The Future of Corporate Governance

– a personal odyssey

Discovering and redefining corporate governance, finding its paradigm, and reinventing the corporation

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Part 2

Redefining corporate governance and finding its paradigm

What a paradigm needs to be

If we are to discover a unifying paradigm for corporate governance, we need to agree, at the outset, what we mean by a 'paradigm.' The definition adopted in this paper is: 'the framework of basic assumptions, theories, and ways of thinking, methodologies, principles, and practices recognised and accepted by the relevant academic, professional, and other interested communities.' In other words, we need a perspective on corporate governance that unites all of the various alternative viewpoints and ways of thinking about it.

Perspectives on corporate governance

Experts' definitions of corporate governance give an indication of the different perspectives on the subject. These various insights can be classified into five broad categories:

- Insights into individual and interpersonal behaviour
- direction and control, processes and power
- the stakeholder and societal perspective
- the legal perspective
- the economists' perspective

Anyone who has served on a governing body will have experienced the significance of individual and interpersonal behaviour, on that board or committee. They will be aware of the effects of personal mindsets and motivations, personalities and foibles, prejudices and political skills of individual players. They will also have experienced the effect of interpersonal relations, political power plays, and the importance of leadership.   However, this field of interest is poorly represented in the corporate governance literature; probably because of boardroom confidentiality and the difficulty of researching human interactions without influencing the situation. Psychological studies on human interactions and sociological perspectives, such as class hegemony theory, focusing on groups of directors, provide insights.

However, the world's first corporate governance code, the Cadbury Report (1992), took a simple direction and control view:

> *'Corporate governance is the system by which companies are directed and controlled.'*

The Cadbury Code only applied to UK public companies listed on a stock exchange. Other commentators also restrict their insights to listed companies:

> *'Corporate governance is the whole set of legal, cultural, and institutional arrangements that determine what publicly traded corporations can do, who controls them, how that control is exercised, how the risk and returns from the activities they take are allocated.'* [Blair (1995)]

However, Cadbury was well aware that corporate governance involved far more than the simple direction and control procedures that were used. In conversations with the author, Cadbury emphasised that his report only covered one aspect of the subject. His broader stakeholder and societal view appears in a paper he wrote subsequently for the World Bank:

> *'Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability and stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations, and society.'*
> [Cadbury (2000)]

The Organisation for Economic Cooperation and Development took a stakeholder and societal view in their broad explanation that:

> *'Good corporate governance helps to build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies.'* [OECD website (2021)]

The OECD Principles of Corporate Governance also take a stakeholder and societal perspective in their definition:

> *'A good Corporate Governance regime helps to assure that corporations use their capital efficiently. Good corporate governance helps, too, to ensure that corporations take into account the interests of a wide range of constituents, as well as of the landscape in which they operate, and their boards are accountable to the company and its shareholders. This, in turn, helps to ensure that corporations operate for the benefit of society as a whole. It helps to maintain the confidence of investors – both foreign and domestic – and to attract more long-term capital.'*
> [OECD (1999)]

The OECD reinforced their stakeholder view that:

> *'Corporate governance is 'a set of relationships between a company's board, its shareholders, and other stakeholders. It also provides the structure through which the objectives of the company are set, and the means of attaining those objectives, and monitoring performance, are determined.'* [OECD (1999)]

The OECD Principles have been taken as a benchmark by many countries and organisations to create their own corporate governance guidance and rules.

Some scholars see corporate governance as the exercise of process and power:

> *'Corporate governance refers to the structures, processes, and institutions and organisations that have power and control of resources among participants.'* [Davies (2005)]

> *'Corporate governance may be defined broadly as the study of power and influence over decision-making within the corporation. Existing definitions of corporate governance are closely tied to different paradigms or ways of conceptualizing the organization or firm.'* [Aguilera and Jackson (2010)]

Mallin presented corporate governance as a process linking the external world of shareholders and other stakeholders with the internal world of corporate management:

> *'Corporate governance is concerned both with the shareholders and the internal aspects of the company, such as internal control, and the external aspects, such as the organization's relationship with its shareholders and other stakeholders.'* [Mallin (2016)]

The legal perspective, rooted in company law, plays a fundamental role in defining corporate governance. After all, companies are artificial entities, created under the law and regulated by law. Some call this the stewardship view, or stewardship theory, recognising that in the legal model of the company, shareholders own shares in the company, which gives them rights under that company's constitution (its memorandum and articles of association), including the right to nominate and appoint directors to be stewards of shareholders' interests. Ownership is the basis of power in the legal model.

