Contemporary Status of Corporate Governance

Where are we with corporate governance? Is it at a crossroads, with different options ahead? Should we diverge, or continue along an evolutionary path with only slight variations of pace on route? Is a change of direction required? Should one take different routes according to the nature and maturity of an enterprise and the challenges and opportunities it faces? Might we reach a dead end? Are we getting bogged down in a morass of compliance, rules and standards and missing opportunities to be more creative in how boards operate and more ambitious in terms of the value they can add?

Who are and should the customers of corporate governance be? Who beyond the board and company secretary’s department should be involved with it? Do people across an organisation and its supply chain need to be engaged with aspects of corporate governance and its implementation, or should they be encouraged to focus upon relationships with customers and prospects, innovation and the seizing of opportunities, and the building of a responsible and sustainable business? Are many current approaches to corporate governance a positive enabler of entrepreneurship or another distraction and compliance cost? In some cases, do we need to get back to basics? Are directors always fully aware of their responsibilities in relation to financial reporting (ACCA, 2017)?

Should we also be thinking more creatively rather than just complying or explaining? Effective directors ask questions. They challenge. Progress is made by confronting the status-quo and proposing better alternatives for certain requirements. Is contemporary corporate governance in a rut? Has it become stale and outlived its original purpose to become another of those human institutions that Drucker (1985) suggests can become an obstacle to progress and might benefit from innovation and entrepreneurship? Is adaptation required, or is a re-design needed, for example to cope with the challenge of sustainability and the requirement for greater innovation? If so, what changes are most needed and how can they best be introduced?

Convergence or Greater Diversity

Would greater convergence of different approaches to corporate governance be desirable, or would the reverse be the case, with more attention being given to the size and stage of development of a company, its constitution, status, ownership structure and the sectors and/or jurisdictions within which it operates? For example, are there particular requirements for the governance of family companies, or those operating within emerging markets (Mishra, 2013)? At minimum, directors need to understand their roles, responsibilities, powers and duties in the relevant Companies Acts (Makhija, 2016). If we were to start again, what would be the priority beyond this?

Corporate governance should be our servant and not our master. We should not adopt an off the shelf model if it does not address our specific requirements and situation. Are standard corporate
governance approaches, models and codes helpful, constraining or even on occasion irrelevant, given the great diversity of situations, circumstances and contexts that directors and boards find themselves in? Would directors and boards make better or worse decisions or be more or less effective if they felt free to assemble the most relevant talents, and operate in a way that best enabled them to build the relationships and assemble the capabilities they needed to achieve their aspirations, and had greater flexibility to evolve governance arrangements as an enterprise grew?

Could questions relating to transparency, corporate cultures, appropriate behaviour, ethical conduct and value creation be discussed in the absence of corporate governance codes? Might board debate be less limited and any resulting steps taken more innovative if codes did not exist? Beyond legal requirements such as those in Companies Acts, while some directors might find principles of good governance to be helpful as an aide memoir, can too much prescription and detailed rules be counterproductive? Can they result in less boardroom discussion of governance related issues? Do we want unthinking compliance or careful consideration of what would be most appropriate?

Governance and Trust

One indicator of whether contemporary corporate governance is effective is trust in capitalism, business and boards. Do we need more than principles? For example, transparency can also be a judgement and practice. How transparent are many boards at reporting human capital, workforce and people-related issues and risks in their annual reports and accounts? For example, are ethical breaches reported? CIPD has called for greater transparency and for boards to go beyond mere compliance with rules and regulations in order to give stakeholders a fuller understanding of people-related risks (McCraken et al, 2018). How useful are corporate disclosures about the composition, stability, skills and engagement of company workforces (Young, Steven et al, 2017)?

Sometimes the reactions of directors to certain proposals are very revealing? Are they reluctant to review their own performance and consider the refreshment of board membership? Are they paying lip service to succession planning or genuinely seeking to build a cadre of potential directors? Are people at the top prepared to stand down and give way to those whose experience, skills and qualities might be more aligned with a board’s aspirations and the challenges and opportunities a company faces? Are boards being robust in relation to executive pay? For example, is the multiple of CEO or senior executive pay compared with average or median employee remuneration becoming unjustifiable? In a sensitive area like executive pay, should more effort be made to obtain the views of investors or track public perceptions of a company? What does social and other media comment about corporate offerings, or the conduct and remuneration of directors, tell us?

