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THE STAKEHOLDERS RELATIONSHIPS MANAGEMENT AND THE SHAREHOLDERS VALUE MAXIMIZATION

Paweł KOSIŃ

Uniwersytet Ekonomiczny w Katowicach; pawel.kosin@ue.katowice.pl, ORCID: 0000-0002-1918-7843

Abstract: The operating strategy of any corporation needs to take into account the adjustment of the viewpoint of capital owners and the expectations of other stakeholders. It is also commonly believed that the increase of the market value of the capital of an enterprise reflects transformations from which all groups linked to an enterprise, benefit. This paper analyzes relations between shareholders and market value of equity based on selected source literature and quantitative studies. The said relations are shown not to be universal regularities, but a result of managerial actions. The objective of this paper is to make an assessment of the cognitive value and the practical usefulness of the set of instruments for making strategic decisions, in the context of building the relational capital of enterprises. The paper also indicates directions of further research that should contribute to the development of utilitarian knowledge related to managing stakeholder relationships.

Keywords: shareholder value, stakeholder value, value based management

1. Introduction

The concept of a stakeholder is one of the key notions that make it possible to interpret challenges for management systems of modern enterprises. The theory of stakeholders was taken into account in the past in numerous areas of management sciences as evidenced, for instance, by the achievements of H.I. Ansoff in the scope of strategic planning, the systemic approach in the case of R.L. Ackoff concepts or the cultural school of strategic planning represented, for example, in E. Rhenman studies. It is currently believed that the management of relations with stakeholders is a fundamental element of the strategy of any enterprise that wants to build its position in the environment. However, it cannot be said that the theory in question is based on a unified conceptual foundation (Andriof, and Waddock, 2002). The significance of stakeholders should be analyzed from three points of view i.e. formal and informal contracts concluded by an enterprise, dependencies or correlations of enterprise

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achievements and criteria applied by stakeholders, and, finally, business objectives, taking into account ethical aspects of economic processes (including the categorical imperative of I. Kant).

Regardless of the applied perspective, the fact that enterprises inevitably shape crucial interactions with entities in the environment means that these entities secure bigger or smaller areas of influence. The dynamics of the environment, changeability of operating conditions and uncertainty make these interactions a determinant of an organization's survival. "We need to worry about the enterprise level strategy for the simple fact that corporate survival depends in part on there being some "fit" between the values of the corporation and its managers, the expectations of stakeholders (…)" (Freeman, 2010, p. 107). This refers to 'survival' as being the main objective of a company as explained in the categories of a systemic approach, as well as by management specific for the resource management school.

This may be operationalized by "combining the value for shareholders, which is imperative for a company, with value for stakeholders" (Rok, 2013, p. 143). The maximization of the capital value for shareholders is most often perceived through the perspective of the obtained income with acceptable level of risk borne by an enterprise (Jaki, 2008). The coalition model of M. Cyert and J.G. March (Cyert, and March, 1963) should be shown as original in this scope. This aspect should be combined with the necessity to take into account non-financial conditions of enterprise efficiency in its environment, and which fits into the concept of sustainable development.

Further reflections refer above all to problems related to the management of enterprise finances and application of recommendations in this scope. In particular, a question arises with respect to the nature and closeness of the relation between actions of an organization aimed at satisfying stakeholders and the increase of value delivered to the owners of the enterprise capital. The objective of this paper is, therefore, to make an assessment of the cognitive value and the practical usefulness of the set of instruments for making strategic decisions in the context of building the relational capital of enterprises. In undertaking this task, source literature studies have been exploited. Moreover, the variability and β coefficients of GPW Respect Index have been used. As a research results, the multiplicity of variables, non-deterministic nature of the relation between expenditure of enterprises on building relations with stakeholders and the nonlinearity of return on this expenditure are indicated. It is also necessary, for appropriate managerial decision-making, to consider individual treatment of enterprise business models. At the end, the paper indicates directions of further research that should contribute to the development of utilitarian knowledge.

2. Selected decision-making conditions of an enterprise financial strategy

The "stakeholders" concept may be a part of the perception of business activity as an integral component of social processes – a series of interactions between people and phenomena occurring in an organization and structure of groups and changing relations between people and relations between elements being a part of bigger groups. If, however, the meaning of stakeholders is currently seen as particularly important for entities involved in a business activity, important enough to talk about "stakeholder capitalism" (Freeman, 1996), it becomes necessary to include the purely financial nature of this institution.

