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Ethical Perspectives on Corporate Governance

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Introduction

The motivation for identifying and using ethical perspectives in decision-making regarding corporate governance has been growing in importance over the last 25 years. In the UK for example there have been four important and influential reports termed Corporate Governance Codes published in the 1990s: Cadbury Report (1992), Greenbury Committee (1995), Hampel Committee Report (1998) and Turnbull Committee Report (1999) (Letza 2015, p. 190). Indeed, these reports laid the foundations of corporate governance for the UK as well as other developed and developing economies. Following the collapse of Enron and WorldCom in 2001, corporate governance gained a much higher profile and was further developed through the Myners Report (2001), Derek Higgs Report (2003), Smith Report (2003), Myners Review (2004), Walker Review

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(2009) and a revised Combined Code (2012) (ibid.). During the twenty-first century we have witnessed a growing number of research projects and literature on both the general areas of corporate governance and different mechanisms, including directors' remuneration, accountability, non-executive directors (NEDs) and audit committees.

In this chapter both deontological and teleological ethical perspectives as well as shareholder and stakeholder theoretical frameworks will be used to consider issues regarding corporate governance procedures identified by the reports, reviews and codes identified. Deontological or duty-based ethics and teleological or utilitarian ethics are general perspectives that can help to explain the moral behaviours of those responsible for managing the affairs of an organisation. These ethical perspectives and theoretical frameworks were briefly discussed and applied to corporate governance issues in Chap. 1. In this chapter we will consider the relationship between these areas and identify how they may provide insight into considerations for notions of 'good' corporate governance.

Much research has been conducted in the area of Corporate Social Responsibility (CSR) and business ethics. Indeed, the starting point for these studies could be seen as Friedman (1970) who claimed that the modern corporation has no social responsibility to the public in general, only fiduciary duties to its owners (shareholders). However, in opposition to this extreme position, stakeholder theory advocates ethical and moral duties of corporations to all stakeholders as well as the interests of shareholders.

The financial meltdown in 2008 increased the debate regarding ethical perspectives of corporate governance. In Africa, the financial meltdown hit emerging economies in Egypt, Ghana, Nigeria, the Gambia, Kenya and South Africa. Indeed, as well as the business sector in particular, society in general called for a more focused assessment of corporate governance (one that took ethical perspectives into consideration). This chapter, therefore, assesses ethical perspectives regarding corporate governance and regulations globally while the rest of the text (the following chapters) deals with the identified individual African countries.

Corporate Governance: A Definition

Corporate governance has been defined as 'the manner in which organisations, particularly limited companies, are managed and the nature of accountability of the managers to the owners' (Cadbury Report 1992, para. 2.5). According to Letza (2015), 'if management is about running the corporation, then governance is about ensuring that the corporation is run properly' (Letza 2015, p. 191). The Cadbury Report (1992) described corporate governance as 'the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their enterprises. The shareholders' role in governance is to appoint the directors and auditors and to satisfy themselves that an appropriate governance structure is in place in the organisation' (para. 2.5). Corporate governance also involves guiding management through company affairs and issues that lead to the achievement of specific objectives (Friedman 1970). The Hampel Committee Report (1998) stated that 'corporate governance must contribute both to business prosperity and accountability'.

Corporate governance practices can be defined as the way the management of a firm can influence stakeholders, including owners/shareholders, creditors, employees, governments and other stakeholders. Parkinson (1994) argued that corporate governance incorporated the process of supervision and control which intended to ensure that the company's management act in the interests of shareholders. Ticker (1984) stated that 'the governance role is not concerned with the running of the business of the company *per se*, but with giving overall direction to the enterprise, with overseeing and controlling the executive actions of management and with satisfying legitimate expectations of accountability and regulation by interests beyond the corporate boundaries' (cited in Solomon and Solomon 2004, p. 13). This chapter takes into consideration ethical and theoretical perspectives of corporate governance and applies deontology and teleology to decision-making processes and investigates whether the governing actions/behaviour of boards of directors and their companies are ethical.

