



A REVIEW OF THE TWO MAIN COMPETING MODELS OF
CORPORATE GOVERNANCE: THE SHAREHOLDERSHIP MODEL
VERSUS THE STAKEHOLDERSHIP MODEL

*Tony Ike Nwanji**, *Kerry E. Howell***

Abstract

This paper reviews the impact of the shareholdership and stakeholdership models in guiding managers through the most appropriate way of delivering business objectives. The shareholder model is the traditional Anglo-American system of corporate governance, which focuses on the maximisation of shareholder wealth, while the stakeholder model is considered to be exemplified by the German system of corporate governance and focuses on meeting the needs and expectations of a wider range of stakeholder groups. The results from this study indicate that a combination of both models could enable management to deliver the needs of stakeholders groups, while in the long term maximising wealth for the shareholders.

Keywords: corporate governance, shareholdership model, business objectives, stakeholdership model, business ethics, profit maximisations

* Senior Lecturer in Corporate Governance, Holborn Business School, Kaplan Holborn College London, Woolwich Road
Charlton, London SE7 8LN, United Kingdom

Tel: (44) 020 8801 3087, Fax: (44) 020 88010627. MB: 07786 233030, nkosa21@aol.com

** Professor of Governance & Leadership, Plymouth Business School, Plymouth University
United Kingdom, Kerry.e.howell@plymouth.ac.uk, www.plymouth.ac.uk

Introduction

The aim of this study is to review the two main competing models of corporate governance – the shareholdership and the stakeholdership models. The Anglo-American Corporate Governance system is based on the Shareholdership Model while the European corporate governance System is based on

the German's Stakeholdership model. In this study we assess the importance of both models to the corporate governance system that guides managements towards the best way of managing the affairs of their company to deliver returns to its wider stakeholders. Corporate governance is an area that has steadily been growing in importance over the past twenty five years. The Cadbury Report issued in the UK in 1992 laid the

foundations of corporate governance not just in the UK, but the US and other countries both with developed and developing economies. Most of these economies have incorporated the main principles of the UK Combined Code into their own corporate governance systems. Following the collapse of Enron and WorldCom in 2001 in the US, corporate governance gained a much higher profile and is now a frequent topic in the financial press and academia. There are growing numbers of research projects and literature on both the general areas of corporate governance and on different mechanisms including directors' remuneration, accountability, non-executive directors (NEDs), audit committees and board evaluations. Following the collapsed of Enron and WorldCom in 2001 corporate governance has gained a much higher profile and is now a frequent topic in the financial press and in academic research.

Shareholdership versus Stakeholdership

The issue of corporate governance has centred on shareholder v stakeholder and which of the two models is best for corporations, and therefore, the board should follow in managing the affairs of the business. Ever since the Friedman's (1970) view that the modern corporation has no social responsibility to society only to its shareholders who are the owners of the business, interest on shareholder value has increased. Influences such as globalisation of capital markets, increase in institutional investors, greater shareholders activism, stakeholders expectations and growing importance of corporate governance issues have all been stated as factors (Omran *et. al.* 2002; Mills 1998, Fera 1997).

Whereas the Shareholdership Model claim that corporate governance is about two things – accountability and communication - Accountability is about how those entrusted with the day-to- day management of company's affairs are held to account to shareholders and other providers of finance. The second aspect is how the company communicates that accountability to the wider world: to shareholders; to potential investors; to employees; to regulators; and to other groups with a legitimate interest in its affairs. (Pricewaterhousecoopers 2003)

The **Stakeholdership Model** claims that corporate governance is about directors and managements managing for stakeholders which involved attention to more than simply maximising shareholder wealth. The attention to the interests and well-being of those who can assist or hinder the achievements of organisation's objectives is the central admonition of the theory, (Phillips 2003).

The idea that companies should behave in a responsible way, is one of the considerable discussions after events like the Maxwell Corporation, Polly Peck, BCCI, Barings Bank, and Paddington Train Accident in the UK in the 1990s. In addition, the collapsed of Enron, WorldCom and Accountancy firm, Andersen in the US in 2001 have all increased interest on corporate governance both within academia and business environments. There are growing number of researches on the kinds of

behaviour that might constitute corporate social responsibility and the extent to which such activities are legally permissible under English Company Law.

In the UK, corporate governance is fundamentally based on the shareholder model, which is a result of capitalism with the objective of profit maximisation and the protection of shareholders interests. The Combined Code should have been able to provide creditability and accountability in the management of companies. But even with all the recommendations on audit committees and auditor independence, effective internal financial controls and the effectiveness of non-executive directors there are still ethical problems on how this is achieved in practice under the shareholder model. It can be said that the main problems are not that corporate governance is not effective as a guide to management in running their companies. Some of the problems may be due to the fact that in the light of scandals such as the Enron and WorldCom (2001) in USA, any changes in the nature of corporate governance requires changes in the nature of shareholders theory of profits maximisation as the main business objective, to include the interests of the stakeholder groups.

Literature Review on Corporate Governance

The collapse of four organisations in the 1990s in the UK, (Maxwell Corporation, Polly Peck, Bank of Credit and Commerce International BCCI, and the Barings Bank) led to the setting up of three major committees to look into the effectiveness of corporate governance practices. These were:

- (i) The Cadbury Committee Report (1992), on the Financial Aspects of Corporate Governance.
 - (ii) The Greenbury Committee Report (1995), on the Remuneration of Executive Directors.
 - (iii) The Hampel Committee Report (1996), which reviewed the above two codes and consolidated them into one corporate governance principle leading to the publication of the Combined Code in June 1998.
- These were followed by three other Committee Reports in 1999 and 2003.
- (iv) The Turnbull Committee Report (1999), on Internal Control and Financial Reporting. (This was reviewed in 2005 in the light of the new Combined Code, though it is not part of the Combined Code).
 - (v) Derek Higgs' Report (2003), which was a Review of the Role and Effectiveness of Non-Executive Directors, (NEDs) and their Responsibilities in Corporate Governance Practice.
 - (vi) Robert Smith's Report (2003), on Audit Committees and Combined Code Guidance.

The first three committees recommendations resulted in the first Combined Code on corporate governance in 1995 which was up-dated in July 2003

(as the second Combined Code) following the recommendations of the Higgs and Smith Reports after the collapse of Enron and WorldCom in the USA in 2001. The way companies govern their affairs was particularly highlighted by the events relating to the Maxwell Corporation, Polly Peck, BCCI and Baring Bank. A number of concerns relating to corporate governance were raised including: companies that were dominated by directors with very forceful characters which could lead to lack of accountability; directors being able to pay themselves excessive remuneration (the so-called 'fat-cat' accusations); and auditors who are often too close to their clients and will not stand up to aggressive boards of directors in case they lose lucrative non-audit work. In academia, the debate on corporate governance has resulted in a growing amount of research in this area.

In the USA, the 2001 crisis in the financial reporting and financial markets as a result of the collapse of Enron, WorldCom and the accountancy firm Arthur Andersen have once again highlighted the inadequacies of corporate governance systems in guiding corporations and their boards in managing the affairs of their firms in order to deliver performances that meet the interest of their shareholders and/or the needs stakeholder groups.

Definition of Governance

Dalton et al., (2003:371) define governance as "*the determination of the broad uses to which organisational resources will be deployed and the resolution of conflicts among the myriad participants in organisations.*" This definition stands in some contrast to the many decades of governance research, in which researchers have focused primarily on the control of executive self-interest and the protection of shareholder interests in settings where organisational ownership and control are separated. The authors stated that:

most of the governance research over the years has been on the efficacy of the various mechanisms available to protect shareholders from the self-interested whims of executives. These years of research have been very productive, yielding valuable insights into many aspects of the manager-shareholder conflict. An intriguing element of the extensive body of corporate governance research is that we now know where not to look for relationships attendant with corporate governance structures and mechanisms, perhaps even more so than we know where to look for such relationships.(p. 371)

Definition of Corporate Governance

Corporate governance has been defined as "the manner in which organisations, particularly limited companies, are managed and the nature of accountability of the managers to the owners".¹ This topic has been of increased importance since the publication of the Cadbury Report in 1992, which describes Corporate Governance as;

the systems 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 auditors and to satisfy themselves that an appropriate governance structure is in place in the organisation. The responsibilities of the board include setting the company's strategic aims, providing 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 meetings. (Para. 2.5).

