Chapter 1
The Continuing Development of Governance: International Divergences

David Crowther and Shahla Seifi

Abstract This chapter discusses the need for the global regulation of international markets and the problems with establishing any form of regulation for these. It does so in the context of governance as the central platform for any kind of management and control. It contrasts the regulation of markets for goods and services with the market for international finance to show significant differences. It discusses collaborative approaches and the limited success achieved and also the various bodies which perform some kind of international regulation. A central theme of the chapter is that globalisation makes. Need for international regulation more important but does not offer solutions. It is therefore argued that governance is the key to the successful operation of global activity. In doing so, this chapter serves as an introduction to the theme of the book.

Keywords Globalisation · Regulation · Governance · Financial markets · International trading · Contagion

1.1 Introduction

It is apparent that governance is one of the most important aspects of managing any organisation. Indeed failures in governance have been the cause of many corporate failures and problems. Other organisations have also experienced governance failures leading to problems and some well-known ones have occurred within the sporting industry. Although the principles of governance are well known and ably expounded in Crowther (2009a, b), it must be acknowledged that the rules are only as effective as the way in which they are applied and operated. And there is considerable variation in

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this. One of the reasons for this is the effects of globalisation which causes similarities around the world—and also differences.

1.2 Globalisation

The phenomenon known as globalisation can be described as a complex (Weiss 2002) or many dimensioned process (Aras and Crowther 2007) which involves political, social, cultural and economic change. Although the economic influence which countries face through globalisation is the most crucial. All the countries in the twenty-first century recognise market globalisation in finance and economy. The effects of globalisation on the environment, corporations and businesses, in particular, in developing countries are crucial, inevitable and dynamic. Because of this, globalisation is the main issue for some well-known international institutions and some associations like the UN, World Bank, IMF, WTO, Bank for International Settlement (BIS), etc. as well as for the anti-capitalist protest movement. For example, the IMF has identified six key principles which should strengthen the global economy framework (IMF 2002a). These are as follows:

1. Greater priority should be given to the concept of international interdependence within national policy.
2. Self-responsibility in national level should not be replaced with international cooperation.
3. Globalisation necessarily needs solidarity.
4. There is no national boundary for ecological threat to the Earth.
5. It is required to recognise rules of the game and ensure a level playing field, for participating in globalisation.
6. There is a need to respect cultural and experiential diversity as a sign of prosperity of the Earth.

These principles cover national politics, ecological and environmental issues, wealth distributions and international corporate behaviour, sharing experiences and roles of main players of this process. One of the main questions is whether globalisation is inevitable and will have the same effect or not for all countries and markets. Another is whether globalisation causes less independence for countries generally, or some of them in particular. According to research and experience, it seems that not only is it an inevitable fact but also that it is having a strong effect for all countries. Therefore, in another publication, the IMF has specified the four additional key principles for globalisation strengthening as follows (IMF 2002b):

1. There must be a confidence among the countries that their voices will be heard.
2. All countries should be confident that they will live up to their own responsibilities.
3. Local and national traditions and cultures and responsibilities and religions should be respected when making international decisions.

4. Global ethics including observing human rights is needed for a global economy.

These key principles indicated that globalisation has needed some basic rules such as solidarity, respect and responsibility for each nation's value, and global ethics, for all actors in this process. Another issue is cooperation, solidarity, sharing experience and decisions which also will affect the dependency of nations.

According to Moshirian (2011), international institutions like the World Bank and the IMF—which are describing financial architecture—have devoted themselves to raise the quality of lives of so many people all around the globe for more than 50 years. He claims that it would be a step forward for the World Bank and the IMF to develop modern architecture for international finance. He had previously stated (Moshirian 2002), however, that this would not improve the situation in many developing countries and would not empower them to eradicate the bases for their financial powerlessness to sort out their social, environmental or economic issues.

