

Management and Organization Theory

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Related Theories to Investors

01

Proprietorship Theory

02

Entity Theory

03

Enterprise Theory



01

Proprietorship Theory

The proprietary theory states that there is no fundamental difference between owners of the business and the business itself



02

Entity Theory

All of the business activity conducted by any corporation or limited liability business is separate from that of its owners – Distinct and independent existence

03

Enterprise Theory

Treats business firms as separate entities from their owners and other stakeholders.



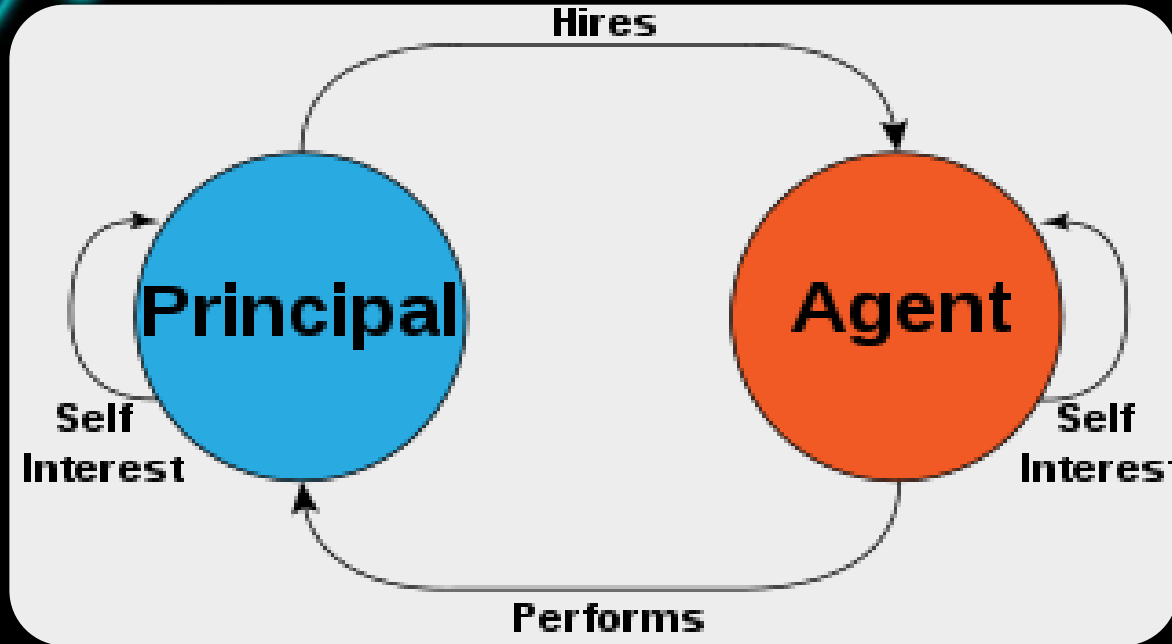
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Agency Theory

The principal-agent problem refers to the conflict in interests and priorities that arises when one person or entity take actions on behalf of another person or entity

