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The context of corporate governance in the contemporary corporation

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ΠΑΝΕΠΙΣΤΗΜΙΟ ΠΕΙΡΑΙΩΣ ΣΧΟΛΗ ΟΙΚΟΝΟΜΙΚΩΝ ΕΠΙΧΕΙΡΗΜΑΤΙΚΩΝ ΚΑΙ ΔΙΕΘΝΩΝ ΣΠΟΥΔΩΝ ΤΜΗΜΑ ΟΡΓΑΝΩΣΗΣ ΚΑΙ ΔΙΟΙΚΗΣΗΣ ΕΠΙΧΕΙΡΗΣΕΩΝ ΠΡΟΓΡΑΜΜΑ ΜΕΤΑΠΤΥΧΙΑΚΩΝ ΣΠΟΥΔΩΝ ΣΤΗ ΔΙΟΙΚΗΣΗ ΕΠΙΧΕΙΡΗΣΕΩΝ ΓΙΑ ΣΤΕΛΕΧΗ

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(περιλαμβάνεται ως ξεχωριστή (δεύτερη) σελίδα στο σώμα της διπλωματικής εργασίας)

«Δηλώνω υπεύθυνα ότι η διπλωματική εργασία για τη λήψη του μεταπτυχιακού τίτλου σπουδών, του Πανεπιστημίου Πειραιώς, στη Διοίκηση Επιχειρήσεων για Στελέχη : E-MBA» με τίτλο **THE CONTEXT OF CORPORATE GOVERNANCE IN THE CONTEMPORARY CORPORATION**

έχει συγγραφεί από εμένα αποκλειστικά και στο σύνολό της. Δεν έχει υποβληθεί ούτε έχει εγκριθεί στο πλαίσιο κάποιου άλλου μεταπτυχιακού προγράμματος ή προπτυχιακού τίτλου σπουδών, στην Ελλάδα ή στο εξωτερικό, ούτε είναι εργασία ή τμήμα εργασίας ακαδημαϊκού ή επαγγελματικού χαρακτήρα.

Δηλώνω επίσης υπεύθυνα ότι οι πηγές στις οποίες ανέτρεξα για την εκπόνηση της συγκεκριμένης εργασίας, αναφέρονται στο σύνολό τους, κάνοντας πλήρη αναφορά στους συγγραφείς, τον εκδοτικό οίκο ή το περιοδικό, συμπεριλαμβανομένων και των πηγών που ενδεχομένως χρησιμοποιήθηκαν από το διαδίκτυο. Παράβαση της ανωτέρω ακαδημαϊκής μου ευθύνης αποτελεί ουσιώδη λόγο για την ανάκληση του πτυχίου μου».

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The context of Corporate Governance in the contemporary corporation.

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ABSTRACT

Corporations have experienced significant transformation from the traditional model to the contemporary modus operandi.

The term “corporate governance” has a widening of meaning, as the semantic evolution of the word usage, is referring to evolutions and progress in the micro and macro level variants of the corporation. According to this assumption, the external environment had a continuous influence to the corporate context since the progression of the economic, cultural and social living forms have structured the regulations and institutions across countries.

The scope of this thesis is to analyze the importance of the corporate governance mechanism in the modern corporation with special reference to the leadership role including an initial survey in the Greek corporate environment, based on subordinate’s perception for ethical leadership. This survey takes into consideration the specific cultural values, related to leadership beliefs, behavior and moral perception.

The role of corporate governance in modern corporations is influential because leadership values, integrity and ethical behavior create a trusting work environment and mutual respect, ensuring profitability and corporate sustainability.

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Abbreviations

ASSC	Accounting Standards Steering Committee
CACG	Commonwealth Association for Corporate Governance
CDP	Carbon Disclosure Project
CPSC	Consumer Product Safety Commission
CSR	Corporate social responsibility
CSXAX	Calvert Social stock market index
DJSI	Dow Jones Sustainability Indexes
ECGI	European Corporate Governance Institute
EEOC	Equal Employment Opportunity Commission
ecoDa	European Confederation of Directors Associations
ELQ	Ethical Leadership Questionnaire
EPA	Environmental Protection Agency
ESG	Environmental, Social and Governance
ESS	European Social Survey
EU	European Union
FTSE	Financial Times Stock Exchange Index
FTSE GEIS	Financial Times Stock Exchange Global Equity Indexe
FRC	Financial Reporting Council
GAAP	General accepted accounting principles
GCGF	Global Corporate Governance Forum
GGP	Global Governance Principles
GLOBE	Global Leadership & Organizational Behavior Effectiveness
GMI	Governance Metrics International
GMO	Genetically Modified Organisms
GNDI	Global Network of Director Institutes
GRI	Global Reporting Initiative
GSS	General Social Survey
HR	Human resources
ICC	International Chamber of Commerce
ICGN	International Corporate Governance Network
IDV	Individualism versus Collectivism Index
IFC	International Finance Corporation
ISS	Institutional Shareholder Services
IISD	International Institute for Sustainable Development
JPX	Japan Exchange Group

IMF	International Monetary Fund
IND	Indulgence versus Restraint
LMX	The leadership member exchange
LEED	Leadership in Energy and Environmental Design
LTO	Long Term Orientation Index
MAS	Masculinity versus Femininity Index
OECD	Organization of Economic Growth and Development
OSHA	Occupational Safety and Health Administration
PDI	Power Distance Index
SBP	Social Bond Principles
SEC	Securities and Exchange Commission
SDGs	Sustainable Development Goals
SOX	Sarbanes-Oxley Act
S&P	Standard & Poor's
SRI	Social responsible investment
SROI	Social Return on Investment
TMT	Top Management Team
TOPIX	Tokyo Stock Price Index
TBL	Triple Bottom Line
UAI	Uncertainty Avoidance Index
UN	United Nations
WBCSD	World Business Council for Sustainable Development
WVS	World Values Survey

Introduction

The new millennium landed with a series of rapid technological advancements in a well interconnected Global Society where a huge number of objects connected to the Internet, are exceeding the number of the human beings in the world; estimated to reach by 22,9 billion in 2016 to 50 billion by 2020¹. Our Societies have changed with the coming of the new digital era; they experienced a universal transformation through a process of continuous innovation, new business models², environmental changes and cultural mutations³ affecting societal values and beliefs.

Globalization has affected people and societies, giving rise to a fast economic growth in many countries and regions, helping world GDP grow from around 50 trillion USD in 2000, to 75 trillion USD in 2016.⁴ The global focus on human well-being is calling action to ensure a sustainable development. The natural environment has also presented successive changes provoking the destabilization of natural conditions. The Climate change is one of the ultimate, most promising projects and ongoing challenges for Nations, Organizations and Corporations across the Globe to achieve sustainable development.

United Nations established in January 1st 2016, the 2030 Agenda for Sustainable Development seeking to build on the Millennium Development Goals⁵ the Global sustainable development based in three pillars: (i) economic, (ii) social and (iii) environmental. Furthermore, the Paris Agreement on climate change⁶ in 2015, has put into action 195 countries for the reduction of emissions before the end of the century, tracking progress towards a strong transparency and accountability system.

In this multifaceted global environment, companies are not merely looking to create and keep a customer, as Peter Drucker (1956) argued long before the appearance of the new millennium⁷, but further more to engage with their social endeavor as part of the broader economic, social and technological world (Carroll, 2015, 2000; Carroll et al, 2010).

¹ Ahmed E. et al.(2017). The role of big data analytics in Internet of Things. Computer Networks 000 (2017) 1-13. Ref, page 1, Introduction,

² A "business model describes how a company creates and captures value". Kavadias et al (2016). .

³ "Culture" according to Hofstede is "the collective programming of the mind that distinguishes the members of one group or category of people from others". Hofstede, G. (2011). Dimensionalizing Cultures: The Hofstede Model in Context. Online Readings in Psychology and Culture, 2(1).<http://dx.doi.org/10.9707/2307-0919.1014> (ref. on p.3)

⁴ News (<https://www.un.org/development/desa/en/news.html>) »New globalization report: Three mega-trends expected to impact our future.

⁵ <https://sustainabledevelopment.un.org/post2015/transformingourworld>

⁶ https://ec.europa.eu/clima/policies/international/negotiations/paris_en

⁷ Drucker, P. (1954). The Practice of Management.. New York : Harper & Row. 1st Edition,

With the transition to the new Millennium, the Social Responsibility of the new Corporation is considered compulsory driving to an ethical conduct embracing a range of norms and standards, in both local and international levels, pronouncing behavior expectations and values and reflecting national cultural characteristics and moral rights (Carroll, 2015; 2000). Investors are pushing companies to have strong environmental, social and governance performance (ESG). According to the latest statistics from the World Economic Forum (2019), the system for reporting on company ESG performance has growth in 2017, resulting that the 78% of the world's largest companies integrated non-financial information in their annual reports, in comparison to the 44% of companies in 2011.

Corporate Responsibility implies Board Responsibility which engages the corporation in the social wellbeing (Agarwal et al, 2018). Actually, there are several corporate frauds and misconducts that adversely affect all stakeholders which have been attributed to the governing body because of incomplete imprudence on company's social interest. (Carroll, 2015). Boards of directors that seem unconcerned with the socio-economic welfare of the corporation, demonstrate their ineffectiveness in a continuous commitment to a responsible conduct. The lack of the Board responsibility, the failure of external audits, the weak corporate internal controls and the corporate disclosure are considered as part of some critical causes and consequences that may result in failure on profitability and corporate sustainability.

In the era of the global economy, the investment capital will follow the path to those corporations that have adopted efficient corporate responsible standards to ensure investors protection and strong corporate governance practices, through rule of law to ensure transparency and accountability (The Commonwealth Secretariat Strategic Plan 2017/18 – 2020/21)⁸. Preventive and continuous corporate actions for a responsible corporate conduct have been recommended by the Organization for Economic Co-operation and Development (OECD)⁹ to each enterprise in its own responsibility, with respect to adverse economic and social impacts. Standards and actions have proposed by the *Due Diligence Guidance For Responsible Business Conduct* (OECD, 2018) that include acceptable levels of investor protection and board practices as well as satisfactory accounting and disclosure standards. The standards and actions should be implemented by the corporate board, which is leading the corporation and ensures

⁸ The Commonwealth is a voluntary association of independent and equal sovereign states. (<http://thecommonwealth.org>).

⁹ The Organisation for Economic Co-operation and Development (OECD) promotes policies and sets international standards that will improve the economic and social well-being of people around the world. OECD work with governments to understand what drives economic, social and environmental change, is also measuring productivity and global flows of trade and investment. (<http://www.oecd.org/about/>)

that the enterprise is running in the right direction according to the International Social and Economic standards, so corporate governance structure should deal effectively with holding top management to account (Tricker, 2014; Monks, 2010).

The complexity of the modern business world has created the challenge to pay a closer attention to the governing body of the contemporary enterprise. According to this reality, the main concern of this thesis is to examine and analyze the importance and the role of the corporate governance in order to provide a deeper understanding to the future development of the modern corporation that shall respond to the rapid changes of our new ecosystem¹⁰. The authority of the governing body to control the corporation within the spirit of the international and local standards, within ethical percepts towards a successful corporate organism and within the possibility of moral implications, was also one of the questions which have been raised and conducted to the objective of the present thesis.

The structure of the thesis consists of five chapters that are deploying the main aspects of the contemporary corporate governance, starting from the meaning of the term, then analyzing the influence of the external corporate environment, defining afterward's the role and the importance of the related parties and concluding by giving focus on the importance of ethical leadership in the modern corporation including a short survey in national level and will complete with some future positive effects in corporate governance ethical mechanism.

Particularly, the first chapter is focusing on the several definitions associated with the meaning of the corporate governance. These definitions are part of the academic literature, also part of definitions that have been addressed to the nature of the corporate governance from several Institutional Organisms. Then it has been made reference to the historical evolution of the corporate governance in order to understand the influence of the external environment to the structure of the corporate governance mechanism and the strategic role of the corporate governance to the modern corporation.

The second chapter analyzes the influence of the external environment in the structure and the function of the corporate governance mechanism and makes reference to the relation between corporation and stakeholders. The Board structure and the authority

¹⁰ An ecosystem is a community of living organisms in conjunction with the non living components of their environment, interacting as a system (<https://en.wikipedia.org/wiki/Ecosystem>) or according to another definition from Encyclopedia Britanica : "the complex of living organisms, their physical environment, and all their interrelationships in a particular unit of space" (<https://www.britannica.com/science/ecosystem>)

of the governing body are also important issues that have been examined. At the end of this chapter, emphasis is given to the international corporate governance indexes.

The third chapter is dedicated to the cultural element that is observed in the corporate governance environment. It has been made extended reference to Hofstede's model of national culture consisting on six dimensions. The six dimensions model is reflecting the cultural variations that represent independent preferences of each country (Hofstede, 2011). Particularly emphasis was placed on the corporate culture and its association with the national culture. It has been introduced the importance of the ethical characteristics that are associated with the cultural environment and the corporate environment; at the end of this chapter, a reference has although been made to the measure of cultural values.

The fourth chapter makes a smooth transition through the ethical characteristics based on values, beliefs and behaviors¹¹, to the ethical responsibility of the modern corporation and especially in those standards that exist in the European region. References have been specifically made, to the main theory of Carroll's corporate social responsibility (CSR) and to the three bottom line (TBL) accounting framework theory, for the company's performance; this theory has first coined in 1994 by John Elkington. A great attention has also been turned towards a new stream on the ethical investment, thus a responsible investment based on ESG principles (environmental, social and governance). The strategic importance of an ethical corporate conduct is described at the end of the chapter, in the context of the corporate social responsibility and in relation with the performance of the corporation.

The final chapter is dedicated to the question of ethical leadership. Particularly, the leader as a person, thus the personal characteristics of a leader that are associated with the responsible ethical conduct and its relation with the corporate ethical culture are the main concerns of this chapter. It has been included an initial survey conducted on a fairly small local scale, in the Greek region, based on Yukl's Ethical Leadership Questionnaire (ELQ) with a combination of Hofstede's six dimensional model. The survey is based on subordinate's perceptions of whether the leader has ethical characteristics - reflecting ethical values; characteristics on values between national culture and leadership culture have been analyzed. The findings of the analysis show a tendency towards a positive ethical proactive leadership based in the specific environment of the Greek region. Next, we made reference to the moral hazard issue a common dilemma on leadership's ethical decision process. It has been considered very

¹¹ Described earlier in the fourth chapter

important to provide at the end of the chapter, some future aspects that Academics and international Organizations suggest in order to improve the ethical conduct of the modern corporations with the use and implementation of new technologies. This will probably be a next challenge for responsible governance in our modern world.

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1 Corporate Governance theoretical framework

1.1 Introduction

There are several definitions and approaches to designate the significance and the purpose of corporate governance, from its traditional perception to the contemporary modus operandi. The term “corporate governance” has a widening of meaning, as the semantic evolution of the word usage, is referring to evolutions and progress in the micro and macro level variants of the corporation.

According to this assumption, the external environment had a continuous influence to the corporate context. Various definitions have been mentioned in academic literature and had also deployed from various Institutions and Organizations combining the micro and macro level variants of the corporation and the multilateral corporate dimensions, for the economic, legal and ethical responsibility of the modern corporation.

In consequence of the multifactorial traits of the meaning, it is proposed to classify and align “corporate governance” various definitions, with the proper attributes of the corporation that are fundamental for a clear and logical interpretation of the meaning.

1.2 Historical evolution and development of corporate governance

The word "corporation" derives from corpus, the Latin word for body, or a "body of people". The interconnection between corporation and governance always existed as both meanings having connotations of ownership and exercise of power related to profit or value maximization.

According to Jensen and Meckling firms are actors of the market, comparing the firm to a “black box operated so as to meet the relevant marginal conditions with respect to inputs and outputs, thereby maximizing profits” (Jensen, & Meckling, 1976).

A classical approach of the firm is related to the transaction cost per each exchange which takes place on each market that has different regulatory power and also the limit to the power of the entrepreneur that can be regulated with the contract issue (Coase, 1937).

Adapting both of the above mentioned theories of the firm in our days, Daniel Spulber founding editor of “*Economics and Management Strategy*”, with his new book “The theory of the firm”, interpret a firm to be a “transaction institution whose objectives differ from those of its owners. The separation is the key difference between the firm and

direct exchange between consumers”. A reasonable explanation to this definition is that “the objectives of consumer organizations cannot be separated from those of their owners” (Hart, 2011). Particularly, Spulber, points out that “the separation of objectives provides the basis for profit maximization by firms. The separation of objectives supports the development of financial markets that allocate ownership of firms and corporate control” (Spulber, 2009).

Obviously, the macro environment of the firm as an external factor plays a guiding role in the creation and development of the firms. From an historical point of view, the control and governance of the firms follows the path of the consecutive mutations from the political economic and social environments.

Trade and commercial business were always existed, from the medieval ages when craft guilds members practiced trades, to the time of the colonial empires, back to seventeenth century. From that time of the colonial empires, when companies were created by monarchs, they were formed as joint-stock companies otherwise as chartered trading companies and their governing board has been often susceptible to briberies generating most bank failures (Tricker, 2014). This was a general situation which dominated in British, German and French Empire States it was also in Meiji Japan (Addicott, 2017). During this period and precisely in 1776, Adam Smith published “*The Wealth of Nations*” when it came out the first concerns about the control of power and the agency cost referring to “the directors of companies being the managers of others people money, rather than their own” (Tricker, 2014).

In the course of the transitional path from monarchism to the merchant capitalism and the industrial capitalism of 19th century, in a period of a great economic growth, people was engaged more to business forming partnerships or unincorporated bodies. Thus some people were engaged in management and others in finance as the need of external capital for the growth of the business was a primary concern.

At that time, business as unincorporated bodies created the first limited liability companies providing shareholders rights, however without declining ownership control (Monks, 2017;Tricker, 2014; Monks & Minow, 2004).

With the creation of the limited liability, any eventual grave danger of bankruptcy paid attention as well to shareholders liability which became of great importance similarly to ownership control (Tricker, 2014;Cheffins, 2014). As limited liability companies were created in the broader political and legal system of each country, the statutory of shareholders rights predominated in every economic system especially in the US and

in the Western economies, from the family controlled corporate groups to larger corporations (Monks & Minow, 2004).

At the other side of the globe, the Asian perspective of the capitalist economy, brought to light the creation of the business conglomerates known as zaibatsu. These were family-controlled business “that frequently collaborated with the new government” and raised with the evolution of the capitalism in Japan, coming from the Meiji Restoration in 1868 (Addicot, 2017; Yasuzo, 1937).

With the coming of the 20th century the era of globalization enhanced the economic growth. The capital growth of companies in US, UK and other advancing countries, was allocated between different people from a wide geographical area and from various financial Institutions or other intermediaries so the direct contact between ownership and investors was withdrawn (Tricker, 2014).

After the start of the Second Sino-Japanese War in 1937 (World War II), the military passed new laws that forced the zaibatsu to reorganize their holding companies into joint stock ventures or face exorbitant tax rates (Addicott, 2017).

By the end of the War II, economic advisors who came to Japan with the Supreme Commander for the Allied Powers (SCAP), implemented a new liberal economic system in Japan, similar to the US and in the long run, the number of zaibatsu was reduced till ownership of zaibatsu shares passed primarily to individual investors and financial institutions. Therefore, instead of being owned and managed by a single family a new business model under the name of keiretsu passed their ownership to individual shareholders (Addicott, 2017).

Following the second war and during the economic growth, corporations were multiplicity expanded, however their main concern remained the ownership control and the exercise of power, so their internal governance was not a high priority (Cheffins, 2012). Through this new era of business growth, the size of the new corporation was significant; specifically, “the size of the modern corporation brought a concentration of economic power which can compete on equal terms with the modern state” (Tricker, 2014; Berle and Means 1932). During this period, the control of corporate power between shareholders and management became one of the most critical issues.

In succeeding years, at the beginning of 1970, the separation of ownership from control was explicit in a global context and brought to light the conflict of interest between management and shareholders (Tricker, 2014). This conflict of interest between the

owners and the directors of the corporation is associated with the general problem of agency and the “property rights “that determines the allocation of cost and rewards of the participants in the company” (Jensen, & Meckling, 1976, 1978).

Another extend to the agency problems, is the managers wages and the “full control of managerial behavior through wages changes”. There was a direct dependence in the success or failure of managers and their teams and their impact on their wages, this situation gave a stake in the success of manager’s team (Fama, 1980).

Accountability issues came to light in both sides of the Atlantic, rising from debates between stakeholders and directors. In this regard in 1975, the Accounting Standards Steering Committee (ASSC) issued the *Corporate report* addressing to all economic entities to “refer publicly” (Tricker, 1997). There was an adaption to the new corporate form because some companies needed further equity capital and went public (Farrar, 1999). Actually, companies were encouraged to promote accountability and information transparency. Therefore, company disclosure requirements were a rational decision for new investments.

The period from 1960 to 1980 constituted the management preeminence. At the end of 1980s, “governance” was becoming part of the economic terms as it was associated from one hand to the distribution of excessive power between managers and directors and from the other hand, with the extend of agency problems (Monks, 2010; Fama, 1980).

During this period, in 1975, the US Federal Securities and Exchange commission (SEC) that “protect investors, maintain fair, orderly and efficient markets”, reported a high level of corruption on corporate accountability (Cheffins, 2014). Corporate collapses in accounting, regulatory and ethical failure emerged from bankruptcies in USA, UK, Australia and Japan and there were successive. With the growing shareholders perspective in the governance of corporations, after the word crash of the market in 1987 in computerized portfolio trading, the lack of confidence brought changes in the business prospect (Cheffins, 2014; Farrar, 1999).

Companies that became more global, they are seeking for long term growth of capital from Institutional Investors of the UK, US and Holland in a price that they will secure confidence. Institutional investors developed and issued policy statements that there used as benchmarks for the evaluation of boards and directors (Cheffins, 2014). Therefore Institutional Investors strove to make a shareholder oriented governance more globally, that will support accountability and transparency in return of their capital

and therefore preserve their value (Ocasio and Joseph, 2005; Monks and Minov, 2004).

Governance was introduced permanently to the social vocabulary in 1990, in a macroeconomic level attracted interest from protecting shareholders value (Cheffins, 2014; Monks and Minov). The first government codes came under the spot line, with the Cadbury Report in 1992, when the London Stock Exchange and the Financial Reporting Council that regulated the accounting standards in UK, established the Committee on the Financial Aspects of Corporate Governance.

The Cadbury report was based on a general estimation of best practices including among others the audit of financial statements by introducing an audit committee of the board with independent members. As it was stated at the original setting of the Report (p.10, 1.2) “The Committee’s recommendations are focused on the control and reporting functions of boards, and on the role of auditors”(Report of the Committee, 1992).

The report was added as an appendix to the London Stock Exchange listing rules. The listed companies were forced to *comply* with the provisions of the Codes of Best practices in 1997 commended by the Committee, or *explain* why “they have failed to do so” (Cheffins, 2014, 1997; Tricker, 2014), such as in the original setting of the Report: “comply with the Code and identify and give reasons for any areas of non-compliance” (Report of the Committee, 1992).

As the Hampel Report said, Cadbury had “struck a chord in many overseas countries; it has provided a yardstick against which standards of corporate Governance in other markets are being measured (Committee on Corporate Governance, 1998: para. 1.5).”

OECD Principles of Corporate Governance form part of a broader international effort has promoted increased transparency, integrity and the rule of law (OECD, 1999).

The same perspective has been expressed through the code of ethics that every company disclose had to adopt and implemented through the Sarbanes–Oxley Act, the U.S. Securities and Exchange Commission (SEC), in 2003. This code applies to the CEO and to the company’s principal financial officer (Wheelen et al, 2018).

1.3 Strategic Decision Concepts in Corporate Governance

The strategic view of corporate governance has been receiving much attention through the Resource Dependence Theory (Pfeffer & Salancik, 1978), interlinking the

unpredictable external environment to an open corporate system, where the governance body has a vital role between the company and the resources and where managers have a strategic thinking in order to reduce possible uncertainty towards a positive performance (Tricker, 2014; Hillman et al, 2009).

The wider external environment of Corporations and their direct National economic context, have a direct impact into the Corporate Governance system. Consequently, the quality of the corporate governance system has a positive contribution to the economy's competition (Fulghieri et al 2005). To this extend, good corporate governance is a key strategic factor, fostering competition among companies and nations, helping to build an environment of trust, transparency and accountability that leads to a long term investment and growth (OECD, 2018).

Therefore, in a competitive economic environment, companies are forced to exclude "inefficient corporate governance systems" in order to protect their investors and thus benefit from a good corporate governance system (Fulghieri et al 2005; Allen and Gale 2000). This has been also seen in the case of investor side, following a study conducted in the year 2000 by McKinsey, that has found investors ready to pay as much as 18 percent premium for companies they believe have superior corporate governance" (Monks & Minov", 2004).

According to Economists empirical evidence, it results that the external environment of the corporation has an important influence on firms' strategic actions and outcomes, thus, corporate governance involves with the strategy of the organization "in determining the direction and performance of the corporation (Wheelen et al 2018; Dursin et al, 2009; North, 1990). The external global environment is also reflecting the institutional shaping of corporate governance and therefore strategic decision is related to "the responsibilities of senior executives in managing firm policy processes and carrying out competitive strategies" (Hanson, 1995).

As mentioned by Hanson, strategic management is taking into account national corporate strategies and international institutions (Hanson, 1995). In this regard in order to remain competitive in a changing word, Corporations should adapt their corporate governance to search out for new opportunities (OECD, 1999).