Theoretically by globalisation it is implied that there must be a movement of labour and capital and goods freely through trade, although practically the primary manifest has been the free capital movement.[1] Financial globalisation is, in fact, the name given to such trade liberalisation. In neoclassical models, financial globalisation generates major economic benefits: in particular, the theory holds that it empowers investors across the globe in better sharing of risks and letting capital flow wherever it has the highest productivity, and gives the opportunity to the countries to make the best use of their comparative advantages (Stulz 2005). Globalisation is clearly an important influence on financial markets. The security of debts and assets, deposits and bank loans, titles to physical capital and lands will all be affected by financial markets globalisation. It is quite easier to trade in such debts and assets to globalise than to do so with labour and commodities. Their globalisation has indeed progressed so quickly as the only thing engaged in financial transactions is just electronic entries or exchange of pieces of papers. Due to the revolution in communications, all these transactions have been made easier, cheaper and faster. There is no need for financial assets to cross any physical frontiers. However, national regulations play as barriers to their transaction (Tobin 2000), although in transitional economies and developing countries regulation alone cannot control and regulate global transactions.[2]

1.3 Financial Globalisation

What is suggested by conventional wisdom is that by integration of markets of national finance, financial flows are facilitated to poor from rich countries, and therefore their development will be accelerated—a version of the discredited Trickle

[1]The movement of people from the Middle East and Africa into Europe has, however, become an issue since 2014 and has arguably contributed to the vote by British people to leave the European Union.

[2]See Crowther (2009a, b) for a detailed consideration of the context of governance within the world economic system.

Down Theory used by the Chicago School of economists (and championed by many economists, notably Milton Friedman while disparaged equally by other eminent economists such as J K Galbraith) to legitimise the privatisation of Latin America. According to this view, the globalisation of financial markets assists the reduction of national inequalities. However, it is commonly believed that in an imperfect world, rich countries are able to offer financial security to lenders, and therefore it is impossible for the poor countries to compete with them if financial market be integrated (Matsuyama 2004). The expected benefit from the development of integrated financial markets and flow of financial assets is to create a prospect global investment and savings allocation which is more efficient than ever before. But such worldwide financial market might have a very negative and harmful effect on financial markets in transitional and developing countries. Imperfectly competitive financial markets[3] can have unpredictable reactions to adverse economic shocks, which can be spread to other countries with a contagious effect (see, for example, Sachs et al. 1996, Kaminsky et al. 2003). One of the main causes of financial shock and crisis is capital flows, especially portfolio investments, for developing countries which have unregulated markets and unsound financial systems. These countries are wide open for international financial shocks; therefore, we can say that financial globalisation carries with it large risks.

In order to defeat the unavoidable and often unmanageable results of globalisation what is required is market discipline and stability in finance. Thus, in order to enhance the benefits and reduce the risks due to globalisation, before achieving more effective market discipline to ensure sound financial systems, regulatory monitoring should be more watchful. To attain this, organisations in national or international levels like the Basle Committee of Banking Supervisors and the World Bank and IMF look after the soundness of financial systems in developing and developed countries in this modern environment (Knight 1998).

Globalisation must be considered to be a growing influence on financial markets and for all the reasons mentioned, globalisation is necessitating global standards and regulations for international trading and for corporations. If the world is going to be only one federation there will be a need to have international rules and standards such as international bank regulations, international accounting standards and trade regulations (Ball 2006; Crowther 2009a, b). Besides, in order to attain to a real globalised market, a globalised financial organisation is needed which can act as the central regulator and coordinator (Arestis et al. 2005).

Financial globalisation would lead to such negative effects as crises and contagions. The financial and economic crises of the 1990s and subsequently the years 2007–2012 give an indication that financial globalisation is not always beneficial to all, and that it might cause big disturbance and expenses like reserves depletion of foreign exchange, failing banks and bankrupt organisations, turbulence in stock market and devaluation of currency. More significantly perhaps it can cause severe disruption to economies and to the lives of people and lead to turbulence in the social

[3]What is often ignored is that it is only in a perfect competition status that a completely unregulated free market can work, which means never. It is simply a construct in economic theory.

environment.[4] In global financial markets, the finance flow suddenly reverses by a change in market recognition of borrowing ability. Since 1973, the random selection of a country in crisis is two times more probable. So policies should be enforced to broaden, deepen and make more robust the financial systems in order to prevent the repetition of these scenarios. These policies should consider what weak points might lead to vulnerability of financial structures to external shocks. These should be addressed globally and nationally (Das 2006).

