

Theories of Corporate Governance

1. Definition of Corporate Governance

- Corporate Governance = a system of rules, policies, and processes a corporation follows to meet its

2. Shareholder Theory

- Promoted by Milton Friedman in the 1970s.
- Has been the dominant business model since the 1980s.
- States that a company's primary responsibility is tofor shareholders.
- Argues that a company's is to increase profits.
- Criticized for itson profits.
- Led to the rise of other models that consider the interests of more groups.

3. Stakeholder Theory

- Developed in the 1980s by R. Edward Freeman.
- Says that a company must consider the interests of all, not just shareholders.
- Stakeholders include employees, suppliers, customers, community members, and
- Example: A company might choose not to move a factory abroad to protect local employees and the community, even if it reduces
- Emphasizesover profit maximization.

4. Corporate Social Responsibility (CSR)

- States that a company should seek bothand a positive impact on theand environment.
- Example: Google Inc. has initiatives to protect the environment and promote in the workplace.
- CSR has become increasingly popular in the last decade, as consumers and investors expect such actions.