SS10 Reading 33 Corporate Governance and ESG

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Corporate governance: the system of internal controls and procedures by which individual companies are managed.

Shareholder theory: the primary focus of a system of corporate governance is the interests of the firm's shareholders, which are taken to be the maximization of the market value of the firm's common equity. - conflict of interest between managers + owners/shareholders

Stakeholder theory (BROADER): conflicts among several groups that have an interest in the activities and performance

Stakeholder group: shareholders, board of directors, senior managers, employees, creditors, suppliers

Principal-agent conflict: risk of shareholders are not lined up with the performance of management

Stakeholder management based on 4 types of infrastructures:

1. Legal infrastructure
2. Contractual infrastructure
3. Organizational infrastructure
4. Governmental infrastructure

MEASURES OF LEVERAGE

1. Define and explain leverage, business risk, sales risk, operating risk, and financial risk and classify a risk
2. Calculate and interpret the degree of operating leverage, the degree of financial leverage, and the degree of total leverage
3. Analyze the effect of financial leverage on a company’s net income and return on equity
4. Calculate the breakeven quantity of sales and determine the company's net income at various sales levels
5. Calculate and interpret the operating breakeven quantity of sales