Initially I will outline the theoretical perspectives on corporate governance regarding deontological and teleological ethical approaches. I investigate whether there is a trade-off between business ethics and corporate

objectives, which are underpinned by an understanding of deontological and teleological ethical approaches to the decision-making of boards of directors. In addition, the global discussion on ethical perspectives on corporate governance has resulted in a growing number of research inquiries. Consequently, the following sections consider what corporate governance entails and assess global corporate governance as well as major changes in research and practices. Corporate governance is essential to the success of long-term development in developing, transition and emerging-market economies. The quality of a country's governance institutions—of which those of corporate governance now constitutes an integral part—matters greatly for development as a whole (OECD 2003).

What Is Corporate Governance?

Corporate governance comprises private and public institutions (both formal and informal) which together govern the relationship between the people who manage corporations (corporate insiders) and those who invest resources. These institutions notably include a country's corporate laws, securities laws, accounting rules, generally accepted business practices and prevailing business ethics. The issue of corporate governance has centred on shareholder vs stakeholder approaches and which of the two models is most effective or efficient for governing corporations. Influences such as the globalisation of capital markets, increases in institutional investors and greater shareholder activism have added to the growing importance of corporate governance issues (Oman et al. 2003; Mills 1998; Fera 1997). The idea that companies should behave in a responsible way grew in importance following scandals such as the Maxwell Corporation pensions, Polly Peck, BCCI, Barings Bank and the Paddington rail accident in the UK in the 1990s as well as the collapse of Enron, WorldCom and the accountancy firm, Andersen. Indeed following these incidents there has been increasing research on the kinds of behaviour that might constitute corporate social responsibility and the extent to which such activities are legally permissible.

The Global Debate on Corporate Governance

A global perspective regarding corporate governance and ethics requires an assessment of the transformations in related research and practices. Oman et al. (2003) stated that:

> Corporate governance is necessary for the success of long-term development in developing, transition and emerging-market economies … In all countries, and for all segments of a country's population, including the poor, the ability to move from relationship-based to predominantly rules-based institutions of corporate, as well as public, governance is essential. (p. 6)

The OECD Report (2003) indicated that corporate governance was essential for the success of long-term development in transitional and emerging-market economies. The quality of a country's governance institutions—of which those of corporate governance now constitute an integral part—matters greatly for development as a whole (ibid.).

Corporate Governance in the UK: Assessments of the development of regulations based on the Corporate Governance Code result from different corporate governance reports; these include the Cadbury report (1992), the Turnbull Committee Report (1999) (Internal Control and Financial Reporting), the Myners Report (2001) (Institutional Investment in the UK), the Derek Higgs Report (2003) (Role and Effectiveness of Non-Executive Directors and their Responsibilities in Corporate Governance Practices), the Smith Report (2003) (Audit Committees and Combined Code Guidance), the Myners Review (2004) (Principles for Institutional Investment Decision-Making), the Walker Review (2009) (Response to the Financial Crisis) and a revised Combined Code (2012) (Letza 2015).

Corporate Governance in the European Union: Assessment of corporate governance regulations and practices in the EU were based on the shareholder and stakeholder models of corporate governance. In some European countries, the stakeholder model predominates, which imposes explicit obligations to consult with other groups, e.g. the German stakeholder model of corporate governance where companies have to appoint a supervisory board that encompasses employee and bank representatives.

Corporate Governance in the USA: Changes in corporate governance regulations and the creation of the Sarbanes-Oxley Act (SOX) (2002) resulted from the collapse of Enron. SOX was passed with the expectation that it would restore investor confidence and underwrite the integrity of the financial information of non-US companies and businesses that had dealings in the USA. In addition, there were further financial crises relating to WorldCom and major corporate failures and unethical practices resulting from the financial meltdown during 2008.

The OECD Principle of Corporate Governance: OECD aspects of corporate governance cover five major areas:

- The rights of the shareholders;
- The equitable treatment of shareholders;
- The role of outside stakeholders in corporate governance;
- Adequate disclosure and transparency;
- The responsibilities of the board.

