CHAPTER SIX: BUSINESS ETHICS AND CORPORATE GOVERNANCE

> It is thus that man, who can subsist only in society, was fitted by nature to that situation for which he was made. All the members of human society stand in need of each other's assistance, and are likewise exposed to mutual injuries. Where the necessary assistance is reciprocally afforded from love, from gratitude, from friendship, and esteem, the society flourishes and is happy.
>
> (Smith, 1790).

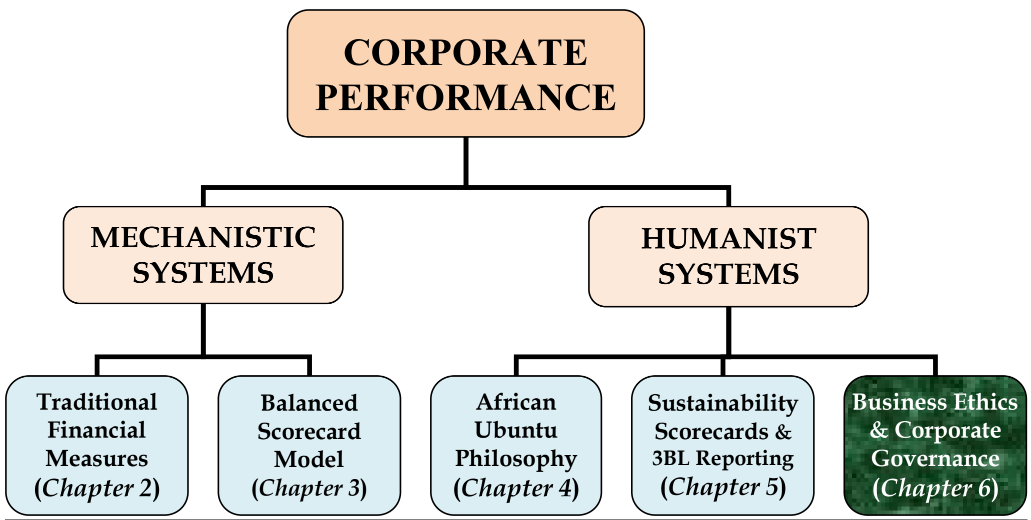
6.1 INTRODUCTION

Aside from the requirement that organisations should run their operations in the most economical, efficient and effective manner possible to increase performance, today, there is an increasing insistence on the need for organisations to be ethical as well. Within the business framework, there is a clear relationship between corporate activities and other stakeholders within and outside the organisation, as indicated in the thesis's conceptual framework (Figure 1, on p. 7).

In corporate relationships, it seems reasonable to expect that operating organisations should serve different stakeholders in an ethical manner. A corporation should engage with its internal and external stakeholders to determine its current ethical reputation amongst the stakeholders, as well as what their ethical expectations are of that organisation (Rossouw, 2010c:165). Thus, under the corporate governance requirements, a corporation should account for its ethical performance and duly report it to relevant stakeholders.

In this chapter, the last part of the literature review about corporate performance measures is presented, as shown in Figure 14, overleaf. The chapter gives background on business ethics, corporate governance and corporate conscience dimensions. Several theories covering business ethics are reviewed by focusing largely on contemporary business issues. Furthermore, literature on the concept of stakeholder perspectives is reviewed, extending the discussions in Chapters 3, 4 and 5 on corporate social responsibility for organisations as corporate citizens, and the corporate conscience phenomenon. Finally, the chapter reviews the integration of perspectives on traditional African Ubuntu ethics with business ethics.

Figure 14: Corporate performance, business ethics and corporate governance



Source: Own observation

In the wake of various corporate scandals and amid increasing concern about environmental sustainability issues, there has been a great deal of debate regarding the applicability of business ethics in the modern business age. The discussion on this topic was recently highlighted with the failures of giant corporations such as Enron, WorldCom and Parmalat, largely due to corporate governance issues (West, 2009:12). Recently, there has also been a corporate environmental scandal involving BP (British Petroleum), when oil spilled into the Atlantic Ocean in the Gulf of Mexico. As many as 5 000 barrels of oil a day spilled into the ocean waters, threatening the US and Mexican coastal areas and causing environmental alarm (BBC News, 2010a). The state of Florida declared the incident a state of emergency. As a response to the oil spill, the US administration banned oil drilling in new areas on the US coast while the cause of the oil spill off the Louisiana coast was being investigated.

Following such experiences, many parties interested in business activities have begun looking more closely at how corporations are supposed to behave in their operations and have begun to incorporate these considerations in their frameworks. This has led to a renewed emphasis on business ethics considerations. Ethical issues are usually debated in terms of corporate governance, environmental degradation and global warming, corporate social responsibility, and corporate conscienceness (Kleine & Von Hauff, 2009; Nakano, 2007:163).

6.2 BUSINESS ETHICS

All organisations are engaged in some economic activity where they get inputs in the form of resources from the environment to produce goods and services using internal business processes. Organisations later exchange the final products with the customer and consumers that come from outside the business boundaries. In business transactions, it is expected that corporations act in an ethical manner in their interactions with different stakeholders. The economic transactions with stakeholders should achieve a common good for the organisation, as well as for the other parties.

Business ethics entails the study of the ethical dimensions of organisational economic activity on the systematic, organisational and intra-organisational levels (Rossouw, 2010b:20-22). Business ethics focuses on what is good and right in a particular economic activity, where an organisation engages in a moral analysis and assessment of such economic activities and practices.

Ethics refers to a set of rules that define right and wrong conduct and that help individuals distinguish between fact and belief, decide how such issues are defined and what moral principles apply to the situation (Hellriegel, Slocum & Woodman, 1992:146). Moral principles describe the impartial general rules of behaviour that are of great importance to a society, along with the values the society represents. Moral principles are fundamental to ethics. Ethical behaviour would be characterised by unselfish attributes that balance what is good for an organisation with what is good for the stakeholders as well. Thus, business ethics would embrace all theoretical perspectives regarding the ethicality of competing economic and social systems.

The study of business ethics is evolving, just as conceptions concerning the role and status of organisations are also changing over time. Business ethics as a field of study deploys moral analysis and assessments of economic practices and activities at the economic system (macro-economic) level, the organisational (meso-economic) level, and the intra-organisational (micro-economic) level (Rossouw, 2010b:16).

