

I'm not a bot























Stewardship theory is a business model that views company executives as responsible stewards of the company or organization they lead. Under this theory, it is assumed the executives will act in the best interest of the company's shareholders and not take actions that benefit themselves personally while hurting the company or its shareholders. It is the primary alternative to the agency theory, which provides additional oversight between company executives and shareholders to help resolve any conflict between their interests. BackgroundAll companies and organizations need a method of governance and leadership to oversee its activities, monitor the success of those activities, and determine future plans and actions. There are several common models for this governance, including agency theory, stakeholder theory, and stewardship theory. In agency theory, a person known as an agent makes decisions on behalf of one or more people, known as the principals. In the business world, a company's executives often act as agents, while the shareholders—people who put up the funding for the company through stocks or other means in exchange for a share of the profits in the form of dividends—are the principals. However, in business, there are many times when the goals of these two parties are in conflict. For example, a company president may see it as a good thing to buy another company that is struggling because she sees great potential for future profit and potential bonuses, but this may mean a temporary drop in the dividends received by the shareholders. The agency theory assumes an extra layer of oversight is needed to help resolve these potential conflicts and ensure the agent's goals do not take precedence over those of the shareholders. This oversight frequently comes in the form of a board of directors from outside the corporate structure. The stakeholder theory also considers the shareholders and their interests to be important. However, this theory recognizes that there are others who also have a stake, or interest, in the company or organization's activities and success. This theory maintains that the interests of all stakeholders should be taken into account. These stakeholders can include management, employees, customers, and even the company's competitors. In the stakeholder theory, the interests of all of these parties are considered equally important. This theory was first widely publicized in the 1984 book Strategic Management: A Stakeholder Approach by R. Edward Freeman. OverviewThe stewardship theory echoes the agency theory in making the shareholders' interests of prime importance. However, this theory also assumes that the people responsible for the company's leadership will act as good stewards. A steward is someone who takes care of something for someone else. This something can be a company, a household, or some other form of property or asset. The steward does not own the asset but treats it as if they do when protecting and caring for it. In the case of a company, this includes making every effort to protect the company's finances and growing its resources as much as possible. A good steward will also act in the interest of others, even if this action goes against their own best interests. A company operating under the stewardship theory may also have a board of directors. However, unlike a company using the agency theory, these directors are usually from within the company. This is because in the stewardship theory, it is assumed the company or organization's leadership will act in the best interest of the shareholders regardless of how the leadership is affected. Since this theory does not expect there to be conflicts between the needs of the leadership and the shareholders, there is no need for the additional oversight of a board from outside to help resolve conflicts or ensure that the shareholders' interests are given precedence. Instead, the assumption is that the company or organization's leadership will put the needs of shareholders and the company over their own. In many cases, these companies or organizations are under the governance of a chief executive officer (CEO), who has the final say in decisions for the company or organization. This model provides some clear advantages. There is one single and authoritative answer when decisions need to be made and no conflicting messages are coming from a board or other company executives. The shareholders also know who to address when they have a question or concern and have the confidence of knowing that the primary goal of the company's executives is protecting the shareholders' interests. Companies or organizations that employ the stewardship theory often have some purpose beyond profit. Making a profit may be part of its goal, but there is usually another goal that is considered more important than profit. This is usually a cause, such as protecting human rights by not using sweatshop labor and paying a living wage to all employees. Other companies may choose to operate in such a way that they use practices that do not hurt animals, exercise good environmental stewardship, or honor a specific religious or cultural belief. A company or organization that operates with a focus on a specific ethical concern or holds some other purpose