The OECD (1999) principle of corporate governance, like the UK/US Codes, is based on shareholder theory and the price mechanism, which states that shareholders are the owners of the company, who benefit from the business's profits and bear risks through losses and expropriation. In many developing, transition and emerging-economies the effects of the expropriation problem are severely exacerbated through the behaviour of powerful vested interest groups that are entrenched in highly concentrated oligopolistic structures of local political and economic powers. Particularly damaging is the extent to which the behaviour of such powerful local groups (closely tied to foreign investors in some countries) serves to weaken or undermine healthy competition and the proper functioning of markets—which are indispensable for a country to achieve reasonably sustained productivity growth—as well as to weaken or undermine the development and consolidation of democratic political institutions.

Corporate Governance in the Developing World: Following the banking and financial meltdown of 2008 the inadequacies of corporate governance systems in guiding the board in managing the affairs of the firm to deliver performances that meet the needs of its shareholdership/stakeholdership were once again highlighted. Corporate governance in

developing, transitional and emerging-market economies should provide the shareholder with the right to earn profits and, through the institution's corporate governance (along with those of market competition and government regulation), ensure that corporations collectively serve the best interests of shareholders and stakeholders (Nwanji and Howell 2004, 2005). The significant move in many countries—developing and emerging economies—to privatise formerly state-owned corporations, reduce anti-competitive market regulations, liberalise trade and investment policies, and attract foreign investors is having a positive impact. However, these moves may not be sufficient to create the kind of dynamic and interactive processes of long-term productivity growth and political and economic-policy reforms which these countries need to achieve and sustain continued growth and strengthen political democracy and modernisation of the state. For these countries, institutions of corporate governance that work efficiently to complement and reinforce the (still weak) competitive market mechanism and (fledgling) democratic political institutions are becoming increasingly necessary.

As globalization enhances the strength of the market and nullifies the influence of national and sub-national governments, corporate governance has incrementally grown in importance. In many developing and emerging-market economies two other phenomena further amplify the increased importance of corporate governance. First, (a positive phenomenon) is the sea change many of these countries have undertaken in recent years to move to more market-friendly policy regimes. Second, (a negative phenomenon) is the continued pervasiveness of concentrated oligopolistic local power structures—structures that are highly conducive to insider-dealing and unethical activity by those who exercise power in both the private and public sectors.

Ethical Perspectives on Corporate Governance

This section builds on the discussion outlined in Chap. 1 in terms of deontology and the extent to which this can be applied to shareholder or stakeholder models of corporate governance. 'Ethics' refers to the normative appraisal of the actions and character of individuals and social

groups. It is often used interchangeably with morality and refers to obligations and duties that govern individual action. However, there are grounds for holding that morality in this sense is a peculiarly modern institution and that the term 'ethics' should be understood more widely (Williams 1985). Ethics is the study of human moral conduct or the rules of conduct recognised as appropriate to a particular profession or area of life. It relates to moral principles or conscience. There are those who hold that ethics derives from a universal natural law (Kant 1973; Sherwin 1983; Singer 1993, 1998).

Deontological ethics indicates that the most important aspect of how we ought to live is governed by moral rules that should not be broken, even when breaking these rules may have advantageous consequences. Deontology is based on the action that is taking place (means) and the morality of this action. Deontologists maintain that an action is good or bad or right or wrong and identified by the act itself. The deontological ethical approach has its foundations in the works of Immanuel Kant (1724–1804) who argued that we should '*impose on ourselves the demand that all our actions should be rational in form*' (Burns 2000, p. 28).

Deontology stipulates that duties must be observed irrespective of their consequences: legitimate rights must be respected and wrong action is prohibited. Deontologists believe that there is no clear specifiable relation between doing right and doing well (in the consequentialists' sense, such as producing a good outcome). As Fried (1978) identified '*goodness of the ultimate consequences does not guarantee the rightness of the actions that produced them. The two realms are not only distinct for the deontologist, but the right is before the good*' (p. 9). This suggests that people only have the ability to do what is morally right. Kant's categorical imperative states that 'an action is moral only if you can make your reason for acting as a rule that everyone can follow' (Dienhart 2000). If this aspect of the categorical imperative were applied to child labour, the legislation/rules that are in place in the developed Western world could be seen as universal to all children. Child labour would therefore not be ethical. However, the fact that children need to work in less developed countries illustrates that it is difficult to universalise this position and that a relative teleological perspective is necessary. Differences in culture between developed countries and less developed countries illustrate that it is difficult to separate the roles of individuals in the family.

