The major issues that need to be addressed by effective corporate governance in the 21st century

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Abstract

Purpose – This paper aims to underline and evaluate what corporations are as artificial entities, the concept of corporate governance (CG) in the twentieth century and whether a corporation owes allegiance to its key stakeholders in the twenty-first century.

Design/methodology/approach – Because it requires development in the twenty-first century, a clarification of the key areas of reform in "global corporate governance" is overdue. These include an analysis of the stakeholder role; the logic and effect of the codes of corporate practise such as in the Cadbury Code and Combined Codes. The "value chain theory" in CG and how it should be placed not only on financial value but also on natural, human and cultural values will looked at. This paper also provides a brief insight into major multi-national corporate collapse. The Enron case, for example, highlights how such mishaps can be avoided to rekindle trust and transparency, as well as disclosure to authorities, shareholders and the public.

Findings – This paper looks at how public interest and consumer interest play a role in corporate existence by analysing an inevitable change in the twenty-first century from absolute corporate control to public/consumer control and have an influence in areas like environmental, ethical and employee protection and recognition. The emotional side of a corporation is brought to life to win the hearts of consumers and the public. How this fares in the light of profits and long-term Environmental Management Scheme investment will be evaluated.

Originality/value – This paper ends with a general conclusion, summarising the necessary changes to governance and the author's opinion on the realities of change: will it work, will it improve the living standards or will it just increase the gap between well-organised and ill-fated economies?

Keywords Corporate governance, Accountancy and auditing, CSR, Fiduciary duties

Paper type Viewpoint

1. Introduction

Because it requires development in the twenty-first century, a clarification of the key areas of reform in "global corporate governance" (CG) is overdue. These include an analysis of the stakeholder role: the logic and effect of the codes of corporate practise such as in the Cadbury Code and Combined Codes. Also of interest is what they tend to address. In these, we find clues to recurrent problems that require attention.

The "value chain theory" in CG and how it should not only be placed on financial value but also on natural, human and cultural values will be looked at. Corporations will now have to invest in human resources (employee sector) and encourage them to add value to corporate success through their performance.

Through these categories, we widen the scope for analysing and criticising the structure of corporate board; areas like who should really be on the board? The process

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of putting sensible people in leadership positions to guide the affairs of the company and the role of the CEO and Chairman are also analysed. Finally, the effects of remuneration and incentives on such members at the top of the corporate ladder; do they improve governance or pave the way for greed, materialism and selfish board interest?

I also briefly analyse the role of women in top managerial positions and the theory of ethnic diversity in the twenty-first-century governance. Does the role of women pay and do we get better results in decision-making? A look at shareholders, especially institutional shareholders, is highlighted. We analyse their role of ownership and control, their influence in voting rights and what the twenty-first century might do to shareholders and their voting powers during the Annual General Meetings (AGMs). Are such meetings becoming boring and a mere façade to board room control and majority shareholder "muscle power"? How does information influence insider dealing and affect accountancy, transparency and trust by stakeholders on the corporation? Can the twenty-first-century governance curb such abuses?

I also provide a brief insight into major multi-national corporate collapse. The Enron case, for example, highlights how such mishaps can be avoided to rekindle trust and transparency, as well as disclosure to authorities, shareholders and the public. This is highlighted in the paper by citing approaches taken by auditing firms, associations and government policies.

The role of creditors, which is somewhat ignored until the corporations are approaching bankruptcy, is seen as an area for concern and reform. With banks, insurance firms and pension funds being key sources of financial sustainability to corporations, the need to protect their interest by making stiffer penalties and training those with responsibilities in looking after, investing and managing wisely on behalf of shareholders is discussed and criticised.

I also look at how public interest and consumer interest plays a role in corporate existence by analysing an inevitable change in the twenty-first century from absolute corporate control to public/consumer control and influence in areas like environmental, ethical and employee protection and recognition. The emotional side of a corporation is brought to life to win the hearts of consumers and the public. We see how this fares in the light of profits and long-term Environmental Management Scheme (EMS) investment.

With all these aforementioned factors, which tend to adjust CG in the twenty-first century, we then, in simple reference format, compare and correlate governance in different nations and view how the American economy influences world governance by affecting and influencing other nations to shift from a relationship-based economy to a market-based economy. Is this good or bad for CG in the twenty-first century?

Issues of poor accountancy/auditing practises, corruption and poor governance practises amongst others are discussed as being the retarding factors to corporate success in those nations.

Finally, I look at socio-political systems to understand and appreciate whether CG is a product of heightened interest in corporate activity. Can a nations system of governance affect how the public view corporations and corporate interests?

We look at the context of what governance is all about, how major corporations affect the everyday life of an individual, the element of utility, the buying power of consumers, the returns they get from corporate investments and whether the public can do without corporate entities – in other words, the clash of corporations over nationalistic/socialist acceptance. A preview on the negative side reveals aspects like bad governance, economics, corruption and lack of interest by shareholders, consumers and the general public as factors which tend to diminish interests in corporate activities.

I end this paper with a general conclusion, summarising the necessary changes to governance and my opinion to the realities of change: will it work, will it improve living standards or will it just increase the gap between well-organised and ill-fated economies?

2. Stakeholder value

In the year 2000, BP's Chairman, Chris Marsden said:

> There is […] a new form of global governance evolving that is made up of codes and accountability systems, which are becoming a kind of soft law (Bendell, 2000; Cramer, 2002).

This statement in a way reflects the new era to which our corporate world has to focus on and find a balance. How do we separate ownership from management? How do we develop elements of accountability and transparency? Can corporations satisfy shareholders' needs whilst practising sustainable business to establish a nexus between their financial profitability, ecological and social performance? These and many more questions suggest the balance that is advocated in establishing good CG. The factors, aims and goals of good CG in the twenty-first century determine which corporations thrive and fall within the corporate circle. CG is concerned with the process by which corporate entities, especially public limited companies (PLCs), are directed and controlled whilst maintaining the dignity of openness and transparency.

Bendell (2000, p. 102); Cramer (2002); Elkington's (1997) "triple-bottom-line concept" of profit (economic prosperity), planet (ecological quality) and people (well-being) exemplifies true twenty-first-century CG role and target of firms. Its successful blend of operational management and strategy denotes corporate success. But what pieces make the jig-saw puzzle fit? The answers to this question may lie in the pool of stakeholder responsibility, corporate social responsibility (CSR) (Vos, 2003) and their effect and influence on corporate existence. A blend of this symbiosis is exemplified in Figure 1[1] (Yakasai, 2001).

For the past 30 years, academicians have been trying to find an agreed-upon definition for CSR. Mangers always ask themselves whether they have an obligation to be socially responsible only to their shareholders or whether they take into consideration other stakeholders' interest. Freeman defines a stakeholder as "any group or individual who can affect or is affected by the achievements of the organizations objectives" (Freeman, 1984). They include executive management, shareholders, employees, creditors, debtors, consumers, accountants, auditors, environmental and social factors, the public and future generations. All these factors have an interest in and affect the existence of corporations. Good organisational management ensures a successful simulation of these elements. CG's role and main purpose lies in maximising stakeholder value. Different economists had varying approaches and models to CSR. Some of those economists were Keith Davis and Robert Blomstrom, who suggested in the beginning of the 1960's that CSR:

> […] refers to a person's obligation to consider the effects of his decisions and actions on the whole social system. Businessmen apply social responsibility when they consider the needs and interest of others who may be affected by business actions. In doing so, they look beyond their firm's narrow economic and technical interests (Davis and Blomstrom, 1996).

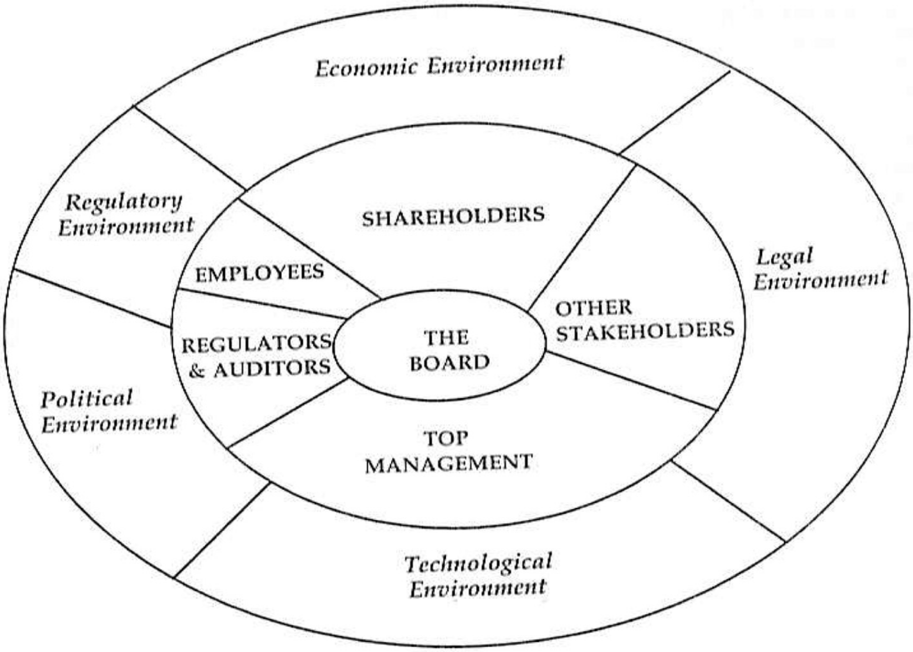

Figure 1.
Corporate governance and its environment

Subsequently, by the mid-1960's, another two economists, Eells and Walton, suggested that CSR refers to the "problems that arise when corporate enterprise casts its shadow on the social scene, and the ethical principles that ought to govern the relationship between the corporation and society" (Eells and Walton, 1961).