Corporate Governance can also be defined as the way the management of a firm is influenced by many stakeholders, including owners / shareholders, creditors, and other stakeholders.

The OECD Principles of Corporate Governance

The Organisation for Economic Co-operation and Development (OECD 1999) developed its principles of corporate governance along the line of the Cadbury Report (1992). The OECD principle defined corporate governance as;

that structure of relationships and corresponding responsibilities among a core group consisting of shareholders, board members and managers designed to best foster the competitive performance required to achieve the corporation's primary objective (IMF, 2001).

The OECD definition attempted to describe corporate governance in the broadest terms in order to embrace as many different forms of corporate governance systems as possible. The principles and code of impact has been substantial and many countries have used them as a reference point for self-assessment and for developing their own codes of best practice on corporate governance. In 1999, ministers representing the 29 countries in the OECD voted unanimously to endorse the OECD principles (Monks and Minow, 2001). The World Bank has researched many countries around the world to assess the extent to which they have complied with the OECD principles and found that 98% countries incorporated the OECD principles into their own corporate governance codes. There are many other definitions of corporate governance (see OECD, 1999)². The above definitions illustrate the principle of corporate governance and demonstrate that it is concerned with both the internal aspects of the company such as internal controls and the external aspects such as an organisation's relationship with its shareholders and other stakeholders. Therefore, modern corporate governance goes beyond the traditional financial report for the shareholders, and now starts with defining the objectives of the company before moving on to consider the wider implications for management. Many countries have now introduced corporate governance codes; complying with the OECD's (1999) principles, including emerging markets and developing economics. The OECD's

¹ (See the Dictionary of Business, Oxford University Press, Market House Books Ltd 1996).

² OECD (1999): "A set of relationships between a company's board, its shareholders and other stakeholders. It also provides the structure through which the objectives of the company are set, and the means of attaining those objectives, and monitoring performance, are determined.

principles cover five areas and are generally viewed as encapsulating the key aspects of corporate governance:

- The rights of the shareholders;
- The equitable treatment of shareholders;
- The role of outside stakeholders in corporate governance;
- Adequate disclosure and transparency; and
- The responsibilities of the board.

The OECD principle of corporate governance like the UK /US codes is based on shareholder theory and the price *mechanism* which states that the shareholders are the owners of the company who benefit from the company's profits and bear all the risks in time of losses, by the company. However, the shareholder model of corporate governance is not the only model that can be adopted by organisations. In some European countries, there is the stakeholder model which imposes explicit obligations on the board to consult other groups as seen by the German corporate governance structure, where companies have to appoint a supervisory board that encompasses employees' representatives, and banks to the board of the organisation (OECD, 1999).

In continental Europe different methods to the *unitary approach* to governance flourish. In Germany companies have a multi-structured board system:

- (i) an *executive board* which is appointed by the *shareholders* to run the company.
- (ii) The *Supervisory Board* includes employees, bankers, creditors etc and
- (iii) The *Advisory Board* which consists of independent experts brought in to provide technical expertise.

This German system of corporate governance is known as the Stakeholder theory since it included some stakeholder groups into the decision-making and management of the organisation objectives. Though whether having the stakeholder groups in the board of the organisation give them (stakeholders) the same benefit and interest as their shareholders counterpart is debatable. However, the fact that stakeholders are members of the board of directors in the German system of corporate governance are seen as better than the position of stakeholders' group the Anglo-American system of corporate governance, where board of directors do not include any stakeholder group.

Methodological Approach to Corporate Governance

The study of the literature shows that most researchers on corporate governance employ *data-base analysis* or less frequently, survey questionnaires and use either *cross-sectional* or *event-study analysis*.³ *Cross-sectional* regression analysis compares structural and performance variables across a large sample of

corporations at a specific point in time while structural dimensions (e.g. board composition) are tested for their ability to discriminate among corporations on performance-related measures. *Event-study analysis* monitors the effects of a specific event (e.g. CEO succession) on a dependent variable measure (e.g. stock price movements) over a period of time. The researcher would identify from a population or sample of companies that underwent a leadership change (or some other specific structural change) during a defined period (e.g. 2000-2003) and study changes in, for instance, stock prices around this event. The sources from which researchers typically derive their information include:

- Company reports, which many listed companies now make available on the Internet.
- Stock market information, which are also freely available on the Internet on investor Websites.
- Corporate announcements, which are often broadcast through corporate newswires, and
- Directors themselves via faxed or mailed questionnaires and face-to-face interviews.

Other researchers typically draw large samples (usually over 50) from defined populations of companies for the purposes of *conducting inferential quantitative analysis*. For example, all listed companies on a particular index or all listed companies with a turnover of greater than one billion pounds may be selected. Hermalin and Weisbach, (1988) investigated company performance, CEO succession and changes in market structure as possible determinants of board composition. They found that in the period leading up to a CEO change, new inside directors were likely to be added to the board. Some existing directors who had hoped to be appointed as the new CEO may resign if they are bypassed for the appointment.

Cook and Deakin (1999) state that researchers interpret observed differences between companies' various aspects of board structure in two ways.

- (i) Observed differences could indicate that companies diverge in varying degrees from an 'optimal' board structure.
- (ii) (ii) Observed differences might reflect company and industry-specific optimal solutions to the governance problem.

In the first instance, performance differences between companies might point to the extent of divergence from the optimal structure. In the second instance, we would not expect to find any significant relationship between specific structural variables and companies' performances. The problems of quantitative analysis not being able to address the issues of the above stated research questions in which this thesis is based have enabled most researchers to employ qualitative analysis in the studies of different corporate governance issues particularly directors' behaviour and board structures. (Pettigrew, 1992; Wang, and Dewhurst, 1992; Peck, 1992 and 1995; Pettigrew and McNulty, 1995 and 1999; Zajac, 1996; Zajac and Westphal, 1996; Fera, 1997; Turnbull,

³ Zajac and Westphal (1996a and 1996b) and Turnbull (1997)

1997; Cook and Deakin, 1999; Stiles and Taylor, 2002; Sun, 2002).

The Agency Problem

The agency problem in corporations was first identified by Adam Smith who noted (RBS Review, 1937) that the directors who manage other people's money cannot be expected to watch over it with the same anxious vigilance as they watch over their own. Management's negligence and profusion always prevail in such a joint-stock company (RBS Review of Smith 1937:700). The agency problem then became more serious in the twentieth century because the significant phenomenon of the separation of ownership and control which was observed by Berle and Means (1932) increased the power of professional managers. It left them free to pursue their own aims and serve their own interests instead of the interests of the shareholders who are the owners of the firm.

Berle and Means (1932) called for the separation of ownership and control as an important explanation for corporate behaviour and the problems confronting owners (fragmented and dispersed shareholders) who attempt to exert their rights over the managers who have gained control in the 'modern' corporation. The authors recognised that control could rarely be sharply segregated or defined. However, they distinguish the following five major types of control: (i) Control through almost complete ownership. (ii) Majority control. (iii) Control through a legal device without majority ownership. (iv) Minority control. (v) Management control.

La Porta *et al.* (1999) in a research of 27 wealthy corporations identified the ultimate controlling shareholders of the firms. They found that except in economies with very good shareholder protection, relatively few of these firms are widely held, in contrast to Berle and Means's image of ownership of the modern corporation. Rather, families or the state typically controls these firms. Equity control by financial institutions is far less common. The controlling shareholders typically have power over firms significantly in excess of their cash flow rights primarily with pyramids and participation in management. The authors' research suggested that in many countries large corporations have large shareholders and further that these shareholders are active in corporate governance in contrast to the Berle and Means idea that managers are unaccountable.

Kirkbride and Letza (2005) stated that:

in the UK, there has been a recent debate over the role of the independent non-executive director, with that debate resulting in changes to a revised Code applicable to companies reporting after 1st November 2003. The paper reflects on an aspect of the proposed changes that was ignored, namely changes to the legal duties and liabilities of non-executive directors. This appears to have been a missed opportunity in seeking to enhance the effectiveness of independent non-executives and their contributions to enhancing corporate governance, (p.542).

Their paper considers enhancing the governance role of non-executive directors by introducing "gatekeeper liability" which they stated that the

development of it and monitoring of the CEO reflects the fact that it is precisely among top corporate decision makers that legal policies function most effectively to deflect personal and legal risks.