There are, of course, benefits to go alongside the problems. Thus, by integration of the financial markets, many of the developing countries have got better access to worldwide savings. A number of countries which managed to borrow more and therefore develop more rapidly had increase in yield for foreign investments and gave them the chance to cut risks by diversifying the portfolio. Therefore, many have welcomed the trend of integrating of financial markets and the related enhanced financial flow in international level (Park 2002). For this reason, globalisation has increased the speed of market reactions in the financial markets of developing countries. These countries, which tend not to have sufficient market rules and regulations, are clearly open for the external effects which come from capital flows and portfolio investment. In terms of the increasing volume of international trade and portfolio investment, globalisation causes markets to misbehave in these emerging countries. For example, as a principal reason for crisis in Asia, we can mention the quickly developing globalisation and the unregulated market conditions. In 1997, the annual average net private capital flow in developing countries was $285 billion. If you compare net capital flows in earlier and later years then, for example, in 1982 it was $57 billion while in 2003 it was $167 billion—a rapid increase followed by a sharp decrease in capital flows in these developing countries after the crisis.

Thus, we can see that the world is getting smaller through globalisation and mediums such as the Internet are bringing people closer together; indeed, ICT (Information and Communication Technology) will eventually change the way organisations operate and society itself will also change. As the world shrinks, different cultures are coming into contact with each other. This is having an effect on different areas of life and business is no exception. As Solomon and Solomon (2004: 153) state, 'International harmonisation is now common in all areas of business'.

When cultures meet it is the dominant culture that prevails; thus, for example, Solomon and Solomon (2004) highlight concerns that the Anglo-American model of corporate governance is becoming more prevalent internationally than others. It could be argued on a number of levels that this is not the best way forward as countries have their own individuality. Thus, Cornelius and Rosenblum (2005) state that if all countries were the same it would erase the competitive advantage that some countries have over others. At the same time, there are organisations such as the OECD which are promoting a need for a basic global standard of corporate governance.

[4]Extremism—both political and religious—is partly caused by this turbulence.

1.4 Regulation and the Organisation of International Trading

The economic model currently used for resource acquisition—and indeed for all other forms of trading—is based on the market as a mechanism for moderation. The dominant ideology of the operation of the market is based on that of free trade with the implicit assumption[5] that complete freedom will ensure the best possible outcome. This is underpinned by the Utilitarian philosophy of Bentham (1834) which assumes that maximising individual utilities are the way to maximise total utility. Although the concept of the tragedy of the commons had been described by William Forster Lloyd[6] in 1833 (Lloyd 1833), it has not been named as a concept until Hardin did so in 1968 (Hardin 1968) and so this refutation of Utilitarianism was not recognised in Bentham's time.

Since the recognition of the tragedy of the commons, the approach taken throughout the world has been to mitigate its effects through the privatisation of ownership rights (e.g. Smith 1981). Some have even argued that the regulation of the commons is in breach of the Universal Declaration of Human Rights.[7] So the free market system continues to reign supreme although it is no longer being pushed so avidly by its supporters. The experience of the global economic disaster of 2008 and the subsequent revelations of malpractice have shown problems with corruption and misuse of the power given by the free market. Additionally, protest movements have expressed discontent with the existing system. The largest example would be the Occupy movement[8] who claimed to represent the 99% of the population who had no influence and were no longer content to be 'the silent majority'.

Even the governments which have actively fostered the free market system recognise that it is not perfect[9] and have some monitoring and regulatory oversight attached to its operation. Power imbalances prevent the working of the free market and indeed led to some of the problems in the global failure of 2008. They also show the fallacy of Utilitarian economics as overall benefit by summation does not represent the best possible outcome (Crowther 2011). Some regulation is deemed necessary to comply with any form of social contract and Roberts (2011) makes the case succinctly. Even

[5]This assumption is actually made explicit by Milton Friedman and the Chicago School of Economics. It has also been made explicit by the US government during the era of G W Bush although this has become noticeably more silent during the era of Obama as president. We await what will happen during the Bush era of 'putting America first'.