Taking into account the criteria of financial rationality, it may be shown that the ratios including parameters that determine value for owners i.e. income and risk measurement, should also reflect stakeholders' expectations. It may seem disputable in this context to interpret ethical aspects of the stakeholder concept in running business activity. If achievements are to be measured by means of income, the satisfaction of expectations of entities other than those involved in the division of that income becomes important to the extent that it contributes to its increase (minimizes decrease). Embracing the social or environmental aspects is not an objective in this case, but is a means, and leads to an instrumental perception of the entire sphere of Company Stakeholder Responsibility (CSR). Maintaining relations with stakeholders thus becomes a means of maximizing income, not an objective in itself.

Moreover, literal interpretation of the CSR concept deprives controlling and corporate governance systems of the clarity of financial evaluation. This issue is all the more important as since the beginning of 1990s the increase of the owners' holding has been the declared and actual decision-making criterion valuating strategic options of managerial decisions. This means that the real foundation of today's economy is not the maximization of the result, but the market value of capital invested in business activity. It is commonly argued that this criterion is fulfilled through the maximization of the market value of enterprise equity, and the verification thereof happens on the capital market (Bragg, 2017). A strong critical trend appears in contemporary discussions, and this points to limitations and weak sides of attempts to conceptually focus viewpoints of all parties interested in the functioning of an enterprise in the equity value. Arguments were provided primarily by the financial crisis of 2008. Despite ongoing disputes, the primacy of the viewpoint of capital owners over the expectations of other stakeholders is still a prevailing research perspective, on one hand, and a foundation of capital market regulations and good practices of companies on the other.

Activities in favor of stakeholders other than capital owners do leave a "cost trace" in the finances of an enterprise, including also costs of lost benefits. According to rational management, this effect should be more than offset with benefits, the financial dimension of which could be looked for in various spheres. These may include effects visible in the area of events defining the operational result. It is possible to indicate an alternative or co-occurring effect of:

- an increase of demand making it possible to generate the economy of scale,
- an increase of sales margin with sources potentially diversified: from the acceptance of higher price market to reduction of other costs, including transactional costs difficult to verify through conventional record systems of economic events (Williamson, 1998),
- an increase of barriers to entry to the sector for competitive entities,
- obtaining a margin (income) earlier than in a different option of enterprise behavior.

Other effects should be linked to the liability side of enterprise balance sheets. Their origin may be linked to:

- reduction of risk estimate,
- decrease of outside capital cost,
- increase of capital availability,
- decrease of capital requirement,
- increase of financial leverage impact.

As one can see, the incurring of costs related to sanctioning objectives of stakeholders in the structure of company's objectives may be justified with benefit ratio with a wide spectrum of variables. There are areas where this mechanism demonstrates itself in a spectacular way, with one of the examples including enterprises very much aligned with eco trends. Other examples include start-ups which use crowd funding to finance their capital needs. These are important areas that are continuously growing but are not yet dominant in the global economy. The growing awareness of stakeholders with respect to the possibilities of impacting enterprises results in the fact that the effects identified above appear not in the form of a bonus for maintaining relations with stakeholders, but as negative consequences of the lack thereof. They are not so much an element of obtaining competitive advantage, but rather a prerequisite for being in the sector.

The combination of interpretation conditions should additionally include two terms of significant meaning for a more complete understanding of the role of stakeholders in the processes of managing business organizations. The first is the asymmetry of information in the corporate governance, while the second includes challenges arising from the principal-agent problem. From the perspective of information asymmetry in a social network shaped by an enterprise, its utilization depends on the position in that network. Central position in the network may be particularly useful when estimating value of resources. What is more, asymmetry may actually mean a lack of knowledge of the environment regarding certain processes performed by an enterprise. As ownership and management are separated, leaving aside unethical behavior, it is the managers who define criteria for the evaluation of decision-making situations and make independent decisions in cases not described in a contract. In practice, the stakeholder theory shapes something like a multi-entity principal and often an internally inconsistent collection of objectives of varying and not always specific hierarchy. As a result, the principal-agent relation understood as a contract between a principal and an agent is not clear enough. Repercussions of that state of affairs are wider than relations between the owner and the top management. They refer to almost all management levels (Hatch, 2002).