Finally, in 1979, Archie Carroll was able to take CSR to a different perspective, and he stated that a corporation does not only have economic and legal obligations but also ethical and philanthropic responsibilities (Carroll, 1979). In other words, for CSR to be real, it should fulfil all the responsibilities a corporation has to the shareholders, law, society and humanity as exemplified in Figure 2. Therefore, the CSR pyramid is based on those four major obligations starting by the economic responsibility as the basic and most important one and ending it by the philanthropic as the peak of the pyramid. CSR is a corporate self-regulation mechanism that ensures that businesses abide by the law, uphold ethical values and subscribe to international standards of operations. Schwartz says that CSR emerged from the idea that "a corporation not only has economic and legal obligations, but also immense responsibilities to the society" (Schwartz, 2011). Through this statement, Schwartz believes that CSR articulates the effort by decision-makers to make corporate decisions that not only benefit their organizations but also the society. An assessment of this background shows that CSR is a continued commitment by businesses to be ethical when undertaking their economic activities. The gist of this argument, therefore, premises on the continued improvement of the quality of life for employees and the society, in general.

As stated earlier, Archie Carroll's approach to CSR was based on the four responsibilities as represented in the picture above. The first and most important

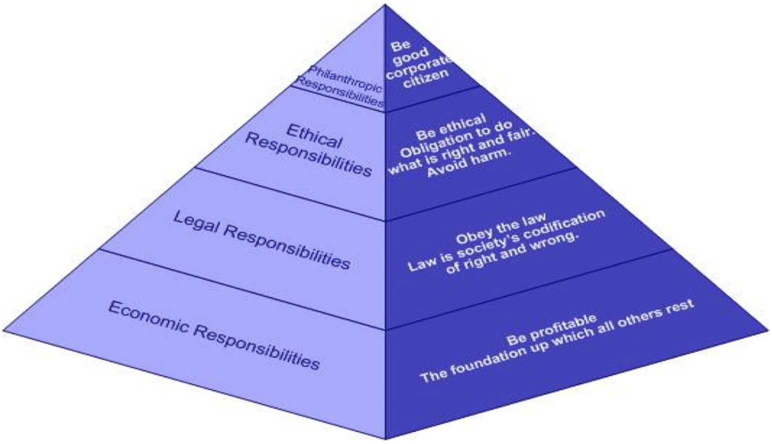

Figure 2.
Carroll's CSR pyramid

obligation organizations have is the economic responsibility. Based on this obligation, the major role of an organization is to produce goods and services matching the customers' needs and making an acceptable profit. Years later, the concept of profit motive has transformed to maximizing profit. Furthermore, the key characteristics of economic responsibilities are maintaining a high level of operating efficiency and a strong competitive position, committing to being as profitable as possible. Hence, if a firm does not make money, the company's performance will be affected negatively and employees will lose their jobs, and the company will not fulfil the other three responsibilities. After indemnifying whether the firm is profitable, it is extremely vital to ensure that the firm is abiding by all the commandments and laws created by the state and the legal government. A corporation should be performing in a manner that is in accordance with the law and government expectations. Therefore, for an organization to be successful, it should fulfil all its legal requirements.

After the organization meets its economic and legal responsibilities, it can then concentrate on its ethical and philanthropic responsibilities. Basically, ethical responsibilities represent the norms and standards where employees, consumers, shareholders and the community think of as fair while protecting the stakeholders' moral rights. An organization should be open to new ethical norms by the society; in addition, the organization should act in a way that is both moral and ethical. Examples of ethical responsibility include paying fair wages to the employees, being environmentally friendly or refusing to work with unjust countries. The final commitment is the philanthropic responsibility which is in response to the society's expectations including donating money to charity organizations, participating in events to help the environment and many others. What differentiates philanthropic from ethical responsibilities is that if firms do not donate their money, facilitates and employees' time to help the society, this does not mean that the organization is unethical. Hence, philanthropy is more of an intentional act even if it has an obligation to bear out the society's expectations.

Because of this, the value chain theory (Banerjee, 2003) in CG is not only placed on financial value but also on natural, human and cultural values. Corporations will now have to invest in human resources (employee sector) and encourage them to add value to corporate success through their performance.

The sustenance of our environment and the use of natural resources is an investment, although in the long term, that twenty-first century firms will have to adapt. Respect for ecological values, in my opinion, also suggests respect from consumers and the public, and invariably a boost to reputation which reflects on profit ratings. Finally, cultural value, which suggests the sharing of knowledge and the adaptation of a corporate structure that suits the minds of those who manage businesses on behalf of others, is the key to successful corporate machinery.

So what then should a corporate board look like?

3. The corporate board

Who are those elite groups tasked with the duty of making decisions, giving directives, executing and supervising the complex functionary parts of the artificial entity?

Robert Has, the CEO of Levis Strauss, once said: "[…]. People look through the wrong end of the telescope as if profits drive business. Employee morale and consumer satisfaction drives business" (Stratford, 1997).

The realization of the above quote by the corporate board and a blend of other factors, determine, to a large extent, the success of a corporation. Figure 3 shows the two-tier functions of CG (Yakasai, 2001, p. 250). It separates and creates a role for the management in giving directions, executing actions and making decisions, on the one hand, whilst a supervisory unit monitors accountability and supervision on the other.

The management arm of firms in the twenty-first century is predominantly distinctive with the roles of the CEO, chairman and board members. The decision of whether to fuse the role of the CEO and Chairman or separate them is an ideology, in my opinion, that best suits the cultural norms and practices of a corporate society[2] (van der Walt, 2003). The question being which role best suits the firm?

How then do we go about building a solid and effective board for the twenty-first century? The answer to this is in assessing factors such as the structure, process, duties, culture and remuneration of the directors (Woodman, 2001).

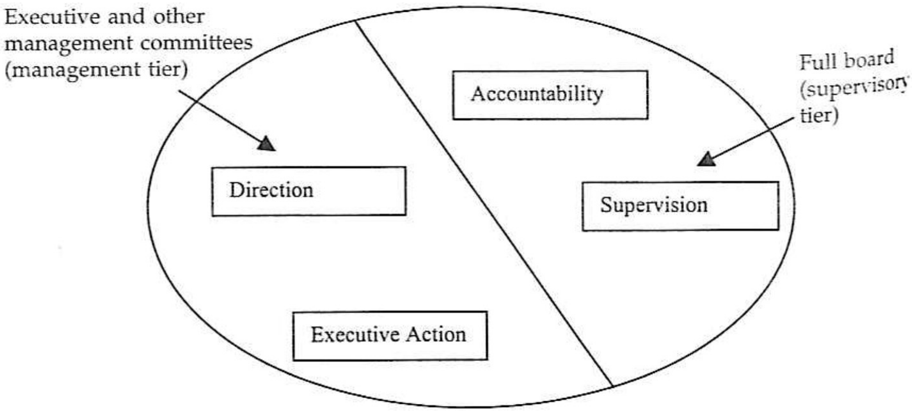

Figure 3.
The two-tier model of CG

Structure denotes looking for the right person to fit the right role, and this can be achieved by setting guidelines for qualification, experience and standard control whilst considering the degree of responsibility a director must maintain. Such guidelines, as are evident in the combined codes, aid in determining the right man for the position of director.

The process factor will give CG the chance of assessing the suitability of existing directors. Are they still up to the job? This question is answered through a review process as is evident in British Airways' policy, whereby every director has to submit a "peer group review" to the chairman of the board (Banerjee, 2003, p. 11). My only fear is that partiality and favoritism will reign. It is preferable to have an additional external opinion, perhaps from the employees or independent directors and an analysis made from both points of view. Furthermore, the training of directors to meet up with changing legislature, management skills and finance will aid a better grip and understanding of their duties.

The culture factor is the key to openness and transparency amongst board members. They must work together for a common purpose and goal. The focus is on attaining a mutual balance between values, beliefs and paradigms. How directors behave in an organization determines how other members perform (Johnson, 2002).

The issue of remuneration is best left in the hands of independent directors whose responsibility it is to award bonuses, incentives and compensation to deserving officers. This choice suggests that they will be free of influence, partiality and corrupt practices. However, I am of the opinion that it is likely and probable for such independent (non-executive) directors[3] (Bainbridge, 1993) to be appointed by or through personal relationships and acquaintance with top officials whose annual pay depends on their very recommendations. Hence, they tend to act as the board's puppet in remuneration decisions.