[6]Lloyd used the example of unregulated grazing on common land in his example.

[7]Article 17 states that 'no one shall be arbitrarily deprived of his property' and regulation would have this effect.

[8]https://wearethe99percent.tumblr.com accessed 14/3/2017.

[9]The system is based on the concept of perfect competition which is taught in introductory economics (e.g. Lipsey and Chrystal 2015) but rejected thereafter. It is based on the assumptions that there are sufficient buyers and sellers so that none of them is large enough to influence the market. In reality the number of sellers is small and continues to become smaller through mergers and acquisitions until a very few sellers have a great power imbalance in their favour when compared to the individuals who are buyers.

when the British government under the leadership of Thatcher began the course of privatization in the belief that the free market was the route to economic efficiency they were swayed by the arguments of Veljanovski (1988,1991) that regulatory oversight was essential. The case for regulatory oversight of markets seems, therefore, to be overwhelmingly accepted although some still argue for its minimisation.

Within a country regulation is a relatively straightforward affair as it just requires the government to insist upon this and to establish a body to undertake the regulatory monitoring. The laissez-faire approach has been to allow industries to regulate themselves and this is still common practice in the UK (Bartle and Vass 2005). Often this has proved unsatisfactory and increasingly the government has become involved in the establishment of regulatory bodies and imposing external regulation. As this happens, of course, the burden of regulatory costs falls upon companies and resources must be devoted to their satisfaction.

The collaborative approach means that markets cannot operate independently based on supply and demand with price as a mediating mechanism. Some form of regulation is needed to provide the necessary governance of these markets. This, of course, poses a problem. It is relatively straightforward for national governments to impose regulatory oversight over the activity within their borders but manufacturing production is increasingly a global business with resources being acquired from one country, used in manufacturing in other countries and then sold in multiple countries. This requires regulation on a global basis and some form of global governance of markets.

1.5 Global Regulatory Bodies

Global regulation requires global organisations to exist with the power of sanction for non-compliance. This, in turn, requires national governments to surrender some of their sovereignty to these bodies. And this is problematic; even the surrender by the UK of some of its sovereignty to the European Union has been so difficult that currently the British people have voted to leave the EU with one of the arguments being about sovereignty. At a global level, this would require the agreement of all nations. Currently, there are 195 nations, a number which is almost double that of 60 years ago. Some are significantly more powerful—and therefore more influential—than others but reaching global agreement is a very difficult process and almost impossible. Even the major countries of USA, Russia, China and the EU (with possibly the UK added) cannot agree about very much. Also, the 27 countries of the European Union have difficulty in agreeing about many things.

There are, however, a number of global bodies which manage to exist in some kind of satisfactory way. The principle one is the United Nations which has a number of subsidiary organisations within it. The main ones are the General Assembly, the Security Council, the Economic and Social Council, the Trusteeship Council and the International Court of Justice. Regulation of international trading does not fall within its ambit. For this, the World Trade Organisation exists. This started in 1995 to replace

the former GATT.[10] This merely forms a basis for extensive discussion surrounding the reduction of taxes for international trading but has made slow progress because it still needs the agreement of all countries before it is agreed. For example, the Doha Development Round commenced in 2001 and collapsed in 2011. Currently, it is still pending with an uncertain future. Regional trade agreements, such as between the EU countries themselves and with other countries, exist but this future is somewhat uncertain with the UK on the point of leaving. Similarly, regional agreements involving the USA are collapsing as Trump withdraws the USA from them. The prognosis for securing agreement among all countries to collaborate on manufacturing and the acquisition of raw materials seems at best doubtful.

When environmental protection is considered then the situation is equally bleak. In 1992, the United Nations Framework Convention on Climate Change was established, which led to the Kyoto Protocol in 1997. This was eventually signed by almost all countries but the USA was a significant non-signatory. Moreover, Canada renounced the agreement and withdrew in 2012. An attempt to revise it through the Doha agreement has met with limited success so far and the future of climate change control is at best uncertain, especially as USA has explicitly rejected the Paris Accord.