as greater than profit will likely attract like-minded people as shareholders, customers, and employees who also see this goal as more important than any financial gain. As a result, customers will often pay more for goods and services from these companies. Employees may also be more likely to choose to stay with the company even if the pay is lower than they might make elsewhere. This interest in the company or organization's purpose coming from multiple sources also provides built-in accountability for management. These shareholders, customers, and employees will generally be able to quickly discern if the executives are not upholding appropriate standards. However, this scrutiny can be problematic if there is any perceived gap between what the company states as its purpose and any action it takes. For example, a company that emphasizes environmental concerns and efforts to minimize the use of nonrenewable resources may lose stakeholder trust if management chooses a jet to fly to a conference. The company may also need to reevaluate its organizational structure as time goes by as its non-financial purpose changes. Good corporate governance changes. Bibliography "Agency Theory." Stakeholder Theory: What's the Difference? Investopedia, 23 Aug. 2023, www.investopedia.com/ask/answers/031615/whats-difference-between-agency-theory-and-stakeholder-theory.asp. Accessed 20 Oct. 2024. Bondigas, A. "Stewardship Theory: Corporate Governance." Houston Chronicle, smallbusiness.chron.com/stewardship-theory-corporate-governance-74073.html. Accessed 20 Oct. 2024. Chrisman, James J. "Stewardship Theory: Realism, Relevance, and Family Firm Governance." Entrepreneurship Theory and Practice, vol. 43, no. 6, 2019, pp. 1051–66. doi.org/10.1177/1042258719838472. Accessed 20 Oct. 2024. Flynn, Anita. "Stewardship Theory of Corporate Governance." Arizona Republic, yourbusiness.azcentral.com/stewardship-theory-corporate-governance-29164.html. Accessed 13 Nov. 2017. Ingram, David. "The Agency Theory in Financial Management." Houston Chronicle, smallbusiness.chron.com/agency-theory-financial-management-81899.html. Accessed 13 Nov. 2017. Johnson, Walter. "Stewardship Theory of Corporate Governance." Bizfluent, 26 Sept. 2017, bizfluent.com/info-7747800-stewardship-theory-corporate-governance.html. Accessed 13 Nov. 2017. Lawler, Edward E. "Corporate Stewardship." Forbes, 22 Sept. 2015, www.forbes.com/sites/edwardlawler/2015/09/22/corporate-stewardship/#737d4a6bb257. Accessed 13 Nov. 2017. "Stakeholder Management." R. Edward Freeman, redwardfreeman.com/stakeholder-management. Accessed 20 Oct. 2024. Corporate governance is the system of rules, practices, and processes by which a company is directed and controlled. Establishing and implementing these practices involves balancing the interests of a company's many stakeholders, including: EmployeesShareholdersSenior managementCustomersSuppliersLendersLocal, state, and federal governmentsCommunity members and groups Corporate governance encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure. Corporate governance is the structure of rules, practices, and processes used to direct and manage a company. A company's board of directors is the primary force influencing corporate governance. Good corporate governance benefits employees, shareholders, community members, and more, as well as the operations and reputation of a company. Bad corporate governance can destroy a company's operations and ultimate profitability. The basic principles of corporate governance are accountability, transparency, fairness, responsibility, and risk management. Governance refers to the set of rules, controls, policies, and resolutions put in place to direct corporate behavior. A board of directors is pivotal governance, while proxy advisors and shareholders are important stakeholders who can affect governance. Communicating a company's corporate governance is a key component of community and investor relations. For instance, Apple Inc.'s investor relations site profiles its corporate leadership (the executive team and board of directors) and provides information on its committee charters and governance documents, such as bylaws, stock ownership guidelines, and articles of incorporation. Most successful companies strive to have exemplary corporate governance. For many shareholders, it is not enough for a company to be profitable; it also must demonstrate good corporate citizenship through environmental awareness, ethical behavior, and other sound corporate governance practices. These practices can also improve a company's public reputation, which can attract and retain a more committed base of customers. Corporate governance that is carefully thought out and implemented creates transparent rules and controls. It can serve as a guide to leadership, aligning the interests of shareholders, directors, management, community members, and employees. When implemented across all company levels of management and operations, good corporate governance can: Build trust with investors, the community, and public officialsGive investors and other stakeholders a clear idea of a company's direction and business integrityPromote long-term financial viability, opportunity, and returnsFacilitate the raising of capitalContribute to rising share pricesImprove a