Gray *et al.* (1995) define social reporting as

the process of communicating the social and environmental consequences of organisations' economic actions to particular interest groups within society and to society. The concepts of accountability and responsibility are often used interchangeably in the accounting literature and very little definitional agreement exists (Lindkvist & Llewellyn 2003). Accountability is frequently associated with the execution of responsibilities and being answerable for them, (quoted in Demirag 2005:12)

Higgs commissioned three studies to collect and analyse data on British corporate boards to be used in his final report. One of those studies involved in-depth interviews with 40 board chairmen and non-executive directors, a task that was undertaken by the research team of Terry McNulty, John Roberts and Philip Stiles. Their report focused on the behavioural dynamics of board members (especially non-executive directors) that might promote board effectiveness. *Corporate Social Responsibility (CSR)* is through which organisations highlight their business Ethics decisions. CSR is not ethics as some authors claimed but rather a product of ethics, a platform for displaying business ethics' policies of firms help them address stakeholder issues.

According to Demirag (2005), corporate social responsibility could be defined

as corporate attitudes and responsibilities to society for social, ethical and environmental issues, including sustainable developments. Management of companies for sustainable development or social corporate accountability cannot rely only on 'good corporate' or 'state regulations'. There is a growing literature emphasising the significance of a number of evolutionary networks between markets, states and civil societies, through a learning process and communication with stakeholders, in search for better governance mechanisms, (p.12).

The author also argues that developing relationships between businesses, states and civil society is not only a dynamic but also a complex process and that the exact nature of the mechanism(s) involved is contingent rather than preset. The assumed relationship between governance systems and socially responsible behaviour or sustainable investments by corporations is problematic. Outlining the importance of corporate governance to the modern business, at a conference to launch the Centre for Innovative Thinking in Dubai, Prof. Steve Letza said that:

Good corporate governance leads to good management and improved long-term performance. Wherever corporate entities exist there is a need to assess corporate governance. I strongly believe in the agents of change facing the new age boardroom structure. Open governance within knowledge-based companies is now the norm. Improved governance leads to improved performance and networks, rather than hierarchies, are the way in which much contemporary business is conducted.

(United Arab Emirates: October 2003)

The Turnbull Guidance on Internal Control

The Combined Code on Corporate Governance, published in July 2003 by the Financial Reporting Council, incorporates "Internal Control: Guidance for Directors on the Combined Code" (the 'Turnbull

Guidance 2005'). The guidance is about the adoption of risk-based approach to establishing a system of internal control and reviewing its effectiveness. Assessing, managing and reporting on risk within the context of management and board responsibilities risk management has been at the core of decision making at all levels in organisations. External perceptions of a company are affected by the level of risk that it faces and by the way, its risks are managed. A major risk exposure and source of business failure and/or lack of opportunity success has been the failure to manage change. Companies need to be aware of changing markets, service delivery (e.g. e-commerce) and morale. Effective risk management and internal control can be used to manage change to involve all levels of people in the company in meeting its business objectives. (www.icaew.com/cbp)

The Four Competing Models of Corporate Governance

The four corporate governance models outlined below is further analysed to illustrate the effects of each model in relation to the *shareholdership and stakeholdership* models of corporate governance. Focusing on the *shareholdership* / shareholder theory and followed by *stakeholdership* / stakeholder theory we analyse the theoretical and empirical evidence of the four competing models of corporate governance (Sun *et al.* 2001; Sun 2002; Letza *et al.* 2004).

On the Shareholder Theory, we have:

- (i) *The Principal-Agent or Finance Model*, (Jensen and Meckling, 1976; Manne, 1965), which states that the purpose of a corporation is the maximisation of shareholders' profits as they (the shareholders) are the owners of the corporations and bear the highest risks but there are agency problem.
- (ii) *The Myopic Market Model* (Charkham 1994a, 1994b and 1989; Sykes, 1994), which states that the purpose of a corporation is the maximisation of shareholders' profits but corporations are concerned with short-term market value, and sacrifice the long-term value of the company.

On the Stakeholder Theory, the models include:

- (iii) *The Executive Power Model* (Hutton, 1995; Kay and Silberston, 1995), which claims that the purpose of a corporation is the maximisation of corporate wealth as whole but this creates the problem of the abuse of directors' power for their own self-interest and
- (iv) *The Stakeholder Model* (Freeman, 1984; Evan and Freeman, 1993; Blair, 1995), which leads to the maximisation of stakeholders' wealth, but with an absence of stakeholder involvement in the running of the company.

Assessment of the Shareholdership Model

Since Adam Smith wrote his famous book "*The Wealth of Nations*" in (1776). The studies of corporate and Economic Management is a mature topic for which it is relatively easy to find papers on

the theory as well as empirical studies that have attempted to test the theories about the phenomenon. The shareholdership model is based on profit maximisation which is the offspring of free market system - governed by price mechanism. Implicit in this model is the belief that individual entrepreneur's profit maximisation does maximise the overall economic welfare of society (Smith 1776) hence its appropriateness for measuring business objective. But the corporation in a democratic society in whose interest ought it and will it be run? The supporters of the stakeholdership model states that corporation should be run in the interests of its stakeholders (including shareholders, employees, management, creditors, society etc).

The idea of shareholder theory really took off from the Nobel Prize Economist Friedman's (1970) view (which some writers claim to be the classical view of corporation) when he stated that:

there is one and only one social responsibility of business - to use its resources to engage in activities designed to increase its profits as long as it stays within the rule of the game, which is to say, engages in open and free competition, without deception or fraud. (p. 7).

It may be argued that this view is centred on '*Capitalist*' system, which can be defined as an economic system combining the private ownership of productive enterprises with competition between them in the pursuit of profit. The advantage of this formulation is that it picks out the three aspects which are generally accepted as defining features of the system. These are: *private ownership, competition and the profit motive*. In theory, in a capitalist system there is minimal government intervention in the running of the economy. This was so during the 1980s when capitalist countries such as UK, US, and some European countries started selling their states' owned organisations to private ownerships which created millions of shareholders then and most developing countries followed suite. However, as to what presently goes on in capitalist countries in practice there is often a great deal of government intervention in the running of the economy and it is certainly always more than any possible minimum. Most importantly, there is macro-economic management through government manipulation of interest rates, tax rates, public expenditure, and public borrowing. In addition, there is frequently a more direct kind of government economic intervention through the offering of tax incentives, subsidies, state aids for ailing industries, government rescue packages for bankrupt businesses, and in many cases, a degree of state ownership of businesses. In the 1980s, we saw a decline in this kind of direct intervention with a strong trend towards policies of *deregulation* and *privatisation* in many capitalist countries - most notably in the UK and US. Nonetheless, direct intervention by governments still remains a consideration feature of capitalist economies. In any case, the kind of indirect intervention represented by government macro-economic management remains essentially intact and seems to be a permanent part of

any modern capitalist economy (Chryssides and Kaler, 1999).

The Requirements for Corporate Governance

The shareholders who established the corporations under company law for the purpose of carrying on in business with a view to make profits have to appoint the agents (the directors) to help the company meet those objectives. As the owners in most public companies shareholders do not take part in running the business in order to meet their profit objectives. They require a way to assess if the agents (the directors) they appointed to manage the affairs of the company are doing so to meet the interests of its shareholders. This is why the Anglo-American system of corporate governance was created as a guide for the directors to account for their stewardship to the owners of the business. Therefore, the need for corporate governance arises because the advantages of corporate form are typically achieved at the cost of separating ownership from operational control. When managements and directors are detached from ownership, and especially when ownership is diffuse, it is possible for managers to run a corporation to serve their own ends. Mechanisms are therefore needed for ensuring that corporate actions, agents and assets are devoted to achieving the corporate purpose established by the shareholders. Whether that purpose is business or charity or education, the aim of corporate governance under the finance model of the shareholder theory is to make sure that it is the shareholders' stipulated objective that governs the corporation and all its actions and agents.

The key concept in corporate governance is accountability. Accountability means that individuals and institutions are answerable for what they do: they must account to others for their conduct and for their use of resources. Two sorts of accountability are critical for corporate governance: the accountability of directors to shareholders, and the accountability of corporate employees and other corporate agents to the corporation. What the directors and managements are accountable for, is achieving the corporate purposes. A successful model of corporate governance must be compatible with and provide mechanisms for these sorts of accountability. This is because other corporate agents are normally held accountable to the corporation by the directors, the accountability of directors to shareholders is crucial to both sorts of accountability. (see, Cadbury, 2002; Manllin, 2004; Solomon and Solomon, 1999, 2004; Sternberg, 2004; and Tricker, 2000).