It is reasonable therefore to say that a global body in a position to establish and monitor a collaborative approach to the functioning of markets in manufacturing goods and resources does not exist. If the need is accepted for a change in the market mechanism, then there would be a need for the establishment of a body to undertake this. This would be necessary but would certainly not be an easy process because global benefit is in conflict with national self-interest as well as corporate self-interest.

It is, however, important to remember the argument of Popper (1957) regarding the poverty of historicism. In this argument, he contends that an analysis of the past is no guide to the future and that basing any expectations upon what has happened in the past is flawed and unreasonable. Thus, the fact that solutions have always been found previously gives us no cause for optimism in the present and immediate future.

1.6 The Need for Regulation

All organisations need some form of governance (Bevir 2013). At its simplest, governance is merely a set of rules which define the way the individual members of an organisation interact with each other. It is only when the term is used in either a political sense that it has any other connotation or a corporate sense when it refers to relations between the corporation and its investors. In general, it applied to any organisation of two people or more who need some sort of rules to engage in mutual activity. Thus, the markets which exist for raw materials trading need some form of governance (Williamson 1979) as would these when adapted to a collaborative approach. The whole purpose of governance rules is to share procedures to enable

[10]General Agreement on Trade and Tariffs.

the organisation to function and is based on the principles of transparency, fairness, accountability and the rule of law.

The United Nations does not fulfil the role of world governance although some (e.g. Rosenau 1999, Thakur and Weiss 2006) consider it as a possibility and perhaps desirable. Indeed the pressure group Forum for a New World Governance[11] exists to promote this concept. Thakur and Van Langenhove carry this concept forward further (2006) by proposing regional governance bodies[12] which eventually will become global governance. Such writers, however, seem to fail to differentiate between governance as a governmental function and governance as simple rules of operation. Thus, governance has become inseparable from the political domain and it is here where such a proposal will fail as nations are reluctant to surrender their autonomy and sovereignty. Without these rules, however, international relations are subject to the vagaries of political alliances and to the use of power with the most powerful nations exerting the greatest influence. This, of course, is one of the problems of the free market mechanism as a corollary of Utilitarian Economic Philosophy.

Governance of global trading markets, however, implies no political content but is merely rules of process and dispute resolution, which is nowhere near as controversial. To an extent, this already exists in the form of international trading—via the WTO rules which act as a default if no alternative between countries has been agreed (Mavroidis 2015)—and especially international finance (Quinn 1987). In each case, the regulation is not separated from the political domain, which can cause problems in both monitoring and enforcing sanctions and even in agreeing change. As the regulation is of a competitive economic market, then it is indeed difficult to separate the regulation of it from the use of power and therefore from the political domain and this is probably one of the major causes of the difficulties which arise in the negotiation of trading regulations.

1.7 Governance and Regulation

At its simplest, governance is just the set of rules and procedures by which people engage in any form of joint tasks or activities. In general, these need to be written so that they are available to everyone concerned and it can be seen that everyone is following the same procedures or would take the same actions in the same circumstances. If the rules of governance are incomplete or are not fully written down then this can lead to corrupt activity or the misuse of power. This is true of any form of organisation and is not limited to commercial organisations or to governments. An

[11] https://www.world-governance.org/spip.php?rubrique6&lang=en accessed 14/3/2107.

[12] The European Union was a prime example of this in 2006 with inevitable closer union seeming likely. Subsequent events have placed doubt upon this closer union and there is even a strong degree of questioning of the continuing role of the EU.

example of this is FIFA and the Sepp Blatter era where poor governance[13] was held responsible to the corruption problems experience. From this, it follows that transparency must exist so that all concerned parties can see how all other concerned parties are behaving in the agreed upon manner. This, therefore, requires accountability so that people can be held responsible for actions taken or not taken. With accountability comes the need for regulation (Braithwaite et al. 2007) and this, therefore, requires some form of regulatory oversight.

