Business Ethics and Corporate Governance: A Global Prospective

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ABSTRACT

Corporate governance has gained exceptional eminence in recent years. The failures and successes of modern corporations are equally responsible for this rise in prominence. Modern corporations thus are not simply victims of external conditions that have imposed corporate governance on them but also created the very circumstances that made corporate governance imperative. However, neither can it be denied that the phenomenal growth in social power and influence of corporations equally contributed to them taking responsibility for balancing their own interests with those of the societies and the natural environment in which they operate.

Corporate governance is geared toward ensuring that companies take responsibility for directing and controlling their affairs in a manner that is fair to their stakeholders. Two qualifications however need to be added immediately. First, this responsibility can either be taken voluntarily by the boards of directors of companies or it can be imposed on them by regulating authorities or by a combination of both. Second, the scope of stakeholders toward whom the company should be responsible is a contested issue in corporate governance, as some corporate governance regimes restrict these stakeholders almost exclusively to shareholders, while other corporate governance regimes are much more inclusive with regard to stakeholders who fall within the ambit of corporate responsibility. Irrespective of how corporate governance is conceived in terms of these two qualifications, it still has a distinct ethical character. This ethical character is reflected in the fact that corporate governance requires companies to take responsibility for their

impact on societies and on their stakeholders. The research paper intended to gauge what the impact of recent corporate governance reforms are on the role and eminence of business ethics in companies. This research paper helps to get a global perspective on the relation between business ethics and corporate governance, the world was divided into six regions, namely, Africa, Asia-Pacific, Europe, Japan, Latin America, and North America. It therefore is not surprising that the rise in prominence of corporate governance coincided with a rise in prominence of business ethics. With this paper, we are highlighting the different models of Corporate Governance and what are the most prominent differences between these models, the extent of stakeholder engagement, who are the stakeholders that they have to engage with, and the role of business ethics in corporate governance.

Keywords: - Corporate Governance, Business Ethics, Global Perspective

INTRODUCTION

It is known fact that vital needs of success of any organization lingers on its ability to mobilize and utilize all kinds of resources to meet the objectives clearly set as part of the planning process. Managing well depends on internal and external factors, the latter include availability, cost effectiveness; technological advancement. Increasingly, revelations of deterioration in quality and transparency, have called for adoption of internationally accepted ‗Best Practices‘. The acceptance of the concept gave rise of ‗Corporate Governance‘. ‗Corporate Governance‘ encompasses commitment to values and to ethical business conduct to maximize shareholder values on a sustainable basis, while ensuring fairness to all stakeholders including customers, employees, and investors, vendors, Government and society at large. Corporate Governance is the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed and how performance is optimized. Sound Corporate Governance is therefore critical to enhance and retain investors‘ trust. Corporate governance is about ethical conduct in business. Ethics is concerned with the code of values and principles that enables a person to choose between right and wrong, and therefore, select from alternative courses of action. Further, ethical dilemmas arise from conflicting interests of the parties involved. In this regard, managers make decisions based on a set of principles influenced by the values, context and culture of the organization.

Ethical leadership is good for business as the organization is seen to conduct its business in line with the expectations of all stakeholders. What constitutes good Corporate Governance will evolve with the changing circumstances of a company and must be tailored to meet these circumstances. There is therefore no one single model of Corporate Governance.

Models of Corporate Governance

The dominant model of corporate governance that emerges in these national codes is an inclusive model of corporate governance in which boards of directors are not merely accountable to shareholders but also responsible to all other stakeholders of the company. All the codes advocate a self-regulatory approach where companies are encouraged to adopt not only the letter but also the spirit of good corporate governance as best business practice. Although voluntary in nature, all these codes do emphasize the need for an adequate legal and regulatory framework. The codes thus deliberately focus on corporate governance at the enterprise level rather than on the regulatory level.