When corporate governance appeared as a topic, the world of jurisprudence embraced it as their own. Some university law faculties created corporate governance centres or research groups; law journals carried corporate governance papers, and law school corporate governance courses appeared.

The economists' perspective stems from research by economists Jensen and Meckling (1976), who developed a theory of agency to describe the relationship between shareholders (the principles) and directors (their agents); although they did not use the phrase 'corporate governance.'

Agency theory has made a significant contribution to corporate governance thinking. The majority of research papers published on the subject have used agency theory to demonstrate relationships between various structures and systems of corporate governance and corporate performance, typically using data published by publicly-listed companies.

This research methodology does not require any contact with directors or boardrooms, because it is at a level of abstraction above the behavioural aspects of the subject. Moreover, the proposition that corporate governance can be understood through a simple principle/ agent duality, ignores boards' responsibilities to other stakeholders, who might be affected by corporate decisions.

Agency theory has been blamed for the short-term maximization of shareholder value alleged in some public companies [Bower and Paine (2017)]. However, this opinion assumes that agency theory has had more influence in board decisions than is likely.

Some scholars have tried to link direction and control with stakeholders and society:

> *'Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community.'* [Chen (2021)]

Although other scholars take a narrower view:

> *'Corporate governance deals with the way in which suppliers of finance to corporations assure themselves of getting a return on their investment.'*
> [Sheifer and Vishny (1997)]

Monks and Minow succeed in combining the process element with the stakeholder perspective, whilst adding a risk component:

> *''In essence, corporate governance is the structure that is intended to make sure that the right questions get asked, and that checks and balances are in place to make sure that the answers reflect what is best for the creation of long-term, sustainable value…Corporate governance (is) properly understood as an element of risk – risk for investors, interests may not be protected by ineffectual or corrupt managers and directors, and risk for employees, communities, lenders, suppliers, and customers, as well.'* [Monks and Minow (2004)]

Professional bodies, representing directors, auditors, and company secretaries, have also attempted to define corporate governance. Consider the definitions offered by various professional institutions.

The Institute of Chartered Accountants in England and Wales took a direction and control view, emphasising the work of the board:

> *'Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. Corporate governance is therefore about what the board of a company does and how it sets the values of the company, and it is to be distinguished from the day to day operational management of the company by full-time executives.'*
> [ICAEW (2021)]

The Institute of Chartered Secretaries and Administrators also saw corporate governance as the procedures by which companies are directed and controlled:

> *'Corporate governance is the system of rules, practices and processes by which a company is directed and controlled.'* [ICSA (2021)]

However, the Institute of Chartered Secretaries and Administrators did expand that brief definition with a stakeholder and societal perspective:

> *'Corporate governance refers to the way in which companies are governed and to what purpose. It identifies who has power and accountability, and who makes*

decisions. It is, in essence, a toolkit that enables management and the board to deal more effectively with the challenges of running a company. Corporate governance ensures that businesses have appropriate decision-making processes and controls in place so that the interests of all stakeholders (shareholders, employees, suppliers, customers and the community) are balanced.' [ICSA (2021)]

The Institute of Chartered Secretaries and Administrators also takes a <u>societal perspective</u>, when explaining that:

> *'Governance at a corporate level includes the processes through which a company's objectives are set and pursued in the context of the social, regulatory and market environment. It is concerned with practices and procedures for trying to make sure that a company is run in such a way that it achieves its objectives, while ensuring that stakeholders can have confidence that their trust in that company is well founded.'* [ICSA (2021)]

The Chartered Institute of Personnel Development took a <u>process orientated view</u>, seeing corporate governance as primarily being about supervising management, although they did recognise the <u>stakeholder and societal</u> aspects:

> *'Good corporate governance is about effectively supervising the management of a company to uphold the company's integrity, achieve more open and rigorous procedures and ensure legal compliance. Ultimately it should also promote good relations with stakeholders, including shareholders and employees.'* [CIPD (2021)]

The Stakeholder and societal perspective sees corporate governance from the perspective of the company in society, being concerned with corporate relationships with all of its stakeholders – shareholders and other providers of finance, employees, suppliers and those in the supply chain, customers and those in the distribution chain, and society at the local, national and, if relevant international levels.