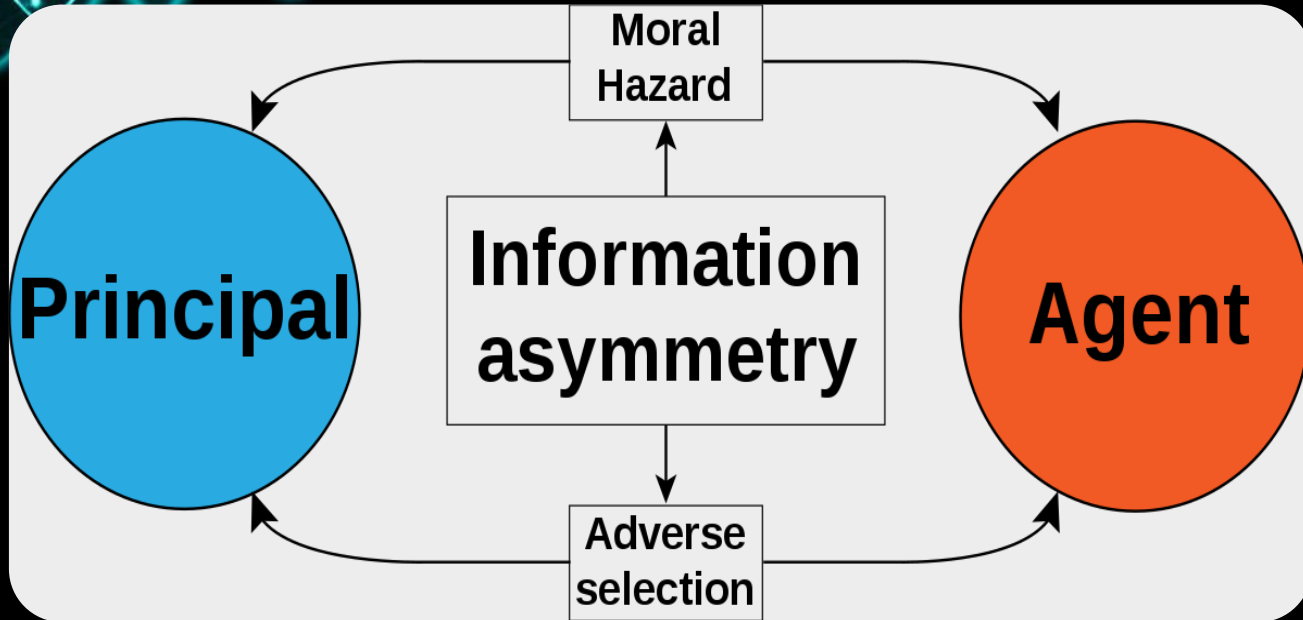
AGENCY THEORY

Agency theory addresses disputes that arise primarily in two key areas: A difference in Goals or a difference in Risk aversion



PERFORMS

Management may desire to expand a business into new markets, focusing on the prospect of short-term profitability and elevated compensation. However, this may not sit well with a more risk-averse group of shareholders, who are most concerned with long-term growth of earnings and share price appreciation.





5

Choice Theory- The term choice theory is the work of William Glasser

every individual only has the power to control themselves and has limited power to control others. humans are motivated by a never-ending quest to satisfy 5 basic needs woven into our genes: to love and belong, to be powerful, to be free, to have fun and to survive. Specifically: **Survival, belonging, power, freedom, and fun.**

5 Basic Needs





6

Adam Smith's self-interest economic theory

The role of self interest and competition was described by economist **Adam Smith** over 200 years ago and still serves as foundational to our understanding of how market economies function. Self Interest is the motivator of economic activity.

capitalism fueled by self-interest is ultimately the best way to a thriving economy



Invisible Hand

[in-vi-zə-bal hand]

A metaphor for the unseen forces that move the free market economy.