Finally, directors have many duties to the corporation that are imposed by law to protect the corporation and its shareholders from improper management. In most cases, the members of the board of directors are notably obliged to the corporation/company. The corporation seemingly is viewed as the main employer of all the directors. A fiduciary duty is a special duty imposed based on a "legally recognized relationship in which one is given power over the interests of another, who thereby becomes vulnerable to abuse" (Velasco, 2013). To protect the vulnerable party, the law imposes a fiduciary duty on the party who has the power. Fiduciary law is a part of many bodies of law such as employment law, agency, trust law and corporate law. Scholars disagree on the source of fiduciary law – whether based on property, contract or morality – but there is general consensus about what fiduciary duties exist (Velasco, 2013, pp. 160-161).

There are three basic fiduciary duties imposed on corporate directors: a duty of care, a duty of good faith and a duty of loyalty (Davis and Whitley, 2009). The duty of care is a duty to use the director's proper care and skill to fulfil their obligations as a director – it is essentially a duty not to be negligent (Sheehy and Feaver, 2014). For example, part of the duty of care is to get and review appropriate information prior to making a decision. They duty of good faith is one to do the best possible job the director can and to act with the best possible intentions. The duty of loyalty is a duty to act in the interests of the corporation.

4. To whom are fiduciary duties owed?

It is the role of directors to oversee the management and business of a corporation. Because a corporation is an artificial "person", a common question that arises is to whom duties to the corporation are, in reality, owed? (Baxt, 2005) Corporate directors have a fiduciary duty to the beneficiary of their role, but who the beneficiary is has been interpreted in different ways.

The traditional response from courts to this question has been that the company is a collective of its shareholders or members, and so the directors' duties are, in reality, owed to shareholders – and sometimes also to future shareholders (Baxt, 2005, p. 41). Historically, the beneficiary has been viewed either as the corporation or as the shareholders of the corporation (excluding all others). More modern, however, stakeholders may also be considered to be beneficiaries of the directors' duties. Stakeholders include, but are not limited to, shareholders (Sheehy and Feaver, 2014, p. 352). Some would argue that if stakeholders are beneficiaries, then the directors may have some fiduciary duties to stakeholders, as well as to shareholders and the corporation.

At the forefront of the directors' role is the purpose of maximizing the shareholder wealth. This is and has always been legally considered to be the main and really the only purpose for a corporation to exist (unless of course it is a non-profit). However, even though the ultimate goal is to increase wealth for shareholders, the directors owe their primary duty to the corporation and not the individual shareholders. For example, directors may be obligated to inform the corporation without being obligated to inform each individual shareholder.

Directors have to consider what is in the best interests of the organization. That may be different from what is in the best interests of shareholders. What is in the best interests of the organization is not necessarily limited to what is in the best interests of its shareholders – it could be broader, for example, or it might be better to invest funds rather than pay dividends. For example, it is often in the best interests of a corporation to act in ways that satisfy other stakeholders. Stakeholders such as creditors, suppliers and community members can have an impact on the corporation's profitability and ultimate success. So, acting in ways that favour stakeholders can be viewed as being in the best interests of the organization.

One popular view is that:

> […] directors are required by law to balance the competing interests of stakeholders both with and external to the firm through a range of liabilities from employment law, to environmental law, to creditors (Sheehy and Feaver, 2014, p. 354).

This view "requires the fiduciary to exercise his or her powers in relation to all persons or stakeholders associated with the company" (Sheehy and Feaver, 2014, p. 354). Under this view, directors' duties have been found to extend to many external parties or causes including to creditors, suppliers, community members and employees, as well as to non-human interests such as protecting the environment.

More and more laws are beginning to expressly allow corporate directors to consider the interests of stakeholders. Such laws may take the form of statutes or case law. The trend is occurring in the USA and other modern countries. For example:

> [t]he Florida Business Corporation Act, F.S. §607.0830(3), authorizes directors to consider the interests of employees, suppliers, and customers and the communities in which the company operates when making business decisions (Davis and Whitley, 2009, p. 38).

However, the directors' primary duty is to the corporation and to the goal of maximizing value for shareholders. This would seem to split directors' duties into primary and secondary duties, with the primary duty being to the corporation while secondary duties exist.

5. Example: corporate social responsibility

One of the issues that has been reviewed by courts in Canada, the USA, Australia and the UK is when corporate directors may (or may not) use corporate assets for purposes other than shareholder benefit (Sheehy and Feaver, 2014, p. 347). Using assets for a purpose that does not appear to directly increase profits could create concern. Shareholders have the right to sue the corporation or its individual directors and to claim that one or more directors have breached his or her fiduciary duties.

As the concept of CSR has grown in popularity, these concerns have become more important. As explained earlier, CSR is a popular concept that suggests that corporations are members of a larger community and should be contributing positively rather than just making money. Companies may get indirect benefits from social responsibility, such as positive press and recognition. Many companies donate money or engage in activities for the purpose of appearing (or being) socially responsible.

Sometimes, shareholders have sued because of concerns that CSR was actually diverting funds inappropriately and taking away from shareholder benefit – namely, by diluting profits. In these lawsuits, someone is alleging that one or more directors breached a fiduciary duty by choosing to use assets in a certain way. However, directors have been able to argue successfully in courts that decisions regarding CSR are discretionary and are not negligent (Sheehy and Feaver, 2014, p. 350). This proves that directors can sometimes make decisions that directly benefit third parties and still not breach a fiduciary duty to the corporation and its shareholders. Whether a particular decision would be a breach of fiduciary duty would depend on the specific circumstances and whether the director making that decision used reasonable business judgement and acted with integrity.

Directors have a duty to do more than just conserve assets: they are required to use assets and take "measured, but ultimately unpredictable risks" for the purpose of making profit (Sheehy and Feaver, 2014, p. 350). Directors have a fair amount of discretion in making these decisions, and unless there is clear negligence, they are allowed to use business judgement about how corporate assets should be used. Any course of action by the company that does not advance its interests of making profits as an organization would be improper. However, social responsibility may use some of a corporation's assets yet still advance the corporation's profit-making purpose.

Director discretion is always to be used for the benefit of the corporation. Because benefits can be either tangible or intangible, financial or otherwise, courts do not like to second-guess directors' choices. If there is no evidence that directors were negligent or had the interests of another person besides the corporation in mind, a court is unlikely to find the directors liable. Directors making choices like how much of a corporation's funds to use for socially responsible activities should be sure to get all the relevant information, focus only on the perceived benefit to the corporation and use proper care in making those decisions.

6. Argument: fiduciary duty to one entity – the corporation

Fiduciary duties of directors are based on the idea that the fiduciary is acting on behalf of the corporation because the corporation is unable to act for itself. A corporation is not a real person – it cannot make decisions. Directors are needed to make decisions on behalf of the corporation. The fiduciary has duties that are imposed to protect the corporation because the fiduciary is in a position of power. However, it may be helpful to think of the corporation as being the "master" of the fiduciary in the sense that, despite the fiduciary's position of power, the fiduciary's role and purpose is actually to serve the corporation for the corporation's sole benefit.

By thinking of the fiduciary as a servant and the corporation as its "master" for a moment, it is possible to see the following argument. Legally, it is recognized that "it is impossible for a person to serve many masters and a director does not have to do so" (Baxt, 2005, p. 42). The shareholders are the directors' primary responsibility. It is not possible to impose upon the directors an equal duty to another "master". For that reason, it does not make sense to argue that fiduciary duties would be owed to any other party or cause than that of the corporation. This would be putting the fiduciary in a position of potentially being torn between conflicting interests and duties – an impossible position. The law does not allow that kind of situation for obvious reasons.

However, practically speaking, directors must give their attention to the interests and concerns of other parties because the corporation does not exist in a vacuum. If, for example, the corporation acts in a way that angers or upsets a good portion of consumers, that is unlikely to benefit the corporation even if it was the cheapest or easiest course of action. Directors must, therefore, consider many other interests, such as trade practices, laws, the social environment, the physical environment and the interests of customers, creditors, suppliers and employees. All this information might be considered the "environment" in which the corporation is operating. By considering the external and internal environment, the directors are simply using proper care and business sense to get all the relevant information before deciding how a corporation should proceed.

Because legally, a director is held responsible only to the company/shareholders, directors are given discretion to consider all these other interests based on the argument that it is ultimately in the best interests of the corporation that they do so. This makes sense: directors need to have the flexibility to consider outside information and make decisions based on a specific and unique set of facts and circumstances. It would be impractical for the law to impose more specific decisions on directors – it could create burdens or poor business results. Directors are the ones with access to all the good information and need flexibility to make good choices. The law gives directors discretion to consider other interests, but ultimately, they must be considered in light of what will be best for the corporation because the directors' legal duty is to the corporation only.

