THE LANGUAGE OF CORPORATE GOVERNANCE:
A SOCIOLOGICAL ANALYSIS

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Abstract

The purpose of this study was to explore Anglo-American corporate governance through the lens of language, both within the literature and secondary data, and from the perspective of those involved in corporate governance in the UK: directors, executives, chairmen and consultants. Despite the vast increase in attention given to the importance of corporate governance in recent decades, the 2008 economic crisis in particular revealed that there is still progress to be made.

Much of the work in economics and law can be seen as offering models or stylized representations of Anglo-American corporate governance which is often far removed from the way the system really operates in practice. Corporate governance is an extremely complex arrangement involving many people and varied interests. A sociological analysis of corporate governance emphasizes the role of human behaviour and collective action. This study views corporate governance as a social construction. From this perspective, the role of language in the creation and adoption of corporate governance best practices is crucial and it has been widely noted that there is yet to be a commonly held definition of corporate governance. A common language can often be a pre-requisite for significant theoretical and practical progress.

This study investigated and compared definitions within the literature and survey responses of a set of 5 key terms: ‘corporate governance’, ‘ownership’, ‘risk’, ‘value’, and ‘performance’. Respondents were also asked to explain how they define the difference between ‘governance’ and ‘management’.

The findings highlight a number of key areas of variation both between and within the survey and literature data. For example, the results indicate a lower degree of

focus on corporate governance as related to representing owner interests within the definitions of governance professionals as compared to the data from the literature.

The results of this study will be of interest to scholars as well as practitioners concerned with the development of corporate governance.

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1. Introduction

1.1 Corporate Governance as a Changing Field

Former President of the World Bank, James Wolfensohn, said ‘the proper governance of companies will become as crucial to the world economy as the proper governance of countries’ (University of Denver, 2013). In a world in which the global economy is built upon the movement of capital and the number of entities listing on public markets are increasing, ‘corporate governance is critical to understanding the contemporary world polity and the dynamics of its institutions’ (Davis, 2005:156). Hambrick et al (2008:384) explain that ‘not only do the constituents of firms stand to gain or lose greatly, depending on the quality and nature of corporate governance, but entire national systems can be propelled or stymied as well’. Governed and managed properly, the enterprises of society create wealth, services and many benefits (Mueller, 1996). Better understanding of corporate governance can improve practice in rich economies, and also inform major institutional changes for better development in emerging and developing economies (Shleifer and Vishny, 1997).

On top of the increased importance and impact of corporate governance failures and successes, corporate governance today is also operating in a rapidly changing environment. ‘Change is ubiquitous in contemporary society, and nowhere more so than in the operations of the large-scale, public corporation’ (Bradley et al, 1999:10). In a 2012 report on corporate governance from the Organisation for Economic Cooperation and Development (OECD), the authors point to the profound changes within the financial and corporate sectors in the last ten years ‘that reshape the policy environment for corporate governance’

(OECD,2012: 3). This includes the introduction of the Sarbanes-Oxley Act passed in the US in 2002 to address, through new sets of best practices, the corruption that had taken place at a number of large public companies including Enron. The equivalent document to this in the UK is the UK Corporate Governance Code. Its origins lie in the Cadbury Report which was first published in 1992. Hambrick et al (2008:381) explain that as society constantly evolves, so too do corporate governance norms: ‘the domain of corporate governance is itself in flux; as corporations and societal norms evolve, so do the boundaries of what constitutes governance’.

With the increasing impact of corporate governance and the pace of change in the global corporate sector, there is still work to do in terms of improving corporate governance around the world. Challenges remain, for example, in terms of executive compensation, accountability, ethics, sustainability and board structures and dynamics. In order to address these and other challenges, the OECD (2012:13) suggests that ‘the foundation of our knowledge of corporate governance has to be reconsidered in some way’.

1.2 Defining Corporate Governance: An Ongoing Debate

There are a variety of theoretical perspectives on corporate governance which are all clearly posited, however, each represent ‘piecemeal attempts to try and understand and explain how the modern corporation is run’ (Tricker, 2011:14). As a result, Pettigrew (1992 cited in Tricker, 2011: 14) said that 'corporate governance lacks any form of coherence, either empirically, methodologically or theoretically’.

One area in which this lack of coherence is evident is within the language of corporate governance. 'There has been a marked neglect to establish a clear semantic background for the whole subject' (Apreda, 2003:1) and it is clear to see within the literature the large number of varying definitions of corporate governance and related terms.

Corporate governance pioneer and thought-leader, Adrian Cadbury (2002b:xxix), reflected on where attempts to clarify and improve corporate governance have fallen short:

'the drawback of the spate of governance initiatives of recent years is that they have lacked an agreed starting point. What has been missing is an agreement on what boards are for, whom they should be serving, and what distinguishes governance from management. Such an understanding is the essential building block on which advice on governance needs to be based if it is to be consistent and self-reinforcing.'

Others have also noted that debate on the fundamental purpose of corporate governance persists (Tricker, 2009; Nerantzidis, 2012; Brink, 2001; Abdullah and Page, 2009; Brickley and Zimmerman, 2010).

In a paper on the Semantics of Governance, Apreda (2003:4) explains:

'For the last twenty years, corporate governance has become a topical subject matter. Although it can claim that a good job has been done in understanding and shaping up some failures in business organizations, there is still a long way to round up a discipline with particular features and purposes. Not surprisingly, we hardly can get a definition of corporate governance that could be met with strong consensus among scholars and practitioners.'

Brink (2011:vii) also explains the lack of consensus on not only the definition of corporate governance, but also what are the general concepts and participants that corporate governance involves and does not involve:

'Despite innumerable written contributions of this issue, economic sciences have failed to provide a clear definition of the corporate governance concept or even to sufficiently demarcate the underlying context of consideration'.

Abdullah and Page (2009: 6) ask in relation to corporate governance – 'is it about the control of risks, the improvement of performance, or both? If this could be clarified, criteria could be developed to measure the success of corporate governance procedures or codes'.

Bridgman (2007:149) also believes that ‘the concept of governance remains elusive, and it can be very challenging to explain what governance is, identify examples of good governance in our own organisations, and articulate how governance improves organisational performance and capacity’.

And yet, despite all of this, corporate governance is often referred to without an explanation of what is meant by the term in the context of discussion. Brickley and Zimmerman (2010:1) describe it as a ‘commonly held myth’ that a common definition of corporate governance exists. They explain:

‘“Corporate governance” is a frequently used term by academics, business managers, regulators, the media and the general public. Indeed, it is so commonly used that commentators often fail to define it. For example, various textbooks on corporate governance do not define the term explicitly, either in their texts or glossaries. Similarly, while some corporate governance researchers define the term, others do not.’

As well, even in relation to global governance, there is a lack of consensus despite huge growth in the use of the term. In a ‘Compendium of basic terminology in governance and public administration’ published by the United Nations Economic and Social Council (2006:2), they explain:

‘The use of the terms governance and public administration gained unprecedented momentum in both their quest and usage in the nineteenth and twentieth centuries. However, as the twenty-first century gets under way, there does not seem to be a consensus as to what they mean.’

What does this lack of common language tell us about corporate governance practice today? This study looks at how corporate governance definitions are articulated in the literature and compares this with definitions from corporate governance directors, executives and consultants to get a view of how corporate governance is being understood by those involved. This will help us understand where the differences and similarities lay, uncover underlying themes and assumptions and help to progress the theoretical and practical debate on the purpose of corporate governance.

1.3 Language as a Vehicle for Understanding Corporate Governance

'[..] Language is not neutral. It is not merely a vehicle which carries ideas. It is itself a shaper of ideas, it is the programme for mental activity' (Whorf, 1976 cited in Spender, 1980:145).

The impact that boards have and the conflicts that boards face are cognitive in nature and are solved through communication (Forbes and Milliken, 1999). In The Linguistic Turn (Rorty, 1967:3), it is suggested that 'philosophical problems are problems which may be solved (or dissolved) either by reforming language, or by understanding more about the language we presently use'. Given this, it is necessary to gather information about 'the language we presently use' and analyse the underlying assumptions and perspectives of each corporate governance is 'defined'.

The importance of language is particularly relevant in fields and structures which can be seen as socially constructed. 'Social construction understands reality, knowledge, thought, facts, texts, selves, and so on as community-generated and community-maintained linguistic entities-or, more broadly speaking, symbolic entities-that define or "constitute" the communities that generate them' (Bruffee, 1986:774).

In relation to corporate governance, Davis (2005:156) argues that 'the institutions of corporate governance at both the micro level (who serves on a board of directors, which investment bank is chosen) and the macro level (laws governing the corporation, mechanisms for trading securities) are self-evidently human constructions'. That is, the institutions of corporate governance were created by people and continue to evolve based on societal norms and expectations. Viewing corporate governance in this way also lends itself to involving people and not just codes, regulations and literature in the consideration of the language of corporate governance. Davis (2005:51) explains that many sociological studies of corporate governance have found that 'boards of directors in practice look little like the antiseptic monitoring devices contemplated by theorists, and are indeed very much social institutions'.

As the Chief Executive of the Financial Reporting Council, Paul Boyle, stated (cited in Emslie, 2011: 6):

'The corporate governance challenge is about making boards more effective and boards are a collection of individuals with different experiences, skills and perspectives which have to come together to make decisions on a collective basis. At the core of the challenge are questions about the decision-making and behaviours of individuals and we all have to accept that humans are imperfect.'

It is important not to exaggerate the social construction of corporate governance as 'an entirely symbolic free-for-all', however, the changing and socially dynamic nature of corporate governance must be acknowledged because if we take for granted the 'the antiseptic portrayal of governance in the law and economics literature' important elements will be missed and mistakes will be made (Davis, 2005:158).

In order to understand the impact of language in revealing attitudes and shaping corporate governance, this study combines the literature of the philosophy of language, with social constructionism to form a methodological framework based on interpretive sociology ('the understanding and explanation of meaningful social action' [Fulbrook, 1978:72]). Therefore, this study seeks to explore how participants *understand* corporate governance and its various tenets through language and to use this information alongside the corporate governance literature within academia, codes and regulations to see where the similarities and disjunctures lie.

First, the literature around the philosophy of language and how it impacts reality in corporate governance will be surveyed to see what work has been done in this area already and what questions remain to be answered.

2. Literature Review

2.1 The Corporation and the Board

Due to the rise in size and scope of modern corporations, ownership and control were separated in many cases (Berle and Means, 1932). This meant that for the first time 'important decision agents [did] not bear a substantial share of the wealth effects of their decisions' (Fama and Jensen, 1983:301). For many, this is seen as the starting point of the necessity for corporate governance. From this point of view, the Board of Directors ('the board') is inextricably linked with corporate governance because this body acts as the link between 'ownership' (eg.

shareholders) and ‘control’ (eg. managers). Boards have ‘the power to hire, fire, and compensate the top-level decision managers and to ratify and monitor important decisions. Exercise of these top-level decision control rights by a group (the board) helps to ensure separation of decision management and control (that is, the absence of an entrepreneurial decision maker) even at the top of the organization’ (Fama and Jensen, 1983:311). Mueller (1996:20) said that one of the most remarkable organizational achievements in history is the ‘publicly owned enterprise governed by an independent board of trustees or directors’. Today, ‘it is virtually impossible to escape contact with boards [..] Boards sit atop almost all corporate forms of organisation-profit and non-profit-and often over governmental agencies as well’ Carver (2006:1).

Until about the 1990s, boards were paid little attention (Nadler et al, 2006). They were seen as passive audiences for presentations until public scandals shook them out of their lethargy and they became fixated with compliance (Nadler et al, 2006). They are also ‘notoriously difficult to study' (Leblanc and Gillies, 2005:14).

There are various definitions of the corporation, each portraying different perspectives or biases, but fundamentally it is a structure, evolved to develop and deliver complex goods and/or services to a large range of customers (Monks and Minow, 2008).

Gompers, Ishii and Metrick (2003:1) suggest that ‘Corporations are republics. The ultimate authority rests with voters (shareholders). These voters elect representatives (directors) who delegate most decisions to bureaucrats (managers)’.

Corporations also exist within institutional contexts which shape structures and norms. North (1990:14) states that:

'Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social or economic. Institutional change shapes the way societies evolve through time and hence is the key to understanding historical change. […] Organizations are created with purposive intent in consequence of the opportunity set resulting from the existing set of constraints (institutional ones as well as the traditional ones of economic theory) and in the course of attempts to accomplish their objectives are a major agent of institutional change.'

Apreda (2003:7) suggests that 'when the study of corporate governance is framed within the institutional viewpoint, it can address some core issues which alternative approaches have failed to explain'. The field of comparative economics analyses different institutional settings and how they impact economic performance. The degree of security in economic institutions is closely linked with how corporate governance structures are set up. Djanjov et al (2003) explain that:

'Good economic institutions are regarded as those that secure property rights, grant the people to keep the returns on their investments, set up contracts and resolve disputes; the problem of disorder is suitable addressed, expanding on ethnic violence, squatter takings, bribes, investor expropriation, terrorism, public expropriation.' (cited in Apreda, 2003:10)

Therefore, in some countries, corporations cannot exist and function in the same way as they do in other countries. This study focuses on the corporate governance within model within the UK, sometimes referred to as the 'Anglo-American' corporate governance model, in order to minimize variations in the language of corporate governance due to differences in institutional settings.

2.2 Anglo-American Corporate Governance

There are a wide number of international comparative reviews of corporate governance (Fligstein and Freeland, 1995; Aguilera and Jackson, 2003) which assess the differences, strengths and weaknesses of the variety of systems of corporate governance around the world. ‘Both postsocialist and emerging market economies have had quite divergent experiences with public corporations and financial markets, and much work remains to be done in explaining this diversity’ (Davis, 2005:158). In these sorts of studies the UK and US are often grouped together as representing the Anglo-American corporate governance model. Although there are a lot of similarities between the UK and US corporate governance systems as compared to other international systems, there are also a lot of differences, not just between US and UK but even within each national system.

Overall, the dominant (but not the only) paradigm in UK corporate governance to date has been based on institutional economics and in particular agency theory (Brink, 2011: 51). This is a shareholder-centered model of corporate governance in which the primary ownership of the firm is the shareholder and the firm adapts to the demands of capital markets (Ayuso et al, 2008).