THE **WEALTH**
OF **NATIONS**
ADAM SMITH



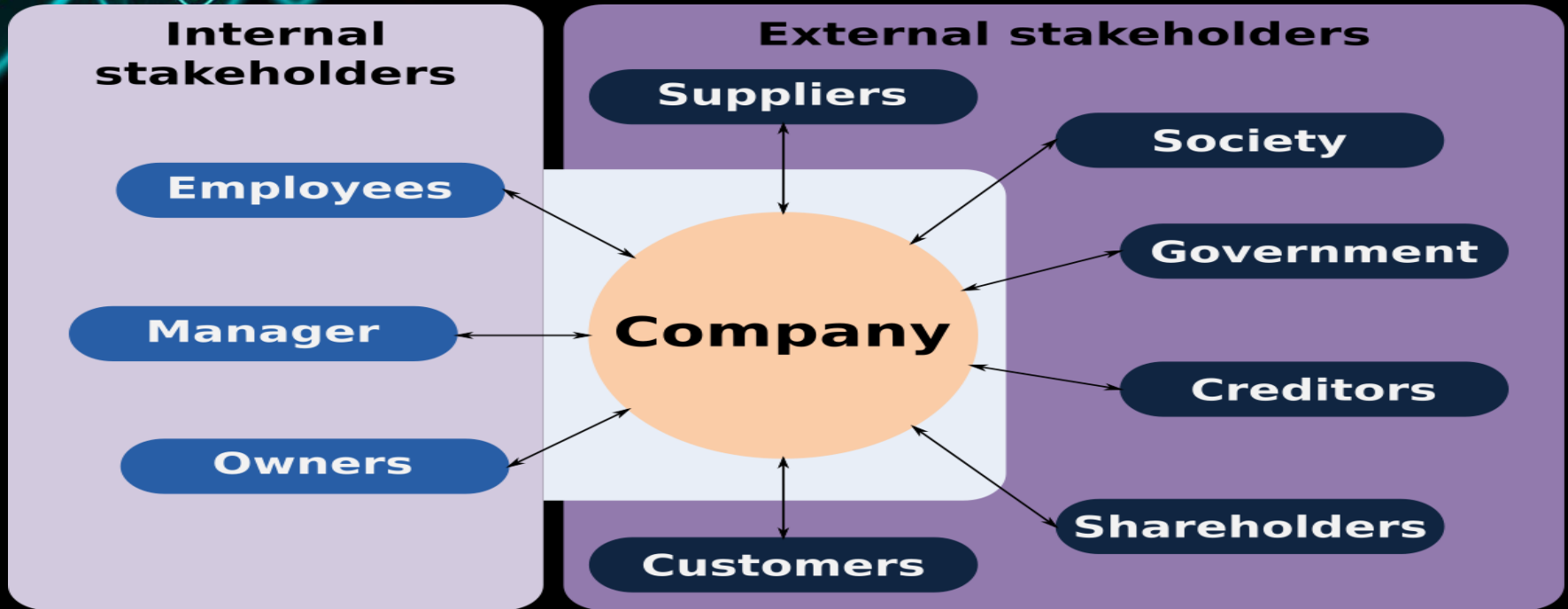


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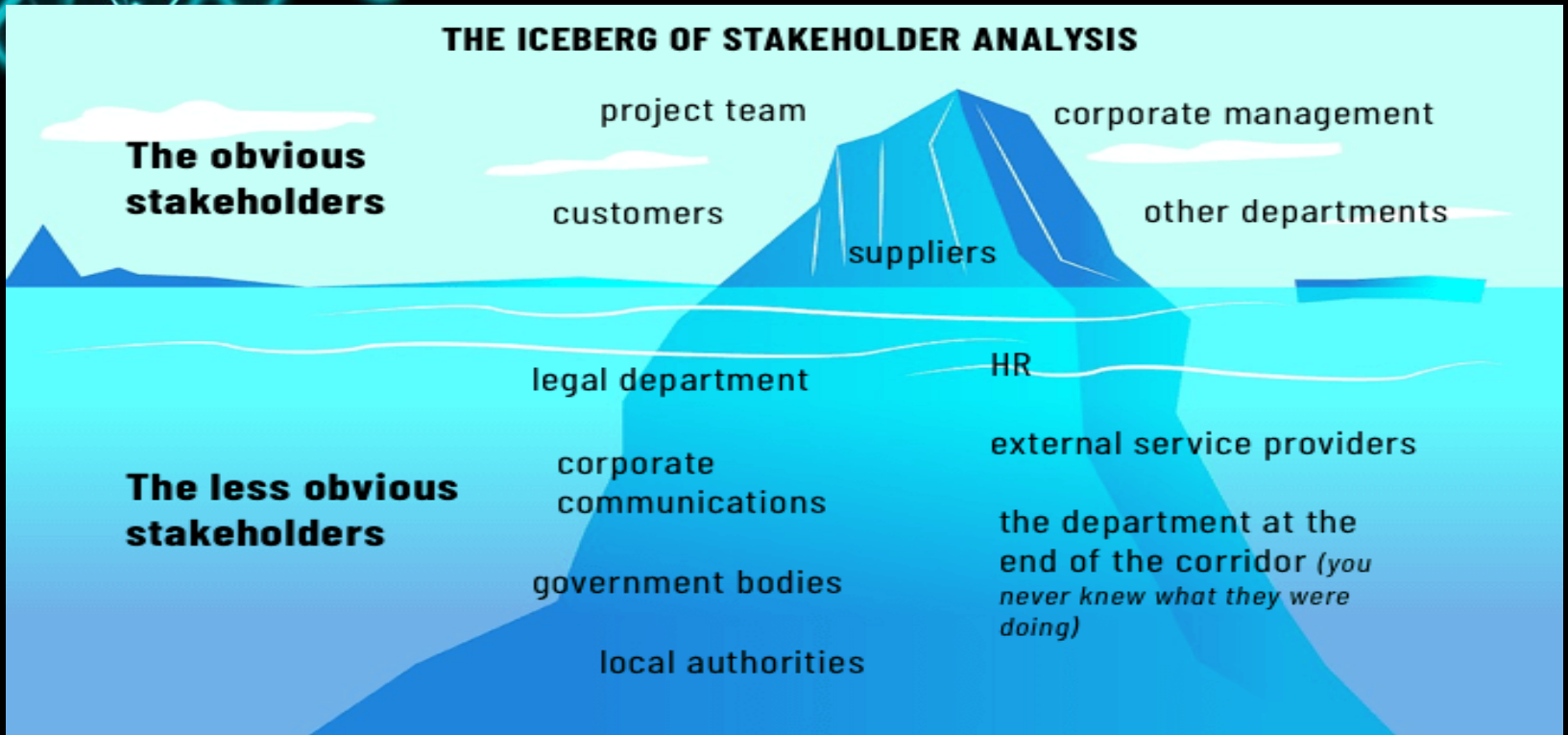
Stakeholder Theory