7. The role of women in the board

Another interesting point to take note of in twenty-first-century CG is the role of women on the board.

What should be the membership mix of the board in terms of gender, intellectual background, expertise and ethnicity? Twenty-first-century CG coupled with heightened media attention and women activist groups have pushed today's woman into the executive role – and why not?

Burke and Cassel maintain that the main requirement for board formation is not gender but elements of talent and ability (van der Walt and Ingley, 2003; van der Walt *et al.*, 2006; Burke, 2000). I do agree with their view, for women in my opinion are a better choice because they see themselves as a role model, they champion the cause of change for women, and this determinism, like a rubber-band effect, makes them want to prove a point and achieve success over and above their male counterpart. This is good for business.

Women freely ask questions more than men; hence, they are firmer in decision-making and productive discourse is generated. Also, the element of sensitivity in them makes them feel compassionate to management needs and corporate performance. Women represent 47 per cent of the workforce in the USA and 11 per cent of top officers in large corporations. Compare this statistic to 4 per cent in 1996[4] (Woodman, 2001; Banerjee, 2003; Hammonds, 1998) and you discover that they are a CG change for the twenty-first century worthy of note.

The "glass ceiling[5]" (Banerjee, 2003, p. 11) stance must be removed for the twenty-first-century CG to breathe itself free of gender discrimination, as governance of this form is an important element in the value of an enterprise.

I humbly submit that the main focal point to a corporation's firm footing and success exists in the leadership role and that again lies in the division of the CEO and Chairman of the board. Their roles must be separated not to put too much power in one man (or woman).

Like a true democracy and following Kraakman's gatekeeper (watchers) theory (Wagner *et al.*, 2002; Nguyen-Van, 2005; Kraakman, 1984), a better understanding of who is responsible for what and an even spread of power, duty, responsibility and delegation of authority is envisaged. However, we must not isolate the fact that a company's culture and organizational variables, such as size and industry, determines whether a dual or single role of a CEO is effective or not. Hence, the idea that if it is not broken, do not fix it, could, in my humble opinion, apply.

8. The shareholders

It can be argued that the main life support of a company's existence and sustenance that guarantees perpetual succession lies in the strength of its shareholders who, in some way, also hold the key to the company's financial doom. Depending on the type of shareholding, a company's financial stand as being a private or listed (PLC) is regulated by the stocks and shares that exchange hands on a daily basis. Shares may vary from being deferred, ordinary or preferential shares but the bulk in holding power is felt by the shear load of "institutional shareholders". They are the ultimate test of a corporation's performance in view of the returns made when dividends are declared. This implies that a successful company begets happy shareholders. Good governance also determines the time commitment of shareholding in a company. Figure 4[6] shows the disparity between stockholders who own shares for a nanosecond and those (institutional shareholders) like pension funds and insurance and banking firms who hold shares directly or indirectly for years (Monks, 2001).

With the twenty-first century came advancement in technology, information and materialism – the need for a comfortable lifestyle poses a quest for institutional investors to invest wisely in good stocks. Good stocks reflect good corporation success which invariably results from good governance practise.

Good CG can be analysed from the share structure of a corporation. However, with good governance come proper management and the assimilation of cultures, corporate administration, good employee relations and sustainable environmental schemes. A neglect in any or a combination of these fields could shift a company's financial performance through the influence of powerful institutional investors who monitor corporate progress by watching the company's stock value, corporate politics, social, cultural and environmental affairs. Because they are themselves answerable to numerous other collective shareholders, there is the need to exercise caution in investment. Their influence is indeed great as was exemplified in the merger of DaimlerChrysler which brought the German and American corporate cultures successfully together[7] (Woodman, 2001, p. 511).

On another perspective, a negative effect of shareholder influence was evident in Shell (SPDC) Nigeria, where the Ogoni crises, poor ethnic employment scheme and environmental pollution caused the share value to plunge and sparked worldwide condemnation of corporate practises in West Africa[8].

Size in shareholding is an issue for twenty-first-century CG as small shareholders cannot always expect to rely on board of directors to help monitor management when such directors themselves are appointed by a single controlling shareholder. The better option is with institutional investors who guarantee a fixed amount whilst they bear the risk. They are also ideal candidates to perform corporate-monitoring roles. However, with power comes control and greed. The empathy of insider dealing mixed with influence and favour becomes the name of the game for the institutional investor who literally holds the directors and the company to ransom because the slightest leak in information determines the nature of a future investment by a major investor.

Institutional investors are again a bad influence to CG on economies with weak financial and legal enforcement policies. This can be highlighted through reckless lending by financial institutional shareholders to corporations who seek a favour in return. This is evident in the practises of Nigerian (Yakasai, 2001, pp. 240-251), Thai and[9] Malaysian corporations. How then can one rely on these bodies to raise the standard of CG?

Germany and Japan, with huge institutional investments from banks, are more involved in monitoring the companies to which they lend extensively to. To encourage shareholders to become more involved in a company's management, long-term equity holding, corporate debentures and bonds will have to be promoted. With this comes the

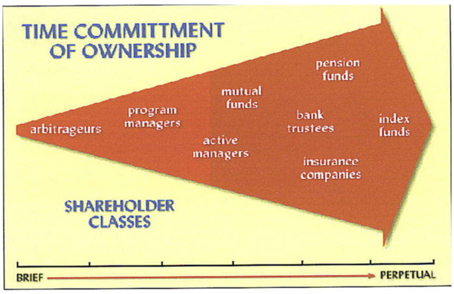

Figure 4.
The disparity between stockholders and institutional shareholders

participation and scrutiny of shareholders in their "ballroom" – that is the AGM. With more money in stock for a longer period, safe monitoring of corporate progress requires direct or indirect participation. By this, we mean going to AGMs and demanding the right to know who is in control, what is going on, why things are done or not done or, ironically, a way of saying "well done [...] we think the GM, CEO or employees need a raise".

The increase in attendance at AGMs may very well increase investor confidence, criticise and improve systems of internal control, increase transparency and accountability and systematically reduce the risk of collapse. It is no wonder that analysts like Webb, Beck and McKinnon, following the Hampel report, advocate for an increased role for institutional investors in the management and control of companies (Demirag and Solomon, 2003).

It is my submission that good governance will thus entail a balance of performance and supervision by shareholders but with a caution not to wield in too much inside participation which could spark insider dealing and provoke sanctions and regulatory measures. This could be damning to share value, especially during times of acquisition, i.e. mergers and takeovers.

9. The employees

Through the ages, the working class (employee of corporations) have evolved from the cotton plantation worker to the employee of modern corporations like Microsoft and Sainsbury. From the mine digger in DeBeers Consolidated Mines to the CEO in the same organisation, who is technically a higher class of employee in the firm, they all have a goal and that is to run the company well enough to turn over profits for investors. With this job come rights, entitlements and responsibilities. Employees in Britain have little or no "regard" in their say to how a company is managed due to the feudal (culture) system practise, the structure of corporations and their recognition in law as is discreetly recognised in the CA 2006.

If we look at technology-orientated firms such as the biotech industries (i.e. PPL Therapeutics), employees are more likely to get better treatment and recognition because of their input, technical skills and importance to the financial holdings and future of the firms in which they work for. Their inventions, subject to contractual terms and agreements, remain their own and their stay is guaranteed by the incentives given by the firm designed at an optimum level to keep them happy. Such incentives range from better pay to share offers and even royalties[10].

Corporations in the twenty-first century will have to adopt a "family view" for the employees by treating them as a member of a group and part of the elite boards supervisory position and tap from their astute expertise in their respective fields rather than be viewed as a cheap means to an end. The question board directors should ask themselves are – can the company do without them? How valuable are they to the company's growth and future? Is there competition in the market which makes them highly demanding, and if so, will it favour us if we spoil them a little? In essence what is their worth to the company's success?

Where employee value is ill-recognized and not respected, this paves the way and need for trade unions, and the representative impact of these unions in some corporations is rather preferred left out than to encourage a damming effect from the public hearing of bad employee relations in a company. In its own unique way, this keeps a check and balance on board practise towards employees' and the company's overall performance. Today, the average CEO makes about 475 times what the full-time factory employee makes[11] (Monks, 2001). Quite astonishing, considering that we are in the twenty-first century with equal rights and opportunities being elaborated upon by corporations. The key question and major critic for good CG in this field would be for corporations to value employee workforce; pay them well; cater for their needs such as health, insurance and housing; maintain an ethnic diversity employment scheme; and give them a sense of belonging by doing what the Germans do which is giving them a supervisory role and a seat on the board (Schilling, 2001). Their experience in whatever form affects the turnover of corporations.

With a world that is much more informed through information technology and the media, disregard of employee management by firms on issues like poor pay package, discrimination and lack of respect for labour rights, do tend to destroy corporate reputation and success in the consumer world.

The resulting effect is that corporations lose key employees, consumers tend to boycott products and (or) services in solidarity with the employees who have been treated badly in the public's view and general public opinion, when well documented, can pave the way to corporate collapse and degradation.