King IV, the fourth South African Corporate Governance Code, from the Committee chaired by by Judge Mervyn King, made an important contribution to the <u>stakeholder and societal perspective</u>.

> *'… organisations are not merely responsible for the economic 'bottom- line' but critically need to consider the societal and environmental impacts and outcomes of their operations.'*

So, we have definitions of corporate governance from multiple sources, seeing the topic through a multitude of different lenses. Professionals, such as lawyers and accountants write papers and books for other professionals, directors for other directors, and academics for other academics. Each perspective has its own theories, ways of thinking, methodologies, principles, and practices: each has its own unique paradigm.

It is not that any of these definitions are wrong, rather that they are incomplete. They offer insights at different levels of abstraction. It is as though each set of commentators has hewn out their own tunnel, at a chosen level, and is busily extending that rockface. Those in the tunnel communicate with each other: they do not connect with those in other tunnels. What is needed is a map of the mine.

Mapping the mine

To establish a unifying paradigm and new definition for corporate governance, we need to find a way to integrate every perspective – the simple direction and control view, the legal perspective, the behavioural view, the economists' perspective, the processes and power view, and the stakeholder and societal perspective. In other words, we need to encompass the views of lawyers, accountants, economists, and other academics, regulators, as well as those actually involved in governing and their advisers. Quite a challenge!

In the Cambridge University Press monograph on *The Evolution of Corporate Governance*, the author made a first attempt to define such a paradigm, using systems theory. [Tricker (2021)].

A system is a way of describing sets of parts and procedures that work together to achieve an outcome: for example, a country's railway system, the budgetary control system, or a system of government. Every system is a construct defined by its purpose, boundary, and components or level. Defining a system's boundary determines what is seen as within the system and what is in that system's environment. The system boundary also determines that system's inputs and outputs, needed to achieve its purpose. A system's level describes the detail of the components and processes of that system. One system may have component sub-systems, which can themselves be seen as separate systems.

The various definitions of corporate governance, despite their apparent disparity, can each be seen as sub-systems of an overall meta-level corporate governance system. Each perspective focuses on corporate governance at a different level, with its own system boundary. The five different corporate governance perspectives already identified, reflect five different system levels:

System level one, the bottom level, focuses on <u>personal and inter-personal behaviour</u> of the members of a governing body, as individuals and as a group. This provides insights into personal and group behaviour. It highlights motivations and mindsets, personalities and values, political skills and prejudices. At this level, the relevant data includes the characteristics of each person: their personality, motivations, mindset, health, age, gender, race, education, professional and other qualifications, religion, politics, family background, value system, experience, inter-personal skills, inter-personal abilities, and other individual attributes. Psychological, sociological, and other behavioural theories can provide insights at this level. Neither stewardship theory nor agency theory are interested in this level, nor are the stakeholder and societal perspectives. Yet this level highlights some of the most significant driving forces in corporate governance.

System level two covers <u>direction and control, process and power</u> exercised by the governing body. This level includes the board and board committees, with their executive and non-executive members, the company secretary, the external auditors, and the members of the corporate entity. It embraces the accounting, financial, and other information and control systems that enable the board to supervise management, fulfil its legal responsibilities, and be accountable to members and regulators. The codes of sound corporate governance practice, like the Cadbury Report, are at this level.

System level three covers the <u>legal perspective</u>, sometimes called stewardship theory, because it covers the relationship between the governing body and the members of that entity, its shareholders in the case of a company. It also involves the external auditors, the company secretary, and other officers covered by the legislation relevant to that entity.

Applied to limited-liability companies, the stewardship model recognises ownership as the basis of power over the company, with increasing shareholder wealth, measured by profit, the long-term objective. The principles of company law and financial accounting provide the theoretical underpinning.

System level four embraces the economists' perspective. Agency theory recognises the basic structure and role of the corporate entity under the law, but questions directors' motives, questioning whether directors can really be trusted to act as disinterested stewards of shareholders' interests. Indeed: the theory posits that they cannot, self-interest being a potential motivator of board behaviour.