With respect to the performance of the corporation, there is a relationship among the board of directors, the top management and the stakeholders that is existing in Corporate Governance.

Preeminently, the continuing performance of the corporation, results to a long term corporate sustainability that reflects on good corporate governance, performing the best interest of the shareholders (or stockholders). Good corporate governance is also reflecting the responsibility to stakeholders. The overall corporate responsibility is related to the ethical decision that is a part of the corporate strategy and an integral part of the ethical management (Wheelen et al 2018).

The International Institutional context and the Global context of Organisations emphasize the importance of Governance for sustainable development in National level.

Another perspective on corporate governance definition is through resource dependence theory related to strategic decision, was expressed through Pfeffer and Salancik research (1978) suggesting that directors bring four benefits to organizations: (a) information in the form of advice and counsel, (b) access to channels of information between the firm and environmental contingencies, (c) preferential access to resources, and (d) legitimacy (Hillman et al, 2009).

A further perspective on corporate governance and strategy was defined by Shen et al (2012) arguing that managers strategic objectives and actions can have a significant impact on a firm's ownership structure as its perceived through the corporate ownership, and control.

1.4 Conclusion

In a broader perspective, the study of Corporate Governance involves with a transfer of knowledge from one or more disciplines that are related to: finance, economics, law, accountancy, management, organizational behavior, sociology, politics and may conceivably to philosophy, where all disciplines are mutually correlated to its context (Tricker, 2014).

Embracing diversity in its concept, Corporate Governance has also to proceed with a continuous external environmental scanning, from a sociocultural economic and political perspective, through a long run of managerial decisions and policies, improving corporate financial and organizational performance. Practically, corporate Governance is considered to be a critical part of the corporate strategy (Hunger et al, 2012) and to this extend with the contribution of its human capital and its stakeholders value, is expected to have a "significant contribution to the long-term success and performance of the corporation" (OECD, 1999).

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2 Contemporary Corporate Governance framework

2.1 Introduction

The Cadbury report was a paradigm for the international expansion of corporate governance (Cheffins, 2014). Two years after the Cadbury report, in 1995, corporate governance arrived in other countries with diverse regulatory framework, such as the the Viénot report In France and the King report in South Africa. Other countries around the globe followed; in Hong Kong, the Society of Accountants and the Netherlands report in 1997. The renewed compliance rules at board level, the introduction of an external control mechanism represented by the audit committees aiming to the separation of power and the separation of the chairman of the board from the chief executive were the newest modifications on the corporate governance framework.

Beside the national rules, global corporate governance guidelines and best practices have been proposed in 1998 from the Organisation for Economic Co-operation and Development (OECD)¹², and the Commonwealth association¹³. (Tricker 2014).

In this chapter, we will focus on the external mechanisms of corporate governance and the differences in its internal structure, both forming the overall environment of the corporate governance cultural framework. These external mechanisms are becoming part of the corporate Social relations and they are considered to be a fundamental unit of analysis in corporate government environment, with a different approach from its cultural context (Aguilera et al, 2003).

2.2 Corporate Governance: definition of concept and terminology

Defined broadly, “corporate governance” refers to the private and public institutions, including laws, regulations and accepted business practices, which together govern the relationship, in a market economy, between corporate managers and entrepreneurs (“corporate insiders”) on one hand, and those who invest resources incorporations, on the other (Oman, 2001).

¹² The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies. (Measuring Globalisation, OECD Economic Globalisation Indicators 2010. www.oecd.org)

¹³ The Commonwealth is a voluntary association of 53 independent and equal sovereign states with shared values and principles including both advanced economies and developing countries. Is committed to the solution of problems by negotiation, and to the guidance of policy through principle. It strongly supports the United Nations system and the global moral code contained in the UN declarations. (www.commonwealthofnations.org)

In the “Global Corporate Governance Forum” (GCGF), at 2002, Sir Adrian Cadbury, said that “The activities of the board of directors and their relationships with the shareholders and managers are reported on corporate governance, including external auditors, regulators and institutions. Practically, corporate governance refers to “the way power is exercised over corporate entities”, furthermore the governing body “ensures that the enterprise is running in the right direction” while the management is responsible to run the enterprise (Tricker, 2014).

Corporate ownership, authority and control

A primary theoretical approach to designate corporate governance is referring to the meaning of ownership, authority and control of corporations, related to the operational dimension of the corporate structure from a managerial perspective.

One of the first concerns of the corporate governance history is referring to the classical economic theory of Adams Smith (1776): “The directors of such companies, however, being the managers rather of other people’s money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartner frequently watch over their own (Smith, 1776, p. 192).

Sr. Adrian Cadbury (1992), is probably the best known critic of the corporate governance theory; argues that “corporate governance” is a system by which companies are directed and controlled” (Sir Adrian Cadbury, The Committee on the Financial Aspects of Corporate Governance, 1992).

In the same aspect, Aguilera and Jackson (2010), define corporate governance as the “study of power and influence over decision making with the corporation”. To this extend, corporate governance is related to the operational dimension of the corporation, so it defines the relationships between shareholders, board of directors and the managers of the corporations that have to be governed as all corporate entities (Tricker, 2014).

The Organization of Economic Growth and Development (OECD) defined corporate governance as "the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders” (OECD, 1999).

According to the operational dimension of the corporation, corporate governance matters if two conditions prevail: the agency problem and the conflict of interest linked with the above mentioned meaning of corporate ownership and control theories (Jensen and Meckling, 1976). Both conditions are forming corporate transaction costs as regards, to the “economics of governance” and “economics of organization” and cannot be resolved out through a contract. (Farinha, 2003; Williamson, 2009, 1979; Coase, 1937). In the broader social organism, corporations are growing as the number of their transactions increase so the control of their governance mechanism is peculiarly vital.

An alternative interpretation can be found in Garvey and Swan (1994) as corporate governance cannot be “understood in a world where property rights are perfectly defined”, so by this meaning “corporation is a nexus of explicit and implicit contracts. Governance determines how the firm’s top decision makers (executives) actually administer such contracts” (Farinha, 2003).

Contemporary Corporate governance structure and authority referring to ownership and control subject, implicates the intervention of Institutional Investors as shareholders, that is how is defined by the Organization of Economic Growth and Development (OECD, 2011): “Institutional investors acting in a fiduciary capacity should disclose how they manage material conflicts of interest that may affect the exercise of key ownership rights regarding their investments”.

Corporate performance

Another aspect of “corporate governance” definition is associated to corporate performance. This aspect is related to the link between corporate strategic decision and corporate financial performance. In this regard, good corporate governance includes both corporate performance and accountability that responds to corporate conformance (Humera, 2011; Fin 2004). The issue for corporate governance is how to strengthen the accountability of boards of directors to shareholders (The Cadbury Report, 1992).

Monks and Minow (2004), argue that corporate governance is assigned to a governing body; the board of directors, that is overseeing top management and approving their decisions that may affect the long term performance of the corporation, this definition is also close to those of Wheelen et al. (2018).

From a variety of academic studies (Guizo et al. 2015, Shleifer and Vishny, 1997), corporate governance is described as a mechanism through which the investors of the corporation rely on managers decisions to maximize the return on their investment". From the outside investor's perspective, Humera Khan (2011) is referring to La Porta, Silanes and Shliefer (2000, 2002) statement that describe corporate governance as mechanism for the protection of the shareholders; "corporate governance is a set of mechanisms through which outside investors (shareholders) protect themselves from inside investors (managers).

Corporate governance definition implicates managerial decision process to corporate performance. In this context, "corporate governance 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". In accordance, corporate governance performance sets the "rules and procedures for making decisions on corporate affairs" (Humera, 2011; OECD, 2015, 1999).

Other authors define corporate governance as "the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment (Shleifer and Vishny (1997) p.737)". To this extend, Caramanolis-Cotelli (1995), determined corporate governance by "the equity allocation among insiders (including executives, CEOs, directors or other individual, corporate or institutional investors who are affiliated with management) and outside investors" (Farinha, 2003).

The usefulness of the role of corporate governance is essential for the development of the nations in general as is helping to increase the flow and lower the cost of the financial capital, that firms need to finance their investment activity" (Humera, 2011, Oman, 2001). Therefore, corporate governance is about enhancing economic efficiency, financial stability and sustainable growth, entrepreneurship and innovation, by a continuous improvement and evaluation of its legal, regulatory and institutional framework (OECD, 2015, 2004).

Corporate strategy

With respect to the corporate governance structure, the board authority is responsible for the corporate strategic management with a positive impact to the corporation's financial performance and its credit rating (Wheelen et al, 2018).

The board of directors forming the critical core of corporate governance is also legally responsible for setting the strategic direction of the firm and for ensuring the firm's long-

term performance. The board has the authority for the involvement in strategic decision making, in strategy formation process (ex-ante process) and strategy evaluation, ex-post process (Judge et al, 2017).

In a global environment where multiple corporate governance reforms took place and the influence of institutional investors has a significant importance, board members are actually closer to strategic decision making. These developments have stimulated boards of directors to challenge CEOs, and to become more involved in strategy, an area that in the past was exclusively controlled by CEOs (Pugliese et al, 2009).

The contextual relationship of corporate strategy and corporate governance, according to the latest OECD principles, is placing corporate governance framework on the top of the corporate strategy as is ensuring the strategic guidance of the company and the board's accountability to the company and the shareholders (OECD, 2015).

Corporate Responsibility

As previously mentioned both economic and legal responsibilities encompasses the definitional framework of corporate governance. Furthermore, the modern corporation by acting in an ethical and transparent way contributes to the health and welfare of the society". By this meaning corporate governance meaning includes an ethical responsibility.

One of the first people to define the Social responsibility on Corporate Governance definition was Sir Adrian Cadbury with the meaning to align as nearly as possible the interests of individuals, corporations and society, holding the balance between economic and social goals and between individual and communal goals (The Financial Aspects of Corporate Governance, The Cadbury Report (1992).

The Organization of Economic Development (OECD) has provided a contemporary definition for the good corporate that should operate for the benefit of society as a whole, take into account the interests of a wide range of constituencies, as well as of the communities within which they operate, and that their boards are accountable to the company and the shareholders (OECD, 2015, 1999).

2.3 The Global context: Transnational Institutions, National Organisations

National corporate governance codes have been implemented, providing to companies voluntary recommendations for the good corporate governance practices. The

contemporary OECD¹⁴ corporate governance practices that are thoroughly explained in the Corporate Governance *Factbook*¹⁵ demonstrate the 47 jurisdictions, through the "comply or explain" reporting mechanism. This is based on the UK Financial Reporting Council (FRC) 2012 an institutional investor Stewardship code to report how the principles of the code have been applied or why if they did not, (OECD, 2017, Tricker, 2014) (see Figure 1). The comply or explain system has been adopted in the EU countries and in 14 other jurisdictions (84%), usually through laws and regulations or through listing rules underpinned by laws and regulations (OECD, 2017).

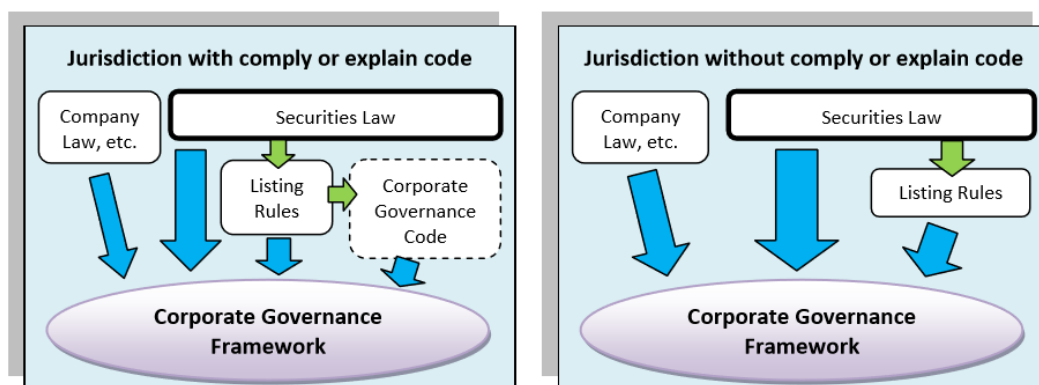


Figure 1: Examples of national corporate governance frameworks (OECD (2017), p.15

All firms are facing the challenge to make the best decision for the attraction of their investors, which between them that can be the suppliers of equity finance (shareholders), the suppliers of debt finance (creditors), the suppliers of relatively firm-specific human capital (employees) and the suppliers of other tangible and intangible assets that corporations may use to operate and grow.

The global environment of publicly traded companies, created the conditions for an increasing interest of institutional investors that they are looking to exercise governance rights and therefore become a crucial part of the corporate strategy (Oman, 2001, OECD, 1999). Because of that, investors at publicly traded firms can reduce the level of ownership concentration, through mergers and acquisitions (Shen et al, 2012).

¹⁴ The OECD's origins date back to 1960, when 18 European countries plus the United States and Canada joined forces to create an organisation dedicated to economic development. Today, there are 36 Member countries, from North and South America to Europe and Asia-Pacific. (www.oecd.org)

¹⁵ The OECD Corporate Governance Factbook is an important complement to the G20/OECD Principles of Corporate Governance, which offer a comprehensive set of recommendations to policy makers to support sound corporate governance frameworks. The Factbook tracks how countries are actually implementing the Principles. (<http://www.oecd.org/daf/ca/corporate-governance-factbook.htm>)

Corporate Governance has a valuable contribution to the National development including the Institutional framework and its policy role as a fundamental groundwork for the best corporate practices (Oman, 2012).

Institutional framework, comprising specific legislation and regulations as well as formal and informal rules and generally accepted business practices, varies from country to country as corporate governance framework varies. The main Institutions of corporate governance are providing guidance on implementing effective corporate conduct, for information disclosure, corporate transparency and corporate oversight and control.

Generally, the Institutions of corporate governance are strengthening corporate performance for the economic growth in society and corporate conformance by moderating possible conflicts related to the abuse of power, agency problems and moral hazard resulting in a negative impact for the investors and the society.

In other words, the Institutional framework of corporate governance is serving to define the acceptable standards of corporate behavior, implementing the values of fairness, transparency, accountability, and responsibility to both shareholders and stakeholders, assuring the compliance with the acceptable standards for both national and international environments, providing better access to capital and fostering economic growth (Zeyad Al-Azzam et al, 2015; Tura, 2012; Oman, 2001).

As it has been previously mentioned ¹⁶, good corporate governance is a competitive advantage of an economy and in this regard, the variety of Institutional context, formal rules and informal constraints, among countries has an important influence on firms' strategic actions" (Dursin et al, 2009;North, 1990).

Several International economic, financial and social Institutions together with National Organizations have created and approved corporate governance codes and best practices that facilitate companies to improve their performance and conformance in national and international level. In this chapter we will reveal the most influential Institutional sectors and Organisations that had a direct impact to the corporate governance framework.

The widely recognized global standards as there have been defined in OECD Principles for Corporate Governance represents a common basis that its Member countries consider essential for the development of good governance practice. OECD Global Corporate Governance principles have been clearly communicated and adopted

¹⁶ Chapter 1 : Corporate Governance: definition of concept and terminology.

through the Corporate Governance Committee at the beginning of the 1990s. The principles have been updated following the latest economic and social reforms of the global environment after a wave of financial crises around the world. The OECD committee is considered as an important forum for an ongoing dialogue among policy makers on corporate governance from member countries, and increasingly from non-member countries. In addition to the international principles, on 2012, the Committee has decided to launch a project on corporate governance value creation and growth¹⁷ providing guidelines and recommendations to policy makers and market forces (OECD, 2012, 1999).

The Principles adopted are presented in the first part of the OECD principles and cover five areas¹⁸:

- I) The rights of shareholders; The corporate governance framework should protect shareholders' rights, among others , voting rights, convey or transfer shares, elect memberships of the board, participating in decisions concerning corporate changes.
- II) The equitable treatment of shareholders; including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.
- III) III) The role of stakeholders; The corporate governance framework should recognise the rights of stakeholders as established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises
- IV) Disclosure and transparency; The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company
- V) The responsibilities of the board; the corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

Relevant to the International corporate governance standards and good practices, The Commonwealth Association of sovereign nations became a powerful voice in

¹⁷ This project started with the exploratory seminar held in Istanbul on 1 February, 2012 (Marcello Bianchi, OECD, 2012, p.13)

¹⁸ OECD Principles of Corporate Governance, Meeting of the OECD Council at Ministerial Level, 1999, p.p.. 25-43

international forums. The Commonwealth, support each member country and work together towards international goals with common heritage in language, culture, law, education and democratic traditions.

In this regard does not exist a universal code, however there have been established different national codes for corporate governance and business good practices for each country special requirements; namely the Cadbury, Greenbury and Hampel Reports in United Kingdom, the Bosch Report in Australia, the King Report in South Africa, the Dey Report in Canada, India and Malaysia (The Common Wealth, 1999).

Particularly, the Commonwealth Associations strongly supports the United Nations system and the global moral code contained in the UN declarations, helping to ensure transparency and accountability. All countries of the Commonwealth have two primary objectives:

- to promote good standards in corporate governance and business practice throughout the Commonwealth; and
- To facilitate the development of appropriate institutions which will be able to advance, teach and disseminate such standards.

Corporate governance in Commonwealth countries is essentially about leadership:

- leadership for efficiency and probity,
- leadership with responsibility and
- Leadership which is transparent and which is accountable.

Each of the above is of equal importance because is directly affect the livelihood and the quality of life of all country's citizens.

The Global Corporate Governance Forum (GCGF)¹⁹ is a multidonor trust fund founded by the World Bank Group and the Organization for Economic Co-operation and Development (OECD) to promote global, regional, and local initiatives that aim improving the institutional framework and practices of corporate governance.

The European region is taking action with the European Commission that has published the Europe 2020 and the EU Action Plan (2012) long-term plans for developing corporate governance practices, increasing competitiveness, and developing sustainability among European companies.

¹⁹ "The role of the Global Corporate Governance Forum is to help countries improve standards of governance for their corporations, by fostering the spirit of enterprise and accountability, promoting fairness, transparency and responsibility." (The Global Corporate Governance Forum Mission Statement)

Corporate governance practices are determined by legislation, listing rules, national corporate governance codes, and board decisions (IMF, 2015). The European region is representing a mix of different nations at various stages of economic development and market maturity that have a rapid change in corporate governance environments. This diversity is expressed with new approaches to board-level corporate governance practices and multiple changes in regulatory requirements at the legislative level (IFC; ecoDa, 2015).

The Commission's 'Europe 2020' Communication¹ calls for improvement of the business environment in Europe. A modern and efficient company law and corporate governance framework for European undertakings, investors and employees must be adapted to the needs of today's society and to the changing economic environment. (<https://eur-lex.europa.eu/legal-content>).

The EU Action Plan (2012) outlines the initiatives that the Commission intends to take in order to modernize the company law and corporate governance framework. It identifies three main lines of action:

- Enhancing transparency
- Engaging shareholders – shareholders should be encouraged to engage more in corporate governance
- Supporting companies' growth and their competitiveness – there is a need to simplify cross-border operations of European businesses, particularly in the case of small and medium-sized companies.

The Commission had an initiative, in the form of a Recommendation, to improve the quality of corporate governance reports, and in particular the quality of explanations to be provided by companies that depart from the corporate governance codes. (<https://eur-lex.europa.eu/legal-content>).

From the perspective of national and international codes in the European region, The European Corporate Governance Institute (ECGI) 20, which members are both individuals and organisations, defines Corporate governance as the way in which all corporate entities are governed and run in relation to their purpose, values, ownership, representation, accountability, financing, investment, performance, leadership, direction, management, employment, law, regulation and taxation. In this regard

²⁰ The European Corporate Governance Institute (ECGI), is an international scientific non-profit association providing a forum for debate and dialogue between academics, legislators and practitioners, focusing on major corporate governance issues. (<http://www.ecgi.org/codes/index.php>).

Corporate Governance is considered to be at the center of the success and failure of all economic systems and ECGI has the pivotal role of promoting and developing a global research on corporate governance issues for the growth of business and the wellness of economies and societies.

ECGI maintains close links with all its institutional members and other organisations that are active in the same field as the International Corporate Governance Network (ICGN) and the Global Corporate Governance Forum (GCGF). Financial organisations and institutions had also a fundamental contribution to corporate governance framework.

Particularly, the International Finance Corporation (IFC)²¹ a member of the World Bank Group is the largest global development institution, focused exclusively on the private sector, advises on all aspects of corporate governance, helping companies to perform better, making them better members of society. In 2005, the IFC Global Corporate Governance Forum, merged into IFC Corporate Governance Group and published a toolkit for Developing Corporate Governance Codes of Best Practice that began using them extensively to help countries develop their own codes. Therefore, many countries drafted their own corporate governance codes for the understanding of governance and its impact on companies, markets, and societies.

IFC together with the European Confederation of Directors' Associations (ecoDa)²² published together in 2015, a Guide to Corporate Governance Practices in the European Union. IFC has long focused on corporate governance, promoting private sector investment, strengthening capital markets and fostering inclusive economic development and growth.

According to the European Confederation of Directors' Associations, ecoDa (2010), good governance is based on a number of widely accepted principles of good governance and a regional code for unlisted companies:

- Delegation of authority.
- Checks and balances (ensure that no one person has unfettered power over decision making)

²¹ The International Finance Corporation (IFC) is a member of the World Bank Group, the largest global development institution that is focused exclusively on the private sector and advises on all aspects of corporate governance, offering services to increase board effectiveness, to improve the control environment and family businesses governance. (www.ifc.org/corporategovernance)

²² ecoDa proposes solutions to the key corporate governance questions facing Europe today, including the challenge of helping board members operate effectively across all the European Union member states. ecoDa aims to be an active partner of the European Union and of its institutions —especially the European Parliament and European Commission (www.ifc.org/corporategovernance)

- Professional decision making by an effective team (European boards are considered key decision making bodies and so should focus on improving board effectiveness and efficiency)
- Accountability and transparency
- Conflicts of interest.
- Aligning incentives (ecoDa recommends that European companies align incentives in a way that is consistent with the long-term interests of the company).

In the last decades, Corporate Governance Institutions and Networks have been established from a large number of international and regional organizations, medium, small, public and private enterprises are having a positive influence in the universe of corporate best practices.

International Corporate Governance Network (ICGN)²³, is a global membership organization of institutional investors who collectively represent funds under management of approximately \$18 trillion, that has set Global Governance Principles (GGP). The Global governance principles are focused around company governance and how board directors should promote successful companies, by creating sustainable value for investors while having regard to other stakeholders, Sustainability implies that the company must manage effectively the governance, social and environmental aspects of its activities as well as its financial operations.

The Global Network of Director Institutes (GNDI) as an international collaboration shares expertise in directorship and corporate governance. The network is focusing on shared issues of interest to governance stakeholders around the world. GNDI is in close collaboration with regional Institutes as the European Confederation of Directors' Associations (ecoDa) and both move towards a sustainable performance for the benefit of shareholders, the economy and society (<http://gndi.org>)

The global business world has an incremental focus on governance issues, thus governance has become increasingly important. In respect to the global governance, the International Chamber of Commerce (ICC)²⁴ has a particular thematic section in its global issues & trends agenda. The ICC works to inform international policy debates in intergovernmental institutions – ensuring that global policy frameworks work with

²³ ICGN is present in over 45 countries and has a mission to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies world-wide. (www.icgn.org)

²⁴ The International Chamber of Commerce (ICC) is the world's largest business organization with a network of over 6 million members in more than 100 countries. Is promoting international trade, responsible business conduct and a global approach to regulation. Members of the ICC are many of the world's largest companies, SMEs, business associations and local chambers of commerce. (<https://iccwbo.org>)

business to drive growth and economic development. ICC is the voice of business in major international organizations and negotiations, contributing to the policy debate from a global business perspective (<https://iccwbo.org>).

2.4 The role of related parties, Stakeholders and Shareholders

Corporate governance structure is a concept of a critical relation among three parties of key stakeholders: (i) capital, (ii) labor and (iii) management, excluding the State in the role of the stakeholder (Aguilera et al, 2003).

Capital on corporate governance is associated with the ownership status, thus the stakeholder group that holds property rights, such as shareholders, or that otherwise makes financial investments in the firm, such as creditors. In the agency theory, the capital is perceived as shareholders (principals), and their main comparison with the stakeholders is based on the degree of ownership concentration (Aguilera et al, 2003; La Porta et al., 1999).

A noteworthy advance in ownership theory is relevant to Monks publication in FT Alphaville²⁵ affirming that there is valid opinion of two classes of ownership, both desired and needed; the passive shareholders who do not exercise ownership rights and the stewardship shareholders who have a fiduciary responsibility under their management²⁶.

Labor in corporate governance is associated to human capital, such as the role of employees, and their ability to influence corporate decision making and to control the resources of the firm resources. The importance of labor differs among countries such as in USA we observe weak employee participation, contrary to Germany or Japan where labor participation is politically important and often a source of competitive advantage²⁷ (Aguilera et al, 2003; Brown, Nakata, Reich, & Ulman, 1997).

²⁵ FT Alphaville, is a daily news and commentary service for financial market professionals created by the Financial Times in October 2006

²⁶ This concept has also been published twenty years ago in the "Economist" under the title of "Punters or Proprietors." (Monks, 2010)

²⁷ For more details in this subject the authors are citing and referencing at : Brown, C., Nakata, Y., Reich, M., & Ulman, L. 1997. Work and pay in the United States and Japan. New York: Oxford University Press.