3. Quantitative relation between shareholders and stakeholders value

The investigated sources were found not to include clear and fully reliable quantitative studies that would confirm the existence of a statistically strict relationship between expenditure on relations with stakeholders and the income of an enterprise or the increase of the financial determinants of the value of its capital. There are opinions that companies with high culture of sustainable development achieve better accounting results than companies reporting low parameters in this scope (Eccles, Ioannou, and Serafeim, 2012). What is also highlighted, is a higher efficiency of investments in capital instruments of entities putting into practice the ideas of the CSR concept, or assuming lower capital cost (Cheng, Ioannou and Serafeim, 2014; Deutsche Bank Climate Change Advisors*,* 2012). However, the investigation of funds specializing in investing in companies respecting principles of sustainable development shows at the most that results of those funds are comparable with those that use more traditional ways of investing (Demystifying Responsible Investment Performance, 2007; Elfenbein Margolis, and Walsh 2017; Kosiń 2013). Even if the recalled examples of research papers indicate the existence of a statistically significant correlation between respecting stakeholder expectations and financial results, they do not solve the fundamental question of whether relational capital owned by an enterprise generates a positive rate of return for shareholders, or if enterprises with a confirmed financial condition are able to cover the widely-understood image and relationship costs.

Involvement of enterprises in Poland in the implementation of CSR assumptions is very varied (Piskalski, 2016). However, one cannot overlook the fact that the widely-understood environmental aspect is strongly emphasized in the source literature, and what is more important, in views represented by business practitioners (out of 82 exchanges associated within the Sustainable Stock Exchanges Initiative, 38 has ESG indices – Environmental, Social, Governance, i.e. over 45%). The Warsaw Stock Exchange may also boast of the Respect Index (RI) – an index of socially responsible companies. Quotations of this index and broad-market index WIG were analyzed separately between May 19, 2014 and May 20, 2019 at monthly intervals (Bankier.pl). Due to restrictions regarding the size of the text, input data and indirect calculations are not presented. For the compared 61 quotations, the variability ratio defined as a ratio of a standard deviation and arithmetic mean of a sample was:

- 10.57% for the Respect Index,
- 10.65% for the WIG Index.

Variability is commonly seen as a risk factor, investor risk in this case. Indeed, entities that meet RI qualification criteria are, in the light of the obtained results, characterized by a lower volatility of quotations as compared to the wide market, yet the difference may be deemed statistically insignificant.

Based on the same data concerning quotations, 60 indices were identified which are monthly return rates on investments in the said indices. Covariance and variance of rates of return on WIG index were identified for those indices. As a result, β coefficient of shares of companies taken into account in RI was 1,074,088,226. Surprisingly, it was actually higher than unity, which suggests that the said shares may, on average, more intensely respond to economic changes than the wide market. With CAPM modeling applied and at current interest rates, the relevance of the obtained result is not particularly significant, yet it is symptomatic.

The results presented above do not aspire to be assigned the attribute of reliability; on the contrary, their nature is narrow in scope. However, they make it possible to state that the belief that there is a simple feedback relation: increase of activities for the achievement of stakeholder objectives → increase of the value of equity for shareholders, is not fully based on real-economy data.

As interesting model of a solution to the dilemma between the financing of activities corresponding to expectations of stakeholders, who are not owners, and focus on the financial effect of the increase of the value of enterprise's equity is a parabola-shaped function (Marcinkowska, 2003). The said parabola is marked on a coordinate system defined by a set of arguments – the extent to which expectations and requirements of interest groups are met and a set of values – measurement of the market value of equity. The function has its maximum value at the point where the value of capital analyzed with respect to the impact on stakeholders is the highest, and further maximization of the fulfillment of expectations of interest groups is counterproductive – incurred costs (outlays) exceed shareholder benefits. It is assumed by default that function arguments and values are not expressed based on their current value, but on value updated by discount as the building of relations with stakeholders is a long-term process and it is difficult to expect a simultaneous effect. In view of conclusions from the analysis of the investigated model, it may be stated that the objective of a management board of an enterprise is to select and activate a strategy ensuring optimization of the expectation level of the environment and possibly highest increase of value for stakeholders.