Within this paradigm, an organisation is a ‘nexus of contracts’ and shareholders are the only participants whose claims are not protected through ‘complete contracts’ and therefore are the residual claimants of any surplus after all obligations to other stakeholders have been fulfilled (Brink, 2011: 52). This leaves the main tension as being between shareholders and self-interested managers (Brink, 2011) who must be held accountable by governance mechanisms such as a board of directors. ‘Corporate theory has, over the course of the twentieth century, focused on the accountability gap created by the separation of ownership from control’ (Dignam and Galanis, 2009: xi) with the production of shareholder value over the long-term as the ultimate aim of the firm.

Other models of corporate governance focus more on ‘stakeholders’ which include employees. Corporations using this model tend to have good ‘standards of employment security, high employee involvement practices and a tendency to adopt relatively less corporate governance external control policies than firms in Anglo-American related countries’ (Ayuoso et al, 2008:270). The stakeholder model also emphasizes the community, suppliers and sustainability in a bid to have corporations run in such a way that does not benefit shareholders to the detriment of all other stakeholders. Moore and Reberioux (2011: 40) suggest that ‘the conceptual boundaries of the corporate governance debate have been set narrowly in accordance with the logic and language of the dominant 'agency' paradigm of governance’ and stakeholder theory is gaining more recognition in the UK in recent years. The UK Financial Reporting Council’s Guidance on Board Effectiveness (2011) places an emphasis on taking stakeholder views into account. However, the UK Corporate Governance Code, which was revised in 2010 to include lessons from the recent financial crisis, does not include the word ‘stakeholder’ at all. It is generally recognised though that directors and regulators need to establish structures and processes for collecting business intelligence from stakeholder networks (Turnbull, 2002:4).

Also, the Anglo-American corporate governance model has a one-tier board structure with both executives and non-executives sitting on the board. Whereas in

Germany and other continental European countries, the general practice is that there is a two-tier board structure with one management board and a separate non-executive supervisory board (Jungmann, 2006). There are strengths and drawbacks in both systems.

Japan has also been known for some unique aspects of its corporate governance regime. However, after two significant scandals in Japan in 2011, some revisions are being made to the regulatory standards in Japan (Toichi and Fukatsu, 2013). Also, ‘the country’s Japanese- and male-dominated boards [..] have started to look different’ (Steger, 2013:1). Some boards are starting to bring in more foreign directors in response to the fact that Japanese companies are having to look abroad to new and emerging markets while growth is slow at home. ‘Last year Hitachi Ltd., one of Japan’s biggest employers, also announced plans to overhaul its board so that external directors would outnumber its own executives for the first time in over a century’ (Steger, 2013:1).

There are also other perspectives such as, resource dependency theory, managerial and class hegemony perspective, psychological and organisational perspectives. As with all the other currently mainstream theories, each highlights only part of the picture. The tale of the blind men describing an elephant, where each describes only the part that they experience is a good analogy for the idea that each description reflects the perspectives and biases of the people writing the definitions and does not provide the full picture of corporate governance (Monks and Minow, 2008).

Due to these differences around the world, in order to analyse the language of corporate governance, the UK corporate governance model will be the primary framework under consideration. When international models of corporate governance are discussed, there is an assumption that each model is internally consistent and this study seeks to, through the analysis of language, investigate the differences within interpretations of corporate governance within the UK environment. As well, it can be argued that some of the corporate governance theories outlined above, such as agency theory, stakeholder theory, and resource dependency theory, represent a 'rather stylized depiction of the American (or Anglo-American) system of corporate governance that is often at odds with how that system operates on the ground' (Davis 2005:156). By exploring the understandings of those actually involved in corporate governance in the UK, this study seeks to create a fuller picture of how corporate governance is actually being implemented which will contribute to the creation and critiques of the theories of corporate governance outlined above.

2.3 Sociology and Corporate Governance

'There is a vibrant intellectual community researching and debating the development of corporate governance systems, but sociologists are largely absent from this community' (Davis, 2005:156). Corporate Governance has had, especially in the last three decades, significant attention from the fields of economics, law, and politics, but less from the field of sociology. Legal scholars have long been assessing the benefits and drawbacks of different formal governance arrangements, both within and across country contexts, and debated different conceptualisations of the corporation (Hambrick et al, 2008). Economists have also endeavoured to find optimal governance arrangements, but they have also looked inward at corporations in terms of, for example, managerial behaviour, incentives and monitoring (Hambrick et al, 2008).

Economists have also analysed market processes and their implications for corporate governance, for example, market for corporate control (Manne, 1965), shareholder behaviour and takeovers.

There has also been much less qualitative work on corporate governance than quantitative. A review and content analysis by McNulty et al (2013:183) found that ‘qualitative studies in governance have grown in number since the 1990s, but remain a small fraction of the published work on corporate governance’. As a result, they suggest that there is ‘much scope and need for more qualitative studies of significant rigor and relevance which explore the array of interactions and processes involved in corporate governance, across different levels of analysis and contexts’ (McNulty et al, 2013:183). Kim et al (2007) also argue that research has focused heavily on structural attributes of corporate governance and that more work is needed to understand the cognitive aspects of corporate governance, especially because the results have been very mixed in terms of linking board structure attributes and firm performance (Chidambaran, 2006).

Although ‘economic and legal theorists have had substantial influence in formatting the institutions that grew up around the shareholder value system of corporate governance, tracing their impact is an apt topic for sociological analysis’ (Davis, 2005:143).

In a 1908 article in the *American Journal of Sociology* on the meaning of sociology, Albion Small describes one of the field’s central enquiries:

'Back of all the obscurities and abstractions and mystifications into which thought has wandered, is the persistent question, What does it all mean for men? *The interest behind this question is bound sooner or later to adjust the perspective of all science and to work as the last available measure of value for all supposed knowledge'.*

As well, famous German sociologist, Max Weber defined sociology as the science with the task of 'the interpretive understanding of social action in order thereby to arrive at a causal explanation of its course and effects' (cited in Tucker, 1965:157).

Using the sociological lens to look at corporate governance would then ask 'what does it all mean for men?' and look at 'the interpretive understanding of social action'.

Carruthers and Kim (2011) argued that the 2008 economic crisis created a lot of interest in the sociology of finance. Their research showed the way in which deregulation and market integration created increased global interdependence. There were also changing trends in terms of the relationship between households and financial markets in the lead up to the crisis, for example, increased debt loads and exposure to stock markets. They showed the impact of politics and social factors on financial market developments.

Another article from the Annual Review of Sociology, *New Directions in Corporate Governance*, Davis (2005) sets forth a variety of sociological critiques of corporate governance. He explains that a number of sociological studies have questioned the underpinnings of the contractarian approach to corporate governance. That is, the understanding of the corporation as a 'nexus of contracts' between investors, management, suppliers and consumers (Brudney, 1985) which became largely influential in the 1980s and has remained so. It is argued by some sociologists that the contractarian framework does not take into enough consideration the impact of the friction of social structures and politics (Davis, 2005). Also, Davis suggests, many analysing corporate governance have looked at current structures and worked backwards to infer the function that they must have been set up to serve. In sociological terms, this is a functionalist approach and this has been critiqued, particularly in two books which covered the history of the corporation from a nonfunctionalist perspective: *Socializing Capital* (Roy, 1997) and The *Transformation of Corporate Control* (Fligstein, 1990). Davis (2005:151) believes that through the nonfunctionalist approach, 'rather than accepting contemporary structures as self-evidently appropriate and inferring an "efficient history" that got us here, [we can] document the critical historical junctures that shaped the developmental trajectory of the corporation'.

Davis (2005) suggests that sociological work on corporate governance is useful as an alternative or addition to the contractarian approach to corporate governance.

'Finding that corporate governance does not work as advertised even in the United States, the prototype case, the late 1990s bubble and related corporate scandals provide vivid evidence consistent with the sociological critique. Yet sociologists have not developed a compelling alternative account of the institutions of corporate governance in an era of hyperexpansive financial markets' (Davis, 2005:159).

A sociological approach to corporate governance emphasizes certain aspects including:

'that corporations have strategies and structures used for achieving characteristic aims (growth and survival) and that those strategies and structures reflect and shape power struggles within organizations; that corporations are embedded in a field of other organizations, including buyers, suppliers, competitors, regulatory agencies, and others, with their own strategies and structures reflecting their own internal power struggles; and that the state defines the rules of the game for their interaction, generating conditions either for turbulence or order' (Davis, 2005:150).

These structures can be formal and informal as highlighted by Hambrick et al (2008:10) who explain that they 'see corporate governance as referring to the formal structures, informal structures, and processes that exist in oversight roles and responsibilities in the corporate context'.

For example, because corporate governance is such a complex arrangement of layered stuctures, there are certain variables which outside observers have correlated with better corporate governance. However, these have become well known to corporations themselves and it has become easier for corporations to present an image of good corporate governance even when on the whole there may not be. They have become aware of the theories used to evaluate corporate governance have become savvy in playing to them (Davis, 2005:157). As a result, 'the social structures in which governance is embedded are themselves both conduits for the spread of practices and acts of rhetoric in themselves' (Davis, 2005:158). This is an example of an informal structure which arises from 'power struggles' between organisations and have an influence on the oversight of corporations.

A review of the literature in this area suggests there is a gap in the literature on the sociology of corporate governance. While there are some who have viewed corporate governance from this theoretical viewpoint there is a still a lot of room for novel investigations to increase our understanding of corporate governance from a sociological point of view.

Also, Davis suggests that in terms of sociological investigations on corporate governance, 'particularly useful is work that unpacks the interaction of theories about the institutions and their actual enactment' (2005:156). The aims of this study fit under this umbrella in terms of looking at the actual enactment of theories of corporate governance. This is because while there are a number of theories and definitions of corporate governance and its various tenets within the literature, what has not yet been analysed is how these ideas compare with the actual understandings (and therefore enactments) of those who are practicing corporate governance in the real world.

2.4 Role of Language in Shaping Corporate Governance

In *The Semantics of Governance* (2003:1), Rodolfo Apreda brings together corporate, public and global governance to look at how governance can be seen as a 'distinctive field of learning and practice' and why it is a worthwhile task to work toward a clear consensus on the distinctive meaning of the term 'governance' which can apply across all three contexts.

Apreda (2003:3) outlines the tasks of a field of learning and practice: 'to look for principles and goals attached to that subject; to provide an explicit semantics for the core of the subject; to draw basic and derived statements from a coherent logical system; to design reliable procedures to deal with focal problems in actual practice; to gather empirical evidence on which to ground their basic and derived statements'. This study will primarily seek insight into the second of these tasks: 'to provide an explicit sematics for the core [of corporate governance]'.

Apreda explains that 'we hardly can get a definition of Corporate Governance that could be met with strong consensus among scholars and practitioners' but that 'this unsettled question, far from disturbing, signals a rewarding line of research' (2003:3).

To explore corporate governance definitions and their impact, it is necessary to first understand some concepts from the philosophy of language which can be used to frame an analysis of the language of corporate governance.

One of the key contributors to the field of philosophy of language is German philosopher, Gottlob Frege. His 'contributions to philosophy of language are so numerous and so fundamental that it is difficult to imagine the field without them' (Heck and May, 2006:1). In his 1892 paper *On sense and reference,* Frege made a distinction between the meanings of terms. *Reference* is the object to which the term refers and *sense* is the way the term refers to that object. This distinction is a useful way to analyse what can be called non-referring, non-denoting, or empty, expressions (Heck and May, 2006).

It could be argued that a number of terms from the corporate governance literature (eg. 'value', 'risk', 'performance', 'corporate governance') sometimes exist with a *sense* but without an actual *reference.* That is, although when the terms are being used, they are not being used to refer to a specifically outline *object* of reference, they do none the less seem meaningful in some way specific to the reader/listener (Heck and May, 2006). An example of this from Frege is the expression 'the greatest integer'. In mathematical terms, there is no such thing as 'the greatest integer', therefore there is no *reference* to this terms. However, the expression still has a *sense,* for example, one could understand the sentence 'the greatest integer is greater than one million' even without a *reference.* Another example would be 'the current King of France' which has a *sense* even though there is no *reference* because France does not have a King.

Using this distinction, it is interesting to explore, in the absence of consensus on the definition or *reference* of various corporate governance terms, how academics, directors, consultants and other practitioners, personally define and understand the terms; what their *sense* of the terms are.

There is also a risk within corporate governance of terms becoming defined so broadly or not at all such that they lose all meaning. ‘It is possible to dilute the idea [of corporate governance] to meaninglessness by making it applicable to everything in organisational life’ (Bridgman, 2007:150).

Frege’s concept of *sense* and *reference*, can also be seen as related to the concept of ‘semantic satiation’. This is ‘the decrease in meaningfulness of a word that results from excessive exposure to that word’ (Black, 2001:493). In *Semantic Satiation and Lexical Ambiguity Resolution*, Black (2001:493) argues that because in this information age ‘we are constantly bombarded with repeated and often uninformative information’, our internal information-processing systems have developed mechanisms for reducing the impact of redundant information and thereby reducing clutter from our memories that is of little or no value. One of these mechanisms is ‘semantic satiation’. It is an unconscious, passive process which has been explored in a number of studies (Black, 2001; Balota and Black, 1997; Smith and Klein, 1990). It is interesting to consider the corporate governance literature in this context. Certain terms including, ‘corporate governance’, ‘risk’, ‘value’ and performance’ are very often repeated, less often defined, and have perhaps gone some way toward ‘semantic satiation’ by beginning to become general terms which lack any specific meaning in the minds of readers and listeners.

There are a variety of studies which review and compare definitions of corporate governance (Apreda, 2003; Nerantzidis et al, 2012; Brickley and Zimmerman, 2010) and also some which trace the evolution of the corporate governance vocabulary as it has changed over the years (Ocasio and Joseph, 2005; Nordberg and McNulty, 2013). However, there are none which compare and analyse corporate governance definitions in the literature and corporate governance definitions and understandings of those involved in practice (eg. directors, executives and consultants). This is important because there can be a clear difference between an object of *reference* and people's *sense* of those objects (Heck and May, 2006) and because although there are definitions out there, they may have lost any real meaning among participants through the process of 'semantic satiation' (Black, 2001).

2.4.1 Meaning, Understanding and Interpretation

Weber contributed many ideas to the field of social constructionism and one of these was the concept of *Verstehen*. In the Sociological Quarterly, Tucker (1965:164) suggests that Weber's *Verstehen* might best be described as a:

'methodological tool designed to discover the nature of the situation-including in the concept, "nature of the situation," the coersive forces (i.e., normative prescriptions, observable values held by the different individuals composing the situation, and the apparent goals of these individuals in terms of their known values and situational norms)-in which human social action takes place.'