Management in corporate governance is associated to the strategic leadership position in the firm exercising control over business activities²⁸ (Aguilera et al 2003; Chandler & Daems, 1980).

Particularly, in Japan, the governance structure is characterized by an inside management control as long as the firm performs well, on the contrary the control managers are subject to severe sanctions such as forced to liquidation according to the structure of the “contingent governance mechanism”, heavily dependent on main banks control (Takahiro Yasui, 1999).

Another very interesting view for the role of stakeholders is the interpretation of the contractual theory as it was analyzed by Williamson²⁹. The assumption of the contractual view of the firm is a powerful analytical device that enables to understand how the interests of a multiplicity of stakeholders interact to form the modern corporation. The firm is operating as a governance mechanism for a set of contracts between interested parties who make economic gains through their participation in these contractual relationships.

The related parties to this governance mechanism who have a stake in the firm are the customers, the suppliers, the owners, the managers, the employees and the communities, hereafter called “stakeholders. Those related parties have the right of voting and the accordance of voting rights to these stakeholders must be strictly limited to those who share the residual risk of the firm. Williamson believes that owners, and under special circumstances, managers, and suppliers are the stakeholders in a wider concept and those are part of this group who is sharing the residual risk of the firm (Freeman et al, 1990).

In addition, many scholars up to now from Jensen and Meckling (1976) to our days have been descriptive in nature of the theory firm, arguing that owners of companies, in the economic field, hold the view that the separation of ownership and management, enable managers by acting as stakeholders. Under these circumstances, managers also owns part of a public company through shares of stock and in the same time are being part of stakeholders, focusing on shareholders' value. In recent years, owners of companies are getting short shift from professional managers being other “stakeholders” (The Economist, 2010).

²⁸ For more details in this subject the authors are citing and referencing at : Chandler, A. D., & Daems, H. 1980. Managerial hierarchies: Comparative perspectives on the rise of the modern industrial enterprise. Cambridge, MA: Harvard University Press.

²⁹ For a history of the stakeholder concept, see Freeman (1984) Strategic Management: A Stakeholder Approach. Boston: Pitman Publishing, chapter 2. (Freeman et al, 1990).

Shareholders position is very disseminated the latest decade and after the economic crisis, has revived the old debate about whether firms should focus most on their shareholders, their customers or their workers that are directly affected by company's performance.

According to this model, the shareholder of a firm has the role to maximize its proper wealth and by consequence to maximize company's efficiency to gain its profits. In this perspective, the performance of the firm is to promote market value and by consequence shareholder value, such managers and directors have an implicit obligation to ensure that firms are run in the interests of shareholders (OECD, 1999). This creation of value by the firm adds to welfare for society at large.

Shareholders value is oscillated because of multiple corporate scandals (Enron, Worldcom, and Tyco) that imposed additional regulations in the later stages of the corporate entity.

The USA, Sarbanes-Oxley Act (SOX) issued on 2002 is part of those regulations, and is probably the most influential piece of companies that has established new standards on boards and their audit committees and new independent standards for independent directors. Sarbanes-Oxley Act is probably the most powerful legislation to world to date for corporate governance being under the law and not on discretionary code (Tricker, 2014).

Following these amendments to regulations in response to successive scandals that also occurred in other countries³⁰, stakeholders like institutional investors, such as pension funds, mutual funds, and insurance companies, are becoming active on boards and are putting increasing pressure on top management to improve corporate performance as better governance does lead to higher credit ratings and stock prices. Others are major investors/shareholders, academicians, attorneys, consultants, former government officials, and bankers (Wheelen et al, 2018; Tricker, 2014).

In Japan, the lack of supervision of Japanese top management had contributed to chronic underperformance this was the reason that Japanese firms in the TOPIX 500 index had an average return on equity in 2012 of 7%, compared with over 15% for American and European companies, as a result to the Olympus scandal due to irregular payments for acquisitions. It has been a long conflict between the Keidanren,

³⁰ The Turnbull Report, in U.K., revised in 2005, concerning the internal control in companies as an integral part of them corporate governance process, the Bouton report in France (2002), that was written following Enron and the King II report on S.Africa (2002) based on the relationships between shareholders and the society. (Tricker, 2014.p.117-127).

Japan's big-business lobby and Japanese government for the issue of new reforms known as Abenomics concerning the presence of external directors in the Board. Abenomics reforms for a better corporate governance together with the Tokyo stock exchange a new JPX-Nikkei index of 400 companies, chosen for their higher returns on equity and relatively strong governance is a new era in the governance structure and performance of Japanese companies. More changes are now in the way with other proposals from Keidanren lobby for the corporate governance as companies would merely need to explain their current practices (The Economist, 2014).

In a general aspect, and according to academic and business researches, good governance improves corporate performance. A McKinsey survey reveals that investors are willing to pay 16% more for a corporation's stock if it is known to have good corporate governance. The investors explained that they would pay more because in their opinion : (i) good governance leads to better performance over time,(ii) good governance reduces the risk of the company getting into trouble and (iii) governance is a major strategic issue (Wheelen et al, 2018).

The research to date has recognized a difference in the role of stakeholders and shareholders among countries and nations.

The role of stakeholders (employees, financiers, suppliers, local communities, and government) varies considerably across companies, sectors, and countries. In some European countries, the rights of stakeholders are enshrined in company law or other related legislation, such as codetermination and employment-protection legislation.

By contrast, companies in other countries have a tradition of focusing more narrowly on the interests of shareholders. Corporate responsibility enhancing shareholders value is becoming more important among European companies, and many companies are developing policies concerning the ethical behavior of their employees (IMF, 2015).

Modern corporations in many OECD countries have experienced dramatic increases in institutional ownership of publicly listed companies. As corporate governance structures are very dynamic in nature, such as recent changes in the structures of modern corporations, include the increased importance of institutional investors that can act as a substitute for large shareholder monitoring. Significant discrepancies remain, however, with regard to the ability and incentives of institutional investors to engage in corporate governance.

An interesting approach on the responsibilities of Institutional Shareholders, in the UK, is reported on The Institutional Shareholders Committee’s Statement at the Cadbury report (1992) ³¹. The Statement gives practical guidance on how shareholders can best exercise their responsibilities as owners and the way in which they use their power to influence the standards of corporate governance given the weight of their votes.

The statement draws attention to three key conclusions which are basic to the development of a constructive relationship between companies and their owners:

- Institutional investors should encourage regular, systematic contact at senior executive level to exchange views and information on strategy, performance, board membership and quality of management.
- Institutional investors should make positive use of their voting rights.
- Institutional investors should take a positive interest in the composition of boards of directors, with particular reference to concentrations of decision making power and to the appointment of non-executive directors.

As owners of equity, institutional investors that manage other people’s money have increased significantly in OECD countries. By 2009 the investment management industry in the OECD area was responsible for some USD 53 trillion (OECD, 2011) (See Figure 2).

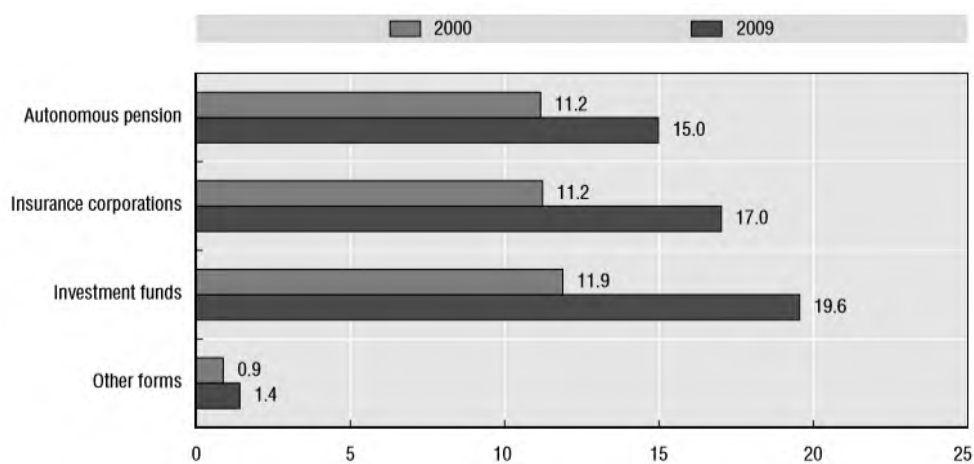


Figure 2: Financial assets under management by institutional investors in OECD countries (p.26) OECD (2011)

There are different types of Institutional Investors from country to country and most of them are increasingly demanding a voice in corporate governance in some markets. In some countries like Australia, Chile, Israel and the Netherlands, pension funds are the

³¹ Report of the Committee on the Financial Aspects of Corporate Governance. The Cadbury Report (1992). <http://www.ecgi.org/codes/documents/cadbury.pdf>

significant domestic institutional investor but in countries like Germany, France, Norway and Sweden, insurance institutions are key institutional investors. In countries like Greece, Luxembourg and Mexico, investment funds are major institutional investors. In the UK and the Netherlands, pension funds often outsource to fund managers subject to investment mandates of around three years (OECD, 2017, 2011, 1999).

Institutional investors present a difference in respect to their interest and their engagement in corporate governance issues, such as some of them are concentrated to corporate governance mechanism in their business model. For some institutions, engagement in corporate governance is a natural part of their business model, while others do not focus on active ownership engagement (OECD The Factbook 2017).

The ownership engagement and the stock ownership by institutional investors are related to the ownership structure of companies that varies across jurisdictions. Thus Japan and Germany are not characterized by a high level of institutional investor ownership (under 50%), one having dispersed domestic ownership and the latter concentrated ownership (see Figure 3).

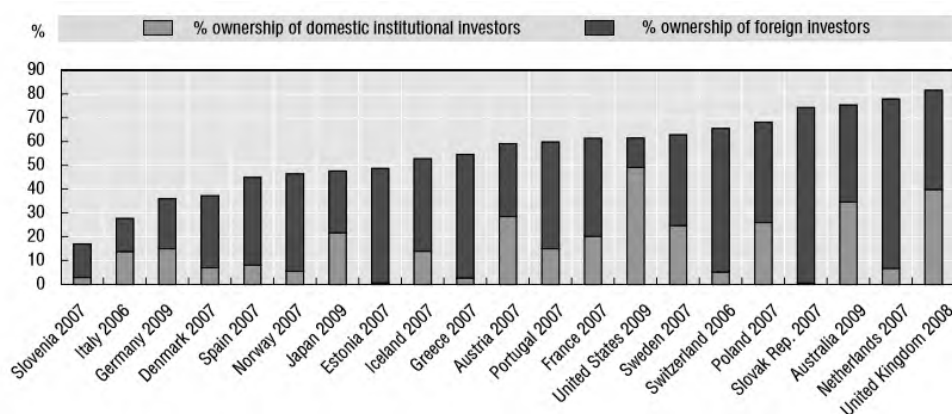


Figure 3: Ownership by domestic institutional investors and foreign investors in selected countries OECD (2011), p.30

According to Porter (1992), Institutional investors in Japan and Germany tend to be “dedicated” owners who provide firms with patient capital and effective governance, while institutional investors in the US tend to be “transient” owners or “quasi-indexers”. (Shen et al, 2012)

The largest U.S. and UK corporations are today owned by institutional investors, such as mutual funds and pension plans. These investors are taking an increasingly active role in board membership and activities being part of the stakeholders. In Germany, bankers are represented on almost every board—primarily because they own large

blocks of stock in German corporations. In Denmark, Sweden, Belgium, and Italy, investment companies also assume this role (Wheelen et al, 2018).

Institutional investors are insisting on high standards of corporate governance in companies in which they invest. In a number of cases, these institutions have set their own corporate governance standards as a measure for determining their investment decisions (Commonwealth Association for Corporate Governance, 1999.)

The OECD, has published an Investor opinion Survey on Corporate Governance that was developed by McKinsey & Company in 2000 ³² (a global management consulting company), to discover how shareholders perceive and, importantly, value corporate governance in both developed and emerging markets. The survey was created in co-operation with the World Bank and the Institutional Investor's regional institutes and gathered responses about investment intentions from over 200 institutional investors, who together manage approximately \$3.25 trillion in assets. Forty percent of the respondents were based in the U.S.

The summary of the survey constitute the essence of the following key findings:

- Three-quarters of investors say board practices are at least as important to them as financial performance when they are evaluating companies for investment. In Latin America, almost half the respondents consider board practices to be more important than financial performance.
- Over 80 percent of investors say they would pay more for the shares of a well-governed company than for those of a poorly governed company with comparable financial performance.

Concluding remarks have focused on the importance of governance standards to attract and retain investors in globalized capital markets, while failure to reform is likely to hinder those companies with global ambitions.

Companies should therefore improve their board practices and board and management incentives (McKinsey & Company Investor opinion Survey on Corporate Governance, June 2000). Therefore, the role of institutional shareholders raise issues over the lines of communication between boards and their shareholders, the structure of the boards and the improvement of board practices.

³² McKinsey & Company Investor opinion Survey on Corporate Governance, June 2000 (<http://www.oecd.org/corporate/ca/corporategovernanceprinciples/1922101.pdf>)

2.5 Systems of Corporate Governance and Board Structure

Corporate governance systems and structures differ among countries presenting a remarkable contrast in terms of the degree of ownership and the identity of controlling shareholders.

There are two kinds of systems representing corporate governance structure with reference to the ownership status.

The outsider system is characterized by a wide dispersed ownership and high turnover. This system, is associated with institutional investors, typical of the US and UK corporate governance where markets for corporate control, legal regulation, and contractual incentives are key governance mechanisms.

Outsider system has a particular focus to the distribution of information and the protection of shareholders rights specially those of minority investors.

In order to better understand this system, the previously mentioned principal agent model is the accurate argument; thus separation of ownership and control may cause damaging effects on the performance of the firms as managers use their discretion to maximize firm size rather than profits. Managers, hoard cash flow rather to pay it out in the form of dividends, profit with excessive salaries, and for this reason they are associated with a lack of managerial accountability (Aguilera et al, 2003; OECD, Maher et al, 1999).

The insider system is very typical in Europe (except UK), in Japan and Korea where a concentrated ownership or voting power are distinguished and a multiplicity of inter-firm relations and corporate holdings, close relation with banks familial control, are most common. In these cases institutional shareholders such as pension funds or insurance companies have a smaller role. The insider system has a pyramidal structure that allows shareholders being at the top of the pyramid to exercise control having the advantage of increased monitoring performance (Aguilera et al, 2003; OECD, Maher et al, 1999).

One question that needs to be asked according to the nature of these two systems is whether we can consider a convergence in outsider and insider systems. This could be explicit because of the role and implication of the increasing globalization of capital markets and the liberalization of international trade. For instance, there are countries like Australia, Canada, and New Zealand that they used to have the control and authority of family companies thus a concentrated ownership with the coexistence of a

strong recognition of shareholders rights and the importance of a greater corporate transparency.

Particularly, in the US corporate governance system, we observe the lineament of a mandatory compliance with regulations, law and the general accepted accounting principles (GAAP) including the audit to financial statements and the ethical operation of the corporation (Tricker, 2014)

On the other hand, Institutional investors gain favor in the UK and US as they are becoming active participants in the firm's corporate governance, maintaining significant holdings.

An issue that is also worth pointing out is that firms are adopting corporate governance best practices that international investors evaluate regularly, in order to improve corporate efficiency and raise capital (Aguilera et al, 2003; OECD, Maher et al, 1999).

The importance and the structure of the board of directors play a significant role on corporate governance best practices. As we have previously demonstrated corporate control exercised by institutional investors is a monitoring device for corporate governance performance. In a similar way, the structure of the board of directors is exercising corporate control with an excess of authority, control on management decisions and management performance. The board is directly intervene on managerial level to replace current management with a new more efficient, in an effort to maximize corporate performance and profits with a return to shareholders (Tricker, 2014, Farinha, 2003, OECD, Maher et al, 1999, Fama et al, 1983).

Board of directors structure and duties define investors decision according to a survey conducted by Kinsey & Company³³, in co-operation with the World Bank and the Institutional Investor's regional institutes in 2000; they discovered how shareholders perceive and value corporate governance according to a predefined questionnaire on the board tasks (Figure 4).

³³ McKinsey & Company a global management consulting firm that serves a broad mix of private, public and social sector institutions.

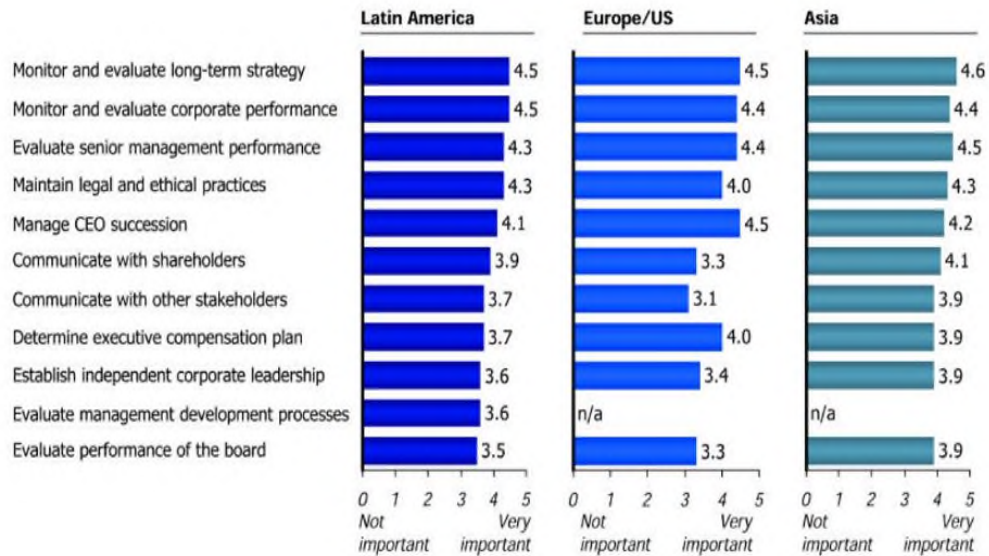


Figure 4: Investor opinion Survey on Corporate Governance ,McKinsey & Company, June 2000. <http://www.oecd.org>.

The key findings of the results are demonstrating that investors are almost equally concerned for board practices and financial performance. This being said that:

- Three-quarters of investors say board practices are at least as important to them as financial performance when they are evaluating companies for investment.
- Over 80 percent of investors say they would pay more for the shares of a well-governed company than for those of a poorly governed company with comparable financial performance.

It was evident that companies should improve their board practices, board and management incentives. Furthermore, companies should promote better relationships with all their shareholders.

Improved disclosure of information and stronger shareholder rights maintaining board legal and ethical practices it appears to be the most appropriate for both domestic and foreign investors. In conclusion it has been highlighted that an effective board of directors is a combination of the right people, the right structure, and the right procedures depending on each company culture and economic environment (McKinsey & Company, 2000).

This is the reason that we have different models of board structure as regards to company's national context that we specially found in OECD countries. However the

fact of the different board models, does not implicate differences in corporate performance and effectiveness and the responsibility to lead and control business.

Practically, the different models of board structure, gives the possibility to some countries, adopt a unitary board or a two tier system board, for their corporate governance, “board” as used in their Principles refers to the “supervisory board” while “key executives” refers to the “management board” (OECD, Maher et al, 1999).

In countries which support a corporate unitary board system, the company has a single governing body which is overseen by an internal auditor’s board. A typical hierarchical example of the unitary board consists of both executive and non-executive outside directors. The executive directors are holding a dual role because as executives they have a managerial role and are subject to employee law and as directors they have the responsibilities of the board of directors, subject to company law (Figure 5), (Tricker, 2014, OECD, Maher et al, 1999).

The management triangle and the board circle

Management is classically depicted as a hierarchy - the triangle seen in organization charts and shown in the diagram below. The board of directors or other governing body is superimposed on management to ensure proper governance - the circle in the diagram. Board members do not form a hierarchy - all members have equal responsibilities and rights.

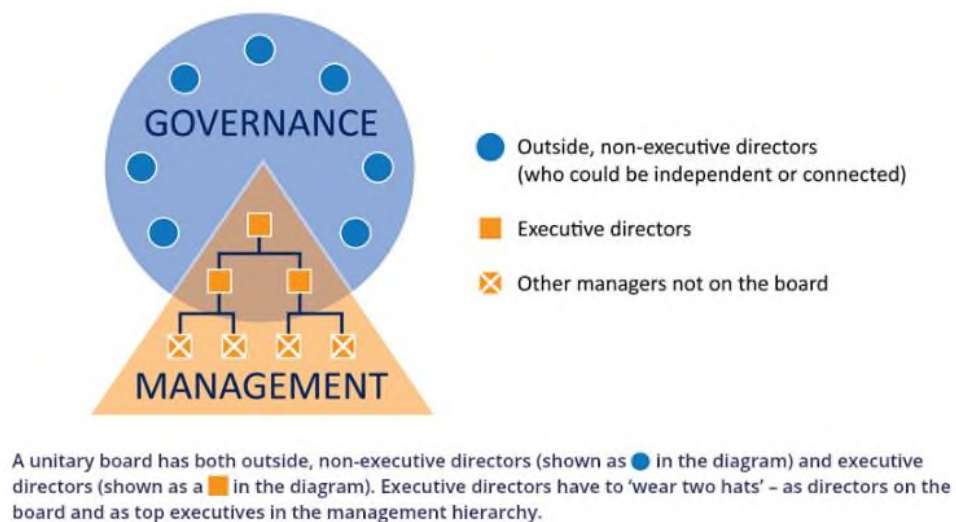


Figure 5. The management triangle and the Board circle (<http://www.bobtricker.co.uk>)

The role of non-executive directors in a unitary board has a special importance in setting and maintaining standards of corporate governance as they have an independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct. Non-executive directors lack the

inside knowledge of the company of the executive directors, but have the same right of access to information as they do (Report of The Committee on The Financial Aspects of Corporate Governance, The Cadbury Report.1992).

In a unitary board of directors we can distinguish four structures that provide different power of authority (Tricker, 2014):

- A board **with only executive directors** that are often supplemented by non-executive directors because the board needs additional expertise. This structure is mainly found in family and subsidiary companies.
- A board with **a majority of executive directors**, where the company has a single board of directors in top management positions and some outside non-executive directors are invited to join the board, however remaining in the minority.
- A board with **a majority of non-executive directors** and many of these are likely to be independent directors. Many corporate governance codes actually demand this structure for listed companies.
- A board with **only non-executive directors**, that is typical of listed public companies and nonprofit entities, where only the non-executive have the authority in taking decisions and the management is only providing information. In this structure the chief executive officer and the management may attend the board meeting to provide information about the company (Tricker, 2014)

The **two tier system board** has conceptually the same structure as the unitary board **with only non-executive directors** (Figure 6). Most of the European countries adopt this structure that is based on their legal framework on the basis of the continental European Napoleonic civil law³⁴, based on abidance with the rule of law (Tricker, 2014). In contrast, there are countries like S, UK and most of the Commonwealth that their legal framework is based on the British law.

³⁴ The old notion of Europe as a geopolitical or cultural term was centered on core Europe, corresponding to modern France, Italy, Germany (or German-speaking Europe) and the Benelux states. (https://en.wikipedia.org/wiki/Continental_Europe).

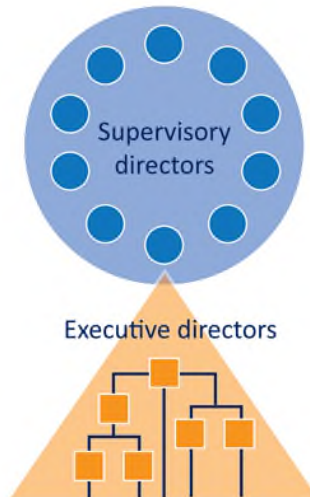


Figure 6, Governance is from management. (<http://www.bobtricker.co.uk>)

Different national models of board structures around the world can be observed. The one tier boards are most common (in 19 jurisdictions), but a growing number of jurisdictions (12) offer the choice of either single or two-tier boards, consistent with EU regulation. Ten jurisdictions have exclusively two-tier boards that separate supervisory and management functions into different bodies. In a different way, only three countries (Italy, Japan and Portugal) have hybrid systems that allow for three options and provide for an additional statutory body mainly for audit purposes (Figure 7), (OECD, 2017).

Board structure and independence

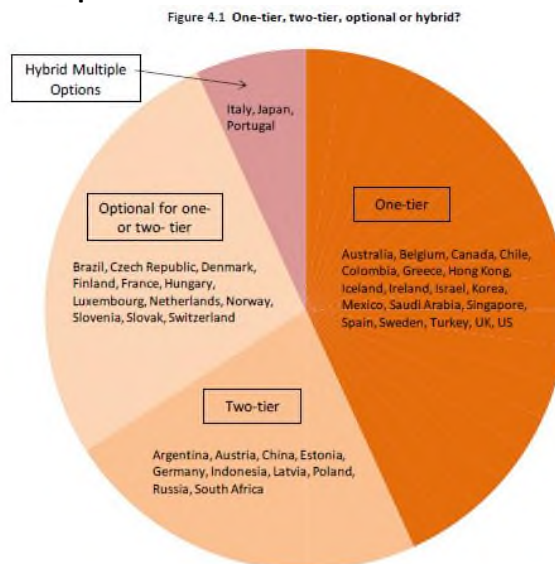


Figure 7: Board structure and independence. Corporate Governance Factbook OECD (2017)

Consecutive collapses during last decades had put in question the confidence in managers and corporate transparency, thus companies are actually more directed into engagement with the independent non-executive directors on their boards. Furthermore in some other European countries and in China, have established legal requirements for employee representation on the board (OECD (2017)).

