Mohammed Khider University of Biskra

Faculty of Economics, Business and Management Sciences

Department of Economics

Module: Introduction to Business Management **Level:** Second year LMD

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Lecture 09 : Recent trends in Management (Corporate Governance)

Objectives :

1- Understand the Concept of Corporate Governance
2- Recognize the Need for Corporate Governance
3- Learn the Principles of Corporate Governance
4- Knowing the Theories of Corporate Governance

Structure :

1- Introduction
2- Concept of corporation Governance
3- Need for corporate governance
4- Principles of corporate governance
5- Theories of corporate governance
6- Conclusion
7- Glossary

1- Introduction :

Corporate governance serves as a cornerstone for ensuring the effective and ethical management of organizations. Rooted in historical concepts of leadership and control, governance has evolved into a structured system that guides companies toward achieving transparency, accountability, and balanced stakeholder relationships.

This lecture delves into the foundational concepts, principles, and theories of corporate governance, highlighting its importance in addressing modern challenges such as dispersed ownership, changing investor dynamics, and restoring public trust after corporate scandals.

2- Concept of Corporate Governance :

The concept of governance has been in use at least since the fourteenth century. It was first used in France. It meant ‘seat of government’. It has been derived from Greek word ‘Kybernan’ which means ‘to steer and to pilot or be at the helm of things’.

“Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders’ role in governance is to appoint the directors and auditors and to satisfy themselves that the appropriate governance structure is in place.”

It is the system of rules, practices and processes by which a company is directed and controlled.

It essentially involves balancing the interest of the company’s many stakeholders such as shareholders, management, customers, suppliers, financiers, government and the community.

3- Need for corporate governance :

The need for corporate governance is highlighted by the following factors:

a) Wide Spread of Shareholders

Today a company has a very large number of shareholders spread all over the nation and even the world; and a majority of shareholders being unorganized and having an indifferent attitude towards corporate affairs. The idea of shareholders’ democracy remains confined only to the law and the Articles of Association; which requires a practical implementation through a code of conduct of corporate governance.

b) Changing Ownership Structure

The pattern of corporate ownership has changed considerably, in the present-day-times; with institutional investors and mutual funds becoming largest shareholders in large corporate private sector. These investors have become the greatest challenge to corporate managements, forcing the latter to abide by some established code of corporate governance to build up its image in society.

c) Corporate Scams or Scandals

Corporate scams and scandals highlight weaknesses in corporate management. Such incidents expose unethical practices, mismanagement, or lack of transparency, causing financial losses, damaged reputations, and reduced stakeholder trust. Effective corporate governance is essential to prevent these issues by ensuring accountability, ethical decision-making, and proper oversight of corporate activities, ultimately safeguarding the interests of shareholders and the public.

4- Principles of corporate governance :

Since 1999, the Organization for Economic Cooperation and Development (OECD) issued its Principles of Corporate Governance (OECD, 2004). these have become reference documents for policy makers, investors, corporations and other interest groups (stakeholders) around the world that can be adapted to the particular circumstances of each country (members or non-members of the OECD).

Such principles can be summarized with the following :

1) Fairness

The board of directors must treat shareholders, employees, vendors, and communities fairly and with equal consideration.

2) Transparency

The board should provide timely, accurate, and clear information about such things as:

- Financial performance
- Conflicts of interest
- Risks to shareholders and other stakeholders

3) Risk Management

The board and management must determine risks of all kinds and how best to control them. They must act on those recommendations to manage risks and inform all relevant parties about the existence and status of risks.

4) Responsibility

The board is responsible for the oversight of corporate matters and management activities. It must be aware of and support the successful, ongoing performance of the company. Part of its responsibility is to recruit and hire a chief executive officer (CEO). It must act in the best interests of a company and its investors.

5) Accountability

The board must explain the purpose of a company's activities and the results of its conduct. It and company leadership are accountable for the assessment of a company's capacity, potential, and performance. It must communicate issues of importance to shareholders.