Deontological ethical theory regards the action itself as the object of moral evaluation (Kant 1785, 1973, 1995, 2000; Donagan 1977; Davis 1980). To hold a deontological position is to deny consequentialism, that is utilitarianism or a teleological view, and claim that moral reasons are grounded in certain duties. Utilitarianism allows the welfare of an individual to be overridden if this leads to the maximisation of happiness or preference satisfaction. Deontological ethics solve some problems associated with consequentialist ethics such as utilitarianism. According to deontology, all persons have certain obligations and these obligations are non-negotiable; they cannot be bought-off or disposed of, and different kinds of inalienable rights form the basis of these obligations (Kaptein and Wempe 2002). Davis (1980) argued that 'deontological … ethics tell us that the most important aspects of how we ought to live are governed by morals that ought not to be broken, even when breaking them might have better consequence' (p. 205).

Teleological Ethical Theory

According to consequential ethics, 'the moral content of an action is determined by the real and expected consequences of that action' (Kaptein and Wempe 2002, p. 54). An action is morally good if its implications or outcomes are desirable and bad if they are not. Consequentialist ethics employs a certain standard (the purpose or outcomes) against which the consequences of an action are judged. Kaptein and Wempe (2002) stated that:

> one or more of such outcomes are chosen as a standard for judging the moral content of actions, and the outcomes that function in teleological theories are not moral in themselves, they become morally charged in their use as a standard for the moral content of actions. (p. 55)

Consequentialism has no answer to the concepts of rights, obligations and justice. However, this is the focal point in a duty-based ethics. According to this theory, an action is morally right if it honours a given obligation (which does not depend on the consequence of the action). Such a theory entitles certain people or groups to rights or a claim to

justice. Cargile (1998, p. 66) analyses the views of two consequentialists (G.E.M. Anscombe and Jonathan Bennett) regarding the consequences of a given action. For Anscombe, it is wrong to procure the judicial execution of an innocent person whatever the consequences. However, Bennett argued that in certain cases it is not wrong to take such an action. Anscombe was concerned with the idea that it is morally wrong to find an innocent individual guilty whereas Bennett considered that if the outcome of finding such a person guilty benefited society or the community then it is not wrong to take such action. Consequentialists see the relation between values and agents as instrumental: agents are required to determine a designated value for whatever actions they promote. Opponents of consequentialism see the relation between values and agents as non-instrumental: agents are required or at least allowed to let their actions exemplify a designated value, even if the realisation is less than that expected.

Teleology identifies and explains human activities by reference to ends, aims, goals, objectives and purposes. It recognises that the same physical acts can be undertaken for very different purposes and that their proper interpretation requires knowing what the purpose entails. Purposes are essential for evaluating goodness. Teleologist ethics states that the moral content of an action is determined by the real and expected consequences or outcomes of that action (Machiavelli 1980, 1986; Singer 1998). They also regard the nature of an action and the intentions as morally relevant (Bowie 1991, 1997; Beauchamp and Bowie 1997).

The various teleological ethical perspectives differ not only on exactly what the '*correct consequences*' are but also on how people balance the various possible consequences. After all, few choices are unequivocally positive and this means it is necessary to determine how to arrive at the correct balance of good and bad in what we do. It should be said that merely being concerned with the consequences of an action does not make a person a consequentialist—the main factor is, rather, basing the morality of that action on the consequences instead of on something else. The key questions which teleological theory asks include:

- What will be the consequences of this action?
- What will be the consequences of inaction?
- How do I weigh the harm against the benefits of this action?

What will be the consequences of this action? The outcome of an action is judged good or bad by reference to the end to which the action is aimed. Teleological moral judgement is based on the outcomes of a certain action. If these outcomes are desirable, then the action in question is morally right; if the outcomes of the action are not desirable, then the action is morally wrong.

What will be the consequences of inaction? Moral judgement for teleology is based on intended outcomes. The aims or the goals of a certain action are important, not why an action is undertaken in the first place; it is the results or end goals that are important for the teleologist. Teleology is the science of ends.