The first level is the macro-economic level, where business transactions occur within national or international frameworks (Rossouw, 2010b:20). Other business transactions occur at the meso-economic level, where an organisation interacts with other stakeholders, including society. Within the framework of societal interactions, business activities have an impact on different stakeholders, which includes suppliers, customers, the community and the natural environment. Finally, business ethics can also be applied at a micro-economic level, where the focus is on the moral dimensions of business practices, policies, behaviour and decisions executed within an organisation. Internal ethical dimensions include issues regarding the employees' welfare in terms of their work environment, health and protection, and remuneration.

6.3 GENERAL THEORIES OF ETHICS

Several theories have been developed to cover issues related to business ethics. Generally, three main philosophies of ethics have dominated discussions on ethics (Rossouw, 2010d:57-69). These three theories are Aristotle's virtue theory, Kant's deontological theory, and John Stuart Mill's utilitarian theory.

6.3.1 Aristotle's virtue theory

Aristotle's virtue theory emphasises that what matters in ethical behaviour is the integrity of an individual's character (Rossouw, 2010:d57-62). The theory is based on the premise that different goals can only be achieved if people love themselves first. It is argued that self-love is a pre-condition for reaching one's full human potential of having a sense of well-being and joy. Thus, morality depends on the moral character of an individual.

6.3.2 Kant's deontological theory

Kant's deontological theory on ethics propagates that there are objective ethical standards of behaviour that everyone should respect (Rossouw, 2010d:62-65). Our moral actions in certain areas cannot be based on an individual's practical experiences or natural instincts and needs, but is rather based on what general society expects. For example, people who are involved in corrupt practices cannot possibly offer moral guidance. Hence, the ethical focus should not be on the individual's natural needs and inclinations, or a person's present and past experiences. Instead, it should be based on the standard for good behaviour, which is realised through pure rational reflection. Obeying objective standards of behaviour from a sense of duty would be the hallmark of moral behaviour. The development of ethical guidelines and codes of ethics are premised on this doctrine.

6.3.3 Mill's utilitarian theory

John Stuart Mill's utilitarian theory focuses on the quality of actions as propagated by the deontological theory (Rossouw, 2010d:65-69). The difference between the two theories is that the utilitarian theory focuses on the practical consequences of an action in order to determine whether that action was right or wrong. An action is considered good when it results in the happiness of the majority of those affected by that specific action.

The utilitarian theory posits that individuals should strive, not for their own happiness alone, but also for the happiness of society, as human beings are by nature social beings (Rossouw, 2010d:66-67). The theory recognises that external support is given to individuals, as everyone needs the support of others throughout life. One is likely to face a threat of rejection or even expulsion from the society in the absence of such external support. Hence, the utilitarian theory propagates that there should be natural inclination to sympathise with others through the manifestation of a moral conscience that prevents one from doing harm to others.

As will be discussed later in the chapter, using these three general theories on ethics helps managers to make their day-to-day management decisions on business ethics and corporate governance. Managers anticipate which moral concerns should be considered when making their decisions. Ultimately, management decisions are made to facilitate the goal achievement of the organisation and its stakeholders as well.

6.4 APPLICATIONS OF BUSINESS ETHICS

The discussion of the business ethics dimensions are varied, depending largely on social and economic elements surrounding the organisations concerned. The view that prevails depends on the roles that organisations are supposed to play internally and in society in general. In macro-ethics, the central question is the fairness of the organisational choice of economic system and also ethical merit of the key elements of such a system (Du Plessis, 2010:114-127). Essentially, these key elements comprise the profit motive, private property, the limited liability of corporations, competition, and free markets.

The profit motive drives output upwards. It is contended that under a centrally-planned economy and in the absence of the profit motive, there is little inspiration for an individual to work harder, longer and more efficiently than the next person (Du Plessis, 2010:116). In a free market system, the combination of the profit motive and the free choice of economic activity drives organisational outputs upwards. The profit motive can also have a tremendous effect, not only on the organisation, but also on the economy and society as a whole, through the "invisible hand" triple down effects (Smith, 1776:IV.2.9).

The "invisible hand" phenomenon implies that corporations, in achieving their own goals, make an impact on the overall welfare of the economy and society as a whole, even though their original goal may have had nothing to do with society, as Adam Smith in his famous book, *The Wealth of Nations*, argues:

> But the annual revenue of every society is always precisely equal to the exchangeable value of the whole annual produce of its industry, or rather is precisely the same thing with that exchangeable value. As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an **invisible hand** to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.

The implication of the "invisible hand" phenomenon is the belief that corporations can become an efficient means of achieving the enhancement of society whilst they are focusing on their profit motive in a free market. In agreement with Smith (1776), Collier and Roberts (2001:67) regard corporations as a set of ownership rights and also as social institutions. According to this argument, corporations are regarded as a means for the maximisation of shareholders' wealth that should ultimately improve the socio-economic welfare of local communities, although that may not initially be intended.

Whilst the above scenario could be true, organisations usually pursue wider corporate agendas. There are many views on the roles of corporations, depending on regional perspectives (Rossouw, 2009b:43-51). These varied views have given rise to different approaches on how organisations are managed or governed (corporate governance) in different parts of the world. There are several corporate governance regimes around the world that are underpinned by different sets of socio-cultural frameworks, which in turn reflect the societies in which these frameworks were developed. In addition, corporate governance regimes are also directed by the question: **For whose benefit should corporations be governed?** Corporate governance frameworks can generally be classified as embodying certain ideologies, as discussed below.

The first corporate governance regime is typical of the USA (Rossouw, 2009b:44), where organisations are perceived to be primarily pursuing the financial interests of shareholders. Thus, the US marketplace is strongly associated with a shareholder-centred approach towards business ethics; it is "exclusive" in satisfying the shareholders' motive of maximising profits. By contrast, the perception that prevails in Continental Europe is that an organisation is a multi-purpose institution which is obliged to serve and satisfy a variety of stakeholder concerns and interests. Thus, a stakeholder-centred approach towards business ethics is associated with most European states.

