

Research on Stakeholder Rights and Interests Protection in Corporate Governance

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Abstract:

By studying how to protect the interests of the company's stakeholders, the distribution of power and division of responsibilities can be clarified, the interests of all parties can be better balanced, and sound corporate governance aims to pursue the long-term interests and sustainable development of enterprises. This paper constructs a theoretical framework based on agency theory and oriented by stakeholder theory, compares the shareholder-dominated governance model with the stakeholder co-governance model, studies the basic roles and responsibilities of stakeholders, and proposes specific pathways for optimizing the corporate governance structure. The results show that effective stakeholder equity protection is not only the core strategy for enterprises to achieve long-term sustainable development, but also the cornerstone for building a harmonious capitalism and a responsible market economy. Furthermore, the findings indicate that successful corporate governance reform needs to seek a dynamic balance between shareholders' interests and the rights and interests of other stakeholders, and implement it through systematic institutional arrangements such as conceptual transformation, structural optimization, mechanism innovation, and information transparency.

Keywords: corporate governance, stakeholder ESG, Theory of Agency

1. Introduction

At present, research on stakeholder rights and interests protection in corporate governance exhibits a multi-dimensional and in-depth development trend at both theoretical and practical levels. In theoretical research, scholars are dedicated to clarifying the rela-

tionship between corporate interests and stakeholder protection. Existing perspectives suggest that corporate governance should fundamentally be understood as "presumed permanent shareholders 'interests,'" which requires boards of directors to transcend short-term objectives and consider the company's long-

term development when making decisions. Meanwhile, while the newly revised Company Law first introduced stakeholder provisions, how to translate this principle into effective implementation mechanisms remains a focal point for academic reflection and optimization efforts[1].

Modern corporate governance has transcended the narrow logic of “shareholder primacy” and emphasizes the protection of the rights and interests of multiple stakeholders—including employees, customers, communities, and the environment [2].

The rise of Stakeholder Theory marks a fundamental shift in business paradigms from the narrow “shareholder supremacy” to inclusive sustainable development [3]. This transformation is driven by dual drivers: On the practical front, recurring corporate scandals and environmental crises have exposed the costs of social responsibility neglect, while the emergence of ESG investments and industry initiatives like the “Corporate Purpose Declaration” at Business Roundtable conferences provide market momentum and institutional pressure for theory implementation[4]. Theoretically, it reveals that accountability to employees, customers, communities, and other stakeholders is not merely a moral choice, but a core strategy for building long-term corporate resilience, trust capital, and competitive advantage.

Despite these advancements, existing research still has gaps: further exploration is needed on the optimization of corporate governance models and the practical significance of information disclosure and transparency in stakeholder rights protection. For society, this research serves as the cornerstone for building a harmonious capitalist system and a responsible market economy. For professional fields such as law and business administration, it has spawned a series of new theoretical frameworks, evaluation standards, and practical tools—including ESG (Environmental, Social, and Governance) investments, corporate social responsibility reports, and non-financial information disclosure. These developments have significantly enriched and reshaped the disciplinary connotations and professional paradigms of corporate governance, corporate strategy, and investment analysis. Against this backdrop, this paper aims to propose specific pathways for optimizing corporate governance structures by constructing theoretical frameworks, analyzing typical governance models, and exploring the core role of information disclosure and transparency. It does so with the aim of provid-

ing theoretical support and practical guidance for modern enterprises to achieve sustainable development through effective stakeholder rights protection.

2. Literature review

2.1 Stakeholder

The Stakeholder Theory, proposed by management scholar Edward Freeman, serves as a foundational framework for addressing corporate social responsibility by defining the ultimate value orientation of corporate governance. Its core objective is to achieve long-term sustainable development and value co-creation through the systematic balancing and coordination of stakeholders’ interests [3]. This theory emphasizes that enterprises must adopt a multi-faceted approach to interest alignment, providing a theoretical foundation for sustainable development that transcends narrow profit-maximization objectives. In contrast, the Principal-Agent Theory centers on internal contractual dynamics within organizations, particularly addressing conflicts of interest between shareholders and management. Its primary function is to design incentive and monitoring mechanisms aimed at reducing agency costs. For instance, the rational economic agent hypothesis assumes that all market participants (individuals, households, and enterprises) are fully rational, with their sole economic purpose being to pursue and obtain maximum economic benefits at the lowest possible cost. Thus, the Principal-Agent Theory serves as a governance tool aimed at balancing interests between both parties, forming the foundational mechanism of corporate governance [5]. The Stakeholder Protection Theory, however, extends beyond this dyadic framework, positing that enterprises should be accountable to all stakeholders who contribute resources and bear risks [6].