Regulatory oversight necessitates someone to undertake this function and this can be done either internally—by the organisation itself—or externally by either an existing body or one set up expressly for this purpose. The accounting profession provides a prime example of an internally regulated organisation while the Enron scandal (Toffler 2003) provides a prime example of the problems that can ensue from this form of regulation. An example of external regulation by an already existing organisation is given by the WTO and trade regulation which by a body expressly established for the purpose is given in the UK by the Financial Services Authority which has since become two bodies, The Financial Conduct Authority and the Prudential Regulation Authority, controlled by the Bank of England. Regulation within a country is not a great problem as it can be imposed by the government if all else fails. Markets for the trading of raw materials is, however, a different matter as this is done in an international manner in global markets. Indeed the market as such is often virtual as the price mechanism works in any competitive environment. Effectively, therefore, this is a global market which would require regulating on a global basis—and the establishment of a regulatory body to provide this oversight and with the power to impose the sanctions agreed upon in the event of non-compliance.

It is difficult to see how this could be established without the agreement of all nations, and certainly the agreement of the most powerful nations. It is equally difficult to see how this could be established without any geopolitical considerations. It should also be recognised that at the moment the power probably lies mainly with the consuming countries of those raw materials as they have the economic resources and extract greater value added from the employment of resources in production. As time progresses, however, the scarcity of resources, as they become more deplete, will change and this will inevitably change the power basis towards those who have the raw materials and away from those that desire them. Conceivably, therefore, Marshall McLuhan prediction (McLuhan and Fiore 1968) that future wars will be based on economic criteria has been shown to be both prescient and in need of serious consideration. Seifi and Crowther (2016) have noted that the BRIC countries possess a considerable share of these remaining resources while also developing their industrial capability which will have a significant effect on the current markets for resources and this will become more pronounced as time progresses, as will resource depletion and the development of industrial production capability in these (and other) countries. This, of course, would strengthen the argument for a collaborative approach, at least among the developed but resource-poor countries (such as the UK) but perhaps lessen

[13]https://www.theguardian.com/football/blog/2015/jun/09/fifa-reform-manifesto-football-sepp-blatter accessed 14/3/2017.

the desirability among developing but resource-rich countries. This also increases the likelihood of armed conflicts increasing. Such conflicts exist at the present and have been forecast for the future (e.g. Bulloch and Darwish 1993) as well as explained by economic reasons such as (in part) the invasion of Iraq in 2003 (Bassil 2012).

The regulation of the market for raw materials in a collaborative environment would require the establishment of a new organisation with a new set of rules. This is possible, of course, and the example of the Russian federation after the collapse of the USSR gives an example of how this can be done (de Rosa D and N Malyshev 2008). It is, however, a complicated process without any guidelines. One of the basic principles of such a market would have to be the allocation of resources. The conventional mechanism for market exchange is that of price but this would not work in this situation as price allocates resources to those who can pay the most, and therefore probably in developed countries, whereas the resources would need to be allocated in the way which would enable maximum use to be made of them. This raises several problems as given below.

- Determining optimal use
  In theory, economics enables resources to be allocated in the optimal way through the price mechanism which implies that the highest price will always be paid by the party which can make best use of the resources. But this best use is determined by what is most profitable to that party which may well not be what is best for the world as a whole. It also presupposes a short-term view of what is best whereas a sustainable future might need different decisions when the future is taken into account—in other words, the long-term view might well need to outweigh the short-term view and immediate profitability. A further difficulty is that optimal use is not an absolute concept and competing uses might well be preferred by different people.
- National prejudices
  National interests and prejudices cannot be separated from a global allocation process. Many countries have preferred trading partners, such as the claimed special relationship between the UK and the USA, or the reinstated special relationship with commonwealth countries. Equally many countries are wary of trading with certain others due to such reasons as ideological reasons or religious differences, or preferences for these reasons. It could be claimed that economic utility ignores such preferences and prejudices but in reality the trading of increasingly scarce resources can never be separated from either political influences or from power relationships.
- Political influences
  Political processes among nations consider a wide variety of aims and objectives which are not economic. Indeed strategic objectives are often more important and these could outweigh economic benefit in decision-making. Thus, the optimal sustainable capability of the world as a whole is almost never considered and does not even rank on most decision-making processes in the political arena. Indeed even if war is engaged in for economic reasons then the outcome might be beneficial for some individual countries but is never beneficial for the planet

as a whole: some nations become worse off as a result. It is also the case that resources are used for this purpose and therefore diverted from other purposes and so the net productive capacity of the planet is reduced in this manner. As resources become more depleted, and therefore more scarce, then this becomes an increasingly important consideration.