System level five focuses on stakeholders and society. The corporate entity is seen in the context of its stakeholders, including its contractual stakeholders, such as its members, employees, suppliers, distributors, agents and customers, and its non-contractual stakeholders, including interaction with competitors, government, the media, trade unions, quangos and other entitles and individuals that could affect or be affected by the corporate entity.

Recognising that different perspectives on corporate governance, in both theory and practice, are seeing the subject at different levels of abstraction and within different system boundaries provides an over-all meta-theory that shows the relationships between the different perspectives. It covers each of the levels at which work is going on in the corporate governance mine mentioned earlier; indeed it provides a map of the mine.

Clarke (2021) called for a paradigm that would unify corporate governance thinking:

> *As the adequacy of the existing dominant paradigms of corporate governance is increasingly challenged, the search for coherent new paradigms is a vital task for corporate governance in the future.'*

The overview, developed here, provides such an integrating paradigm. None of the existing theoretical and practice-orientated perspectives are complete in themselves, combined they form a universal corporate governance paradigm.

The processes and principles of corporate governance

Many of the definitions we have reviewed focus on the processes or procedures involved in corporate governance. Many stem from Cadbury (1992), who wrote that corporate governance was about 'direction and control.' From the literature it is possible to amplify this perspective on the processes involved into some principles:

1. The constitution of an entity determines how the members of its governing body are nominated, elected, and when necessary, changed. The constitution gives that governing body powers to act on behalf of the members, to achieve the organisation's objectives.

2. The governing body is responsible to the members for ensuring that the entity has sound corporate governance.

3. Sound corporate governance involves 'direction': that is the responsibility for setting the entity's objectives and ensuring that strategies, policies, and plans are in place to achieve them, working with and through management.

4. Sound governance also involves 'control:' that is the responsibility for ensuring that the entity's reporting and control systems adequately supervise executive management and report on corporate performance to the members and other legitimate stakeholders.

Re-defining corporate governance

As this study progressed, through the evolution of practices and procedures, the impact of corporate governance codes, the cornucopia of research papers from case-orientated, economics, and legal perspectives, a recognition grew that: the phrase 'corporate governance' itself already contained its own definition: corporate governance is about the governance of corporate entities. But that statement of the obvious now needs elaboration in the light of the new five level paradigm. It ought now to be possible to produce a comprehensive new definition for the subject, embracing all the elements now seen to make up the concepts of 'corporate' and 'governance.'

On corporate entity

A corporate entity is a body of individuals and/or other corporate entities formed for a specific purpose(s) under a constitutional agreement that identifies its name, membership, purpose, and the rules by which it will be governed and managed. A corporate entity has its own identity and an existence separate from its members. It has its own financial structure, assets and liabilities, and legal responsibilities. The key to a corporate entity's identity lies in its constitution. For a limited-liability company, incorporated under the company law in the relevant jurisdiction, the constitution is the company's memorandum of incorporation and articles of association. Corporate entities may also be incorporated under a statute from parliament, a government mandate, or a decree from the monarch. Some professional institutions, universities and colleges, and public sector bodies are created this way. Other corporate entities may be formed under laws relevant to a specific sector, including charities, cooperative societies, savings and loan associations, and trade unions, with the relevant act providing the constitutional arrangements. Partnerships are formed under a partnership agreement, within the relevant partnership law. Similarly, many joint ventures are governed under their joint venture agreement. Other bodies[1], including some associations, clubs, and societies are formed under little more than a set of rules that identify the entity's name, membership, purpose, and the way it is to be run.

As we have already seen, the US Federal company regulation through the Securities and Exchange Commission (SEC) and the corporate governance codes around the world apply specifically to public listed companies. That remains the primary focus for many academic researchers and commentators on corporate governance.

However, it is now widely recognised that corporate entities, other than public listed companies, need to be governed. Indeed, it seems self-evident that, *all* corporate entities need to be governed, not just public listed companies. Evidence for this conjecture is not hard to find. The Institute of Directors in London published guidance and principles on the corporate

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1 Such bodies might be called an alliance, association, body, brotherhood, circle, coalition, consortium, federation, fellowship, fraternity, group, guild, institution, league, lodge, order; organization, ring, set, society, sorority, or union. https://knowhow.ncvo.org.uk/tools-resources/board-basics/tools-and-guidance/follow-the-code-of-good-governance#

governance of unlisted companies in the UK. There are, of course, thousands of times more such private unlisted companies than public listed ones, including family companies, subsidiary companies in corporate groups, and other entities incorporated as limited liability companies.

