

# ETHICS IN CORPORATE GOVERNANCE PRACTICES

## Abstract

Issues on corporate governance practices continue to rumble so much so that, the phenomenon have become a major concern on the business agenda within the last few decades. The bottom line is, the depth of these scandals has triggered the mistrust in corporate governance system, corporate integrity and business practices. Continuous efforts have been taken to improve the stage of governance. Regulations have been revamped to ensure better governance practices and establish supervision and guide corporate practices in order to increase investors' confidence. However, despite the many committees, regulations and enacted rules enforced, it is apparent that corporate scandals keep emerging making this phenomenon an major governance issue. The questions remained - what went wrong? Various opinions were articulated in response to this uncertainty, ethics, however, has been assumed to strongly recommended as a factor to solve the governance issue. The importance of the issue motives the researcher to understand how ethics can influence corporate governance practices. This study argues on the limitation of corporate governance practice scope, and proposes inclusive and holistic dimension need to be conceived. Further, this study believes that lack of ethical values probably explain the inadequacy of the legal mechanism to address the fundamental issue towards governance of corporations. Attempt to fill the lacuna exist in the area of governance practices, ethics is theorize to shape better governance structure. Thus leads to the following research questions; How corporate ethics be an integrated part of Malaysian corporate governance practices?

## Literature review

Regarded by some as complex concepts, corporate governance has been described as a philosophical language (McNamee and Fleming, 2007). The definition was derived from one understanding of the concept of governance. Nonetheless, the basic principles are somewhat similar from one model to another. Fairness, transparency, accountability, and responsibility are the minimum standards expected ( Hameed Ahmed, Ali Najam, 2005). However, there is this view that the present corporate governance definition is inadequate to support the business of the current era. This contention is made probably due to the many incidences of corporate governance collapses occurring over the recent years. Sternberg (2004 as cited in McNamee and Fleming, 2007) has bravely rejected the common concepts of corporate governance (which is defined as a system that direct and control organization). As observed by McNamee and Fleming (2007), Sternberg (2004) argue that corporate governance as defined in the Cadbury and Hampel resembles incomplete meaning of corporate governance and that the meaning is 'misdescribed' and does not fit to all corporations. Sonnenfeld (2004) also argue that corporate governance concept reflect superficial thought of corporate governance because the concept is not based on research. Sonnenfeld (2004, p.109) states that the corporate governance metrics are mostly rely on 'cliches and myth' regardless of research;

*"The ratings services evaluate the corporate governance of firms by mixing together empirically based standards and the myths and clichés of 'the Street'"*.

The missing ingredients as stated by Sonnefeld (2004) is the 'human side of Governance' (p.109). He stated that the present corporate governance lack of ethical obligations. However, within the scope of academia, it has been noted that sparse studies have explore corporate governance in ethical aspects. Literature reviews indicate prior studies related to corporate governance have largely focused on the composition of governance structure in relation to financial aspects. Similar contribution toward empirical evidence regarding corporate governance noted in Malaysia where much is focus on the financial mechanism rather than ethical perspective. This could be explained by theoretical and empirical reasons. The development of accounting theories have always been concerned with economic theories in solving economic phenomenon (Gaffikin, 2007), hence, explain the slowness of accounting theorists and researchers in recognizing social interaction in the accounting discipline (Gaffikin, 2007). Literature on corporate governance commonly focus on company financial performance ( e.g Bhagat and Black, 1999) hence less attention has been focused on the triple bottom lines which include social (e.g ethics) and environment aspect of governance. As a result of the supremacy of the shareholder and stakeholder legitimacy, a lack of focus on ethical consideration is observed. It is belief that the dominance of the agency theory does not seem to reflect confidence and trust towards corporate reputation. Arguably, the governance theory such as stakeholder theory, which had been tailored towards ruled governance, overlooks the social contract which is an important element in today's business conduct.

Corporate ethics studies, however, focus on corporate ethics initiatives. These initiatives are commonly on the formal system of ethics which includes the corporate ethics program such as code of ethics, conduct, principles, training program, social audit, judiciary boards. The initiatives relate to the institutionalization of ethics component in an organization. Research done within this spheres tend to limit the concept of corporate ethics. This paper argues that formal system needs to be integrated with informal system in an organization in order to produce a solid corporate ethics framework. This study argues corporate ethics should be more holistic which include not only the corporation structure but also the culture and values. Factors such as the corporate ethical culture and ethical leadership should be considered in the aspects of corporate ethics as a whole. As argued by Weaver, Trevino and Cochran (1999), informal such as norms of corporate cultures and subcultures or executive role modeling are several other significant factors that need to be considered in corporate ethics practices. They emphasized that future research should focus on the formal and informal aspects of corporate ethics practices in order to assess corporations' ethics' practices.

## **Methodology**

In connection to the present study, the philosophical tradition directed the researcher to adopt qualitative research approach. Qualitative research, as stated by Ritchie and Lewis (2003) concerns the understanding of the meaning of the phenomena, either in a form the actions, decisions, beliefs and values, which exist within the social world. Based on the research questions developed for the present study, the qualitative approach as described, fits the description where understanding of meaning of phenomena is explored ( e.g., Ritchie and Lewis, 2003; Creswell, 2007). In order to fulfill the characteristics of a good qualitative study, multiple methodology stances and multiple data forms of data collection are recommended by several

qualitative researchers such as Creswell (2007). The present study employ these recommendations. Although there are large range of data collection method available, but to suit and position the research with the philosophy assumptions, the present study considered interviews and analysis of documents as basis of evidence for fieldwork method or strategies. Combination of face to face interviews and document analysis with a brief observation enhance the credibility and validity of the study. Serving the purpose of the present study and position the research to answer the research questions, that is how companies integrate their ethical within their organization setting in moving towards high standard of corporate governance practices, it is appropriate to select specific respondents which has been described above as 'specialist'. As such the present study use non-probability sampling, specifically the purposive sampling technique, for selection of the 'specialist'. Silverman (2005) stated that the purposive sampling allows the researcher to choose the case based on the feature or process of interest of the research.

## **Findings**

Uncover the essence of corporate governance practices from the perspective of social constructionist ontology and interpretive epistemology, this study discovered several ethics mechanism which contributes towards better governance practices. Generated from the analysis of the transcribed data, several themes of formal ethics structure emerged towards enhancing corporate governance practices. Evidence from the socially constructed reality proves the important of ethics. The findings reveal ethics is indeed part of corporate governance and integration of ethics is important to enhance corporate governance practices.

## **Contribution**

This study could provide a deeper and richer description of corporate governance by integrating social element, namely ethics. The findings offer the following contribution; an introduction of new approached towards corporate governance system where the inclusion of social aspects is taken into account. A scientific model integrity governance model does not now exist, the primary focus is therefore an exploratory development of theory in the form of ethical governance perspective. The conceptualise model indicate novelty of the research in governance aspects thus requires integration of other discipline. The findings also hold potentially important implication to the Securities Commission (SC) as this study is expected to yield valuable information that could be used to initiate further initiatives by regulators to develop and formulate an 'inclusion based approach' of corporate governance.

## **Conclusion**

New approach of guiding and directing governance practices is revealed. Inclusion of behavioral aspect of governance is empirically proven from the interpretive perspective. A new way of looking into governance framework is proposed in an attempt to theorise governance practices.