Assessment of the Stakeholdership Model

Since the 1980s stakeholder theory has developed the thesis that the organisation has a moral relationship with groups other than shareholders (Freeman 1984). This is based on the assumption that organisations as

well as individuals, possess moral status and therefore should act in a moral responsible manner. Evan & Freeman (1993) considered that acting in a moral responsible manner entailed two significant principles. The first principle involved harming the rights of others and was based on *deontological ethical reasoning*. The second principle being responsible for the effect of the organisation's actions and was based on *teleological ethical reasoning*. Each of these moral perspectives will be used in this paper to analyse stakeholder theory in the modern global business environment and investigate how this may assist corporations to manage the interests of their stakeholder groups in more effective ways.

Definition of Stakeholder Theory

Freeman (1984) stated that:

a stakeholder in an organisation is any group or individual who can affect or is affected by the achievement of the organisation's objectives. (p.25)

Clarkson (1995) states that:

a stakeholder can be a voluntary or involuntary risk bearer. Voluntary stakeholders bear some form of risk because of having invested some form of capital in the organisation - human or finance - something of value. Involuntary stakeholders are placed at risk because of the firm's activities Stakeholder theory is a set of propositions that suggest that management of companies have obligations to some group of stakeholder (p.25).

Stakeholder theory is usually juxtaposed with shareholder theory: the view that management have a fiduciary duty to act in the interests of shareholders. Stakeholder is an ironic twist of shareholder to signal that firms may well have broader obligations than the traditional economic theory has assumed. The current history of stakeholder theory has been well documented by (Donaldson and Preston, 1995). One can find vestiges of the concept in many areas of business from finance, strategic management, and corporate governance, (Mason and Mitroff 1982) organisation theory (Thompson and Wright 1995; Dill 1975); and business ethics (Sherwin 1983; Freeman 1984; Blair 1995; Phillips 1997).

Phillips (2003:15) states that "stakeholder theory is a theory of organisational management and ethics. It is distinct because it addresses morals and values explicitly as a central feature of managing organisations". He also points out that:

managing for stakeholders involves attention to more than simply maximising shareholder wealth. Attention to the interests and well-being of those who can assist or hinder the achievement of organisation's objectives is the central admonition of the theory. In this way stakeholder theory is similar in large degree with alternative models of strategic management such as resource dependence theory, (p. 16).

However, the author states that for stakeholder theory, attention to the interests and well-being of some non-shareholders is obligatory for more than the prudential and instrumental purposes of wealth maximisation of equity shareholders. While there are still some stakeholder groups whose relationship with the organisation remains instrumental and derivative, 'due largely to the power they wield'; there are other

normatively legitimate stakeholders besides equity shareholders.

The Purpose of Stakeholder Theory

One of the major purposes of stakeholder theory is to help boards of directors and management understand their stakeholder environments and manage more effectively within the nexus of relationships that exists for their companies. It is also the purpose of stakeholder theory to help directors and managers improve the value of the consequences of their actions and minimise the harm to stakeholders. Thus stakeholder theory could be seen as teleological ethical approach in which the consequences of any action taken by the directors are judge whether they benefit majority of the company stakeholders. In utilitarianism terms, the more the outcomes of decisions taken by the boards of directors resulted in happiness to the majority of the stakeholders the better it is for the company and its stakeholders groups. The whole point of stakeholder theory in fact lies in what happens when organisations and stakeholders act out their relationships.

Donaldson and Preston (1995) suggest that research on stakeholders has proceeded along three often confused lines. First, there is instrumental stakeholder theory, which assumes that if managers want to maximise the objective function of their firms, then they must consider stakeholder interests. The second, there is the descriptive research about how managers, firms, and stakeholders in fact interact. Third, there is a normative sense of stakeholder theory that prescribes what managers ought to do. To this framework, we can add a fourth dimension, the metaphorical use of stakeholder, which depicts the idea as a figure in a broader narrative about corporate life. The first two senses of stakeholders can be called the analytical approach to stakeholder theory while the second, senses can be called *the narrative approach to stakeholder theory*. Phillips (2003) suggests that:

organisations in the early twenty-first century are confronted with a unique set of moral issues requiring moral theory explicitly tailored to this set of issues and that stakeholder theory is a strong candidate of such a theory of organisational ethics. Therefore, an amended principle of fair play – the principle of stakeholder fairness – provides a defensible source of moral obligations among stakeholders that has been therefore missing in the literature on stakeholder theory, (p. 5-6).

The Theoretical Framework of Corporate Governance Models

The four major corporate governance models outlined above are further analysed here to illustrate the effects of each model in relation to the *shareholdership and stakeholdership* models of corporate governance. Letza et al (2004) carried out a critical examination of static approach used by the main theories/models and examined the philosophical roots of the approach. They ascertained the fundamental inadequacy of both

ontological and epistemological presuppositions inherently embedded in the static approach, and proposed an alternative processual approach to understanding corporate governance. (Sun *et. al.* 2001; Sun 2002; Letza *et. al.* 2004).

Analysis of the Shareholdership Model of Corporate Governance: The Principal – Agent or Finance Model

The Principal – Agent or Finance Model, (Manne, 1965; Jensen and Meckling, 1976, Baiman, 1982, 1990; Strong and Waterson, 1987; Shleifer and Vishny, 1997; Dalton et al. 1998), states that the purpose of corporation is the maximisation of the shareholders' profits as they; the shareholders are the owners of the corporations and bear the highest risks. This model is seen as the dominant view of the corporation and is perhaps most clearly articulated by Hart (1995). It rests on the premise that markets – particularly the market for capital, managerial labour, and corporate control – provide the most effective restraints on managerial discretion and that the residual voting rights of shareholders should ultimately commit corporate resources to value-maximising ends.

Keasey, et al. (1997) state that the model sees a firm's existing corporate governance arrangements as the outcome of a bargaining process which has been freely entered into by corporate insiders and outsiders. This model recognises that monitoring and bond expenditures paid out to align the behaviour of the manager-agents with the interests of owner-principals represent costs to the economic system. However, rather than justifying public intervention, it suggests that such costs provide the incentive for innovations in corporate governance. Thus recent developments in the managerial labour market, such as executive stock options, and market for corporate control e.g. leveraged and management buy-outs are seen as responses to institutional deficiencies (Thompson and Wright, 1995). The Principle-Agent, or finance model of corporation starts from the position that in the absence of explicit impediments, most obviously monopoly power or negative externalities-profits-maximising behaviour by firms is a sufficient condition for social welfare maximisation. The separation of ownership and control is important inasmuch as it may allow managers to deviate from shareholder value – i.e. profits maximisation. However, such behaviour is widely predicted and following Jensen and Meckling (1976) is expected to be fully anticipated when an owner-manager sells equity to outsiders. Therefore the owner bears the full cost of equity strength. The Principal-Agent problems in equity finance imply a need for shareholders to exert control over management while also remaining sufficiently distinct from managers to let them buy and sell shares freely without breaking insider trading rules. If difficulties of corporate governance are not resolved, these market failures in turn also have

implications for corporate finance in that equity will be costly and often subject to quantitative restrictions (Davis, 2000).

In a study of larger Spanish companies based on the agency theory to determine the impact of a company's governance structure on the relationship between pay and performance (CresiCadera and Gispert, 2003) took a sample of large Spanish companies against a set of variables such as performances and size of the firms. The authors found that there is a positive relationship between board remunerations and company performances, which they claim is stronger for book values than stock market measures. Similar studies in the UK by OSullivan and Diacn (2003) in which they examined board composition and performances in the life insurance companies and the role and effectiveness of non-executive directors. The authors claim that the insurance companies make good use of their NEDs. They further examined the importance of board governance in the context of different ownership structures. Using a number of performance measures, the authors found no significant difference in the behaviour of mutual and property companies with the exception of executive remuneration. Their overall findings suggest that insurance companies emphasise different governance mechanisms depending on specific monitoring problems they face.