The inclusive model of corporate governance was first introduced on the **African continent** in 1994 in the first King Report on Corporate Governance in South Africa and has been further entrenched in the second King Report on Corporate Governance in 2002. In these national codes, a variety of motivations are offered for adopting an inclusive approach. These include the long-term sustainability of companies, respect for the local community and the society at large in which a company operates, and the need to earn a license to operate from all stakeholders of a corporation. This African value system is sometimes captured under the term ***Ubuntu*** that signifies among others a commitment to coexistence, consensus, and consultation. The African value system would render an exclusive focus on shareholders' interest.

The voluntary and self-regulatory nature of the corporate governance model that prevails in Africa also could be explained on a number of grounds. A first factor is the inadequate legal and regulatory framework for controlling corporate activity that is found in the majority of African countries. Given this deficiency, many national business communities almost have no other choice than starting the process of corporate governance reform in a voluntary and self-regulatory manner. The expectation often is that this approach will trigger corporate governance reforms on the regulatory and legal level as well. Another motivation for the voluntary nature of these models can be found in the need to broaden the scope of corporate governance reform. Given the small number of listed companies on the African continent and the prevalence of small and medium non listed enterprises as well as state owned enterprises, a mandatory corporate governance regime that only applies to listed companies would be inadequate and inappropriate as it would leave the vast majority of companies outside the ambit of corporate governance reform.

Japanese companies use a one-tier board system. All directors are elected at the shareholders‘ meeting, and the elected directors make up the board. Many directors in Japanese companies are former employees of the companies on whose boards they serve. The majority of members on the board tend to come from the ranks of the executive managers in the company. Many large companies have a board of company auditors. The auditors are elected at the shareholders‘ meeting and at least one of them must be from outside the company. According to Japanese Commercial Code, the board of auditors must monitor the management and report on their performance to the shareholders. A large number of outside directors and auditors are executives of other companies in the same group as the one on whose board they serve (Learmount, 2002). This gives rise to the phenomenon of cross-directorships. The Mitsubishi Group is an example of a company where this occurs.

The Japanese Commercial Code that was revised in 2003 enables Japanese companies to abolish the board of auditors system. Instead, it introduces a board committee system. The board committee system is made up of the audit committee, the nominating committee, and the remuneration committee. The majority of members of each committee have to be directors from outside the company. In 2004, about 70 companies, including Sony and Hitachi, adopted this model. This approach is called the separation of execution from auditing. Many large companies, including Toyota Motor, Matsushita Electric, and Canon, however, did not follow suit. Companies like Toyota Motor and Matsushita Electric chose a different method of corporate governance reform.

From the point of view of legal system, **Australia, Singapore, and India** are all common law jurisdictions in the sense that their legal foundations and principles are based on the English system, having been transplanted during the colonial era. The legal system in China, especially in relation to company law and corporate governance, has largely developed only in very recent times. At the same time, the three common law countries differ widely in their stage of economic development. In global survey we identify wide differences in respective populations and per capita wealth. China‘s legal and commercial institutions and practice have developed in the context of, and have been shaped by, the Communist Party and the prevalence of state-owned enterprises. To some extent, a similar history occurred in India that was also dominated by state-owned enterprises (SOE), even though to a lesser extent than China. Until recently, both these countries were largely closed to foreign investment but have opened up into globalization, an inflow of direct foreign investment, and greater development of market economies. Australia and Singapore have longer histories of developing international market economies. Singapore‘s corporate governance is also based on the Anglo- American model but departs from this in

several important respects. Government involvement in the corporate sector is far greater than that usually associated with this corporate governance model. The government is a major shareholder in many large Singapore companies, and government controlled companies play a major role in many key industries. The CLSA Emerging Markets and the Asian Corporate Governance Association survey, CG Watch: Corporate Governance in Asia 2003 ranks several Asian markets by their corporate governance practices. China, India, and Singapore were ranked as follows:

Basis	**China**	**India**	**Singapore**
Rule and Regulations	5.0	8.0	8.5
Enforcement	4.0	6.0	7.5
Political and Regulatory environment	5.0	6.0	6.0
Institutional mechanisms and corporate governance culture	3.0	6.5	8.0
Country Score	4.3	6.6	7.7

This survey did not include Australia. For comparative purposes, similar ratings for slightly different variables were determined by La Porta, Lopez-de-Silanes, Shleifer, and Vishny of 49 countries classified according to legal origin. The following ratings were given in relation to various aspects of enforcement of law for Australia, India, and Singapore: These tables indicate that in relation to several indicators of the corporate governance environment, rule of law, and enforcement Australia and Singapore rank relatively high. This accords with the central conclusions put forward by La Porta et al. (1996) that investor protection is generally greater in common law countries than in countries whose legal systems originated in France and, to a lesser extent, those stemming from the German model. Law enforcement is of higher quality in German and common law origin systems than in French origin models. The quality of law enforcement also bears a relationship to income per capita. Hence, law enforcement and transparency is relatively poor in China compared to Australia and Singapore. Financial institutions often allocate capital to non optimal uses. On the other hand, those countries such as Australia with good investor protection and adherence to high-quality accounting standards tend toward having low ownership concentrations. Australia, however, appears to have greater concentration of share ownership than in the United States and United Kingdom (Stapledon, 1999). Singapore appears to depart from this generalization as it exhibits high ownership concentration despite high ranking in rule-of-law and accounting standards. This may be explained by the predominance of family-controlled companies as well as heavy involvement of government in many listed companies.

Europe

Corporate governance Codes that focus exclusively on the agency problem and pursue the maximization model offer no entry points whatsoever for a dimension of business ethics that goes beyond the honoring of contracts on the part of the managers. Corporate governance codes, on the other hand, which pursue the economizing or cooperation model, directly and immediately lead to the integration of questions of moral and social responsibility of firms and their engagement in terms of corporate citizenship. Most of the European states follow one of the latter two models. This assessment appears to be a good foundation for a practically applicable and theoretically interesting discussion of the notion of corporate governance.

Values Management
- Corporate Social Responsibility
- Environment
- Social standards
- Human rights

Shareholder Rights
- Equitable treatment
- Controlling shareholders
- Anti-takeover devices

Transparency, Reporting & audit
- Transparency
- Auditing process
- Reporting

European Principles

For Corporate Governance

Directors
Board structure
- Board size
- Role of chairman
- Director training

Remuneration
- Framework
- Incentives, pension
- Contractual term

Other voting Issues
- Company constitution
- Shareholder Resolutions
- Extraordinary general Meetings

It is obvious and beyond dispute that no broad agreement with such a definition of corporate governance exists in many countries and regions. The Anglo-Saxon countries and Switzerland, for instance, emphasize management control and the defensive aspects of monitoring. The Danish or Dutch, on the other hand, interpret corporate governance as effective stakeholder management. From such a perspective, monitoring and management control also have an important role to play.

They are, however, embedded in a conception of the firm that sees it as a part of the society at large, and that takes the interests of different stakeholders into consideration. These three different perspectives, based on different theoretical foundations, are mirrored in the European corporate governance codes. The *Swiss Code of Best Practice for Corporate Governance* for instance, refers exclusively to agency theory and the maximization model: ―Corporate\ Governance is the sum total of the principles focused on the interest of shareholders‖. Most

European corporate governance codes do not refer to agency theory and its focus on shareholder interest. Rather, they focus either on the conflict of interests between shareholder and stakeholder, or the conflict of interests between the firm as a legal and moral actor in it and the stakeholders (including shareholders, which might be identified as the crucial stakeholders). Further research is needed on the issue. It should perhaps not go unnoticed that stakeholder approaches and approaches focused on the firm do, of course, mention the paramount importance of shareholder interest—while approaches focused exclusively on shareholders do no mention stakeholders and their interest at all.

