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CORPORATE GOVERNANCE MODELS: STAKEHOLDER *vs* SHAREHOLDER. CHALLENGES AND OPPORTUNITIES FOR THE CONTEMPORARY BUSINESS ENVIRONMENT

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Abstract *Debates over the reconfiguration of the leading and governance system of multinational companies intensified following the global economic crisis, which severely affected the stability of global economy and the trust in the ethical and responsible corporative behavior. The present paper set itself the objective the analysis and assessment form an ethical standpoint of the two models of corporate control – the stakeholder model and the shareholder model. As rationale for this we insist that the ethical orientation of corporate governance systems influences the ethical and responsible behavior of multinational companies within the communities where they activate. Will the reformation of corporative governance be rather sustained through the values promoted by the stakeholder model (transparency, correctness, integrity, the preoccupation with promoting all parties' interest) or by the shareholder system (as governance in the interest of shareholders)?*

Key words:

business ethics, corporative governance, stakeholder, shareholder, social responsibility, values

JEL Codes:

M140, G30

1. INTRODUCTION AND THE CONTEXT OF THIS RESEARCH

Jill Solomon used to address a question that deserves to be included on every multinational businessman's agenda: "is it possible for multinationals to maximize *shareholders'* value, following the agent's theory, and simultaneously satisfying the diverse claims of *stakeholders*?" (J. Solomon, 2004: 22-23).

New tendencies within the business environment face this concern by their accent on the *inclusive* approach of corporate governance (based on sustainability, conformity and interest showed to all interested parties in the company) rather than on the *exclusive* approach of corporative approach (defined by company's growth in terms of value and efficiency and by defining the interests in terms of the shareholders' standpoint.)

2. THE METHODOLOGY OF THE CURRENT RESEARCH

The present study is grounded on the theoretical approach by presenting the most important analysis frameworks concerning corporate governance exertion (*stakeholder model vs. shareholder model*) from an ethical standpoint. It also includes an action-oriented approach, through the identification of those features that reveal the new corporate governance tendencies in contemporary business environment.

3. STAKEHOLDER MODEL *vs.* SHAREHOLDER MODEL

Based on the manner of corporate governance exertion we distinguish the shareholder model and the stakeholder model.

The shareholder model operates on the premise that multinationals are fundamentally run by the shareholders' interests. From an ethical perspective, this can be assessed on two basic standpoints. According to the first one, the shareholder model focuses on shareholders' interests by deliberately *excluding* other interested parts (G.J. Rossouw, 2005: 32-39). Collier and Roberts state that this first assumption reflects Milton Friedman's approach arguing that the only ethical imperative is profit maximization (J. Collier, J. Roberts, 2001: 67-71).

The second one describing the shareholder model states that the prioritization of shareholders interests is however indirectly beneficial to the stakeholders – since a company dedicated to shareholders benefits will most probably be efficiently run, to the ultimate benefit of all parties involved, the stakeholders (G.J. Rossouw, 2005: 332).

The stakeholder model, on the other side, describes the way in which the corporate governance is run in the interest of all legitimate interested parties. Companies are seen according to this way as economical institutions supported by the cooperation and contribution of the interested parties whose interests are equally recognized. The ethical evaluation of the stakeholder model of corporate governance will correspond to Donaldson and Preston's three approaches: descriptive, instrumental and normative. The stakeholders' theory does not necessarily constitute an ethical or normative commitment in favor of the interested parties. From a perspective angle, the stakeholders' theory postulates that multinationals require the contribution and cooperation of the interested parties in view of the realization of corporate objectives. Alexander Bink draws attention to the fact that the exertion of corporate governance in accordance with the *descriptive* approach does not result from mere ethical considerations but from the very definition of the *interest* that all stakeholders foster as to the general corporate interest as such. The *instrumental* (or strategic) approach of stakeholders' theory implies that the *interest* of interested parties is acknowledged as a consequence of corporate objectives themselves (such as the financial benefits of shareholders) (G.J. Rossouw, 2005: 331-333).

An intriguing study by Wieland surveying corporate governance codes in 22 European countries indicates that the majority of corporate governance regimes in Europe are defined according to the stakeholders' model of corporate governance (J. Wieland, 2005: 74-93). The author uses the corporations' role in society to determine the ethical orientation of corporate governance regimes across Europe. He distinguishes three different approaches of the role that multinational corporations play in society. Firstly, corporations are perceived as maximization vehicles in service of shareholders' value and interests. The second alternative to conceptualize corporations is to define them as structures meant to facilitate economic transactions between different parties. Thirdly, corporations can be defined as structures endowed with different resources and competences, cooperating so as to benefit from the individual contributions involved in the cooperation process. These conceptualizations of corporate role legitimize both stakeholders' interest and the ethical discourse on multinational corporations. Josef Wieland conclude that this reality is reflected in corporate legislation and in corporate governance codes across Europe, thereby stressing the importance of corporate ethical standards, of dialogue with interested parties and of social and environmental responsibility. Romania belongs to the countries with stakeholder orientation, together with Belgium, France, Germany, Italy, Russia, Austria, Denmark, Hungary, Poland, Slovakia, Lithuania, Spain and Turkey. The author identifies seven countries with a shareholder orientation: Switzerland, Czech Republic, Portugal, Sweden, Finland, Great Britain and Ireland (J. Wieland, 2005: 74-93).

4. TOWARDS A REFORM OF CORPORATE GOVERNANCE

The relation between business ethics and corporate governance is obvious. Good corporate governance is grounded on good corporate ethical and conduct codes. Erik Banks introduces a classification of internal governance mechanism based on ethical corporate principles, such as: the elimination of managers' conflicts of interest in exertion of financial obligations, according to ethical corporate conduct; the elimination of executive management conflict of interests; the development of rational compensation policies able to promote ethical corporate conduct. Corporate ethical principles equally comprise loyalty and duty consolidation as well as the inclusion of these concepts in the category of corporate principles; observance of shareholders' rights as well as those of interested minority stakeholders; transparency advancement, in view of a correct evaluation of the company and of its financial standards (Erik Banks, 2004: 325-326).

The new forms of global governance, the reform of corporate governance and the global weight of emergent economies are arguments that have led to the elaboration of some guidelines of *Global Reporting Initiative*. These play an increasing role in reporting information concerning the activity of multinational companies, in understanding and helping articulate their contributions to sustainable development. The *Global Report Initiative* has elaborated these guidelines in the context of an increasing influence of multinational corporations that has led to the intensification of expectations on the part of all interested parties, investors or stakeholders as to ethical standards, transparency and responsibility within the business environment. (Global Reporting Initiative, 2002).

The reformation of corporate governance is therefore supported by the ethical imperatives of loyalty, duty, transparency and respect granted to shareholders as well as to other categories of interested parts.

5. CONCLUSIONS

The opinions of governance specialists converge therefore towards a commitment to an agenda of progressively changing the management system of multinational corporations. This agenda is defined by the transition from the shareholders' value-maximization model to the formulation of business objectives able to grant equal attention to shareholders as well as to the wide network of every company's stakeholders. This inclusive approach, characteristic for the "*new corporate governance*" is one of the necessary preconditions for the revival of management systems within financial institutions in view of avoiding future financial instabilities.

The purpose of this paper is not to plead for one governance system over the other, but to subject to debate those defining elements that are able *to equalize the pans of the balance between the corporate managements' opposing objectives*:

a) The increase of the company value, financial sustenance and efficiency, on the one side and

b) Complying with conformity and social responsibility to all parties involved, on the other side.

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