company's reputation and customer retentionReduce the potential for financial loss, waste, risks, and corruption Good corporate governance should be part of any company's game plan for resilience and long-term success. But corporate governance on the other hand, can have the opposite effect, eroding relationships and trust both internally and externally. This can damage a company's reputation, lead to regulatory or ethical scandals, reduce both employee and customer loyalty, cause stock prices to fall, and ultimately erode a company's profitability. The board of directors is the primary direct stakeholder influencing corporate governance. Directors are elected by shareholders or appointed by other board members and charged with representing the interests of the company's shareholders. The board is tasked with making important decisions, such as: Corporate officer appointmentsExecutive compensationDividend policy In some instances, board obligations stretch beyond financial optimization, as when shareholder resolutions call for certain social or environmental concerns to be prioritized. Boards are often made up of a mix of insiders and independent members. Insiders are generally major shareholders, founders, and executives. Independent directors do not share the ties to the company that insiders have. They are typically chosen for their experience managing or directing other large companies. Independents are considered helpful for governance because they dilute the concentration of power and help align shareholder interests with those of the insiders. The board of directors must ensure that the company's corporate governance policies incorporate corporate strategy, risk management, accountability, transparency, and ethical business practices. A board of directors should consist of a diverse group of individuals, including those with matching business knowledge and skills, and others who can bring a fresh perspective from outside the company and industry. There can be as many governing principles guiding a company as its founders and directors believe make sense. However, there are several that are common across companies and industries. The board of directors must treat shareholders, employees, vendors, and communities fairly and with equal consideration. The board should provide timely, accurate, and clear information about such things as: Financial performanceConflicts of interestRisks to shareholders and other stakeholders The board and management must determine risks of all kinds and how best to control them. They must act on those risks to manage risks and inform all relevant parties about the existence and status of risks. 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. 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. There are many types of corporate governance that a company might follow. Some use a traditional hierarchical leadership structure, and others are more flexible. Different corporate governance models may be found throughout the world. Here are a few of them. This model can take various forms, such as the Shareholder, Stewardship, and Political Models. The Shareholder Model is the principal model at present. The Shareholder Model is designed so that the board of directors and shareholders are in control. Stakeholders such as vendors and employees, though acknowledged, lack control. Management is tasked with running the company in a way that maximizes shareholder interest. Importantly, proper incentives should be made available to align management behavior with the goals of shareholders/owners. The model accounts for the fact that shareholders provide the company with funds and may withdraw that support if dissatisfied. This is supposed to keep management working effectively. The board will usually consist of both insiders and independent members. Although traditionally, the board chairperson and the CEO can be the same, this model seeks to have two different people hold those roles. The success of this corporate governance model depends on ongoing communications among the board, company management, and shareholders. Important issues are brought to shareholders' attention. Important decisions that need to be made are put to shareholders for a vote. U.S. regulatory authorities tend to support shareholders over boards and executive management. Two groups represent the controlling authority under the Continental Model. They are the supervisory board and the management board. In this two-tiered system, the management board is composed of company insiders, such as its executives. The supervisory board is made up of outsiders, such as shareholders and union representatives. Banks with stakes in a company also could have representatives on the supervisory board. The two boards remain entirely separate. The size of the supervisory board is determined by a country's laws and can't be changed by shareholders. National interests have a strong influence on corporations with this model of corporate governance. Companies can be expected to align with government objectives. This model also greatly values the engagement of stakeholders, as they can support and strengthen a company's continued operations. The key players in the Japanese Model of corporate governance are: Banks Affiliated entities Management The government Major