As and when suggestions for significant changes in corporate governance arrangements are made, how likely is it that these will be adopted? Has the corporate governance community become a force for conservatism rather than prudent restraint? Is it instinctively in favour of preservation of a status-quo that it claims to have special understanding of? Is it opposed to simplification on grounds that this might make it easier for them to be replaced by an ap on a mobile device or a software package? Does the rule based approach to compliance that many adopt make this more likely?

Directors need to be vigilant, for example to ensure that share buy backs are not abused to benefit certain parties. Certain problematic practices remain, such as one person acting as both chairman and chief executive, or the recruitment of accommodating and supportive friends and family as directors, rather than those who are better qualified to make a more independent, thoughtful and responsible contribution? Is Government intervention required to achieve required changes, and might this result in greater regulation and higher costs of doing business, and be counter-productive (Crews, 2017)? Will the changes that we might seek be better achieved by natural evolution and innovation as particular boards take steps to address challenges or improve performance?
Strategic and Shared Leadership

Is the role of boards changing? Is less emphasis being placed on some aspects and more on others? Are global trends emerging, for example in response to sustainability concerns, or in relation to the evaluation of the performance of directors and boards and rating and accountability, or to engage with a wider range of stakeholders? Are many boards sufficiently strategic and providing the strategic direction that contemporary companies require? How can they become more proactive and dynamic without encroaching upon the responsibilities of management? In bringing about desired changes, can and should Governments and regulators play a different but potentially more significant role in corporate governance (Garratt, 2017)?

What are the implications of developments such as greater diversity for steps that need to be taken to enhance the effectiveness of corporate boards? What changes need to occur for more principled corporate governance and more responsible business? Are new forms of transformative leadership required to move more quickly in relation to multiple challenges, new business models and more inclusive development? Have we reached a point at which the challenges of corporate leadership are so demanding that many senior executives no longer seek CEO roles (Haughton, 2016)?

In relation to shared leadership, are there particular stakeholder groups or generations with whom there should be greater engagement and involvement? Is this particularly important if short-termism is to give way to a longer-term view (Kay, 2012)? Would the legitimacy of board and corporate decisions increase if an element of democracy were introduced into governance and management practices (Arneson, 2003)? If more effective relationships require commitment from all the parties concerned, do more shareholders need to step up to their stewardship responsibilities (FRC, 2012)?

Single or Multiple Approaches

Responses to the problems of particular public listed companies have been a major driver of corporate governance arrangements, and preventing their recurrence has been a significant influence on the drafting of corporate governance codes. In certain jurisdictions there has been a steady fall in the number of listed companies on main markets and a corresponding growth in private equity markets (Franks et al, 2015). Should the focus now shift to private and family companies, public corporations or the governance of entities with network structures and new business models?

Do we need different forms of board and new and more diverse approaches to governance that better suit the requirements of different forms of organisation, alternative means of financing such as crowd funding and particular business models? Are there distinct governance requirements relating to operation within the sharing economy and crowd-based capitalism (Sundarajan, 2016)? Are current approaches able to handle the requirements for more rapid and transformational change and embracing a range of disruptive and/or enabling technologies?

To influence thinking on corporate governance and future legislation, regulation and codes, should a company make its own corporate representations or responses to consultation exercises, or should it participate in collective submissions? Much will depend upon the standing of the different parties involved and the perceived importance of an issue in relation to the time and effort involved in commenting upon it. There is also a risk that standing on the side-lines might allow particular vested interests that do respond to have an undue influence.

Ethical Perspectives and Corporate Culture
Is some corporate conduct, for example in relation to directors’ own remuneration, and a lack of trust an indication that an ethical perspective might be missing in certain boardrooms? Are integrity and ethical awareness given the importance they deserve when new members of the board are selected and inducted? How can one best ensure organisational integrity and ethical conduct across a supply chain? What represents ethical business practices in relation to transformational change or a radical shift to a new business model or different technology that can have significant implications for certain people? Can absolute values and a desire for ethical certainty and expectations be reconciled with an uncertain business, market and technological environment? How effective are many boards at making ethical and responsible decisions?

Charles Handy (2002) has raised the question of what business is for. At a succession of IOD India events, speakers have advocated a widening of directors’ responsibilities to embrace stakeholder groups that may have more “skin in the game” than most shareholders. The income of employees and the welfare of their families may be totally dependent upon their jobs, whereas a small shareholding may be just one of many held by an investor. The loss of any one of these diversified investments might not be significant. Does corporate governance with its emphasis upon the rights of shareholders miss the bigger picture? The challenge for many boards is to maintain mutually beneficial relationships with a range of stakeholder groups and to avoid any one of them gaining disproportionately at the expense of the others.