2.6 Board committees and the importance of Audit committees in corporate governance framework

Board committees have a significant contribution to corporate governance practice with the independent external auditors, company secretaries and specially the Audit committee. Normally, we can distinguish three audit sub-committees that are each one responsible for the control and equilibrium of the board.

The remuneration or compensation committee is responsible for director's financial rewards and salaries. The nomination committee is responsible to suggest names for the board membership in order to introduce diversity in experience, and personalities and the Audit committee with a significant role as in our days.

The Audit committee that comprise of independent outside directors is the link between the external auditors and the board. In our days, all codes of corporate governance best practice for listed companies and stock exchange listing requirements are claiming the presence of Audit committees (Tricker, 2014).

A significant role in some companies are having other committees that have been established by the board in order to provide a particular interest in the structure and organization of the company, like Microsoft has created a corporate governance and compliance committee and a corporate social responsibility and ethics committee (Tricker, 2014).

In the USA, the New York Stock Exchange (from 1978), has required all listed companies to have Audit committees to insure the integrity of the company's financial reports. Similarly in the UK the role of Audit Committees to the majority of companies is providing value to their business as they provide assurance to the shareholders, according to a UK research.(Report of The Committee on The Financial Aspects of Corporate Governance, The Cadbury Report, 1992).

2.8 Measuring good Corporate Governance

Based on a variety of elements, several academic and commercial corporate governance indexes have been developed, rating good corporate governance by taking into consideration the corporate national environment and the different business contexts. Namely, a detailed picture covering the different corporate governance indexes has been developed.

A recent publication of Ruth V. Aguilera, Kurt A. Desender ³⁷ has collected several academics and commercial metrics providing a summary of main corporate governance indices. All indices have been reported to a complete table including the components for each index, such as shareholders voting, shareholders protection, shareholders rights, board accountability, executive compensation, ownership structure and influence, financial and information disclosure, reputational and social responsibility. Among all of the indexes, only two have been developed by academics; Antidirector rights index of La Porta et al. in 1998 and (G-index) developed by Gompers, Ishii & Metrick in 2003 that covers 1.500 US companies.

The most influential in the ranks of the indexes is the Standard & Poor's (S&P) – corporate governance scores, rating four areas covering a thousand of firms worldwide:

- ownership structure and influence
- financial stakeholder rights and relations
- financial and information disclosure
- board structure and process

Following the ratings from Standard & Poor's (S&P), Moody's, Morningstar, The Corporate Library, Institutional Shareholder Services (ISS), and Governance Metrics International (GMI) firms are subject to improve their governance practices ³⁸ (Wheelen et al, 2018; Aguilera et al 2015).

Additional criteria for the assessment of good corporate practices are provided by the International Financial Corporation (IFC) that in 2005 merged, into IFC Corporate Governance Group. The IFC developed a series of scorecards tool, assessing corporate compliance with national codes. This has been a valuable contribution for the

³⁷ Aguilera, R. V.; Desender K.A (2015), Challenges in the Measuring of Comparative Corporate Governance: A Review of the Main Indices. *West Meets East: Building Theoretical Bridges*. [https://doi.org/10.1108/S1479-8387\(2012\)0000008014](https://doi.org/10.1108/S1479-8387(2012)0000008014)

³⁸ Wheelen. T.J; Hunger, D.;Hoffman Alan N, Bamford, C.E. (2018). *Strategic Management and Business Policy, Globalization, Innovation and Sustainability*. Pearson, Fourteenth Edition: "Corporate governance improvement through the world"., p.56

improvement of good corporate governance practices. IFC scorecards are used globally from institutes, directors, stock exchanges and regulators that have also contributed to this complete codification toolkit, however without the intrusiveness of legislation to improve corporate best practices (IFC, Governance Knowledge Tool, 2014).

According to IFC definition scorecards generate important information on the quality of governance practices and encourage companies to improve their governance as they are using a quantitative analysis to measure the level of observance of a code or a standard of corporate governance. Scorecards compare governance practices to a benchmark that is normally the national code of corporate governance or an international code or standard.

The simplest form of reporting is an individual company report. If the scorecard was administered in the form of a computer spreadsheet, a report can usually be generated, once the final indicator scores are introduced. This can be done onsite with the company, where results can be shared with staff and serve as the basis for discussion and the development of an action plan. A scorecard reporting is helping companies to improve their governance practices. A typical paradigm is represented in the following (Figure 9).

In this case a “report should highlight that the information disclosure and commitment categories are relatively weaker and would probably merit further attention by the company”.

**Summary of the Results of the Two-tier System Companies
Scorecard/Evaluation Form for Corporate Governance in Bulgaria**

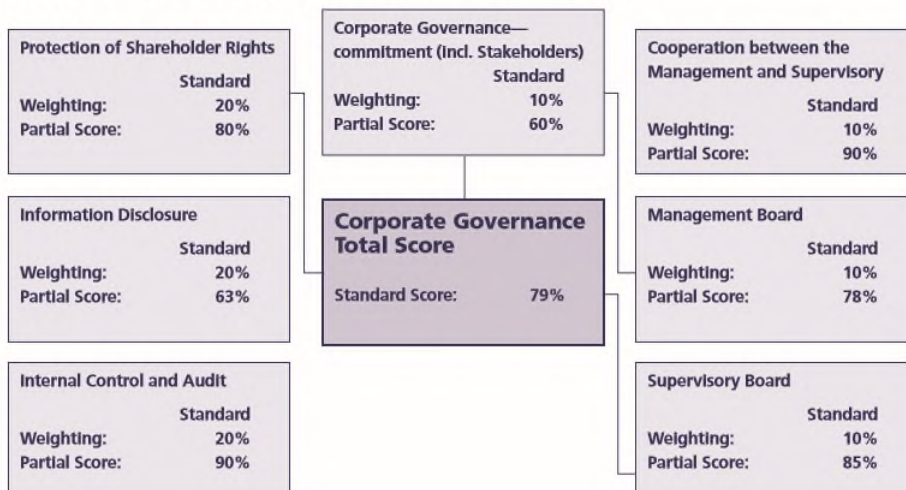


Figure 9 :The two tier system, corporate governance. IFC, Corporate Governance Knowledge Tool. Supplement to Toolkit (2014). p.44

The outcomes that were achieved as a result of scorecard projects, provides information on how projects were conducted, from the perspective of the company, the national chamber of commerce, an institute of directors and the national stock exchange.

Generally, scorecard projects open new opportunities for future work and evolution subject to ownership issue, the assessment of the companies and the birth on new projects such as other governance activities, new tools for assessing governance, codes and guidelines, and new techniques for working with companies.

2.9 Conclusion

The global corporate governance context presents differences in the sociocultural and monetary system, in jurisdictions, cultures and currencies including all 35 OECD countries by obtaining information about practices in specific jurisdictions and their institutional, legal and regulatory frameworks (Tricker,2014).

Investors are considering that good Corporate Governance is the key element for the evaluation of the firm. In this regard, several criteria and assessment tools have been created to measure the standards of good corporate governance.

The measurement of good corporate governance is an ongoing procedure that will provide the improvement on governance practices and thrive additional tools of endorsement like awards programs, conducting to business forums for discussions,

academic research and the development of corporate governance indexes that are increasingly present in emerging markets (Corporate Governance Scorecards, Assessing and Developing Corporate Governance Codes 2014).

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3 Cultural Diversity in Corporate Governance

3.1 Introduction

The environment for organizations can differ across countries in a variety of dimensions, including regulations and institutions - as we already made reference in previous chapters- and cultural characteristics (Gerhart, 2008). Corporate culture consists of norms and societal values taking into consideration the legal and social environments that are interconnected to a local cultural context.

Generally there is a distinction between empirical and theoretical definitions of culture. Empirical definitions associate culture with values. In this regard, the definition by Guiso, Sapienza, and Zingales (2006)³⁹ identifies differences in people's preferences, beliefs and values of different social groups, for cultural-based explanations such that can be tested and are able to interpret the economic context (Alesina et al 2013).

In a theoretical approach, values and beliefs are distinct, as several authors have formulated hypothesis in which culture means beliefs are the consequences of one's actions and those beliefs can be acquired through a cultural transmission or through experience from one person or generation to the next (Alesina et al, 2013; Guiso, Sapienza, and Zingales, 2008b).

As an empirical investigation of the relevance of culture on economic outcomes is fairly new, in this regard values and beliefs are not distinct.

3.2 Cultural variable in the economic context

Culture in economics is related to the distinction of two concepts: (i) inequality and (ii) redistribution. Inequality is referring to the role of women in the society and redistribution is referring to the preferences among second-generation immigrants and preferences for the redistribution, in the country of origin as far as it concerns poverty⁴⁰ (Alesina et al, 2013, Alesina et al, 2004).

The Institutional context in the economic environment as it has been analyzed in the previous chapters reveals the role of culture in the context of norms, according to the

³⁹ Guiso, L., Sapienza, P., and L. Zingales, 2006, "Does Culture Affect Economic Outcomes?" *Journal of Economic Perspectives*, 20(2): 23–48.

⁴⁰). Alesina, A., R. Di Tella, and R. MacCulloch, 2004, "Inequality and Happiness: Are Europeans and Americans Different?" *Journal of Public Economics*, 2004, 88(9–10), 2009–2042. The article of Alesina and Glaeser. In this article, Alesina and Glaeser (2004) relate this view to long-lasting differences in views about poverty that differentiate, for instance, Americans from Europeans (Alesina et al, 2013, p.5)

definition of North and Greif. Precisely, North (1999)⁴¹, defines institutions as a system of social factors comprising formal and informal human constraints, that structure human's interactions (Alesina et al, 2013).

Thus rules, laws, constitutions are formally part of different jurisdictions (see chapter 2. and 2.2 and 2.3) and informal norms of behavior and conduct are related to each country's cultural characteristics. Those formal and informal rules according to Greif's theory, (2006)⁴², are part of the Institutions and form a system of "social factors" (Alesina et al, 2013).

Greif (2006a) defines an institution as "a system of social factors that conjointly generates a regularity of behavior"—by "social factors," he means "man-made, nonphysical factors that are exogenous to each person they influence," including "rules, beliefs, norms, and organizations. In other words, culture and institutions are endogenous variables, characterized by geography, technology, epidemics, wars, and other historical shocks (Alesina et al, 2013).

Related to cultural factor, trust is as an inherited cultural variable and has its implication to the agency theory. According to Gambetta (2000), the characteristic of trust has the concept of a "the subjective probability with which an agent assesses that another agent or group of agents will perform a particular action" (Guiso et al, 2006). Furthermore, trust is a key component to every economic system and can be developed because to the quality of the legal system not merely related to an inherited cultural variable.

In the economic context good corporate governance has a valuable contribution to corporate transparency (see subchapters 2.1 and 2.2.), incorporating concept of trust (OECD, 2018). Actually, firms with a better Corporate Governance structure can earn the trust of external investors, as they provide accountability and transparency of their internal operation (Chan et al, 2012).

To the extent that a country's financial and legal system is said to be transparent, helps simplify transactions and reduces the temptation to every corporation behave illegally or unethically"⁴³ (Wheelen et al, 2018).

⁴¹ North, D., 1990, *Institutions, Institutional Change, and Economic Performance*, Cambridge University Press, Cambridge (Alesina et al, 2013, p. 6)

⁴² Greif, A., 2006a, *Institutions and the Path to the Modern Economy: Lessons from Medieval Trade*, Cambridge University Press. (Alesina et al, 2013, p.p. 6-7)

⁴³ Wheelen. T.J; Hunger, D.;Hoffman Alan N, Bamford, C.E. (2018), *Strategic Management and Business Policy, Globalization, Innovation and Sustainability*. Pearson, Fourteenth Edition (chapter 3. P. 113).

The measure and management of cultural factors within the same national culture in respect to the significance of values from each level to national, corporate or individual culture, it is very influential in corporate governance structure. Hofstede (1983), describes two key reasons why nationality is important to management: (i) political as nations are political units with their own institutions (forms of government, legal systems, educational systems, labor and employer's association systems), (ii) sociological as they exist national and regional differences; a third, related to psychological reason will not be relevant to our analysis.

Hofstede (1980)⁴⁴, has made a differentiation between western and eastern cultures, between individualism and collectivism. Individualistic values are a characteristic in western culture and more collectivism, group orientation, and interdependence represent eastern culture (Palthe,J, 2014). We already referred there are differences among countries in legal heritage; furthermore there are differences in regional location, economic and political institutions. All those differences together define corporate governance and have an international impact in terms of integrity standards, expected of the public service, and ethical behavior as we lately have observed a rise of “ethical investors” requiring corporations to pay increasing attention to the social role of business, notably in the areas of environment, health and safety, ethnic and community relations (Commonwealth Association for Corporate Governance (1999).

3.3 National culture and Corporate Culture in the context of corporate governance

Another significant aspect of corporate governance is its external cultural context. Whereas Transnational Institutions emphasized the importance of regulations and policies to a universal Corporate Governance perspective, companies had to take into consideration their local or national cultures.

National cultures are not homogeneous because they comprise culturally different regions and differ in the level of unconscious values, acquired through generations. These unconscious values are associated with preferences and practices, changing in response to circumstances, and are not associated with the meaning of moral convictions that reflect company values (Hofstede).⁴⁵

⁴⁴ Hofstede, G. (1980). *Culture's consequences: International differences in work-related values*. Beverly Hills, CA: Sage

⁴⁵ <https://geerthofstede.com/>

Actually, corporate best practices are also adapted to corporate local cultures, concept and practices of corporate citizenship⁴⁶ as it has been explicit in the International Corporate Governance Network (ICGN, 1999): “Corporations should adhere to all applicable laws of the jurisdictions in which they operate” (Monks & Minow, 2004). In this regard, all applicable global recommendations for corporate governance practices should be considered under local rules and norms that reflect national codes. All members of the ICGN have to adapt with the flexibility to apply corporate governance practices under specific circumstances of individual companies, shareholders and the markets within which they operate⁴⁷ (ICGN, 2017).

Corporate governance practices under national codes do not merely reflect the same cultural context sharing the same values and beliefs, because nations⁴⁸ cannot be culturally homogeneous. This explanation is very explicit in the concept of regions and clusters that Minkov and Hofstede have demonstrated in their recent research using value measures from the 2010 European Social Survey (ESS)⁴⁹ forming randomly national homogeneous groups of European respondents.

A very characteristic effect coming from the European Social Survey is the situation of the Greek nation: “Seven of the 13 Greek regions (54%) form a homogeneous and clearly delineated national cluster. One of the remaining six regions (GR22 “Ionia Nisia”) is attached to the Irish cluster, whereas the other ones are members of diverse mixed clusters of East European regions, while Cyprus Represented as a single region and is assigned a place in a mixed cluster consisting of British and Irish regions. (Minkov and Hofstede, 2014)⁵⁰.

On that account, culture is defined as “something shared between groups such as regional populations, or any groups for that matter, that are part of a larger group, such as a nation, but not necessarily between the individuals of any nation. Hence, culture allows distinctions to be made between groups of people, not necessarily between individuals”. Culture is always a collective phenomenon of people who lives within the

⁴⁶ International Corporate Governance Network (1999), Statement on Global Corporate Governance Principles Adopted July 9, 1999 at the Annual Conference in Frankfurt (p.4, corporate citizenship).
http://www.ecgi.org/codes/documents/icgn_principles.pdf

⁴⁷ ICGN, 2017: Global Governance Principles (p. 5).

⁴⁸ Nation is defined as a large group of people of the same race who share the same language, traditions, and history, but who might not all live in one area” (<https://dictionary.cambridge.org/us/dictionary/english/nation>)

⁴⁹ ESS defines itself as “an academically driven social survey designed to chart and explain the interaction between Europe’s changing institutions and the attitudes, beliefs and behavior patterns of its diverse populations”. (p.149), Minkov, M: Hofstede, G. (2014), Clustering of 316 European Regions on Measures of Values: Do Europe’s Countries Have National Cultures? Cross- Cultural Research 2014, Vol. 48(2) 144 –176, SAGE Publications.
DOI:10.1177/1069397113510866

⁵⁰ Minkov, M: Hofstede, G. (2014), Clustering of 316 European Regions on Measures of Values: Do Europe’s Countries Have National Cultures? Cross-Cultural Research 2014, Vol. 48(2) 144 –176, SAGE Publications. (p.159)
DOI:10.1177/1069397113510866

same social environment so it is “collective programming of the mind which distinguishes the members of one group or category of people from another” (Hofstede, 1991) ⁵¹.

Minkov and Hofstede have also elaborated a previous research for other Nations with regard to homogeneous and distinct national clusters on World Values Survey (WVS) items⁵².

Hofstede’s terminology for describing national cultures is based on an extensive research done with Geert Jan Hofstede, Michael Minkov and their research teams, consisting of six independent but connected different criteria or “dimensions” (Hofstede et al, 2010; <https://www.hofstede-insights.com>). A dimension is an aspect of a culture that can be measured relative to other cultures⁵³.

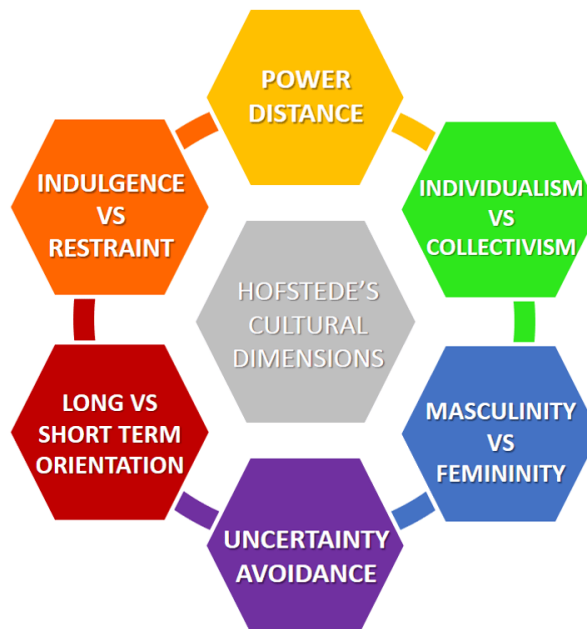


Figure 10: Hofstede's six dimensional model (Hofstede et al, 2010).

1. **Power Distance Index (PDI).** Power Distance, related to the different solutions to the basic problem of human inequality; Power Distance Index scores are listed for 76 countries; they tend to be higher for East European, Latin, Asian and African countries and lower for Germanic and English-speaking Western countries

⁵¹ Hofstede, G. (1991), *Cultures and Organizations Software of the mind*, published by McGraw-Hill Book Company Europe. (p. 5)

⁵² “The WVS seeks to help scientists and policy makers understand changes in the beliefs, values and motivations of people throughout the world”. (<http://www.worldvaluessurvey.org>)

⁵³ Hofstede's country scores are based on IBM subsidiaries around 1970 using a questionnaire survey was conducted to employees from more than fifty countries around the world who worked in the local subsidiaries of the large multinational corporation IBM. (Hofstede, G., Hofstede, G. J. & Minkov, M. (2010). *Cultures and Organizations: Software of the Mind* (Rev. 3rd Ed.). New York: McGraw-Hill

2. **Uncertainty Avoidance Index (UAI).** This index refers to the level of stress in a society in the face of an unknown future; it deals with a society's tolerance for ambiguity. It indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations. Countries exhibiting strong UAI maintain rigid codes of belief and behavior. Weak UAI societies maintain a more relaxed attitude in which practice counts more than principles. In Hofstede et al. (2010) Uncertainty Avoidance Index scores are listed for 76 countries; they tend to be higher in East and Central European countries, in Latin countries, in Japan and in German speaking countries, lower in English speaking, Nordic and Chinese culture countries.
3. **Individualism versus Collectivism (IDV).** This dimension is related to the integration of individuals into primary groups; Collectivism, as a societal, not an individual characteristic, is the degree to which people in a society are integrated into groups.
4. **Masculinity versus Femininity (MAS).** Is associated to the division of emotional roles between women and men; Femininity, as a societal, not as an individual characteristic, refers to the distribution of values between the genders which is another fundamental issue for any society, the dimension turned out to be strongly correlated with recent economic growth. This dimension stands for a preference for cooperation, modesty, caring for the weak and quality of life. Particularly, in the business context is sometimes also related to as "tough versus tender" cultures.
5. **Long Term Orientation versus Short Term Normative Orientation (LTO).** This index is associated to the choice of focus for people's efforts: the future or the present and past. A low score on this dimension, characterize societies that are viewing societal change with suspicion in contrast with a high score that they encourage modern education and are preparing for the future.
6. **Indulgence versus Restraint (IND).** This index is linked to the gratification versus control of basic human desires relative to enjoying life and is not characterized by strict social norms.

Additionally, in another extend, academic research in cultural values has been focused in the internal corporate context that represents the domain of Organizational culture as Hofstede et al (2010) have described in their research.

Organizational culture is defined in Hofstede's six dimensional model (Hofstede et al, 2010), and is associated to the internal corporate culture that varies between corporations in terms of business practices in the same country (Figure 10).

Practically, Organizational Culture is defined as the way in which members of an organization relate to each other and how employees really relate to their organizational culture that the management has to implement in the core business. Hofstede has introduced the Multi-Focus Model that consists of six autonomous dimensions or variables, related to each other <https://www.hofstede-insights.com/models/organisational-culture/>.

Means-oriented vs. Goal-oriented. It is related to the effectiveness of the organization. The means-oriented culture is connected with “how” so, which work has to be carried out and the goal oriented with “what” in order to achieve with any cost the specific goal.

Internally driven vs externally driven. The internally driven culture is based on the idea that business ethics and honesty matters most in favor of the customer, in contrast with the externally driven culture that is focused customer’s requirements without taking into consideration the ethical attitude.

Easygoing work discipline vs strict work discipline. This is related to the amount of internal structuring, control, and discipline. In a strict work discipline, people are merely punctual and serious.

Local vs professional. Local dimension is identifying employee with the direction in contrast to the professional that employees are identified by their profession and their job.

Open system vs closed system. This is related to the accessibility of an organization for every new related party. Therefore, newcomers in an open system are very welcome and can immediately fit in an organization.

Employee-oriented vs work-oriented. This dimension is related to the managerial concept. In an employee-oriented organizations, every personal problem of employees are taken into account as the organization is responsible for the human welfare of the corporation, in difference with the Work-oriented that that corporations are solely task oriented.

In organizations the decisive dimensions of culture are Power Distance and Uncertainty Avoidance because organizations are devices to distribute power and they also serve to avoid uncertainty, to make things predictable (Hofstede,1983).

There is a strong relationship between national culture and organizational culture to the extent that corporations are reflecting the country that they have been established which seems consistent with environmental constraints (Gerhart, 2008). Several scientific researchers have demonstrated that national culture constrains organizational culture because is considered like a component of a broader context; consequently organizational culture “mirror societies from which they originate”⁵⁴ (Gerhart, 2008; Johns, 2006; Javidan et al., 2004; Hofstede, 1983, 2001).

Hofstede among other researchers argued that national culture should be defined in terms of values, whereas organizational culture should be defined in terms of practices.

Mostly based on Hofstede’s study, the Global Leadership & Organizational Behavior Effectiveness (GLOBE) large project, started in 1990 by the Professor Robert House, has projected, analyzed and measured National and organizational culture values and practices, describing the values of different societies/countries.

National and organizational culture values and practices have been projected, analyzed and measured with the Global Leadership & Organizational Behavior, Effectiveness (GLOBE) large database project, started in 1990 by the Professor Robert J. House.⁵⁵ Globe project reported results using organizational culture based only on practices that have been evaluated, concluding that organizations mirror societies from which they originate in respect to culture (Gerhart, 2008).

In academic literature and scientific research, cultural values have been associated with regional clusters of a nation, thus cultural values are reflecting National culture and are projecting the corporate governance external framework. In this regard, corporate governance external framework has to take into high consideration the Institutional context as a powerful national cultural element (Minkov et al, 2014; Alesina et al, 2013; Hofstede, 2011; Hofstede et al, 2010; Gerhart, 2008; Hofstede, 2001, 1983).

⁵⁴ Javidan et al. (2004: 726) reference from Gerhart, B. (2008), how much does national culture constrain organizational culture? *Management and Organization Review*, 5 (2): 241–259. <https://www.cambridge.org/core>

⁵⁵ Globe project became a leader as is expanded to more than 200 researchers from 62 countries. With more than 400 academic and practice-oriented journal articles, a massive database and has been adopted by university scholars, diplomats and consulting agencies around the world.

Corporate governance practices and Organizations are culturally dependent as they are manipulating groups of people affected by different values that practically have adapt to their local cultural conditions.

3.4 Cultural dimension and ethical sensitivity

Societal values and norms are not the only traits that we distinguish in the corporate cultural framework. Another significant element that is often estimated is moral value that is associated to family characteristics. According to academics (Tabellini, 2008; Coleman, 1990; Banfield (1958)⁵⁶, the concept of morality valid only within the family, reflecting individual values, and only outside family a generalized morality is considered as an acceptable and justified behavior within people that interacting in different environments (Alesina et al, 2013). Generalized morality is considered to be equivalent to trust among different measures, since high levels of trust are normally associated with high social and civil capital, (Alesina et al, 2013). The economic dimension of trust is described by Arrow (1972) who is considering that “Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time.”⁵⁷. Researchers have been accentuate the connection of culture and generalized morality to economic development and to institutional context (Tabellini, 2008; Platteau, 2000⁵⁸).