However, the rationality criterion formulated in this way has certain weaknesses. The first results from the fact that the model is based on a single-learning loop (Grudzewski, and Hejduk 2004; Gladstone 2004). The key assumption of the resource-based theory of managing organizations is a statement that the analysis of relations between organizations in a network may help managers understand the relationship of authority and dependencies occurring between an organization and other members within the network. Competencies in this scope make it possible for the management to anticipate possible environment influence centers and suggest ways of using this influence to some extent. A research perspective and a practical trend emerged that encompass resources and their value in the interaction of network entities (Chou, and Zolkiewski, 2012). Relational rent is, in this case, a source of strategic advantage (Kosiń, and Woźniak-Sobczak, 2015).

The interpretation of the discussed dependencies is also determined by a phenomenon that may be referred to as hysteresis – a delay in reacting to a change factor. The phenomenon was observed first of all in natural sciences, but was borrowed by social sciences, including corporate finance. In most general terms, it means the dependency of the current state on states in previous periods. In this case, the current state is a combination of evaluations of entities in the environment based on perception and interpretation of information issued by an enterprise or obtained from other sources. Those evaluations are characterized by certain "inertia". Thus, one cannot talk about the dependency of outlays on the creation of relational capital and increase of the value of equity as a parabolic function. Its hypothetical shape is better reflected by an irregularly-shaped curve. In the context of available knowledge, it should be presumed that it has a maximum, however it does not have to be a maximum determined for one argument but for a certain bracket. The evaluation of the "irregularity" of a function should also take into account the previously mentioned problem of information asymmetry, as well as behavioral aspects (Gajdka, 2013). What is important in the analyzed area is not so much the actual characteristics of processes implemented by an organization, but, rather the opinion about these processes formed by the environment. Thus, local extremes for a certain range of arguments are not excluded.

4. Summary

In view of the multitude of variables, non-deterministic nature of the relation between expenditure of enterprises on building relations with stakeholders and the nonlinearity of return on expenditure, the importance of balancing financial and non-financial objectives of enterprises can be underlined as a special managerial challenge that requires that activities conducted by an organization are approved by society. This leads to references to legitimacy theory. If an enterprise is not adjusted to social expectations, a legitimacy gap may emerge (Łada, 2016). Activities conducted by an enterprise in favor of stakeholders are subject to standardization procedures. PN-ISO 26000 i.e. "Guidance on social responsibility", includes guidelines on corporate social responsibility defined as the responsibility of an organization for the impact of its decisions and activities on society and environment through clear and ethical behavior in key areas. The PN-ISO 26000 standard is applicable to all organizations i.e. business, state and local government administration and the third sector (the standard is not subject to certification). The essence of the problem is, however, far from standardization. The term "value" itself encounters interpretation difficulties and has a wide spectrum of meaning (Karmańska, 2009; Dobija, 2008; Mazur, 2011). It is related to the ambiguity of the specification regarding beneficiaries of the increase of the value of enterprise capital, and the need to take into account its specific character.

Source literature widely discusses the internal structure of stakeholders based on very varied criteria. What is underlined much less frequently is the fact that just like stakeholders impact the strategy and results of an enterprise, the characteristics of an enterprise defines stakeholders. Attempts made to understand and translate the essence of the relation between the concept of stakeholders and shareholders into the language of managerial instructions are condemned to failure if the diversity of the managed entities is not taken into account. The most important criteria coming to one's mind include:

- the size of an enterprise,
- demand for capital from external sources and the manner of obtaining thereof,
- activity on the investment or consumer goods market,
- use of cost leadership elements or outstanding quality to achieve the assumed strategic position,
- use of relational capital in the business model.

The above list of criteria is not exhaustive. However, emphasis is put on the need to extend research on characteristics of enterprises that condition their dependence on the attitude of stakeholders. Incomparability and diversity of business models of enterprises lead to an individualized probability of the occurrence of a legitimacy gap or widely understood negative consequences thereof and are an important set of function variables that optimize decisions made by an enterprise. The need to include in further research the difference between the declarations and reality is deemed particularly important. The previously mentioned information asymmetry is a temptation to abuse channels for communicating corporate values with lower involvement in controlling thereof. An element that is very often used in communication is the mission or declared corporate strategy. This differs from incremental strategy or opportunistic activities. Therefore, research on the universal use by enterprises of concepts such as CSR should also take into account the business model applied. What is important in this aspect, is the recognition of the importance of the issue of satisfaction of stakeholders other than owners in the structure of a company business model.

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