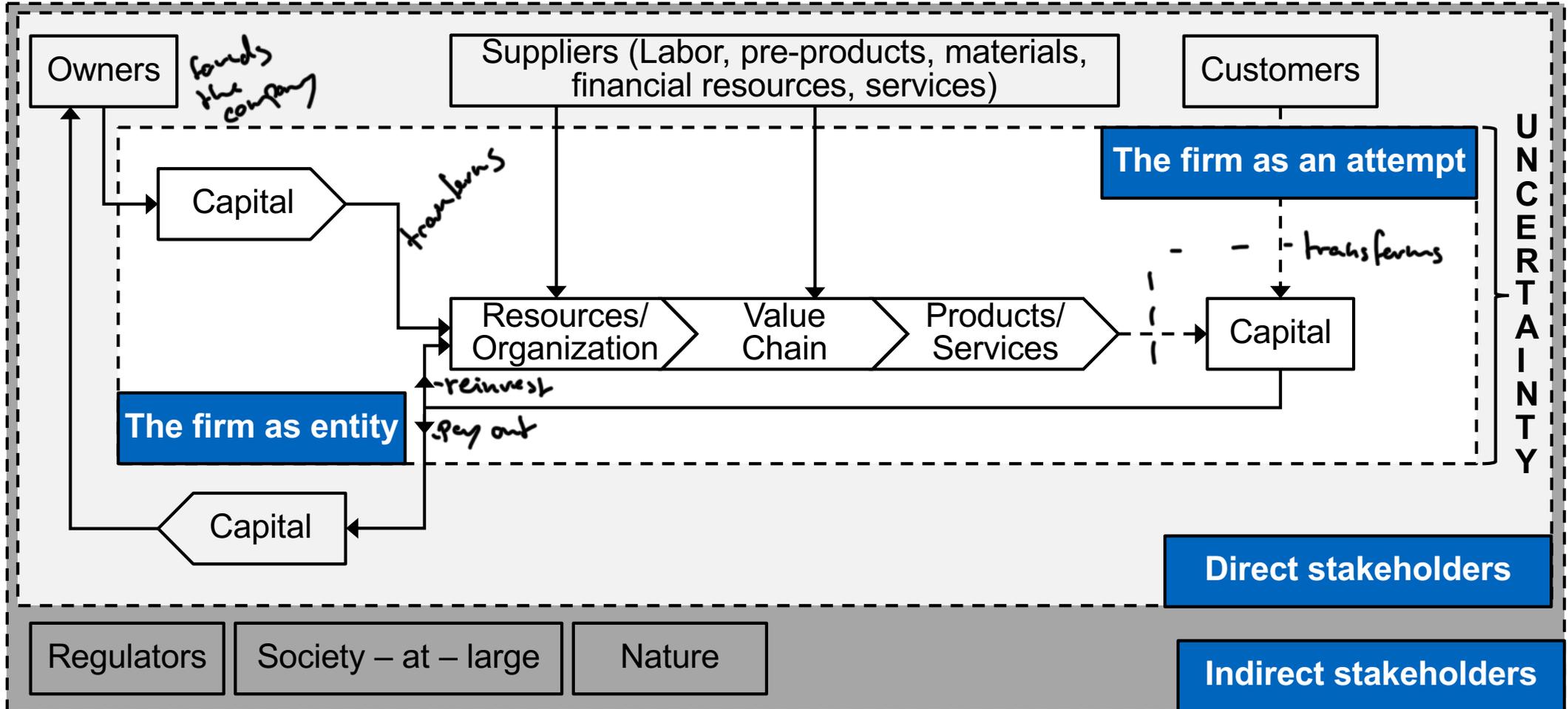
Stakeholder benefits are shareholder value instruments