Generalized morality is reflecting in counties or regions that are characterized by well-functioning institutions (Tabellini, 2008). Alesina and al (2013) are referring to trust as a variable affecting multiple sectors of which are related to corporate governance parameters. In this basis, trust is affecting economic development (Knack and Keefer, 1997), individual performance (Butler et al., 2014), financial development, participation in the stock market and trade (see Guiso, Sapienza, and Zingales, 2004, 2008a, 2009), innovation (Fukuyama, 1995) and firm productivity (Bloom, Sadun, and Van Reenen, 2012; La Porta et al., 1997).

⁵⁶ Coleman, J.S., 1990, Foundations of Social Theory, Harvard University Press, Cambridge, Mass.; Banfield, E., 1958, The Moral Basis of a Backward Society, Free Press, and New York : References from the article Alesina, A.; Giuliano, P. (2013), Culture and Institutions, NATIONAL BUREAU OF ECONOMIC RESEARCH, Working Paper 19750. <https://www.nber.org/papers/w19750>

⁵⁷ Arrow, K., 1972, “Gifts and Exchanges,” Philosophy & Public Affairs, 1(4), 343–362 Reference from p. 10 in Alesina, A.; Giuliano, P. (2013), Culture and Institutions, NATIONAL BUREAU OF ECONOMIC RESEARCH, Working Paper 19750. <https://www.nber.org/papers/w19750>

⁵⁸ Platteau, Jean-Phillipe (2000). Institutions, Social Norms, and Economic Development. Academic Publishers, Reference from : Tabellini, G., (2008), Institutions and Culture, Journal of the European Economic Association, Volume 6, Issue 2-3, 1 May 2008, Pages 255–294, <https://doi.org/10.1162/JEEA.2008.6.2-3.25>

Tabellini (2008) in his research find that values can influence regional economic development through public administration to behavior inside corporations referring the notion of moral hazard.

Morality in the meaning of moral value, is a conception of what is right or wrong, with the perception of moral hazard inside public organizations and of the individual's willingness. In this regard, morality can be considered as distinct economic incentive, motivating individual behavior (Tabellini, 2008), that ethical motivation is the action to be ethical and responding to moral values. Therefore, moral values are the cornerstone of the ethical sensitivity.

Ethical sensitivity in cultural framework of Nations is showing a regional heterogeneity. The Scandinavian countries exhibit the lowest measure of family ties in comparison with African, Latin American, and some Asian countries that are having the highest family ties and for each country. Alesina et al (2013) has find that this regional heterogeneity is useful since allowed allows studying the correlation of culture with various economic variables, holding national institutions constant.

According to Hofstede's 6 dimension theory, high score countries in the power distance dimension ⁵⁹ (PDI) feel released from accountability towards citizens so this inequality of power is often creating illegal-dishonest and therefore untrustworthy societies (Minkov et al, 2012).

3.5 Measuring Cultural values

Values are measured by Trust & Respect in the region, obtained from all available waves of the World Value Surveys (Tabellini, 2008).

Economists have measured culture in three ways: by using survey data; by looking at second-generation immigrants to isolate the impact of culture, holding constant the economic and institutional environment; and by collecting experimental evidence

The most common tool for measuring culture is through survey questions for each country referring to values and beliefs as cultural variables at a regional level (Alesina et al, 2013; Tabellini, 2010).

Another way of measuring culture is to observe the patents of immigrant's behavior within an invariable institutional context. This is a vertical transmission approach, of cultural traits, leading to the evidence that some cultural traits travel with people when

⁵⁹ see 3.2., page 5

they move to a society with different institutions and values when we study a second generation immigrants (Alesina et al, 2013).

Additionally to survey questions, a third way for measuring culture, is by experimental evidence showing that people from different cultures are behaving differently in terms of trust and public good. The variables that have been used are referring to culture as both preferences and beliefs, without distinguishing between the two; this is the approach taken in most papers that used these measures (Alesina et al, 2013).

For the measurement of culture, academics have studied and focused on different dimensions (i) as generalized trust⁶⁰, (ii) individualism and (iii) family ties that affect the cultural environment.

The most studied dimension of culture is the generalized trust toward others. This variable is measured in two ways:

- (i) With surveys from the World Values Survey (WVS), the General Social Survey (GSS), and the European Social Survey (ESS) with the common question “Generally speaking, would you say that most people can be trusted or that you can’t be too careful when dealing with others?”. Individual characteristics such as education are positively correlated with trust and
- (ii) With laboratory experiments.

Another specific characteristic of culture is the individualism versus collectivism measure. Gorodnichenko and Roland (2013)⁶¹ in their research explained why individualism can be relevant for growth, emphasizing in personal freedom and achievement, with success to innovation. In contrary, collectivism is bringing together group interests. In Hofstede’s six dimensional models referring to national culture⁶², individualism is the most common measure for the degree on which people are integrated into groups⁶³ (Alesina et al, 2013).

Individualism places self-interest value above all groups, in contrast with collectivism that places Social value above individual interests.

⁶⁰ Generalized trust in the sense of generalized morality as previously analyzed in terms of ethical sensitivity (chapter 3.4).

⁶¹ Gorodnichenko, Y. and G. Roland, 2013, “Culture, Institutions, and the Wealth of Nations,” UC Berkeley, mimeo, Reference from p. 10 in Alesina, A.; Giuliano, P. (2013), Culture and Institutions, NATIONAL BUREAU OF ECONOMIC RESEARCH, Working Paper 19750. <https://www.nber.org/papers/w19750>

⁶² See chapter 3.2 : National Culture and Corporate Culture.

⁶³ Hofstede’s Individualism is measured in different societies by interviewing IBM employees in 30 countries, indicates the degree to which people are integrated into groups.

The third important characteristic of culture is the relevance of family ties in society that can be measured using three questions from the World Values Survey (WVS) Alesina and Giuliano (2013, 2010,) examine the effect of family ties on economic behavior and economic attitudes, by considering family as an important economic unit, which provides goods and services. The authors found that strong family ties are negatively correlated with generalized trust. The extreme reliance on the family prevents the development of institutions and public organizations, which, on the contrary, require generalized trust and loyalty to the organization.

We summarize the measure of cultural values based on three important dimensions in the following table.

<u>Generalized Trust</u>	<u>Individualism vs collectivism</u>	<u>Family ties</u>
Moral Value, related to moral hazard.	<ul style="list-style-type: none"> • Value of the Self Interest (Individualism : individual interest above all group) • Value of Social Interest. (Collectivism : places the group interest above the individual interests.) 	Value of the family correlated with generalized trust, effecting economic behavior.
World Values Survey (WVS)	Gorodnichenko and Roland	Alesina and Giuliano (2013, 2010)
General Social Survey (GSS),	Hofstede's 6 dimensional model	
European Social Survey (ESS)		

Figure 11: Measure of Cultural values, Alesina and Giuliano (2013,

Cultural characteristics are interconnected. The measurement of cultural values is in conformity with the Institutional context and the economic outcome.

3.6 Conclusion

Corporate governance practices take into high consideration the cultural context of organizations operating in a specific institutional context to bring the best economic outcome to the Societies. In their cultural context, corporations are embracing national culture that reflects the local societal values and norms, together with moral values that are associated to individual characteristics (Alesina et al, 2013; Hofstede, 2011; Tabellini, 2008). Trust in relationships is part of national social values that represents

good corporate governance and is associated to an inherited cultural variable (Minkov et al, 2012; Hofstede, 2011; Guiso et al, 2006; Gambetta, 2000).

The factor of trust is associated to the cultural context and affects corporate governance policy and practices as it provides accountability and transparency to external investors. Good corporate governance is ensuring trustworthy relations between stakeholders and shareholders, creating trustworthy societies by providing financial and social performance (OECD, 2018; Chan et al, 2012; Guiso et al, 2006; Gambetta, 2000).

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4 Ethical Responsibility in corporate governance

4.1 Introduction

Corporations, have a dual endeavor to complete; from one part to follow a financial gain to protect shareholders and from the other part to follow a social gain to achieve high social performance complying within the national and the global laws.

Good corporate governance which drives the achievement of corporate performance also rise the opportunity of economic growth in society and ensure the equitable and sustainable development which will secure a common future (Helen Clark, 2012)⁶⁴.

This assumption goes back to the 60's when social activist groups have defended the notion of corporate responsibility. The following decade was the creation of social legislation that has contributed to the establishment of several independent US governmental agencies for the protection of human and environmental health: Environmental Protection Agency (EPA), the Equal Employment Opportunity Commission (EEOC), the Occupational Safety and Health Administration (OSHA), and the Consumer Product Safety" Commission (CPSC). Legislations have implicit the managerial approach to social responsibility and recommended that companies forecast and plan for CSR, organize for CSR, assess social performance (Caroll, 2008, 1991).

4.2 The ethical perception of companies

The perception of ethical management in corporate identities has been developed during the 1980s through stakeholder theory and business ethics, during a period of ethical scandals that brought the public's attention to managerial and corporate wrongdoing. Next years, in the early 1990, in addition to stakeholder's importance, the issue of corporate performance raised the topic of corporate responsibility and linked to CSR, at the same time philanthropy expanded considerably. In 2000s the CSR movement has been a global phenomenon with a strong interest in the European Community. New concepts in corporate environment like global social investment, corporate reputation, business ethics and sustainability were strong motivators for modern business practices at the time with a permanent interest in our days (Caroll, 2008).

⁶⁴ Clark Helen. (2012) The importance of Governance for Sustainable Development 13 Mar 2012. (www.undp.org)

Academic literature is referring to the contribution of corporate entities to the society like corporate responsibility implements, an important part of their economic viability because it encompasses the social responsibility of business that includes the economic, the legal and the ethical, expectations of the society. By this issue, businesses create profits when they add value, and in doing this they benefit all the stakeholders of the business (Carroll, 2008; 2016).

This conception of the corporate entity including the three dimensions (economic, ethical and legal) in addition to discretionary/philanthropic responsibilities is considered by academics as the fundamental definition of corporate social responsibility that is depicted in Carroll's pyramid of CSR (Figure 12).

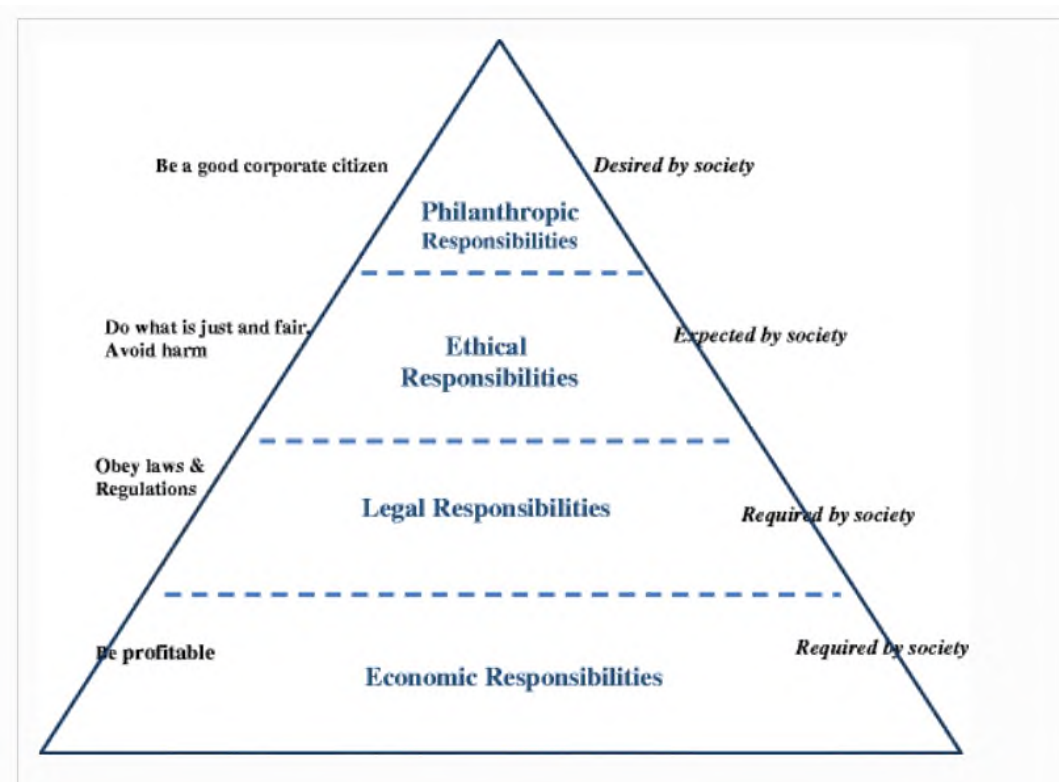


Figure 12: Carroll's pyramid of CSR (Carroll, A. (2016).

Carroll's CSR pyramid declares that corporations should engage in those three principles engaging in decision, actions, policies and practices primarily including the required responsibilities related to economic and legal part and secondly the expected by the society responsibilities according to the ethical and philanthropic societal aspect.

Improving the pyramidal CSR perspective, Schwartz et al (2003), signaled the overlapping nature of the three domains of corporate responsibilities: economic, legal, and ethical that are

simultaneously fulfilled according to the following Venn diagram, as a new model of CSR eliminating the pyramidal and hierarchical relationship among the domains (Figure 13).

The Three-Domain Model of Corporate Social Responsibility

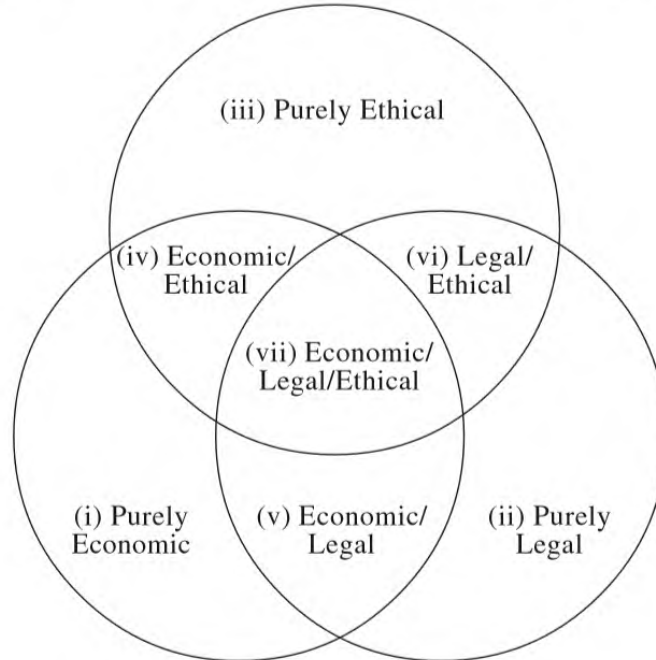


Figure 13: The Three domain model of CSR, Schwartz, M.s & Carroll, Archie. (2003),

Corporate governance should drive corporation to this managerial profit oriented perspective as business is not financially viable if shareholders and employees are not part of the corporate ecosystem Carroll (2016) emphasizes that philanthropic responsibilities affects not only the community but also the employees because researches concluded that philanthropic involvement is significantly related to its employees moral and engagement.

The board of directors should apply high ethical standards by taking into account the interests of stakeholders, with respect to longer term commitments and according to G20/OECD Principles of Corporate Governance (2015), responsibilities of the board, should ensure the strategic guidance by acting with respect to environmental and ethical standards, and companies' relationships with the communities in which they operate.

In addition, Corporate governance should drive modern corporation using best practices ensuring the social perspective and social contribution of the corporation; companies have responsibilities beyond their legal, institutional and regulatory

framework because their activities have a direct impact to the societies as according to the normative expectations, most societies hold that laws are essential but not sufficient (Caroll, 2016; Tricker, 2014).

In this regard, the board of directors must ensure the ethical management, keeping with the respect or protection of stakeholders' moral rights. Ethical perspective includes ethical norms about fairness and justice, those norms that are expected by the members of the society. Caroll (1991) isolates the ethical approaches to management and distinguishes the philanthropic corporate attitude (Figure 14Figure 14).

Ethical and Philanthropic Components of Corporate Social Responsibility

Ethical Components (Responsibilities)	Philanthropic Components (Responsibilities)
1. It is important to perform in a manner consistent with expectations of societal mores and ethical norms.	1. It is important to perform in a manner consistent with the philanthropic and charitable expectations of society.
2. It is important to recognize and respect new or evolving ethical moral norms adopted by society.	2. It is important to assist the fine and performing arts.
3. It is important to prevent ethical norms from being compromised in order to achieve corporate goals.	3. It is important that managers and employees participate in voluntary and charitable activities within their local communities.
4. It is important that good corporate citizenship be defined as doing what is expected morally or ethically.	4. It is important to provide assistance to private and public educational institutions.
5. It is important to recognize that corporate integrity and ethical behavior go beyond mere compliance with laws and regulations.	5. It is important to assist voluntarily those projects that enhance a community's "quality of life."

Figure 14 : The Pyramid of Corporate Social Responsibility, Caroll, A. (1991),

This is the reason that ethical corporate governance practices embrace those activities, standards, policies, and practices with newly emerging values and societal norms that are expected or prohibited by society even though they are not codified into law reflecting higher standard of performance than that required by law. The economic responsibility to owners or shareholders requires a careful trade-off between short term and long term profitability (Caroll, 2011, 2016).

In the global environment, Institutions and Organizations are enhancing socially responsible business that is the keystone of good corporate governance. The Principles for Corporate Governance in the Commonwealth are giving emphasis to the

shareholder perspective ⁶⁵ and they are associated to an ethical business conduct referring to the socially responsible global business, that should reflect the values of the corporation ⁶⁶ (CACG, 1999).

The participation of stakeholders into the accountable role of the company as it has been firstly emphasized in the AA1000 Framework Standard published in 1999⁶⁷, is the principle of Inclusivity in developing and achieving an accountable and strategic response to sustainability. The Stakeholder engagement is a tool that organizations use to help them achieve inclusivity (Accountability Principles 2018).

4.3 The European framework of Corporate Social Responsibility (CSR)

The European Commission defines CSR as the responsible action of companies for their impact on society. The Commission take sides for the CSR practices for the importance of sustainability, competitiveness and innovation of EU enterprises and the EU economy emphasizing that the CSR brings benefits for risk management, cost savings, access to capital, customer relationships, and human resource management. (http://ec.europa.eu/growth/industry/corporate-social-responsibility_en).

Companies can become socially responsible by: (i) following the law and (ii) by Integrating social, environmental, ethical, consumer, and human rights concerns into their business strategy and operations.

Corporate Social Responsibility is important for corporations, for the EU economy and for the society. CSR provides benefits to corporations in terms of risk management, cost savings, access to capital, customer relationships, HR management, and their ability to innovate. In addition CSR corporate practices make companies more innovate and sustainable and result to the contribution of a sustainable economy. CSR practices have also a valuable contribution to the interest of the Society offering a set of values that build corporate social and economic cohesion.

The CSR Strategy of the European Commission encourages enterprises to comply with the following international guidelines (http://ec.europa.eu/growth/industry/corporate-social-responsibility_en) :

- United Nations Global Compact

⁶⁵ See chapter 2.

⁶⁶ See chapter 3.4

⁶⁷ The AA1000 AccountAbility Assurance Standard methodology is the most widely applied global stakeholder engagement standard, used by sustainability professionals worldwide supporting organizations to assess, design, implement and communicate an integrated approach to stakeholder engagement.

- United Nations Guiding Principles on Business and Human Rights (1 MB)
- ISO 26000 Guidance Standard on Social Responsibility
- International Labor Organization Tripartite Declaration of Principles concerning Multinational Enterprises on Social Policy
- OECD Guidelines for Multinational Enterprises

Another important contribution for to the growing positive impact of CSR in Europe is the European Business Network for Corporate Social Responsibility (CSR Europe), that covers 40 corporate members and 41 National CSR organizations which includes 10.000 companies, The network is acting as a united platform for sustainable growth and social contribution.

4.4 The Triple Bottom Line (TBL) in the contemporary corporation

Ethical Responsibility has a great impact in the economic and social sustainability of corporations as it is perceived by academics and organizations. Corporate sustainability includes financial, social and environmental performance measures that according to the Three Bottom Line (TBL) accounting framework theory⁶⁸, companies should measure their social and environmental impact to become socially and environmentally responsible organizations. This measure is different from the traditional reporting frameworks of profits, return on investment, and shareholder value that usually included ecological-environmental or social measures (Elkington, 2018; the Economist, 2009).

The TBL accounting framework incorporates three dimensions of performance that do not have a common unit of measure: (i) social, (ii) environmental, (iii) financial, also commonly called the three Ps: people, planet and profits. Only profits are measured in dollars. The other two dimensions are referring to people and planet measurement over a certain period of time. In this regard the TBL could merely better to calculate in terms of an index as it is difficult to measure the planet and people accounts in the same terms as profits—that is, in terms of cash (Slaper and all, 2011; the Economist 2009).

Seeing that there is no common unit of measure or a universally accepted standard for the TBL accounting tool, we can consider this as an advantage because it allows cultural adaptations, business clusters, various business clusters, projects or policies. A set of measure can be determined by stakeholders or other experts with the ability to collect the necessary data. Among different traditional sustainability, measures that

⁶⁸ The Triple Bottom Line was first coined in 1994 by John Elkington.

have been demonstrated in different academic and research papers for economic, environmental and social can be mentioned accordingly (Slaper and all, 2011):

- Economic measures – variables: are referring to the flow of money with some specific examples including: Personal income Cost of underemployment and Job growth.
- Environmental measures – variables: are referring to natural resources with influence to viability. Some examples include: excessive nutrients, energy consumption, solid and toxic waste management.
- Social measures – variables: are referring to social dimensions of a community or region and could include measurements of education, equity and access to social resources, health and well-being, quality of life, and social capital with some specific examples including: female labor force participation rate, median household income and relative poverty: percentage of population with a post-secondary degree or certificate.

The argument on corporate sustainability measure in terms of people and planet performance dimensions are assigned to the human and planetary wellbeing. This is the reason that Elkington's TBL original concept had a wide significance on the social and environmental value added on corporate performance. This concept has been the cornerstone of future platforms that the Global Reporting Initiative performance indicators (GRI) and Dow Jones Sustainability Indexes (DJSI), influencing corporate accounting, stakeholder engagement and, increasingly, strategy (Elkington, 2018).

In addition to the TBL's accounting tool for reporting and verifying non-financial information to the same standards that financial information must meet, the concept of the TBL theory raised thoughts on the future of capitalism and followed by other corporate social measurement models as Social Return on Investment (SROI) and ESG a framework focusing investors and financial analysts on Environmental, Social and Governance factors (Elkington 2018)

4.5 The Environmental, Social and Governance (ESG) factors in corporate investment. / ESG principles in the investment evaluation process

Corporate governance best practices should implement the values of fairness, transparency, accountability, and responsibility to both shareholders and stakeholders,

assuring the compliance with the acceptable standards in the global environment providing better access to capital and fostering economic growth ⁶⁹ (Oman, 2001).

In the global world, investors are actually very conscious about ethical investment. Especially after the 2008 crisis, they can punish companies for a negative social and environmental impact and their poor and bad governance practices and they are likely to invest into companies with ethic awareness : “In the beginning of 2018, \$11.6 trillion of all professionally managed assets—one \$1 of every \$4 invested in the United States—were under ESG investment strategies, a sharp increase from 2010, when the amount was close to just \$3 trillion overall” (Harvard Business Review, 2019).

The first green bond issued by the European Investment Bank was in 2007, whose proceeds were used to fund renewable energy and energy efficiency projects. A year later, the World Bank has issued 155 billion worth of public and corporate green bonds (Forbes, 2018). Recently, in 2018, The Republic of Seychelles launched the world’s first sovereign blue bond, designed to support sustainable marine and fisheries projects (Figure 15).

At this same publication (Forbes, 2018) ⁷⁰, it has been made reference to the vast majority of SRI (Social responsible investors) and ESG investors in their strategic planning goal to become more effective stewards of capital and to gain a better overall performance. The track records of many SRI-oriented funds and indexes, support this viewpoint besides the fact that ESG performance assessment and measurement is in early creation because actually is difficult to obtain reliable and consistent company performance data.

According to this perspective the European Commission Action Plan on Sustainable Finance is adopting legislative proposals introducing obligations for institutional investors and asset managers to disclose how they integrate Economic, Social and Governance (ESG) factors into their investment decision-making.

⁶⁹ See chapter 2.1.

