Globalisation and governance: the role of transnational steering organisations

Professor Louise Crawford PhD CA
Department of Accounting & Finance
Aberdeen Business School
Robert Gordon University
Aberdeen, Scotland

Presentation given at: University of Bergamo, April 2016
Governance - meaning

Governance = to direct, rule or guide; the process of steering/guiding and organisation towards its goal. It involves:

- determining the objective of the organisation and directing the organisation towards achieving its objective

- Managing the relationships between all of the various stakeholders involved in the organisation

- Captures broad range of activities: leadership; effectiveness; accountability; remuneration; relationship with shareholders
Governance

- The system of rules, practices and processes by which an organisation is directed and controlled.

- Most often viewed as both the structure and the relationships which determine organisational direction and performance.

- Depends on the legal, regulatory, institutional and ethical environment of the community.

- The board of directors (Public Sector – Ministers; Third Sector: Trustees/Directors) is typically central to governance.

- Corporate governance concerns the direction and control of corporate entities.
Corporate Governance - purpose

- *ex ante* monitoring of corporate behaviour

- Ensure the organisation’s board behaves ethically and is accountable to its stakeholders

- The overall purpose of corporate governance is to execute accountability to stakeholders.

- This may be:
  - narrow financial and fiduciary accountability to providers of financial capital or
  - broad social accountability to multiple and diverse stakeholders for different purposes.
Corporate Governance in institutional elements

- Effective corporate governance will mean adherence to rules and norms, based on the elements of institutions:
  - Regulative: laws, regulations, legislative requirements
  - Normative: professional standards, codes of conduct, rules and routines
  - Cognitive: cognitive beliefs, values and meanings, taken for granted assumptions
Corporate Governance and accountability

Extract from the UK Corporate Governance Code: Section C - accountability

The board should present a fair, balanced and understandable assessment of the company’s position and prospects.

The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting, and for maintaining an appropriate relationship with the company’s auditors.

Focus is on financial and fiduciary accountability

Fair balanced and understandable external reporting, that is externally audited: how is this achieved and who decides?
Corporate Governance and accountability

- For over 100 countries around the world, national jurisdictions require or permit the use of pronouncements of the International Accounting Standards Board (IASB)
  - International financial reporting standards (IFRS/IAS)

- For more than 170 professional accountancy bodies, members are obligated to follow pronouncements of the International Federation of Accountants (IFAC)
  - ethics, - International Code of Ethics for Professional Accountants
  - auditing and assurance - International Standards on Auditing (ISA), Assurance and Related Services
  - education - International Education Standards
  - public sector - International Public Sector Accounting Standards

- Accountability is standardised at the ‘global’ level, by transnational standard setters
Globalisation’s ideology

Å Globalisation has been described by Gallhofer and Haslam (2007) as a dynamic phenomenon that has supported the spread of international organisations operating at a level beyond individual state control.

Å The contextual situation of globalisation over the past decades has been narrowly focused on creating social structures and inter-relationships that facilitate the workings of an effective and efficient global capitalism.

Å For Lehman (2005), the term ‘globalisation’ refers to the economic consequences of internationalisation which enable expansion of trade and commerce between countries (p.976).
Globalisation & good corporate governance?

Within the ideology of globalisation, how do you assess if corporate directors are behaving ethically and are being accountable?

Supporters of globalisation promote the ideology of capital market liberalisation and believe this will be enabled by international harmonisation of accounting and audit practice.

Advocates argue that application of global accounting standards will mean that "the [economic] impact of accounting reports in the decision making behaviour of [report users]..." (Fogarty et al., 1994, p.41) will benefit the "global community" by enabling capital markets to thrive and create wealth for the good of society.
Globalisation: bad for corporate governance?

- Critics of globalisation warn that focusing on the global and ignoring the local public interests will:
  - risk destabilising local and national communities;
  - introduce global regulation and practice at the supra-state level that is beyond democratic state control;
  - and ignore the impact of international business on social well-being (Gallhofer and Haslam, 2006)

- If the focus or reporting is underpinned by globalisation’s ideology:
  - there is no global, democratically-elected government to hold powerful actors to account
  - less powerful civil society stakeholders may not have the capacity to contribute to global developments
Corporate Governance and the role of steering organisations

“Organisations can steer other organisations to operate in certain ways, and the steering organisations promote certain values and interests” (Hyndman and McDonnell, 2009, p6)

Therefore, such social steering becomes an issue of politics and power over whose ideology is advanced and whose is marginalised.

This has an impact on stakeholders – operation of activity at the non-jurisdictional, transnational level can lead to real social impact at the national level, for example corruption and tax evasion.
Corporate Governance and its transnational steering organisations

• Such supra-state organisations can take the form of:

  • for-profit TNCs, including listed companies and their transnational audit firms (Big4 and the Forum of Firms), and transnational regulators (IOSCO).

  • cross-jurisdiction public sector organisations, for example United Nations organisations and the European Parliament & European Commission,

  • and international non-governmental organisations such as the IASB, IFAC and the PWYP coalition.
Transnational standard setting organisations

Contemporary international accounting emphasises, in the current globalisation context, measuring and communicating the economic consequences of international business to foster trust, growth and long-term financial stability in the global economy (IFRS Foundation, 2015a).

Pursuing accountability in the context of advancing the values of globalisation
Alternative ideologies that could influence corporate governance

- Global constituencies reflective of a global civil society and their needs. For example, the publish what you pay (PWYP) coalition

- PWYP argue that financial economistic information for global capital market stability is not the only useful information available, and capital providers are not the only group whose requirements for information need to be taken into account (PWYP, 2005, p1).

- Campaigning on behalf of local communities, globally, affected by both the economic and social consequences of TNC activity.

- Public interest driven concern to seek to provide local accounting information to assess a TNC’s impact on the lives of women, men and children in resource-rich countries.
Potential impact on corporate governance

- Corporate governance to achieve corporate goals beyond narrow shareholder wealth maximisation

- Recognising diverse purposes, diverse impacts and diverse stakeholders.

- Signs of success?
  - Country by country reporting advances made in Europe and US
  - New coalitions that are not steered by IASB’s ideology
Concluding thoughts on globalisation and corporate governance

Globalisation presents a context where disruption, disagreement and culture clashes produce a rich environment for alternative ideologies to be debated and awareness of global issues publicised.

Resulting debate from different ideological stances has potential to nudge accountability and governance practice towards recognising more social-based performance.

- steers practice to develop in a way that is respectful of difference
- in pursuit of betterment to society;
- in contrast to documented evidence of pursuing global sameness for effective capital market stakeholders

Will practice develop to govern companies to meet the objectives of all stakeholders at the local and global level?
Readings
