

# accountability and governance\*

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## Interesting times

The corporate community has grown remarkably in recent decades. Some 60,000–70,000 multinational corporations operate in today's global economy, with an additional 200,000–300,000 nationally and regionally based subsidiaries. The largest of these mega-institutions are large indeed. General Motors, for example, has annual sales equivalent to the gross domestic product (GDP) of Denmark (Utting 2000). And size counts. Global corporations deeply penetrate the political economy both of developing countries and of super-powers (Zadek 2001b). Their investments underpin the capital base of many emerging economies, and their donations are essential to ever more costly political campaigns.

Many commentators argue that our collective destinies are framed by the future of the corporate community and that this is not a matter of choice. 'Disengagement' from globalisation, and the role in this of the corporate community, although politically attractive in the 1970s, is no longer a serious option for nations, communities or even individuals. We are in this together, like it or not, as Castells and subsequently many others have pointed out (Castells 1996–2000: II; Mulgan 1998). This fact variously underpins a call to revolutionary arms, augurs a recipe for despair or elicits distressing levels of managerial smugness. Although understandable, both individually and collectively, they represent a sadly limiting set of foundations for forging strategy and practice in ensuring that the business community is very much part of the solution in addressing social, environmental and economic challenges.

This is the broad context within which the decision was made to prepare a special issue of *The Journal of Corporate Citizenship* on 'Corporate Transparency,

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Accountability and Governance'. The trigger was, however, more specific to the events surrounding the Enron debacle and its (still emerging) aftermath. In our call for papers, we sought to relate the broad and specific contexts as follows:

Since Enron applied for receivership, issues of transparency, accountability and honesty have risen to the top of the public agenda. But will these developments add force to, or in fact diminish, focus on the wider aspects of accountability underpinning corporate citizenship, just as the actions to prevent a further 'Asian financial crisis' did little to focus the world on social and environmental issues in the region? Will the call for greater financial transparency, and the associated shake-up in the financial accountancy profession, advance the cause of overall accountability? Or will these developments in practice reinforce corporate conservatism that reduces the potential for citizenship-based innovations? Do the events surrounding the case of Enron shift our thinking about what is the preferred balance between voluntary and statutory approaches to securing appropriate levels and forms of corporate accountability and in general the role of public policy and practice?

## Spectrums and perspectives

The papers in this issue provide valuable points of reference along a spectrum that runs from classical perspectives on corporate governance as it relates to financial performance, through to broader views of both the mechanisms of corporate governance and the relevant aspects of performance.

Starting at the former end, the papers by Gerde, Silva and White and by Stanwick and Stanwick explore a related set of hypotheses concerning how classical elements of corporate governance impact on (particularly financial) performance. Focus in both papers is placed on characteristics of the board, board directors and the various audit functions. Gerde *et al.* offer a thoughtful review of key theoretical perspectives, thereby making explicit the hypothetical underpinnings of some of the classical assumptions linking governance and performance. Understandably, given its classical premises, the paper concludes that the core governance parameter of 'independence' should underpin improved performance. The paper by Stanwick and Stanwick also covers some of the theoretical territory, building a set of propositions concerning good governance that include independence but also covering aspects of board 'performance' and shareholder accountability. Using a publicly available data-set, Stanwick and Stanwick then offer the results of empirical tests of their hypotheses. Once again, the tests suggest a correlation between corporate financial performance and board independence, competences and shareholder accountability.

Papers by Puri and Borok and by Betit take the debate into different territory in exploring the implications of extending the scope of accountability to focus on employees as well as shareholders. Both papers offer a combination of descriptive, analytic and normative perspectives. Puri and Borok reject the pure shareholder

accountability model, arguing that the rights and responsibilities afforded shareholders do not amount to 'ownership'. Having also rejected the pure stakeholder model as being too complex in terms of implied governance and accountability arrangements, drawing on Enron as a case in point, Puri and Borok embrace a hybrid that privileges employees as well as shareholders as the stakeholders with the greatest stake and associated potential risks and rewards. Also moving beyond the purely organisational aspects of corporate governance, this paper draws on the US and Canadian context in teasing out in broad terms some of the regulatory implications of adopting an extended (albeit limited) model of corporate governance and accountability. Betit's paper takes the exploration of employee accountability through its focus on the US-based, employee-owned Carris Companies. The only paper based largely around one case study, it explores the historical transition of the company, its primary philosophical and demonstrative influences (e.g. the Mondragon Co-operatives) and the resonances of its underlying approach with emerging thinking on broader-based, open-book, dialogue-based governance models (Zadek 2001a).

Swift and Dando's paper continues the extension beyond classical corporate governance rooted in shareholder accountability models. Drawing on the history of one particular standard, the AA1000 accountability framework and the more recent AA1000 Series Assurance Standard, the authors argue that some of the key challenges in managing complex, stakeholder-based approaches to governance and accountability can be supported by emerging best practice in 'social and sustainability auditing'. Although acknowledging the complexities and challenges in avoiding the dangers of managerial co-option of stakeholder-based performance models, the authors take an upbeat view on the possibilities of best practice and related standards closing the expectations gap created by inadequate assurance to date.