Filatotchev and Toms (2003) examine the influences of organisational diversity, ownership structure and board characteristics on strategic responses to industrial decline in firms from the UK textile industry. Using samples of exiting and surviving companies, this study shows that in line with the predictions of the strategic flexibility framework, the surviving companies tended to have a higher level of organisational diversity. The study found that as above, the companies tended to have larger institutional ownerships and more diverse boards. The authors state that the results of their research are consistent with the resource and service roles of corporate governance Dalton, et al (2003) and Hillman, et al (2000). Other researchers study board's performances using *dependence theory* in which they examine the relationship between the board as a provider of resources and the firm performance (e.g. Pfeffer, 1972a; 1972b, 1991; Pfeffer and Salancik, 1978; Boyd, 1990, 1994, 1995; Dalton, et al 1999).

Analysis of the Shareholdership Model of Corporate Governance: The Myopic Market Model

The Myopic Market Model (Charkham, 1994; Sykes, 1994) with the purpose also for the maximisation of the shareholder profits but is concerned with short-term market value. Many of the sternest critics of the Anglo-American Model of corporate governance argue that it is fundamentally flawed by an excessive concern with short term, which is itself a consequence of capital market failure (see Blair 1995), for a more

detailed discussion of this critique). Those holding such a view do not necessarily dissent from the principal-agent position that the purpose of the joint-stock company is to maximise the well-being of its shareholders although many would endorse a rather wider maximisation.

However, the myopic market school contends that a goal such as shareholder welfare is not synonymous with share price maximisation because the market systematically undervalues certain long-term expenditures-particularly capital investment and research and developments (R & D) spending. Therefore the market's myopia forces otherwise diligent managers into taking decisions with regard to the current share price or else risk a heightened threat of hostile takeover. It follows that supporters of the myopic market view see the challenge of corporate governance reform as one of providing an environment in which shareholders and managers are encouraged to share long-term performance horizons.

The myopic market model sees the traditional Anglo-American system of corporate governance which is based on the Principal-Agent or finance model discussed above as focusing more on the *short-termism* rather than the long-term wealth creating for the firm's shareholders. The Principal-Agent model by focusing on the stock-market system and takeovers as the way to meet the financial needs of the corporation's shareholders, forces managements to focus on short-term return on investments, short-term corporate profits, short-term management performances, short-term stock-market prices, and short-term expenditures due to market pressures (Sun, 2002). Those who believe in the myopic market model state that what is wrong with corporate governance is that the system encourages managements to focus on short-term performance by sacrificing long-term value and competitiveness of the corporation. The financial markets often force managements to behave in a way divergent from the maximisation of long-term wealth for shareholders (Blair, 1995). The *short-termism* of the principal-agent or finance model is seen as the major problem of the Traditional Anglo-American corporate governance. Hayes and Abernathy (1980) argue that American management suffered from 'competitive myopia'; one of the features of the myopia is that directors rely too heavily on short-term financial measurements such as return on investment for evaluating performance. Charkham (1994) regards the Anglo-American corporate governance as a high-tension system while the Continental European and Japanese corporate governance is a network system.

Analysis of the Stakeholdership Model of Corporate Governance: The Executive Power Model

The Executive Power model (Hutton, 1995; Kay and Silberston, 1995) is about the maximisation of corporate wealth as a whole, but it creates the problem

of abuse of executives' power for their own interests. The basic argument is that the status quo leaves excess power in the hands of senior managements some of whom abuse this in the service of their own self-interest (Hutton 1995). The result is damaging for shareholders, for the industrial system, and for society as a whole. Supporters of such a view suggest that the current institutional restraints on managerial behaviour – as provided by elected non-executive directors, the audit process, the threat of takeover, etc. – are simply inadequate to prevent corporate assets from being used in ways dictated by the managerial interest. Kay and Silberston (1995) explicitly reject the principal-agent analysis as a realistic description of the control process in modern corporations. They argue that most quoted companies are effectively dominated by a board which functions as a self-perpetuating oligarchy. They dismiss the existing governance arrangements as inadequate and liken senior management to the governing elite of a political dictatorship. They suggest that we should not be surprised if self-serving behaviour - and even corruption – is encouraged in such an environment. Others including Hutton (1995) suggest that the emphasis on enterprise culture or unrestrained free markets since the 1980s may have exacerbated this problem by weakening traditional ethical constraints.

The abuse of executive power is particularly embedded in the problem of executive overpay. Attention has been drawn to the fact that executive remuneration has risen faster than average earnings and there is at best a very weak link between compensation and management performance. Executive pay is enhanced by stock option schemes for directors that have proven to be very valuable. Thus, many salaried managers have become personally very rich (Kay and Silberston, 1995:85). In many cases directors earn more than 200 times the average wage in the same company. Argument has shown that senior managers have written themselves contracts in the form of an each-way bet; remuneration rise by options gains if the share price grows and by other means if it does not (see Keasey et al., 1997:87).

Therefore, the only restraint on executive pay seems to be the modesty of executives themselves, which is a commodity in increasingly short supply. The creation of so-called independent remuneration committees by large companies is not effective. Such committees are seen as being used to provide legitimacy for self-interested service by management. The independence is generally a sham not for restraining excess of pay, but for justifying it (Kay and Silberston, 1995). This debate on corporate governance rejects the principal-agent model. The supporters of this perspective are doubtful about the prescription that the key requirement is to make the management accountable to shareholders. They do not believe that shareholders have either incentive or capacity to provide monitoring, and whether shareholder priority is an appropriate rule for the large

corporation in any event. They do not agree that managers are the agents of shareholders. Instead, they claim that managers are trustees of the corporation.

Kay and Silberston posit that the trusteeship model differs from the agency model in two fundamental ways. First the responsibility of the trustees is to sustain the corporation's assets which include not only the equity of shareholders but also the skills of employees, the expectations of customers and suppliers, and the firms' reputation in the community. The objective of managers as trustees is to serve the broader interests of the corporation not only the financial interests of shareholders. Second managers as trustees have to balance the conflicting interests of stakeholders and to weigh the interests of present and future stakeholders rather than to give priority to the current shareholders' interest. Those two differences have the effect on the shifting of management's consideration toward long-term business development of the corporation.

The supporters of this model do not believe that the main lines of corporate governance reform, such as non-executive directors, shareholder involvement in major decisions, and fuller information about corporate affairs are suitable monitoring mechanisms. Alternatively, they ask for statutory changes in corporate governance. But whether such law on corporate governance will be the answer to the problems of abuse of executive power is another matter. One can argue that short-term fix for short comings of any models of corporate governance though may satisfy some in the heat of the moment but will not offer a long-term solution. (Kay and Silberston, 1995).

Analysis of the Stakeholdership Model of Corporate Governance: The Stakeholder Model

The Stakeholder model (Freeman, 1984; Blair, 1995) leads not only to the maximisation of stakeholders' wealth but it also creates absence of stakeholders' involvement. The central proposition at the heart of the stakeholder approach is that the purpose – objective function – of the firm should be defined more widely than the maximisation of shareholder welfare alone. In particular, it holds that there should be some explicit recognition of the well-being of other groups having a long-term association with the firm – and therefore an interest, or 'stake', in its long-term success. As stated above, according to Freeman (1984), stakeholder is any group or individual, which can affect or is affected by an organisation. This includes suppliers, customers, stockholders, employees, communities, political groups, governments, media, etc. A narrower definition is that the stakeholders in a company are designated as suppliers, customers, employees, financiers, and communities.

The *Analytical Approach to Stakeholder Theory*: Freeman (1984) proposed a framework which fits

three levels of stakeholder analysis – rational, process and transactional. Any business needs to be understood at these three levels of analysis.

The *rational level* is concerned with how the business as a whole fits into its larger environment. Elias and Cavana (2003) claimed that according to Freeman:

an understanding of who are the stakeholders of the corporation and what their perceived stakes are is necessary. It must depict the nature of the relationship between the company and its stakeholders group, (p.4).

The *process level* is concerned with how the business relates to its environment as a matter of standard operating procedures and routine management processes. Elias and Cavana (2003) claim that:

it is necessary to understand how the organisation either implicitly or explicitly manages its relationships with its stakeholders, and whether these processes fit with the rational stakeholder map of the organisation. And existing strategic processes that work reasonably well could be enriched with a concern for multiple stakeholders". For this purpose, Freeman uses a revised version of Lorange's schema for strategic management processes, (p.4).

The *transactional level* is concerned with how the business executes actual transactions, or deals or contracts with those individuals who have a stake in the company.

According (Elias and Cavana 2003);

we must understand the set of transactions or bargains among the organisation and its stakeholders and deduce whether these negotiations fit with the stakeholder map and the organisational processes for stakeholders. Successful transactions with stakeholders are built on understanding of the legitimacy of the stakeholders' interests and having processes to routinely surface their concerns, (p.4&5).