On the other hand, if we observe firms in the biotech, weapons, computer and pharmaceutical corporations, we see employees becoming more valuable to corporations as management tend to put a close watch on pay packages and incentives to avoid a competition in not only sales but also employee asset (human value investment). This is a sign of good CG which again is evident of the need to blend and find a balance between stakeholders in a corporation.

Proponents of CSR believe the concept can help improve the recruitment and selection process by attracting the best human capital in the market (Garriga and Mele, 2004). This view stems from the fact that many prospective employees use CSR records to decide if they want to work for a company, or not. Therefore, companies that adopt CSR practices have a competitive edge over companies that do not adopt the same practices because they stand a better chance of attracting quality human capital. Internally, proponents of CSR say its adoption would help to improve the quality of human capital when existing staff participate in CSR activities. For example, Spence *et al.* (2010) say when existing employees participate in fundraising activities, or charities, they become more motivated to work. . Those employees also become more experienced and loyal to the company. Overall, the perception of the company among its staff improves. Comprehensively, these benefits of CSR outline its adoption in corporate circles.

10. Creditors, consumers and the general public

For a corporate entity to gain a firm footing in a competitive market, it needs capital. Monetary value of this nature is sourced mainly through credit houses, individuals, groups, debentures and shares offered to the public. The responsibility of managing these borrowed funds lies in the hands of the managers, board members and CEOs/CFOs of companies.

Creditors can either be secured or unsecured, and, provided no fraud is committed which may warrant the need to lift the veil, creditors are at the court's mercy and must wait for the liquidators/receivers to do their duty. Creditors, especially unsecured creditors, have a thin line to walk on when lending money to corporations.

In Nigeria, the somewhat inchoate practises of banks granting unsecured loans without collaterals saw the collapse of several banks and industries which invariably affected the micro and macro economics of the country's economy. The result saw the establishment of the Failed Banks Tribunal in 1995[12] (Yakasai, 2001, pp. 251-252).

This state of corporate insecurity in management between the lending corporate bodies, who may well be institutional investors, and the company concerned has a negative cyclonic effect on good CG. For example, high-level mismanagement and corruption by bank officials lending unsecured loans to a corporate body can lead to the bankruptcy; winding-up; laying-off of workers; rise in unemployment; fall in stock value and reputation; consumer and investor dissatisfaction; and, invariably, a public outcry for internal investigations, probes and trials.

Good governance in the twenty-first century must entail strict adherence to lending, responsible accountancy, accurate information and complete transparency. Thailand and Nigeria exemplify a practise of commercial lending to big corporations with a large part of the loans secured through "personal connections". Most bank loans are either unsecured or secured by personal guarantees. Another critical point is that some creditors often have vested interest in these companies. How then can the problem be solved?

Today's corporate culture with the aid of media technology coupled with high standards in accounting and business ethics will ensure competition amongst corporate entities in both the lending sector and the borrowing companies. The idea is that banks will not borrow recklessly to avoid risking bankruptcy at the expense of failing to follow proper practise and procedure. Likewise, a corporation in a competitive environment will not want to lose out in business because its competitor will capitalise on their failure.

However, my focus on the negative implications of the banking sector in loan disbursement is that credit facility is good business and if a nation practises bad CG, banks will stop at nothing to attract clients even if it means offering unsecured loans. A balance must be sought through independent watchers on the banking sector, and corporate accounting and auditing procedures must reflect the true state of affairs and exhibit transparency for shareholders to know the position and level of their commitment and for creditors to realise their investment.

11. Accountancy and auditing

The objectives of CG in the organization are the increase in the level of transparency and this is important for organizations. However, the issue of transparency has been controversial. Most people are of the opinion that an extremely high level of transparency may unambiguously make the health of the organization good and so directors should take full duties and not interest. From the perspective of CG, the high increase in transparency is associated with costs and also benefits at the same time. This brings about an optimal level above which an extra increase in transparency would culminate to low profits. Transparency plays a very crucial role in risk assessment for organizations. Through positive disclosure together with transparency and the director's responsibilities, good governance in organizations is achieved. They lead to the demonstration of information quality in addition to financial and non-financial reliability that the management should provide to the lenders, the shareholders and the general public (Bryce, 2002).

According to empirical evidence, high transparency rates significantly impacts on costs of capital. The supply of information in a reliable and timely manner results in a great level of confidence of important decision-makers in the organization. This results in the formulation of good decisions for the interest of the business, with a direct effect on the level of profitability and the general growth. The proper supply of needed information also influences decision-makers from external of the entity. This means that the investors, the lenders and the shareholders are able to decide the risks that are associated with their ventures. In an organization, the information that is provided is a good indicator to decision-makers together with the outside interests of the extent that the organization has been able to comply with the legal requirements. Disclosure is very important to the understanding of the public about the activities of the company, their policies and performance in consideration of the environmental and ethical standards in addition to the relationships that they have been able to develop with the communities around where the organization operates (Cruver, 2002). CG practices are associated with financial statements that are not transparent and therefore fail to account for the operations and the finances in as far as the shareholders and the analysts are concerned. The practices of CG were also marked complex models of business in addition to unethical practices that led to the adoption accounting limitations in an attempt of misrepresenting the earnings together with modification of the balance sheet aimed at portraying performance depictions in a favourable way.

The scandals facing Enron were attributed to the steady accumulation of the values, habits and actions that arose way back and then proliferated beyond controllable levels. The primary motivations in the accounting along with the financial transactions at Enron were geared towards keeping of the reported income together with the reported cash flow at high levels, inflating the asset values together with off-booking the liabilities. Most of the problems were perpetuated by the executives of the company.

The compensation structure that was set in Enron together with the system of performance management was designed in a manner that could attract and retain the employees who were quite resourceful to the company. However, the system set-up also played a significant role in the dysfunctioning of the corporate culture in the organization. The set-up had been infatuated with a short-term focus of earnings for the purpose of maximizing on bonuses. The employees perceived at deals of high start volume while they disregarded the cash flow and profits quality for the purpose of coming at higher rating in the course of performance overview. Further to this, there was an immediate recording of accounting results so as to be at par with the stock prices of the company. The intention of this practice was to cover the deal makers together with the executives who were given significantly huge cash bonuses in addition to stock options (Bryce, 2002, p. 273).

The principle focus of the company was the stock prices with an extensive compensation of the management through the use of the stock prices. This led to the creation of expectations by the management which indicated rapid growth with the intentions of showing the appearance that the earnings reports would meet the expectations of Wall Street.

Before the fall of the company, the tools of financial risk management that were applicable were seen to be appropriate. The issue of risk management in the company was seen to be very important based on the nature of regulatory environment that it operated under coupled with the business plan of the company. Commitments of long-term nature had been established at Enron that required significant hedging for appropriate preparation for fluctuation which was inevitable in the future due to the energy prices. The downfall of the company was attributed to the recklessness with regard to the application of derivatives together with the special purpose entities. Through the hedging of the risks with the inherent special purpose entities, the company was in a position of retaining the risks that were allied to its transactions.

It was difficult to hide the aggressive practices of accounting at the company from the board of directors. Although some of the improper practices of accounting were never known to the board, all the practices relied on the decisions that were deliberated by the board. In spite of the fact of extensive reliance on the use of derivatives in the company to transact its businesses, the Finance Committee of the company together with the board lacked a comprehensive background of the derivatives to understand what was actually communicated to them. If the board had gained a clear insight of the actual organization of the derivatives, then it could have been possible to prevent their use (Collins, 2006).

Cash flow reporting is needed by the owners and the managers of the organization for the purpose of making important decisions relating to their business. This is a requirement and not an interest. These decisions pose some significant effects on the continuation of the operations of the business. The cash flow reporting is then used during financial analysis to give the management a deep understanding of the figures reflected in the reports. The statements are also needed during the preparation of the annual reports by the management to be presented to the stockholders.

The employees of the company also require the use of these reports at the time that they make their agreements of collective bargaining with the company's management. The labour unions and individual employees apply the reports to negotiate their promotion and compensation. The reports are also used by prospective investors during their assessment of the viability of their intended investments in the company. The decisions for their investments are made after careful consideration of the reports that have been presented to them by professionals.

The reports are also resourceful to the financial institutions such as banks and the lending institutions. The decision of granting a company some working capital or extend the securities of debt and the expansion of finance solely depends on the reliability of the reports. The vendors who give some credit to the company also rely on the statements for the purpose of assessing the company's creditworthiness. The media along with the general public have some interests in the reports for varied reasons. The tax authorities in the government also make use of these reports. They form the basis of determining the propriety together with the level of accuracy of taxes together with other related duties that have been declared payable from the company.

The very foundation of good CG lies in the degree of transparency and disclosure in financial reporting and should be the core of current and future reforms of this century.

Accounting is the soul of CG because without proper accounting, corporate management loses its essence and therefore can neither be monitored nor held accountable for things like fraud or mismanagement by corrupt officials. Their actions or non-actions suggest that corporate performance cannot be accurately assessed and, as such, investors, policymakers and regulators who rely on financial statements in assessing a company's financial position and performance are often misdirected.