⁷⁰ Forbes,(2018). Why Socially Responsible Investing Skepticism Is Healthy. Aug 17, 2018. Martin Whittaker, contributor. <https://www.forbes.com/>

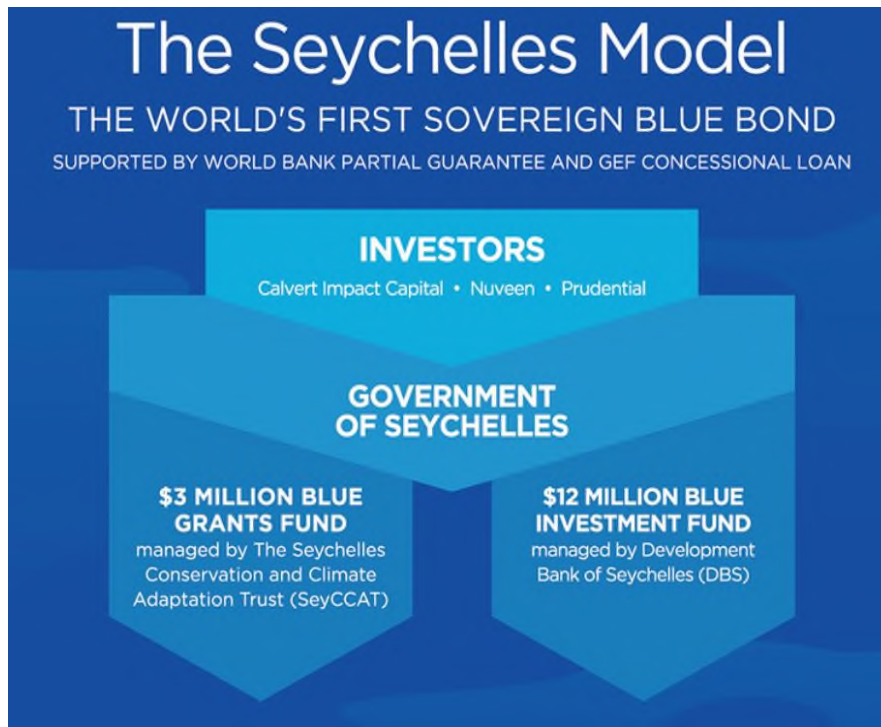


Figure 15 : The Seychelles model (<https://www.worldbank.org>)

The increasing ESG disclosures from investors bring to light the benefit of corporate sustainability best practices and performance related to these factors (World Economic Forum, 2019).

The EU Commission's action plan on financing sustainable growth, based on ESG factors, includes a strong green finance component that aims to support economic growth while reducing pressures on the environment: (i) addressing green-house gas emissions and tackling pollution, (ii) minimizing waste and improving efficiency in the use of natural resources (iii) increasing awareness of and transparency on the risks this may have an impact on the sustainability of the financial system and the need for financial and corporate actors to mitigate risks through appropriate governance. (<https://ec.europa.eu/info/publications>).

Future actions that will enhance the ESG ecosystem on which companies and their corporate governance framework should take into high consideration for their long term sustainability, is illustrated in the following "ecosystem map", exposed by the World Economic Forum (Figure 16).



Figure 16, the ESG ecosystem map, (World Economic Forum, 2019)

The World Economic Forum demonstrates increasing attention on the role of the ESG (Economic, Societal and Governance) criteria for an effective management that will advance the ecosystem for the benefit of the society (World Economic Forum 2019).

Several International Organizations and Institutions provide a valuable contribution to corporate governance social responsible practices leading ethical responsibility and corporate performance focusing on ESG factors (Figure 17).

Environmental

- climate change – including physical risk and transition risk
- resource depletion, including water
- waste and pollution
- deforestation



Social

- working conditions, including slavery and child labour
- local communities, including indigenous communities
- conflict
- health and safety
- employee relations and diversity



Governance

- executive pay
- bribery and corruption
- political lobbying and donations
- board diversity and structure
- tax strategy



Figure 17. Examples of environmental, social and governance (ESG) factors.
<https://www.unpri.org/pri/what-is-responsible-investment>.

4.6 Corporate Governance reporting indicators and socially responsible Investment

Companies are actually reporting as per GRI Sustainability Reporting Standards (GRI Standards)⁷¹ being the first and most widely form all existing standards that have been adopted worldwide from the majority of organizations and from the 93% of the world's largest 250 corporations that reported on their sustainability performance. The GRI sustainability reporting standards have been continuously developed over 20 years and represent global best practice for reporting on Economic, Environmental and Social issues. GRI is the bridge between businesses and governments, enabling them both to make positive contributions to the UN SDGs (Sustainable Development Goals) launched in 2015.

GRI has global strategic partnerships with OECD the United Nations Environment Program and the United Nations Global Compact. Its Framework enjoys synergies with

⁷¹ GRI is an international, not-for-profit organization. In October 2016, GRI launched the first global standards for sustainability reporting. In order to advance sustainable development through greater transparency and accountability, with a focus on emerging markets. (<https://www.globalreporting.org>)

the guidance of the International Finance Corporation, the International Organization for Standardization's ISO 26000, the United Nations Conference on Trade and Development, and the Earth Charter Initiative.

GRI covers three universal Standards that apply to every organization preparing a sustainability report (i) GRI 101: Foundation, (ii) GRI 102: General Disclosures, (iii) GRI 103: Management Approach.

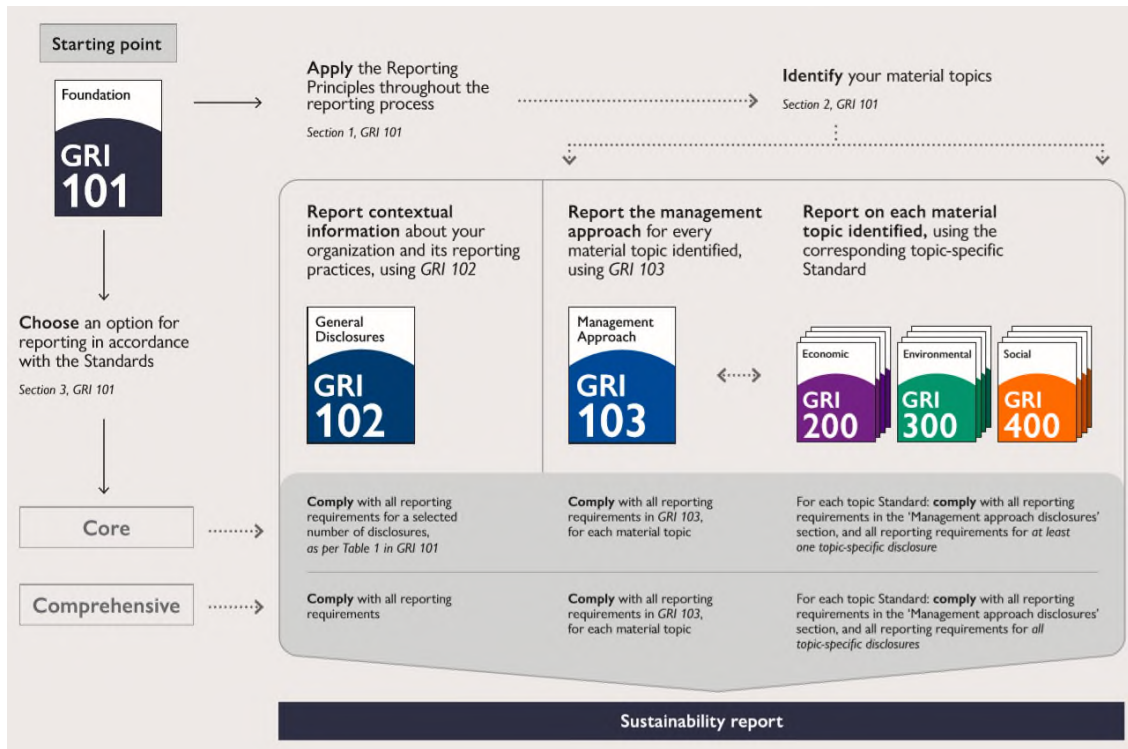


Figure 18: Overview of the set of GRI Standards (<https://www.globalreporting.org>)

The GRI 100 series can be used by an organization of any size, type, sector, or geographic location and are reporting the organizational framework of the corporation; including organization, corporate governance, corporate strategy, ethics and integrity. GRI 101 is the starting point for using the GRI Standards. It has essential information on how to use and reference the Standards.

The other part of the reporting is referring to the social responsibility of the corporations including the other three reporting sustainability sectors: economic (GRI 200), environmental (GRI 300) and social (GRI 400). Each topic Standard includes disclosures specific to that topic, and is designed to be used together with GRI 103: Management Approach, which is used to report the management approach for the topic.

In this broad range of indexes for corporate evaluation, is also including the RAFI Diversity & Governance Index Series⁷² that provides broadly diversified exposures to well managed companies as measured by diversity, governance, financial discipline and low volatility metrics. The Index includes another complementary series for the responsible investment the RAFI ESG designed smart beta strategy that helps investors achieve the dual objectives of social responsibility and long-horizon outperformance (<https://www.rafi.com/index>).

The evaluation process for socially responsible organisations is also provided by Vigeo Eiris rating⁷³. This index is evaluating organisations taking into account the efficiency of managerial systems in implementing environmental, social and governance objectives; in other words the company's 'sustainability objectives'. The evaluation is based on 38 sustainability criteria based on international standards are grouped into 6 domains of analysis: Environment, Community Involvement, Business Behaviour, Human Rights Governance. Human Resources (<http://www.vigeo-eiris.com>).

The corporate sustainability reporting is facilitating shareholders to make decisions on socially responsible investing (SRI). The SRI focusing by terminology on community investing, ethical, green, responsible or socially responsible investing, or sustainable investing or values based investing, is a growing tendency for institutional investors and top-level decision makers that are prioritizing environmental, social and governance (ESG) factors in their investment evaluation.

The Social Investment Forum (1999) in the US⁷⁴, mentioned that "socially responsible indexes are integrating personal values and societal concerns with investment decisions" and varying according to the emphasis on social characteristics; in the US the Calvert Social stock market index CSXAX is benchmarking large companies that considers the most socially responsible or ethical, like Apple, Microsoft and Amazon (<https://www.morningstar.com/funds>; Statman et al, 2015).

In the European Region, Eurosif organization is representing the pan-European sustainable and responsible investment (SRI) membership with mission to promote sustainability through European financial markets. Eurosif give concise explanations of the SRI as "a long-term oriented investment approach which integrates ESG factors in

⁷² RAFI Diversity & Governance combines the Fundamental Index™ methodology with measures of gender diversity, governance, financial discipline, and low volatility to allocate to well-managed companies. (<https://www.rafi.com/index>)

⁷³ Vigeo Eiris rating is using ESG criteria to determine the security and value of investments for investors and help companies and organizations, local authorities, administrations, meet their CSR commitments.

⁷⁴ In 2010, The UK Social Investment Forum (SIF), a national forum for social investment and finance intermediaries, (SIFs) in the UK. provides a place for SIFs to network and share practice. (<https://www.socialinvestmentforum.org.uk/about>)

the research, analysis and selection process of securities within an investment portfolio". In reference to the Governance issues Eurosif, declares that this "concern the quality of a company's management, culture, risk profile and other characteristics. It includes the board accountability and their dedication towards, and strategic management of, social and environmental performance. Furthermore, it emphasizes principles, such as transparent reporting and the realization of management tasks in a manner that is essentially free of abuse and corruption. Examples include corporate governance issues (executive remuneration, shareholder rights, and board structure), bribery, corruption, stakeholder dialogue, lobbying activities, etc."⁷⁵

The International Institute for Sustainable Development (IISD)⁷⁶ is one of the most helpful independent think tanks for sustainable solutions to 21st century problems with the mission to promote human development and environmental sustainability. The Institute provides information and analysis that supports the United Nations' 2030 Agenda for Sustainable Development; including the Sustainable Development Goals (SDG) ⁷⁷ that countries have been adopted in 2015.

The World Business Council for Sustainable Development (WBCSD) ⁷⁸ is a global Network of almost 70 national business councils that delivers high-impact business solutions to the most challenging sustainability issues. Among WBCSD targets for Sustainable Development Goals is redefining value by improving decision-making and external disclosure, changing the culture of the financial system in an effort to endorse and reward the most sustainable companies.

The International Capital Market Association⁷⁹ enforce bond markets through Green, Social and Sustainability Bonds that provide environmental and social benefits and can attract private capital to finance these global needs. The Social Bond Principles (SBP) updated as of June 2018 promotes integrity through guidelines that recommend transparency, disclosure and reporting, increasing capital allocation to social projects.

Several other international sustainability standards indices and frameworks that are measuring stock performance of the world's leading companies in terms of economic, environmental and social criteria are increasing the interest of social responsible

⁷⁵ <http://www.eurosif.org/>

⁷⁶ The IISD charitable organization has been established in 1990 and has offices in Canada, Switzerland and the United States, is working on economies, communities, ecosystems and lives in nearly 100 countries. <https://www.iisd.org>.

⁷⁷ 17 Goals to Transform Our World (<https://www.un.org/sustainabledevelopment/>)

⁷⁸ The WBCSD is a global, CEO-led organization of over 200 leading businesses working together to accelerate the transition to a sustainable world (<https://www.wbcsd.org>)

⁷⁹ ICMA is a membership association, with 550 members located in over 60 countries. Committed to bring trust in the capital markets, by promoting internationally accepted standards of best practice enhancing the framework of cross-border issuing, trading and investing in debt securities. (<https://www.icmagroup.org>)

investors. Investors, businesses and policy makers are using data and collect information, that are insights to make better decisions, manage risk and capitalize on opportunity like the CDP ⁸⁰(Carbon Disclosure Project), the DJSI (Dow Jones Sustainability Indices)⁸¹, the GRI (Global Reporting Initiative)⁸², the LEED (Leadership in Energy and Environmental Design)⁸³, and the ISO14001⁸⁴.

MSCI KLD 400 SOCIAL INDEX for socially responsible UK companies, was launched in May 1990, and one of the first Socially Responsible Investing (SRI) indexes. However, excludes companies incompatible with a common set of values screens like alcohol, tobacco, gambling, civilian firearms, military weapons, nuclear power, adult entertainment and genetically modified organisms (GMOs). The Index is widely cited in academic literature on the performance of ESG investments because of its long track record. The FTSE4Good Index Series ⁸⁵of ethical investment stock market indices is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices that meet globally recognized social responsibility standards and to facilitate investment Transparent management.

In June 2018, FTSE Russell announced the launch of the FTSE Global Micro Cap Index Series, extending target coverage of the FTSE Global Equity Indexes (FTSE GEIS) to over 99% of the global investable equity market. With this enhancement, FTSE GEIS provides broad, modular coverage of the entire global opportunity set by including large, mid, small and microcap companies across both developed and emerging markets.

The variety of standards and measure for the corporate responsibility and sustainability is vigorously claiming the notion of the modern social enterprise. Delloite⁸⁶ (2018) described as social enterprise “an organization whose mission combines revenue

⁸⁰ CDP runs the global disclosure system that enables companies, cities, states and regions to measure and manage their environmental impacts. It includes a vast network of investors and purchasers . representing over \$100 trillion, along with policy makers around the globe

⁸¹ DJSI was were launched in 1999 as the first global sustainability benchmarks for investors who integrate sustainability considerations into their portfolios, and provide an effective engagement platform for companies who want to adopt it The GRI Standards are the first global standards for sustainability reporting. They feature a modular, interrelated structure, and represent the global best practice for reporting on a range of economic, environmental and social impacts sustainable best practices.

⁸²The GRI Standards are the first global standards for sustainability reporting. They feature a modular, interrelated structure, and represent the global best practice for reporting on a range of economic, environmental and social impacts.

⁸³ LEED provides a framework to create healthy, highly efficient and cost-saving green buildings. LEED certification is a globally recognized symbol of sustainability achievement

⁸⁴ ISO 14000 family - Environmental management standards provides practical tools for companies and organizations of all kinds looking to manage their environmental responsibilities.

⁸⁵ FTSE Russell extends its expertise in analytics to a highly respected analytics platform that serves approximately 350 institutions globally including banks, central banks, insurance companies, pension funds, broker-dealers, hedge funds and investment management firms.

⁸⁶ Delloite

growth and profitmaking with the need to respect and support its environment and stakeholder network.

Deloitte Global Human Capital Trends report 2018, drawing on a survey of more than 11,000 HR and business leaders globally, has described the emergence of the social enterprise as a response to heightened societal expectations and rapid technological change. The social enterprise is an organization that should act responsibly to be a good citizen inside and outside the corporation with a high degree of collaboration at all levels. The social enterprise is characterized by the “growing importance of social capital in shaping an organization’s purpose, guiding its relationships with stakeholders, and influencing its ultimate success or failure” (Agarwal et al 2018).

Deloitte Global Human Capital report is focusing on the significance on trust in business and makes reference to the 2018 Edelman Trust Barometer, saying that people worldwide place 52 percent trust in business “to do what is right,” versus just 43 percent in government (Agarwal et al 2018).

The technological change is opening new opportunities on the society. This statement is supported from the 87 percent of C-level executives saying that Industry 4.0 revolution bringing a combination of digital and physical technologies, will lead to more equality and stability.

Being a social enterprise also means investing in the broader social ecosystem and continuously engaging with stakeholders and strategically determining and pursuing the kind of the relationship with third (see Figure 19)

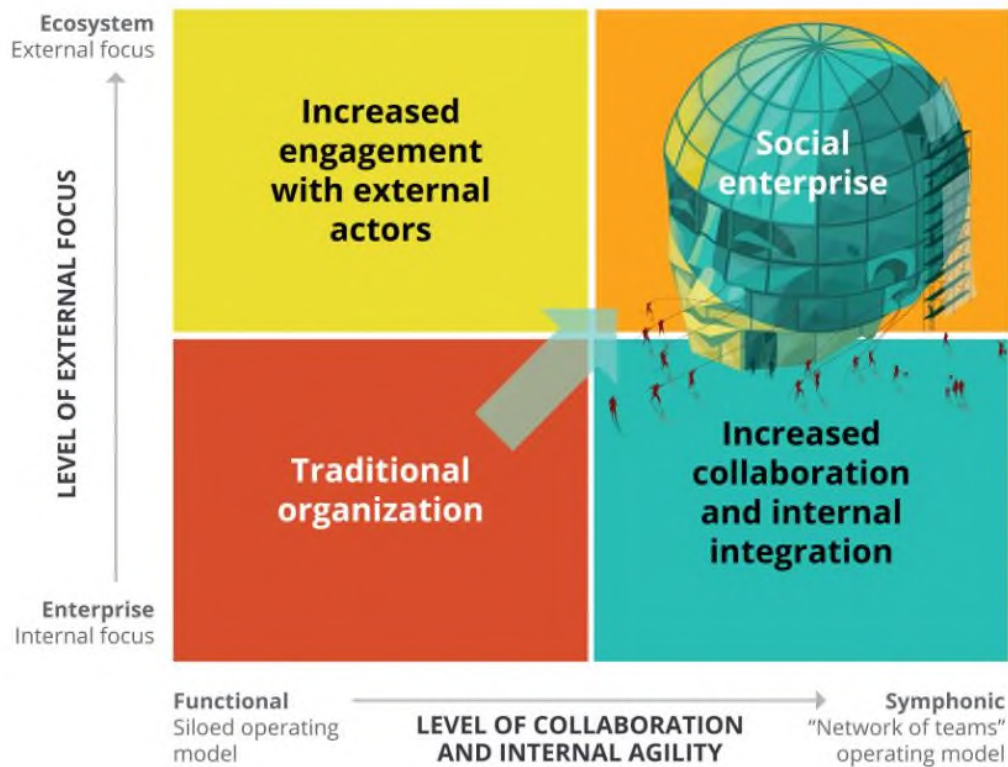


Figure 19. The Rise of the Social Enterprise. Deloitte Human Capital Trends survey, 2018.

Behaving as a social enterprise and managing the corporation taking into consideration the external environment’s macro trends, is a dynamic interconnection between corporate governance strategic decision and a full commitment from C-suite leaders of the corporation.

4.7 Ethical culture in Corporate Governance strategy

In its broader context, The Triple bottom line sustainability framework that examines a company’s social, environment, and economic impact was not only an accounting tool but in our days of total social transformation, became much than ever a corporate strategic imperative as its cannot be measured only in terms of profit and loss, but also in terms of social wellbeing. The TLB framework is a strategic decision keeping the balance between corporation and society adopting a trade-off mentality (Elkington, 2018).

Corporate Social Responsibility is not only an organizational concern; it is as well a National imperative as it can be a positive contribution to every strategic goal. The Green paper of the European Union is emphasizing on the importance of the corporate

social responsibility as it has been decided in Lisbon to create a social responsible framework for the European region, in order "to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion".⁸⁷

Corporate citizenship in every national context has a positive social impact as it should be an integral part of the corporate identity and strategy. Agarwal et al (2018), call attention to stakeholders engagement on topics such as diversity, gender pay equity, income inequality, immigration and climate change than can lift financial performance and brand value. In contrary, a failure to such engagement can gradually destroy corporate reputation. The contemporary corporation must act as a social enterprise responding to the actual needs of social wellbeing and creating a bond between corporate strategy and corporate responsibility.

The corporate engagement with the social wellbeing is part of the corporate strategy for the modern corporation. Corporate strategy reflects in this way the ethical responsibility resulting to the corporate sustainability as it is primarily defined with the triple Bottom line concept and practice and not necessary with the competitive advantage as it has been practiced until the dawn of the 21st century from most executives.

Wheelen et al (2018) refers to the focus of strategy in business practices to manage the triple bottom line, mentioning that corporate sustainability is the long-term responsibility to the shareholders of the organization. That means that the company has the ability to progress in a continuing changing socioeconomic environment. In the same concept as previously mentioned in Carroll's theory, a sustainable business corporation must satisfy all of its economic, legal, ethical, and discretionary responsibilities.

In the academic literature, Bryan Husted's contingency theory of corporate social performance (CSP, 2000), is considered the best theoretical and practical contribution arguing that corporate responsibility is a function adjusting the nature of the social issue and its corresponding strategies and structures. Following Husted (2000), "the social environment continues to play a critical role in the survival of the business firm given the increasing and ever-changing expectations of its stakeholders" (Carroll, 2008).

Husted (2000) is referring to the strategic decision of the corporation to deal with social issues and its continuous alignment with its social environment, not by setting long

⁸⁷ GREEN PAPER: Promoting a European framework for Corporate Social Responsibility. DOC/01/9, Brussels, 18 July 2001. <https://ec.europa.eu>. (See : executive summary)

terms goals and the allocation of resources for carrying out these goals (Chandler, 1962)⁸⁸ however with the concept of strategy a “the basic alignment mechanism” between an organization and its environment” according to the definition of R.E. Miles and Snow (1984). In this regard, as corporate strategy that fit market opportunities will lead to greater economic performance, similarly, the contingency model of corporate social performance argues that strategies and structures properly aligned with social issues will lead to greater social performance.

According to strategic management theory arguing that corporate strategy and structure are linked to financial performance of the firm, in the same way corporate social performance can be expressed as a function of strategies and structures. The reference of the strategic management theory incorporating such topics as strategic planning, environmental scanning, and industry analysis (Wheelen et al, 2018), can be set in parallel with Husted four strategies and structures of corporate social performance when dealing with social issues.

Husted (2000) argues that one can define four strategies and structures with their corresponding structures: (i) computation, (ii) discovery, (iii) inspiration, and (iii) bargaining, to relate to corporate social performance. The computation is feasible only in case that the corporation and its stakeholders share the same values and preferences. A typical element of the computation is the environmental assessment and scanning. The discovery strategy is characterized by a search for solutions to achieve agreed-upon goals. The Inspiration is describing a social issue in which there is a gap between the real situation and the expectation about the way something should be.

In this strategy, moral imagination plays a crucial role with stakeholders relationship concerning their common vision about values and beliefs with the corporation. The bargaining strategy is the opposite from the computation strategy as the firm and its stakeholders have different conception about a specific social issue. The bargaining strategy is the core of the stakeholder management since it requires a representative structure that gives voice and veto power to the relevant stakeholders, whose concepts of corporate social responsibility differ.⁸⁹

⁸⁸ Chandler, A. D. (1962). *Strategy and structure: Chapters in the history of the industrial enterprise*. Cambridge: MIT Press, (p. 13), reference from Husted, B. W. (2000), *A Contingency Theory of Corporate Social Performance*. *Business & Society*, 39(1), 24–48. <https://doi.org/10.1177/000765030003900104>

⁸⁹ Husted, B. W. (2000) p. 39, reference from Thomson J.D., & Tuden, A. (1959). *Strategies, structures, and processes of organizational decision*. In J. D. Thompson (Ed.), *Comparative Studies in Administration* (pp. 195-216). Pittsburgh, PA: University of Pittsburgh Press

Taylor et al (2018) in their analysis on the firm value proposed that strategy and financial leaders should take proactive roles in connecting social responsibility to corporate strategy emphasizing to the fact that “CSR as an explicit part of corporate strategy plays an increasingly important role in financial and market outcomes”. The findings of Taylor et al (2018) analysis suggest that corporate engagement in social responsibility contributes to increasing firm value, rather than sponsoring environmental initiatives.

Tricker (2014) is referring to the positive contribution of corporate governance stakeholder approach since is enhancing competitiveness, is increasing market satisfaction improves employees relations and in total is strengthening shareholder value. The CSR perspective is clearly “strategy-driven” producing a more sustainable result long term.

Today stakeholders are increasingly demanding the changing behavior of contemporary firms towards a social welfare, therefore CSR reporting and metrics contribute to both firm value and societal benefits. In this regard, Corporate Governance best practices should align execution and CSR strategic initiatives.

4.8 Conclusion

Corporate Responsibility is associated with the contribution of corporations to the social welfare, including the economic, the legal and the ethical, expectations of the society. Responsible business is the approach of an ethical conduct that corporations adopt by acting with transparency to establish social and environmental performance (Caroll, 2016; Green Paper, 2001). The global ecosystem drives companies to embrace their commitment to the social welfare, as International Institutions and Organisations, promote socially responsible investing and provide corporate governance best practices including Environmental, Social and Governance (ESG) factors in corporate investment (World Economic Forum 2019; Oman, 2001).

Business ethical responsibility is not only a global concern for the social welfare is also a “strategy-driven” factor because the firm can increase its value by progressing in parallel with the changing external environment. The modern corporation is a social enterprise with the endeavor to increase profit and consider stakeholder prosperity. (Taylor, 2018; Delloite,2018).