How do I weigh the harm of an action against the benefits of this action? This is realised in the utilitarian rule of the 'the greatest happiness' where action is judged beneficial if the outcome leads to happiness for the majority of people affected by the action. It is judged harmful if the action or decision leads to the unhappiness of the majority, or if it results in more harm and less pleasure to those at which the action is aimed.

Deontological and Teleological Perspectives

The essential difference between *deontological and teleological perspectives* lies in the role that is attributed to the consequences of the action under review. The fact that an action's consequences do not determine its moral character does not imply that deontologists do not take consequences of actions into consideration. An action that violates a moral obligation is immoral. However, acting through moral obligations does not necessarily mean that such actions are always morally right. In a sense, the consequences of a given action could very well be factored into the obligation itself (Kaptein and Wempe 2002). However, a deontologist would not go as far as committing to a specific, major consequence. The principles are based on the action taken and not the outcome of such action. For example, keeping a promise is important because it is a moral duty, and not because of the consequences (Rawls 1971; Anscombe 1958; Donagan 1977; Davis 1980; Scheffler 1982).

Kaptein and Wempe (2002) argued that significant differences between variations of deontological perspectives concern the foundation of the above principles, and how they are identified. Three types of deontological positions can be distinguished. The first holds that duties are *God-given*; the second that they are based on common sense; while the third holds that they are founded on a social contract. The basis for deontological theories can be sought in God's commandments. We can see from the above that the rightness or wrongness of an action can be sought, like the action itself. Therefore, some deontological theories appeal to a kind of social contract as the foundation for the principles that are endorsed (social contract theories are identified and discussed in Chap. 1). Most religions of revelation rely on a kind of deontology. The rules are '*God-given*' and communicated in the *Bible* for example. Also, it is our obligation to follow these revelations because it is the will of God. How do we determine whether an action is morally right or wrong? Immanuel Kant's view is that this can be obtained from rational arguments and what he labelled the '*Golden Rule*', or we can follow our '*voice of consent*'. By grounding principles in a social contract, we presume the implicit consent of all parties involved. Therefore, the obligatory principles thus lie in mutual consent to the conditions of the contract.

Business Ethics and Corporate Governance

There are increasingly research projects dealing with the interface between business ethics and corporate governance issues. However, many researchers on business ethics propose it is the integrity and commitment of the board rather than compliance that is at the root of accountability and relationships between corporate ethics and corporate objectives, both at board level and amongst other organisational members. When dealing with business ethics decisions, the company reviews its goals, methods and motives and considers the potential consequences of its actions. Each of the company's multiple goals and methods is matched with one or more consequences. The question that boards of directors must ask when taking business ethics decisions is: What are the consequences of using a particular method for reaching a specific goal? (Chryssides and Kaler

1993). Indeed when faced with moral decisions that affect the affairs of the company, boards should consider '*a set of principles prescribing a behaviour code that explains what is good and right or bad and wrong: it may even outline moral duty and obligations generally*' (p. 51). Teleology or consequentialism can be applied to the shareholder and stakeholder models of corporate governance. The view that the moral worth of an action is determined by the consequences of the action rather than the action itself can be used to illustrate the consequences of the action of corporate boards when meeting the business objectives of the firm and the interests of its shareholders, while at the same time taking into consideration the effect of such decisions on the needs of the firm's stakeholders.

Shareholder Theories of Corporate Governance

This section considers the shareholder model of corporate governance. It explains the theoretical and empirical debate on the shareholder theory of corporate governance. It provides critiques of the Anglo-American system of corporate governance and asks whether corporate boards can justify their business objectives of focusing on maximising shareholder wealth. It asks if short-term profit objectives by corporate boards benefit the shareholders and the long-term goals of the corporation. It discusses the four competing models of corporate governance systems, which are the principal-agent or finance model, the myopic market model, the executive model and the stakeholder model (Nwanji and Howell 2007).

