AN INTRODUCTION TO BUSINESS ETHICS AND CORPORATE GOVERNANCE

Timeframe:	Minimum 40 hours
Learning outcomes:	• Explain the concept of corporate governance as well as roles and responsibilities around corporate governance. • Understand the concept of values (our own and others'), and recognise the impact thereof upon our business ethics. • Apply case studies to demonstrate the value and importance of corporate governance to understand the importance and value of corporate governance in developing good corporate citizens in the economy.
Recommended reading:	• AngloGold Ashanti, 2013, 'Corporate Governance Policies', http://www.anglogold.co.za/About+our+business/Gov+Policies.htm (accessed 10 April 2014). • Apple, 'Corporate Governance Guidelines.' http://files.shareholder.com/downloads/AAPL/1698087593x0x443011/6a7d49f1-a3af-4e69-b279-021b81a93cdf/governance_guidelines.pdf (accessed 10 April 2014). • Bogaards, M., Mpinganjira, M., Svensson, G. and Mysen, T. 2012, 'A framework of conscientious corporate brand – a South African validation', *Corporate Governance*, 12 (5), 675-685, http://www.emeraldinsight.com/journals.htm?issn=1472-0701&volume=12&issue=5&articleid=17062466&show=html (accessed 10 April 2014). • Holme, C. 2008, 'Business ethics – Part One: Does it matter?', *Industrial and Commercial Training*, 40 (5), 248-252. http://www.emeraldinsight.com/journals.htm?issn=0019-7858&volume=40&issue=5&articleid=1733323&show=html (accessed 10 April 2014). • Hyson, P. 2013, 'The spirited leader: the potential of spiritual intelligence to improve leadership', *The International Journal of Leadership in Public Services*, 9 (3/4), 109-115, http://www.emeraldinsight.com/journals.htm?issn=1747-9886&volume=9&issue=3/4&articleid=17102118&show=html (accessed 10 April 2014). • McGee, S. 2012, 'Murdoch and McClendon: Poster Boys for Bad Governance', http://www.thefiscaltimes.com/Columns/2012/05/07/Murdoch-and-McClendon-Poster-Boys-for-Bad-Governance.aspx#page1 (accessed 10 April 2014). • McLaughlin, C. 2005, 'Spirituality and ethics in business', *European Business Review*, 17 (1), http://www.emeraldinsight.com/journals.htm?issn=0955-534X&volume=17&issue=1&articleid=1500660&show=html (accessed 10 April 2014). • Parker, S., Peters, G.F. and Turetsky, H.F. 2002, 'Corporate governance and corporate failure: A survival analysis', *Corporate Governance*, 2 (2), 4-12, http://www.emeraldinsight.com/journals.htm?issn=1472-0701&volume=2&issue=2&articleid=873145&show=html (accessed 10 April 2014). • Talamo, G. 2011, 'Corporate governance and capital flows', *Corporate Governance*, 4 (4), 29-46. http://www.emeraldinsight.com/journals.htm?issn=1472-0701&volume=4&issue=4&articleid=873211&show=html (accessed 10 April 2014). • Thomsen, S. 2004, 'Corporate values and corporate governance', *Corporate Governance*, 4 (4), 29-46, http://www.emeraldinsight.com/journals.htm?issn=1472-0701&volume=4&issue=4&articleid=873211&show=html (accessed 10 April 2014).

	• Tran, B. 'Paradigms in corporate ethics: the legality and values of corporate ethics', *Social Responsibility Journal, 40* (1/2), 158-171, http://www.emeraldinsight.com/journals.htm?issn=1747-1117&volume=4&issue=1/2&articleid=1717916&show=html (accessed 10 April 2014).
Recommended Multimedia:	• UNSW, 2011, 'Corporate Governance: What do Shareholders Really Value?' [video clip], http://www.youtube.com/watch?v=X2t2bES5y9s (accessed 10 April 2014). • 3blmedia, 2012, 'Walt Disney Director of Corporate Citizenship' [video clip], http://www.youtube.com/watch?v=a3Rt8eVp6GY (accessed 10 April 2014).
Section overview:	This section serves to introduce the student to the concept of corporate governance, especially as it applies in the context of business ethics.

Introduction to Business Ethics and Corporate Governance

Towards the end of the twentieth-century, most businesses were driven by the pursuit of profit alone without concern for ethical behaviour. For this reason, the 1980s came to be seen as the epoch of corporate greed and meaningless consumerism.

However in the late 1980s this attitude changed as news of unethical business practices became more widespread and more disturbing. Such news was met with demands from consumers and shareholders that businesses re-think how they treated people and the environment, and how they operated in countries that were responsible for human rights violations (e.g. companies providing arms to the apartheid government in South Africa).

These demands intensified after the 1989 spill of the Exxon Valdez, the 1995 sinking of Shell's Brent Spar oil platform, and the killing of activists by the Nigerian military, funded by Shell.

No longer could profits be ruthlessly pursued, without taking into account the ethical repercussions of a company's business ethics. During the 1990s, with the birth of the "New Age Company", corporations began to change – pursuing "profits with principles" (Nichols, 1994:2). This was partly a response to the new business professional, someone who longed for more meaningful work, and partly a response to the fallout of big business at the close of the previous decade.