Many charitable and other voluntary organisations have appointed governance officers. The National Council for Voluntary Organisations (NCVO[2]) has produced a corporate governance code for members, explaining that:

> *'Good governance in charities is fundamental to their success. It enables and supports a charity's compliance with the law and relevant regulations. It also promotes a culture where everything works towards fulfilling the charity's vision.*
> [NCVO website (2020)]

The National Health Service (NHS) in England has developed a comprehensive system of corporate governance for this vast organisation, which administers medical services in England, including all general practitioners, hospitals, and specialist units, with 1.5 million employees.

The NHS England Corporate Governance Framework[3] is based on the concept that:

> *'Good governance is essential to underpin the activities of NHS England, and its hosted bodies, as it strives to make decisions in the best interest of patients.'*
>
> *'The NHS Foundation Trust Code of Governance is our way of providing guidance to NHS Foundation Trusts to help them deliver effective corporate governance, contribute to better organisational performance and ultimately discharge their duties in the best interests of patients…we have also developed new regulatory tools (The provider licence and the Risk Assessment Framework), which have implications for how Trusts establish and report on corporate governance arrangements.'*

Based initially on the UK corporate governance code for public companies, the NHS code was radically updated in 2013 to include

> *'…significant changes, including a new introduction, a new structure, and greater clarity regarding disclosure requirements.'*

The fourth revision of South Africa's corporate governance code, King lV (2016) recognised this situation, as already noted. Judge Mervyn King, Chairman of the South Africa's Corporate Governance Committee, explaining the significant changes on the revised code, wrote:

> *All organisations, regardless of their form of incorporation, and their governing bodies … including public and private institutions, non-profit organisations, municipalities and pension funds.'*
>
> *'Accordingly, (the Code) now refers to "organisations" rather than "companies"; "governing bodies" rather than "boards"; and "those charged with governance duties" rather than "directors".'*
> [Institute of Directors in South Africa, website (2021)]

2 NCVO represents charities, community groups, and social enterprises in England

3 120413-item6.pdf (england.nhs.uk)

The world's first corporate governance code (the Cadbury Report) focused on the governance of listed companies, not least because the Cadbury Inquiry had been a response to a series of collapses of listed companies. Unsurprisingly, subsequent writing, research and other codes around the world also focused on the governance of listed companies. Indeed, the governance of public companies remains the primary focus for many commentators to this day.

However, we know now that *all* corporate entities need governance, whatever their purpose, constitutional form, membership, size, or location. Governance is essential to ensure the strategic direction, supervise management, and protect the members, whether those members are investors in a listed company, shareholders in a private company, or the members of a charity, a co-operative society, a professional institution, a university, or a trade union.

The 'corporate' in 'corporate governance' embraces every corporate entity. Such a broader perspective adds new dimensions to the study and the understanding of corporate governance and to its paradigm.

On governance

We turn now to 'governance' – the second half of the phrase 'corporate governance.' Of course, governance has long been studied at the level of the nation state. This is the world of constitutional lawyers and political scientists. Few of them have ventured into the world of *corporate* governance. However, some of the concepts developed in the field of national governance – politics, power, representation, and trust, for example – are relevant to corporate governance.

The literature of state-level governance emphasises the significance of the state's constitution. Similarly, as we have seen, the constitution, under which a corporate entity is founded, identifies the rights of its members and the responsibilities of its governing body.

Another concept frequently discussed in state-level governance is power ('executive power', 'arbitrary power', 'representative power', 'the power of the people versus the power of the state' and so on). The concept of power also features in some of the definitions of corporate governance, that we have already considered, and is a sub-title in the first book with the title 'corporate governance': *Corporate Governance – practices, procedures and powers in British companies and their boards* [Tricker (1984)]

'Power' is an elusive idea: the power of a battery to light a torch, the power of engines to lift a plane, the power of a court to award the death penalty, the power of a speaker to influence a crowd, or the power of a governing body to direct and control its corporate entity. A pioneer of management thought, Mary Parker Follett (1918), offered a useful definition: 'power is the ability to make things happen.' Such an all-embracing definition covers the use (and the abuse) of power that is seen in and around corporate entities.