The extent of stakeholder engagement and ethics guidelines

In **Africa,** there should be regular engagements with stakeholders. Engagement with shareholders is being effected through the regular channels of communication that exist in the annual general meeting and through regular disclosure of financial reports. In the case of non shareholding stakeholders, more or less all reports propose an outline of what stakeholder engagement should entail. The process should commence with the identification of stakeholders, and then policy should be formulated for how a company will engage with its stakeholders.

The Zimbabwean code goes even further and recommends that a code of conduct should be developed for stakeholder engagement that will ensure that the rights of stakeholders are protected. In the codes of countries such as Uganda *(Manual on Corporate Governance and Codes of Conduct*) and Tanzania (Steering Committee on Corporate Governance in Tanzania, 2000), it is emphasized that the policy for stakeholder engagement should not only be developed by the company but also should be agreed on with the respective stakeholders of the company.

The content of stakeholder engagement is generally described as an obligation to inform stakeholders on company performance. Although not much clarity is provided on the content of what should be communicated, it is clear that information on the financial and nonfinancial performance of companies should be disclosed. It is however widely emphasized that such communication and disclosure should be prompt, open, relevant, and transparent. Although the emphasis on stakeholder engagement is pervasive in all these reports, it lacks rigor and discipline. There are, however, a number of notable exceptions. In the Kenyan code, reference is made to establishing mechanisms for ensuring performance enhancing stakeholder participation. The second King Report for South Africa brings discipline into this process by recommending that companies should follow a triple bottom-line reporting and disclosure approach based on the AA1000 process standard and the Global Reporting Initiative (GRI) reporting principles. Adherence to these standards will ensure that stakeholders are not only informed but also their perceptions of the company being gauged.

Previously, banks and employees were considered to be the main stakeholders in **Japanese** companies (Kanda, 1997). Japanese companies are called the community firms (Inagami & Whittaker, 2005). Many of the large companies would hold equal shares of other large companies. This is referred to as cross-shareholdings. It was used as a measure to prevent takeovers. Within this system, banks would finance many companies that belong to the same group of cross-shareholdings. This created dependency by such a cross-shareholding group of the bank (Hoshi & Kashyap, 2001). Consequently, when the company faced financial difficulties, the bank would send its executives in to restructure and rescue the company.

More recently, the practice of cross-shareholdings has been decreasing, causing more Japanese companies to become vulnerable to takeover bids. The powerful position that banks were in with regard to companies is, however, changing as banks themselves were forced to restructure. This has resulted in banks becoming less likely to intervene in the affairs of the companies that they finance. New stakeholders like managers of pension funds and foreign investors, are at the same time becoming more influential. They do not shy away from opposing proposals and decisions by the CEOs of the companies in which they invest.

Hard work and personal sacrifices guaranteed them promotion, and they now expect similar behavior from their subordinates. This attitude will be perpetuated as long as the concept of lifetime employment prevails. Thus, employees are not encouraged to stand up for their own wants and rights.

Stakeholder engagement and business ethics concerns in the four countries are growing as corporations grapple with increasingly aware and influential stakeholders in Asia-Pacific.

However, before one engages too specifically in determining which groups are being the most influential, one needs to clarify the term *stakeholder* and how it is being used in this discussion. The concept of stakeholder engagement can be seen as the interaction of members of a number of groupings with the organization—those who have a direct economic relationship with the entity as well as those who have an indirect involvement and interest in the entity‘s activities.

A common list of stakeholders includes:-

1. **Primary/Direct – financial investors**

- Shareholder/security holders
- Banks and other finance providers

2. **Primary/Direct – other financial stakeholders**

- Employees - Management/Non Management
- Customers and suppliers
- Directly involved government agencies such as the Taxation Office and regulators, ASIC, APRA and so on 3.

