

Corporate governance approaches

Business



Corporate Governance Approaches [N a m e] Introduction Shareholder capitalism, Stakeholder Capitalism, and Ownership are the three main approaches of corporate governance and this report discusses these three approaches and compares one with another. Shareholder capitalism and stakeholder capitalism are capitalists approach where there is no involvement of government however state ownership is the socialists approach in which government has the central role to play.

Comparing three APPROACHES

Shareholder capitalism

One of the first approaches is the shareholder capitalism in which the objective is to maximize the value of shareholders. Because shareholders are the real or true owners of the company and they have invested in the organization therefore researchers and economists encourage the idea to maximize the investment made by the shareholders.

Stakeholder Capitalism:

The second approach is stakeholder capitalism in which all parties that have their stake in the organization should be given importance and not just the shareholders. All parties that could be influenced by the actions of the organization or their actions could influence the organization are referred to as stakeholders. Because in generating profits, there are other parties involved besides the shareholders such as employees and management of the organization, distributors, suppliers and people in the society and government, therefore the concept of stakeholder capitalism encourages maximizing the value of stakeholders rather than just investors.

State Ownership:

The approach of state ownership is also known as the government ownership
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as in this approach the government has the decision making authority. The concept behind state ownership approach is that the government would make decisions according to the benefit of the overall economic condition of the country and strategies would be formulated to meet the needs of the society (Clarke and Kohler, 40). Also this would discourage the idea of encouraging private firms to charge high prices and earn more profits.

best APPROACH TO maximize the long-run economic performance

Stakeholder capitalism is the best approach to maximize the long run economic performance of the firm because in this approach, not only the shareholders of the firms are considered but every party that has something at stake with the organization would be given importance. Because an organization does not operate in isolation and different parties are affected by its actions therefore the approach of stakeholder capitalism should be encouraged.

representation OF EMPLOYEES on the firms board of directors

Employees are the ones who help the organization to grow and earn profits therefore it is important that they should be involved in the board of directors regardless of what approach the organization uses. It is also important for employees to represent in the board because they could highlight some of the significant issues which the other board members could not identify as employees are more directly involved in the day to day operations of the organization.

Role of state ownership

In the long run, it is not favorable for the organization to have state ownership. Several research studies have identified that private organizations are able to perform better than state owned organizations. The <https://assignbuster.com/corporate-governance-approaches/>

competition level in private organizations tends to be higher in comparison to state owned organizations and therefore it can be said that state ownership discourages competition.

State ownership would make sense if the organization is offering a good that would be useful for everyone for instance, electricity and government should own such organizations in order to have control over these important strategic assets. However, if the government owns every business then it would be difficult for the government to prioritize each and every organization and make the most of the resources this is the reason why private businesses should be promoted instead of state ownership.

Work Cited

Clarke, Alison; and Paul Kohler. Property Law: Commentary And Materials. Cambridge: Cambridge University Press. 2005.