PRACTICE OF GOOD GOVERNANCE AND CORPORATE GOVERNANCE

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Abstract

Corporate governance reforms are implemented around the world and may impact upon the population worldwide. In developing countries, such reforms are implemented in a broader context that is primarily defined by previous attempts of promoting "development" and recent processes of economic globalization. In this context, corporate governance reforms (in combination with the liberalization reforms associated with the economic globalization), in effect, represent a new development strategy for third world countries. The basic questions arising with respect to this situation are: what are the prospects for this new development model and whether alternatives should be considered.

Key-words: *governance, corporate governance, economic globalization, development*

JEL Classification: G_{34}, M_{12}, M_{14}

1. Introduction

Governance raises questions about who decides, when, on what. Governance is also related to the institutional capacity to change and to change properly and in timely fashion to the institutional needs. Clark (1983) defined his well-known triangle of coordination with its three corners, 'the Market', 'the State', and 'Academic Oligarchy'. Good governance is a pillar with three supporting beams – governance at the strategic level, at the functional level and at the project level. Strategic governance is about high-level, overarching management of global sourcing initiatives. It doesn't involve overseeing day-to-day operations of the initiative but it does involve making sure the strategy is (and remains) on target.

2. Review of the specialist literature

The study of the European Union has been characterized by two different theoretical phases. The first phase was dominated by studies from the field of international relations; in the second phase these studies were revised and insights from among others, public policy were added. The most straightforward way of understanding this theoretical shift is to see it as a move away from treating the EU as an international organisation similar to others (e.g. NATO) to seeing it as something unique among international organisations. The uniqueness of the EU relates both to the nature and to the extent of its development. This means that in some areas of activity the EU displays more properties related to national political systems than to those of international organisations. whenever the scale of economic or political activity is expanded or shifted (in our specific context, from state to sub-state or supra-state levels), a qualitative change occurs to the actors that get mobilized at these levels private actors may acquire a public function while public authorities may act as private groups, thus engendering a blurring of the *public-private* dichotomy so entrenched in the conceptual history of “state”.

3. **Content**

Each system (or each institution) could be located somewhere within the triangle depending on how much these forces dominated the system.

In that sense, university governance may to have five dimensions. These dimensions can be found, in different proportions and with different predominant effects, in most systems or HEIs (Schimank, 2005):

• *State regulation* focuses on the traditional concept of top-down authority vested in the state. This dimension refers to regulation by directives; the government prescribes institutional behaviour in detail under particular circumstances.

• *Stakeholder guidance* focuses on activities that direct institutions through goal setting and advice. In public higher education systems, the government is usually an important stakeholder, but certainly not the only player. It may delegate certain powers to guide other actors, such as intermediary bodies or representatives of industry, on university boards.

• *Academic self-governance* focuses on the role of professional communities within higher education systems. This mechanism is institutionalized in peer decision making within universities and the peer review-based of academic communities, self-governance for instance in funding agencies related decisions.

• *Managerial self-governance* focuses on hierarchies within higher education institutions as organizations. Here the role of institutional leadership in internal goal setting, regulation, and decision making is at stake.

• *Competition for resources.* The resource competition within and between universities is mostly based on “quasi-markets” – where peer-review substitutes the customer demand-rather than on “real” markets.

Weber (2004) points out the main types of conflicts as fallows:

• *Relation with the state*. In many countries, the rules imposed by the state, as well as its permanent tendency to politically micro-manage the institution, are putting a serious brake on the willingness and capacity to change. However, emphasis should be placed on convincing the state that the lack of real autonomy is counter-productive in the long run.

• *Internal governance*. The traditional organizational structures and systems of university governance restrain institutions from adjusting rapidly enough. Most universities have always been governed according to what is referred to as a system of peer governance; decisions are made collectively, mainly between faculty, directors, deans, and rectors. However, this decision-making system now appears to be less and less adequate for the new environment, which requires strong leadership to implement future-orientated decisions, which cannot always count on the consensus of all the parties involved. In order to make the decision it is important to clearly determine the person or body responsible with the decision-marking, the bodies to be consulted before marking the decision and the body validating the decision.

• *Management tools*. One of the main challenges of governance is to find the right means or tools to ensure the effective participation of the people concerned with a policy change and to encourage them to take initiatives spontaneously, in line with the general policy.

Corporate governance consists of the set of processes, customs, policies, laws and institutions affecting the way people direct, administer or control a corporation. Corporate governance also includes the relation among the many players involved (the stakeholders) and the corporate goals. The main players are the shareholders, the management, and the board of directors. Other stakeholders include employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large.