Indirect –Social

- Local communities – Represented by local and state government agencies and lobby groups
- Regional, national and global communities – represented by NGO‘s

4. **Indirect – Environmental**

Government agencies such as Environmental Protection Authorities and planning agencies.

Non-government bodies representing environmental interests – NGO‘s, research institutes, and so on.

This initial framework outlined above is used as a basis for the following review of current stakeholder engagement in the Asia-Pacific region. In Australia it is evident that a significant community of agencies, associations, and NGOs are involved with stakeholder engagement on behalf of financial investors. They can be identified in three groups as follows and include the following:

- Government bodies and authorities: Attorney General, Australian Competition and Consumer Commission (ACCC), National Competition Council, Reserve Bank, ASIC, Takeovers Panel, APRA.

- Professional associations: Chartered Institute of Company Secretaries, CPA Australia and Institute of Chartered Accountants (professional accounting bodies), Institute of Company Directors, Law Council, Law Institute and Australian Corporate Lawyers Association, and other legal professional bodies.

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- Securities and exchange organizations: Australian Stock Exchange (ASX), Financial Markets Association, Independent Shareholder Services, Investment & Financial Services Association.

Most of these groups have secretariats, boards, or committees of management and extensive groups of managers and employees. They significantly influence the way corporate governance is perceived and practiced in Australia and have significant impact in terms of stakeholder engagement.

They have protocols, standards and codes that clarify how they support their clients or members and their relationships with corporations in Australia. The growth of entities involved in financial stakeholder engagement has been fostered by increasing shareholding participation through direct shareholdings and through superannuation funds. As the average age of Australians rises and the government limits the amount of and eligibility for age pensions, increasing numbers have become interested in saving for retirement and are doing so through direct investment in shares, through share purchasing in self-managed superannuation funds and through contributions to superannuation funds. This body guides corporate governance through its recommendations on corporate governance practice (IFSA, 2004). The IFSA corporate governance guide was one of the first major documents in Australia to extensively recommend corporate governance principles in Australia. In the other countries, the issue of stakeholder engagement with the primary investor groups seems to have a shorter history and is less clearly identified. In India, community- and state-based investor associations and NGOs have emerged recently and are likely to become influential at state and federal control levels, as financial markets grow.

Since independence and arguably up until the early 1990s, the central government in India has had a strong influence over the economy and kept tight control over capital markets. There was substantial government control over investment, and consequently state-owned enterprises were major asset managers in India. This factor, alongside a close-knit framework of family-based enterprise management, has meant investor activism is a relatively new phenomenon in India. One body, representing the fund management industry, the Association of Mutual Funds in India (AMFI) is dedicated to developing the Indian Mutual Fund Industry on professional, healthy and ethical lines and to enhance and maintain standards in all areas with a view to protecting and promoting the interests of mutual funds and their unit holders. (AMFI, 2004)

Ethics and standards are clearly a concern for AMFI. According to its AMFI Web site, it is closely associated with the Securities and Exchange Board (SEBI) and seeks to ensure its members maintain high standards. It is not clear from its Web site that it has a direct involvement in the governance arena, unlike IFSA in Australia. As noted above, SOEs are a key issue in stakeholder engagement in India. State-owned banks and financial institutions have direct investment in many SOEs. Unit Trust of India, the government-managed fund, looks after a large proportion of the funds under management in India. Social objectives such as poverty alleviation, employment, food production, and distribution create significant tensions relating to the governance of such entities.

The influence of government as an owner and stakeholder in India, either directly or through the public sector banking and finance industry, is complicated by this factor (Reddy, 2004).

In China, there is less evidence of representative bodies supporting financial stakeholders. Prime reliance seems to be focused on government- initiated codes, such as that created by the CSRC, as noted above. Much of the regulation in China is aimed at protecting minority shareholders and ensuring the corporation is not used by ―some controlling shareholders ‗as their own little ATM machines' ‖ (Asian Corporate Governance Association, 2003a; Reddy, 2004). Thus, the key concern about ethics is protection of the financial interests of shareholders from unscrupulous controlling shareholders.