According the authors the emphasis of Freeman's book is to construct an approach to management that takes the external environment into account in a

systematic concept and paved the way for extensive future research in this area.

Stakeholder Identification

From Freeman (1984) definition of stakeholder stated above, we should ask who are those groups and individuals who can affect and are affected by the achievement of an organisation's purpose. How can we construct a stakeholder map of an organisation? What are the problems in constructing such a map? Hample Committee (1998) in its final report stated that:

corporate governance must contribute both to business prosperity and accountability. It was claimed that in the UK more attention has been concentrated on the accountability to the detriment of the prosperity. Therefore, to redress the balance we can say that the purpose of those responsible for corporate governance is to safeguard the interests of shareholders and to protect and promote the interests of other stakeholders such as employees, customers, suppliers, government and the communities where the companies operate, (Para.15).

Metcalfé (1998) argues that in a corporate context, stakeholder theory states that:

a stakeholder is entitled to consideration in some ways similar to shareholders. Stakeholders may thus include employees, customers, shareholders, suppliers, the state, the local community, society, and bankers (p.12).

Both Hample's and Metcalfé's lists of stakeholder groups can be shown in the following diagram. To these lists, we could add competitors, financiers, special interest groups or activists, the environment, media, and technological progress.

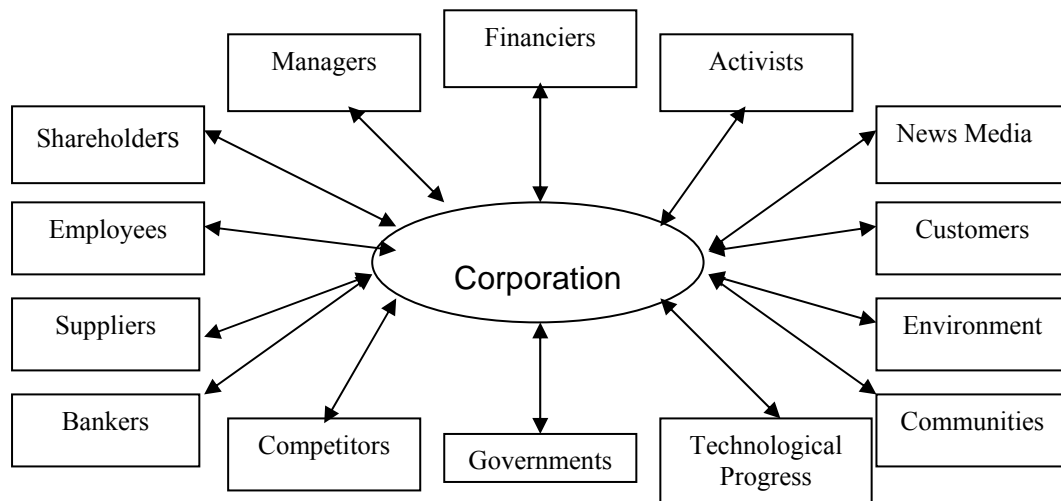


Fig.1. A Map of Global –Stakeholder Groups of a Multinational Corporation

Stakeholder Management

A board of directors and managements of a global corporation should not have profits for shareholders as its only responsibility. Each group in the above

diagram takes part and contributes to the success of the corporation and without their contributions there would be no profit for the shareholders. Therefore, a policy that could reorganise the importance of the part played by other stakeholders in meeting the firm's

long-term objectives is needed if shareholders' profit objective is to be realised. This calls for the application of ethical theories to the business objectives of the corporation by the board of directors and managements. Nevertheless, the question is why should managers pay attention to stakeholders?

Phillip (2003) points out that:

the most fundamental challenge to stakeholder theory is establishing a justification for managerial attention to stakeholders akin to that justifying maximising shareholder wealth. Any convincing justification for maximising shareholder wealth must, at its core, be a moral argument. The most convincing justification for maximising shareholder wealth is the property rights argument popularised by Milton Friedman. Briefly, by virtue of owning equity shares, shareholders own the corporation. These owners wish to have the value of their investment maximised. If management fail to maximise shareholder wealth they are not respecting this wish; they are spending, indeed stealing, another's money, which is a violation of a moral property right (p. 156).

Goodijk (2002) stated that organisations are changing, exploring innovation, trying to improve internal mobility and client orientation. The worse the economic climate becomes, the greater the pressure to reorganise and innovate. The market and the competition are continuously forcing companies to make radical choices and quick changes. These processes of organisational changes can no longer succeed without the involvement of stakeholders in particular the employees and managers. There is increasing focus on the company's image and its relationship with relevant stakeholders.

Corporate Governance and the Boards of Directors

The board of directors of public limited company (plc) have responsibilities to act in the interests of their company's shareholders and to take into account the needs of other stakeholders when taking decisions in running the affairs of the company. Directors have many responsibilities placed upon them by law, through the various Companies Acts requirements and by regulation (e.g. Listing Rules of the London Stock Exchange). The main issue of Corporate Governance relates to the *Accountability* to shareholders by directors on their stewardship. The responsibilities of the Boards of Directors include:

- Setting company's strategic aims;
- Providing the leadership to put them into effect;
- Supervising the managements of the business; and
- Reporting to the shareholders on their stewardship,

Pettigrew (1992) has observed that in many studies of boards.

great inferential leaps are made from input variables such as board composition to output variables such as board performance with no direct evidence on the processes and mechanisms which presumably link the inputs to the outputs (p. 171).

Pettigrew goes on to argue that future research on boards of directors should focus on the actual behaviour of boards thereby supplementing our knowledge of what boards do.

Forbes and Milliken (1999) argued that the

...importance of studying boards behaviour directly is underscored by evidence that practitioners – in some cases, boards themselves – are also beginning to pay more attention to what boards do... (p.489)

Whereas the events that led to the collapse of three major public companies in the UK in the 1990s questioned the ethical behaviours of directors in carrying out their duties in monitoring and controlling managements of their corporations towards meeting the long-term objectives of their shareholders. The collapse of two major USA public corporation in 2001 (Enron and WorldCom) have increased demand from both shareholders and other stakeholders on the behaviours of boards of directors. Corporate boards today are increasingly finding their actions closing monitored by institutional investors (Heard, 1987; Judge and Reinhardt, 1997) as well as by the media (Byrne, 1996, 1997; Orwall and Lublin, 1997; Forbes and Milliken 1999).

Further evidence of interest in board behaviour can be seen in the increased level of legal scrutiny to which boards are subjected and into the growing competitiveness of the market for corporate control (Kesner and Johnson, 1990; Monks and Minow, 1995, and 2001). The reactions to the corporate governance failures of Enron and WorldCom in the USA as well as the other UK public companies in the 1990s have seen an increase in corporate governance regulations and legalisations in order to prevent such major corporate failures in the future and to restore confidence in the Anglo-American system of corporate governance. How do the boards of directors go about their responsibilities and duties set out both in the Company Law and the Combined Code on corporate governance? We need to look at studies that have tried to evaluate behaviours and characteristics.

Forbes and Milliken (1999) observed that;

as boards assume a more central oversight role in the governance of organisations, researchers and practitioners alike are seeking to better understand the processes and behaviours involved in effective board performance, (p. 489).

Research developments have reinforced Pettigrew's (1992) point that it is necessary to go beyond the demography outcome approach in order to understand fully the performance implications of board characteristics. The weakness of the principal agent model of the shareholder theory of not being able to assess directors and managements behaviours due to the use of quantitative research methods call for a new research method.

Conclusion

This study illustrated the importance of shareholders theory and its impact on the business objectives of a company. It shows that the four models of corporate

governance discussed above each has its own advantages and disadvantages which presents problems for the boards of directors to deal with in order to meet the business objective of their company. It may be that the main problems are not that the corporate governance is not effective as a guide to management in running the affairs of their companies. The problem may be due to the fact that people are now questioning this idea of shareholders theory and the use of profit maximisation as the main business objective. Effective corporate governance should not be based on just shareholdership model and the protection of shareholders' interests alone. It should be on how corporations and their boards of directors should work together with all the other stakeholders groups for the good of the corporation and its stakeholders.