There is also a similar stakeholder-centred, broader view of the company in Asia and Africa. The main difference is that the African perspective on the ethics of corporate governance is mostly grounded by an "inclusive" ethic of governance, whilst the Asian perspective on the ethics of corporate governance is founded on the "expansive" ethic of governance (West, 2009:45). Therefore, the third kind of corporate governance ethic is the African "inclusive approach", which signifies that an organisation has an explicit commitment to serve the interests of both shareholders and non-shareholding stakeholders. Such an organisational commitment to a stakeholder-centred approach towards corporate governance is partly influenced by African socio-cultural values.

The African Ubuntu philosophy emphasises the importance of community, solidarity, coexistence, and the inclusion of community members (Broodryk, 2005; Mangaliso, 2001; Mbigi & Maree, 2005). Furthermore, it has been observed that the African "inclusive" governance approach could also be a result of strong support of developmental activities on the African continent (West, 2009:45). Such developmental activities are partnered with the business community at large. Finally, such an "inclusive" approach in Africa is also partly influenced by the strong presence of state-owned enterprises that pursue both social and economic agendas. There is a strong reliance on internal corporate governance in Africa, as regimes on external corporate governance are generally poorly developed and enforced, with some notable exceptions, such as companies listed on the JSE. In compliance with the above observations, the recent King III Report on governance for South Africa "seeks to emphasise the inclusive approach to governance" (Institute of Directors in Southern Africa, 2009:13), which is representative of an African framework.

The fourth perspective on corporate governance regimes is represented by the Asian community. Asian corporate governance engages the "expansive approach", which represents a mid-position between a shareholder-centred approach and a stakeholder-centred approach (Reddy in Rossouw, 2009b:44). However, it is not a matter of a trade-off between the two governance approaches, but rather a synthesis between shareholder and stakeholder interests. The "expansive" approach to corporate governance with Asian society is partly the result of the lesser prominence of shareholder concerns in Asian companies, as many companies in Asia are either state-owned or SMEs owned by family members, and hence, shareholder concerns are less pronounced.

Furthermore, studies reveal that in an Asian society, informal external corporate governance through societal norms, practices and values are often more influential than the formal external corporate governance mechanisms of laws and regulations (Rossouw, 2009b:44). Such Asian societal norms, practices and values find expression in a relationship-based form of corporate governance. Consequently, internal corporate governance plays an important role, in that company boards and their management teams adhere to societal norms when they are formulating corporate plans and actions. Another explanation for the "expansive" approach to corporate governance in Asia would be that corporate governance standards often take the form of voluntary corporate governance codes.

The above discussion of both the African and Asian ethics reveals that society and other external stakeholders have more influence on the internal governance of corporations than statutes and regulations do. This picture differs from that in America and Continental Europe. A leaning to a stakeholder-centred approach is discernable in both the Asian and African perspectives. It is therefore not surprising that the Balanced Scorecard model reflects the American "exclusive" shareholder-centred approach to corporate governance, and that, as a result, it is not fully reconcilable with an African "inclusive" approach to corporate governance. The next section throws more light on the issues surrounding the shareholder-centred approach, as introduced above.

6.5 SHAREHOLDER-CENTRED CORPORATE GOVERNANCE

Proponents of the mainstream shareholder-centred approach to corporate governance base their argument on the private property rights paradigm (Stovall, Neill & Perkins, 2004:222), which implies that, as risk-taking owners and providers of financial capital, shareholders tend to prefer to promote their own interests over those of other stakeholders. It is contended that as primary owners of business, shareholders should hold the management team accountable to the primary goal of maximising shareholder wealth.

Thus shareholder-centred corporate governance is premised on the view that corporations exist purely to maximise profits, within the legal limits (Friedman, 1993). Friedman (1993) argues that corporations have no moral obligation towards any stakeholder, apart from making as much profit as possible for the shareholders. Thus, corporations are governed primarily to benefit the interests of shareholders, but other stakeholders would automatically also benefit through the trickle-down effects of the "invisible hand".

Under the agency theory (Du Plessis & Prinsloo*,* 2010:144-145; Eisenhardt, 1989:57-74), shareholders as principals appoint the board of directors as agents to oversee the overall strategic direction of the company. In turn, the board of directors appoint management to run the day-to-day activities of the company. Ultimately, managers become agents of shareholders as well and are thus expected to serve the best interests of their ultimate principals, the shareholders. However, there have been mixed reactions towards the shareholder-centred approach to corporate governance:

6.5.1 Arguments for a shareholder-centred approach

The fact that other stakeholders of the corporation are not considered the primary beneficiaries of a corporation should not lead to an overhasty judgement that shareholder-oriented corporate governance is premised on a very thin and exclusive ethic. Guided by Adam Smith's "invisible hand" argument, advocates of shareholder-centred corporate governance regimes posit that the primary focus on shareholder interests streamlines corporate decision-making and improves the efficiency of companies, which ultimately directly or indirectly benefits all other stakeholders of the corporation, including society (Nakano, 2007:164).

Proponents of the shareholder-centred approach maintain that ultimately market participants who pursue their self-interest without regard to the interests of others will still collectively provide the optimal benefit to society through the triple down effects (Stovall *et al*., 2004:222-227). Therefore, the legal owners of a corporation, shareholders, are only doing the right thing when they exert their private property rights over the interests of other stakeholders.

In the shareholder-centred approach it is also argued that shareholder interests would be best served by attending to the interests of crucial stakeholders of the company, such as employees, customers and suppliers, in order to gain and maintain their loyalty and support, without which the business cannot be successful (Rossouw, 2009a:4-9). Consequently, the interests of other stakeholders are also attended to, but the rationale for this is for the business strategic considerations. The management of corporations thus have a fiduciary duty to satisfy the shareholders' interests, whilst the interests of other stakeholders are instrumentally considered. Under this arrangement, shareholders are considered to be the primary stakeholders, whilst the other stakeholders are considered secondary.

The above arguments for the shareholder-centred approach have attracted a lot of criticism from different scholars and practitioners.