- Corruption
  Regulation is part of governance and human nature means that procedures become more lax as they continue in existence. Rules get ignored and corruption creeps into the system. With most systems of governance this can be overcome by an oversight of the process—regulating the regulators. At a national level, this is not really a problem as there is always a higher authority. At a global level, however, such as required by this system, there is no higher authority who can check on the world governance of markets.

1.8 The Idea of Global Governance

All governance systems are mainly concerned with management or governance of formal groupings of people and hence with political power, institutions and, eventually, control. In this context, the idea of governance denotes official political institutions which are aimed at coordinating and controlling interdependent social associations and can implement decisions. In the modern world, the idea of governance is commonly used to explain the regulation of interrelated associations given the nonexistence of any overarching political organisation, like that of the international system. Hence, it can be suggested that global governance means managing the world processes when there is not government for the whole world. At the moment, organisations such as WTO and UN address such issues. Such organisations have accomplished partial success in introducing some kind of world governance. However, as Rosenau (1999) suggests these organisations are a part of acknowledgment of the complexities and an effort to address international problems which exceed the ability of countries to solve.

By mentioning global governance there is no implication that such a system actually exists (as it plainly does not). Equally, any study of the effectiveness of such a system is not claimed to exist. Instead it is just to acknowledge in a world heading towards globalisation, sorting out problems in global and international levels requires a kind of governance. Hence, this is a descriptive expression which is to acknowledge the problem and address the arrangements for collaboration to solve problems. Such arrangements might consist of laws or formal organisations to deal with matters of collective interest of such bodies as NGOs and intergovernmental bodies, countries, as well as private sector bodies and pressure groups. Such a system incorporates both formal (such as coalitions) and informal (such as guidelines and practices) units as well as the temporary ones. Hence, it can be suggested that a world governance is a combination of informal and formal institutions, associations, processes

and mechanisms among citizens, intergovernmental and nongovernmental organisations, markets and countries to articulate matters of common interest, mediate the differences and to establish obligations.

It is important to stress that global governance cannot be defined as world government. In fact, if the world had a unique government then there would not have been any need to such a system. But today the enforcement power is the lawful monopoly of different governments. Hence, by global governance, it means an interaction between different countries in order to sort out issues affecting several countries or regions when compliance cannot be enforced. Indeed, enhancement of solving global problems does not need setting up stronger formal institutions. Instead what is needed is existence of consensus on standards and procedures to be followed.

It can be considered that steps are currently in hand to form a consensus such as the creation of means for global accountability. For instance, the UN Global Compact,[14] which has been labelled as the biggest voluntary corporate responsibility initiative of the world, comprises the views of international and national bodies, businesses, labour unions and different NGOs to protect the principles of environmental conservation and also human rights. There is no enforcement of the principles by anyone and participation is completely voluntary. Increasingly, however, companies adopt the compact because they are economic-wise sensible and also as their stakeholders, including their shareholders care increasingly about these issues. It therefore provides a means enabling the monitoring of compliance by companies. Such techniques as the Global Compact increase the power of local communities and also individuals to make companies keep accountable.

The importance of good governance is imperative in all parts of society, not just in the corporate environment but also the political environment and society generally. For instance, improved public confidence in the political environment stems from strong governance. When the economic situation means that resources are limited and people cannot meet their lowest expectations, then good levels of governance can help to satisfy people and promote the general welfare of society. Naturally, a firm's concern with governance is also very important in the corporate world.

An essential factor for good performance of a company is good governance and an aspect of it is stewardship. In the context of sustainability, it is reasonable to argue that the concern of a firm's manager would be equally about the stewardship of the firm's financial resources as well as the environmental ones. But environmental resources are different because they are often situated outside the firm. So, in this regard, such stewardship should be both concerned with the firm's and the society's resources. Then it can be concluded that the stewardship of the outside environmental resources should involve the provision of sustainability. Predominantly sustainability has a focus on tomorrow and concerns about making sure that the options made regarding the consumption of resources at present do not unduly limit the choices available in the future. This includes a range of activities such as the reduction of waste, minimising pollution and generating renewable resources (or finding alternatives). It also includes the development of new techniques through

[14]See www.unglobalcompact.org.

research and development. Sustainability also requires an acceptance that current investment is partly an investment for the future, and not merely a cost to be borne.