Other Direct Stakeholders Employees- In Australia, employees traditionally have been represented by trade unions and professional associations. The Sunshine Harvester Case in 1907 helped establish the principles of a basic wage and a centralized arbitration and conciliation system that lasted for some 90 years (Australian Council of Trade Unions [ACTU], 2004). It underpinned the power of the union movement that has only diminished in the past decade with the impact of globalization and enterprise bargaining. The union movement is still strong and has become involved in corporate governance issues, through member-based superannuation funds and links with shareholder association activities. Professional associations likewise often are concerned with corporate behavior and act on behalf of members to pressure senior managers, boards, and owners to act legally and ethically.

Indirect Stakeholders—Social Local communities- In Australia, local community stakeholder engagement could take place in a number of ways. Local government departments are likely to have an interest in businesses located in their regions. Planning and industry policy departments will administer regulations relating to building construction, harmonization with existing infrastructure, and integration with local services. Such departments are likely to manage stakeholder engagement via community engagement projects, discussion groups, and in other ways, especially if there are major potential conflicts likely to emerge.

In India and China, with considerably more economic and demographic pressure on the environment, the trends are the same but this impact different. A decade ago, economic growth was seen as paramount and government agencies‘ work was directed primarily toward this. Today, things seem to have changed—concerns for the environment are growing as pollution, especially in cities, is increasing. Attitudes are changing, and government bodies‘ policies are likewise also changing. How extensive these changes are in terms of active engagement with corporations is hard to determine without further fieldwork research.

If we investigate the diversity of **European** corporate governance codes a little more in depth, we find further differences that are of importance for the corporate ethics discussion. Of particular interest in this context is the question that stakeholders are acknowledged and identified as having an interest in the firm (see Figure 4). This particularly depends on the committees responsible for issuing the corporate governance codes, that is, on the fact whether they are appointed by government departments, stock exchange bodies, or professional bodies. In addition, the stakeholder engagement in reality depends on law and the common national practice. Moreover, most codes follow the recommendations of the according OECD principles.

Stakeholders in European Corporate Governance Codes

Issue	**Entries**
Code of ethics, ethical standards	11
Cooperation, codetermination, partnership	10
Reports, dialogue, communication	7
Wealth, prosperity, jobs	6
Environmental protection	6
Social responsibility	

As mentioned, the Swiss corporate governance code is the only one that exclusively identifies shareholders as stakeholders. The Dutch code, to the contrary, identifies shareholders, employees, whistleblowers, investors, suppliers, customers, government, and the civil society. In most of the European corporate governance codes, shareholders, customers, employees, suppliers, and creditors constitute the core of stakeholders. Depending on the function of the particular code, some of these stakeholders are then dropped or others added. An especially telling example is the

Russian corporate governance code ―Corporate Governance is a term that encompasses a variety of activities connected with the management of companies. Corporate Governance affects the performance of economic entities and their ability to attract the capital required for economic growth‖ The Russian standard, therefore, belongs to the firm-oriented standards. It mentions the interests of all shareholders (thus, private and public shareholders), the benefit of the Russian economy as a whole and high ethical standards.

However, no other stakeholders are identified. This is probably an expression, in cryptic form, of the orientation toward the state that Russian firms have. Coded as respect of the law and the social morale, it refers back to the socialist tradition. A further differentiation of corporate governance codes shows up via an analysis of the values mentioned in the corporate governance codes Shareholder-oriented codes emphasize the interests of owners, problems of incomplete Information, transparency, accountability, performance based remuneration, and sustained financial solidity. Stakeholder-oriented codes, on the other hand, have a wider frame of reference.