6.5.2 Arguments against a shareholder-centred approach

The shareholder-centred approach is based on capitalism, the focus of which is outcomes, which is indicative of utilitarian thinking. According to many utilitarians, public utility is the sole origin of justice (Rossouw, 2010b) and thus the means by which such utility is achieved is not of great concern to utilitarians. Utilitarians often argue that justice actually derives its origin from individual selfishness. Similarly, Friedman (1993) argues that the pursuit of profits is the sole obligation of business and that society should leave the ethical problem to the individual to wrestle with. Thus, the shareholder-centred approach is ultimately argued to be moral on utilitarian grounds, where morality is evaluated strictly in terms of the ends and not the means.

Unfortunately, the extent to which the shareholder-centred approach inevitably generates beneficial ends is subject to debate. Much evidence exists that when organisations focus solely on their exclusive economic self-interests, they may not necessarily produce outcomes that benefit the larger society (Newbert, 2003:253). By ignoring their moral responsibility to society, those who seek only to satisfy their economic motives often do not contribute to and in some cases even detract from the much-needed social well-being. This observation does not support the utilitarian rhetoric on the “invisible hand” phenomenon. It is therefore small wonder that democrats and socialists argue that the capitalist shareholder-centred approach brings about imbalances in the distribution of national wealth which are against the democratic rights of all people.

It has been observed that there are generally negative societal consequences of capitalist approaches to corporate governance. For example, capitalism has led to a massive concentration of economic resources in the hands of a disproportionately small minority of firms and property holders (Bassiry & Jones, 1993:624). In the USA, the fifty largest corporations make almost half of all economic profits of all US industries. The implication of this is a concentration of wealth which manifests in an imbalance of power between a wealthy minority and the non-wealthy majority.

Further, it is argued that although the non-wealthy group may in fact be better off under capitalism than under any other system of economic organisation, the existence of the inequality itself is detrimental to a democracy, which assumes an equal distribution of power among the polity (Bassiry & Jones, 1993:624). This inequality in political power ultimately serves to undermine the democratic process, which in turn perpetuates and magnifies the inequality between the two groups, resulting in a widening economic gap between the two groups.

It seems that the classic justification of free market capitalism under the “invisible hand” doctrine has outlived its usefulness in modern management systems. The reality of the modern corporation is that it has striven to internalise all benefits and externalise as many of the costs of its actions as possible (Evan & Freeman, 1993:76-78). For example, in pursuing their goals, many corporations have had no qualms about polluting the surrounding environment and disrupting local communities through their production processes, and some have even sold inferior products to consumers.

Similarly, there is no logical reason to believe that the greatest common good under the shareholder-centred approach, based on the utilitarian argument, will necessarily be achieved through the “invisible hand” phenomenon (Walker, 1992:281). Choices that are based on considerations of either individual or corporation profit maximisation frequently do not lead to the maximisation of overall utility. The treatment of environmental pollution produced during manufacturing processes, for instance, is usually externalised, as the costs associated with cleaning such environmental waste are often considered too substantial by the business community. Manufacturing companies that only seek to maximise efficiency are more likely to avoid their moral duties to protect the public from the hazardous by-products they may be creating than those with a concern for social well-being.

Influenced by the maximisation objective, companies can manipulate prices on the market at the expense of consumers. For instance, utilitarian companies operating in monopolistic and oligopolistic markets often restrict output below a competitive level (Walker, 1992:281). Consequently, market prices are increased above the equilibrium that leads to a reduction of consumer surpluses. The implication of this argument is that the utilitarian maximisation achievement is inclined more towards individual benefit than toward the general societal good. Such acts can be regarded as morally wrong, because they penalise the very people that corporations are intended to serve.

Regarding the legality of principal and agent relationships, it is argued that the maxim that corporate managers have a duty to maximise profits on behalf of shareholders is legally and factually wrong (Stone, 1992:439; Stout, 2002:1191). Legally, the shareholders do not, in fact, own the corporation. Rather, they own a type of corporate security commonly called a “share” or “stock”. As owners of shares, shareholders’ rights are quite limited. For example, shareholders do not have the right to exercise control over the corporation’s assets. It is argued that legally it is a corporation’s board of directors that holds that right.

Similarly, managers do not make an explicit (or implicit) promise to shareholders to maximise profits, as there is no direct relationship between managers and shareholders (Stone, 1992:439-440). If anything, shareholders are legally employers of the board and not of management. Therefore, it is legally wrong to assume the principal/agent relationships between the shareholders and management, as the judiciary systems do not recognise managers as agents of the shareholders. Moreover, it is factually wrong because a manager never actively determines the express wishes of shareholders and managers do not have to act in accordance with shareholders’ wishes.

Regarding the capital markets and the true ownership of shares, it is contended that the shareholder-centred approach does not recognise relationships and contracts that exist between the primary and secondary investors in business activities. Most shareholders participate only in the secondary market and therefore do not supply capital to corporations, according to Stovall *et al.* (2004:223), who rank other constituencies such as employees, communities, and the ecosystem as the primary sources of capital for business organisations. They suggest that the notion of private property rights in a corporate governance context supports the notion of an aristocracy, where such rights help to preserve the myth that shareholders are the primary providers of capital.

Furthermore, the shareholder-centred approach encourages managers to focus their corporate strategies on the maximisation of profits, which can encourage short-termism and consequently become morally harmful to other stakeholders as well (Stovall *et al.,* 2004:223). Under the shareholder-centred approach, other stakeholders, such as employees, customers, the community, and the natural environment, are usually ignored and their interests are often virtually disregarded.

Direct contributions by these groups to the corporation are regarded either as an input that makes up a product or service, or perhaps as an externality that falls outside the realm of economic and accounting language. Some studies have revealed that the optimisation of the social welfare of communities is inconsistent with the pursuit of corporate profits exclusively to maximise shareholders' self-interest (Downs in Stovall *et al.*, 2004:223). For example, the pursuit of profit maximisation can lead to company layoffs. Such layoffs, motivated by profit maximisation objectives, have long-term detrimental effects on employees, their families and also local communities. Additionally, such layoffs often lead to significant deficiencies in a company's ability to maintain long-term profits for shareholders.