It could be argued that shareholder theory is central to 'capitalism', which can be defined as an economic system combining the private ownership of productive enterprises with competition and the pursuit of profit. The advantage of this formulation is that it picks out the three aspects that are generally accepted as defining features of the system. These are private ownership, competition and the profit motive. In theory, in an ideal capitalist system there should be minimal government intervention in the running of the economy. In a post-war scenario this started to become explicit in the 1980s when capitalist countries such as the UK and certain EU members started selling their state-controlled organisations to the pri-

vate sector. Indeed this created millions of shareholders and wealth which convinced many developing countries to follow suit. However, in practice for most capitalist countries there is often a great deal of government intervention in the running of the economy and it is certainly always more than minimal. Most importantly, there is macro-economic management through government manipulation of interest rates, tax rates, public expenditure and public borrowing. Also, there is frequently a more direct kind of government economic intervention through the offering of tax incentives, subsidies, state aids for ailing industries, government rescue packages for bankrupt businesses and, in many cases, a degree of state ownership of business. In the 1980s, we saw a decline in this kind of direct intervention with a strong trend towards policies of *deregulation* and *privatisation* in many capitalist countries—most notably in the UK and the USA. Nonetheless, direct intervention by governments remains a considerable feature of capitalist economies. In any case, the kind of indirect intervention represented by government macro-economic management remains essentially intact and seems to be a permanent part of any modern capitalist economy (Chryssides and Kaler 1993).

The above paragraphs introduced the capitalist system to understand the link between shareholder theory and capitalist countries, as it can be argued that the shareholder model is more distinctly linked with a free-market capitalist economy. However, it may be argued that in the modern global business environment boards of directors and management should look beyond the interests of shareholders alone and take into consideration the interests of other stakeholders of the organisation. There are also issues of business ethics and the unethical behaviours of those who control organisations, which can affect the long-term shareholders' value as the cases of Enron, WorldCom and other corporate failures have illustrated.

An Analytical Approach to Stakeholder Theory

Freeman (1984) proposed a framework which fits three levels of stakeholder analysis—the rational, process and transactional. The first concerns how the company as a whole fits into its larger environment, or

the rational level. The second concerns how the business relates to its environment as a matter of standard operating procedures and routine management processes, or the process level. The third concerns how the business executes actual transactions, e.g. deals or contracts with those individuals who have a stake in the company, or the transactional level. These three levels of analysis are connected, and one can argue that for any successful business the three levels will fit together in a coherently organised pattern. These three levels can be further explained in the following way.

At the rational level, an understanding of who are the stakeholders of the corporation and what their perceived stakes are is necessary. The rational level must depict the nature of the relationship between the company and its stakeholder groups. Freeman (1984) uses a generic stakeholder map as a starting point. It is also possible to prepare a stakeholder map around one major strategic issue, which is prepared by identifying specific stakeholders based on the stakeholder route. Furthermore, the issues important for the specific stakeholder groups are identified and analysed. Freeman also used a two-dimensional grid as an analytical device to depict an organisation's stakeholders. The first dimension categorises stakeholders by interest or stake and the second dimension is based on power. Freeman makes the grid more realistic by improving on the classical stakeholder grid to prepare an existing world stakeholder grid.

Elias and Cavana (2003, p. 4) claim that at the process level 'it is necessary to understand how the organisation either implicitly or explicitly manages its relationships with its stakeholders, and whether these processes fit with the normal stakeholder map of the organisation. Moreover, existing strategic processes that work reasonably well could be enriched with a concern for multiple stakeholders'. At the transactional level, we must understand the set of transactions or bargains among the organisation and its stakeholders and deduce whether these negotiations fit with the stakeholder map and the organisational processes for stakeholders. According to Freeman successful transactions with interested parties are built on an understanding of the legitimacy of the stakeholders' interests and having processes to surface their concerns routinely (Elias and Cavana 2003). Stakeholders are those groups and individuals who can affect and are affected by the achievement of an organisation's purpose/

objectives. How can we construct a stakeholder map of an organisation? What are the problems in constructing such a map? The Hampel Committee Report (1998) in its final report stated that:

> Corporate governance must contribute both to business prosperity and accountability. It was claimed that in the UK more attention has been concentrated on the accountability to the detriment of the prosperity. Therefore, to redress the balance we can say that the purpose of those responsible for corporate governance is to safeguard the interests of shareholders and to protect and promote the interests of other stakeholders such as employees, customers, suppliers, government and the communities where the companies operate. (Para. 15)