The constitution of a corporate entity defines the powers, responsibilities, and duties of the governing body, and determines the rights, duties and powers of members. The ability of a governing body to 'make things happen' stems from the formal authority derived from the constitution. With that power, however, goes accountability; in other words, to accept responsibility for outcomes. As stewards of the members, the governing body has a duty to report regularly to those members, with financial accounts and other information, as required by the constitution and the law.

At heart, corporate governance is based on trust, beyond the constitution and the law. Members of an entity trust the members of their governing body to show integrity, be open and honest, and be reliable stewards of their assets and their interests. Inevitably, this calls for transparency in their dealings with the members.

The members of an entity (shareholders in a company, members of a co-operative, partners in a partnership and so on) also acquire rights and duties under the corporate constitution. Typically, this includes the right to nominate and elect members of the governing body, and the right to receive regular information on the performance of the entity. External stakeholders also have powers granted by their contractual relationship with the entity and rights given under the law.

Individual members of a governing body are given rights by the constitution; but they can also gain power from organisational position (such as being appointed chair), through leadership qualities, personal charisma, and political manoeuvring. Cabals and cliques among board members can exert power that is often undesirable.

Thinking about corporate governance in terms of trust, power, and accountability focuses on what corporate governance really means. Many of the definitions considered earlier, stemming from the Cadbury Code (1992), present corporate governance in terms of process – direction and control – *'The system by which companies are directed and controlled.'* Thinking about corporate governance in terms of trust, power and accountability opens a new vista.

Redefining corporate governance

Having identified a unifying paradigm for the five levels of perspective on corporate governance and explored existing definitions, we can now attempt to redefine corporate governance, in a way that focuses on what corporate governance means, not what it involves and how it is done. A revised definition must cover all the thinking and the practice at each of the five levels of the paradigm discussed earlier

A revised, all-encompassing definition might be:

> **Corporate governance describes the way trust is shown, power exercised, and accountability achieved in corporate entities, for the benefit of their members, other stakeholders, and society.**

This definition covers thinking and practice at each of the five levels of the new paradigm discussed earlier

The power of the members over, and their trust in their governing body are enshrined in the entity's constitution, together with the power and accountability of the governing body. Contractual stakeholders – employees, suppliers and those in the supply chain, customers/clients and those in the delivery chain – arise from their contracts with the entity. The power of other stakeholders, including communities and states, hinge on the laws of the relevant jurisdiction.

Accountability, in tris definition, involves more than may conventionally be understood by the term. To some, accountability is about reporting, hence the growing calls for greater transparency. But, in addition to providing information, accountability is about being held accountable. In other words, the process of explaining actions or decisions and receiving approval for them. Accountability is a two-way process.

So, where has this odyssey led so far? A set of basic precepts has emerged, in essence, that:

1. Every organizational body, with an existence separate from its members is a corporate entity, whatever its purpose; membership, ownership, legal format, constitutional arrangement, size, location, domicile, history, or culture.
2. All corporate entities need governing.
3. Corporate governance is not management.
4. Corporate governance determines the way power and authority are exercised over a corporate entity, and accountability shown.
5. The governance of an entity is determined by its constitution. (memorandum and articles of association, charter, partnership agreement, joint venture agreement, rule book etc.)
6. Corporate governance involves the relationships between the corporate entity and its members, managers, contractual stakeholders, other stakeholders, the community and the state.
7. An all-embracing paradigm for corporate governance would recognise five levels of thinking and practice in the subject.
8. A new overall definition for corporate governance could be that corporate governance describes the way trust is shown, power exercised, and accountability achieved in corporate entities, for the benefit of their members, other stakeholders, and society.

The twentieth century focused on management: the interest in the twenty-first is on corporate governance. In this treatise, we are now on the threshold of determining the underlying philosophy of a new subject – corporate governance – which will draw on, but be distinct from accounting, economics, jurisprudence, psychology, sociology, politics, and philosophy. We are also in a position to challenge the underlying 19th and 20th century assumptions about corporations – that ownership is the basis of power, to invent something better, more in line with the expectations and needs of the twenty-first century. But that must wait for part three of this paper.

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