Your Corporate Governance Philosophy: Why it Matters

Stakeholder v. Shareholder?

MOJOLAOLUWA OLAIFA
OLAPEJU A. OLATUNBODE

ZYDEN

WHAT CORPORATE THEORY DO YOU ENGAGE?

Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled; essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community; provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

Corporate Governance is set of relationships; between the shareholders and the governing body, the governing body and the stakeholder, the shareholders and the shareholders, the shareholder, stakeholders and the organisation.

It outlines their duties to each other, the terms of their relationship all in the vein to do what is best for each party and the progress of the organisation. It employs many mechanisms which at the centre has the profiting of the organisation. Its function includes:

1. It creates the corporate culture of the organisation.
2. It helps design and determine the objectives and ethics of the organisation.
3. It ensures that the stakeholders comply with the organisation’s rules.
4. It designs, determines, implements the governance framework for the organisation.
5. Ensures transparency to ensure strong and balanced economic development.

ZYDEN

SHAREHOLDER/AGENCY THEORY

There are many theories which affect the governance of companies of which two are strong contenders. Stakeholder theory states that senior management makes decisions based on the best interests of the company as a whole. Shareholder theory, on the other hand, states that shareholders have a direct and important role in company decisions- especially when it comes to choosing between different options available to them.

This theory is criticized by the fact that people cannot be trusted to look after the interest of others as it will lead them to deal diligently with the business. It is often misconstrued as (i) managers doing everything possible to make and maximise profit, (ii)the managers are short-term goal oriented. The shareholders tend to benefit more from the risk taken by management as their remuneration are sometimes performance based, making it easier to increase riskiness to meet desired targets.

Shareholder (Agency) Theory

This theory postulates that the owner of the wealth contracts someone else to manage their affairs. The shareholder) engage the (directors) to perform services on their behalf. This claims that managers have a duty to maximize shareholder returns. The Shareholders delegate some decision-making authority to their agents. This theory is based of a morality code and believe in people to be able to uphold the interest of others.

ZYDEN

THE STAKEHOLDER THEORY

This theory postulates that directors are accountable and responsible to all those who are affected by the decisions of the company (the stakeholders). It looks at the companies' interest more than the wealth creation. it gives the directors two duties: ensuring no violation of the ethical right of any stakeholder and balance the legitimate interest of the stakeholder when decisions are made. This places value and belief in the relationship between individual, enterprises and the state; a balance of responsibility, accountability and power throughout society. This requires taking into accounts the interests of a diverse and wide range of persons and is sometimes at a disadvantage as stakeholders' interest are potentially always at a conflict.

Stakeholder theory upholds a seriousness of corporate social responsibility and sustainable reporting which ensures business managers uphold their ethical duty to shareholders and community respectively, so its activities do not harm the community.

SO, SHAREHOLDER OR STAKEHOLDER ?

Corporate Governance as a concept emerged in response to this question, and is the answer. The corporation in its modern form is contractual in nature, specifying rights and duties between the company (as shareholder) and its owners (stakeholders), such as employees, customers, suppliers, creditors, etc., who provide financial support to the company in exchange for expected value.

A company's success in both private and public markets will come from improving products, services, customer relationships, environmental practices, community action and employee achievement.

To ensure that the management of the Company is conducted in a manner that is in the best interests of all stakeholders, and to bring out the potential of the Company including its assets, employees, and shareholder value by providing stability and security, it is important for the external Board members to have an appropriate mix of industry experts, professionals with proven records of achievements and specialists in Corporate Governance..

References
https://www.investopedia.com/terms/c/corporategovernance.asp
Bob Tricker, Corporate Governance: principles, policies, practices, Oxford Publisher , 4 Edition
H. Jeff Smith, The Shareholders vs. Stakeholders Debate, July 15 2003 MIT Sloan Management Review
The Effects of Corporate Governance on Banking and Finance, Olapeju Abigail Olatunbode , August 2020
Sir Adrian Cadbury in the Report on Financial Aspects of Corporate Governance in the United Kingdom in 1992.

ZYDEN