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| it is important to distinguish between a STAKEHOLDER and a SHAREHOLDER. They sound the same – but the difference is crucial! | [[Delicious](http://www.delicious.com/save)Wow](http://www.delicious.com/save)  digg |
| Shareholders hold shares in the company – that is they own part of it.  Stakeholders have an interest in the company but do not own it (unless they are shareholders).  Often the aims and objectives of the stakeholders are not the same as shareholders and they come into conflict.  The conflict often arises because while shareholders want short-term profits, the [other stakeholders’](http://www.puremoneymaking.net/pages/strategy_building/mission_vision/different_stakeholders.aspx) desires tend to cost money and reduce profits. The owners often have to balance their own wishes against those of the other stakeholders or risk losing their ability to generate future profits (e.g. the workers may go on strike or the customers refuse to buy the company’s products).  Both the shareholder and stakeholder theories are normative theories of corporate social responsibility, dictating what a corporation’s role ought to be. By extension, they can also be seen as normative theories of business ethics, since executives and managers of a corporation should have their decision makings according to the “right” theory. Unfortunately, the two theories are very much at odds regarding what is “right.” | |

Stock holder vs stakeholder

Shareholder theory asserts that shareholders advance capital to a company’s managers, who are supposed to spend corporate funds only in ways that have been authorized by the shareholders. As Milton Friedman wrote, “There is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits so long as it engages in open and free competition, without deception or fraud.”

On the other hand, stakeholder theory asserts that managers have a duty to both the corporation’s shareholders and “individuals and constituencies that contribute, either voluntarily or involuntarily, to [a company’s] wealth-creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers.” Although there is some debate regarding which stakeholders deserve consideration, a widely accepted interpretation refers to shareholders, customers, employees, suppliers and the local community. According to the [stakeholder theory](http://www.puremoneymaking.net/pages/strategy_building/mission_vision/stakeholder_approach.aspx), managers are agents of all stakeholders and have two responsibilities: to ensure that the ethical rights of no stakeholder are violated and to balance the legitimate interests of the stakeholders when making any management decisions.

The descriptor "socially responsible" when added to "business" indicates a measure of inequity present within the traditionally held concept of business. This is most definitely the case and one of the main practices that differentiates ethical businesses from conventional ones is that forward thinking companies take their stakeholders into account and operate their businesses in consideration of all those who are affected by its operations. According to the stakeholder business theory, if stakeholder interests conflict, the business should be managed in such a way as to balance the conflicting claims of the multiple stakeholders. This implies that there will be instances when management is obligated to sacrifice the profit interests of stockholders for those of other stakeholders. This theory operates based on the implicit assumption that businesses have responsibilities to all those affected by the business itself.

This holistic approach to business sharply contrasts with the traditional stockholder based business model which operates on the assumption that business' only responsibility is to amass wealth for its stockholders. The shareholder theory is the basis for Neo-Liberal economists' claims that businesses are not bound by social responsibility because a businesses' only legal responsibility is to honestly create value for their shareholders by generating a profit.