Cash flow accounting and relationships to stakeholders

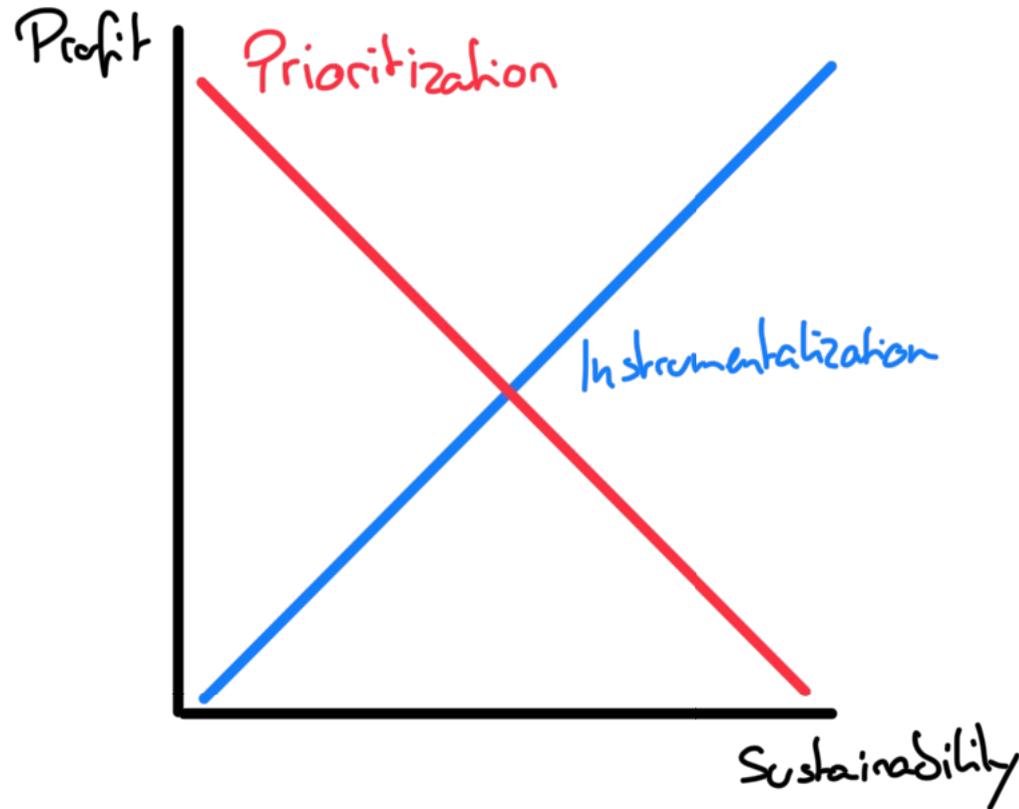


The firm combines stakeholders' contributions for intentional purposes

The firm as an attempt and an entity



Exercise: Instrumentalization versus prioritization



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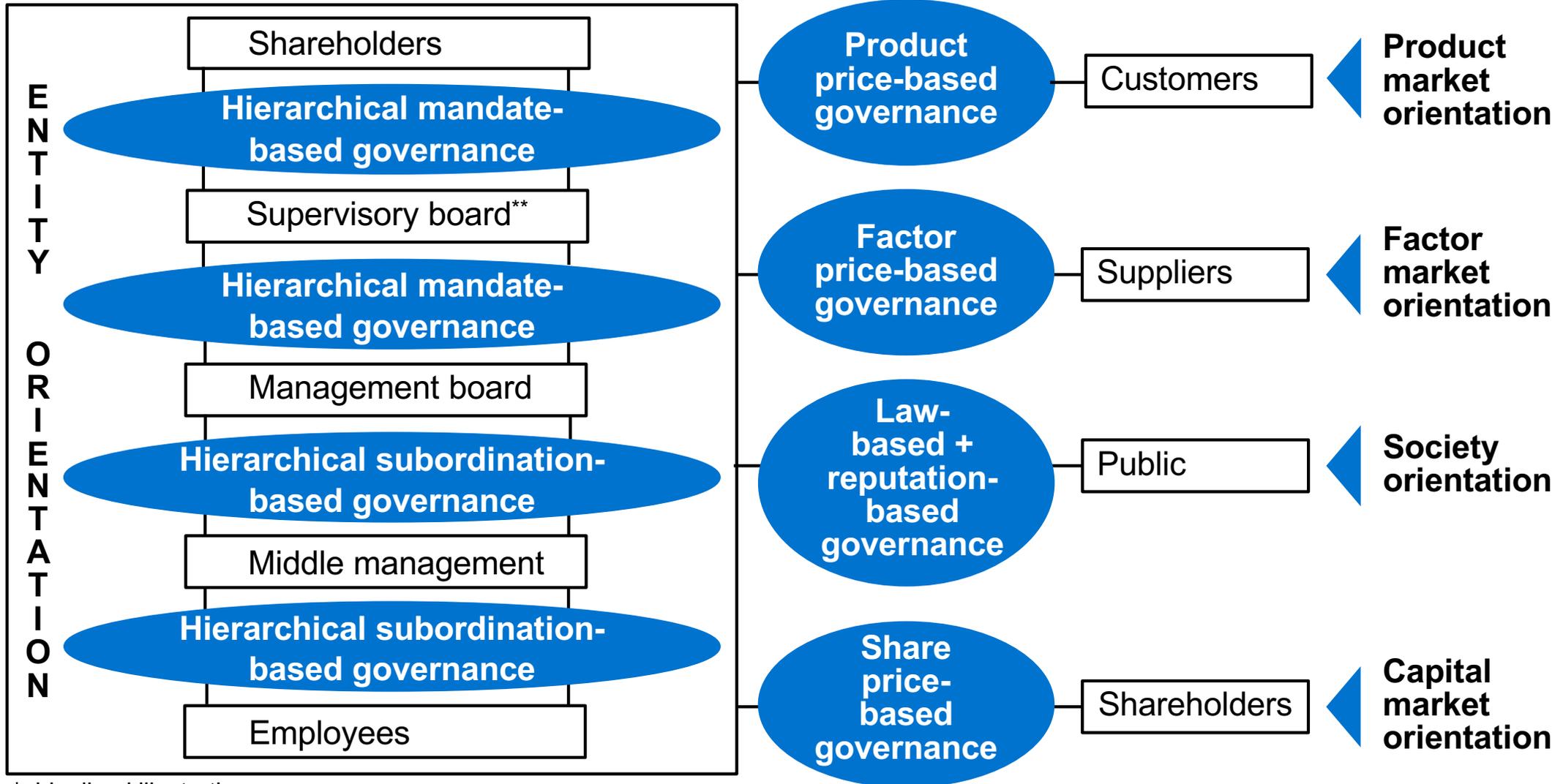
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The relationships, both internally and externally, are governed by different governance mechanisms

Relationships and governance mechanisms*



* idealized illustration

** illustrated for legal form of AG

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Example exam question 1

An US automobile company announced its plan to build the largest electric vehicles factory in the outskirts of a heavily populated Spanish city. The company believes this expansion will be supported by local citizens as it improves the regional industry infrastructure.

The announcement shot up the share prices of the automobile company, immediately. Furthermore, potential customers of the automobile company are expressing their excitement about the move.

However, environmental concerns drove hundreds of locals to the streets protesting against the decision claiming it will endanger water supply and wildlife in the area. Suppliers are raising doubts given the local unrest created by the move.

Which of the following statements **is true?**

- a) Customer objectives and public objectives are congruent to each other.
- b) Shareholder objectives and customer objectives are conflicting with each other.
- c) Shareholder objectives and supplier objectives are congruent to each other.
- d) Shareholder objectives and public objectives are conflicting to each other.
- e) Customer objectives and supplier objectives are independent of each other.
- f) Public objectives and supplier objectives are independent of each other.

Example exam question 2

The strategic management literature differentiates especially between two generic objective systems as boundaries for objective setting: The stakeholder and the shareholder approach.

Which of the following statements regarding these objective systems **is not true**?

- a) The shareholder approach is based on an orientation towards market and resource efficiency.
- b) The stakeholder approach and the shareholder approach follow different normative judgements.
- c) In the shareholder approach, success is defined as maximization of discounted future cash flows of owners.
- d) Both the stakeholder and shareholder approach serve as orientation for determining objectives for the corporation *for the corp*
- e) In balanced power situations among all interest groups, it can be argued that following a shareholder approach also achieves a maximization of stakeholder value