The relevance and role of business ethics in corporate governance

The national codes all emphasize the ethical nature of good corporate governance. Special emphasis is placed on the fact that good governance is based on a number of cardinal ethical values. Topping the list of the values that should be adhered to in good governance are the values of transparency, accountability, responsibility, and probity. These values should permeate all aspects of governance and be displayed in all actions and decisions of the board.

The various aspects of governance, such as board compilation and functioning, reporting, disclosure and risk management, are seen as instrumental in realizing these cardinal values of good governance. Besides these underlying values of corporate governance, mention is also made of specific moral obligations that the board of directors and the company should abide by. Prominent among these ethical obligations are ensuring that the company always act on high ethical standards so that the reputation of the company will be protected as well as respecting the rights of all shareholders, but particularly those of minority shareholders. In line with the inclusive model of governance that prevails in Africa, the duty to protect the human and other rights of all stakeholders enjoys prominence.

Stakeholders that are singled out for special protection are cultural or ethnic minorities, women, and children. The duty of the board and the company to look after the safety and health of its employees is also stressed. The emphasis on health is not surprising if one takes into account that, on average, 6,500 Africans die of AIDS-related illnesses per day (Pan-African Consultative Forum on Corporate Governance [PACFCG], 2001, p. 12). The detrimental impact of HIV and AIDS on business enterprises is well documented and poses a challenge that boards can hardly afford to ignore any longer.

Another obligation that commonly occurs in the national codes is the social responsibility of corporations. Given the prominence of local communities and society in general alluded to in the earlier section on stakeholder identification, this emphasis also does not surprise and form an integral part of an inclusive stakeholder model of corporate governance.

After the recent exposure of corporate malpractices, many companies are more prepared to engage with ethics as part of their corporate governance reform. Companies may bring in directors from outside to sit on their ethics committees or appoint experts in business ethics from outside the company to be members of the ethics committee. They start to manage their ethics more actively, through ethics officers, ethics communication systems, and ethics training Programs. Some companies emphasize the improvement of transparency and accountability by establishing a code of conduct.

In **Japan,** there are some companies that have the tendency to be embroiled in scandals repeatedly. The Mitsubishi Motors Corporation (MMC), for example, was embroiled in a scandal in 1997 when it was disclosed that it paid a third party who illegally ―fixed‖ shareholder meetings. In 2000, it was brought to light that MMC managed for years to cover up defects in cars. After that revelation, a business ethics program was introduced, but MMC still refrained from electing independent directors to its board. The program that was introduced included a code of conduct, an ethics committee, and an ethics help-line. In 2004, however, Mitsubishi Fuso Truck & Bus Corporation, which was separated from MMC in 2003, once more became embroiled in another scandal. Nowadays, the top management of most companies has a commitment to business ethics. They recognize that it is important for their business to be perceived as trustworthy by consumers. They understand what their stakeholders require from their business and they seem to be well acquainted with procedures to be taken to reinforce the business ethics of their organizations.

The main business ethics issue, from a corporate governance perspective, is the establishment of systems that manage ethical concerns and establish control procedures that seek to enhance business integrity and ethical conduct. One can reflect on ethics and governance from two perspectives in the context of cross-country comparisons. First, how have various approaches to governance implicitly or explicitly focused on improving ethics in organizations? Second, how do social or organizational culture factors influence how best practice models work in different cultural settings? Do ethics drive governance or governance drive ethics? Although these two concepts may be interrelated, they do identify a number of significant and different issues. It is not possible to cover the full gamut of ethics and governance concerns in a brief inter country comparison. Consequently, a number of issues that are important considerations for the four countries involved are highlighted. The protection of the less powerful stakeholders is an issue, with different perspectives, for all countries reviewed. In China and India, the minority shareholder is openly acknowledged as a potentially so-called endangered species in reports on corporation governance and in new codes (Balasubrumanian 2004; IFF Report, 2004).