Should companies have a social purpose? What role should directors and boards play in economic and social transformation? Can they provide the leadership and inspire the social innovation required for more inclusive and sustainable economic development? What changes of leadership are required if more boards are to initiate corporate activities in support of national voluntary Paris Agreement (2015) obligations and focus upon UN (2015) sustainable development goals?

Risk Oversight and Governance

What improvements need to be made to board strategies for managing risks and preventing frauds? Are corporate policies and practices keeping pace with the changing threat landscape? How resilient are they, and are appropriate back-up and recovery arrangements in place? Are alert, agile and flexible risk-based approaches to internal and external audit being adopted? Are people vigilant and adapting to emerging risks? Is risk management and compliance inhibiting or enabling of responsible innovation and entrepreneurship? Are new possibilities recognised, viewed as opportunities and actively explored? Care needs to be taken to ensure that risk based approaches to compliance, corporate direction and internal and external audit do not inhibit creativity, innovation and entrepreneurship (Coulson-Thomas, 2017)?

Is a greater focus of boards upon corporate culture a key to tackling fraud, greed and other issues that can arise within the contemporary corporate governance framework (FRC, 2016)? Alternatively is corporate culture a distraction? Should the focus instead be upon behaviour change and the encouragement of certain forms of conduct and the discouragement of others, irrespective of culture and within the multi-cultural context of many contemporary corporations (Coulson-Thomas, 2015)? Is ensuring desired conduct made easier when a board’s relationships with stakeholders are underpinned by consistent corporate values (Montagnon, 2016)?

People with corporate wide responsibilities such as chief risk officers are more likely to be accepted if their remit, mission and purpose is understood by their management colleagues, they are given the authority they require to be effective, their independence and objectivity is safeguarded, and there is clarity concerning the agreed scope of their activities and responsibilities (Coulson-Thomas, 2017). The roles, duties and rights of certain professionals, for example to ask for information, could be set out in a code or charter (CIIA, 2017). Unrestricted access to records, places and people
will normally be required by certain providers of assurance to a board. This enables them to form evidence-based opinions, assess risks and ensure compliance, but with this comes responsibility to observe confidentially and a duty to safeguard any evidence examined (CIIA, 2017)

The Contribution of Independent Directors

The importance and corporate governance significance of non-executive directors on corporate boards was recognised in the pre-corporate governance code era, but there was less understanding and acceptance of the importance of independent directors and having enough of them, for example to enable the effective working of audit committees (Tricker, 1978). More recently, has the role of independent directors been changing, and if so in what ways? Do they have a special role in relation to particular interests, or should understanding and reconciling the interests of all stakeholders be a concern of every board member? How effective are independent directors at protecting stakeholder interests and concerns, and broadening the diversity and inclusiveness of boards and committees of boards, increasing their performance and strengthening internal control?

Kumar (2013) has questioned the contribution that independent directors make to better corporate governance. Given human nature and those attracted to the role, are we expecting too much? Have we lost sight of basic principles underlying unitary boards and the individual and collective duties and responsibilities of all directors? Should they all exercise independent judgement and be free of obligations and vested and special interests that might prevent them from being objective? Do governance codes and practices encourage independent directors to act as a check upon executive directors, when all directors should be working together for the future success of companies?

How can one ensure that a selection process for new members of the board results in sufficient diversity in thinking and independent judgement to prevent groupthink (Janis, 1972)? Do too many nomination committees produce shortlists that reflect the preoccupations of committee members and perpetuate their particular view of the world? Do we need to widen the gene pool from which potential independent directors are sought, as suggested by the Tyson Report (2003)? If certain groups, perspectives and viewpoints continue to be under-represented, what if any action should Governments, regulators and boards themselves take to address this situation?

Ensuring and Supporting Independent Judgement

The value added by independent directors can depend upon the extent to which independent and executive directors understand each other's role and duties and their distinct perspectives and contributions, and how these differ from those of executive management (Nath, 2016). With some boards is there misunderstanding of what independent and executive directors can bring to the party, notwithstanding their common and shared legal duties and responsibilities? Is the distinction between direction and management both misunderstood and not observed on some boards?

Do some CEOs and board chairs actually prefer rubber stamp boards and compliant directors who nod business through, when effective governance requires independence of mind and the courage of directors to speak up when they disagree? How can the resolve of individual directors under fire be bolstered? If robust debates leading to differences and disputes do occur, how should they be handled (Kakabadse and Kakabadse, 2017)? Independence can be a state of mind. Independent directors and those such as internal auditors who support boards in assessment, assurance and investigatory roles should be aware of and disclose any factors that either inhibit or constrain their independence and objectivity, or might appear to others to be doing so (CIIA, 2017).