5- Theories of corporate governance :

4-1- Agency Theory

Agency theory explores the relationship between the **principals** (e.g., shareholders) and **agents** (e.g., directors or managers). Principals delegate decision-making and operational control to agents, expecting them to act in the principals' best interests. However, agents may pursue personal goals, leading to a conflict of interest. The theory emphasizes the **separation of ownership and control** in organizations and suggests mechanisms like **accountability, incentives, and disciplinary measures** (e.g., rewards or punishments) to align agents' actions with principals' expectations.

4-2- Stewardship Theory

Stewardship theory portrays executives and managers as **stewards** who work diligently to enhance shareholder wealth through organizational success. Unlike agency theory, it assumes that stewards are inherently motivated to act in the best interest of the company and its stakeholders. This theory advocates for empowering employees with **autonomy** and emphasizes their satisfaction in achieving corporate goals, ultimately leading to shareholder value maximization.

4-3- Stakeholder Theory

Stakeholder theory broadens the scope of corporate governance to include **all stakeholders**, such as employees, suppliers, business partners, and the community, rather than focusing solely on shareholders. It argues that management must balance the interests of various stakeholders, as all their contributions hold intrinsic value. The theory prioritizes **fair and equitable decision-making** to ensure no single group's interests dominate over others.

Conclusion

Corporate governance is not just a set of rules but a comprehensive approach to fostering trust, fairness, and accountability in businesses.

By implementing effective governance principles and understanding the dynamics of agency, stewardship, and stakeholder theories, organizations can align the interests of diverse groups, mitigate risks, and enhance their reputation.

The need for corporate governance is underscored by its role in reviving investor confidence, promoting ethical practices, and driving economic development.

As governance practices continue to evolve, they remain essential in steering companies toward long-term success and stakeholder satisfaction.

SUMMARY

. 1- Concept of Corporate Governance

- Originates from the 14th century, derived from the Greek word *Kybernan* ("to steer or pilot").
- Defined as a system of rules, practices, and processes by which companies are directed and controlled.
- Balances the interests of stakeholders: shareholders, management, customers, suppliers, financiers, government, and the community.

2- Need for Corporate Governance

- **Wide Spread of Shareholders**: Many dispersed and unorganized shareholders require a practical governance code.
- **Changing Ownership Structure**: Institutional investors and mutual funds demand adherence to governance norms.
- **Corporate Scams**: Scandals highlight the need to restore public and investor confidence.

3- Principles of Corporate Governance

- **Fairness**: Equal treatment of all stakeholders.
- **Transparency**: Clear, accurate, and timely information disclosure.
- **Risk Management**: Identifying and mitigating risks effectively.
- **Responsibility**: Oversight of management activities and recruiting capable leadership (e.g., CEO).
- **Accountability**: Communicating and explaining organizational decisions and performance to stakeholders.

4- Theories of Corporate Governance

- **Agency Theory**: Examines the relationship between principals (shareholders) and agents (directors/managers) with mechanisms like incentives to align their interests.
- **Stewardship Theory**: Views managers as stewards working for organizational success, emphasizing autonomy and responsibility.
- **Stakeholder Theory**: Focuses on balancing the interests of all stakeholders, not just shareholders, ensuring fair and equitable decisions.

GLOSSARY

English	Arabic
Corporate governance	حوكمة الشركات
Board of directors	مجلس الإدارة
shareholders	المساهمون
stakeholders	أصحاب المصلحة
Ownership	الملكية
to abide	الالتزام
Corporate Scams or Scandals	فضائح أو احتيالات الشركات
Fairness	العدالة
Transparency	الشفافية
Accontability	المساءلة
chief executive officer (CEO)	الرئيس التنفيذي
Agency theory	نظرية الوكالة
Stewardship theory	نظرية الوصاية
Autonomy	الاستقلالية