Metcalfe (1998) argued that a 'stakeholder is entitled to consideration in some ways similar to shareholders. Stakeholders may thus include employees, customers, shareholders, suppliers, the state, the local community, society, and bankers' (p. 12). Elias et al. (2000) also pointed out that another interesting characteristic of the stakeholder concept is that the dynamics of stakeholders, the mix of stakeholders that is, may change over time (Nwanji and Howell 2005). New stakeholders may join and wish to be included in any considerations, while others may drop out through no longer being involved with the company. Fundamentally, stakeholder management is increasingly a key factor in improving business performance. Management needs to build relationships with very different stakeholders (shareholders, employees, customers, society, etc.), act more transparently, provide opportunities for dialogue, involvement or participation, and be accountable to all stakeholders. Consequently, managers need to mobilise the sense of responsibility of all the relevant stakeholders, create the best organisational context for involvement, organise and manage that involvement and participation, consider all the stakeholder arguments and manage the constantly shifting balance between the interests of stakeholders (pp. 225–226). Donaldson and Preston (1995) suggest that research on stakeholders has proceeded along three often confused lines. First, there is instrumental stakeholder theory, which assumes that if managers want to maximise the objective function of their firms, then they must consider stakeholder interests. Second,

there is descriptive research about how managers, firms and stakeholders interact. Third, there is a normative sense of stakeholder theory that prescribes what managers ought to do. To this framework we can add a fourth dimension, the metaphorical use of stakeholder, which depicts the idea as a figure in a broader narrative about corporate life. The first two senses of stakeholders can be called the *analytical approach* to stakeholder theory while the third and fourth senses can be called the *narrative approach* to stakeholder theory. Phillips (2003) suggests that:

> Organisations in the early twenty-first century are confronted with a unique set of moral issues requiring moral theory … and that stakeholder theory is a strong candidate for such a theory of organisational ethics. Therefore, an amended principle of fair play—the principle of stakeholder fairness—provides a valid source of moral obligations among stakeholders that has been therefore missing in the literature on stakeholder theory. (pp. 5–6)

Conclusion

This chapter has outlined and discussed ethical and theoretical perspectives (deontological, teleological, shareholdership and stakeholdership) regarding corporate governance. Discussions on ethical perspectives regarding corporate governance has resulted in a growing number of research publications, and this chapter has assessed the ethical issues and the conduct of those who manage the affairs of corporations (directors' duties and responsibilities towards their stakeholders). As stated, in corporate governance procedures and documentation, boards of directors have many responsibilities, some statutory and others based on trust. Directors have to be clear about their personal responsibilities toward others. Accountability is central for corporate governance but in its traditional sense it has always exercised the minds of directors in the context of the profit and loss accounts, the balance sheet and shareholders' interests. Deontological and teleological perspectives allow researchers to investigate whether there is a trade-off between moral and corporate objectives. In this context empirical investigations may concentrate on:

- What ethical issues may/could influence directors?
- How should directors deal with the ethical issues in governance practice?
- What is the difference between directors' mind-sets and reality?
- What might influence/cause this discrepancy and how may this be dealt with?
- These issues provide the basis research questions which include:
- Should corporations take into consideration deontological and/or teleological considerations in realising their business objectives?
- *More specifically*, is the purpose of a corporation ethical?
- Is the governing action/behaviour ethical?
- Does an increased emphasis on business ethics affect enterprise?

In the twenty-first century the success of the world economy depends on the capitalist and shareholder/stakeholder systems, which are based on trust and the credibility of the financial markets. Therefore, 'good' and effective corporate governance is needed to achieve long-term business objectives of the corporation and its shareholders. There may also be the need to introduce a 'global–corporate governance' system that comprises both the Anglo-American systems (the shareholdership model) and the German stakeholder systems (stakeholdership model), as both models argue for the long-term interests of the corporation and its stakeholders (including the shareholders). Overall, while the stakeholder model of corporate governance seems to be the best way of achieving the business objective of the company, critics of stakeholdership have argued that without meeting the shareholders' interests through profit maximisation the company may not meet the needs of other stakeholders.

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