Stakeholder Theory is a view of capitalism that stresses the interconnected relationships between a business and its customers, suppliers, employees, investors, communities and others who have a stake in the organization

Stakeholder Theory



Stakeholder Theory



There are three theoretical approaches to considering stakeholder claims:

01

A descriptive approach

This approach examines stakeholder salience, or the importance of each stakeholder group to a company.

An instrumental approach

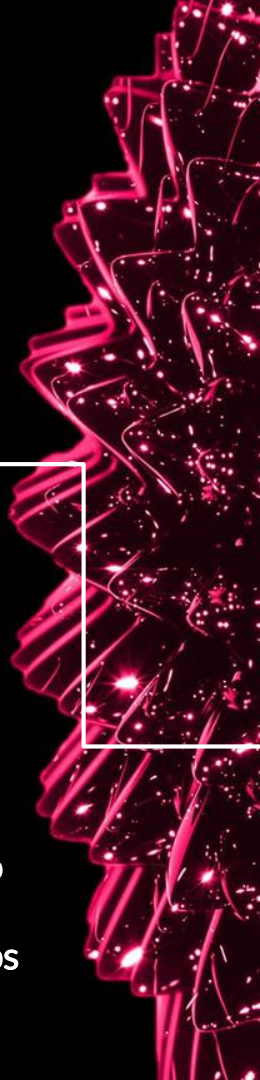
02

considers the performance consequences for firms of highly ethical relationships with stakeholders, characterized by high levels of trust, cooperation, and information sharing.

03

A normative approach

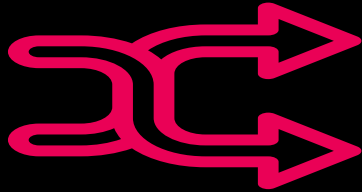
This approach states that Managers ought to pay attention to key stakeholder relationships



07

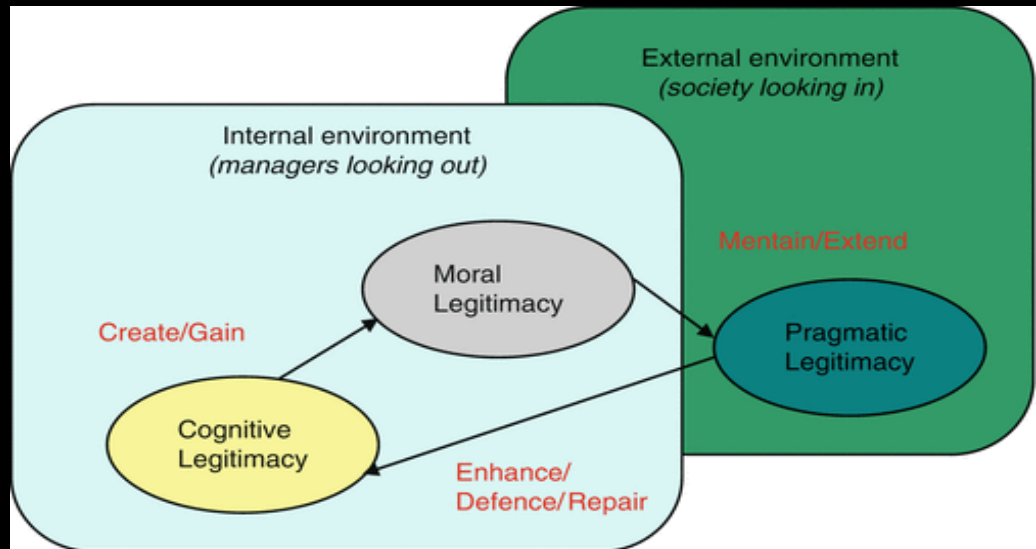
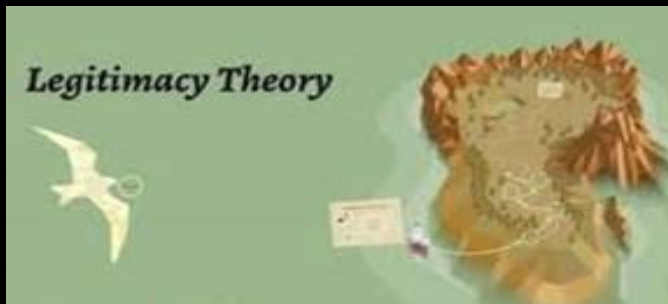
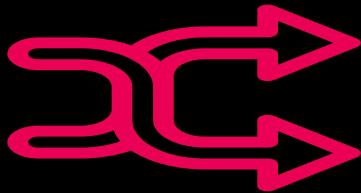
Social Responsibility Theory