It is standard within economic theory that the environment in which economic activity takes place is based within a free market with open competition. This is because it is generally accepted that competition engenders the necessary incentives for both efficiency in operations and equity in the way in which benefits are derived and shared. It is only when the market itself seems unable to ensure this that government intervention becomes necessary. Crowther and Seifi (2011) argue that the resulting regulation is a means of replacing the imperfectly operating market forces and acts as a substitute. The point of this intervention through regulation is to make sure that nobody is in a position to exploit the inequalities in power in order to gain benefits. It is also to make certain that the gains in efficiency result in equity in the distribution of the resultant benefits.

One form of regulation which has been generally used is that of self-regulation, in which an industry controls the activities of its own members, and this has been generally accepted as satisfactory. It has more recently been shown that such self-regulation does not operate satisfactorily as the Enron debacle showed with respect to the auditing industry and the demise of Arthur Anderson. In such cases, it is clear that external regulation is required (Veljanovski 1991). Crowther (1996) argues that the purpose of such regulation is to balance the needs of the various stakeholders, in which each tends to have different perspectives and expectations regarding satisfactory performance of the company concerned and the distribution of benefits; mostly, however, two groups of stakeholders are paramount—customers and investors.

The focus in the western capitalist countries is highly on returns provided for the shareholders which makes them the most important stakeholders. Veljanovski (1991) argues that the duty of the regulators in the countries governed by regulation has been to safeguard consumers so that monopoly would not abuse their rights. When discussing about customers then the main focus is on the local ones, perhaps because their number is the highest and they are in the poorest situation for bargaining, or perhaps as government needs their voting for elections. Regulation here is based on the idea of protecting the consumer so that they would not be abused to the cost of shareholders. Therefore, National Consumer Council (1989) considers that shareholders are only allowed to receive higher returns if prices are reduced for consumers. In the United Kingdom, such kind of regulation was common in the beginning of this century and again it has become favourite as it is argued that equitable distribution is impossible through other kinds of regulation.

During the 2008–13 financial crisis, failures in regulation and governance were highlighted. As stated by Grabel (2003), there is one flaw in the argument surrounding such failures and a problem about how to manage in order to prevent financial crisis in future. This is related to acknowledging and regulating a financial market which is truly worldwide. The consensus of governments has led to freedom of movement for

funds around the world's financial markets which arguably led to a global crisis of 2007 through a disguising of doubtful debts[15] within a variety of financial packages.[16]

Unfortunately, regulators must focus upon a specific market in which they are located while finance evades such regulation by its potential to spread everywhere. As Becker and Westbrook (1998) state, its impact is that it is impossible to have a realistic kind of regulation. As a result of such failure in regulation, contamination migrates everywhere and faulty processes used somewhere in financial markets change to a norm for the whole of markets.

This seems to make a crisis inevitable which then spreads to all economies resulting in a crisis of confidence in all markets. The financial market is a truly global market with easy movement from one country to another around the world. This cannot be regulated except by a form of global regulation—something which we do not seem capable of achieving. Presumably because of the respective self-interests of various governments.

1.9 Conclusions

There is no suggestion that any kind of global order and overseeing is needed to ensure international trading and interaction. Indeed the prospect seems unlikely. It must be recognised, however, that in its absence there can be problems in the regulation and governance of international markets. At present, there are differences in application and the purpose of this book is to investigate some of these.

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[15]One of the causes of the crisis was that these packages were not understood by anyone (The Economist Sept 7 2013) and just accepted—in which case this form of investing is no different to gambling such as Russian Roulette and decries any claim of the efficient market hypothesis (Malkiel 1991).

[16]Even the previous US regime (led by Obama) admitted the existence of deficiency in regulation which has been very helpful to the creation of this situation, although the current (Trump) regime appears to think the opposite.

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