Chapter 1

1 Read the definitions of corporate governance provided in this chapter. What would be your own, preferred definition of 'corporate governance'?

Clearly, there is no set answer to this question as it is completely subjective. The aim of the question is to encourage students to read a broad range of material and assess the competing theories in order to arrive at their own personal definition and viewpoint. The discussion should centre on whether the student prefers a narrow (shareholder-oriented) or a broad (stakeholder-oriented) view. One interesting exercise which could be carried out in a tutorial session on the basis of this question would be to make a record of the students' definitions of corporate governance. Then at the end of the module, in the final tutorial session, the students could be asked to write another definition of corporate governance. The definitions and perceptions of the subject of corporate governance held by the students before and after the module would serve as an interesting basis for comparison.

2 Which theoretical framework discussed in this chapter do you believe presents the most appropriate explicit framework for corporate governance, and why?

As with Question 1, there can be no set response to this question. However, it should form the basis of an interesting discussion in a tutorial session. Students could be asked to present summaries of the various theoretical frameworks and compare them. This could then be followed by a debate about the relative merits of the theories. One approach that we have used in the past is to divide the group into two and set up a debate where one side supports, for example, the stakeholder approach and the other adopts the shareholder perspective on corporate governance and accountability. Each side is asked to prepare a series of points for debate, present them and then, hopefully, follow this by open discussion. We have found that this is a good way of breaking the ice in the first tutorial and encouraging participation.

3 Do you think that agency theory and stakeholder theory are striving towards the same goal?

This question is based on the discussion throughout Chapter 1 about the apparent inconsistencies between a stakeholder and shareholder approach. Specifically the section entitled ‘Stakeholder versus agency theory’ should be studied by the students. In preparation for the discussion, students should also be encouraged to read a few of the academic references mentioned in the text, especially Shankman (1999), Wheeler and Sillanpää (1997) and Hill and Jones (1992). An enlightened shareholder approach is becoming reasonably well-established now which epitomises the UK approach to governance. Also, the stakeholder inclusive approach to corporate governance adopted by the successive South African King Codes are not inconsistent with shareholder wealth maximisation, for all the reasons discussed throughout this text.

4 Read the discussion on the instrumental and non-instrumental ethics case for corporate social responsibility. Do you think either of these approaches is viable in today's business environment?

This question is based on the discussion in Quinn and Jones (1995) but continues to be just as important today. Basically, the paper outlines the dilemma for management between adopting an ethical approach because it leads to improved profitability and adopting an ethical approach for purely ethical reasons. Their comment that ethics is hard to fake is well worth an open discussion in a tutorial session (see Chapter 1, footnote 9) Of course, we see throughout the text, the growing acknowledgment throughout the global business sector and financial institutions that social responsibility and an ethical approach represent a 'win win' scenario, as unethical business behaviour carries significant material financial risk to reputation but also to the bottom line for a wide variety of reasons. This questions begins the debate throughout the text around the need for a holistic governance model.

5. Look through a selection of corporate social responsibility/sustainability reports from UK listed companies. What reasons do the companies give for producing the report? Do their reasons coincide with a business case or a pure ethics motive for corporate social responsibility?

Obviously, 'answers' to this question depend very much on the students' personal interpretation of the reports they have selected. However, my comment from reading an extensive selection of these reports, is that the motivations given are usually framed within a 'business case' scenario. Company management tend to stress the importance of shareholder value and the ways in which they consider social responsibility may add to this value. Again this is entirely consistent with a 21st century acceptance of a holistic model for governance and stakeholder accountability as well.

6. Do you agree that stakeholder accountability is taking precedence in businesses in recent years? Do you think that the global financial crisis has focused greater attention on corporate governance? Explain your answer.

These questions should be used to spark a lively debate. Often, with social and environmental issues for example, business leaders argue that in a recession they do not have time to spend on 'soft' issues. However, as BP's problems in the Mexican Gulf demonstrated, 'soft' environmental issues can, overnight, become hard, heavy financial liabilities. In my view, companies and financial institutions are waking up sharply to the fact the corporate governance (in the widest interpretation of the term) is critically important to short, medium and long-term value creation within companies. Further, there is a growing perception that without genuine and committed stakeholder accountability, companies' risk management system is not complete, and their reputation and ultimately shareholder value can be negatively affected. In tutorial classes, it may be useful to ask students to research a number of leading companies listed on your stock market to see the extent to which their annual reports, web disclosures and sustainability reports (or equivalent) discuss the importance or stakeholders, accountability, governance and related issues. It may also be a good starting point for discussing whether companies should be ignoring social and environmental issues as they battle to deal with the economic consequences of Covid-19 (and in the UK context, Brexit). There is a whole debate online on whether we should be 'growing back greener' that forms a good starting point for these discussions.

7. Explain your understanding of the differences between an enlightened shareholder approach and a stakeholder-inclusive approach.

This question will have been partly addressed in the answers to the previous questions. The best way to approach it with students is to compare directly the latest UK Code of corporate governance, which represents the enlightened shareholder approach (although is now beginning to move more towards a stakeholder model) and the latest South African Code of governance which sits firmly within a stakeholder-inclusive approach.