Social responsibility is an ethical theory in which individuals are accountable for fulfilling their civic duty, and the actions of an individual must benefit the whole of society. In this way, there must be a balance between economic growth and the welfare of society and the environment.



Legitimacy theory

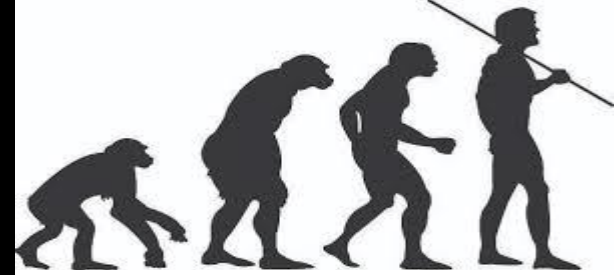
organizations continuously try to ensure that they carry out activities in accordance with societal boundaries and norms (Deegan et al., 2002). This legitimacy theory focuses on the company's interactions with society



09

Theory of Evolutionary Economics

Evolutionary economics is **a theory proposing that economic processes evolve and that economic behavior is determined both by individuals and society as a whole.** The term was first coined by Thorstein Veblen (1857-1929), an American economist and sociologist.



Traditional Economy



- Economic activity is based on ritual, habit and custom





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The Efficient Market Hypothesis



Efficient Market Hypothesis

Historical background

first proposed by the French mathematician Louis Bachelier in 1900 in his PhD thesis "The Theory of Speculation"

In his opening paragraph, "past, present and even discounted future events are reflected in market price"