shareholders, known as Keiretsu, who may be invested in common companies or have trading relationships Smaller, independent, individual shareholders have no role or voice in this model. Together, these key players establish and control corporate governance. The board of directors is usually made up of insiders, including company executives. Keiretsu may name directors from the board if profits wane. The government affects the activities of corporate management via its regulations and policies. In this model, corporate transparency is less likely because of the concentration of power and the focus on the interests of those with that power. For investors, selecting companies that practice good corporate governance can decrease the likelihood of losses and other negative consequences, such as bankruptcy. Investors can research certain areas of a company to determine whether or not it's practicing good corporate governance. These areas include: Disclosure practices Executive compensation structure (whether it's tied only to performance or also to other metrics) Risk management (the checks and balances on decision-making) Policies and procedures for reconciling conflicts of interest (how the company approaches business decisions that might conflict with its mission statement) The members of the board of directors (the stake in profits or conflicting interests) Contractual and social obligations (how a company approaches issues such as climate change) Relationships with vendors Complaints received from shareholders, employees, and community members, and how they were addressed Audits (the frequency of internal and external audits and how any issues that those audits raised have been handled) Some common bad governance practices include: Auditing: Companies that do not cooperate sufficiently with auditors or do not select auditors with the appropriate scale, resulting in the publication of spurious or noncompliant financial documentsCompensation: Executive compensation packages that fail to create an optimal incentive for corporate officersBoard makeups: Poorly structured boards that make it too difficult for shareholders to oust ineffective incumbents Bad corporate governance can cast doubt on a company's reliability, integrity, or obligation to shareholders. All can have implications for the financial health of the business. Misleading both customers and investors, to the point of fatal outcomes and federal involvement, can create scandals like the one that overtook Tesla in 2024. The scandal led to a sharp drop in both share price and investor confidence, as well as damaging public opinion about Tesla, its board, and its CEO. The electric vehicle (EV) manufacturer markets two driver-assistance features in its cars, known as Autopilot and Full Self-Driving. Tesla CEO Elon Musk has frequently made public statements either suggesting or stating outright that Tesla cars drive themselves and that drivers never need to touch the wheel. Because of Musk's position as the public face of the company, his statements were seen as misleading customers and investors about the capabilities of Tesla technology, particularly after reports of vehicle crashes experienced by drivers while using the technology, sometimes with fatal results. In October 2022, the U.S. Department of Justice opened a criminal investigation into Tesla; in May 2024, U.S. prosecutors announced that they were examining whether the company committed wire fraud by misleading customers and securities fraud by deceiving investors about the capabilities of its technology. The value of Tesla shares dropped by 4% after the announcement. In a subsequent earnings call in July 2024, Musk announced that Tesla would delay the planned unveiling of a self-driving "robotaxi" prototype. Despite the delay, Musk stressed that AI-powered robots and self-driving taxis were the future of the company, rather than the EVs Tesla was known for and capable of producing. Investors were not reassured, especially given that Tesla had just posted its lowest quarterly profit margin in five years. Tesla's share price dropped 12%, further eroding investor confidence. Musk has a history of making statements, including on social media, that have led directly to gyrations in Tesla's share price. The continuation of the investigation and the steady drop in profit margins led both investors and reporters to speculate that the board of directors may need to exert more control over Musk's statements, which seem to be damaging the Tesla brand and investors' profits, or even replace him with a different CEO. However, this has historically been seen as unlikely, as the highly-paid Tesla board is primarily considered a rubber stamp for Musk, rather than an independent body focused on positive corporate governance. Public and government concern about corporate governance tends to wax and wane. Often, however, highly publicized revelations of corporate malfeasance revive interest in the subject. For example, corporate governance became a pressing issue in the United States at the turn of the 21st century, after fraudulent practices bankrupted high-profile companies such as Enron and WorldCom. The problem with Enron was that its board of directors waived many rules related to conflicts of interest by allowing the chief financial