Preface

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In theory, "one short-coming has been the tendency of textbooks in the area [of corporate governance] to make prescriptions about the 'best practice' … without providing a credible analytical framework for the students or the practitioners" (Boxall, 1992, p.60). There is a severe deficit of integrative corporate governance concepts. An analysis of the development stage of researching and teaching shows that the future academic strength of corporate governance "… will depend on how effectively present scholars dedicate themselves to building credible analytical framework focused at the level of the firm but with the capacity of providing an adequate disciplinary basis [for comparative corporate governance]" (Boxall, 1992, p.75).

This issue presents an integrated corporate governance framework, called 'New Corporate Governance' (Hilb, 2008), which is based on the following four recommendations:

'Keep it

1 situational
2 strategic
3 integrated
4 controlled'.

This holistic framework for the direction and control of enterprises tries to integrate formerly isolated elements of corporate governance in research, teaching and practice. What is 'new', you may ask? The New Corporate Governance framework integrates the interests of shareholders, customers, employees and the public.

Part 1: The situational dimension (keep it situational)

Here we differentiate between *external* and *internal* context. At the level of the external normative context, corporate governance practices differ with national, industrial and organisational culture. At the internal context level, every firm has a different development level, ownership and power makeup: the size, development level and complexity of the firm, the degree of internationalisation and the ambitions of the board.

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Part 2: The strategic dimension (keep it strategic)

We identify four central success factors in corporate governance. The first prerequisite for a board culture characterised by constructive criticism and trust is the targeted selection of an exemplary and well-diversified *board team*; one that is comprised of people who act as role models for both share- and stakeholders. The *culture* of constructive criticism and trust is implemented through simple network board *structures and processes.* These three success factors are prerequisites for the development, implementation and evaluation of board *success measures*, adding simultaneous value to shareholders and stakeholders.

Part 3: The integrated board management dimension (keep it integrated)

This dimension integrates the targeted *recruitment*, *evaluation*, *remuneration* and *development* of the supervisory and managing boards. For large, public listed companies, it is important to have a board management committee which handles not only nomination and remuneration, but also evaluation and development in an integrated way.

Part 4: The controlling dimension (keep it controlled)

This dimension refers to the *auditing*, *risk management* and *feedback* functions of the board.

By 'framework' we mean "an abstraction that preserves in economical form most of the points that have been developed" (Weick, 1979, p.95).

The danger of simplifying a complex system, as the "New Corporate Governance" framework is attempting to do, should not be underestimated: as soon as parts of a system are isolated, the understanding of the system is altered (Maletzke, 1972, p.1515). Only when we are aware of the limitations of any model, and the dangers of isolating subcomponents thereof, can we call our approach scientific (Koenig, 1967, p.7).

There are two main limitations of this framework:

- my visual representation lends itself to the usual critique of the social sciences, which is to "pay lip service to interdependence, and then to investigate the elements of the model in isolation from one another" (McQuail, 1973, p.83)
- while the breakdown of corporate governance into single, central components has analytical relevance for our study, in practice these components are not always clearly delimited. There are a number of overlaps and interdependencies between the factors.

In spite of these caveats, New Corporate Governance meets the criteria proposed by Brown for the assessment of a [good] model: simplicity, clarity and logic of the formal structure, closeness to reality and, therefore, adequacy for relevant prediction.

The next sections illustrate the four main parts of the framework with relevant and reliable research studies.

1 *Keep it situational*: Giuseppe Sancetta and Alessandro Gennaro from the Sapienza University of Rome, Italy, present a research paper on 'Corporate governance and safeguard of minority shareholders in Italy'.

   It "analyses the relationship between governance systems and protection of minority shareholders with the purpose of evaluating the contribution of governance systems to favouring a fair distribution of value to the shareholders of listed companies, regardless of the size of the share held. It should be considered that where governance actually protects minority shareholders, there should be an inverse correlation between compliance with best practices and majority premiums".

2 *Keep it strategic*: Robert M. LoBue from Reutlingen University, Germany, asks with his research paper the question: 'Is accounting at odds with corporate governance?'

His answer: "The system of corporate governance functions effectively when corporate directors are actively participating with management in strategy and when they are, in balanced measure, diligently engaged in monitoring. The board is dependent on a full spectrum of Management-Supplied Information (MSI) to fulfil these duties. Many incidents of accounting fraud and audit failure that have surfaced have continuously provided evidence that the quality of MSI sources is clearly insufficient, creating a transparency barrier between management and shareholders. As the first step towards resolving this issue, *strategic* management theory assists with identifying the investments in intangibles-related activities that add strategic value in today's corporations. As the next step, knowledge management theory supports an innovative classification approach providing for significantly higher accounting recognition of these strategic intangible assets. The agency assurance approach calls for a completely new accounting standard in which the differentiation costs of today's readily identifiable, explicit intangibles are capitalised as assets, while investments in tacit activities remain as period expenses. Capitalisation not only validates the strategic value of differentiation costs but, simultaneously, it provides the cost basis of the underlying intangible assets, requiring management's full attention for monitoring".

3 *Keep it integrated*: Céline du Boys from Aix Marseille University, France, asks with her paper another research question: 'Is payout policy in France part of the corporate governance system?'

Her paper "examines the place of payout policies in governance systems in France. It analyses the conditions in which payout is used to regulate agency conflicts and studies the relations between dividend or share repurchase and the other governance mechanisms. Through the study of 167 French firms from 2000 to 2005, the authors show that in France payout is not used to regulate conflicts between majority and minority shareholders, but rather to limit free cash flow risk or conflict between managers and shareholders. In presence of a majority shareholder, the governance systems do not achieve in forcing insiders to disgorge cash. The study confirms the substitutability between debt and payout and shows that blockholders have an effect on payout. On the contrary, board's characteristics, except the directors' independence, do not influence payout".

4 *Keep it controlled*: Waymond Rodgers from the University of California, USA, and Andres Guiral and Jose A. Gonzalo from the University of Alcala, Spain, present a relevant and reliable research paper on an important ethical dilemma: 'Auditor independence and corporate governance'.

"Auditors' primary function in society is as purveyors of opinions for reliable and relevant information. Many company failures have highlighted whether auditors have a conflict of interest problem. At the root of auditors' lack of independence issues are conflicts of interest resulting from the structural features of the auditor-client relationship. The Throughput Model is advanced in order to explain how six dominant ethical positions deal with conflict of interest problems and corporate governance issues. Finally, a discussion of potential solutions to improve ethical issues is offered for future research".

Conclusion

The objective of New Corporate Governance is to overcome the 'either–or' thinking that currently dominates corporate governance theory and practice, based on the principle espoused by F.S. Fitzgerald that: "The test of a first-rate [board] intelligence is the ability to hold two opposing ideas in mind at the same time, and still retain the ability to function".

Successful boards strive to deliver both:

- shareholder value … *and* … value for clients, employees and the public
- entrepreneurial action … *and* … checks and balances
- legality … *and* … legitimacy
- short-term results … *and* … long-term sustainability
- a culture of trust … *and* … controls
- global integration … *and* … local relevance
- comprehensive transparency … *and* … necessary confidentiality
- performance orientation … *and* … cooperation
- strategic direction … *and* … monitoring
- keeping its nose in … *and* … its hands out of company activities.

It remains to be seen if boards have the will and resources to transform themselves into true directing and controlling teams; changing their orientations from corporate governance to corporate *control-preneurship.* The result of this challenge will determine whether companies will be among the winners or losers in the face of global change and competition.

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