Do boards and audit committees on which independent directors can be especially helpful periodically consider the quality of audit work undertaken (IAASB, 2014)? Do directors always
have the information they need to be informed and effective. How might more value be obtained from a regular activity such as the preparation of annual accounts and the annual audit of draft accounts? Are movements and trends over recent years made explicit and discussed by the board? What are the changes and these trends telling the board? Could more use be made of key numbers to suggest “what if” type questions and enable boards to better discuss the implications?

Sustainability and Business Models

In relation to sustainability, are a new approach to business and a paradigm shift required? How are companies performing in relation to corporate citizenship and social responsibility? Are they doing enough to support the achievement of Strategic Development Goals? Is neoliberalism to blame for exclusion and excessive environmental exploitation as Monbiot (2017) suggests, or is the freedom, dynamism and entrepreneurship it can unleash the key to stimulating the innovations we need to reverse the harm that has been caused?

Do more companies need to develop and/or adopt new and more sustainable and inclusive business models in relation to their demands for natural capital, impacts on the environment and implications for climate change? Do many boards still view sustainability in terms of enabling current models, practices and lifestyles to continue, rather than addressing the challenges and opportunities of enabling development to occur within the limits of what the natural world can cope with and our planet can accommodate? Are their green aspirations limited and their green credentials suspect?

Peter Dauvergne (2018) questions whether a role for “big business” in sustainability is “like trusting arsonists to be our firefighters”. He suggests that many current corporate initiatives are insufficient to address the systemic sustainability challenges we face. While using rhetoric favourable to sustainability and initiating some worthy projects, do many companies actually need to encourage continuing consumption and growth if they are to survive? In some cases, are they doing more harm than good, and do they need to be reined in? Is business lobbying sometimes to water down laws and regulations and so reduce their restraining impact upon corporate activities rather than to enhance initiatives to better address environmental and sustainability issues (Dauvergne, 2018)?

Ensuring Sustainability and Resilience

What do many boards need to do differently in relation to sustainable and inclusive development and climate change? Do they understand the drivers of the economic, social and environmental dimensions of sustainability? Are they aware of the views of institutional investors in relation to climate change (IIGCC, 2017)? Are sustainability concerns and issues integrated into business strategy and the measures used to monitor and assess performance? Do corporate sustainability strategies and policies embrace supply and value chains? Directors, boards and companies need to ensure the full and fair appraisal of an organisation's environmental impact when its supply chain and life-cycle externalities and costs are taken into account (Leake, 2018).

What more do boards need to do to ensure corporate and supply chain resilience? Resilience, and having proper back up and the ability to rapidly recover in the face of natural and man-made disasters are essential. Corporate ability to cope with significant shocks should be challenged by directors. Do large operations dependent upon just-in-time delivery sail too close to the wind? How would our levels of reserves and electrical systems deal with a sudden weakening of the earth’s magnetic field or magnetic reversal (Mitchell, 2018)? Would it mean the end of life as we know it?

In varying ways, from mosquitos carrying diseases to rising sea and river levels, nature can bite back. Do we sometimes have an over-romantic view of nature and would we benefit from the combination of realism and a sense of obligation to conserve and preserve it (Hale, 2016)? Do we
also need the imagination that entrepreneurs and innovators display in creating practical and affordable solutions to particular problems? Is this where business could make a distinctive contribution? When addressing challenges, it is often unlikely individuals and outsiders who come up with novel solutions (Stevenson, 2017). It is often those who are clever and important who attract our attention. Are boards doing enough to encourage practical problem solvers?

Sustainability and Technology

Could greater use be made of technology to address environmental, sustainability and climate change issues? Would greater and faster deployment of climate engineering technology slow the pace of global warming, or might this carry unknown risks and undermine energy conservation commitments (Keith, 2013)? Where there are areas of uncertainty and concern, what steps should companies with relevant capabilities take to increase our understanding and develop relevant technologies and potential solutions to the point at which they can be responsibly deployed? Do we know enough about the origins and drivers of motivation to make this happen (Haden, 2018)?

The potential to use a range of new technologies to impact upon the environment, change aspects of the natural world and create new forms of life give rise to both new possibilities and ethical dilemmas (Preston, 2018). They could create ethical dilemmas for directors as well as difficult choices for boards. As a community, competent directors know that if aspirations are to result in achievement, the fine words of corporate visions and mission statements must be matched by the practicalities of determined implementation.

