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ADVANTAGES AND DISADVANTAGES OF SHAREHOLDERS AND A SUPERVISORY BOARD

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Abstract: This topic analyzes the importance of the role of shareholders and the supervisory board in the management of corporations. The proper use of shareholders' voting rights allows the supervisory board to improve corporate governance by monitoring management, and their accountability is also important in the management of corporations. The independence and impartiality of the supervisory board are shown to be important in increasing the transparency and accountability of company management.

The rights of shareholders to the company's profits and their ability to influence management through voting rights are discussed. The ability of shareholders to influence the company's strategy through voting rights and the ability of the supervisory board to improve corporate governance through monitoring of management are presented as advantages. However, the focus of shareholders on short-term interests and the lack of direct involvement of the supervisory board in the management of the company are presented as disadvantages.

Key words: Ordinary shareholders, preferred shareholders, accumulated, non-accumulated, participating, non- participating, irredeemable, convertible, non-convertible, liquidity, limited liability, limited influence, information asymmetry, market risk, resistance to change.

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Introduction: In modern business, shareholders and their supervisory board play an important role in the management of corporations. Shareholders, as owners of the company, have a role in ensuring the effectiveness of their investments and investments and in influencing the management strategy. The supervisory board, on the other hand, is a group of independent individuals elected by the shareholders and is responsible for ensuring the transparency and accountability of the company's management.

This article mainly analyzes the advantages and disadvantages of shareholders and the supervisory board. The disadvantages are that shareholders focus on short-term interests and the supervisory board does not directly interfere in the management of the company. The advantages are that shareholders can influence the company's strategy through voting rights and improve corporate governance by monitoring the management of the supervisory board.

This article concludes with recommendations for the effective and high-quality functioning of shareholders and the supervisory board. It is emphasized that the independence and impartiality of the supervisory board, as well as the transparency and accountability of management, and the proper exercise of shareholders' voting and other rights, are important in corporate governance.

Main part:

What is a share and its types:

1. **The role and importance of shareholders:** Shareholders are the entities that own shares of a company and provide the capital of the company. The main goal of shareholders is to receive high returns from the successful business activities of the company. Shareholders are mainly divided into two types:

   - **1. Ordinary shareholders:**
   - **2. Preferred shareholders:**

• A share is a share of a company's total capital divided into a number of units of fixed value, each such unit is called a share.

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• **1. Preferred shares** are shares that have preferential rights over other types of shares in the event of division of the company during its existence and the return of capital in the event of its liquidation. The owners of these shares receive a fixed amount of dividends before other types of shareholders receive anything.

• **Different types of preferred shares**

• **Accumulated preferred shares:** these are shares whose owners have the right to receive debts for dividends not paid to them due to the lack of profit in previous years. If the preferred shares are cumulative, the dividends paid are accumulated and cannot be paid in the future.

• **Non-cumulative preference shares:** These are shares whose holders are not liable for dividends.

• **Participating preference shares:** These are shares whose holders are entitled to participate in the surplus profits of the company in addition to a fixed dividend rate and also to participate in the surplus assets of the company in the event of its liquidation, except for the return of its capital.

• **Non-participating preference shares:** These are shares that are redeemable only at a fixed rate of dividend and only with the return of the capital contributed by the shareholders before any dividends are paid.

• **Redeemable preference shares:** These are shares that are required to be redeemed (paid) by the company on or after a specified period.

• **Irredeemable preference shares:** These are shares that cannot be redeemed until the company is liquidated.

• **Convertible preference shares:** These are shares that can be converted into shares at the discretion of the holder.

• **Non-convertible preference shares:** These are shares that cannot be converted into shares.

• **Guaranteed preference shares:** These shares guarantee a fixed dividend to their holders even if the company makes no or insufficient profits.

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• **2. Equity shares -** shares that do not carry the right of preference shares to pay annual dividends and to repay capital in the event of the company being liquidated.

Shareholders play an important role in the management of a company, as they elect the board of directors and can influence the company's future plans. Shareholders also have the right to inspect the company's reports and ensure transparency in management.

Advantages:

• **Owners of the company:** The owners of the company are considered shareholders and benefit from all the achievements of the company.

• **Income opportunity:** Benefit from dividends and increases in share prices.

• **Participation in management:** Have the right to elect the board of directors and participate in making and rejecting important strategic decisions, as well as elect and dismiss the company's president.

• **Liquidity:** The ability to buy and sell shares on the stock market.

Disadvantages:

• **Limited liability:** Liability for the company's debts only up to the amount of the investment.

• **Limited influence in management**: Limitations on the influence of small shareholders.

• **Information asymmetry:** Lack of detailed information about the company's activities and management.

• **Market risks:** Sharp fluctuations in stock prices.

• **Agency problems:** Managers may act against the interests of shareholders.

2. The role and importance of the Supervisory Board

The body that controls the management of the company (the Board of Directors) is the body elected by the shareholders and controls the management of the company. Its main tasks are:

• Appointing senior managers and supervising their activities.

• Determining the strategic direction of the company.

• Monitoring the financial condition of the company and auditing reports.

• Ensuring compliance with corporate governance standards.

• Legally protecting the interests of shareholders.

Advantages of the Supervisory Board:

• **Protecting the interests of shareholders:** Preventing the wrongdoing of company managers.

• **Setting long-term plans:** Ensuring the success of the company based on long-term, thorough plans.

• **Monitoring the activities of company managers:** Assessing and motivating their activities within the company.

• **Risk management:** Developing strategies to identify, manage and, if necessary, eliminate the company's risks.

• **Improving the company's corporate governance:** Increasing transparency in the management system and ensuring compliance with standards.

Disadvantages of the Supervisory Board:

• **Agency problem:** Managers and board members may collude and engage in secretive actions.

• **Information asymmetry:** Board members may not have complete information about the company's activities.

• **Resistance to change:** The board may be conservative and have difficulty accepting new ideas.

• **Limited liability:** It may not be held accountable for wrong decisions.

• **High requirements for effective performance:** Board members are required to have high qualifications, experience, and independent judgment.

3. Relationship between shareholders and the Supervisory Board: The relationship between shareholders and the Supervisory Board is crucial to the success of governance. Shareholders elect the board members and the board is expected to protect their interests. However, due to agency problems, board members may collude with managers or put their own interests ahead of their own.

Ways to improve relationships:

• **Independent directors:** The majority of the board of directors should be independent of the company's management.

• **Transparency:** Shareholders should be fully informed about the company's activities.

• **Active shareholder participation:** Shareholders should attend meetings and influence the company's management.

• **Proper incentives:** The incentive system for board members should be in line with the interests of shareholders.

Conclusion

Shareholders and the Supervisory Board are important elements of corporate governance, each of which has its own advantages and disadvantages in the management and decision-making process. Proper understanding of their activities and healthy interaction between them allows ensuring the long-term successful operation of the company.

The interaction of shareholders and the supervisory board in the management of corporations is complex and multifaceted. The ability of shareholders to influence the company's strategy through voting rights and the ability of the supervisory board to improve corporate governance through monitoring of management are indicated as advantages. However, the fact that shareholders focus on short-term interests and the supervisory board does not directly interfere in the management of the company are indicated as disadvantages.

To work effectively, shareholders and the supervisory board must cooperate and fully understand each other's roles. Shareholders must exercise their voting rights correctly, and the supervisory board must be independent and impartial, effectively supervising the management of the company. Transparency and accountability of management are also important in the management of corporations. In conclusion, the interaction of shareholders and the supervisory board plays an important role in the management of corporations, but in order to work effectively, their mutual cooperation and full understanding of each other's roles are necessary.

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