Corporate governance can easily be described as a social action within which different participants have different *understandings*. In fact, in their highly regarded text book on corporate governance, Monks and Minow (2008) explain that the word 'corporation' comes from the Latin 'corpus' or body, and the corporation could be seen as a body of people organised to act as one. They suggest that the purpose of the structure of the corporation is to transcend the individual, in ability and lifespan (Monks and Minow, 2008). The idea that it is useful to learn how participants in a social action interpret and understand those actions is the basis of *verstehen*, which is said to roughly translate to ‘understanding’ or ‘meaning’. With this concept in mind, there is room for much more in the literature which addresses how participants involved interpret corporate governance. There are a wide variety of studies which do ask questions about the experiences of, for example, directors, CEOs and Chairmen (Kim, 2008; Parker, 2008; Owen and Kirchmaier, 2008; Useem, 2006) as well as auditors in the post-Sarbanes Oxley corporate governance environment (Cohen et al, 2010).However, what they haven’t asked in these studies are questions about the fundamental purpose and meaning of corporate governance and its various tenets. Although they are seeking the interpretations and understandings of participants to the social action, questions have so far usually been on a more specific level about how and what is being done, rather than why and what the actions mean. One interesting study listens to conversations between directors and undertakes informal interviews to analyse the ‘ambiguity of their definitions, characterizations and accounts of governance, the images they commonly used in the interviews and the mind-sets thus revealed’ (Carroll et al, 2012:88). They identified three principal modes of discourse: ‘conformance’, ‘deliberation’ and ‘generativity’ and found the former was the most prevalent (Carroll et al, 2012). In this study, these participants were being asked about how they interpret the meaning of corporate governance, but they were not asked specifically about some of the other key tenets of governance such as ‘risk’, ‘performance’ and ‘value’ and their responses were not compared with the interpretations in the literature and secondary data.

Vertsehen is also related to the idea that within and around corporations, there is an ongoing process of 'sensemaking' taking place. Weick (2008 cited in Clegg et al, 2010:18), describes this as 'the ongoing retrospective development of plausible images that rationalise what people are doing'. Particularly within corporations and organisations generally, managers have an interest in employees and other participants in the organisation, making the *same* sense of what is happening. Even though we can be dealing with the same 'cues', individuals can often make different senses (Clegg et al, 2010). 'People will not use these cues in a uniform way, because they are individuals and, as a result, people can make wildly different senses from the same set of cues' (Clegg et al, 2010:19). Common sensemaking is important within organisations so that all participants of the organisation are 'on message' (Clegg et al, 2010:20) in terms of, for example, the aims, activities and values of the organisation. There is a fair amount of literature on the issue of sensemaking within organisations (Maitlis, 2005; Kezar and Eckel, 2002; Krush et al, 2013; Jorgensen et al, 2012) and there are even a few which relate sensemaking with Corporate Social Responsibility (Fassin and Van Rossem, 2009; Basu and Palazzo, 2008). Pye (2002) carried out a study which asked board directors 'how do you run an organisation?' and compared responses with academic literature. One of the common responses was 'corporate governance'. This study did not address, however, how participants understood corporate governance itself and all of the others which have looked at sensemaking in organisations did not address corporate governance explicitly at all. They have investigated sensemaking within management and below and tended to ignore the board, ownership and other corporate governance actors.

In a study by Kim et al (2007), the researchers look at a similar concept to sensemaking: shared mental models. ‘An individual’s mental model is described as the individual’s perception of reality or task’ (Kim et al, 2007:3) and the author’s suggest that board effectiveness can often rest on the degree to which the board has shared mental models, or shared understandings of the task at hand. By this they do not mean the absence of conflict because this could become ‘group-think’, but that there is a shared idea of what the purpose of the board is and what the roles of the members are as part of the team (Kim et al, 2007). This study by Kim et al (2007) focuses on the board as the focus of investigation and opens up the potential for future research which looks to see whether shared mental models about corporate governance at a wider level could help to progress theory and practice in the field. This is an area to which this study seeks to contribute.

As a result, because meanings assigned to organisational roles are ‘socially constructed through thought, conversation, and linguistic interchange and negotiation among involved parties’ (Berger and Luckman, 1967:41 cited in Nelson, 2003:709), there is a gap pointed out by corporate governance scholar Bob Tricker that more research is needed to better understand ‘the world experienced by those actually involved at the board level’ (Tricker, 2009:234). Although there are studies which gather responses from corporate governance participants about their experiences (based on the methodological concept of *verstehen* and/or sensemaking), there are a few gaps which have emerged. Firstly, they have often focused on management and not the board or other stakeholders. Or, where they have addressed the governing levels, they have not asked explicitly about views on the meaning and definitions of corporate governance and key aspects of it. And finally, they have not yet compared this primary data gathered through interviews, or surveys for example, with the corporate governance literature and secondary data.

2.4.2 Are Definitions Necessary? Debate on 'Meaning as Use'

Ludwig Wittgenstein, who made the 'duck-rabbit' thought experiment famous in his discussions of thought and language, made several assertions about the nature of language in his 1953 book *Philosophical Investigations*. He starts by paraphrasing an argument from *Confessions I.8.* by early theologian and philosopher, Augustine: 'the individual words in language name objects—sentences are combinations of such names. In this picture of language we find the roots of the following idea: Every word has a meaning. This meaning is correlated with the word. It is the object for which the word stands' (Wittgenstein, 1953:3). However, Wittgenstein believes that this 'philosophical concept of meaning has its place in a primitive idea of the way language functions' (1953:3). He argues that this concept works if you are describing nouns (eg. 'table', 'chair', 'bread'), but gets more complicated with more complex communications. He suggests that words are not defined by the object for which the word stands, or even the thought representations that they might denote. Instead, for Wittgenstein (1953:21) 'the meaning of a word is its use in the language'. He uses the example of the word 'game' to explain the many difficulties that arise in attempting to create a definition for such a word (eg. relating it to playing, or competition, or rules all create gaps which do not fit with the definition, for example, the competitive chess player is not playing for fun, and not all games are competitive). This is used to show that even without a definition the meaning of the word is still understood and the word 'game' is used successfully. One could even differentiate which activities are games and which are not games, even without a definition (Wittgenstein, 1953). This also relates to Brink (2011:267), who when discussing ‘A Process Philosophy Approach to Corporate Governance’, explains that ‘the symbolic system of representation (eg. language) is always inadequate in capturing the real world, since much of what we experience remains tacit and unspeakable’. This influential line of reasoning begs the question: are definitions required at all? If we can use words successfully without them, then why do we need them?

Whilst it makes sense that ‘languages are not fixed codes existing independently of their users’ (Harris, 1996:244) and that no approach to language based on a fixed code can explain or replace ‘understanding’ as a fundamental purpose and result of communication (Samuels, 1999:406), there is an assumption within Wittgenstein’s work that the ‘use’ of the word is consistent (eg. everyone could identify what is and is not a ‘game’ consistently) and therefore this is what makes any other kind of definition unnecessary. The gap here is what happens when the uses of the word are not consistent; when each user is identifying the object of reference differently from the next. If ‘meaning is use’ what if ‘use’ is varied and even conflicting? Continuing with Wittgenstein’s example of the word ‘game’, what if everyone could not identify what is and is not a ‘game’ successfully? Would a definition then be required? To use an example relevant to this study, what if everyone could not identify what is and is not ‘corporate governance’ or a ‘risk’ consistently? For example, for someone learning the English language, this ‘instinct’ as to what is and is not a game would not apply, and they would need to learn the meaning of the word ‘game’ through a definition or variety of definitions. Or, for someone who had never had any exposure to the governing levels of corporations, how would they learn what is and is not corporate governance without a reference to some sort of definition from someone or somewhere? In this case, they would likely get different definitions depending on where they turned for this information.

The other remaining dilemma with this idea that ‘meaning is use’ (Wittgenstein, 1953) would be where language is actively shaping reality. There are many who suggest that reality is socially constructed rather than something that we perceive objectively and that exists objectively (Duberley, Johnson and Cassell, 2012). One of the ways that this construction takes place is through language. The postmodern/post-structuralist perspective also focuses on language, particularly as it relates to institutions and power. As Chia (1995 cited in Duberley, Johnson and Cassell, 2012: 26) puts it, ‘although we may perceive things as objective and separate from ourselves, as ‘out there’, through language we are active participants in creating what we apprehend’. From this viewpoint, ‘knowledge and truth are linguistic entities and constantly open to revision’ (Lyotard, 1984 cited in Duberley, Johnson and Cassell, 2012: 25) and ‘discursive conceptions are collectively sustained and continually renegotiated in the process of making sense’ (Parker, 1992 cited in Duberley, Johnson and Cassell, 2012: 25). Whether we call a table, a ‘table’ or some other name, would not change the shape or form of the table. However, what we call and how we differentiate between different words in a field such as ‘corporate governance’ does impact how structures are set up, what boards spend their time on, how relationships with owners and stakeholders are conducted and who is held accountable when mistakes are made. John Carver (2006:xxvii) said in relation to board governance that ‘governing boards do not exist in nature. They are social constructs, which is to say that their purpose is what we say it is’. He also suggests that the ‘the job design, rules, and processes of governing boards [..] are dependent on the purpose we assign to such bodies' (Carver, 2006: xxvii). In a field like this which is entirely socially constructed, is it problematic to rely on general conceptions especially when they vary and conflict to such a great degree? This issue is highlighted by American economist, Jeffrey Sachs, who recently said 'in our governance systems today, the intrinsic complexity of the challenges easily outpaces the gut instincts and amateurism of the existing machinery' (2010:32).

Another issue when discussing conflicting understandings of languages is *power*. French sociologist, Pierre Bourdieu, in *Language and Symbolic Power* (1991:66), argues that 'utterances are not only (save in exceptional circumstances) signs to be understood and deciphered; they are also *signs of wealth*, intended to be evaluated and appreciated, and *signs of authority*, intended to be believed and obeyed'. This is the concept behind what he calls 'symbolic domination'. Following from this idea, Heller (1995:373) interprets Bourdieu's 'symbolic domination' as 'the ability of certain social groups to maintain control over others by establishing their view of reality and their cultural practice as most valued and, perhaps more importantly, as the norm'. This process can be seen in the way that social institutions are formed. Social institutions, such as corporations, are 'conventionalised social structures which organise resources, behaviour, and meaning in certain ways that can be defined by social groups in order to advance their interests' (Heller, 1995:373) and language is a key tool for those who seek to shape them:

'Language is central to institutional processes of symbolic domination, since conventional language practices serve to establish the normality, the everydayness of institutional processes. Language norms are a key aspect of

institutional norms, and reveal ideologies which legitimate (or contest) institutional relations of power' (Heller, 1995: 373)

In light of this, the way that corporate governance and its various tenets are described should be analysed in terms of how power is distributed differently based on different definitions. For example, in what way does one description of ownership give power to one group of stakeholders over another? How do definitions of corporate governance impact on the authority and accountability of the various participants including managers, CEOs, and board directors? Whose interests do the various definitions represent and protect? Rorty (1967:3) also suggests that 'language is never innocent'. For example, in corporate governance, a distinction is made between executive and non-executive directors. Of course, this is a necessary distinction however the phrase '*non*-executive', with the emphasis on 'not an executive' rather than a demarcation of the unique contribution this role does play, makes the role sound somehow less significant or valuable. This hierarchy does come to life in many boardrooms even though all directors in the boardroom are supposed to be equal according to the UK Corporate Governance Code. Gourevitch and Shinn (2005:1) explain the interrelatedness of power and corporate governance:

'Corporate governance is about power and responsibility. It is the structure of power within each firm that determines who allocates money: who gets the cash flow, who allocates jobs, who decides on research and development, on mergers and acquisitions, on hiring and firing CEOs, on subcontracting to suppliers, on distributing dividends or buying back shares or investing in new equipment. Corporate governance is also about accountability: who takes the blame for corruption, misuse of funds, or poor performance'.

Hambrick et al (2008:382) suggest that 'one of the next frontiers for governance researchers is to generate theories and evidence regarding how power differentials within boardrooms affect board processes and outcomes'.

Finally, although Wittgenstein suggests that the most important thing about words is how they are used, are there instances in which lack of a common language with common definitions can hold back theoretical and practical progress in the field? Dijk (1983:33) suggests that:

‘To be meaningful, a discourse should not only be locally coherent, but also globally coherent—there must be some kind of "semantic unity" to the whole discourse’.

Robleh, Haldane and Nahai-Williamson (2012) analysed progress within two well-known industrial networks over recent years – product supply chains and the world wide web. They found that ‘for both, a common language was the prime-mover behind a technological transformation. That transformation has delivered huge improvements in system resilience and productivity’ (Robleh, Haldane and Nahai-Williamson, 2012: 1).

In the field of sustainability, which is closely linked with corporate governance, an initiative called the Lexicon Project was launched in 2011 by the International Society of Sustainability Professionals (ISSP) to analyse the language of sustainability and move towards common terminology to progress the field. Ira Feldman, ISSP board member, and driver of the Lexicon Project asks ‘how can the profession speak with one voice when we are speaking in many tongues?’ (ISSP, 2013). The ISSP (2013) perceives lack of coherence in terms of sustainability language and terminology to be one of the ‘roadblocks on the path to mainstreaming sustainability thinking’:

‘Feldman explains, "We've all heard the refrain that sustainability 'means nothing' or 'means everything' so it is useless. Some of us also view the popular 'green' terminology -- especially in the media -- as a 'dumbing down' of sustainability. This does not need to be the case, and the ISSP Lexicon Project could help significantly advance the state of play." To be clear, the Lexicon Project is not

seeking to redefine "sustainability." Instead, the focus is to better understand how various terms and concepts are articulated in the interdisciplinary playing field of sustainability.' (ISSP, 2013)

Perhaps the field of corporate governance could benefit from a similar project. As another example, the United Nations Committee of Experts on Public Administration published a paper from a 2006 session which declared that:

'there are some fundamental concepts and terminologies of governance and public administration that need to be defined in order to provide a common understanding of them for the organizations and bodies of the United Nations system. [..]The Committee agreed that a participatory process is called for to identify the main principles constituting the content of governance and public administration. Accordingly, and as a basis for its discussions, the Committee decided to focus on the definition of basic concepts and terminologies relating to governance and public administration, providing an indepth assessment of such concepts, how they have evolved and how they are used and applied' (UN, 2006:2).