officer (CFO), Andrew Fastow, to create independent, private partnerships to do business with Enron. These private partnerships were used to hide Enron's debts and liabilities. If they'd been accounted for properly, they would have reduced the company's profits significantly. Enron's lack of corporate governance allowed the creation of the entities that hid the losses. The company also employed dishonest people, from Fastow down to its traders, who made illegal moves in the markets. The Enron scandal and others in the same period resulted in the 2002 passage of the Sarbanes-Oxley Act. It imposed more stringent recordkeeping requirements on companies, along with criminal penalties for violating them and other securities laws. The aim was to restore confidence in public companies and how they operate. It's common to hear examples of bad corporate governance. In fact, it's often why companies end up in the news. You rarely hear about companies with good corporate governance because their corporate guiding policies keep them out of trouble. One company that seems to have consistently practiced good corporate governance, and adapts or updates it often, is PepsiCo. In drafting its 2020 proxy statement, PepsiCo sought input from investors in six areas: Board composition, diversity, and refreshment, plus leadership structure Long-term strategy, corporate purpose, and sustainability issues Good governance practices and ethical corporate culture Human capital management Compensation discussion and analysis Shareholder and stakeholder engagement The company included in its proxy statement a graphic of its current leadership structure. It showed a combined chair and CEO along with an independent presiding director and a link between the company's "Winning With Purpose" vision and changes to the executive compensation program. The four P's of corporate governance are people, process, performance, and purpose. Corporate governance is important because it creates a system of rules and practices that determines how a company operates and how it aligns with the interest of all its stakeholders. Good corporate governance fosters ethical business practices, which lead to financial viability. This, in turn, can attract investors and continue to increase the value of the company. The basic principles of corporate governance are accountability, transparency, fairness, responsibility, and risk management. Corporate governance consists of the guiding principles that a company puts in place to direct all of its operations, from compensation, risk management, and employee treatment to reporting unfair practices, dealing with the impact on the climate, and on more. Corporate governance that calls for upstanding, transparent behavior can lead a company to make ethical decisions that will benefit all of its stakeholders, including investors. Bad corporate governance can lead to the breakdown of a company, sometimes to the point of scandal and bankruptcy. Caldwell, C., Hayes, L. A., Karri, R., & Bernal, P. (2008). Ethical stewardship- implications for leadership and trust. 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Pasmore (Eds.), Research in organisational change and development (pp. 273–299). Greenwich, CT: JAI Press. Google Scholar Nicholson, G. J., & Kiel, G. C. (2007). Can directors impact performance? A case based test of three theories of corporate governance. Corporate Governance: An International Review, 15, 585–608. Google Scholar Shelp, E. (1984). Courage: A neglected virtue in the patient-physician relationship. Social Science and Medicine, 18, 351–360. Google Scholar Sundaramurthy, C., & Lewis, M. (2003). Control and collaboration: Paradoxes of governance. Academy of Management Review, 28, 397–415. Google Scholar Stewardship Theory posits that managers act as responsible stewards for shareholders, focusing on ethical decisions and long-term value. Its characteristics involve managerial responsibility, long-term orientation, and aligning interests. It encourages ethical behavior, reduces agency costs, and finds applications in corporate governance and investor relations. Warren Buffett and sustainable companies exemplify this theory in action. The Enlightened Accountant by Gennaro Cuofoano - FourWeekMBADownload Managerial Responsibility: Stewardship theory highlights the responsibility of managers to act in the best interests of shareholders, effectively managing their assets. Long-Term Orientation: Managers under this theory are encouraged to make decisions with a focus on the long-term sustainability and success of the organization, rather than short-term gains. Alignment of Interests: The theory promotes aligning the interests of managers and shareholders to create a harmonious relationship, reducing conflicts and promoting cooperation. Ethical Decision-Making: Stewardship theory fosters an environment where ethical decision-making is highly valued. Trust Building: By promoting responsible stewardship, the theory helps build trust between managers and shareholders, which is essential for effective corporate governance. Reduced Agency Costs: By aligning the interests of managers with those of shareholders and emphasizing long-term goals, stewardship theory can help reduce agency costs associated with conflicts of interest. Transparency and