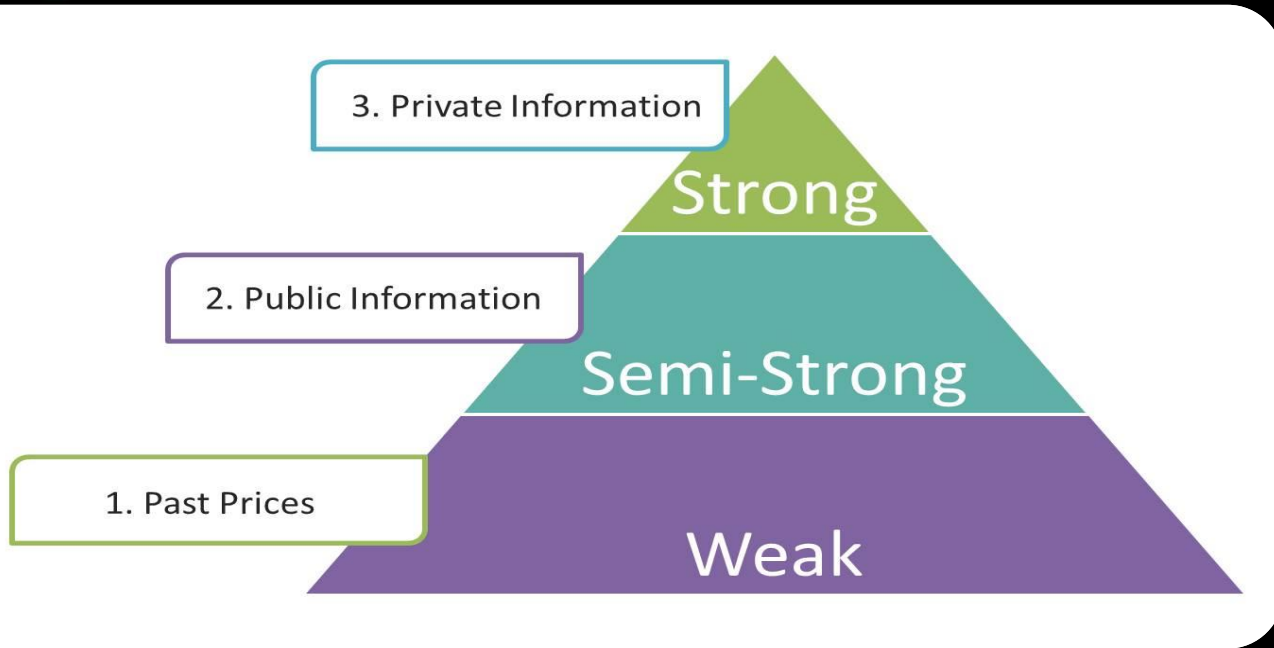
1 1960

The efficient markets theory was not popular until the 1960s when the advent of computers made it possible to compare calculations and prices of hundreds of stocks more quickly and effortlessly.

2 1970

In 1970, Fama published a review included the definitions for three forms of financial market efficiency

Three forms of financial market efficiency



The Important Differences Between Price And Value

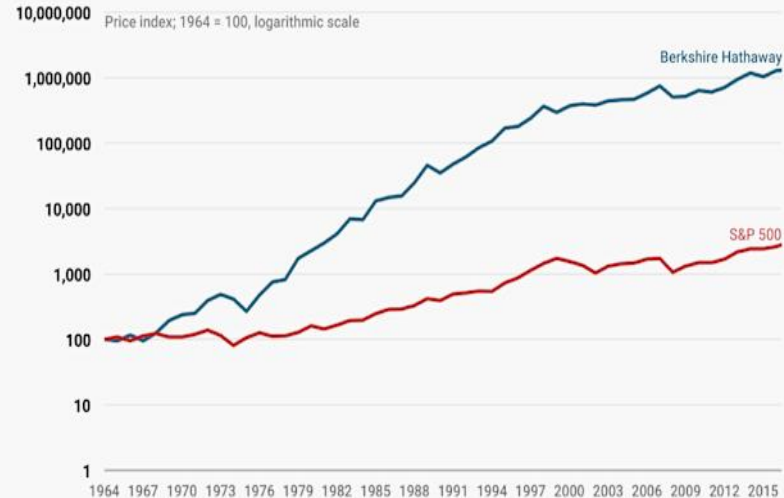
One of Warren Buffett's most famous quotes is,
"Price is what you pay; value is what you get."

It's an idea that largely guides his investment
decisions and one that he has used to achieve an
unparalleled level of success.

WARREN BUFFETT HOW TO DETERMINE INTRINSIC VALUE OF A STOCK



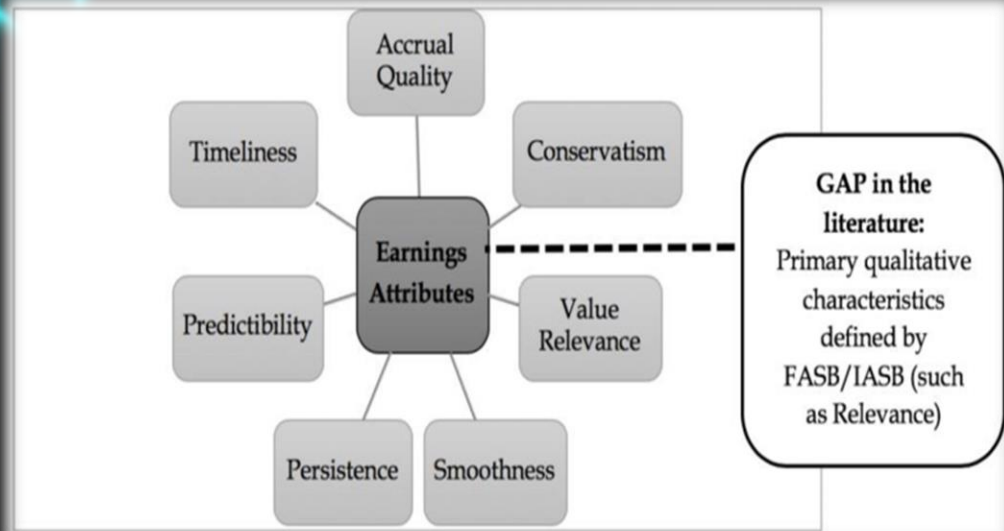
BUFFETT VS S&P 500



Earning's Quality

Companies use earnings management to smooth out fluctuations in earnings and present more consistent profits each month, quarter, or year.

the changes may alarm investors who prefer to see stability and growth. A company's stock price often rises or falls after an earnings announcement, depending on whether the earnings meet or fall short of analysts' expectations.