Since then, companies have evolved from purely profit-driven organisations to businesses, which must consider ethics and values in every aspect of strategy and human resource planning. This is not only to adhere to legal requirements, but also to ensure good corporate governance.

In order to understand this shift better, we need to examine the terms 'business ethics' and 'corporate governance' more closely, and evaluate the reasons that businesses are now following the standards of ethical conduct.

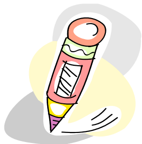
Corporate Governance

Corporate governance refers to the internal control mechanisms that regulate and protect the corporation from the human controllers. In its narrowest sense, corporate governance refers to the formal system of accountability of the directorate to the corporation.

In the broader sense, corporate governance refers to sets of relationships between the business and all of its stakeholders. An organisation needs to consider both its internal and external stakeholders when formulating strategies in order to align its interests with those of the society in which it is operating.

Defining corporate governance

Consider the definitions of corporate governance offered below:



"The framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company's relationship with all its stakeholders (financiers, customers, management, employees, government, and the community)."

(Businessdictionary.com, n.d)

"Corporate governance refers to the structures and processes for the direction and control of companies. Corporate governance concerns the relationships among the management, board of directors, controlling shareholders, minority shareholders and other stakeholders. Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital."

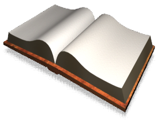
(IFC Corporate Governance, 2012)

"How a company is managed, in terms of the institutional systems and protocols meant to ensure accountability and sound ethics. The concept encompasses a variety of issues, including disclosure of information to shareholders and board members, remuneration of senior executives, potential conflicts of interest among managers and directors, supervisory structures, etc."

(The Financial Times, 2013)

These definitions point to the roles and responsibilities of relevant stakeholders. The key roles and responsibilities of the board of directors are to ensure accountability, fairness and transparency in its interactions with the stakeholders. The role of the board of directors will be discussed in greater depth in a later section of this study guide.

Read the following articles on corporate governance:



- Parker, S., Peters, G.F. and Turetsky, H.F. 2002, 'Corporate governance and corporate failure: A survival analysis', *Corporate Governance*, 2 (2), 4-12, http://www.emeraldinsight.com/journals.htm?issn=1472-0701&volume=2&issue=2&articleid=873145&show=html (accessed 10 April 2014).

- Talamo, G. 2011, 'Corporate governance and capital flows', *Corporate Governance*, 4 (4), 29-46. http://www.emeraldinsight.com/journals.htm?issn=1472-0701&volume=4&issue=4&articleid=873211&show=html (accessed 10 April 2014).

Task Questions

1. Using the articles above, critique the definitions of corporate governance the authors present.
2. Assess the importance of corporate governance in your own business.
3. Explain the purpose of corporate governance in light of corporate failure.

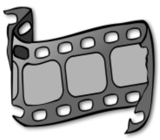
Stakeholders and corporate governance

Stakeholders play a critical role in strategic management. Any organisation's business strategy must consider stakeholder expectations and how best to involve stakeholders positively and constructively to achieve successful results. Corporate governance is concerned with achieving these results by resolving collective action problems between dispersed investors and reconciling conflicts of interest between stakeholders (Becht, Bolton and Röell, 2005:1).

These conflicts of interest can be solved by the following mechanisms of corporate governance:

- Control of the company by a few large investors;
- Hostile takeovers;
- Concentration of control by the board of directors;
- Investors and managerial interests aligned; and
- Defined fiduciary duties for CEOs.

Watch the following video to understand how corporations can rethink their approach to business strategy based on shareholder value:



- UNSW, 2011, 'Corporate Governance: What do Shareholders Really Value?' [video clip], http://www.youtube.com/watch?v=X2t2bES5y9s (accessed 04 February 2013).

Corporate governance provides the internal control framework to ensure that the organisation formulates and manages its strategies and adopts a strategic direction in an ethical manner.

The approach to stakeholder relationships is a key aspect of corporate governance. West (2006) discusses the different approaches to stakeholder relationships by contrasting the shareholder model from the stakeholder model of corporate governance.

In developing a corporate governance strategy, the organisation must establish the following:

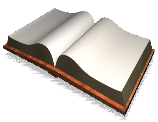
- The nature of the business;
- Assessment of the internal and external business environments;
- Vision and mission;
- Goals and objectives;
- Key stakeholders;
- Competitive advantage;
- Risk management; and
- Risk-based internal audit.

Non-profit organisations like profit organisations must aim for competitive advantage or institutional advantage to demonstrate that they are managing their operations more effectively.

This might have to be done within the context of national corporate governance concerns where guidelines might exist that corporations are urged to follow.

However, while what we have discussed may be helpful in forming a general idea of corporate governance, there is no universal definition for corporate governance. Each organisation has its own unique strategic vision and therefore each organisation must consider its own unique understanding of what corporate governance means so that systems appropriate to the strategy are developed. It should be fairly clear that there is no universal corporate governance definition. You are encouraged to reflect and consider your own organisation to formulate a definition, which would fit the way corporate governance is implemented in your organisation.

Access the link below to read the corporate governance policy documents of AngloGold Ashanti (available in multiple languages):



- AngloGold Ashanti, 2013, 'Corporate Governance Policies', http://www.anglogold.co.za/About+our+business/Gov+Policies.htm (accessed 10 April 2014).