Disclosure: Organizations applying this theory often prioritize transparency and disclosure to mitigate potential conflicts and ensure shareholders have access to relevant information. Board Oversight: Strong board oversight, particularly by independent directors, is another key element to ensure managerial actions align with shareholder interests. Corporate Governance: Stewardship theory plays a crucial role in shaping corporate governance principles and practices, guiding how companies are directed and controlled. Investor Relations: In the context of investor relations, organizations leverage this theory to build trust and maintain open lines of communication with their shareholders and investors. Warren Buffett: The investment philosophy of Warren Buffett, one of the world's most successful investors, is often cited as an example of stewardship theory in practice. His focus on long-term value creation and ethical decision-making aligns with the core principles of this theory. Sustainable Companies: Many sustainable and socially responsible companies adopt stewardship theory as part of their corporate strategy. They prioritize responsible management and ethical practices to benefit both their shareholders and society at large. Managerial Responsibility: Stewardship theory emphasizes that managers should act as responsible stewards of shareholders' assets and interests. Long-Term Orientation: It encourages managers to make decisions with a focus on the long-term sustainability and success of the organization, rather than pursuing short-term gains. 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Related ConceptsDescriptionImplicationsStewardship Theory - Leadership and management theory emphasizing trust, empowerment, and responsibility among employees. - Involves delegating authority, fostering collaboration, and aligning individual and organizational goals. - Stewardship theory posits that employees are motivated by intrinsic factors such as autonomy, mastery, and purpose. - It promotes a culture of ownership, accountability, and shared success. - Employee motivation and commitment: Stewardship theory enhances employee motivation and commitment by empowering individuals with autonomy, responsibility, and trust, which can increase engagement, satisfaction, and discretionary effort in pursuing organizational goals and objectives over time. - Organizational culture and values: Stewardship theory shapes organizational culture and values by fostering a climate of trust, collaboration, and accountability, which can promote ethical behavior, integrity, and alignment with organizational mission and values over time. - Performance and effectiveness: Stewardship theory improves organizational performance and effectiveness by leveraging employees' intrinsic motivation, creativity, and initiative, which can drive innovation, productivity, and results in achieving strategic goals and outcomes over time. - Leadership and management practices: Stewardship theory guides leadership and management practices by emphasizing delegation, empowerment, and alignment of interests between leaders and followers, which can build trust, cohesion, and effectiveness in leading and managing people and processes over time.Servant Leadership- Leadership philosophy focused on serving and empowering others to achieve their full potential. - Involves putting the needs of others first, developing people, and building a sense of community and belonging. - Servant leaders prioritize empathy, humility, and stewardship. - They aim to create a culture of trust, collaboration, and growth. - Empowerment and development: Servant leadership empowers and develops individuals by prioritizing their needs, growth, and well-being, which can foster a culture of learning, initiative, and resilience in pursuing organizational goals and objectives over time. - Trust and collaboration: Servant leadership builds trust and collaboration by demonstrating authenticity, integrity, and empathy in relationships, which can enhance communication, coordination, and alignment among individuals and teams in achieving common goals and objectives over time. - Organizational culture and values: Servant leadership shapes organizational culture and values by modeling servant behaviors, attitudes, and practices, which can promote ethical, inclusive, and service-oriented norms and standards that guide decision-making and behavior at all levels of the organization over time. - Community and belonging: Servant leadership fosters a sense of community and belonging by creating a supportive, inclusive, and caring environment where individuals feel valued, respected, and connected to each other and to the organization, which can enhance morale, engagement, and satisfaction in contributing to shared goals and purposes over time.Transformational Leadership- Leadership approach focused on inspiring and empowering followers to achieve higher levels of performance. - Involves articulating a compelling vision, building trust, and fostering innovation and change. - Transformational leaders lead by example, coach and develop others, and align the interests of managers and shareholders to create a harmonious relationship, reducing conflicts and promoting cooperation. 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