Also, in a March 2012 paper presented at the Securities Industry and Financial Markets Association (SIFMA) "Building a Global Legal Entity Identifier Framework" Symposium in New York, it is stated that the finance industry has faced many issues due to the lack of a common financial language:

'The economic costs of this linguistic diversity were brutally exposed by the financial crisis. Very few firms, possibly none, had the information systems necessary to aggregate quickly information on exposures and risks. This hindered effective consolidated risk management. For some of the world's biggest banks that proved terminal, as unforeseen risks swamped undermanned risk systems. These problems were even more acute across firms. Many banks lacked adequate information on the risk of their counterparties, much less their counterparties' counterparties. The whole credit chain was immersed in fog. These information failures contributed importantly to failures in, and seizures of, many of the world's core financial markets, including the interbank money and securitisation markets.'

It could also be argued the institutions kept language ambiguous in order to avoid scrutiny. From this point of view, clearer language could create increased transparency. Bohm (1998), in *On Dialogue,* also discusses the benefits of shared meaning for productive and healthy dialogue. Wiemer (2002:1) paraphrases Bohm's idea:

'If people were to think in a coherent way (i.e. all minds are focused on the same thing), it would create tremendous power among them. This power of coherence—of sustained shared dialogue—would exist not only on a recognizable level, but on a tacit level as well. According to Bohm, the tacit level is that which is unspoken; it is beyond words. It is, simply stated, the knowledge in and of itself. When we achieve this level of shared meaning, of shared consciousness, we are communicating collectively on a tacit level.'

This lack of consensus on language is a particular issue in a field such as corporate governance because many of the questions that are currently debated within corporate governance are 'open' questions. This means that it is not obvious how to answer them as they require us to decide about the concepts involved (Laurie, 2013). For example, a question such as 'is she a good leader?' requires us to first define a 'good leader'. To answer the question 'is this a risk to our company?' requires us to define what constitutes 'risk'. Or, to answer 'is management remunerated at the right level?', would require a set of criteria that would define 'the right level of remuneration' and therefore the purpose of remuneration.

In conclusion, 'languages are not fixed codes existing independently of their users' (Harris, 1996:244), however there are a number of reasons why working toward some consensus on terminology can help stimulate progress in the field of corporate governance. The language of corporate governance is understood and interpreted differently by many different users, some definitions conflict and contradict each other, and learning from Bourdieu's concept of 'symbolic domination' (1991) certain definitions can benefit certain participants to corporate governance more than others (for example, a definition of 'ownership' which only includes shareholders, or a definition of 'performance' in which the board is not accountable). As Rorty (1967:3) suggested, ‘language is never innocent’. Also, because ‘governing boards do not exist in nature, they are social constructs, which is to say that their purpose is what we say it is’ (Carver, 2006:xxvii),the way we interpret and understand the language of corporate governance has a real impact on how corporations and governance structures are shaped. For example, the way that ‘independence’ is defined has an impact on what kind of directors are elected onto corporate boards and how closely their interests may or may not align with owners. If this definition is shaped in a certain way, there may be a risk of conflicts of interest and this could impact performance. Therefore, although according to Wittgenstein, ‘meaning is use’, when use is so varied and conflicting, and when use by different parties has an impact on how power is distributed and how social structures are shaped, it becomes clear that it is useful to examine closely the underlying debates and implicit assumptions behind the way the language is being used. Also, given that there are various fields which have benefitted from moving toward more consensus in their terminology, it is interesting to explore whether corporate governance could also gain from relying less on implicit understandings and more on thoughtful and careful discussion on how we shape the language of corporate governance.

2.5 Principal Research Questions

Tricker (2009:234) proposed that ‘scholars need to build a theory that adequately reflects the world experienced by those actually involved at the board level’. Therefore, this research seeks to understand and compare how ‘those actually involved at the board level’ define and interpret key terms in their practice of corporate governance. Firstly, the aim of this research is to understand how key language terms in corporate governance discourse have developed and are variously defined in the literature. For example, how ‘governance’ is defined (in general and in relation to corporations) and how it is or is not distinct from ‘management’. Many think of ‘governance’ and think of strategy creation, leadership, and direction. All of these ideas are often attributed to management and can be seen as elements of managing. A key frustration for many governing bodies is the struggle to draw a clear line between governance and management. Many managers get frustrated because the board or governing body keeps on stepping on their toes, making unreasonable requests or just having a dis-organised, incoherent way of dealing with them. Many boards or governing bodies are unsure as to how involved with management they should be, at what level and at what frequency. This blurring between management and governance in organisations can cause problems. Therefore, it seems that a ‘re-negotiation’ and mutual clarification of these discursive conceptions would help practitioners as well as the theoretical field of corporate governance. Other examples include ‘performance’, ‘ownership’ and ‘value’ which are key to corporate governance ideas but which remain ambiguous.

The second part of this research is to understand how these meanings and interpretations vary within the discourse of directors and companies themselves. Many of the discussions in boardrooms and amongst those trying to implement corporate governance come back to debating over the definitions of terms. A great many questions cannot be answered or even discussed productively, while the definitions of these key terms, including ‘governance’ itself, remain unresolved. Therefore, this research will attempt to uncover how practitioners understand and personally define key corporate governance terms.

Finally, based on the first two stages of this research, the final aim will be to draw out themes and draw together commonalities in order to create definitions and meanings which make sense for corporate governance today and may help lead towards clarity and consensus.

In light of the above, the following principal research questions have been posed:

A. What are the key terms underpinning corporate governance theory and practice?

B. How does corporate governance academic literature variously define these terms?

C. How do directors, executives and consultants personally define these terms?

D. What themes and commonalities emerge which may lead us toward working definitions and unified meanings for the future?

3. Research Methodology

Discourse Analysis using secondary data was carried out for the first purpose of the research (to understand how key language terms in corporate governance discourse have developed and are variously defined in the literature). This includes analysis of regulations, codes, as well as key corporate governance texts and literature, research reports and media coverage of corporate governance issues. The initial aim was to synthesise the data into a set of concepts, patterns and/or deviations which could be usefully analysed. ‘In vivo’ codes were used (in an attempt to limit authorial influence on the representation of data) to categorise data.

For the secondary aim of this research data was gathered from the field. This was done through the use of a survey. The survey was distributed through professional networks in the corporate governance field in the UK. This was done through a series of mailshots to governance professionals and requests on social media including LinkedIn for UK governance professionals to participate. A research method is a ‘technique for gathering research’ (Harding, 1987:2). According to Bryman (2004:542) a questionnaire is 'a collection of questions administered to respondents. When used on its own, the term usually denotes a self-completion questionnaire.' The questionnaire created for this study was short and direct, consisting of ten questions (See Appendix 1). A survey was chosen in order to be able to gather a larger amount of data than would have been possible through interviews due to time constraints. However, the drawback of the survey was that it opened up the possibility for participants to use internet research to support their answers. This was addressed by asking participants in the introductory note to please answer in their own words, without reference to outside source (See Appendix 1). The questions were also phrased to ask, ‘how to do you understand and define the term’ rather than ‘how is it defined’. This emphasized that the research was seeking participants’ personal understandings and not dictionary definitions. The aim again was to synthesise this data into a set of concepts, patterns and/or deviations which could be usefully analysed.

Descriptive comparison was employed with the aim of elucidating the similarities and crucially, the differences, between the respondent data and the secondary data and analysing why and how they vary. Data analysis is an iterative process and can be particularly complex when managing the large amounts of data gathered (Johnson, 2012). This descriptive, comparative analysis was chosen to allow all details to emerge and create rich findings.

Diener and Crandall (1978 cited in Bryman, 2004) point to four main areas of ethical concern in social research: harm to participants, lack of informed consent, invasion of privacy, deception. The concerns most relevant for this study was invasion of privacy and harm to participants. Therefore, anonymity was of utmost importance in the process of this research. No personal information was asked of participants apart from their role in their organisation. This way, there was no way for participants to be identified in their questionnaire responses by the researcher or by readers.

A process of coding was employed to analyse the survey data by question. There were six key terms for which respondents provided their own definitions. They were: ‘corporate governance’, ‘value’ ‘risk’, ‘ownership’, ‘performance’. They were also asked to explain how they understand the difference between governance and management. The results from each of these questions were analysed and coded based on the data that emerged. The codes were ‘in vivo’ or ‘emergent’, meaning that they came from the data and were not researcher imposed words or phrases.

4. Results, Analysis and Discussion

4.1 Introduction

The purpose of this study was to explore Anglo-American corporate governance through the lens of language, both within the literature and secondary data, and from the perspective of those involved in corporate governance in the UK and US: directors, executives, chairmen and consultants. The principal research questions were posed as follows:

> A. What are the key terms underpinning corporate governance theory and practice?
>
> B. How does corporate governance academic literature variously define these terms?
>
> C. How do directors, executives and consultants personally define these terms?
>
> D. What themes and commonalities emerge which may lead us toward working definitions and unified meanings for the future?

Based on the literature review of Anglo-American corporate governance, the key terms found to be underpinning current theory and practice were: ‘corporate governance’, ‘ownership’, ‘risk’, ‘value’, and ‘performance’. This study investigates and compares definitions of these terms within the literature and the survey responses from governance professionals. Respondents were also asked to explain how they see the difference between ‘governance’ and ‘management’ and these responses will also be compared with the literature.

Both the primary and secondary data will be presented alongside each other to show the patterns, similarities and differences in the data. Each key term will be presented in an individual chapter.

Analysis of the definition of ‘corporate governance’ has many tenets which incorporate the concepts of ‘risk’, ‘ownership’, ‘performance’ and ‘value’. Therefore, the majority of analysis will be on defining ‘corporate governance’. There are fewer definitions from the literature on the definitions of the latter terms, however, the analysis of the respondent definitions of ‘risk’, ‘ownership’, ‘performance’ and ‘value’ is useful in order to understand how survey respondents define the terms that they used in order to define corporate governance.

4.2 Profile of Sample

The survey gathered 56 respondents, all from the UK corporate governance field. Respondents were asked to identify roles that they currently undertake and many carried out more than one role. Only one was solely an academic.

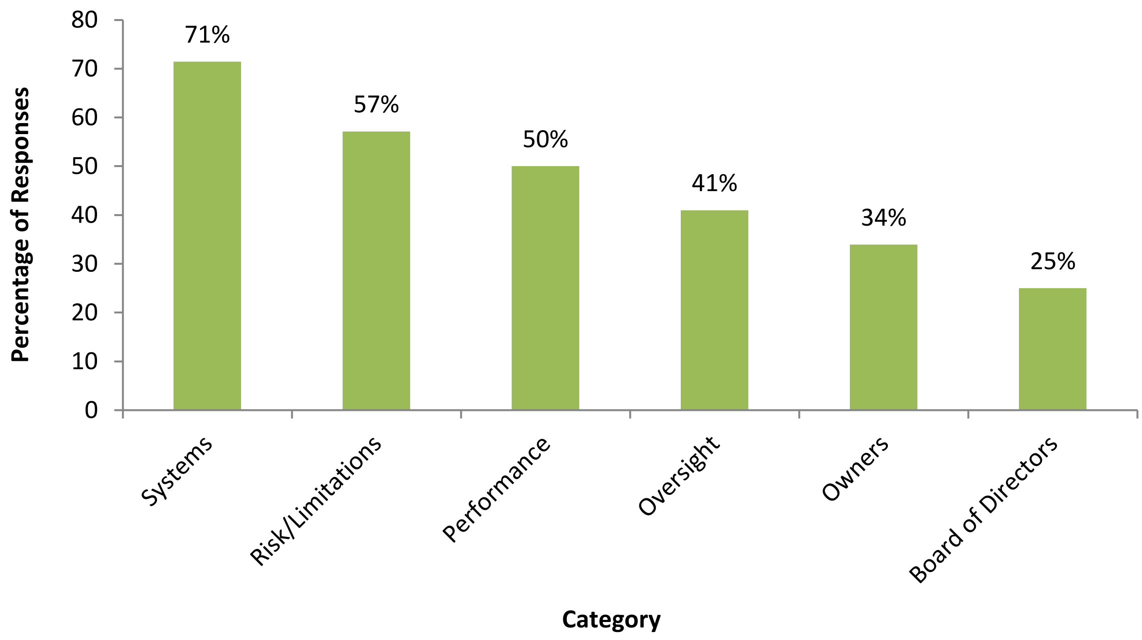
Table 4.1 Respondent Roles

Number	Role
25	Board Director
22	Consultant
18	Chairman
12	CEO or Senior Executive
5	Company Secretary
5	Academic

4.3 Defining Corporate Governance

The survey results on participants' understandings of the term 'corporate governance', were organised into six main categories. The categories were created using language from within the data to group together similar codes which emerged from the data. These categories were: 'oversight', 'risk/limitations', 'owners', 'performance', 'system', and 'board of directors'. Many definitions were assigned to more than one code and therefore more than one category. The category with the most number of participant responses within it was 'system' (71%). Definitions categorised under 'system' included any which made reference to corporate governance as a system, framework or process (48%), decision making (9%), delegation (2%), and responses which referred to corporate governance as managing (12%).

Figure 4.1 – Survey Responses of 'Corporate Governance' Definition by Percentage in Category



Analysis of the results show that there are a few key areas for further investigation: whether to describe corporate governance as a system, process or responsibility; whether to focus on the board as the key actor responsible for corporate governance; and whether representing owners is a distinguishing feature of corporate governance.

i) Corporate Governance as a System

The definition of 'system' from the Oxford Dictionary is 'a set of things working together as parts of a mechanism or an interconnecting network; a complex whole' (Oxford University Press, 2013). Of the 27 responses which were coded under 'system, framework or processes' (48% of total responses), 7 of these used the exact term 'system' in their definition.

However, a distinction emerged from the data between formal and informal systems, frameworks or processes. One respondent specified corporate governance as 'the formal system for determining who is empowered to make which decisions and who is accountable to who' and another as a 'systematic approach to directing a company'. From the literature there are also definitions which emphasise formality more than others. For example, Nerantzidis (2012:3) explains that corporate governance 'provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined'. As well, the widely used UK Corporate Governance Code definition

(Committee on the Financial Aspects Of Corporate Governance, 1992:14):

'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.'