Arguing for the stakeholder model the paper stated that corporation cannot afford to ignore the issues of its stakeholder needs if it has to maximise its shareholder wealth, as those stakeholder groups contributed to the success of the corporation. The stakeholders of a corporation change from time due (in part) to the decisions taken by management or because of external events which are outside its control. It is up to management to find out who their company stakeholders are and what their needs involve. As stated above, boards of directors have many responsibilities some statutory, some a matter of trust. Directors have to be clear about their personal responsibilities and those which affect them as officers of their company. Accountability in its traditional sense, has always exercised the minds of directors but invariably only in the context of the profit and loss accounts, the balance sheet and shareholders' interests.

The conduct of board of directors or individual directors can affect not only the market value of their company's business but as the case of Enron and WorldCom shows the world financial markets. The success of the world economy depends on the capitalist systems which is based on trust and creditability of the financial market by investors. Therefore good and effective corporate governance is needed. This can be achieved if there is "*Global Corporate Governance*" which should be comprised between the shareholder systems as it is in UK and USA and the stakeholder system as in Germany and some other countries.

Overall, while this study acknowledges that the shareholder model of corporate governance particularly the traditional Anglo-American system of corporate governance seems to be the best way of achieving the business objective of the company which enables it to meet the shareholders wealth maximising. However, in term of this paper taking business ethics into consideration when making decision on the business objectives of the company would enable the company to meet its shareholders' interests and the expectation of the company's stakeholder. In these modern business

environments, the role of companies should not be based on shareholders' wealth alone. It is argued that companies should take the interests of the entire stakeholders within them into consideration when setting their business objectives.

References

1. BAIMAN, S., (1982) 'Agency Research in Managerial Accounting: A Survey', *Journal of Accounting Literature*, Spring, pp. 154-213.
2. BAIMAN, S., (1990) 'Agency Research in Managerial Accounting: A Second Look' *Accounting Organisations and Society*, Vol. 15, No. 4, pp. 341-371
3. BERLE, A.A and MEANS, G.C. (1932). *The Modern Corporation and Private Property*. New York: Macmillan.
4. BLAIR, M. M. (1995) *Ownership and Control Rethinking Corporate Governance for the Twenty-First Century*. The Brookings Institute Washington, D.C.
5. BOYD, B. (1990) *Corporate Linkages and Organisational Environment: A Test of the Resource Dependence Model*. *Strategic Management Journal*, 11: 419-430.
6. BOYD, B. (1994) *Board Control and CEO Compensation*. *Strategic Management Journal*, 15: 335-344.
7. BOYD, B. (1995) *CEO Duality and Firm Performance: A Contingency Model*. *Strategic Management Journal*. 16: 301-312.
8. BYRNE, J. (1996) 'The Best and Worst Boards: Our Report Card on Corporate Governance', *Business Week*, November 25: 82-106.
9. BYRNE, J. (1997) 'The Best Worst Boards: Our Report Card on Corporate Governance', *Business Week*, December 8: 90-104.
10. CADBURY, A. (1992) *The Report of the Committee on the Financial Aspects of Corporate Governance: The Code of Best Practice*, Gee Professional Publishing, London.
11. CADBURY, A. (2002) *Corporate Governance and Chairmanship: A Personal View*, Oxford University Press, Oxford.
12. CHARKHAM, J. (1989) *Corporate Governance and Market for Control of Companies*, Bank of England Panel Paper No.25, London: Bank of England.
13. CHARKHAM, J. (1994a), 'A Larger Role for Institutional Investors', in N. H. Dimsdale and M. Prevezer (eds.), *Capital Market and Corporate Governance*: Oxford: Clarendon Press, pp.99-110.
14. CHARKHAM, J. (1994b), *Keeping Good Company: A Study of Corporate Governance in Five Countries*, Published By Clarendon Press Oxford.
15. CHRYSIDIS G.D. and KALER, J. H. (1999) *An Introduction to Business Ethics: (2nd Edition)*, Published by International Thomson Business Press London.
16. CLARKSON, M. B. E. (1995) 'A Stakeholder Framework for Analysing and Evaluating Corporate Social Performance'. *Academy of Management Review*, 20: pp. 92-117.
17. CRESPICLADERA, R., and GISPERT, C. (2003), *Total Board Compensation, Governance Performance of Spanish Listed Companies, Labour, (Italy)* Vol. 17, No. 1, pp. 103-126.
18. COOK, J. and DEAKN, S. (1999) *Empirical Evidence and Corporate Governance Control*, ESRC Centre for Business Research, University of Cambridge.

19. DALTON, D., DAILY, C., CERTO, T., and ROENGPITYA, R. (2003). Meta-Analyses of Financial Performance and Equity: Fusion or Confusion? *Academy of Management Journal*, 46: pp. 13-26.
20. DALTON, C., DAILY, C., ELLSTRAND, A. and JOHNSON, J. (1998) Meta-Analytic Review of Board Composition, Leadership Structure, and Financial Performance. *Strategic Management Journal*, 19: pp. 269-290.
21. DAVIS, E. P., (2000) Institutional Investor and Corporate Governance, Brunel University, Uxbridge Middlesex UK.
22. DEMIRAG, I. (2005). Corporate Social Responsibility, Accountability and Governance: Global Perspectives. Greenleaf Publishing. (www.greenleafpublishing.com/catalogue/csrag.htm)
23. DONALDSON, T., and PRESTON, L. (1995), 'The stakeholder Theory of the Corporation: Concepts, Evidence and Implications', *Academy of Management Review*, 20, (1) pp. 65-91.
24. ELIAS, A. A. and CAVANA, R. Y., (2003) Stakeholder Analysis for Systems Thinking and Modelling. School of Business and Public Management. Victoria University of Wellington New Zealand.
25. FERA, N. (1997), "Using Shareholder Value to Evaluate Strategic Choices". *Management Accounting (USA)*, 79, 47. *Management Accounting (USA)*, 79, 47.
26. FILATOTCHEV, I. and TOMS, S. (2003) Organisational Diversity, Ownership Structure: *Journal of Management Studies*, Vol. 40, No. 4, pp. 895-920
27. FRIEDMAN, M. (1970) 'The Social Responsibility of Business is to Increase its Profit', in T. Beauchamp and N. Bowie, (eds), *Ethical Theory and Business*. Upper Saddle River, NJ: Prentice Hall.
28. FREEMAN, R. E. (1984) Strategic Management: A Stakeholder Theory' *Journal of Management Studies* 39(1): pp. 1-21
29. FORBES, D. P. and MILLIKEN, F. J. (1999) Cognition and Corporate Governance: Understanding Boards of Directors as Strategic Decision-Making Groups. *Academy of Management Review*, Vol. 24, No. 3 pp. 489-505.
30. Evan, W. M. and Freeman, R. E. (1993), A Stakeholder Theory of Modern Corporation: Kantian Capitalism.' In Beauchamp, T. and Bowie, N. (Eds.), *Ethical Theory and Business*: Prentice Hall.
31. GOODIJK, R. (2002) Partnership at Corporate Level: The Meaning of the Stakeholder Model. *Journal of Change Management*, Vol. 3 No.3
32. HAMPEL COMMITTEE REPORT (1998) Corporate Governance Code UK For The DTI London.
33. HART, O., (1995) 'Corporate Governance: Some Theory and Implications', *Economic Journal*, pp. 678-89.
34. HEARD, J. (1987) Pension Funds and Contests for Corporate Control. *California Management Review*, USA, 29(2): pp.89-100.
35. HAYES, R. H. and ABERNATHY, W. J. (1980) 'Managing our way to Economic Decline', *Harvard Business Review* 58(July-August): pp.67-77.
36. HERMALIN, B. E., and WEISBACH, M. S. (1988) "The Determinants of Board Composition", *RAND Journal of Economics*, 19 (4), pp. 589-606.
37. HIGGS, D. (2003) Report on the Review of the Role of and Effectiveness of Non-Executive Directors. Published in (January) London UK). http://www.dti.gov.uk/cld/non_exec_review
38. HILLMAN, A., CANNELLA, A., and PAETZOLD, R. (2000) The Resource Dependence Role of Corporate Directors: Strategic Adaptation of Board Composition in Response to Environmental Change. *Journal of Management Studies*, 37: pp. 235-256.
39. HUTTON, W. (1995), *The State We're In*: London: Cape.
40. IMF (2001) Czech Republic: Financial System Stability Assessment (IMF Country Report), International Monetary Fund, Washington, DC.
41. JENSEN, M.C. and MECKLING, W.H. (1976) 'Theory of the Firm: Managerial Behaviour, Agency Costs, and Ownership Structure', *Journal of Financial Economics* 3: pp. 305-60.
42. JUDGE, P., and REINHARDT, A. (1997) Seething Shareholders, *Business Week* (June 9), pp. 38.
43. KAY, J. and SILBERSTON, A. (1995), 'Corporate Governance', *National Institute Economic Review*, No. 84, pp. 84-97.
44. KEASEY, K, THOMPSON, S and WRIGHT, M (1997) Corporate Governance: Economic, Management, and Financial Issues. Oxford University Press.
45. KESNER, L., and JOHNSON, R. (1990) 'An Investigation of the Relationship Between Board Composition and Stockholder Suits'. *Strategic Management Journal*, 11: pp. 327-336.
46. KIRKBRIDE, J. and LETZA, S. (2005) "Can the Non-executive Director be an Effective Gatekeeper"? The Possible Development of a Legal Framework of Accountability. *Corporate Governance: An International Review*. Vol. 13 No.4, pp.542-550.
47. LA PORTA, R., LOPEZ-DE-SILANES, F., SHLEIFER, A. AND VISHNY, R.W. (1999).
48. *Corpora Ownership Around the World*. *The Journal of Finance*. Vol. LIV No.2 pp. 471-517.
49. LETZA, S. (2003) "The Importance of Corporate Governance to the Modern Business"; The Centre for Innovative Thinking in Dubai United Arab Emirates .
50. LETZA, S. and SUN, X. (2004) "Shareholding versus Stakeholdeing: A Critical Review of Corporate Governance" *Corporate Governance: An International Review*, Vol. 12, No. 10, pp. 136-152
51. MALLIN, C. A. (2004) *Corporate Governance*, Oxford University Press.
52. MANNE, H.G. (1965) 'Mergers and the Market for Corporate Control', *Journal of Political Economy* 75: 110-26
53. MASON, R. and MITROFF, I. (1982) *Challenging Strategic Planning Assumptions*. New York: John Wiley and Son. Associates.
54. METCALFE C. E. (1998) The Stakeholder Corporation; An Article in Volume 7, No. 1 (January) pp. 30-35.
55. MILLS, R. (1998) *The Dynamics of Shareholder Value*. Lechlade: Mars Business
56. MONKS, K. A. G. and MINOW, N. (1995) *Corporate Governance*. Cambridge, MA: Blackwell Business.
57. MONKS, K. A. G. and MINOW, N. (2001) *Corporate Governance* (2nd Eds.), Blackwell, Oxford.
58. OECD (1999) *Corporate Governance Principles: OECD – Organisation for Economic Co-operation and Development*. Published by OECD Steering Group on Corporate Governance www.cecd.com
59. OMRAN, M., ATRILL P. and POINTON J (2002) *Shareholders Versus Stakeholders: Corporate Mission*