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<https://www.socialinvestmentforum.org.uk>

5 Leadership values and ethical decisions for good corporate governance

5.1 Introduction

Corporate governance structure specifies the way that corporations are conducted and directed; it also defines the distribution of rights and responsibilities among the Board of Directors and the Executives (Tricker, 2014), acting in a specific corporate cultural framework. In previous chapters we have made reference to these parameters and we focused on corporate governance best practices and on the responsible business conduct.

Good corporate governance is not about rules however about people, is about the ethical conduct on leadership and management decisions that according to the above mentioned cultural variable varies across countries. Ethical characteristics on leadership and management decisions are individual characteristics, associated to values, integrity and moral development of persons in a specific national environment (Yukl, 2013). Ethical behavior on leadership characteristics and the reward system that supports ethical or unethical conduct is the most important element of an organization's ethical culture (Brown and Trevino 2006; Trevino, 1990a).

5.2 Ethical Management and Leadership in corporate governance

In contemporary corporate governance system, the chairman of the board of directors has a wider responsibility. The chairman is leading the corporation and ensures the sustainability of the company's strategy and the integrity of the executive body. The role of the chairman is in some companies separated from the role of the chief executive officer (CEO) who is at the same time an employee of the company, as well as a member of the CEO. Actually the roles of the chairman and the CEO are not necessary distinct and that is an unsolved issue for corporate governance structure (Tricker, 2014).

In fact, the leadership of the CEO in corporations and the executive management are capturing an inherent distinction. Leadership is often associated with the power and nature of influence and teaching other persons. Researchers define leadership terms of group process, traits and behaviors or as a subset of management (Berson et al, 2006, Yukl, 2006). Managers usually are focused on short term results and value efficiency

and stability, while leaders value flexibility, innovation and adaptation and have a long terms perspective setting strategic goals (Yukl, 2013)⁹⁰.

Yukl (2013) argues that leadership characteristics like values, integrity, moral development and behavior together with situational characteristics like national cultural values, organizational culture, external dependencies and constraints, are those elements that contribute to identifying leader actions or decisions in the behavioral approach of the leadership.⁹¹ The situational characteristics are associated with the importance of contextual factors that influence leadership processes. The postulate about the different leadership characteristics that could be effective following different situational characteristics is associated with the “contingency theories” of leadership.

Although there is no direct relation between leadership and corporate social responsibility, we may trace a parallelism between Yukl’s “contingency theories”⁹² describing a specific aspect of the leadership role under a specific social situation and Bryan Husted’s contingency theory of corporate social performance (CSP, 2000) in the nature of leadership behavioral approach adjusting the social issue with the effective responsible management.⁹³

The Responsible Business Conduct⁹⁴ together with the latest Due Diligence Guidance For Responsible Business Conduct⁹⁵ (OECD) defends that when enterprises fail to act responsibly, they risk contributing to adverse human rights, labor, bribery, consumers and corporate governance and environmental impacts in their operation. Following the OECD Corporate Governance Factbook (2017), the Good corporate governance has to create an environment of market confidence and business integrity operating in an ethical framework.

The Standards of Conduct were explicit for many years in Cadbury’s report “Code of Best Practice”⁹⁶ mentioning the Board of Directors has the responsibility of the effective control over the company and the monitoring of the executive management under the obligation of an ethical conduct including openness, integrity and

⁹⁰ Yukl G. (2013). Leadership in Organizations. Eighth Edition. Pearson. ISBN 978-0-13-277186-3 ref :.”Leadership or management, p. 6.

⁹¹ Yukl, in his book Leadership in Organizations (2013), has classified the theories and empirical research of leadership literature into five approaches: (1) the trait approach, (2) the behavior approach, (3) the power-influence approach, (4) the situational approach, and (5) the integrative approach. (see p. 13)

⁹² Yukl G. (2013). Leadership in Organizations. Eighth Edition. Pearson., chapter 1. P. 20: “Universal and Contingency theory”.

⁹³ See chapter 4.

⁹⁴ <http://mneguidelines.oecd.org/>

⁹⁵ <http://www.oecd.org/investment/due-diligence-guidance-for-responsible-business-conduct.htm>

⁹⁶ Report of The Committee On The Financial Aspects of Corporate Governance. The Cadbury Report (1992). <http://www.ecgi.org/codes/documents/cadbury.pdf>

accountability, and statements of business practice and to publish them both internally and externally.

Actually, various research studies are reporting that responsible conduct is related to the corporate ethical culture⁹⁷ that aligned with the ethical behavior of top leadership (Ardichvili et al, 2009). Ethical cultures and ethical leaders are associated concepts of a single behavior. Ethical conduct is the proactively management via ethical leadership and a conscious management of the organization's ethical culture (Treviño and Brown 2003). Being an ethical leader also means making transparent every important decision and act proactively in order to positively affect multiple stakeholders—shareholders, employees, customers, society. The ability to motivate, subordinate and create favorable conditions for doing the work is an important characteristic of leadership (Yukl, 2013) enhancing this ability with an ethical behavior is a conscious strategic management decision.

Ethical decision process in leadership or management is characterized by moral awareness that according to a vast research is taking into consideration the magnitude of consequences, affecting positively or negatively multiple stakeholders—shareholders and the social consensus comprising the existence of strong ethical norms in a given situation. The consequences for followers and other organization stakeholders of the ethical or unethical conduct are the main elements for the evaluation of the ethical leadership (Yukl, 2013; Brown and Trevino 2006).

In addition to moral awareness, research has demonstrated that individual characteristics of leaders are also associated with ethical leadership. However, leaders can be trained to understand the importance of their ethical leadership role and how this could motivate employee ethical conduct.

We have already mentioned the cultural variable in the context of corporate governance in previous chapters; actually it is considered a potentially parameter to be associated with the ethical leadership particular context. In that respect, empirical studies had focus on the ethical leadership diversity across countries as it has conducted by Resick, Hanges, Dicskon and Mitcheluson (2006) based on the GLOBE⁹⁸ project (Brown and Trevino 2006).

⁹⁷ Corporate culture as it has been analyzed in previous chapters (see chapter 3.)

⁹⁸ GLOBE (Global Leadership and Organizational Behavior Effectiveness) research program was founded by Robert House in 1991. GLOBE became a multi-phase, multi-method, multi sample research project in which investigators spanning the world are examined the interrelationships between societal culture, societal effectiveness and organizational leadership. (https://globeproject.com/study_2004_2007)

Particularly, the latest GLOBE project is focused on the “large-scale study of CEOs and Top Management Team (TMT) members across cultures and countries”. The social cultural variable is still the main element of this research⁹⁹. The Globe project on leadership effectiveness according to skills, behaviors and characteristics, has distinguished six global dimensions. Among them the role of Charismatic/Value-Based Leadership, is the only one that reflects the ability to inspire, motivate, and expect high performance outcomes from based on core values invoking the value of integrity.

The theories of ethical leadership emphasize the importance of leadership values, integrity and ethical behavior that is consistent with espoused values, honesty and trustworthy. Researchers found a considerable contribution of ethical leadership to the long-term welfare and motivation of followers - rather than financial performance- arguing that leader’s unethical practices are negatively influencing organization stakeholders, holding onto negative consequences of corporate performance (Yukl 2013).

In effect, corporate governance is focused on “the way companies use their power and the way power is exercised over them” (Tricker, 2014). At that extend the board of directors and the executives as leaders of the company are using their power in respect to corporate issues with the main issue to use it wisely and well (Yukl, 2013, Al Gini, 1998).

In the following chapter, we conducted a short survey in order to make a first approach to our study for the quality of leadership relations with its subordinates, in order to investigate the relevance of ethics to effective leadership. The survey conducted is based on Yulk Ethical Leadership Questionnaire (ELQ) (Yulk et al, 2013).

5.3 Initial study on Ethical Leadership in Greek corporations - based on values

Theories of ethical leadership emphasize the importance of leadership values, integrity and ethical behavior related to trust in relationships and mutual respect that have a positive contribution to the long-term welfare and motivation of subordinates performance and overall corporate performance, rather than financial performance (Yukl 2013).

To that extend, we have conducted a primary survey for an initial study to see the quality of leadership relations with it subordinates in the Greek corporate environment,

⁹⁹ Complete report of the Globe project on leadership can be found in “Strategic Leadership Across Cultures: The GLOBE Study of CEO Leadership Behavior and Effectiveness in 24 Countries” 2014

evoking ethical practices. According to academics, the ethical practices are positively influencing organization stakeholders, holding onto positive consequences on corporate performance (Yukl 2013).

The survey is based on Yukl's Ethical Leadership Questionnaire (ELQ) which validation research involves two specific indicators of leadership influence, the leadership member exchange (LMX) and overall effectiveness. We have limited our study to member exchange relationships between leadership and subordinates. This exchange between both parties, reflect the descriptions of relationship on mutual respect for competence, trust in character as value characteristic and benevolence toward each other. This limitation could point to the need for further research to measure effective leadership on the influence of subordinates decisions and performance (Yukl et al, 2013). The initial ELQ objective showed that ethical leadership can explain additional variance in indicators of the leader's influence on the quality of relationships with subordinates and on unit performance.

Research objectives:

For our study on quality of leadership relations, we have included in our survey additional elements related to three demographic depended variables: (i) gender (ii) age and (iii) educational background; to see whether those variables are influencing additional variance in indicators on the quality of leaders relationships with its subordinates, inspiring more trust (as a main component of value related to integrity) and then lead to a more propitious exchange relationships.

The present survey is based on subordinate's perceptions of whether the leader has ethical characteristics - reflecting ethical values- independently on how much uses leadership behaviors that do not directly involve ethical issues, thus is more associated to an ethical proactive leadership conduct.

Two situational variables influencing the leadership values behaviors are defined in our study: (i) the Greek region as per Values in national culture and (ii) the CEO position as per characteristics of managerial position: the exercise of power and authority that stem from corporate core values. Other variables that are influencing the leadership behavior as the type of organization and the type of industry had not estimated for the present study¹⁰⁰.

¹⁰⁰ Yukl et al (2013) are arguing that leadership behavior is influenced by other situational variables besides national culture (Bass, 1990; House et al., 1997, 2004), with some examples including the type of organization (e.g., profit vs.

According to ELQ theoretical level (Yukl et al, 2013) the survey was conducted in a specific corporate cultural environment as it is useful to assess how consistent the ELQ fits conceptions of ethical leadership values in different cultures. Cultural values are related to leadership beliefs, behavior and development practices. To this respect, Yukl (2013) is referring to six cultural dimensions: (i) power distance, (ii) uncertainty avoidance, (iii) individualism versus collectivism, (iv) gender egalitarianism, (v) performance orientation, and (vi) humane orientation¹⁰¹. To this theoretical perspective we make the link with the previous theory on six dimensions model that has been developed and implemented by Hofstede and after that extended and analyzed by the big Globe project on culture and leadership study¹⁰²

Taking into consideration that ELQ fits conceptions of ethical leadership in different cultures, presenting a diversity across countries (Yukl et al, 2013; Brown and Trevino 2006, the Globe Project) we have considered necessary to reveal the national cultural characteristics in the Greek business environment, according to Hofstede's six dimensions model¹⁰³ (see Figure 10).

Methodology:

In order to construct our survey, we have created an exploratory modeling approach based on the practical and theoretical combination of two models: (i) Hofstede 6 dimension model on national culture and (ii) the Ethical Leadership Questionnaire (ELQ) designed to study the relevance of ethics to effective leadership, a model for ethical leadership measure, developed by Yukl and al, (2013).

Questionnaire - Structure:

For the measurement of ethical leadership a questionnaire was created for "Management in the Working Environment" (see Appendix), based on the ELQ model. Respondents were asked to respond to the behavior of their Managers in their workplace, indicating the extent to which each of the following statements describes their Director (see Figure 20).

nonprofit, public corporation vs. private ownership) and the type of industry (e.g., retailing, financial services, manufacturing, telecommunications).

¹⁰¹ Yukl, G. (2013). Leadership in Organizations. Eighth Edition. Pearson, p. 365, Chapter 14 • Cross-cultural Leadership and Diversity.

¹⁰² See references in chapter 3, for more detailed information visit <https://globeproject.com/> and details on showing culture and leadership data collected for Greece.

¹⁰³ See chapter 3.2 and <https://www.hofstede-insights.com/country/greece/>

My boss:

1. _ Shows a strong concern for ethical and moral values.
2. _ Communicates clear ethical standards for members.
3. _ Sets an example of ethical behavior in his/her decisions and actions.
4. _ Is honest and can be trusted to tell the truth.
5. _ Keeps his/her actions consistent with his/her stated values (“walks the talk”).
6. _ Is fair and unbiased when assigning tasks to members.
7. _ Can be trusted to carry out promises and commitments.
8. _ Insists on doing what is fair and ethical even when it is not easy.
9. _ Acknowledges mistakes and takes responsibility for them.
10. _ Regards honesty and integrity as important personal values.
11. _ Sets an example of dedication and self-sacrifice for the organization.
12. _ Opposes the use of unethical practices to increase performance.
13. _ Is fair and objective when evaluating member performance and providing rewards.
14. _ Puts the needs of others above his/her own self-interest.
15. _ Holds members accountable for using ethical practices in their work.

Figure 20: Ethical Leadership Questionnaire (ELQ), An Improved Measure of Ethical Leadership, p. 46. (Yukl. 2010).

According to Hofstede’s six dimensional model for national culture, Greek region demonstrate a score than 60 per cent of the Power Distance index (PDI) (Figure 21), referring to a “society that believes hierarchy should be respected and inequalities amongst people are acceptable. The different distribution of power justifies the fact that power holders have more benefits than the less powerful in society. In Greece it is important to show respect to the elderly (and children take care for their elderly parents).

Characteristics on values between national culture and corporate culture for the Greek region holding a high PDI score, reveal the hierarchical model in corporations and the

importance of respect to the status position that is essential to indicate social position and to communicate the respect that could be shown; thus is demonstrating the respect for diversity, in gender and age in societies.

The Uncertainty Avoidance index is principal in the Greek region achieving the highest score at 100 (Figure 21) which means that Greek social context is based on bureaucracy, laws and rules in order to provide the safety of law and justice in every aspect of citizens social life. Thus policies and regulations in the business environment based on an ethical framework of trust and respect represent the ethical leadership conduct.

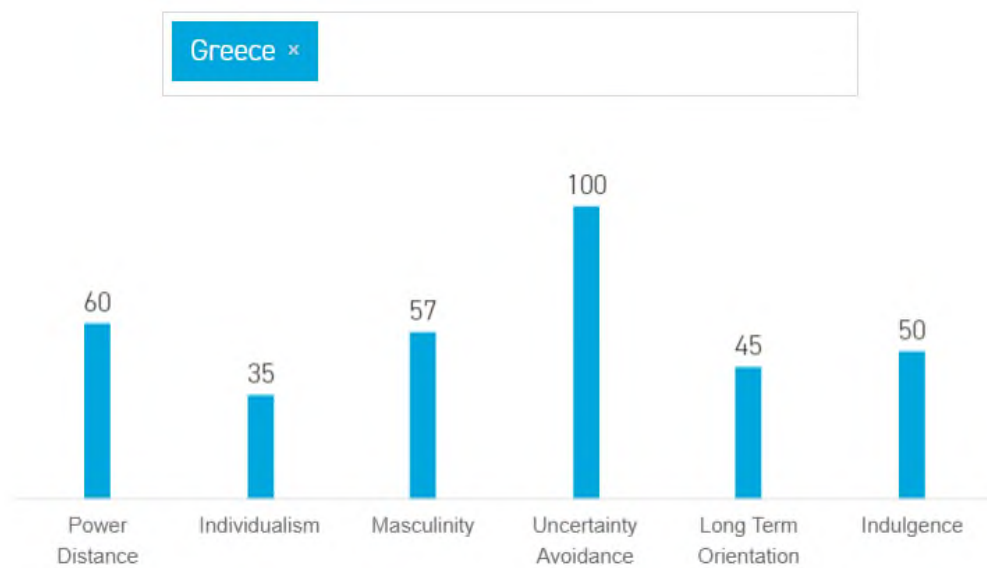


Figure 21: Greek culture through the lens of the 6-D Model© (<https://www.hofstede-insights.com/country/greece/>)

Sample and Data Collection Procedures.

We conducted a survey based on the Ethical Leadership Questionnaire with 18 items. The first 3 items respond to demographic characteristics. The rest 15 items is about behavioral characteristics with a 6-point anchored Likert-type response format for each item (1 = disagree, 6 = strongly agree), asking participants to indicate how well each of the mentioned statements describes their current boss by selecting one of the listed response choices.

Likert-type response format Correlation Coefficients of Measures

1. Strongly Disagree

1. Task-Oriented Behaviors

- | | |
|------------------------|---------------------------------|
| 2. Moderately Disagree | 2. Relations-Oriented Behaviors |
| 3. Slightly Disagree | 3. Change-Oriented Behaviors |
| 4. Slightly Agree | 4. Ethical Leadership |
| 5. Moderately Agree | 5. Leader–Member Exchange |
| 6. Strongly Agree | 6. Overall Leader Effectiveness |

For this measurement, we collected a total sample of 32 men and women working in Greek corporations holding a different educational background whereas the upper age limit varies from 25 to 55 years.

Demographical characteristics include gender, age and educational background of subordinates.

The gender composition of the respondent sample was 52.16% males, and 47.84% of the subordinates rated by respondents were females

Overall Instrument Reliability

<u>Alpha</u>	<u>N/items</u>	<u>N/Cases</u>
.943	6	15

The scale shows a high confidence index with a value ($\alpha = .94$).

The ELQ was designed with regard to the most important elements of ethical values for effective leadership, including the value of integrity, honesty, fairness, altruism, the importance of communication and people orientation on ethical values, the consistency of behavior with espoused values and the ethical guidance and the overall corporate sustainability. It reflects

The three subscales that seem most relevant for ethical leadership are fairness (e.g., my leader has clear favorites among subordinates), integrity (5 items; e.g., my leader keeps his/her promises), and ethical guidance (e.g., my leader clearly explains integrity-related codes of conduct). Values characteristics are associated with corporate national culture and corporate values. In parallel we distinguish corporate values and personal values of shareholders and stakeholders (directors executive and managers, employees) that are the projection of the corporate environment.

Yukl (2013) is associating high uncertainty avoidance on national culture characteristic with valued qualities for managerial leadership including reliability, orderly, and cautious¹⁰⁴. In this regard, managerial leadership is based on ethical values in the corporate environment.

Data Analysis.

Survey results have been collected and then followed descriptive statistics including correlations and reliability, using an Excel spreadsheet program extracting correlations for the demographic information on gender, age and educational level. We used the SPSS statistical software program to determine the correlation between the Likert scale and the ELQ questionnaire. In addition we have identify the overall reliability of the instrument using Cronbach's alpha, that was founded alpha coefficient of .943, having demonstrating a good consistency.

Findings.

In order to elucidate the interpretation of our findings for our explanations on the quality of leaders relationships with its subordinates, we estimated our two initary models (Hofsted 6 dimensional model on national culture and Yukl EQL). The reported findings are based on a limited in size sample of respondents, identified through a convenience sampling procedure, reflecting an ethical proactive leadership conduct based on ethical values.

The first demographic characteristic include gender (n=32) Male (52.16%), Female (47.84%) and we analyze the degree of ethical leadership and gender parity. The measurement showed that there is almost a small difference on the ethical leadership conduct (Figure 22). Therefore there is almost a slight distinction on gender equality that is actually justified by the high national PDI score (see Figure 21). As per our above reference on the PDI index, inequalities amongst people are accepted; thus there is no gender discrimination in relationships between leadership and subordinates in terms of honesty, trust (related to integrity) and fairness based on a more propitious exchange relationships.

¹⁰⁴ Yukl, G. (2013). *Leadership in Organizations*. Eighth Edition. Pearson., p. 366, reference on (Offermann & Hellmann, 1997) : Offermann, L. R., & Hellmann, P. S. (1997). Culture's consequences for leadership behavior: National values in action. *Journal of Cross Cultural Psychology*, 28 (3), 342–351.

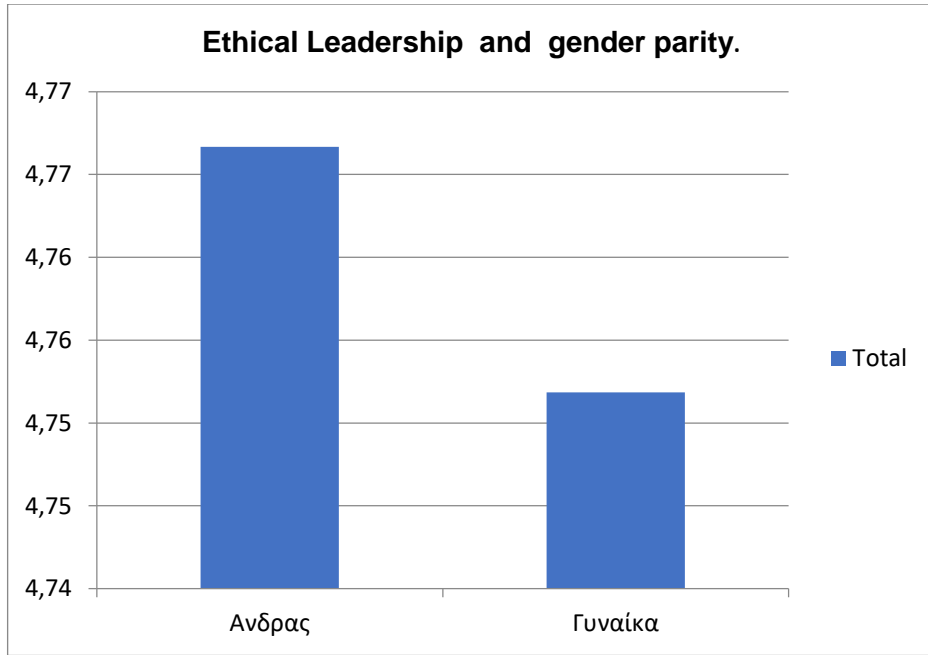


Figure 22: Demographic variable based on subordinates gender

Following there are demographic characteristic including age. The participants ranged in ages from 25 to 65 covering a large scale of subordinates, from young age employment to retirement age (Figure 23). Their working experience range including management responsibility is from 4 years to 31 years of experience.

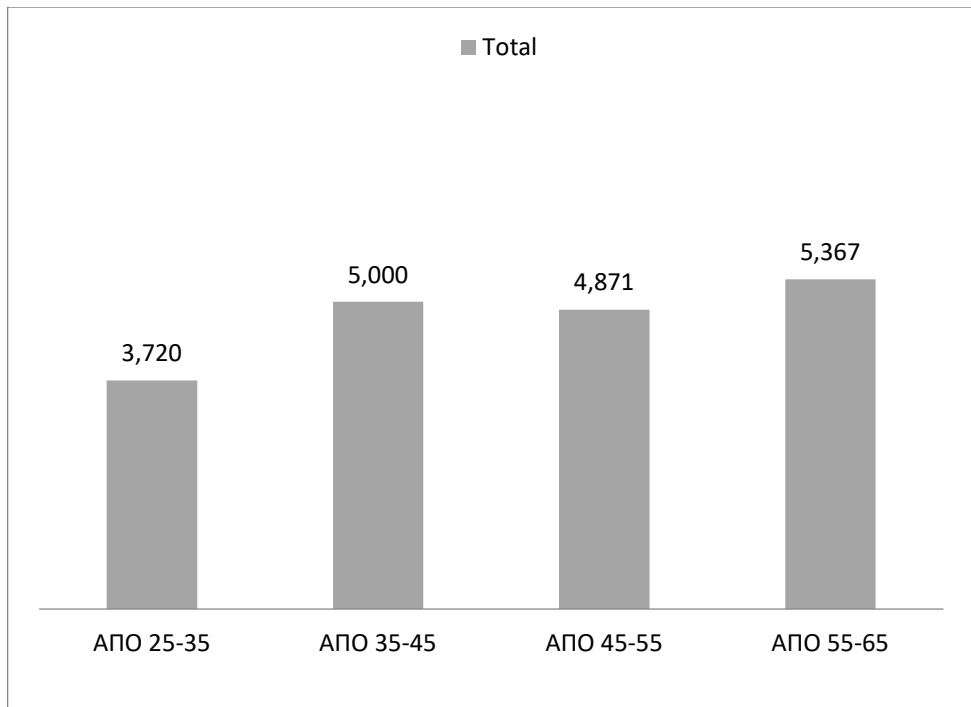


Figure 23: Demographic variable based on subordinates age

This measurement was based on 4 age groups. We identified a wide divergence on the ethical leadership quality in the youngest age group (between 25-35) compared to the oldest age group (55-65) (see Figure 23).

Older subordinates consider that their directors have a high degree of ethical leadership, they are likely to be treated more ethically, with respect, and their job satisfaction is probably influenced from the ethical leadership that is also contributing their work well-being. We conclude that according to the highest score of Uncertainty Avoidance index, older subordinates feel respect, safety and justice in their working life and to a greater extend in their social life, because they can benefit from the quality of their directors ethical leadership.

The third important demographic characteristic of subordinates is their educational background related to their academic degree at various levels, from bachelor's, to the Phd. The quality of leaders relationships with subordinates holding a higher academic degree is associated with a more propitious exchange relationships and respect as per a high PDI score demonstrating a respect to the status position and social position that is justified from the educational level.