This definition is still the one used in the UK Corporate Governance Code most recently revised in 2012. This definition implies a more formal and active system which is used to 'direct and control' the company.

On the other hand, other definitions which use the idea of a system emphasize the idea of a system or framework as something which exists more informally. For example, 'the system of structures, processes and policies that lead to decision making in organisations', 'the organisational fabric within which authority is exercised' and the 'common sense business activities for directors, shareholders and other stakeholders'. There are also definitions from the literature which refer to corporate governance as a system which influences governance actors rather than one that is formally created and implemented by governance actors. For example, Brickley and Zimmerman (2010:3) created the following definition:

'corporate governance is the system of laws, regulations, institutions, markets, contracts, and corporate policies and procedures [..] that direct and influence the actions of the top-level decision makers in the corporation (shareholders, boards, and executives).'

Similarly, Larcker, Richardson and Tuna (2007:964 cited in Brickley and Zimmerman, 2010:2) define corporate governance as 'the set of mechanisms that influence the decisions made by managers when there is separation of ownership and control'. As well, Zingales (1997 cited in Nerantzidis, 2012) suggest that corporate governance is 'the complex set of constraints that shape the ex-post bargaining over the quasi-rents generated by a firm'.

All of these definitions from the literature view corporate governance as a system of a variety of institutions which all have a role to play in impacting the decisions of boards and other governance actors and this different to a system which is formally implemented. This is one key area of variation within the definitions. Is corporate governance more usefully viewed as an active system which is implemented or a network of systems which impact decision making? Focused discussion on this aspect of the definition could lead to further progress in the theory and practice.

ii) Corporate Governance as a Process

Another term coded under this category was ‘process/processes’. 12 respondents defined corporate governance as a process or set of processes (as opposed to the 7 who used the term ‘system’). Viewed by role, the respondents who answered in terms of a process versus a system were mixed with no clear pattern emerging.

The idea of a process has a slightly different connotation than a system. The definition of ‘process’ from the Oxford Dictionary is ‘a series of actions or steps taken in order to achieve a particular end’ as opposed to ‘system’ which is ‘a set of things working together as parts of a mechanism or an interconnecting network; a complex whole’ (Oxford University Press, 2013). Definitions from the survey describing corporate governance as a process are ‘a process where the board focuses on policy, strategy and generative thinking’, ‘the process of assuring the board of directors that an organisation has appropriate control over its resources’ and ‘a process whereby a group of people ensure the health and effectiveness of the corporation’. The Institute of Chartered Secretaries and Administrators (2013) in the UK explain that corporate governance is ‘concerned with practices and procedures for trying to ensure that a company is run in such a way that it achieves its objectives’. This is also a process rather than system oriented definition.

There are differences therefore, in the literature and survey data, as to whether corporate governance is a process or a system; whether this system exists or is created; and whether it includes the whole web of institutions which impact corporate governance decisions or is seen more narrowly. This is similar to a distinction that Gillan (2006) makes between internal versus external governance perspectives.

In the literature and in the survey responses, there is a mixture of viewing corporate governance as a process or as a system. In order to move toward consensus on the definition of corporate governance, this variation in the language of corporate governance as a system or process could benefit from further analysis.

<u>iii) Corporate Governance as Responsibility of the Board</u>

The survey data indicated that there is a disjuncture in respondent definitions of corporate governance between whether the board a player in corporate governance or the main source of all governing authority within the corporation.

Of the 56 survey responses, 25% made explicit reference to the board of directors. They defined corporate governance as, for example, ‘the responsibility of elected members of the board of directors to oversee the present performance of the organization, plan for the future and assure the prosperous longevity of the organization’ and ‘the board level direction and leadership provided by the board’. This was in contrast to other definitions which described a system, or process, but did not specifically identify the board of directors, and also did not describe corporate governance as a ‘responsibility’.

There are also a number of other parties involved in other definitions of corporate governance. For example:

‘auditors, regulators, credit rating agencies, stock analysts, courts, the media, monitoring by banks and other creditors, regulation, the markets for corporate control, product market competition, and corporate policies relating to takeovers, all influence the behavior of the top-level decision makers in the corporation’ (Brickley and Zimmerman, 2010:3).

And some definitions of corporate governance do read almost as lists of persons and bodies that relate to the operation of the corporation at any level. For example, one respondent’s definition was: ‘the system of rules and practices and processes by which a company is directed and controlled. It balances the beneficial interests of shareholders, board of directors, management, employees, financiers, suppliers and the community at large. It ensures regulatory compliance, accountability, transparency and fairness in a company's relationships with shareholders’. Larcker, Richardson and Tuna (2007:9 cited in Nerantzidis, 2012) describe corporate governance similarly as ‘the set of mechanisms that influence the decisions made by managers, when there is a separation of ownership and control (some of these monitoring mechanisms are the board of directors, institutional shareholders, and operation of the market for corporate control)’. This definition refers to the board of directors within a list of others which influence governance and not as the sole point of accountability for governance.

Brickey and Zimmerman (2010) argue that a broader definition of corporate governance is more accurate and useful because although it is useful to focus on the separation of ownership and control at the top of the corporation, if corporate governance is limited to the board and executive, this leaves out potential conflicts between different classes of shareholders for example. Therefore, Brickley and Zimmerman (2010) believe that a corporate governance definition must include three key parties: shareholders, the board and executives.

However, Brickley and Zimmerman (2010) also point out that there are a variety of legal and regulatory frameworks which influence how a corporation is governed and that it is important to take these into account also. For example, 'corporate law, government regulation, the corporate charter and by-laws, and corporate policy determine the allocation of decision rights among [shareholders, the board and executives] (e.g., consider shareholder voting rights and voting procedures)' (Brickley and Zimmerman, 2010:3). And Hambrick et al (2008:382) suggest that:

'corporate governance does not begin and end with principals, agents, and the (in)completeness of contracts. There is considerable opportunity and need to explore the extensive web of institutional actors that influence governance practices in contemporary societies. Beyond the obvious roles of regulatory authorities and stock exchanges, we are witnessing an increasing influence from the press, governance watchdog groups, institutional investors, executive search firms, and executive compensation firms.'

Blair (1995:3) also defines corporate governance as

'the whole set of legal, cultural, and institutional arrangements that determine what publicly traded corporations can do, who controls them, how the control is exercised and how the risks and returns from the risks and returns from the activities they undertake are allocated'.

These results indicate that corporate governance as a field could benefit from further debate about how the definition of corporate governance can be broad enough to encompass all that corporate governance involves but narrow enough so as to be a clear and distinct field of theory and practice. Should a definition of corporate governance include all actors which can influence corporate governance or should it identify the board as being responsible for governance? And, if the responsibility for corporate governance is not clearly assigned to one body, how will society and shareholders hold anyone to account for good governance?

iv) Corporate Governance as Management

In all there were 7 responses which referred to corporate governance as an act of 'managing'. This is similar to the process oriented corporate governance definitions discussed previously however the particular use of the verb 'to manage' in the survey responses of 12% of participants is notable. The respondents who described corporate governance in this way included a mix of two board chairs, two directors, one consultant, one CEO and one senior executive. One participant defined corporate governance as 'the way in which an organisation manages its quality and financial performance'; and others as, for example, 'the structure and process by which companies are managed' and 'the disciplines and processes by which the company manages strategy, policy and stakeholders'. Definitions from the literature generally do not phrase the definition of corporate governance in this way (as 'managing'). However, in one set of guidelines from the European Banking Authority (2011) on internal governance, the authors state:

'In these guidelines the term management body shall have the following meaning: the governing body (or bodies) of an institution, comprising the supervisory and the managerial function, which has the ultimate decision-making authority and is empowered to set the institution's strategy, objectives and overall direction. The management body shall include persons who effectively direct the business of an institution.'

This is an example of a mixture of governance and management in the literature. In the feedback table included at the end of the EBA report 'respondents asked for further clarification regarding the nature of the duties performed by boards in the unitary board paradigm, and suggested drawing a clear line between the duties of boards and the duties of senior management' (EBA, 2011 cited in Oliver, 2007:7). In general, however, definitions from the literature on corporate governance do not describe the role of governors as managing.

Therefore, the 12% survey respondents who defined corporate governance using the term 'to manage' highlight an area of discrepancy between the literature and the understandings of some of those involved in corporate governance. Although, as discussed in section 4.8 on the difference between governance and management, most participants do identify differences, this use of language may suggest that the concepts are still not distinct from each other for some governance participants. This is relevant in terms of the common issue in corporations today of many executives doing the job of governing and many directors leaning towards the role of management (Chait et al, 2005). Bridgman (2007:149) does argue that 'while good governance is a high-order activity, it stands in context with administrative and managerial activity, and is not separate from them'. However, most definitions of corporate governance focus on the *oversight* of managers rather than managing themselves, and role clarity is seen as important for accountability. For example, much of the literature and best practice codes today call for the separation of the CEO and Chair roles (Tonello, 2011). It is suggested that separating the roles increases the board's independence from management which leads to better oversight of managers (Tonello, 2011). 16% of respondents referred to 'oversight of managers' in their definition of corporate governance, however one respondent did describe the process as 'working with' management. This is similar to descriptions from the literature which explain that corporate governance involves 'a set of relationships between company's management, its board, its shareholders and other stakeholders' (Nerantzidis, 2012:3) but do not explain which groups have authority over the other.

The fact that 12% of respondents described the role of corporate governance as 'to manage' points to a variation between most definitions in the literature and the *understandings* of those involved in corporate governance in these results. This issue is discussed further in section 4.8 where the answers of these and the rest of the participants to the question regarding the difference between governance and management will be analysed.

v) Corporate Governance as Representing Owners

According to the OECD, 'the role of controlling owners in innovation and value creation need to be taken into account more explicitly when shaping the corporate governance frameworks' (2012: 4). Of the total 56 responses, 33% of respondents defined governance as referring to representing shareholders, stakeholders or owners; referring to an elected governance body; or referring to accountability. The majority came under the former, as only one participant referred to 'elected members of the board' and 9% of the total 56 participants referred to accountability. The remaining 23% came from specific references to 'representing owners, shareholders or stakeholders'. Of these, the majority only used the term 'stakeholders' (7 of the 13 total references to owners), others referred to both or to 'owners' and only one referred to shareholders alone. One particular answer referred to 'legal and moral' owners which is a concept originating from the 'Policy Governance' model (Carver, 2006).

The Cadbury definition of corporate governance does not make reference to stakeholders. The 'Code' explains that shareholders are responsible for appointing directors and auditors and satisfying themselves that the appropriate governance structure is in place and the board is accountable to shareholders:

'the responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meeting' (Committee on the Financial Aspects Of Corporate Governance, 1992:14).

This does not make reference to any stakeholders other than shareholders. Given that it was originally written in 1992, before the rise of stakeholder theory, this is not surprising. However, from the survey results, there is now a marked difference between the respondents who are focusing on stakeholders and the UK Corporate Governance Code which only uses the term 'shareholder'.

Other definitions from the literature which focus on shareholder alone include economic interpretations of corporate governance as 'regulation within the framework of the principal-agent relationship' (Brink, 2011:vii). This is also aligned with the definition by La Porta et al (2000:4 cited in Nerantzidis, 2012) which describes corporate governance as 'a set of mechanisms through which outside investors protect themselves against expropriation by the insiders (i.e. both managers and controlling shareholders)'. Also, Armstrong, Guay and Weber (2010:7) define corporate governance as 'the subset of a firm's contracts that help align the actions and choices of managers with the interests of shareholders'.

Nobel Prize-winning economist Milton Friedman (1970) also wrote that business management should satisfy the expectations of owners or shareholders

(Nerantzidis, 2012). However, this particular idea is based on the economic concept of maximising market value and today's corporate governance practice emphasises a variety of stakeholders (Nerantzidis, 2012). Recent business scandals and financial crises have created further cause for concern and interest in the ethical aspects of corporate governance (Brink, 2011:vii).

The variation between survey results and the literature on the shareholder/stakeholder the literature may be attributable to the rising influence of the business ethics perspective and stakeholder theory (Donaldson and Preston, 1995). Business ethics combines economics and philosophy and from this perspective, corporate governance 'is more than transparency and accountability, more than legal and compliance aspects, and more than risk management. It refers to relationships, trust, values, culture and norms' (Brink, 2011:viii). A movement has been gathering pace in the field of business ethics and the literature is adapting to this as the survey respondents have done. 23% of survey respondents referred to moral or ethical responsibilities as part of the definition of corporate governance. New vocabularies including corporate citizenship and shareholder democracy has been created to establish a language for the 'Corporate Social Responsibility' movement to discuss the responsibilities of corporations (Brink, 2011).

The shareholder/stakeholder ownership debate needs to be carefully considered in order to shape a corporate governance definition which encompasses the purpose of the corporation as well as the stakeholders that need to be taken account of.

Also, it is noteworthy that only 33% of survey respondents identified ‘representing owners’ (defined as owners, shareholders or stakeholders) as part of the definition of corporate governance. This means that for two-thirds of survey respondents, representing owners was not in the forefront of their perception of the definition of corporate governance. During the string of corporate scandals in recent decades, it has sometimes appeared that the board of directors is not fully cognisant of its duties to owners or the need to connect with owners. However, given that the agency theory paradigm has been the most prominent in Anglo-American corporate governance to date, it would have been thought likely that most governance professionals would identify stewardship of owner interests as a primary concern of corporate governance. This is an unexpected result and further research could investigate whether this is a more widely applicable observation.

vi) Corporate Governance as Ensuring Performance

50% of respondents defined corporate governance as related to one or more of the following: ‘performance’, ‘results’, ‘effectiveness’, ‘success’, ‘strategy’ (under the category of ‘performance’); or ‘longevity’, ‘long-term’, ‘sustainability’ (under the category of ‘sustainability’). These terms are also often used in definitions from the literature.