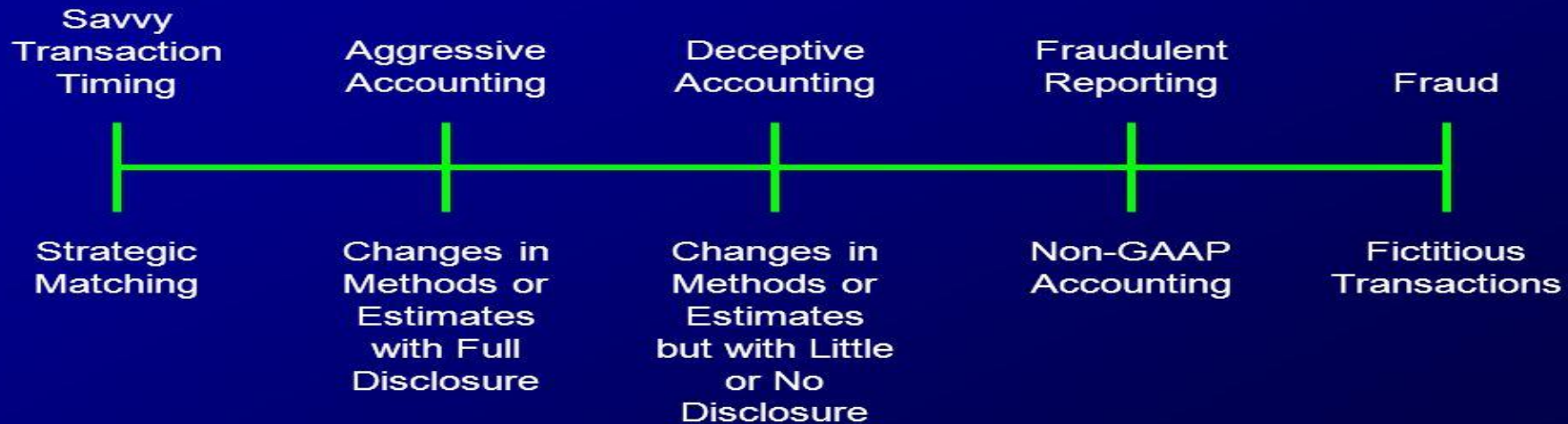


Earnings Management

[ˈɜː-nɪŋz ˈmɑː-nɪj-mənt]

The use of accounting techniques to produce financial statements that present an overly positive view of a company's business activities and financial position.

