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CORPORATE GOVERNANCE: IN SEARCH OF A USEFUL DEFINITION

Summary

International analysis of the codes and recommendations and their evaluation demonstrate that the standards of corporate governance can only be used if an understanding is first gained of the wide diversity which exists throughout the world. Before developing this analysis from both a historical and geographical perspective, it is necessary to find a useful definition.

• Some say that the origin of the concept of corporate governance goes back centuries, while others say it has emerged in recent decades. In any event, the distinction between the leadership and ownership of companies forms the basis for the development of corporate governance.

• The most simple definitions assume a translation of corporate governance into something like sound or good governance (management). More complex definitions also include a series of tasks which directors must assume and devote attention to the division of tasks between the three major partners - shareholders, directors and management. Some discussions of corporate governance point to the final goal of the enterprise, i.e. value maximisation, and the need for an enterprise-friendly climate and good governance to achieve this; both rigid corporate governance rules and inadequate corporate governance could threaten this maximisation of value. Definitions with a more normative bias focus on the many interest groups involved with the enterprise and look at how corporate governance can contribute to a balanced consideration of (apparently) conflicting interests. Corporate governance literature therefore devotes much attention to the disciplinary mechanisms, which have an important role to play in bringing this difficult balancing act to a successful conclusion. However, the question of the extent to which governance bodies should concern themselves with the relationship with all stakeholders remains open.

• Corporate governance can also be studied at different levels, i.e. the level of the individual enterprise (or company) and the macro level, which involves corporate governance systems. The macro level is of particular relevance for the comparison of the different codes and standards regarding corporate governance.

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A useful definition for this report would seem to be one which states that corporate governance includes two aspects: doing the right things and doing things right. The codes and standards look very closely at what the 'right things' are in terms of sound governance; many of the codes devote less attention to 'doing things right'. Nonetheless, comparative research into standards and codes on the one hand and practical research and evaluation reports on the other hand have clearly revealed that more attention must be paid to techniques for moving corporate governance behaviour in the desired direction. Standards or rules alone are insufficient if they are not backed up by the right culture, ethics and professionalism.

Many theories and views abound concerning both the content and the origin of the concept of corporate governance.

1. Origin of the concept

According to Monks & Minow (1996) the concept is one which has only emerged in the last 10 years: "Whereas the systematic development and application of improved management practices has been going on now for 100 years, the term 'Corporate Governance' has been in use for not much more than ten".

Weimer & Pape (1996) rightly state that the problems of corporate governance go back much further in time and actually arose with the formation of the first company, where the distinction between ownership and leadership gave rise to the so-called 'agency problems' between the owner/shareholder on the one hand and the manager/business manager on the other hand. They believe that this occurrence took place around 1602, with the formation of the United East India Company. L'Hélias (1995) also sees the origin of corporate governance in the distinction between ownership and leadership which she refers to as a 'societal schism'.

Despite the fact that the term 'Corporate Governance' appears very regularly in the media and, consequently, is gradually entering the public domain, upon further examination it is still not easy to describe this term unambiguously: according to Bain & Band (1996) there are "widely divergent views on the nature of governance". This is of course associated with the complexity of governance matters and the various angles of approach which can be chosen. Many different visions thus exist as to the role of the enterprise and the interests which must be promoted as a priority or, as Pastré (1996) puts it: "Faute de science, on est obligé de se rabattre sur la région".

2. Literature survey

A literature survey produces a number of interesting points of view; in this

11 The pioneering work by Berle & Means (1932) looks closely at the consequences of this division for the governance and management of the enterprise.

12 Lannoo (1995) states in this context: "... the notion of Corporate Governance is perceived differently from one country to another and ... it sometimes refers to distinctly different matters for different persons and institutions, depending on the circumstances."