In relation to performance, which is a theme within the literature and survey data, there was a nuance in language which emerges in relation to whether governance is about ensuring performance or also about *defining* it. Most of the survey responses which identified performance outlined the responsibility to ensure. For example, ‘the way in which an organisation manages its quality and financial performance and risk to reputation’, and ‘corporate governance is about establishing a framework of company processes and attitudes that add value to the business, help build its reputation and ensure its long-term continuity and success'. A minority of the survey responses added a distinguishing feature which suggested that corporate governance was also about setting out what performance means; what the objectives of the corporation are. For example, 'a process of governing a board of directors that indicates specific procedures and responsibilities, as well as how to set appropriate goals and expectations' and 'the process used to direct and control enterprises to facilitate the right things in the right way to optimise the probability of the right results'. Discussing goal setting and achievement of the 'right' results was a nuance in a minority of responses. This may also be an area for further investigation to assess whether it should be included in a definition of corporate governance.

Another aspect of these results was that half of the respondents who included performance as part of their corporate governance definition, further specified that this should be in a sustainable manner. This is about 14% of the total participants.

Shleifer and Vishny (1997:737 cited in Nerantzidis, 2012) say that corporate governance 'deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment'. However, they also introduce a new theme when they go on to further define corporate governance as the 'leadership and control of a firm with the aim of securing the long-term survival and viability of that firm' (cited in Brink, 2011:vii). The reference to the 'long-term' viability of the firm in this definition is not always explicit in other definitions. The question as to why some definitions refer to the long term and others do not is an interesting one to explore. Do all firm owners have an interest in the long-term? Is a definition of corporate governance aimed at publicly listed corporations only, or is it also supposed to apply to, for example, private investment projects with high-risk, short-term aims?

vii) Corporate Governance as Risk Management and Compliance

Of the survey respondents, 15% include 'risk management' in defining corporate governance. This is despite the fact that the UK Corporate Governance Code defines the role of the board as 'to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed' (Financial Reporting Council, 2012:8). Another 15% include reference to regulatory compliance. Most definitions which included 'compliance' also included other tenets in their definition however one defined corporate governance solely as 'following generally accepted codes of practice and within company law'. The literature and survey responses are aligned however in terms of the majority viewing corporate governance as more than compliance alone. Leadership, direction and control are all commonly referred to in corporate governance definitions. It used to be that boards focused primarily on compliance. In 2007, Bridgman explained that 'the most common failing is to focus on compliance at the expense of performance improvement and good decision-making' (2007:150). However, there has been a movement away from this and these results, where only one respondent defines corporate governance as solely compliance, indicate that this has been successful.

viii) Conclusions

Comparing the primary data from survey responses with the literature on the definition of corporate governance resulted, a number of interesting patterns emerged for consideration. Firstly, the terms ‘system’ and/or ‘process’ are used in a high proportion of corporate governance definitions in both the literature and survey responses. However, each have different implications for what corporate governance means in theory and in practice and further debate on corporate governance as a system or process would be worthwhile. Also, given that 25% of survey respondents made reference to the board of directors in their definitions, this raises the question as to whether it is useful to identify the board as the key governing body in corporate governance definitions or not. An area of difference between the survey respondents and the literature definitions was in the use of the verb ‘to manage’. 12% of survey respondents described corporate governance as an act of managing whereas the literature does not describe governance in this way. This is a semantic issue which may go some way to explaining the difficulties in practice of separating governance and management tasks. The proportion of survey respondents referring to the representation of owners, shareholders or stakeholders in their responses was 33%. This is a relatively small number given the influence of the agency paradigm in the UK and the definitions from the literature which very often refer to the separation of ownership and control. Also, in respondent definitions of corporate governance, 50% of respondents referred to performance however, of these, 14% referred to the long term and a minority defined that corporate governance was also about the setting of objectives for performance. Finally, 15% of respondents referred to risk and this is a lower proportion than in the literature. Emphasis on compliance is low in survey responses which may show the impact of the movement in theory and practice away from governance as compliance and toward governance as leadership.

4.4 Defining Ownership

In defining ‘ownership’ 63% of respondents referred to either ‘shareholders’, ‘stakeholders’ or ‘legal and moral owners’, 22% defined the ownership as the governing body or board of directors itself without any reference to other stakeholders, and 15% interpreted ownership in the context of corporate governance as being about taking ‘responsibility’ for the implementation of good governance. One respondent also stated that ‘I'm not sure ownership as such links to corporate governance other than the owners of the organisation are one of the key stakeholders for which appropriate governance is required’. Also, another respondent explained that although in theory the shareholders are the owners, ‘in reality, the CEO and/or the board (chair) own the company in a sense that they determine what these values should be and how they should be achieved’.

Shleifer and Vishny (1997) suggest that even if shareholders elect the board, directors may not necessarily represent their interests. Given that in the results discussed in section 4.3 Defining Corporate Governance, only 23% of respondents made reference to ownership it may be that there are still a significant proportion of governance professionals who do not identify a key aspect of corporate governance as representing the interests of owners including shareholders and stakeholders.

i) Ownership as Dependent on Organisation Type

There were also 7% of respondents who explained that the definition of ownership depends on the organisation type, for example, private, public or non-profit. One respondent suggests that for a non-profit the owners are stakeholders but for a for-profit organisation, the owners are the shareholders and another explains that ‘ownership relates to those individuals who directly own an organisation through their financing of the business’ but that it is different for public companies. This relates to the issue raised by Apreda (2003:5) who has the unique view that ‘the expression Corporate Governance amounts to a misnomer’. He explains that all organisations display some form of governance structure, including non-profits, cooperatives and even state-owned or public firms (Apreda, 2003). Therefore, corporate governance can really apply to any sort of organisation and not just corporations. It is interesting to note that in, for example, the non-profit field, there is no equivalent term for ‘corporate governance’ that is used with consistency and with as much literature around it as ‘corporate governance’ is used in the corporate field. Also, does ‘corporate’ mean whole entity or any incorporated organisation or just a for-profit organisation"? This is an interesting linguisitic anomaly related to corporate governance. It would be useful to analyse ownership in different types of organisation and how it can be defined and also, in light of the issue that Apreda raises about the lack of an equivalent term to corporate governance in the non-profit field, how a cross-sector definition might best be established. These results focus on corporate governance in relation to corporations, however future research could discuss whether a separate governance definition should be created for different types of organisation or whether a governance definition can apply across contexts.

<u>ii) Ownership as Shareholders</u>

40% of respondents identified shareholders as owners of the corporation and about half of these were identifying shareholders alone whereas the other half also identified other stakeholders. At the beginning of the twentieth century, ownership was very clear. ‘Directors were the instruments of their owners’ (Conger et al, 2001: 142). Most of large corporations in America were still run by their founding owners and shareholders and Directors were accountable to them (Conger et al, 2001). However, as corporations have grown in size, so the owners and the managers have become separate and the need for the board to be aware of the corporation’s owners is created. Even still however, research by La Porta et al (1999) showed that ‘only in economies with good shareholder protection there are firms widely held by many shareholders; in most countries, instead, firms are typically controlled by families or by the State’ (cited in Apreda, 2003: 10).

The OECD (cited in Apreda, 2003:5) view a common theme throughout all governance systems as ‘a high degree of priority placed on the interests of shareholders, who place their trust in corporations to use their investment funds wisely and effectively’.

Generally, the board of directors are viewed in the literature as the delegates of the shareholders and their interests (Mujib, 2009). The directors are elected by the shareholders at the Annual General Meeting and act as the link between the managers and the shareholders.

iii) Ownership as Relating to Different Types of Shareholder

Although 40% of survey respondents identified ‘shareholders’ as owners of the corporation, it is clear from the literature that the concept of shareholding has changed in recent years and to represent the interests of such a diverse group has increased the complexity corporate governance. Carver (1998) suggests that the board is accountable to shareholders for everything a company does and does not do, however:

'The average holding period of equities has declined from 8 years some 70 years ago to 4 years 30 years ago to less than a year now. This has been exacerbated by growth in the market for corporate control. What this is doing is essentially to shorten the horizon of shareholders. It imposes increasingly short horizons on those running companies, and a reduced commitment of shareholders to corporate long-term investment decisions' (OECD, 2012:30).

A gap has emerged between different types of shareholders today. There are those who buy shares as part of a 'diversified, long term investment strategy' (Conger et al, 2001:xii), for example, pension funds, which have an interested in governance effectiveness over the long term. And there are 'day traders' or 'managers of mutual funds who generally make shorter-term bets on stocks that can outperform the market' (Conger et al, 2001:xii) who are less interested in governance for the long-term and more interested in short term rises in share prices. Can these two groups be viewed as a homogenous 'ownership' from which the board can draw a rationale for decision making?

In a recent article in CSR wire, leading corporate governance expert Bob Monks (2013), said that 'if we want responsible corporations we need to be responsible owners'. But, he asks, who are the owners?

'It used to be an owner was an owner. You knew who they were and that person was in charge. Who knows who owns most of America's big companies these days? Probably, we all own infinitesimal amounts through funds but ownership at that level is virtually unknowable' (Monks, 2013).

He explains that in many cases today, ownership is so widely dispersed that no individual shareholder holds a principal position and he calls these 'drone corporations'. Monks' recent research 'showed unowned companies to be run by powerful managers or CEOs with little or no accountability to ownership. Lack of accountability is a clear indication that a corporation has no effective owners' (Monks, 2013). When this happens, certain circumstances tend to arise such as excessive compensation plans for executives, penalties for misconduct or negligence, unapproved or even undisclosed political spending for lobbying government, and underperformance for shareholders (Monks, 2013). This research shows the importance of ownership and the impact that more or less involvement from owners can have on the corporation.

If boards are not being proactive in shareholder relations this can also be problematic because shareholders must be informed to exercise their control rights (Shleifer and Vishny, 1997) and different shareholders can have different expectations of an organisation, for example different size investors and these must all be evaluated.

'In the last decade, we have witnessed a dramatic rise in shareholder activism' (Conger et al, 2001:xi) and many investors make their investments based on their confidence in corporate governance standards (Tafara and Peterson, 2010).

iv) Ownership as Stakeholders

Of the 56 survey respondents, 23% identified 'stakeholders' as owners. This included 9% who only used the term 'stakeholder' without any specific reference to shareholders. However, shareholders may be implied as 'stakeholder' can shareholders *and* other internal (e.g. employees) *and* external persons and bodies (e.g. suppliers, regulators, customers).

In the ownership debate, there are generally two schools: the shareholder focus and the stakeholder focus. In general, 'insider' stakeholder oriented ownership model is most prevalent in Germany and Japan while the 'outsider' shareholder oriented ownership model is most prevalent in the UK and US (Dignam and Galanis, 2009).

Stakeholder theory has more recently this been having influence on mainstream thinking. The UK Financial Reporting Council's recently published Guidance on Board Effectiveness (2011) places an emphasis on taking stakeholder views into account. However, the UK Corporate Governance Code, which was revised in 2012, does not include the word 'stakeholder' at all. It is generally recognised though that directors and regulators need to establish structures and processes for collecting business intelligence from stakeholder networks (Turnbull, 2002:4).

Apreda (2003:6) makes an interesting distinction between stakeholders and gatekeepers:

'Everybody that is able to hold a claim on any organization becomes its stakeholder. [..] On the other hand, gatekeepers (or reputational intermediaries) are those organizations that should safeguard the interests and rights of different stakeholders.'

Example of gatekeepers as explained by Apreda (2003:6) are:

'auditing and accountancy firms, investment banks, law firms, market regulators, institutional investors, creditors' trustees, NGOs (non-government organizations acting as watchdogs of organizations, markets, and government agencies).'

Apreda (2003:6) also ranks stakeholders by importance as follows:

'*owners and creditors (banks, investment funds, bondholders, institutional investors) and managers are the main stakeholders, followed by employees (through unions and pensioners), government (by means of taxes, regulations and complainants), suppliers (on bonding and trust concerns), customers (on quality* *and conveniences), and communities (mainly on the grounds of environmental damages or developmental issues)'.*

This is unique because managers are not usually considered as separate stakeholders from employers and stakeholders are also not usually ranked in a hierarchical order, with for example in this case, employees being considered as a more important stakeholder than customers. One survey respondent who identified both shareholders and stakeholders as owners did specify that shareholders were primary and stakeholders were secondary.

v) Ownership as 'Legal and Moral Owners'

Another phrase that was used by 5% of respondents was 'legal and moral owners'. This originates from *Boards That Make a Difference* (2006), a book by corporate governance theorist, John Carver. He distinguishes between *legal owners*, those with the authority to elect the board of directors, and *moral owners*, those who the board might also choose to act on behalf of due to their interest in the organisation fulfilling its purpose on behalf of themselves and others.

vi) Conclusions

In contrast to definitions from the literature which in the Anglo-American corporate governance paradigm are most often based on agency theory, only 23% of survey respondents defined corporate governance by making any reference to owners, shareholders or stakeholders. However, of those 23%, more respondents used the term 'stakeholders' than those who identified shareholders alone as owners. This aligns with the literature which describes the rise of stakeholder theory. More definitions are beginning to include stakeholders however the UK Corporate Governance Code does not as of yet. These survey results may be an example of the literature definitions having not yet caught up with changes in norms and practices amongst governance professionals.

4.5 Defining Performance

Respondents were asked describe how they define and understand 'performance' in the context of corporate governance and this was interpreted in two different ways. Performance in the context of corporate governance can be considered to be in relation to the organisation or in relation to governing mechanisms.

In terms of performance, the OECD (2012:30) said

‘The UK initiated the rules that have given rise to the corporate governance codes. It promoted independent directors, auditors and remuneration committees well before many other countries. It has a dispersed share-ownership system, the most active market for corporate control of any country in the world, increasing institutional activism and some of the strongest creditor rights anywhere. And its performance has been very poor.’

The excerpt does not go on to explain in what sense ‘performance’ has been poor. Does this mean that UK companies have not achieved good profits in comparison with others? Does it mean that corporate governance performance in terms of boards operations has been poor? This is not specified. It is often implied that good governance leads to better financial performance. However, this is a topic of debate. Brigman (2007:150) argues that:

‘It is very doubtful that good governance causes good performance — the relationship is probabilistic: a well-governed organisation has a better likelihood of good performance than a poorly governed one. The relationship also has reciprocal elements: good performance is likely to facilitate good governance. Any contest around this idea is fuelled by divergent views about the causal relationships between performance and management processes.’

<u>i) Performance of Governance Mechanisms</u>

20% of respondents answered in a way that referred to the performance of the governance mechanisms themselves, and in two-thirds of cases this was specifically centred around the board. It is interesting that although only 25% of participants in their definition of corporate governance made any reference to the board, when in this question, discussing corporate governance performance, two-thirds of respondents identified the board as the key governing body.