The shareholder-centred approach also violates the very reason for corporate existence and the principle of its interconnectedness with its environment. There are broader motivations for corporate management systems (Drucker, 1993:80). A business has to be managed by balancing the interests of different constituencies, each with a genuine stake in the business. However, this balanced approach to corporate governance has been distorted by the emphasis on maximisation of shareholders' wealth, forcing firms to focus on short-term activities. Notably, the exclusive attention paid to the needs of shareholders may alienate the very same stakeholders upon which the business operationally and strategically depends. However, the maximisation of shareholders wealth maxim retains popularity in business circles and academia as the primary objective of any company.

There is a danger that even contemporary business and accounting systems do not take into consideration contributions from stakeholders other than shareholders towards organisational activities. For instance, the accounting systems definitions are embedded in language that solely reflects market price exchange mechanisms (Stovall *et al.*, 2004:223). The price mechanism, which is grounded in the neo-classical assumptions of optimisation through self-interested behaviour, often leads to sub-optimal decisions from managers from a societal (social cost) perspective. In particular, the social costs that result from activities such as pollution and crime are the result of economic actors that engage in self-interest maximisation.

Currently, there is a lack of accountability systems for corporate management that considers and incorporates the interests of various stakeholders, especially those from society and the natural environment. Kelly (2001:101-103) discusses several efforts that can help to revolutionise the current model for corporate governance to include multiple stakeholders, including the preparation of employee income statements, a company's people-asset-productivity measures, a community income statement, and calls for expanding both voluntary and statutory corporate social disclosure as is stipulate in the King III Report (Institute of Directors in Southern Africa, 2009).

The above literature review and analysis indicates that the shareholder-centred approach is founded on capitalist economic systems, where the maximisation of shareholder value is paramount. Similarly, the Balanced Scorecard model has been conceptualised based on the same maxim of shareholder wealth maximisation. The Balanced Scorecard model is utilitarian, in that it is results-oriented and disregards other contributors to business success.

A customer as an external stakeholder is included, just like a direct injector of revenues towards business operations. Under the Balanced Scorecard model, the economy, efficiency and the effectiveness of internal businesses processes are supposed to be improved to achieve this mechanistic goal of shareholders' wealth maximisation. Even employees, who provide human resources, are trained and mechanistically programmed towards the maximisation of shareholder wealth. Thus, the Balanced Scorecard model is deficient in that its focus is on shareholders rather than on other stakeholders. The above literature review also indicates that the shareholder-centred approach that underpins the Balanced Scorecard model does not conform with the values of either the African or Asian societies, where a stakeholder-centred approach is preferred.

6.6 STAKEHOLDER-CENTRED CORPORATE GOVERNANCE

The stakeholder-centred approach is founded on the premise that corporations operate through complex relationships and networks with many players, called stakeholders (refer to Figure 1, on p. 7 and Figure 3, on p. 29). The stakeholder-centred approach attempts to ascertain the interested groups that have different stakes in the affairs of a company and therefore need management's attention (Prozesky, 2010:265). Apart from shareholders, there are other stakeholders, such as employees, suppliers, customers and local communities. These stakeholders have legitimate rights in the running of the business activities (Rossouw, 2010e:136). Under the stakeholder-centred approach, it is argued that stakeholder groups should be granted legal protection as well. For instance, employees have legally protected rights to bargain collectively.

The shortcomings of the shareholder-centred approach led to the development of a stakeholder theory. According to Evan and Freeman (1993:79), in stakeholder theory, stakeholders are classified as those groups that are vital to the survival and success of a corporation. Various organisational stakeholders qualify under this definition: managers and employees are the internal stakeholders, the rest (shareholders, suppliers, customers, the local community) are external stakeholders. Individual stakeholders play different roles in the survival and success of a business (Evan & Freeman, 1993; Phillips, 1997; Phillips, Freeman & Wicks, 2003), as discussed below.

a) Shareholders

Shareholders have a stake in the business because they invest their funds to pay for the running of business activities. In return for their investment, shareholders are paid dividends out of corporate profits. Shareholders are interested in the continued profitability of the company.

b) Suppliers

Suppliers have a stake in the organisation, in that they provide raw materials and inputs towards the production systems that finally convert the raw materials into finished goods or services. Suppliers would want fair trading practices from the organisation, where best prices are offered. Suppliers also want the assurance of sustainable business relationships with an organisation through the guaranteed continued supply of raw materials.

c) Customers

Customers buy goods and services that are produced by corporations. Customers provide the lifeblood of the company, as they provide income towards the running of the operations and keeping the company afloat. In return for what they pay to the company, they expect high quality and safe products and services. Customers are also interested in the continued supply of goods or services.

d) Local community

The local community provides corporations with the basic infrastructure, human resources, final consumers for goods and services, and the natural environment (and natural resources, in the case of some companies, such as mining companies, forestry, some agriculture- or viticulture-related companies, or the tourism industry) that are required for the successful running of the business. In return, corporations pay taxes and tariffs through government and contribute economically to the local communities within which their operations are based. Thus, corporations have to maintain their mutually beneficial relationship with local communities. Managers need to act as responsible corporate citizens towards local communities. Economic backing from corporations usually takes the form of benevolent funding to the underprivileged or disadvantaged, and also protection of the natural environment.

Stakeholder theory does not explicitly recognise government as a separate stakeholder, as it is usually grouped together with the community. In an African context, government plays a pivotal role in the provision of business infrastructure, debt and grant financing, and legislation. Apart from the community, government is therefore recognised as a separate stakeholder in this study, as shown in Figure 1 (on p. 7) and Figure 3 (on p. 29).

e) Managers and employees

Managers and employees provide the human resources base for the sustainability of corporate operations. In return for their contributions, managers and employees need to be duly compensated through good remuneration packages and safe working conditions.

Under the stakeholder theory, all stakeholders are treated equally (Evan & Freeman, 1993). Unlike the shareholder-centred approach, no single group's interests are given priority over those of other groups. The stakeholder-centred approach is justified in that corporate wealth should flow to those who create it, based on all forms of contributions and not just the initial input of financial capital provided (Stovall *et al.*, 2004:224). The relationships of an organisation and its stakeholders and relationships between the stakeholders themselves have been summarised in the conceptual framework of this study (Figure 1, on p. 7).