Although inaccurate financial reporting can be an advantage to corporate insiders, this can and does prove costly to investors, especially unsecured creditors and minority shareholders.

Management integrity and disclosure of accurate records of account at AGMs are necessary and reflect the true performance and outlook of a company to present and future investors. Where falsification, lack of transparency and inordinate disclosure is made by way of "creative accountancy[13]", the whole structure of a corporate entity can come crumbling down. Fingers will then be pointed at directors, top-level senior executives, greedy investors, accountants and auditors.

The twenty-first century saw a charade of corporate collapse in the world's strongest economy in corporations such as Enron, WorldCom and Arthur Anderson (Demirag and Solomon, 2003, pp. 1-7). Their collapse cast the spot light on an urgent need for CG reform across the globe.

America reacted by passing the Sarbanes–Oxley Act (Demirag and Solomon, 2003, pp. 1-7) with the sole aim of protecting the investors by improving the level of transparency and disclosure in accounting practises.

This surely raises the question of what really is needed. Is it more regulations, more control or more bureaucracy? Does the world need tighter financial regulations?

It seems so ironical that the biggest, most organised, economy in the world still has problems of accounting and auditing malpractices. What more can be said for poorer, less regulated nations?

The answer could, for a start, lie in reforming the role, responsibility, degree of liability and qualifications of directors as was proposed in the Higgs and Combined Codes (Kirkbride and Letza, 2003; Charkman, 1994a).

Directors with a general knowledge in accounting will appreciate the importance and repercussions of not having proper accounts. However, knowing too much in accountancy can prove counter-effective as was evident on the part of Enron executives.

Stricter rules on the part of internal accounting and external auditing must carry stiffer penalties and be seen to be implemented in the twenty-first-century CG.

A system of checks and balance can also be envisaged from shareholders attending AGMs and putting the accounts through intense scrutiny, but they would need to know what they are doing, and hence the preferred choice of institutional investors for they possess the hands-on experience.

External observers at these meetings will also ensure that the meetings are conducted satisfactorily and report any anomalies to regulatory bodies.

It is no surprise that the problem of bad accounting could be that of "institutionalisation" of auditing firms. Auditing, like credit rating, suffers from potential conflict of interest.

Owing to long-term good business relationships with a client (corporation), they are often unwilling to report potentially damaging oddities. Quite understandable, considering the circumstance, but proper auditing practises must be universally maintained, as failure to do so will glorify "*Gresham's Law*" of bad money chasing out good money[14].

The view being that owing to high competition, if a competing auditing firm can get away with manipulating or falsifying financial reports, then why should an ethically oriented accounting firm submit a veritable report that makes his client company look financially bad compared to its corporate competitors.

The solution lies therefore on strengthened supervision, tougher penalties and perhaps a rotation, by ballot, of auditing firms amongst corporations. External auditors should resurrect their guild, ethical practising standards, independence and transparency if their reports are to be accepted with dignity and not seen as "window dressing" at the AGM's in the twenty-first century.

Organization leaders are charged with duties and responsibilities of emphasizing on transparency, integrity and honesty in the course of executing operations of management. This is not an interest. The adoption of policies of this nature leads to prosperity while minimizing scandals which may ruin the confidence of stakeholders.

12. Environmental issues and environmental management scheme

Some researchers use the term corporate citizenship interchangeably with CSR. They believe that when companies are socially responsible, they become corporate citizens (Pedersen and Huniche, 2006). This understanding is true because people may use the two concepts interchangeably to mean the same thing. However, CSR denotes the process, which companies engage in ethical and environmental sustainability, while corporate citizenship underlies the entire concept of CSR. Therefore, companies that undertake CSR are good corporate citizens. Globally, many companies have earned the reputation of being good corporate citizens. For example, Microsoft is a good corporate citizen because it has demonstrated the commitment to serve the needs of different people and communities around the world. As the demand for social responsibility increases in the corporate space, companies and people are starting to use their powers to punish errand companies that do not subscribe to this philosophy corporate citizenship. Huniche and Pedersen add that most companies that still do not subscribe to this philosophy have not only suffered negative press but also experienced boycotts of their company products (Pedersen and Huniche, 2006, pp. 218-221). This understanding shows how good corporate citizenship is an ingrained component of today's corporate practices.

Corporate philanthropy started back in the USA with the emergence of the industry, as well as some of philanthropic institutions initiated by revolutionary industrial businessmen such as Henry Ford and John D. Rockefeller. It basically involves the company to encourage their employees to get involved in welfare activities sponsored by the company to persuade a positive impact. The beneficiary parties are the environment, society, consumer, employees, communities and other stakeholders. The doing of philanthropy as an element of CSR characterizes an internalization of the gifting of funds, goods or services from the corporation itself, from time to time, serving as a way of advertising for the organization. For instance, a bank might contribute money to supply costumes for a school sports team or a health-care company might provide money to the city play.

Lately, a new practice of great impact philanthropy has been established, including the practice of creating charitable aids with the intent of exploiting social good in quantifiable manners. Philanthropy's main goal is to maximize social returns and it refers to metrics to decide social influence. This metrics focuses on how exact kinds of success will be analyzed and measures how far real modifications or outcomes will total.

The scope of CSR practices in Al Futtaim Group (AFG) in the UAE spans different spheres including philanthropy, environmental conservation and community empowerment. For example, to promote environmental conservation, AFG has participated in different environmental projects, including the installation of information plaques in nature reserves across the country. In terms of philanthropy, the company runs different charities in Abu Dhabi. Most AFG activities outline the corporate citizenship theory because the company is striving to be a good corporate citizen by "giving back" to the community through its CSR initiatives.

The growing number of multinationals in today's business space, and the resultant pressure on such organizations to embrace ethical practices, also underscores the importance of understanding corporate citizenship from a global perspective. Although globalization may benefit different economies, it is a two-edged sword, in the sense that it can provide immense economic benefits (stimulate economic, social and environmental growth) and still make it difficult for governments to regulate business practices. Pedersen and Huniche (2006, pp. 218-221) believe the situation is worse for developing economies because their governments could easily forego ethical considerations for economic benefits. This eventuality is highly likely because people know multinational companies for their skills in exploiting regulatory gaps. Corporate citizenship helps to mitigate the above concern because it provides an opportunity for companies to self-regulate, when governments cannot regulate them. Pedersen and Huniche (2006, pp. 218-221) say corporate citizenship can achieve this outcome by adopting social and environmental management systems, labelling schemes and reporting data.

The suitability of corporate citizenship in today's business world emerges through its acceptability in today's corporate circles. Scholars and academicians also approve the theory through the publication of numerous literatures that highlight the successes and suitability of corporate citizenship (Garriga and Mele, 2004). This approval has seen a surge in the number of companies that have formulated ethical codes of conduct to guide their corporate activities. For example, most companies today publish environmental reports to account for the environmental impact of their activities. Many companies also choose to undertake environmental impact assessments before they embark on or approve of any project. Companies also appreciate their role of being good corporate citizens by including communities as important organizational stakeholders. (Pedersen and Huniche, 2006, pp. 218-221) also acknowledge the advancements of non-governmental organisations, private institutions and government institutions in developing new ethical criteria for guiding organizational activities.

With the world advancing in technology and with the rapid depletion of natural resources and the ozone layer, environmental concerns, as well as sustainable development, have created a new spotlight.

The clash between economic activity and the protection of our planet has become a fundamental part of CG and business practice worldwide.

Corporations in the twenty-first century will not only have to focus on creating financial value but also pay attention to ecological, ethical and social factors. Corporate entities, with an appetite for profits, will have to now consider the ways and manner they interact with the environment. Firms will have to adopt sustainable business practices that blend financial profitability with genuine concern and regard for ecological and social posterity (Gimenez Leal *et al.*, 2003).

The need for such CG concern is sparked by factors such as legislature, consumer opinion, media influence, globalization and improvement in communication technology. And with government and civil regulatory policies backing environmental concerns, companies in the twenty-first century will have to win consumer interest by seeing to be concerned about the environmental sustenance.

Shell's experience with the "Brent spar oil platforms" shows that consumers and the general public can easily take a different view from the government[15] (Cramer, 2002). The key point being that public opinion will influence the path to good CG practices, thereby forcing corporations to communicate openly with all relevant stakeholders because what is at stake is profits, with a price, and that price is care for the environment by way of financial investment in things like research, conservation programmes, recycling, etc.

Shapiro and Varian are of the view that firms can no longer afford to ignore environmental criticism from social groups in the sense that if a firm behaves in such a way that is unacceptable to society at large, the resulting criticism may damage its reputation which may invariably jeopardize its continued existence and make stakeholders weary (Cramer, 2002, p. 102).

The "Porter Hypothesis" postulates that we are in an era of global competitiveness and innovative technology and that firms must view a long-term investment in environmental sustainability which will inevitably lead to positive effects on productivity and efficiency in the long run (Gimenez Leal *et al.*, 2003, p. 102).