In terms of board performance, there is a large industry with the purpose of independently evaluating board performance. Research by Conger et al (2001:106) found that there are a 'variety of different approaches to measuring how a board performs'. There is no one approach to evaluating board performance and this could likely be due to the fact there is no one definition as to what good board performance looks like. There are evaluations based on 'predetermined, tangible objectives by which a board's performance can be tracked' (Conger et al, 2001:103). They can often include feedback on the 'performance' of individual board members (Conger et al, 2001) and these involve a definition of performance which differs depending on the evaluator.

Sometimes these evaluations are done internally however in the UK, in order to comply with the UK Corporate Governance Code, publicly listed companies must be externally evaluated at least every third year. These are often done by large auditing firms such as PricewaterhouseCoopers or Deloitte, but can also be carried out by smaller evaluation specialist firms.

Chidambaran et al (2006) explain that many studies suggest that changing certain governance mechanisms results in better firm performance. For example, 'smaller board size, more outsiders on the board, more board meetings, a higher CEO payperformance sensitivity, higher managerial ownership, higher institutional ownership, and stronger shareholder rights' (Chidambaran et al, 2006:1).

Other studies however 'suggest that these governance mechanisms are endogenously determined' (Chidambaran et al, 2006:1). Gompers, Ishii, and Metrick (2003) conclude that although there is some evidence that poor governance has caused poor performance it is also possible that there are other causal factors at play and that this is an area for further research.

Directors are used to asking questions about expectations and returns from others (CEOs, staff), and not so often of themselves (Macnamara, 2002). Also, the ways that good governance contributes or not to results or reputations of organisations is an issue that remains unclear (Macnamara, 2002). Answering these sorts of questions of the board however will go a long way to restoring confidence in governance bodies and furthering the development of useful theories of governance (Macnamara, 2002). In recent times, organisations have been beginning to realise how much their value is dependent on intangible factors including the board of directors (Macnamara, 2002). And governance has become an important factor in marketplace valuation (Monks, 2002).

ii) Performance of the Organisation

80% of respondents defined 'performance' in terms of the performance of the organisation, as opposed to governance mechanisms. 12% referred to success in a generic sense while 50% made reference to the setting of objectives or expectations for performance.

This is similar to the distinction that emerged in the corporate governance definitions about whether governance is about ensuring performance and/or about *defining* it. Most of the survey responses which identified performance outlined the responsibility to ensure performance and a minority added a distinguishing feature which suggested that corporate governance was also about setting out what performance means; what the objectives of the corporation are. However, in the question about performance more specifically, 50% made reference to the setting of ‘agreed objectives’, ‘the desired results’ or ‘set objectives’. This is a larger proportion who are discussing the setting of goals rather than just achievement of them. Another interesting observation about these results is that of those 50% of total respondents who referred to ‘agreed’ corporate objectives, only one specified that the board should set these objectives. None of the remaining 27 responses explained how or by whom the desired objectives for performance were set. This relates to the results to the previous question on the definition of ‘corporate governance’ where the board was only mentioned in 25% of responses.

Criteria are needed to measure performance. However, criteria for organisational or board performance are often assumed and implied rather than made explicit. The other issue around performance is that one must be sure that the criteria are complete. If some but not all criteria are stated, it leaves the possibility open for performance to be highly regarded even though it is failing on a certain criteria which has not been stated. For example, a CEO of bank might be seen as performing well because share prices are rising, however he or she could be obtaining these results through unethical behaviour. If ethical behaviour was not stated as a criterion of good performance, this variable would be unaccounted for in the measurement of performance.

This is related to another theme within the data on performance which is about holding the executive accountable. In 9% of responses, respondents made it clear that because executives are responsible for operations and the implementation of strategy, measuring performance is about holding executive accountable for delivery. This was related to the 25% of respondents who discussed measurement in their definitions of performance. Definitions included, for example, ‘measurable outcomes aligned with the organisations core purpose’, ‘performance is the measurement of success compared to defined objectives’. One respondent however, explained that ‘the MD and key executives will analyse their own performance and delivery of company strategy through the efficient and effective implementation of agreed objectives’. This is a definition which does not address any authority of the board over executives to measure their performance. Also, only 10% of respondents specified that there were certain boundaries related to risk and ethics that executives needed to adhere to in their achievement of performance.

Bridgman (2007:154) explains some of the complexities in defining and therefore measuring performance:

‘Performance improvement is an altogether more complicated proposition. One performs in a graduated rather than categorical way. The organisation met the targets, exceeded them, almost met them, or maybe the targets became irrelevant due to changing circumstances and performance must be assessed in a different context. Performance improvement requires considerable understanding in order to be determined.’

Wilkes (2004) explains that ‘performance measures [..] should be unique to the organization and its competitive strategy’ and this may explain why many of the respondents gave fairly generic responses relating to ‘success’ or ‘results’.

iii) Performance on behalf of Shareholders and Stakeholders

In defining performance, there was a different attitude toward shareholders and stakeholders. While in respondent definitions of corporate governance, more respondents referred to stakeholders than to shareholders, in defining performance the opposite pattern emerged. Asked to define performance in the context of corporate governance, 9% of respondents defined performance as the creation of shareholder value or profit. Those respondents made no reference to any other stakeholders. Stakeholders were only identified in 3.5% of responses. This may indicate that while at the broad theoretical level the respondents emphasize stakeholders over stakeholders, when it comes to performance in a specific tangible sense, the emphasis goes back to shareholders. This may be because it is easier to measure shareholder value than performance on behalf of other stakeholders. In their discussion of stakeholders in relation to performance, Charreaux and Desbrieres (2001:27) argue that 'it is hardly contestable that focusing on the managers/shareholders relationship within the current debate on corporate governance is related to the measurable and objective character of the market value, which is continuously available for the listed companies'.

Also, as opposed to the 25% of respondents who referred to sustainability and the long term in their definitions of corporate governance. Only 3.5% referred to these concepts in their definitions of performance. Again this may indicate that when it comes to discussing tangible results and performance, the consideration of stakeholders and sustainability is less pronounced.

iv) Conclusions

Defining ‘performance’ was interpreted in two different ways by participants: performance of the governance mechanisms and performance of the organisation. Of the 20% of respondents who defined performance in terms of the former, two-thirds specifically referred to the board of directors as the main governance body. This is despite the fact that when defining corporate governance, only 25% made any reference to the board of directors. This result indicates that although 75% did not include it in their definition, many may still implicitly believe that the board of directors is responsible for corporate governance. Also, when discussing performance more respondents outlined shareholder value and there were far fewer references to stakeholders. This indicates a possibility that while at the level of defining corporate governance as a whole respondents emphasise stakeholders over stakeholders, when it comes to performance in a specific tangible sense, the emphasis goes back to shareholders. This is an area which further analysis could explore further.

4.6 Defining Value

Following on from the language used to define corporate governance, a term which is often used in discussions of corporate governance is ‘value’. ‘Value creation’ is often referred to as the main aim of the corporation however it also often goes undefined. Respondents to the survey were asked to explain their own definition of ‘value’ in the context of corporate governance. As with the question on ‘performance’, this was interpreted in two different ways by respondents. 23% of participants interpreted ‘value’ in the context of corporate governance as being about values of the board and organisation. The remaining 77% referred to value in terms of results for owners. This analysis will focus on the latter 77% and how they define value in relation to results for owners.

i) Value as Shareholder Return

The 2012 OECD Report on ‘Corporate Governance, Value Creation and Growth’ explains that ‘there is a widely held view that corporate governance is about enhancing shareholder value, protecting shareholder interests and ensuring that firms act in the interest of their shareholders’ (OECD, 2012:29). Many of the definitions of corporate governance today come under what the OECD describes as the ‘static approach’ in which ‘we cared more about the distribution of wealth and in particular the risk of misappropriation of wealth created within companies rather than the process of value creation’ (2012:14). For example, For example, Shleifer and Vishny (1997 cited in Charreaux and Desbrieres, 2001: 2) define corporate governance as ‘the processes by which the resources suppliers – reduced to only financial investors – guarantee the profitability of their investment’.

In discussing ‘value’, survey respondents referred to shareholder value in 21% of cases. Of these, half also included other stakeholders in their definition, while the other half defined value narrowly in terms of ‘return on investment’ stating, for example, that ‘shareholders want value (money) for their investment, that is their highest priority’. This means that 10% of respondents defined value as purely shareholder return.

ii) Value for Stakeholders

The OECD (2012:29) attempts to explain different types of value by stating that 'corporate governance is not about enhancing shareholder value' but it is about 'growth, entrepreneurship, innovation and value creation'. In addition to this,

'the correct focus of corporate governance therefore should not be on enhancing shareholder value per se, but on how one structures these aspects of corporate governance in terms of ownership, boards and remuneration to achieve the right balance between the degree of control that investors are exercising and the degree of commitment they are showing to firms, with a view to attaining the firms' objectives' (OECD, 2012:30).

The OECD (2012:8) explains that there is a 'dynamic, economic and growth-oriented approach to corporate governance'. The focus of this approach is 'to make sure that the rules serve the purpose of innovation, value creation and growth' rather than on the objective of regulating 'how different parties to the company should split a given set of assets or a given result' (OECD, 2012:8).

The OECD (2012:21) also states that 'corporate governance should not only focus on reducing principal-agent problems. There is more to corporate governance than increasing shareholder or stakeholder value. A focus solely on these issues will crowd out entrepreneurship in listed companies'. However, no definition of value or entrepreneurship is provided. There is also no definition provided for the difference between 'enhancing shareholder value' and 'value creation'. There is also no clear distinction made between 'achieving the firms' objectives' and how this is difference from creating shareholder value. As well, there is no explanation as to who sets the firms objectives. Therefore, a degree of ambiguity remains in this for those trying to implement corporate governance.

Charreaux and Desbrieres suggest that it

'appears necessary, even if the cost is high, to direct research towards other approaches, perhaps more qualitative, of created value and to study the corporate

governance problem according to a concept conforming to the theoretical visions dominating the firm'.

19% of survey respondents referred to stakeholder value within their definitions of 'value'. For example, definitions included, 'the focus on achieving sustainable benefit for all stakeholders in the enterprise, clients, staff and shareholders and where applicable the community at large', and 'enhancing performance to the benefit of all stakeholders' and 'results that accord with (legal and moral) owners' intentions'. Therefore, there were more respondents who identified value in terms of stakeholders as well as shareholders than those who identified shareholder value alone.

<u>iii) Value Over the Long-Term</u>

Only 5% of respondents made reference to the long-term or sustainability in terms of value. This is slightly lower than the 15% who referred to the importance of sustainability of results in their definition of corporate governance.

Some studies have criticised the Anglo-American corporate governance model for placing too much emphasis on short-term value in measurements of performance (Porter, 1992; Thurow, 1993). They argue that in the German and French economies are less constrained by pressures for short term financial results and this allows for more consideration of stakeholder value (Charreaux and Desbrieres, 2001).

Given that a minority of the governance professionals responding to the survey referred to the long-term or sustainable value, these survey results align with the literature which suggests that the Anglo-American corporate governance model is more short-term focused. There have been some changes in the literature to try to address this short-termism in Anglo-American corporate governance for example, however, these changes may not yet be embedded in the understandings of those actually involved in the implementation of corporate governance in the UK.

iv) Conclusions

Corporate governance literature in the UK has begun to define value in terms of more than just shareholder return in the short term however these results indicate that there may still be some progress to be made. About twice as many respondents did refer to ownership and stakeholder value as including and not limited to shareholder value and it is clear that the literature and survey respondents are moving towards a more stakeholder focused approach. However, in definitions of ‘corporate governance’ the reference to stakeholders outweighed reference to shareholders alone by about ten times. Therefore the emphasis on stakeholders appears to be less when discussing ‘value’ as opposed to corporate governance in general. Value in terms of stakeholders is more difficult to measure and define and 10% of respondents identified ‘value’ as being solely related to shareholder return on investment (as opposed to only 2% in the definitions of ‘corporate governance’). Also, only 5% of respondents made reference to sustainability or value over the long term even though 15% referred to the long term in their definition of corporate governance. If definitions of ‘value’ and ‘performance’ which many respondents see as the measure of the achievement of corporate objectives (see section 4.5 Defining Performance), do not specify long term and stakeholder benefits, then the actual implementation of corporate governance may not prioritise these considerations as much as their definitions of ‘corporate governance’ would suggest (see section4.3 Defining Corporate

Governance). In order to move toward consensus on the definition of ‘value’ and ‘value creation’, further exploration of how stakeholder value can be defined is necessary. In light of the influence of the stakeholder paradigm and pressures to operate for the longer-term, should ‘value’ still be described as shareholder return? Should there be an added stipulation of *taking account* of stakeholders? Or should there be more consideration of attempts to define stakeholder value (as in, for example, Charreaux and Desbrieres, 2001) in order to incorporate this into the language? Close analysis of how the language we use to describe ‘value’ reinforces or undermines stakeholders and the long-term could lead to a definition of value more closely aligned with attitudes and practices of those involved in corporate governance today. In a 2012 report from the Financial Report Council to mark the 20th anniversary of the UK Corporate Governance Code, Chairman of Centrica plc, and President of the Confederation of British Industry, Sir Roger Carr, said ‘whatever the good intentions, short term performance continues to be the priority for many’. The results from the primary data in this research would conform to this suggestion, whereby a majority of respondents emphasize stakeholders and the long-term in their definitions of corporate governance as a whole, but perhaps due to lack of a clear semantics to work from, definitions and understandings of ‘value’ and ‘performance’ are less clear on the relationship to stakeholders and the long-term.

4.7 Defining Risk Management

The concept of risk is a fundamental aspect of the UK Corporate Governance Code definition of the role of the board which is described as ‘to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed' (Financial Reporting Council, 2012:8). Despite the emphasis on risk management as a key function of corporate governance throughout the UK Corporate Governance Code, no definition of risk is given in the Code and according to Anderson, a risk expert commissioned to write a report on risk for the OECD, 'risk definitions are often poorly expressed' (2009:14).