Puri and Borok's, Betit's, and Swift and Dando's papers encourage us to stretch beyond classical theory and case material to face some of the broader questions of the role of the broader rule framework in guiding both purpose and outcomes. The two final papers, by Sullivan, and by Clark and Demirag, both raise the need for significant shifts in the overarching framework of norms of corporate governance, whether 'voluntary' or regulatory. Sullivan, stressing specific lessons associated with the Enron case as well as the broader dimensions of corporate accountability, usefully unpacks the all-too-often binary dialogue on 'self-regulation versus statute'. Although rightly highlighting the apparent limitations of the former, he acknowledges the problems with a focus on statutory compliance. He offers, rather, a view of the potential of being able to draw on both regimes in a carefully time-sequenced manner to ensure graduated, orderly take-up en route to new statutes establishing minimum governance and performance floors. Clark and Demirag are even more bullish in exploring fallout from Enron on corporate governance and accountability. They highlight short-term shifts in US corporate practice and associated changes in US regulations that have been pushed through in direct response to cases such as Enron and WorldCom. Moving beyond this, however, they predict far deeper changes, extending internationally throughout the accountancy profession but also more broadly into the heartland of business regulation.

## Accountability pathways

There is certainly a wealth of material and insights provided by these seven articles, both individually and collectively. Drawing from these, and taking account of other thinking emerging on these topics, we can identify a number of themes that are likely to be key aspects of tomorrow's pathways towards enhanced corporate governance, accountability and transparency.

### Extended accountable entities

One of the greatest challenges today is not only the broadening of the scope of governance and accountability (e.g. human rights) but also the extension of the accountable entity. In recent years this has been mainly about extending accountability along the supply chain (e.g. labour standards and food source traceability). In the coming years, the accountable entity will extend further to embrace particular partnerships between businesses, public bodies and civil-society organisations, particularly in light of the future mainstreaming of such partnerships signalled at the Johannesburg World Summit on Sustainable Development (Zadek *et al.* 2002). This in turn will shine light on the governance and accountability of these partners of business, as well as that of the partnership in itself.

### Multi-stakeholder governance

There seems little doubt that business will be under increasing pressure to demonstrably develop and apply competences and approaches that enable them to effectively handle complex decision-making that factors in the perspectives, interests and influence of multiple stakeholder groups. In the near future, corporate governance and accountability will increasingly be judged on this basis, whether framed by a 'multipurpose' model of business responsibilities or by a more reductionist model that incorporates these de facto realities into risk-related and opportunity-related shareholder interests.

### Assurance and reporting

The combination of events associated with companies such as Enron, and significant practice and standards-based innovations in sustainability reporting and assurance (e.g. the Global Reporting Initiative and AccountAbility's AA1000 Series Assurance Standard), will shift the basis on which assurance and reporting is done globally (AccountAbility 2002). A further driver will be a growing concern that many aspects of enhanced disclosure (e.g. non-financial) are not providing the expected accountability gains. Needed and expected will be major methodological breakthroughs that will both strengthen robustness and extend scope. As important, however, will be an opening-up of the assurance professions in terms of the basis on which they can continue to do business.

## Ownership

Corporate accountability and governance will be deeply impacted by emerging alternative ownership models on the back of the lows as well as the highs of two decades of privatisation and by new rules for incorporation. Some of these new models will be rooted in the mainstreaming of ‘responsible investment’ through mainstream financial institutions. Others are likely to emerge from more fundamental shifts in the range of legal vehicles for incorporation that factor in the imperatives and potential performance gains from institutionalising aspects of multi-stakeholder approaches.

## Regulation

Regulation will almost certainly lag emerging new practices by leadership companies that embrace the more complex environment and approaches. This will partly reflect the fact that what is good for leadership companies is not always good for the rump of the business community. Partly emerging from this fact, lags will reflect the ‘negotiation’ complications in forging new regulations where diverse interests are at stake, between business and its external stakeholders, and between different parts of the business community (e.g. large and small). It seems likely that there will be increasing amounts of regulation sensitised to multi-stakeholder perspectives, whether established in an orderly fashion such as the development of the new UK company law, or in a more disorderly fashion, such as through campaign-led litigation such as that witnessed in California against Nike, and emerging legal battles in relation, for example, to pharmaceuticals, food and finance.

## Concluding remarks

It is actually somewhat difficult to justify the prefix ‘corporate’ to the term ‘accountability and governance’. This is not just semantics. The scale of the corporate community, both individually and collectively, its impact, its evolving purpose and its growing interconnectedness with and impact on public and private public-interest institutions all reduce the practical relevance of the distinction between corporate and societal governance.

In this light, one might speculate that the coming years may witness the gradual dissolution of ‘corporate’ (i.e. business) governance and accountability as a distinct work area and discipline by academics, lawyers or indeed (and perhaps most difficult to imagine) of social activists. What might take its place is work on how best to understand the relationship between and make effective different spheres of governance and accountability throughout society. This will relate as much to distinguishing power relations between the state and the individual, and between the state, corporations and civil society. These spheres will partly be differentiated by their technical governance approaches and targets and topics of application. Beyond this, however, they are likely to operate under quite different jurisdictions.

Some of these may indeed be geographic and specifically sovereign, allowing existing institutions to underpin negotiations as to how best to join up differing approaches. But many more are likely to be driven by multi-stakeholder processes and institutions—what today are often called ‘global policy networks’, made up of state and non-state actors (Edwards and Zadek 2003). This in turn means that the mechanisms and frameworks that they develop and advocate will stand or fall not only on the basis of their technical quality but also on the basis of the legitimacy of these new institutional formations (i.e. their own governance and accountability). Strange? Indeed. Likely? Yes, although only time will reveal just how far these predictions might be on the mark. Significant? Enormously so. One thing certain is that the topic of ‘corporate governance, accountability and transparency’ is out of its shaded box, historically overseen by learned and powerful interests and professions. The importance of the corporate community in forming our futures has made ‘good governance, accountability and transparency’ a public good in itself, which will without doubt have the effect of throwing it into the cut and thrust of public debate well beyond any memories of Enron and its immediate fallout.