This compensates for initial costs spent by corporations on things like research evident, for example, in the chemical, food and electronics industries.

This factor creates competitiveness amongst companies, creating concern about the environment part of managerial strategy in CG and subsequently makes for a better environment.

It is my submission that as a result of public pressure and need for corporate concern, ethical and social standards of corporations will now be a source of information, grading and advertisement for stakeholders, prospective investors and the general public in the twenty-first century.

But the problem we may have is falsification of data by companies on EMS practices by them seeking to win over public interest. In view of this, therefore, there is the requirement for universal corporate legislature on this field. Hence, the need for codes such as the Organisation for Economic Development and Cooperation (OECD) guidelines (Cramer, 2002, p. 103) on environmental protection which aims to internationally standardize and monitor sustainable business practices.

On a positive note, the science of recycling can be a goldmine for the twenty-first-century CG, as this innovation tends to weld the industry of science, profit-making and sustainable development through products like recycled glass and paper (Wagner *et al.*, 2002, pp. 139-143). It typifies the ideology of more money in pockets, development in science, new employment opportunities and a cleaner world.

13. Arguments for CSR (triple-bottom-line success)

As observed earlier, CSR involves undertaking corporate responsibilities in a responsible way. Proponents of CSR argue that CSR gives economic longevity to companies because it provides a long-term perspective of how they make profits. They also argue that the failure to practice CSR may amount to short-term profits and long-term losses. This argument outlines the role of CSR in helping companies to achieve triple-bottom-line success. The triple-bottom-line success hinges on three pillars – people, planet and profit. The "people" concept refers to labourers and community stakeholders. Stated differently, it outlines the different types of human interactions that most businesses experience. The "planet" concept refers to the importance of businesses to undertake environmentally sustainable practices. For example, companies that embrace CSR are not supposed to produce, or dump, harmful waste in the environment. Instead, they are supposed to protect the environment from such waste. The last pillar of the triple-bottom-line success is profit. This concept refers to the traditional understanding of profit, as the economic value of doing business. Companies that adopt CSR practices could easily achieve the three levels of success defined above (triple-bottom-line success). Spence *et al.* (2010, pp. 123-145) say the realization of the triple-bottom-line success has enabled most businesses to be more conscious of their ethical Spence obligations in the society.

14. Insight into 1st and 3rd world corporate governance

14.1 United States

The USA has the biggest economy in the world, with an annual gross domestic product -per capital income of $52,610[16]. The turnover of individual corporate giants like Microsoft, Disney, GM and GE are worth more than the annual budgets of some African Nations.

The US law requires corporations to be run not by shareholders but by a board of directors. The board enjoys and exercises legal discretion which may include sacrificing shareholders profits to protect interests of other important members of the company (Rose and Mejer, 2003).

Although bizarre to some European CG systems, this is seen as an inductive mood for some stakeholders, particularly employees, who tend to facilitate career commitments and invariably profits at the end. Their CG structure seems to be more of a market-based economy rather than relations based as in Germany and Denmark (Figure 5) (Rose and

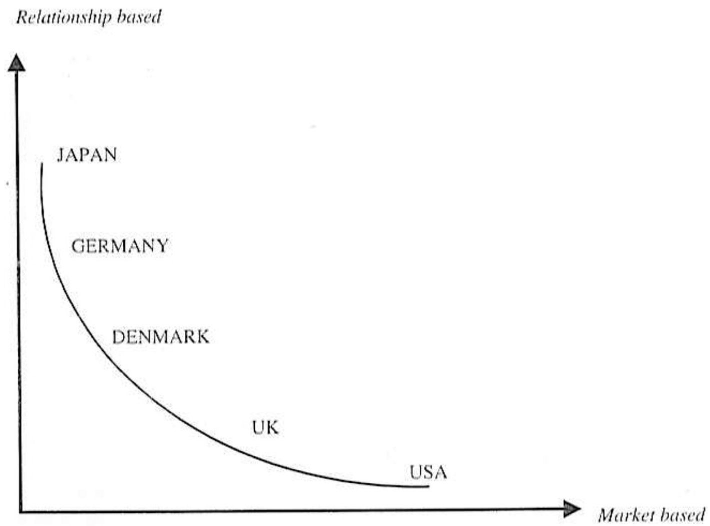

Figure 5.
CG structure in the US

Mejer, 2003, p. 342). This is mainly due to dispersed ownership structure and the limitations on bank influence in non-financial firms.

The Enron and WorldCom collapse and widespread financial reporting problems called their governance and financial reporting practise of public companies into question. America reacted immediately by passing the Sarbanes–Oxley Act on 30 July 2002 (Demirag and Solomon, 2003, pp. 1-3) with its aim of protecting investors by improving accuracy and reliability of corporate disclosure made pursuant to security laws.

This corrective principle shows the nation's commitment to tackling accountancy and transparency irregularities in good time as opposed to nations like Nigeria who thrive on the failure.

Part of US governance policies for the twenty-first century include developing proper interaction amongst board members. A board purpose is established to cater for the interest of the corporation's stockholders whilst bearing in mind the interest of stakeholders.

Board responsibility is a key area which also includes monitoring the CEO. They prefer the roles of the CEO and Board chairman to be separated but prefer the composition of the board to consist of only independent directors. Public companies are expected by law to maintain an effective, full-time internal auditing unit that reports directly to the auditing committee which again consists of independent directors (Lapides *et al.*, 2002). We get the sense of complete separation from executive control which curbs possibility of corrupt influence by the executive.

External auditors are also expected to view public accounting as a noble profession and not as a competitive business soliciting favours.

The USA takes firm grounds on fraud by passing strict criminal penalties in fraudulent financial cases and requires the board, management and auditors to perform fraud risk assessments (Lapides *et al.*, 2002).

14.2 Germany

Germany, unlike the USA, is more relationship-based rather than market-based (Rose and Mejer, 2003, p. 1343; Schilling, 2001, pp. 148-151). However, with increasing pressure to adapt itself to the demands of a fast-changing global economy influenced by the EU and America's economic dominance, German economy still seems to be as strong, nevertheless.

They practise a two-tier system, wherein you have a traditional supervisory board called the "Aufsichtsrat" and an executive board called the "Vorstand" (Rose and Mejer, 2003, p. 1343; Schilling, 2001, pp. 148-151). The positive nature of this system, in my opinion, is that it replicates a true corporate democracy and open transparency.

If you consider that half of the supervisory board is elected by employees and the other half by shareholders, it simply reflects the strong consensus of the German CG, wherein there lies equality between ordinary employees acting in an advisory role and their bosses (executive members).

Their opinions are respected and taking into consideration and their interest is in the company rather than the shareholders as opposed to British and American CG.

The negative effects, however, are that where divergent opinions lie in decision-making, the management will only be too glad to shift the blame on the supervisory board. Also, the chances for a strong Trade Union can hamper board decision and company performance if the employees become agitated with management. German directors standard/duty of care is much more stringent and professionally based, wherein liability, unlike the British, is that of a "well-organised business man" (Charkham, 1994b).

This makes room for error or deliberate acts of fraud almost impossible because the initial requirement to the post of a director is of a higher standard.

Finally, German CG is looking for an alternative to boring AGMs to revitalise interest of share and stockholders to their rights and responsibilities at the meetings.

14.3 Denmark

The Danish and Scandinavian corporate system, contrary to the UK and the USA, is characteristic of a foundation ownership role as is evident in corporations like Carlsberg, Nordisk and Lego (Table I) (Rose and Mejer, 2003, p. 336). It is more inclined towards a relationship-based economy rather than British and American market-based systems. Their CG has been orientated towards protecting the rights of various stakeholders.

However, the influence of EU directives concerning the regulation of capital markets and the US economic systems coupled with globalization has put pressure on Danish firms to promoting shareholder value. This, in my humble opinion, is harmful because it suggests an infiltration of a foreign system over a cultural practise in CG that is unique and strictly "Danish".

The Danes base their system on the traditional agency theory and hence what is of interest to their corporations includes reputation and good company performance and their employees tend to stay longer and remain committed to the company.

Contrary to German CG, banks own lesser equity holdings in Danish stocks and this reduces the importance and dependency on banks which, in my opinion, is positive as the opportunity for negative influence, favouritism and manipulation by banks is cut out.

The Danish twenty-first-century CG recommendations on good governance entitled "The Norby Committee" (Rose and Mejer, 2003, p. 335) presented major CG suggestions like the abolition of shares with dual-class voting rights and restrictions against contested takeovers, higher degree of transparency and disclosure of information to stock markets. It also suggests for a complete separation between the supervisory board and BOD.

The Danish legislation also makes provision for employees to have the right in electing one-third of the seats in supervisory board for their own representation (Rose and Mejer, 2003, p. 335). This again, in my opinion, as do the Germans, is a positive CG practise that gives the employees a sense of belonging, need and recognition which in itself is motivational and priceless.