In both family-owned enterprises and small businesses, corporate governance establishes formal frameworks for allocating rights, distributing responsibilities, and structuring decision-making processes. These mechanisms aim to balance the interests of diverse stakeholders—including shareholders, management, boards of directors, employees, customers, suppliers, and communities—to ensure responsible and sustainable operations. First and foremost, corporate governance prioritizes shareholder protection, safeguarding fair treatment of shareholders’

rights and investments, with special attention to minority shareholders, alongside ensuring timely and accurate information disclosure. Secondly, it emphasizes transparency and accountability by requiring companies to disclose financial status, operational performance, and governance structures with accuracy, thereby holding management and boards accountable for their decisions. Enhancing corporate performance remains a key governance objective, which is achieved through effective oversight and incentive mechanisms that align board and management actions with long-term corporate interests and the protection of shareholders' interests. Finally, while pursuing shareholder value, companies must also safeguard the legitimate rights of employees, creditors, customers, communities, and the environment.

2.2 Corporate governance framework

The corporate governance framework encompasses internal governance structures and external governance mechanisms. In the internal governance structure, the shareholders' meeting serves as the highest authority of the company, responsible for electing and dismissing directors or supervisors, approving major matters such as mergers and spin-offs, profit distribution, and amendments to the articles of association, and ultimately assuming operational risks. The board of directors functions as the decision-making and supervisory body of the company, accountable to shareholders, with functions including strategy formulation, oversight of management, risk monitoring, and ensuring compliance with relevant laws and regulations. The board is further supported by key specialized committees. The management appointed by the board is responsible for the company's daily operations and management, including implementing the board's resolutions and reporting to the board. The supervisory board, a distinctive feature of the dual-layer governance structure, functions as an independent supervisory body representing the interests of shareholders and employees, and overseeing the performance of the board and management, as well as the company's finances [2]. This governance structure is primarily adopted in countries such as China and Germany. External governance mechanisms refer to external supervisory and regulatory forces, including laws and regulations, market supervision, external audits, market competition, and media scrutiny and public opinion. Among these, external audits enhance financial

transparency through independent verification. Internal governance structures must work in synergy with external governance mechanisms to collectively ensure the effectiveness of corporate governance.

2.3 Corporate governance model

The shareholder-dominated governance model embodies the principle of shareholder primacy, rooted in Jensen & Meckling's Principal-Agent Theory, which designates shareholders as the sole residual claimants pursuing wealth maximization through centralized decision-making [5]. In contrast, the stakeholder governance model, grounded in Freeman's Stakeholder Theory [3], advocates institutional arrangements for the shared exercise of power and joint assumption of responsibility among multiple stakeholders. This framework delivers clear objectives, efficient decision-making, and drives corporate efficiency and profitability through transparent accountability mechanisms. Under this model, shareholders are recognized as the sole owners and core decision-makers, acting as the ultimate risk bearers and residual claimants with the primary goal of maximizing shareholder wealth [7]. Shareholders typically exercise governance authority through statutory powers, including appointing board members, approving major strategic decisions (mergers, charter amendments, and capital adjustments), overseeing financial operations, and receiving economic returns through dividends and residual asset distributions. However, this centralized power structure often gives rise to agency problems due to the separation of ownership and control. This frequently leads to management's operational dominance or minority shareholders' rights violations, while the interests of key stakeholders like employees and creditors may undermine the company's long-term sustainability and social legitimacy. In the stakeholder co-governance model, stakeholders participate in corporate governance through diversified institutional channels that integrate internal and external mechanisms. Internally, employees serve as the core participants in decision-making and oversight through staff boards and employee supervisors, while democratic management and collective decision-making are facilitated by organizations like workers' congresses and trade unions. Professional committees under the board engage external experts. Externally, creditors impose financial constraints through strict contracts and ongoing supervision, with directors playing a supervisory role. Consumers exert mar-

ket pressure via feedback mechanisms and class actions, while governments and communities guide and supervise through laws, ESG investment standards, and public opinion. This framework fundamentally transforms stakeholders from passive external influencers into active internal participants. By sharing power and responsibilities, it better balances interests across all parties, fostering long-term stability and sustainable development for enterprises [8].

Under the stakeholder co-governance model, Germany has established a global benchmark by deeply embedding workers' rights into corporate governance structures through employee participation systems. Workers' representatives participate in decision-making via organizations like workers' congresses and unions, which has significantly improved labor-management relations and is driving long-term corporate stability. However, overemphasizing stakeholder interests at the expense of shareholder rights may trigger adverse market reactions. For instance, Pennsylvania State Act No.36 of 1989 attempted to introduce stakeholderism into corporate governance but ultimately failed to gain widespread acceptance in capital markets due to its lack of clear accountability mechanisms. This case demonstrates that successful corporate governance reforms require balancing shareholder interests with those of other stakeholders, rather than completely sacrificing the former. In summary, effective reforms demand strategic wisdom that achieves a more effective balance and guidance of market forces[9].

3. Protection of stakeholders' rights and interests in corporate governance

Undoubtedly, optimizing the corporate governance structure to better protect stakeholders' rights and interests is a core strategic imperative for modern enterprises striving to attain sustainable development. To optimize corporate governance structure to protect the rights and interests of stakeholders, systematic advancement is required across four dimensions: philosophy, structure, mechanisms, and transparency.