Overall, the above discussion on the stakeholders and their vested interest in corporations indicate that a stakeholder-centred approach is superior to the shareholder-centred approach, in that it is more holistic and recognises the principles of nature and eco-systems. The stakeholder-centred approach represents an organisation as one family, where the stakeholders are its members, who have to work collaboratively to achieve one common goal of maximising the value of the entire system. Too much focus on one stakeholder group would put other stakeholder groups under stress, which can ultimately lead to the disequilibrium of the entire system. Consequently, sub-optimal results are realised in the long term.

6.6.1 Arguments for the stakeholder-centred approach

Stovall *et al.* (2004) argue that the stakeholder-centred approach is in line with the original sympathy principle of Smith (1790:III.I.46). For Smith, this original passion allows a person to build a sense of morality. Smith (1790, III.I.46) maintains that this innate sense of being able to see others' interests allows individuals, and ultimately societies, to develop concepts such as benevolence, altruism and even justice.

The sympathy principle represents the instinct from which higher virtues or moral sentiments grow. In his seminal work, *The Theory of Moral Sentiments,* Smith (1790, III.I.46) illustrates this intersection between passions or sentiments that his sympathy principle promotes as follows:

> What is it which prompts the generous, upon all occasions, and the mean upon many, to sacrifice their own interests to the greater interests of others? It is not the soft power of humanity, it is not that feeble spark of benevolence which Nature has lighted up in the human heart, that is thus capable of counteracting the strongest impulses of self-love. It is a stronger power, a more forcible motive, which exerts itself upon such occasions. It is reason, principle, conscience, the inhabitant of the breast, the man within, the great judge and arbiter of our conduct. It is he who, whenever we are about to act so as to affect the happiness of others, calls to us, with a voice capable of astonishing the most presumptuous of our passions, that we are but one of the multitude, in no respect better than any other in it; and that when we prefer ourselves so shamefully and so blindly to others, we become the proper objects of resentment, abhorrence, and execration.

As noted, the stakeholder-centred approach represents the fair recognition of the other constituencies as they provide resources to and receive benefits from the corporation (Stovall *et al*., 2004). The relationships that exist within this framework represent the reality of a modern organisational set-up. Proponents of this view emphasise that a corporation cannot exist without continued contributions from all stakeholders. Therefore, in addition to considering shareholder interests, managers should consider how their strategic and operational decisions affect these other stakeholders as well.

The debate on stakeholder treatment by corporations is foundational to the survival of the modern business environment. Within the framework of corporate governance, there should be “corporate conscience” that is based on people’s rights, morals and a sense of justice (Tsuno, 2003:187). Thus, the actions of managers should be governed by the actions of consumers, labourers, suppliers and people from the public sector, and that corporate power should be exercised in line with public consensus. This line of argument can be seen as a true forerunner to the concept of corporate governance and business ethics (Nakano, 2007:168). The stakeholder-centred approach also supports arguments for corporate social responsibility and stakeholder management systems, as discussed below.

Unlike the shareholder-centred approach towards corporate governance, the stakeholder-centred approach is broad and holistic. The stakeholder approach presumes a collaborative and relational approach to business and its constituents (McAlister, Ferrell & Ferrell, 2003:173; Phillips, 1997; Phillips *et al*., 2003). Corporate governance systems using the stakeholder-centred approach consider both the needs of various constituencies and trade-offs between the interests of various stakeholder groups.

6.6.2 Principles of stakeholder management and corporate reporting systems

The recognition of the existence of other stakeholders, apart from the shareholders, demands proper management of stakeholders for the long-term sustainability of business activities. As the stakeholder-centred approach is inherently in conformity with sound conventional practices and the financial stewardship of business, guidelines on how companies can best manage stakeholder concerns in actual practice are formulated accordingly.

One such set of guidelines was developed by the Clarkson Centre for Business Ethics (CCBE) at the University of Toronto, and was called *Principles of stakeholder management*. This document provides insights on how organisations can relate with and manage their stakeholders (Clarkson Centre for Business Ethics, 2000). The guidelines are summarised below.

a) Principle 1: Ensure stakeholder acknowledgement and monitoring

Managers should acknowledge and actively monitor the concerns of all legitimate stakeholders. The onus is on management to ensure that stakeholder interests are taken into account appropriately in corporate decision-making and operational processes (Clarkson Centre for Business Ethics, 2000). Managers should be aware of existence of multiple and diverse stakeholders and ensure that there is an understanding of their involvement and interests in the corporation.

Many stakeholders (investors, employees, customers) are readily identified because of their express or implied contractual relationship to the organisation (Szwajkowski, 2000:389). Others may identify themselves because of the impact, positive or negative, of organisational activities on their own well-being. Therefore, managers are obligated to respond favourably to every request or criticism from stakeholders and deal with each situation objectively and professionally.

b) Principle 2: Deploy effective communication systems with stakeholders

Managers should listen to and communicate openly with stakeholders about their respective concerns and contributions. Effective communication with stakeholders should also involve discussing the risks that stakeholders assume due to their involvement with business operations (Clarkson Centre for Business Ethics, 2000). Stakeholder communication, both internal and external, should be considered a critical function of organisational management systems. Normally, effective communication systems should involve receiving, as well as sending, information that is relevant to individual stakeholders. Thus, managers must engage in stakeholder dialogue for them to fully appreciate and understand stakeholder interests; and in the process they should accommodate various stakeholder groups into an effective wealth-producing forum.

Cognisance should also be taken of the varied nature of stakeholder interests that would ultimately determine the type of information to be provided to a particular stakeholder group. However, openness may not be specifically characteristic of stakeholder communication or dialogue, yet it is the essence of information disclosure (Szwajkowski, 2000:390). The above principle demands commitment to information disclosure. Business executives should not be fooled into thinking that they are fulfilling the requirements of this principle just because they are communicating with their stakeholders.

c) Principle 3: Engage in adaptive processes and behaviour towards stakeholders

To involve the key stakeholders of an organisation fully, business executives should adopt processes and practices that are sensitive to the concerns and capabilities of each stakeholder group (Clarkson Centre for Business Ethics, 2000). These should reflect an organisational culture that promotes positive modes of behaviour towards all stakeholders. Stakeholder management is very diverse, as individual groups differ, not only in their primary interests and concerns, but also in their size, complexity and level of involvement with an organisation. Some groups are dealt with through formal, and even legally prescribed, mechanisms, such as collective bargaining agreements for employees and shareowner meetings for shareholders. Other stakeholders can be reached through advertising, public relations, or press releases; still others, such as government officials, are reached largely through official proceedings and personal contacts. Both the mode of contact and the type of information presented to the stakeholders should be appropriate and relevant for their respective decision-making processes.