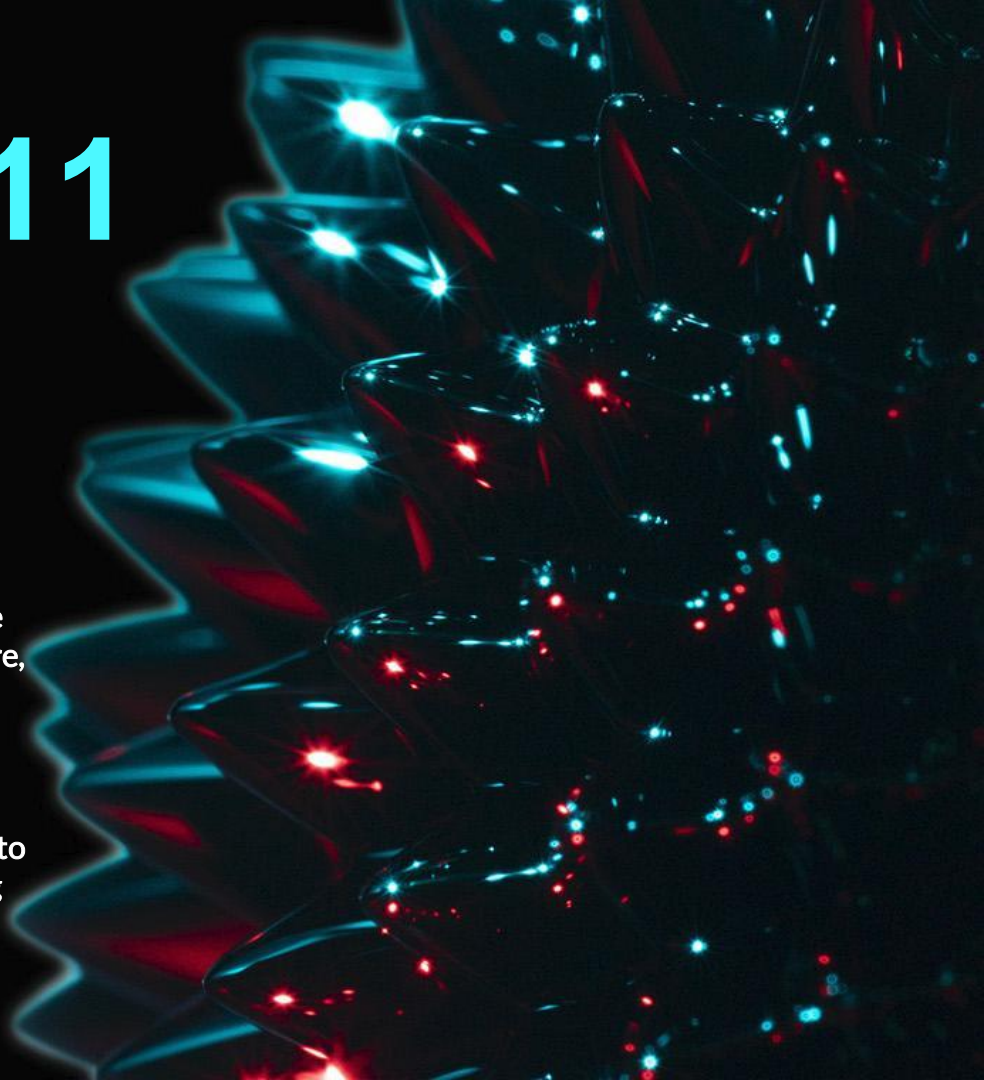
Earnings Management Continuum



Signaling Theory 11

proposed that management may signal something about the firm through various aspects of financial information disclosure, which can be viewed as a signal by investors.

Under this theory it is argued that companies will regulate themselves to remain competitive and attract potential investors by signaling to the market disclosure of information to promote transparency. This theory suggests that a reporting entity can increase its value through financial reporting





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Cockroach Theory

Cockroach theory was named from the common belief that seeing one cockroach is evidence there are more.

refers to a market theory that states when a company reveals bad news to the public, many more related, negative events may be revealed in the future. Bad news may come in the form of an earnings miss, a lawsuit, or some other unexpected, negative event.



Reaction
vs.
Response

A Mindful Difference

Reactions are done on impulse, without putting much thought into it or considering what the end result may be.

Response is more thoughtful and done with reasoning. People who respond put their thoughts ahead of their actions.



WORLD COM SCANDAL!



WorldCom's shareprice (US \$)



The fraud was uncovered in June 2002 when **the company's internal audit unit, led by unit vice president Cynthia Cooper, discovered over \$3.8 billion of fraudulent balance sheet entries.** Eventually, WorldCom was forced to admit that it had overstated its assets by over \$11 billion.

Financial Scandals



THE \$64 BILLION SCAM



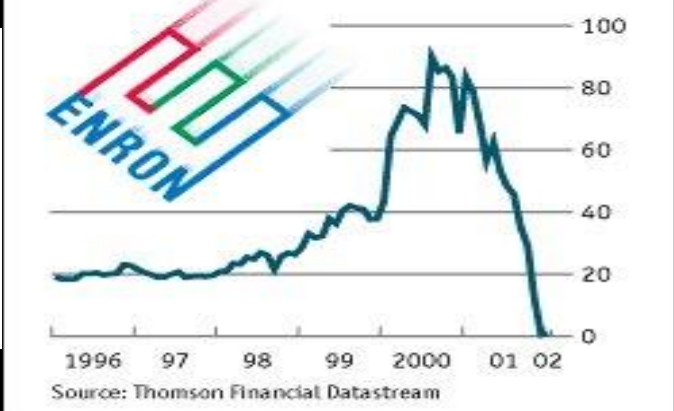
THE WIZARD OF LIES



How Greed caused the Biggest Bankruptcy In History



A star has fallen
Enron share price, \$



The Enron scandal was a series of events involving dubious accounting practices that resulted in the bankruptcy of the energy, commodities, and services company Enron Corporation and the dissolution of the accounting firm Arthur Andersen. shareholders lost **\$74 billion** in the four years leading up to its bankruptcy, and its employees lost billions in pension benefits.



**"IT'S THE IDEA
THAT MATTERS
NOT WHERE YOU
CAME FROM"**

Thanks ...