Primarily, a shift in core philosophy is needed: moving from shareholder primacy to stakeholder co-prosperity. It is imperative to explicitly enshrine the principle of "balancing and protecting the interests of all key stakeholders" in both the company's articles of association and corporate

culture. This will provide the legal and cultural foundation for all specific measures.

Secondly, optimizing the board structure and functions to enhance independence and representativeness is of paramount importance. Key measures encompass: 1. Substantially enhancing board independence by expanding the proportion of independent directors. Recent statistics indicate that over one-third of A-share listed companies now have independent directors, with a considerable number reaching or approaching the 40% threshold. Notably, blue-chip firms, large state-owned enterprises, and financial institutions with sound governance structures typically have independent directors accounting for 50% or more of their board composition. Within key oversight committees, establishing a Chief Independent Director role to coordinate independent directors becomes essential when the Chairman and CEO roles are combined, thereby effectively mitigating managerial entrenchment [5]. 2. Integrating stakeholder representatives into the board, as exemplified by Germany's well-established model of electing employee directors or appointing sector-specific expert directors. 3. Reinforcing professional committees by establishing dedicated ESG or stakeholder committees. 4. Creating specialized oversight bodies to systematically address stakeholder feedback. Furthermore, the implementation of diversified participation mechanisms—like employee board representation and community advisory committees—translates Stakeholder Theory into institutionalized practice. Through systematic institutional arrangements, companies can pursue economic growth while effectively addressing social and environmental imperatives, ultimately attaining resilient and responsible long-term sustainable development.

Information disclosure and transparency constitute the cornerstone of modern corporate governance and capital markets. Their significance resides in mitigating information asymmetry, facilitating the construction of multi-dimensional governance frameworks, and fostering long-term value creation. For investors, comprehensive and accurate information serves as the foundation for rational decision-making, reducing uncertainty risks and thereby lowering corporate financing costs. For companies, it reinforces management accountability, improves internal governance efficacy, and elevates market reputation. For broader stakeholders, it ensures the protection of their legitimate rights and interests. Moreover, comprehensive

disclosure encompassing financial data to ESG performance elevates transparency from a mere compliance obligation to a core strategic asset, enabling enterprises to mitigate risks and attain sustainable competitiveness, thereby ensuring efficient resource allocation in market economies. Strengthening information disclosure constitutes one of the most direct and effective approaches to improving corporate transparency and governance standards [10]. At the operational level, companies must ensure the depth and readability of annual and quarterly reports, proactively conduct earnings briefings, and issue independent ESG reports aligned with international standards to comprehensively demonstrate. In terms of timeliness, strict compliance with interim disclosure requirements for major events — such as mergers, acquisitions, litigation, and equity adjustments—is imperative, alongside the proactive disclosure of market-impacting events below mandatory thresholds to uphold fairness. Overall, enhancing information disclosure represents a systematic undertaking that integrates regular comprehensive reporting, timely major event notifications, and high-quality content depth, underpinned by robust internal control mechanisms and clear accountability systems to establish an unassailable foundation of market trust.

4. Conclusion

This study constructs a theoretical framework rooted in agency theory and guided by stakeholder theory. It demonstrates that agency theory addresses the fundamental principal-agent relationship between shareholders and management, while stakeholder theory transcends the limitations of “shareholder primacy” by elevating corporate governance objectives to balancing the interests of multiple stakeholders and attaining long-term sustainable development through value co-creation. This study undertakes an in-depth comparison between the shareholder-dominated governance model and the stakeholder-inclusive governance model. The former is characterized by clear objectives and efficient decision-making, yet it carries the risk of agency conflicts and overlooks other stakeholders’ rights. The latter integrates institutional arrangements (such as employee directors and ESG committees) to internalize stakeholders as governance participants, striving for more resilient and socially legitimate long-term development. This argument is corroborated by case

studies of the German Corporate Governance Act and the Pennsylvania Business Corporation Act. Finally, the paper proposes a multi-dimensional, systematic optimization pathway for protecting stakeholders’ rights.

Research findings indicate that in modern corporate governance, the effective protection of stakeholders’ rights has evolved from an external ethical obligation to a core strategy for enterprises to attain long-term sustainable development and engage in value co-creation. Successful corporate governance reforms necessitate the establishment of a dynamic balance between shareholder interests and those of other stakeholders, implemented through systematic institutional arrangements including conceptual transformation, structural optimization, mechanism innovation, and information transparency.

Future research will explore specific and feasible measures for balancing the interests of all parties, such as capital expenditure allocation, layoff decisions, and environmental protection investments. When conflicts of interest arise, the principles and detailed procedures for weighing and adjudicating such conflicts warrant further discussion, as there remains a dearth of operational-level exploration. Secondly, the construction of stakeholder governance models under China’s context should be studied: combining China’s national strategies and cultural background of “common prosperity” and “high-quality development,” research should focus on stakeholder governance models with Chinese characteristics. For instance, exploring how party organizations can fulfill a coordinating role in balancing the interests of all parties within the corporate governance of state-owned enterprises and investigating how to effectively safeguard the rights and interests of external shareholders and employees in family businesses.

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