Survey respondents were asked to explain their definition and understandings of 'risk' and a few main themes emerged. The most common theme to emerge, in 32% of responses, was to describe risk as any 'threat' to 'results', 'success' or 'performance'. However, a number of additional concepts were raised in survey responses.

i) Risk as the Effect of Uncertainty

The 'International Organization for Standardization' (2009) ISO 31000 *Risk management – Principles and guidelines* defines risk as 'the effect of uncertainty on objectives'. Of the survey respondents, 12.5% used this definition and another 9% made reference to the 'unknown' or 'unforeseen'. This relates to the idea that the worst kind of risk is the one that an organisation does not know it is taking. Although there is consistency in terms of identifying risk as being about the know-able and the unknowable, Anderson (2009) suggests that there is not enough guidance on how to approach and deal with risk. He argues that 'none of the existing guidance on risk management is adequate for the purpose. Most of the guidance is extremely high level, is process-oriented and gives scant guidance on how to create an effective risk management and assurance' (2009:3). Perhaps, given that there is consensus on the idea that risk is related to uncertainty, more research is required in terms of how risk should most usefully be approached.

ii) Risk as Decision Making

One of the main principles of the UK Corporate Governance Code (Financial Reporting Council, 2012:7) is that 'the board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives'. There is reference to this in another FRC document 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies' (2009:8) which explains that:

'There are many types of financial and operational risks facing a company and directors should identify which risks are most significant to their company'.

This concept is raised in 10% of survey respondents who pointed out that risk is inevitable and that risk management is about making choices about which risks the organisation is willing to take. One third of these identified the board of directors as responsible for these decisions. This is also related to the two respondents who described risk as 'the board attitude toward experimentation' and 'the preparedness to act in an entrepreneurial way'.

The OECD (2012:68) explains that 'a proper definition of risk appetite is extremely important in taking strategic decisions, and formal training is very useful in creating a common understanding about risk management'. However, Anderson (2009:31) suggests that 'it is not uncommon for risk management to mean different things in different parts of an organisation'. One survey respondent suggested that there are many different types of risk and that 'a distinction has to be drawn between risks that could endanger the ongoing existence of a company and those which only affect short-term profitability. Corporate governance should be mainly concerned with risks that could put you out of business'. In defining risk in the context of corporate governance, is it appropriate that the board or governing body should assess only certain types of risk? These results suggest again that in order to create progress around the language of 'risk', further exploration may need to focus less on the meaning of risk which seems to be fairly consistent, and more on how risks can be most efficiently viewed and analysed by the board.

iii) Risk as Positive and Negative

Another 10% of respondents referred to the idea that risk can be positive and negative. These respondents suggest that risk is about 'opportunities' as well as 'threats' or 'challenges'. This is counter to definitions from the literature, where they exist, which tend to frame risk as a negative. For example, the Business Dictionary (2013) defines risk as 'a probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through preemptive action'. This difference in the definitions of risk points to another area for potential debate to move toward consensus in the language of corporate governance. Is it useful to define risk as being about positive and negative potential events; opportunities and threats? Or would this have the effect of reducing the definition of risk to 'meaninglessness by making it applicable to everything in organisational life' (Bridgman, 2007:150)?

iv) Conclusions

Respondent definitions of 'risk' had a considerable degree of consistency which may indicate that there is a fairly strong common sense of the meaning of risk. In particular there were common themes in terms of defining risk as the 'effect of uncertainty' and as an inevitable set of choices that need to be made as to the risks that the organisation is willing to take. However, it was noted that there is less clarity in the literature on how risk should actually be managed and how this process can be most effective. Future research could explore the different approaches to risk management that governance professionals today are using and how they compare with depictions from the literature. Another area for discussion emerging from the data concerned the different types of risk and whether only certain types, for example ones that could eliminate the entire business, should be considered by the board or governing body. Finally, there was also a difference between those who described risk as being about both threats and opportunities, or about both positive and negative, and those who view risk as purely about threats to results for owners. This is a choice in the language of risk which needs to be explored and debated further in order to create more consensus in our understanding of what risk means in the context of corporate governance. Especially in light of the fact that risk management is central to the UK Corporate Governance Code definition of the role of the board, it is important that we have these discussions to create some consensus in the way these fundamental guidelines and recommendations are being interpreted by those implementing them.

4.8 Defining the Difference between Governance and Management

'Governance has infused our collective conscience and pervades the way we talk about management' (Bridgman, 2007:149). This idea could also apply the other way around. As discussed in section 4.3 Defining Corporate Governance, 12% of respondents used the verb ‘to manage’ to describe the meaning of ‘corporate governance’.

Management literature emphasizes the critical role that leadership at the top of corporations plays in setting out vision, creating strategy and decision making and there is a natural progression from looking at managers to looking at those who oversee, advise, and hire and fire them (Conger et al, 2001:xi). However, often the distinction between the two is not clearly made.

i) Governance as Steering and Management as Rowing

62% of respondents identified management as being about ‘implementation’, ‘operations’ or the ‘day to day’ activities of the organisation (set out in the process of governance). One respondent used the phrase ‘governance is steering and management is rowing’. Another explained that ‘managers do’. 41% of respondents specified that governance was about creating strategy, setting policies, or setting goals and 32% included oversight of managers as a distinguishing feature of governance. As one respondent describes it, ‘governance is the supra management body. They hold the strings and make the puppets move’. From the survey results, this concept of governance being about direction and management as about implementation is the most commonly held. It is also prevalent in the literature and aligns with the first part of the UK Corporate Governance Code definition whereby ‘corporate governance is the system by which companies are directed and controlled. It also aligns with Clegg et al (2010:8) who define managing as ‘an active, relational practice which involves doing thing. The things that managers do are supposed to contribute to the achievement of the organisation’s formal goals’.

The line between oversight and 'doing' can be hard to draw in practice. Hambrick et al (2008:382) explain one of the difficulties:

'oversight is not simply a task but instead is an activity that implies the loss of autonomy for those who are overseen; and such corporate actors as CEOs and other top managers are often loath to give up the discretion they feel they deserve, given their significant responsibilities as senior executives'

Also, one respondent suggested that 'the board plays an oversight role, but there are times when the board needs to dive in from an overseer to active participant'. However, the delineation between what is appropriate for the board to 'dive into', and what is not, remains unanswered. Also, the 'governance as steering and management as rowing' distinction leaves out an aspect of governance which is an integral part of many definitions from the literature (as discussed in section 4.3 Defining Corporate Governance): the relationship to owners.

<u>iii) Governance as Representing Owners and Management as working for the Board</u>

Only 15% of survey respondents referred to the representation of ownership as a distinguishing feature of governance. Two respondents used the phrase 'governance is ownership one step down rather than management one step up'. This is another concept originating from the Policy Governance model proposed by Carver (2006). This sentiment is counter to the idea from another respondent that governance is the 'supra-management body'. This low percentage of respondents referring to ownership is similar to the result in section 4.3 Defining Corporate Governance, where 33% of respondents defined 'corporate governance' in a way that related to the representation of owners, shareholders or stakeholders. However, there is some confusion from the literature as well. Clegg et al (2010:8) for example, define management as

‘the process of communicating, coordinating and accomplishing action in the pursuit of organisational objectives while managing relationships with stakeholders, technologies, and other artefacts, both within as well as between organisations.’

Based on this definition, managing relationships with stakeholders would not be the sole territory of governance as opposed to management. However, if it is not, does this impact a clear line of accountability? This is another area for consideration in shaping the language of governance. Is the representation of owners a unique feature that distinguishes governance from management or is it applicable to the whole organisation?

iii) Governance as Responsibility of the Board and Management as Responsibility of Executives

16% of respondents made the distinction by referring to the role of the board as being governance and the role of managers as being management. Similarly but with a slightly different implication, one respondent suggested that governance is the responsibility of non-executives and delivery is the responsibility of executives. This idea, if implemented at the board level could create issues in terms of executives who are on the board. In these cases, it is not only non-executives who are being asked to be responsible for governance and executives are supposed to who are supposed to ‘wear two-hats’.

iv) Conclusions

The majority of respondents described the difference between governance and management as being about the difference between oversight and implementation, also phrased as the difference between strategy and implementation or steering and rowing. A minority of 15% identified representing owners as a feature of governance which makes it distinct from management. This is a low proportion, again, given the prevalence of the agency theory paradigm in the UK. This highlights a key area for future discussion. Is the responsibility to represent owners applicable at all levels of the organisation? Or does part or all of the uniqueness of governance relate to interpreting the will of owners to create a rationale for an organisation's existence and conduct that can be delegated to managers as employees to implement?

5. Conclusions and Recommendations

5.1 Introduction

Tricker (2009:233) recently described corporate governance as 'a subject in search of its paradigm'. It is argued that all of the current theories highlight one aspect of governance but none so far are able to produce an all-encompassing theory (Tricker, 2009). Due to the lack of a generally accepted theory of governance, there is a wide gulf between the roles of a board de jure versus de facto. This relatively slow pace of theoretical progress in corporate governance could be partly attributed to the lack of consensus in terms of language.

This study covers new ground in furthering the development of the language of corporate governance by seeking insight into how those actually involved in governance (e.g. directors, executives and consultants) personally define and understand a set of key terms underpinning corporate governance theory and practice today. The results of this study will be of significance to: governance professionals who may be interested in how others in their field define terms; as well as academics who will find a number of areas for future research; and regulatory bodies who may seek to understand how guidelines and reports are interpreted by those for whom they are provided for.

5.2 Conclusions

The following conclusions can be drawn from the results of addressing the principal research questions presented in section 2.5:

1. Corporate governance is variously defined, in both the literature and survey data, as a system or as a process. Within definitions of corporate governance as a system, it is variously defined as a system that is formally created and implemented or as a system that exists as a web of institutions which impact decision making.

2. There is ambiguity within both the literature and survey data as to whether the board of directors is a player in corporate governance equal to any other or whether it is the main source of authority and accountability for governance within the corporation.

3. Representation of owners (defined variously as shareholders, stakeholders or legal and moral owners), was included in a low proportion of survey respondents' definitions of corporate governance as compared with definitions from the literature. As well, in respondent definitions of the difference between governance and management, only 15% identified the representation of owners as a

distinguishing feature of governance. These results indicate that despite emphasis on the separation of ownership and control in the literature, the representation of ownership is not a primary purpose of governance for governance professionals today. The emphasis instead is on ‘direction and control’.

4. There is a disjuncture in the data, both survey and literature, as to whether corporate governance is about ensuring performance or defining what good performance means. Most emphasize the responsibility to ensure performance. However, there are enough suggestions within the data that governance is also about defining performance that this is worth consideration in any discussion that seeks to move toward consensus in the language of corporate governance.

5. Of the respondents who did identify the representation of owners in their definition of corporate governance, a majority of respondents referred to stakeholders as opposed to shareholder value alone. However, in defining ‘performance’ and ‘value’ more specifically, the proportion of references to ‘stakeholders’, ‘sustainability’ and the ‘long term’ reduced significantly. This may indicate that while at the broad level of corporate governance respondents are cognisant of stakeholders and sustainability, when confronted with more tangible, measurable ideas such as ‘value’ and ‘performance’, there is a tendency to focus more on shareholders.

6. There was a relatively higher degree of consistency in defining ‘risk’ among the literature and survey data. However, a disjuncture emerged between those who define ‘risk’ as being applicable to negative and positive possible events; to threats and opportunities. This is counter to the traditional conception of risk as a negative threat.

7. In describing the difference between governance and management, there was consensus around the idea of governance as oversight and management as operations. However, there was no evidence of any definition of how that line is drawn in practice. The majority of respondents focused on governance as direction and control only and only a minority made any link to ownership. This points to a difference between viewing governance as a ‘supra-management’ body or as ownership one step down.

5.3 Recommendations

The results of this study point to a variety of areas of potential future research.

One of the primary trends emerging from the results of this study was that governance professionals did not define governance in relation to the representation of owners as much as definitions from the literature do. Further research could explore the extent to which directors identify representing the interests of owners as a primary purpose of governance and what implications this has for practice.

Given the difference between a system and a process, it would also be useful to create a debate to move toward a consensus on which corporate governance is most usefully viewed as. Is corporate governance viewed as something which exists as a web of institutions all impacting decisions at the governing level, or is it viewed as a process of formally implementing either an overall approach or certain practices and routines? In relation to this, further research could be done to determine whether the board of directors needs to be seen as the ultimate responsible authority for good governance in order to create a point of accountability.

Also, in light of the influence of the stakeholder paradigm, do we need a new language to surround the concept of value? More research could be done to clarify the concepts of performance, value and ownership by establishing whether all stakeholders should be of equal priority or whether the fundamental purpose of the corporation is still to create shareholder value with the added stipulation of taking account of stakeholders.

Finally, future research could also explore whether a separate governance definition should be created for different types of organisation or whether a governance definition can apply across contexts.

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APPENDIX 1 – Survey tool ‘The Language of Corporate Governance: Birkbeck College Dissertation Survey’

This confidential research survey seeks to understand more about the language used in Anglo-American corporate governance and how certain terms are understood and defined by those involved in corporate governance in the UK. The data will be presented completely anonymously in a Masters of Research Dissertation for Birkbeck College in Corporate Governance and Business Ethics. The survey consists of 9 questions and should take between 15-20 minutes to complete. The questions address a variety of key terms in corporate governance and ask how you define and understand these terms. Please answer in your own words without reference to outside sources. It is your personal understandings which are useful for this study. It is completely anonymous and un-attributable. You will not be asked for your name or workplace, only a job title in order to be able to assess response variations based on role. Therefore, not even the researcher will be able to attribute the answers given.

Thank you for your participation and for contributing to academic progress in the important and challenging field of corporate governance.

If you have any questions please feel free to email the researcher, Fiona Burgess, at burgessfe@gmail.com.

1. What role(s) do you undertake?

☐ Board Director
☐ Chair
☐ CEO
☐ Senior Executive
☐ Company Secretary
☐ Consultant
☐ Academic
☐ Other (please specify)

2. In your own words, please describe how you define and understand 'Corporate Governance'.

3. In your own words, please describe how you define and understand 'Value' in the context of Corporate Governance.

4. In your own words, please describe how you define and understand 'Risk' in the context of Corporate Governance.

5. In your own words, please describe how you define and understand 'Ownership' in the context of Corporate Governance.

6. In your own words, please describe how you define and understand 'Performance' in the context of Corporate Governance.

7. In your own words, please describe how you define and understand 'Performance Review' and please explain how the Board reviews the performance of the CEO.

8. How would you describe the difference between 'Governance' and 'Management'?

9. Have you ever found that a colleague has defined a certain term related to Corporate Governance differently than to how you understand the term? If so, please describe.