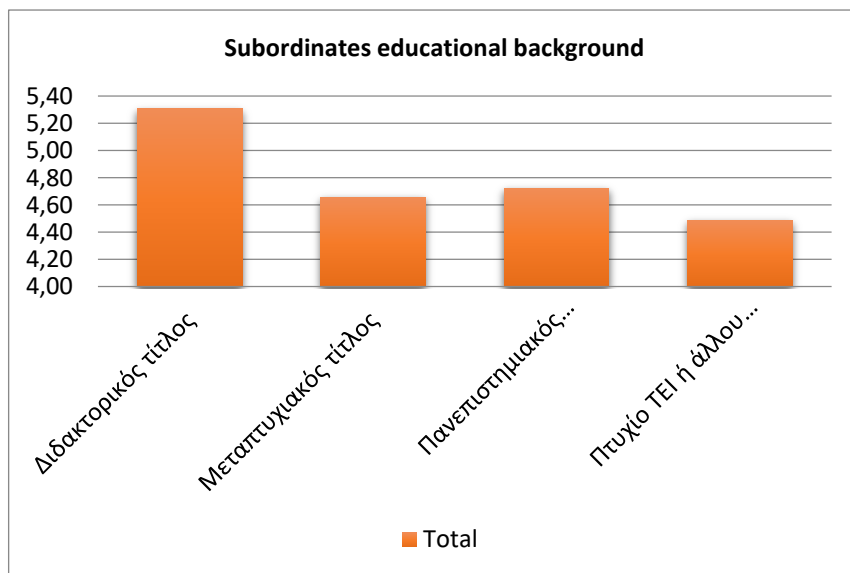


Figure 24: Demographic variable based on subordinates educational background

Διδακτορικός τίτλος : PhD degree, Μεταπτυχιακός τίτλος: Master degree,
Πανεπιστημιακός τίτλος :Bachelor degree, Πτυχίο ΤΕΙ ή άλλο : other certificate.

The present survey is based on subordinate's perceptions of whether the leader has ethical characteristics - reflecting ethical values- independently on how much uses leadership behaviors that do not directly involve ethical issues, thus is more associated to an ethical proactive leadership conduct.

Actually, in order to articulate a more specific perception on the design and implementation on the quality and effectiveness of ethical leadership and ethical relationship exchange between leader and subordinates, we propose a next step of analysis. Further we could develop a survey instrument that can be used on a larger scale quantitative study for the creation of an innovative contemporary model of best practices on leadership quality and effectiveness, based on ethical values according to different corporate environments and national regions.

The findings of the present analysis show a tendency towards a positive ethical proactive leadership conducted in the greek region. Gender equality, thus equal treatment on exchange relationships between women and men subordinates, must be ensured and fostered in all areas. In such way there is no discrimination that will restrain their work performance. Equal opportunities and access to the labour market t is one of European Pillar of Social Rights 20 principles¹⁰⁵ and is consistent with the principles of business practice that have been agreed upon the European Society.

5.4 The Moral hazard issue, an ethical implication on corporate governance framework

A question is arising in the corporate governance ethical framework that has a strong linkage with the leadership in the governing body. The attitude of being ethical and under which circumstances leaderships have to make a decision and to be opposite to shareholders or stakeholders. Which part of interest a leaders or executive should maintain , the one that has a direct interest in the performance of the company or the other side that is investing in the long term social wealth maximization. This reasoning applies with the corporate responsibility and the theory and practice of the Triple Bottom Line (TBL), Carroll's pyramid of CSR, the ESG factors GRI standards and other national and International socially accepted standards¹⁰⁶.

The use of power in the boardroom is a distinct characteristic of moral leadership in terms of wisely and well used function in a process of a stewardship model and not as

¹⁰⁵ The Pillar of Social Rights is about delivering new and more effective rights for citizens. It builds upon 20 key principles, structured around three categories: (i) Equal opportunities and access to the labour market, (ii) Fair working conditions, (iii), Social protection and inclusion (<https://ec.europa.eu/commission/priorities>).

¹⁰⁶ As preciously analysed in chapter 4.

a symbol of status and personal carrier advancement. Leadership combines and consists in stakeholder responsibility and full responsibility of individual decisions: choices and commitments, successes and failures (Tricker, 2014; Gini, 1997). Gini (1997) is arguing that “leaders must manage managers, and managers must manage by leading” and that “without the witness of moral leadership, standards of ethics in business and organizational life will not occur or be sustained”.

Moral leadership and the power of a wisely decision are affected by information in every context. Stiglitz (2001) argues that the problem of corporate governance appears form the problems of information imperfections. The information disclosure to shareholders is addressed to shareholders and creditors and the decision of information disclosure is associated with the leadership power in terms to provide equal benefits for shareholders and creditors. The forces for corporate secrecy and for information disclosure are subject to the moral decision of leadership power and authority, for the benefits of the social welfare or for the maximize of directors personal benefit. This is a decision making process having associated to the moral hazard.

The moral hazard issue has to take into consideration the equilibrium on ethical leadership decision for information disclosure, between the shareholders stewardship for the social welfare and the stakeholder’s interest to get a return on their investment¹⁰⁷. The moral hazard problems are referring to the choice on an alternative action that is the leadership decision authority process and the amount of risk taking to undertake. Moral hazard is associated to the agency dilemma in corporate governance¹⁰⁸, between the governing body and the shareholders thus between the agents and the principals (Tricker, 2014). Moral hazard in agency dilemma is reflecting leadership behavior.

Moreover, moral hazard implicates an aspect on information asymmetry, to the fact that different people know different thinks; this is not merely associated to the leadership decision process. This occurs in agency situations that parties have asymmetrical access to information, shareholders between stakeholders or between them (Catalini, 2017; Tricker, 2014; Stiglitz, 2001).

Asymmetric information in economic transaction reveals the risk towards the moral hazard that leaders are facing and that they can be accused for mistrust and dishonest.

¹⁰⁷ Tricker (2014) describes “Shareholders perspective and financial economic perspective” on chapter 2, p. 31 in this book.

¹⁰⁸ See chapter 2.1., 2.2 and 2.5

The moral decision of leadership power and authority is finally facing the situation of an ethical dilemma involving competing values and needs of different stakeholders and for this reason Yukl (2013) is arguing that “ethical leadership is more “than a list of best practices; it also involves the way ethical dilemmas are resolved and what is done when all the available options have negative consequences”.

5.5 Proposals for future positive effects on corporate governance ethical systems

The information asymmetry problem implicated in the context of corporate governance main issues is related to economic transactions processes affecting corporate disclosure. Research has focused on the improvement of these transaction processes for the betterment of the corporate governance mechanism.

Academics and international Organizations suggest that processes can be improved by a series of technical implications that we found in the latest research through the blockchain novel application of cryptography and information technology applied to old problems of financial record keeping (Catalini et al, 2017).

Catalini and Gans (2017) describes blockchain technology as a network of economic agents that agree about the true state of shared data as it has been firstly presented and adopted in finance and accounting. In the corporate system, blockchain technology can be used to create open and flexible platforms, exchanging data and enhancing communication transparency between related corporate parties, in various context applications, including novel forms of intellectual property registration, content licensing or execution of contracts.

Transparency to all economic transactions could possibly be attained using blockchain technology with the creation of open reputation platforms (reputation of the parties involved), through a well-designed digital communication protocol focusing on the information flow between corporate parties.

Catalini (2017) is arguing that the blockchain technology will possibly offer an innovative model on the economic transactions between agents to secure the trust of exchanged data across settings (contracts, financial assets, intellectual property etc.) and other information in the corporate context. This innovative model makes reference to a general purpose technology that typically takes a long time to diffuse in the economic force of the corporation.

Blockchain as a trading technology, in favor of shareholders, shall contribute to a more positive responsible corporate attitude as could enhance transparent ownership records. The Economist (2015) describes blockchain as a “trust machine” since its algorithms report economic transactions with very high precision without any need for a trusted third party. In this regard, corporations should possibly reduce the role of audit as the control authority of the company and in another extend, reduce the power of authority of leaders, the power of shareholders and other related corporate parties interacting in the corporate governance framework (Yermack, 2016).

Blockchain technology can improve governance processes increasing the speed of decision-making, securing transparency, verification and identification. In addition blockchain technology facilitates fast and efficient involvement of shareholders securing trust for all corporate parties (Lafarre and al, 2018).

In a recent report concerning Technology, Markets, Regulation and Corporate Governance in OECD (2018), blockchain is presented as “an example of a more general distributed ledger technology (DLT)”.

In our contemporary corporate system, blockchain technology is considered to be the most transformative technology since the creation of the World Wide Web. Academics have attributed different labeling properties to name the new technology as “internet of trust” and “internet of value”. This is the reason that blockchain is considered as a disruptive technology to be used as an innovative business model with the potential to transform the foundations of our societal and economic systems (OECD, 2018).

The collection and processing of information to be selected and elaborated with blockchain technology, will be for the Regulators the forthcoming question of the continuous evaluation according to global standards in three main areas: (i) the **terminology** : define a single global name that can be used from different people to describe blockchain technology (ii) **architecture**: it will be needed that the system architecture of a blockchain must be clearly defined and suitable to audit (iii) **governance**: how a blockchain is initiated and managed, defining the rules and procedures about network membership, management of permissions, transaction validity etc. (OECD, 2018)

At long last, a positive approach is that blockchain technology is considered as a new technological system that actually offers a great opportunity for better corporate governance procedures offering transparency, accountability and responsibility.

5.6 Conclusion

Leadership in the modern corporate governance mechanism consists in stakeholders and shareholders responsibility of the effective control over the company and assures trustworthy and respectful relationships. A responsible leadership conduct is associated to individual cultural and national characteristics and values that are aligned to a corporate ethical culture in an environment of market confidence and business integrity. (OECD, 2017; Yukl, 2013; Ardichvili et al, 2009; The Cadbury Report 1992).

The association of cultural characteristics to ethical leadership conduct is based on the ethical dimension of each business environment. This was the case of an initial survey that it has been conducted during the present thesis, considering the quality of leadership that is evident in the way of leader ethical behavior towards his subordinates.

Leadership responsibility has implications on the ethical decision making process. Therefore, ethical leadership assumes wisely decisions based on information transparency of all economic transaction. The lack of transparency is the result of information asymmetries that implicates a main issue on the complexity of corporate governance mechanism (Tricker, 2014; Stiglitz, 2001). The answer on this complexity could be the adaptation of corporate leadership to technological change, for a better corporate governance mechanism. Specifically the use of the blockchain technology offers a more transparent way to every economic transaction in favor of ethical leadership best practices for operational procedures (Catalini, 2017; the Economist 2015).

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Conclusions and further research

The importance of corporate governance best practices and the betterment of these practices for the establishment of a reliable corporate mechanism that will monitor and report corporate sustainability and social responsibility, is actually one of the priorities for some International Organizations and Institutions across countries. Strengthening corporate governance codes should link national framework and corporate framework, to address social and environmental concerns integrated with business operations.

The World Bank,¹⁰⁹ has established a program to assist its member countries in strengthening their corporate governance frameworks. This program referred to the Institutional and Market Infrastructure, one of the twelve policy areas of the Reports on the Observance of Standards and Codes (ROSC) initiative at the invitation of country authorities. The World Bank uses a diagnostic tool – a Template, based on the G20/OECD Principles.¹¹⁰ The objectives of ROSC initiative program are to:

- Benchmark the country's corporate governance framework and company practices against the G20/OECD Principles for Corporate Governance.
- Assist the country in developing and implementing a country action plan for improving institutional capacity with a view to strengthening the country's corporate governance framework.
- Raise awareness of good corporate governance practices among the country's public and private sector stakeholders.

The era of the new technology gained entrance in all aspects of the corporate environment and actually directed to the improvement of the operation processes and management at the higher level of the corporate administrative mechanism. Emerging technologies are entering in the contemporary corporate governance because executives need to make fast and accurate decisions relying on corporate rules conformed to national regulations and international standards.

Corporate transparency and information disclosure are nowadays embedded to a corporate governance network reducing information asymmetry on agency problems between directors and shareholders by conducting operations with Blockchain

¹⁰⁹ The World Bank Group is one of the world's largest sources of funding and knowledge for developing countries. Its five institutions share a commitment to reducing poverty, increasing shared prosperity, and promoting sustainable development. (<http://www.worldbank.org/en/who-we-are>)

¹¹⁰ The Report on the Observance of Standards and Codes (ROSC) initiative was launched in 1999, in an effort to strengthen the international financial architecture. (www.worldbank.org/en/programs/rosc).

technology (Lafarre et al, 2018). According to the latest research on Technology, Markets, Regulation and Corporate Governance presented from OECD ¹¹¹ for the future of corporate governance mechanism adapting to new technologies such as blockchain it has been suggested to map the basic purposes of corporate governance against the basic properties of blockchain technology.

Purposes of Corporate Governance	Properties of Blockchain
Transparency	Shared distributed ledgers
Accountability	Irreversibility of records
Responsibility	Peer-to-Peer communication
Fairness	Smart contracts (?)

Figure 25. Source: OECD (2018). Directorate For Financial and Enterprise Affairs Corporate Governance Committee. Blockchain Technology and Corporate Governance.

The technological evolution, in the era of the big data ¹¹² where “information asset is characterized by such a high volume, velocity and variety” (De Mauro et al, 2016), will certainly change the nature of the work because one of the priorities is actually the effective use of information for executive’s decision process. The economic value of information will bring utility to the performance of the corporate governance mechanism by reducing information asymmetry and enhancing transparency in corporate transactions.

A greater gravity on the efficiency of the modern corporate governance mechanism should be considered the contribution of the responsible Leadership, embracing ethical values and practices. This is expressed by the Leadership quality, leading proactively to improve corporate ethical culture. Leadership quality is committed to promote a trustful working environment, supporting human rights and diversity.

A similar mission fostering human rights has been reflected in the European Pillar of Social Rights¹¹³ for better work-life balance and gender equality. Work-life balance in European region varies across countries members as cultural diversities are made

¹¹¹ OECD, 2018, Directorate For Financial And Enterprise Affairs Corporate Governance Committee

¹¹² De Mauro et al. (2016): “A consensual definition of big data is “the information asset characterized by such a high volume, velocity and variety to require specific technology and analytical methods for its transformation into value”: p. 1.

¹¹³ The European Pillar of Social Rights is about delivering new and more effective rights for citizens. It has 3 main categories: (i) Equal opportunities and access to the labour market (ii) Fair working conditions (iii) Social protection and inclusion (<https://ec.europa.eu/commission>)

manifest through social beliefs and values. In fact ethics and human rights are interrelated as there are parts of a social program implementation.

Board members responsibility is to promote and improve ethical standards in the corporation; the evaluation of board members towards an ethical conduct should not be based on their demographical characteristics but in the relevance of their experience towards an ethical decision process. The reality is that the education on ethical values is considered compulsory for corporate executive board. Board operations should include Director Education¹¹⁴ more specialized on corporate ethics designated to familiarize them with various aspects of a corporate responsible conduct and board service.

Education should make “individual a good board member” to drive corporate strategy, taking the right decision as business moves so fast and is so complicated, executives must confront new risks and opportunities and are responsible to corporate success. (Cossin, 2012). The right decision should have a dual dimension associated to corporate social responsibility and to corporate moral responsibility. Procedures on ethical leadership decision is crucial for corporate performance and leadership education could have a positive contribution on this subject.

Good corporate governance responds to rules at an International and National level and to a mutual engagement in stakeholders and shareholders interest with a high concern on cultural diversity.

What should be the underpinning issues of the modern corporate governance strategic views in a fast moving economy are obviously the technological evolution, the board education based on ethical values and the responsible corporate conduct. Board efficiency is based on these performance levers that will lead modern corporations to a long term progress and continuous transformation to achieve sustainable goals in line with the Global Sustainable Goals.¹¹⁵

¹¹⁴ We make reference at director's education however with an ethical perspective. Directors education is mentioned at : <https://corpgov.law.harvard.edu/2016/09/08/principles-of-corporate-governance/>.

¹¹⁵ We make reference at the UN 2030 Sustainable Development goals part of the 2030 Agenda, a plan of action for people, planet and prosperity (<https://www.un.org/sustainabledevelopment/sustainable-development-goals/>) and the Paris Agreement, a bridge between today's policies and climate-neutrality before the end of the century. (https://ec.europa.eu/clima/policies/international/negotiations/paris_en)

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<https://www.socialinvestmentforum.org.ukan.go.jp/abenomics/index.html>
<https://www.un.org/development/desa/en/>
<https://www.un.org/sustainabledevelopment/sustainable-development-goals>
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Appendix

Survey Questionnaire about Management in the working environment

Ερωτηματολόγιο για τη Διοίκηση στο Εργασιακό Περιβάλλον.

Θα μας ενδιέφερε να μελετήσουμε τη συμπεριφορά των Διευθυντών στον εργασιακό χώρο. Η συμμετοχή σας σε αυτή τη μελέτη θα μας βοηθήσει πολύ.

* Απαιτείται

Προσωπικά στοιχεία

1. Φύλλο *

Να επισημαίνεται μόνο μία έλλειψη.

- Άνδρας
 Γυναίκα

2. Ηλικία *

Να επισημαίνεται μόνο μία έλλειψη.

- ΑΠΟ 25-35
 ΑΠΟ 35-45
 ΑΠΟ 45-55
 ΑΠΟ 55-65

3. Εκπαίδευση *

Να επισημαίνεται μόνο μία έλλειψη.

- Πτυχίο ΤΕΙ ή άλλου Ιδρύματος
 Πανεπιστημιακός τίτλος
 Μεταπτυχιακός τίτλος
 Διδακτορικός τίτλος

Πως θα χαρακτηρίζατε τη Συμπεριφορά του Διευθυντή ή της Διευθύντριάς σας ;

Παρακαλώ υποδείξτε τόσο καλά κάθε μία από τις ακόλουθες δηλώσεις περιγράφει τον Διευθυντή (τρια) σας.

Ο Διευθυντής (τρια) μου :

4. Ενδιαφέρεται για τους κανόνες δεοντολογίας και τις ηθικές αξίες. *

Να επισημαίνεται μόνο μία έλλειψη ανά σειρά.

	Διαφωνώ απόλυτα	Διαφωνώ σε μέτριο βαθμό	Διαφωνώ λίγο	Συμφωνώ λίγο	Συμφωνώ σε μέτριο βαθμό	Συμφωνώ απόλυτα
Συμφωνείτε ή Διαφωνείτε ;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

<https://docs.google.com/forms/d/1m8l2v04WUVzEr18gqwl9xrδaLkbbQX5C8BU285GTM/edit>

5. Μεταδίδει σαφή ηθικά πρότυπα. *

Να εισηγηθεί μόνο μία έλλειψη ανά σειρά.

	Διαφωνώ απόλυτα	Διαφωνώ σε μέτριο βαθμό	Διαφωνώ λίγο	Συμφωνώ λίγο	Συμφωνώ σε μέτριο βαθμό	Συμφωνώ απόλυτα
Συμφωνείτε ή Διαφωνείτε ;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

6. Είναι παράδειγμα ηθικής συμπεριφοράς για τις αποφάσεις του και τις ενέργειές του. *

Να εισηγηθεί μόνο μία έλλειψη ανά σειρά.

	Διαφωνώ απόλυτα	Διαφωνώ σε μέτριο βαθμό	Διαφωνώ λίγο	Συμφωνώ λίγο	Συμφωνώ σε μέτριο βαθμό	Συμφωνώ απόλυτα
Συμφωνείτε ή Διαφωνείτε ;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

7. Είναι ειλικρινής και λέει την αλήθεια. *

Να εισηγηθεί μόνο μία έλλειψη ανά σειρά.

	Διαφωνώ απόλυτα	Διαφωνώ σε μέτριο βαθμό	Διαφωνώ λίγο	Συμφωνώ λίγο	Συμφωνώ σε μέτριο βαθμό	Συμφωνώ απόλυτα
Συμφωνείτε ή Διαφωνείτε ;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

8. Παραμένει σταθερός στις αξίες του. *

Να εισηγηθεί μόνο μία έλλειψη ανά σειρά.

	Διαφωνώ απόλυτα	Διαφωνώ σε μέτριο βαθμό	Διαφωνώ λίγο	Συμφωνώ λίγο	Συμφωνώ σε μέτριο βαθμό	Συμφωνώ απόλυτα
Συμφωνείτε ή Διαφωνείτε ;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

9. Είναι δίκαιος και αμερόληπτος όταν αναθέτει καθήκοντα. *

Να εισηγηθεί μόνο μία έλλειψη ανά σειρά.

	Διαφωνώ απόλυτα	Διαφωνώ σε μέτριο βαθμό	Διαφωνώ λίγο	Συμφωνώ λίγο	Συμφωνώ σε μέτριο βαθμό	Συμφωνώ απόλυτα
Συμφωνείτε ή Διαφωνείτε ;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

10. Είναι αξιόπιστος στην εκπλήρωση υποσχέσεων και δεσμεύσεων. *

Να εισηγηθεί μόνο μία έλλειψη ανά σειρά.

	Διαφωνώ απόλυτα	Διαφωνώ σε μέτριο βαθμό	Διαφωνώ λίγο	Συμφωνώ λίγο	Συμφωνώ σε μέτριο βαθμό	Συμφωνώ απόλυτα
Συμφωνείτε ή Διαφωνείτε ;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

11. **Επιμένει να γίνεται ό, τι είναι δίκαιο και ηθικό ακόμη και όταν δεν είναι εύκολο. ***
Να επηρεαστεί μόνο μία έλλειψη ανά σειρά.

	Διαφωνώ απόλυτα	Διαφωνώ σε μέτριο βαθμό	Διαφωνώ λίγο	Συμφωνώ λίγο	Συμφωνώ σε μέτριο βαθμό	Συμφωνώ απόλυτα
Συμφωνείτε ή Διαφωνείτε ;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

12. **Αναγνωρίζει λάθη και αναλαμβάνει ευθύνη γι 'αυτά. ***
Να επηρεαστεί μόνο μία έλλειψη ανά σειρά.

	Διαφωνώ απόλυτα	Διαφωνώ σε μέτριο βαθμό	Διαφωνώ λίγο	Συμφωνώ λίγο	Συμφωνώ σε μέτριο βαθμό	Συμφωνώ απόλυτα
Συμφωνείτε ή Διαφωνείτε ;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

13. **Θεωρεί την ειλικρίνεια και την ακεραιότητα ως σημαντικές προσωπικές αξίες. ***
Να επηρεαστεί μόνο μία έλλειψη ανά σειρά.

	Διαφωνώ απόλυτα	Διαφωνώ σε μέτριο βαθμό	Διαφωνώ λίγο	Συμφωνώ λίγο	Συμφωνώ σε μέτριο βαθμό	Συμφωνώ απόλυτα
Συμφωνείτε ή Διαφωνείτε ;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

14. **Είναι παράδειγμα αφοσίωσης και αυτοθυσίας για την Εταιρεία. ***
Να επηρεαστεί μόνο μία έλλειψη ανά σειρά.

	Διαφωνώ απόλυτα	Διαφωνώ σε μέτριο βαθμό	Διαφωνώ λίγο	Συμφωνώ λίγο	Συμφωνώ σε μέτριο βαθμό	Συμφωνώ απόλυτα
Συμφωνείτε ή Διαφωνείτε ;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

15. **Αντιτίθεται στη χρήση μη ηθικών πρακτικών για να αυξήσει την απόδοση. ***
Να επηρεαστεί μόνο μία έλλειψη ανά σειρά.

	Διαφωνώ απόλυτα	Διαφωνώ σε μέτριο βαθμό	Διαφωνώ λίγο	Συμφωνώ λίγο	Συμφωνώ σε μέτριο βαθμό	Συμφωνώ απόλυτα
Συμφωνείτε ή Διαφωνείτε ;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

16. **Είναι δίκαιος(η) και αντικειμενικός(ή) στην αξιολόγηση και στην επιβράβευση των εργαζομένων. ***
Να επηρεαστεί μόνο μία έλλειψη ανά σειρά.

	Διαφωνώ απόλυτα	Διαφωνώ σε μέτριο βαθμό	Διαφωνώ λίγο	Συμφωνώ λίγο	Συμφωνώ σε μέτριο βαθμό	Συμφωνώ απόλυτα
Συμφωνείτε ή Διαφωνείτε ;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

17. Θέτει τις ανάγκες των άλλων πάνω από το δικό του συμφέρον. *

Να επισημαίνεται μόνο μία έλλειψη ανά σειρά.

	Διαφωνώ απόλυτα	Διαφωνώ σε μέτριο βαθμό	Διαφωνώ λίγο	Συμφωνώ λίγο	Συμφωνώ σε μέτριο βαθμό	Συμφωνώ απόλυτα
Συμφωνείτε ή Διαφωνείτε ;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>


18. Καθιστά τους εργαζόμενους υπεύθυνους για τη χρήση δεοντολογικών πρακτικών στη δουλειά τους. *

Να επισημαίνεται μόνο μία έλλειψη ανά σειρά.

	Διαφωνώ απόλυτα	Διαφωνώ σε μέτριο βαθμό	Διαφωνώ λίγο	Συμφωνώ λίγο	Συμφωνώ σε μέτριο βαθμό	Συμφωνώ απόλυτα
Συμφωνείτε ή Διαφωνείτε ;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Παράβλεψη και μετάβαση στο "Έχετε απαντήσει σε όλες τις ερωτήσεις. Σας ευχαριστούμε πολύ για τη συμμετοχή σας. ."

Έχετε απαντήσει σε όλες τις ερωτήσεις. Σας ευχαριστούμε πολύ για τη συμμετοχή σας.

Με την υποστήριξη της
 Google Forms

→ Reliability

[DataSet1]

Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	32	100,0
	Excluded ^a	0	,0
	Total	32	100,0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
,943	15