Therefore, descriptions of situations and explanations of actions offered by managers should be consistent among all stakeholders, but adapted in its form to the recipients of the information. Thus, managers should be extremely cautious when they are dealing with stakeholder groups that have a limited capacity to assimilate and evaluate complex situations and options (Szwajkowski, 2000:390). It has been noted that generally stakeholders act favourably when there is disclosure of information rather than non-disclosure, which arouses suspicion amongst stakeholders. Different stakeholders are motivated to perform in different ways. Therefore, the disclosure process should pay attention to the medium of communication, as well as the message that is being transmitted to the individual stakeholder.

d) Principle 4: Ensure interdependence of efforts and rewards among stakeholders

Managers should recognise the interdependence of efforts and rewards among different stakeholders. Managers should attempt to achieve a fair distribution of the benefits and burdens of corporate activity among the stakeholders by taking into account their respective risks and vulnerabilities (Clarkson Centre for Business Ethics, 2000). According to the thesis' conceptual framework, stakeholders collaborate with an organisation to ensure their co-existence and for mutual benefit. Therefore, it is important to acknowledge that stakeholders are vulnerable to the effects of uncertainty and changes over time in different ways.

Successful business executives should make sure that all stakeholders receive sufficient benefits to ensure their continued collaboration in an organisation (Clarkson Centre for Business Ethics, 2000). The stakeholders' benefits realised from such collaborative efforts should outweigh the total burdens and the risks that stakeholders are willing to bear. Openness and demonstrable fairness of the distribution of benefits and burdens among stakeholders are, in themselves, stakeholder benefits.

However, business executives may need to make special efforts to demonstrate stakeholder interdependence and the collaborative nature of an organisation to all stakeholders (Szwajkowski, 2000:391). Furthermore, in the interest of openness, a corporation needs to be fair with its stakeholders and at the same time provide them with evidence of that fairness. Consequently, openness builds reputation, by eliciting respect for the organisation's reputation amongst different stakeholders. The net result is the establishment and maintenance of trust and reputation as valuable assets for the organisation.

e) Principle 5: Have organisational collaborative partnerships

Managers should work cooperatively with other entities in both the public and private sectors to ensure that risks and harm arising from corporate activities are minimised or, where they cannot be avoided, are appropriately compensated (Clarkson Centre for Business Ethics, 2000). Corporate wealth creation almost inevitably gives rise to consequences that may not be fully mediated through the marketplace. The stakeholder monitoring efforts will often require cooperation with other organisations, which can be achieved through networking and collaborative partnerships.

Apart from being proactive in developing contacts with relevant stakeholder groups, business executives should establish strategic alliances that can significantly reduce any harmful impact and compensate the affected stakeholders accordingly (Szwajkowski, 2000:391). Business collaboration works on the premise that one organisation cannot solve a problem alone and that it should be a stimulus to multiparty cooperation.

f) Principle 6: Avoid unacceptable activities

Stakeholder management systems imply the adoption of proper practices that respect the fundamentals of human rights. Managers should refrain from pursuing activities that are likely to jeopardise inalienable human rights or creating situations that can give rise to risks which are patently unacceptable to the relevant stakeholders (Clarkson Centre for Business Ethics, 2000). Usually, the ultimate consequences of most human endeavours, particularly endeavours involving large expenditure, diverse interests and long periods can never be fully anticipated in advance. Under such circumstances, managerial decisions and corporate operations can give rise to multiple and diverse risks. Therefore, managers should communicate openly with stakeholders concerning the associated risks involved with their specific roles in the organisation. Managers should also strive to negotiate appropriate risk-sharing and benefit-sharing contracts wherever possible

The contractual arrangement can be considered satisfactory when stakeholders knowingly agree to accept a particular combination of risks and rewards. However, some projects may have consequences for which no conceivable compensation would be adequate or risks that cannot be fully understood or appreciated by critical stakeholders (Clarkson Centre for Business Ethics, 2000). In such circumstances, it is advisable that managers take a direct responsibility to restructure projects to eliminate the possibility of unacceptable consequences, or where necessary, abandon the projects altogether. Accordingly, if things go wrong, due to unforeseen events

(Szwajkowski, 2000:392), corporate disclosure can be useful in providing documentation as to the conditions under which the management decisions were made and implemented.

g) Principle 7: Recognise stakeholder conflicts

Finally, managers should acknowledge the potential conflicts between their own role as corporate stakeholders and their legal and moral responsibilities in the interests of all other stakeholders (Clarkson Centre for Business Ethics, 2000). Corporate managers should address stakeholder conflicts through open communication, appropriate reporting and incentive systems and, where necessary, a third party review. Managers should not be just a disinterested group who coordinate stakeholder interactions.

However, managers also form a distinct stakeholder group of an organisation (Phillips, 1997; Phillips *et al*., 2003; Rossouw, 2010e:138). Managers have privileged access to organisational information and a unique influence on corporate decisions. Thus, as stakeholders, managers are naturally interested in the security of their jobs, safe work environment, the level of their remuneration and other rewards, such as bonuses, and the scope of their discretion in the use of corporate resources. Usually, other stakeholder groups such as shareholders through their boards of directors institute a variety of systems that are intended to align the managers' interests with those of the organisation as a whole in order to prevent opportunistic abuse of managerial positions.

The above literature review shows that the stakeholder-centred approach fits well into the African society where all stakeholders are considered members of one family (an organisation), and that the wealth created within should be distributed to all members of the organisation accordingly. The stakeholder-centred approach is different from the shareholder-centred approach, which focuses on the shareholders as owners of the business and the other stakeholders as instruments to be used to maximise the wealth of shareholders.

The Balanced Scorecard model is founded on the shareholder-centred approach, in that any benefits that may be extended to other players, such as management and employees, suppliers, government and the community, are considered as just payment for their (management and employees, suppliers, and government) contributions or the “trickle-down” effects to the local community. Thus the Balanced Scorecard model does not recognise wealth distribution as one of its objectives, but rather as payment for the direct contributions of activities of the corporation.