Danish legislation also provides for strict employee protection and, as such, the country has a strong labour union. This is a positive step towards solidarity amongst

Table I.
Foundation majority ownership among the 100 largest firms

Denmark	Sweden	Germany	The Netherlands	Other Europe	USA	Japan
19	2	5	1	0	0	0

employees and virtually guarantees corporate commitment to human capital investment; the companies know where their bread is buttered.

On the other hand, it seems only fair to submit that a high level of state employee protection may reduce the flexibility of the work force and create a hoard of untouchables.

Quite unique to their system is the equal protection and treatment of shareholders in the Danish Corporate Act and the OECD principles of CG (2004). It fully recognises and protects the rights of other stakeholders such as the employers and creditors, as do the Germans.

In general, Danish CG is a balance of good governance practise that is worth looking at.

14.4 Nigeria

Nigeria, a Third World nation, has an unstructured and peculiar way of running many existing limited company (LTD) and PLCs which are different from the governance procedure of modern PLC and multinational companies of the First World. Such corporations of the First World are, in principle, controlled by the shareholders, as they exercise their power; however limited, at the AGMs (Yakasai, 2001, pp. 251-252).

In Nigerian CG, there is little or no challenge to the management's prerogative actions and thus no demand for independent and off-sight supervision. Hence, the level of mundane activities is high due to factors such as high-level corruption, lack of good governance, transparency, disclosure and intervention by the legal system in matters of accountability.

This can be argued to be somewhat encouraged through bad political culture (military rule), corruption, illiteracy, under development, ill-monitored micro- and macroeconomic policies, lack of transparency, accountability and lack of a feasible regulatory and legal environment. Economic growth is weakened due to bad CG and can be adequately beefed up by tighter rules and sanctions and monitoring the implementation of same.

There is the need to create incentives and provide an inductive environment for foreign investments and trust in the corporate system. Whether Nigeria practises the stewardship, organisational stakeholder, agency or classical theory of CG structure, it will still face the problem of intervention by government frustration and imposition. This is unique to a dictatorship regime and will still be of similar consequences even in a democratic set up in Nigeria.

14.5 Thailand

The Thai economy represents much of the CG system in Asia today. Thai companies are traditionally family run, but the listed companies are yet to adapt their style of governance to that of the new global corporate environment.

Thailand, like much of Nigeria and less developed countries, have bad cooperate governance resulting from the lack of transparency and disclosure[17]. Its government realises that accounting is the heart of CG. Its failure suggests that corporate management can neither be monitored nor held accountable for and this renders corporate assessment impracticable.

Accounting in Thailand is notoriously known for its "creativity and imagination". Corporations are known to keep two accounts: one for management and the other for the authorities. This is an example of bad CG practise which facilitates avenues for corruption, fraud and falsification of things like valuation reports. Financial reports are made to look good by auditors to impress banks who give unsecured credit through personal guarantees or connections.

These flaws in accountancy can only likely improve through good accounting policies and its implementation and sanctions through an effective judicial system.

Thailand realises that good governance requires accurate information which can aid the monitoring of board members and the accounting unit. To this, the regulators propose having a pool of certified auditors to which regulators will allocate auditors to a company through a lottery.

This, in my humble opinion, is an excellent idea that guarantees independency in auditing corporate accounts, but the only problem would be whether a large number of auditing firms exist to go round all the Thai corporations?

15. Second part of question and general conclusion

The term, governance is seen as the art of blending the relationships between different stakeholders to achieving a common goal (Johnson and Scholes, 2002). Hence, depending on factors such as the socio-political system in a country, the level of shareholding in corporations, the number of public corporations, the life styles of the citizens and the level of information, it is possible to deduce whether governance is indeed a product of heightened interest in cooperate activities by the general public.

If we take a vibrant economy like that of the USA with its corporations like Coca-Cola or McDonald's, we can observe that owing to factors such as the high standard of living, awareness of citizens rights, which is envisaged by the literacy level, and the wide opportunities to invest in other shares, there is an open avenue of choice; hence, competition exists in the sense that corporations know that good governance, means good profits and subsequently, happy investors.

But where bad governance is the norm, investor's lack of interest affects share value. This is evident through previous illustrations in this write up, wherein factors like environmental issues which are of concern to investors count on their support or condemnation of a corporation's existence.

However, where high instances of illiteracy and lack of respect for civil and corporate rights are rampant, there is a tendency of investors to show lack of interest, and where the economy is so bad, it then becomes an instance of half a loaf of bread is better than none. There is no challenge from investors so corporations go on a free spree to exploit investor interest and practise bad governance to maximise profits. Shell (SPDC) actions in Nigeria's oil industry are a classical example.

Whichever form it falls, I humbly submit that the actions or non-actions of investors and the public define the role or form of governance in a corporation.

16. General conclusion

Corporations as artificial entities are like children being brought up by parents. Bad parenting produces bad offspring's, but good parental control produces a bright offspring that can guarantee a successful future. A corporation with good CG practises which tackles the key features of accountancy, transparency and respect for stakeholder roles will surely reap the benefits of success in the business world.

Good organisational behaviour at the administrative level coupled with concern about consumer needs in products, services and external factors such as corporate concern for the environment and the public, will most certainly add value to reputation and sales.

Albeit a long-term investment in some cases, I am of the view that some firms will see the beauty, importance and spirit of worthiness in non-profit activities as a real achievement in twenty-first century CG.

This will be true only in firms that have a strong financial footing and a long-term reputation to maintain. However, we must never lose sight of the fact that difference in culture amongst nations is a driving force that is peculiar to every economy and should be left to remain so.

Twenty-first-century CG is also paving the way for a new field of governance and that is the stakeholder role of future generations. What corporations do now does have a strong effect on future investors and stakeholders, and hence the need to adopt good CG practises and be seen to be in the good books of the public domain. The important thing is to practise good governance and that in itself is a universal language known to all. We must remember that it is humans who alter the role of good governance to suit their selfish needs and poison the beauty that exists in the corporate entity.

Notes

1. For explanation on the chart entitled "Fig. 1: Corporate governance and its environment".
2. For further discussion and analysis on CEO and chairman role and the "devil's advocate and Noah's Ark syndrome on board selection".
3. The celebrated views of writers like Kiel and Nicholson (2003) shed more light on the independent directors role.
4. For reference to statistic records and further explanations, see Hellriegel, Slocum and Woodman.
5. The glass ceiling stance refers to a barrier so subtle that it is transparent, yet so strong that it prevents women and minorities from moving up in management.
6. Graph shows arbitrageurs who own share for a nanosecond, active managers who hold shares for a two- to three-year period, Bank Trustees hold for a four-year period to Pension funds who own shares for a seven-year period.
7. See Hellriegel, Slocum and Woodman.
8. See B. Manby, "Shell in Nigeria: Corporate Social Responsibility and the Ogoni Crisis" (Carnegie Council on Ethics and International Affairs, New York) (case study No. 20).
9. See Corporate Governance In Asia: A Comparative Perspective, Seoul, 3-5 March, 1999.
10. See the context of Employee Inventors in the authority *of Electrolux Ltd* v. *Hudson* [1977] FSR 312 and the provisions of Section 39 of the Patents Act of 1977.
11. It is also important to note that in 1999 the total pay of CEOs at 362 of the largest US companies was, on average, $12.4mn.
12. See also Failed Banks (Recovery of Debts) Financial Malpractices in Banks Decree No. 18, Lagos, Nigeria.
13. See "21st Century Governance and Financial Reporting Principles", issued by the Corporate Governance Center at Kennessaw State University on March 26, 2002.

14. Sir Thomass Greshams definition of bad money chasing out good money. See web page available at: www.princeton.edu/~achaney/tmve/wiki100k/docs/Gresham_s_law.html. See also OECD, Corporate Governance in Asia: Comparative Perspective, Seoul, 3-5 March, 1999 at p. 24.
15. See also statement of Sir Mark Moody-Stuart, Shell Report, 2000, The New Economy Analyst Report, May 12, 2001. available at: www.juergendaum.com/news/05_12_2001.htm
16. See www.who.int/countries/usa/en/
17. See Corporate Governance In Asia: A Comparative Perspective, Seoul, 3-5 March, 1999.

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Appendix

Table of abbreviations

AGM	=	Annual General Meeting.
AGM's	=	Annual General Meetings.
BOD	=	Board of Directors.
CA	=	Companies Act.
CEO	=	Chief Executive Officer.
CERES	=	Coalition of Environmentally Responsible Economies.
CFO	=	Chief Financial Officer.
CG	=	Corporate Governance.
CSR	=	Corporate Social Responsibility.
EMS	=	Environmental Management Scheme.
EU	=	European Union.
GDP	=	Gross Domestic Product.
GE	=	General Electric.
GM	=	General Manager/General Motors.
LDC	=	Less Developed Countries.
OECD	=	Organisation for Economic Development and Cooperation.
SME	=	Small- and Medium-Scale Enterprise.
UNEP	=	United Nations Environmental Programme.

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