- Statements and Investor Returns. *Business Ethics, European Review*, vol. 11 No. 4, pp. 318-326.
60. ORWALL, B. and LUBLIN, J. (1997) *The Plutocracy: If a Company Prospers, Should its Directors Behave by the Book?* Wall Street Journal New York.
61. O'SULLIVAN, N., DIACN, S.R. (2003) Board Composition and Performance in Life Insurance Companies, *British Journal of Management*, Vol. 14, No. 2, pp. 115-129.
62. PECK, E. (1995) 'The Performance of an NHS Trust Board: Actor' Accounts, Minutes and Observations', *British Journal of Management*, 6: 135-56.
63. PECK, E. (1992) 'Board Composition and Strategic Contingency', *Journal of Management Studies*, 20: pp. 410-38.
64. PETTIGREW, A.M. (1992) 'On Studying Managerial Elites', *Strategic Management Journal*, 13: pp. 163-82.
65. PETTIGREW, A. M. and McNULTY, T. (1995) 'Power and Influence in and Around The Board', *Human Relations*, 8: pp. 845-73
66. PFEFFER, J. (1972a) Size and Composition of Corporate Boards of Directors: The Organisation and its Environment. *Administrative Science Quarterly*, 17: pp. 218- 228.
67. PFEFFER, J. (1972b) 'Management as Symbolic Action: The Creation and Maintenance of Organisational Paradigms', in *Research in Organisational Behaviour*, Vol. 13, 1-52. (eds) L. L. Cummings and B. M. Staw. Greenwich, Conn. : JAI Press.
68. PFEFFER, J. (1991) Organisational theory and Structural Perspectives on Management. *Journal of Management*, 17: pp. 789-803.
69. PFEFFER, J. and SALANCK, G. R. (1978) *The External Control of Organisations*: New York: Harper and Row.
70. PHILLIPS, R. (2003) *Stakeholder Theory and Organisational Ethics*. Published by Berrett-Koehler Publishers, Inc. San Francisco.
71. PHILLIPS R. A. (1997), "Stakeholder Theory and A Principle of Fairness," *Business Ethics Quarterly*, 7 (1), pp. 51-66.
72. PRICEWATERHOUSECOOPER LLP (2003) *Shareholders' Questions: Questions that may be asked at 2003 Shareholders' Meetings*. Pricewaterhouse Cooper.
73. SHERWIN D. (1983) *The Ethical Roots of Business System*, Harvard Business Review Harvard Business School (November-December)
74. SHLEIFER, A., and VISHNY, R., (1997) 'A Survey of Corporate Governance' *Journal of Finance*, Vol. LII, No. 2 pp. 737-783.
75. SMITH, A. (1776) *The Wealth of Nations*, The Royal Bank of Scotland Review 1990.
76. SMITH, R. (2003) *Audit Committees Combined Code Guidance. A Report and Proposed Guidance by an FRC- Appointed Group*. Financial Reporting Council. Published <http://www.frc.org.uk/publication/content/ACRport.pdf>
77. SOLOMON, J. F. and SOLOMON, A. (1999) 'Empirical Evidence of Long-Termism and Shareholder Activism in UK Trusts', *Corporate Governance: An International Review*, 7(3), pp. 288-300.
78. SOLOMON, J. F. and SOLOMON, A. (2004) *Corporate Governance and Accountability*. John Wiley & Sons, Ltd UK,
79. STERNBERG, E. (2004) *Corporate Governance: Accountability in the Marketplace*, (2nd Edition), IEA, The Institute of Economic Affairs, London.
80. STILES, P. and TAYLOR, B. (2002) *Boards at Work: - How Directors View Their Roles Responsibilities*. Oxford University Press.
81. STRONG, N. and WATERSON, M. (1987) 'Principals, Agents and Information', in R. Clarke, and T. McGuinness (eds.), *The Economics of the Firm* (Oxford: Basil Blackwell
82. SUN, X. (2002) *Rethinking Corporate Governance 'A Processual Approach'*. PhD Thesis of Leeds Metropolitan University.
83. SUN, X., LETZA, S. and CHIA, R. (2001) *Governance Versus Governing: Philosophical Issues Underpinning Corporate Governance*. Leeds Metropolitan University.
84. SYKES, A. (1994), "Proposals for Internationally Competitive Corporate Governance Britain and America", *Corporate Governance*, 2/4: pp. 187-95.
85. THE Cadbury Report (1992), Greenbury Report (1995), and Hampel Report, (1998): http://www.dti.gov.uk/cld/non_exec_review.
86. THOMPSON, S. and WRIGHT, M. (1995) 'Corporate Governance: The Role of Restructuring Transactions', *Economic Journal*, 105: pp.690-703.
87. TICKER, R. I. (2000) *Corporate Governance: History of Management Thought*. Ashgate Dartmouth Aldershot.
88. TURNBULL REPORT, (1999) *The Internal Control: Guidance for Directors on the Combined Code*, Institute of Chartered Accountants in England and Wales, ICAEW, London..
89. TURNBULL REPORT, (2005) *The Turnbull Guidance as an Evaluation Framework for the Purposes of Section 404(a) of the Sarbanes-Oxley Act*.
90. TURNBULL, S. (1997) 'Corporate Governance: Its Scope, Concerns and Theories', *Corporate Governance: An International Review*, 5: pp.180-205.
91. WANG, J. and DEWHURST H.D. (1992). "Board of Stakeholder Orientation", *Journal of Business Ethics*, VII.
92. ZAJAC, E. J. and WESTPHAL, J. D. (1996a) 'Who Shall Succeed? How CEO/Board Preferences and Power Affect the Choice of a New OECs', *Academy of Management Journal*, 39 (1), pp. 64-90.