In Australia, the prime concern to be addressed is that the dominant shareholders, directors, or senior executives will maintain control to serve their personal interests. In China, a number of sections in their new code directly note this concern, advising controlling shareholders that they owe a duty of good faith toward the listed company and other shareholders. The Code also requires related party transactions to be properly, ethically, and transparently managed—a clear Reference to the controlling shareholder‘s capability to manage the company inappropriately

(CSRC, 2002, chaps. 1 and 2). The Code implies that a relatively simple set of principles can be outlined that will guide the controlling shareholders‘ behavior. In the other countries, the emphasis on protection focuses on independence, transparency, and audits. This approach to governance suggests that minority interests can best be protected by having an independent voice on the board that will offset the potential for unethical behavior by those in control. In India, one can posit, given the limited capacity for legal enforcement, the strength of individual integrity of independent directors is being sought. In addition, one can suggest that the personal values of individuals acting as, or on behalf of, the controlling shareholders are often openly appealed to.

In Australia, the strength of the legal process has reinforced the notions of fiduciary duties of directors especially in the past 20 years. In this period, a number of changes to corporate law and decisions in courtrooms have significantly sharpened directors‘ awareness of these issues.

Recent corporate failures such as One-Tel, HIH, and Harris Scarfe have all led to either commissions of inquiry, law reform amendments, and court cases whose judgments are likely to reconfirm or extend directors‘ responsibilities (Australian Corporate Governance Association,

2004). In this environment, governance practices that lead to more ethical behavior have been reinforced by law. Today, the potential for Australian directors to incur legal liability is high, as shown by the recent litigation arising from the collapse of HIH (Australian Corporate Governance, 2004; Lipton, 2003; see also ASIC v. Adler, 2002). Social pressure to ―do the right thing‖ is also growing as business commentators and the media have voyeuristically enjoyed the chance to highlight the unethical behavior of senior executives, especially when they appear to be overpaid at the same time (Arbouw, 2001).

In India, the inability of the legal system to effectively prosecute suggests that this issue is less likely to be driven by regulation and enforcement than by personal values and an inner sense of concern for ethics (Singhvi, 2004). This pressure comes via the business media as well as active business professional groups such as the Confederation of Indian Industry and the accounting and commercial law communities. The NGO movement is also a significant force in India. In

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summary, stakeholder pressure and a strong, often spiritually based, personal value system support good governance principles aimed at protecting minority interests.

In China, and to a lesser extent Singapore, one might suggest these ethical issues, honesty, due care, and diligence rely more on culture and less on governance regimes supported by a strong legal system enforcing compliance. The ability of senior executives and directors to appropriately deal with potential conflicts of interest is ethical issue governance models seek to address. In Australia, statute and case law, codes of conduct and ASX guidelines address this issue to a greater or lesser extent. Statutory duties in this regard are spelled out in sections of the Corporations Act. Disclosure and other statutory obligations are mandatory. In China, the Code addresses this concern, primarily from the perspective of related party transactions and duties of good governance for directors. In India, task force reports in the past 5 years have emphasized the need for greater disclosure, reflecting on related-party transactions in particular. The development of draft codes and the move toward more stringent listing regulations and corporate law are likely to incorporate this concern. However, it is not as specifically regulated in any of the other countries as in Australia. In all countries, disclosure is emphasized as a way of managing this concern. It suggests open acknowledgement of a conflict of interest will limit the potential negative impact.

In the nut shell, corporate governance carries great depth of meaning. To most people, it means the way a company manages its business, in a manner that is accountable and responsible to someone—usually the shareholders. In a broad sense, responsibility and accountability are seen to be to broader audiences that also include the company's other stakeholders such as employees, suppliers, customers, and the local community. It suggests ethics and morals, as well as the best practices. Corporate Governance issues are receiving greater attention in both developed and developing countries as a result of the increasing recognition that a firm's corporate governance affects both its economic performance and its ability to access long-term, low-cost investment capital. Numerous high-profile cases of corporate governance failure have focused the minds of governments, companies and the general public on this issue.

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