The stakes are high, but so are the payoffs from effective action to address environmental, sustainability and climate change concerns? Jeremy Caradonna (2014) suggests that we are at a potential turning point: “The practice of sustainability could give rise to the world's third major socio-economic transformation, after the Agricultural Revolution that took place 10,000 years ago, and the Industrial Revolutions of the late 18th and 19th century”. Will it be a combination of disruptive technologies and/or a Sustainability Revolution that defines our age?

Deploying Enabling Technologies

Potential business applications of technology and their social implications are often foreseen generations before their adoption by most companies (Toffler, 1970). Why are so many directors and boards so painfully slow to adopt approaches and models whose advantages seem self-evident? Is the speed of innovation and pace of technological change outpacing the ability of organisations to cope with them? Why do many directors display a caution that goes beyond prudence? Why are they so determined to shun first mover advantage and suffocate creativity and prevent innovation and entrepreneurship? Technology that is considered threatening and disruptive by some boards may be grasped by more enterprising ones as enabling of novel possibilities and new approaches, business models and/or services. Could technology itself be used to bridge the digital divide?

The desire of many boards to protect past investments and preserve the status-quo can prevent the creative destruction that Schumpeter (1975) associated with innovation and capitalism in 1942. Returning to Drucker (1985), have the institutions of directors and boards that were established to address the problem of a separation of ownership and control now become a barrier to progress? Is the fault with the institution or with current board memberships? Will managing relationships with technology partners become a higher priority of boards that seek to embrace new technologies? What role will humans play in future organisations and business models, and how will this affect the responsibilities that boards feel towards people (Kaplan, 2015)? What policies for inclusive innovation would reduce the risks and maximize the benefits of new technologies (Juma, 2016)?
How can automation and big data be used to secure competitive advantage? An excessive and unthinking reliance upon standard models and approaches, programmed responses and “big data” can be an obstacle to creative exploration and prevent chance discoveries. Being curious and exploring can be better than going automatic and travelling along a standard path (Tenner, 2018). How many boards have strategies for ensuring appropriate application of robotics and artificial intelligence? They need to think through implications and take a balanced and responsible view. Might the internet of things increase the opportunity for cyber fraud and crime and damages claims? Can the potential of blockchain be realised, given the computing power and energy consumption required? What are the implications of blockchain for the governance of the internet? Might the evolution of some technologies and innovation address many of the problems they may create?

The Way Ahead

Innovation can have its enemies (Juma, 2016). Board discussions of new technologies sometimes need to balance the hoped for advantages put by their advocates against the costs of disruption and the risks to moral values, human health, and environmental safety raised by detractors and opponents. Might benefits to some people be outweighed by the potential risks and costs to a larger number? Some innovations threaten social identities. There can be a tension between the need for innovation and the pressure to maintain continuity, social order, and stability (Juma, 2016). How many boards have the will and understanding to contribute to public debates on policy and other changes needed to manage technological changes from a societal as well as a corporate perspective?

Are we expecting too much of corporate governance and naïve to expect that most people will pay more than lip service to pious principles set out in codes of practice and statements of values. Is the reality that within all stakeholder groups most people are to a significant degree self-motivated, self-interested and selfish? Do they watch each other with an element of jealousy, concerned that they are not at a disadvantage and missing out, and trying to match or better their peers? Is it human nature to try to take advantage wherever possible and to the extent to which one can get away with it? Is it inevitable that as regulations, laws and tax codes become more complex to prevent abuse, people and their professional advisers will become ever more imaginative at exploiting loopholes?

To prevent abuse, should one look elsewhere? Are there other and complementary arenas in which further action could be taken that might be more successful in influencing behaviours and conduct? Should greater effort be devoted to director and board development and the selection of directors who are better able to articulate and secure support for a change of direction, or strike a better balance between the contending interests of different stakeholders and those of the company itself? Should more robust legal action be taken against directors who fail in their Companies Act duties and board members and others who abuse their positions (Garratt, 2017)? Is there scope for strengthening competition policy and steps to ensure the free and fair operation of markets?

Taking Responsibility

Is it realistic to expect customers to pay more than their competitors, employees to receive lower wages than their peers, investors to expect lower dividends and creditors of certain companies to take a haircut because their boards initiate steps to address climate change or the challenge of longer-term sustainability? How many of these stakeholder groups will rejoice, and how many of them will grumble, move or revolt? Is it incumbent upon all those who feel that business and many companies need to become more responsible and sustainable, to speak up within whatever stakeholder groups they belong to and advocate change? As citizens and directors, should we look at outcomes being sought from regulations, laws and codes and consider what we can do to bring them about, either individually or collectively, through influencing and working with our peers?
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