The first documented use of the word “corporate governance” is by Richard Eells (1960, p. 108) to denote “the structure and operation of the corporate polity”. The “corporate government” concept itself is older and was already used in finance textbooks at the beginning of the 20th century (Becht, Bolton, Röell, 2004). These origins support a multiple constituency (stakeholder) definition of corporate governance.

Corporate governance reforms are implemented in countries around the world. In developing countries, such reforms are implemented in a context that is primarily defined by previous attempts of promoting “development” and recent processes of economic globalization. This context has resulted in the adoption of reforms that move developing countries in the direction of an Anglo-American model of governance. The basic questions arising with respect to these governance reforms are what are the prospects for traditional development goals and whether alternatives should be considered. This paper offers a framework for addressing these basic questions by providing an account of: 1) previous development strategies and efforts; 2) the nature and causes of the reform processes; 3) the development potential of the reforms and concerns associated with them; 4) the (potential) responsibilities of corporate governance, including the (possible) responsibilities to promote development, and; 5) different approaches to promoting governance reforms with an eye to promoting development.

An adequate answer to these questions, of course, depends upon the answers to a wide variety of other questions. These include: 1) positive (social science) questions such as what reforms actually entail, why are they implemented and what are their effects; 2) normative questions such as what development is, what our priorities should be, what are the responsibilities and rights of different actors and; 3) strategic questions such as the prospects for success of specific strategies and tactics, and how these prospects can change with alterations to larger economic and political structures.

Providing detailed answers to these questions is obviously a daunting task, one that goes beyond the ambition of this volume. The papers in this volume have set a more limited goal. They are a series of case studies of individual developing countries. All studies approach governance in a broad sense, to include not only board practices and structures, but also a larger range of factors that affect corporate decision-making, including, among other aspects, financial markets, the banking system, industrial policy, labour relations, and the like. The countries covered are all relatively large countries. They include major exponents (India, Brazil, Mexico, Nigeria) of the most widely adopted development strategy (import substituting industrialization), as well as a couple of less typical cases (China, South Africa). The primary focus of all these case studies is the descriptive analysis of the implemented reforms, especially the governance reforms. To a lesser extent, they also examine the reform effects and the normative responsibilities of actors involved, and offer some improvement suggestions. As such, the papers are mainly intended to provide the basis for the normative analysis of corporate governance reforms (by presenting a range of experiences from developing countries), rather than developing a detailed analysis themselves.

Governance covers the distribution of roles, responsibilities and accountabilities. Governance does not answer the “what we should do” question but it does suggest at an institutional level, where that question should be addressed, who should be involved in addressing it and to whom that individual or group should have to account to for their decisions.

It is a governance *toolkit*. It is a collection of ‘tools’, yet, not an of them will be suitable for every task. It does not seek to ‘automate’ any of the tasks associated with implementing PDP/e-portfolios and it will require skill and judgment to select the right tools from the toolkit in any given situation.

The remainder of this toolkit is organised around 5 headings, each fortuitously beginning with the letter P. They reflect, in our experience, the five types of conversation which, sooner or later, every complex project has to include. It is designed to encourage project participants to ask themselves and others the right questions. It does not purport to provide any answers to those questions.

The five headings are as follows:

– Principles and Values;
– Policies and Strategies;
– Processes and Systems;
– Practices and People;
– Politics and Participation.

The implementation of personal development planning and e-portfolios within a ***single*** educational or employment institution represents a significant organisational challenge. Co-operation and co-ordination between different departments and between the institution and its learners are essential and can be difficult to manage.

When projects seek to transfer personal development planning ***between*** institutions, the number of agencies to be coordinated increases dramatically.

The structures and processes governing the project become vital in order to set objectives, establish commitment, avoid dispute, and maintain momentum. This governance toolkit has been developed by the EPICS project to help new projects succeed in grappling with such challenges.

In contrast with the traditional meaning of "governance", some authors like James Rosenau have used the term "global governance" to denote the regulation of interdependent relations in the absence of an overarching political authority. The best example is the international system or relations between independent states. The term can however apply wherever a group of free equals need to establish a common relations. To complement the macro-level cross-country Worldwide Governance Indicators, the World Bank Institute developed the World Bank Governance Surveys, which are a country level governance assessment tools that operate at the micro or sub-national level and use information gathered from a country's own citizens, business people and public sector workers to diagnose governance weaknesses and suggest concrete approaches for fighting corruption.

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