The analysis of the shareholder-centred and stakeholder-centred approaches also supports the idea that the current Balanced Scorecard model, which is based on a capitalist system, should be redesigned for application to an African society. The redesigning of the Balanced Scorecard model would be in conformity with the African corporate governance guidelines, which are inclusive of stakeholders and are based on the stakeholder-centred approach.

6.7 CORPORATE GOVERNANCE GUIDELINES

The analysis above shows that there is diversity in the way organisations govern their operations with regard to their relationships with various stakeholders. The shareholder-centred and stakeholder-centred approaches provide a platform for various thoughts about corporate governance. To minimise such diversity, countries are formulating corporate governance guidelines that organisations can follow in their activities.

Most of the corporate governance guidelines in African countries generally resemble the systems used in the UK (West, 2009:11), largely because many African countries are members (or former members) of the Commonwealth. As a result, local company laws have been influenced strongly by British company laws. Although the Common Law is not binding on African countries, it continues to play a pivotal role in the legal frameworks of many African countries. British cases still carry some weight in business applications on the African continent.

In South Africa, the King Committee was established in 1992 under the chairmanship of Professor Mervyn King (Du Plessis & Prinsloo, 2010:156; West, 2009:15). The King Committee was established with the task of providing a set of corporate governance guidelines for South Africa. This followed the release of the Cadbury Report in the UK in 1992, and an increasing interest in the subject worldwide. The King I Report covered many of the same issues as the Cadbury Report, paying considerable attention to the board of directors and the protection of shareholders. However, the use of non-financial concerns and engagement with other stakeholders were also mentioned in the King I Report.

The King II Report is notable for explicitly adopting an inclusive stakeholder-centred approach to corporate governance that has its roots in the stakeholder theory, in opposition to the model of shareholder primacy maintained in the UK and USA (West, 2009:12). The South African imperatives were reinforced in the passing of the Broad-based Black Economic Empowerment Act, No 53 of 2003 (South Africa, 2003), which established a formal structure to reward companies meeting certain criteria, usually related to the level of black ownership, employment and procurement practices. Another development was the inclusion of the international financial reporting standards (IFRS) into corporate reports. The international financial reporting standards have been officially adopted within the corporate governance reporting systems in South Africa.

In Malawi, the scenario is no different from that in South Africa (own observation). To safeguard the rule of law and adherence to ethical practice by corporations in terms of good corporate governance, corporations are guided by the codification of *Good Corporate Governance* that is based on the South African King II Report. The codification was pioneered by the Malawi Government through the Society of Accountants in Malawi (SOCAM). In addition, there is also an Anti-Corruption Bureau (ACB), which acts as a watchdog to prevent corruption cases in both the private and public sectors.

The King II Report was reviewed in response to the new company legislation, and this culminated in a new corporate governance report, the King III Report. The key theme of the King III Report is an even greater focus on sustainability and the reporting systems that should be adopted by corporations (Du Plessis & Prinsloo, 2010:156). In general, the King III Report adopts the same overall stance as the King II Report, encouraging companies to take a stakeholder approach while maintaining formal structures with a shareholder orientation.

The new King III Report acknowledges the importance of stakeholders and sustainability reporting in that “reporting should be integrated across all areas of performance ... and should include reporting on economic, social and environmental issues” (Institute of Directors in Southern Africa, 2009:109). The inclusion of three parameters – economic, social and environmental – is consistent with the triple bottom line reporting requirement that corporations need to display a conscience in respect of social and environmental sustainability as well. Consideration of future generations is vital in business ethics and corporate governance.

South Africa’s corporate governance guidelines provide a fair representation of corporate governance on the African continent as a whole in the provision of a stakeholder-centred approach towards corporate governance. Rossouw (2005:100) observes that analysis of corporate governance reports across Africa, mostly sub-Saharan Africa, reveals that all reports, apart from those from Nigeria, advocate “inclusive” stakeholder-centred corporate governance. However, there are significant differences amongst African countries in terms of their history and economic development levels. For instance, South Africa's financial infrastructure is of a similar standard and complexity to that of many developed countries in the world. South Africa also maintains an active and efficient capital market, unlike most of other African countries.

Furthermore, there are differences between South Africa and other African countries that can impact on their corporate governance frameworks. For example, the recent political turmoil in Zimbabwe reveals a significant distrust of Western nations and institutions amongst some political parties (West, 2009:14). The distrust of Western nations by the Zimbabwean government has strengthened economic ties with some Asian nations, such as China and Malaysia, suggesting an alternative trajectory.

African countries that have enjoyed consistent economic growth are more likely to follow the South African model, even with a fledgling capital market. The specific inclusion of corporate social responsibility is a notable improvement in corporate governance, acknowledging the needs in Africa (West, 2009). The King III Report envisages that a well-managed company will be aware of, and respond to, social issues, placing a high priority on ethical standards. The report also points out the indirect economic benefits that companies engaging in such practices are likely to accrue, such as the sustainability of business, as discussed in Section 5.2 (Chapter Five).

However, those who wish to implement corporate governance guidelines are faced with managerial challenges. Many corporations, especially large ones, have not been able to fulfil their corporate governance requirements when it comes to their corporate social responsibility (Bendixen, Abratt & Jones, 2007:3-24). Corporations have instead oppressively abused employees and other stakeholders in many ways. For instance, many multinational companies are making abnormal profits at the expense of the local communities and the natural environment. Such malpractices jeopardise stakeholder co-existence and the sustainability of future business.

Another challenge in following corporate social responsibility guidelines is that citizenship is not yet fully embedded and represented in the boards or operating structures or systems of many organisations, despite the claim that organisations have social and environmental responsibilities (Brignall & Modell, 2000:281-306).

There is an indication that the needs of different stakeholders are not incorporated and that performance measurement systems do not take the effect of power relationships and conflict into consideration. Pressures from different stakeholders are usually inconsistent and contradictory, especially in the public sector.

Generally, the above literature review reveals that corporate governance issues in Africa are in their infancy and are therefore transitional. Not much has been done to reflect the continent's societal frameworks in its corporate governance practices. Although corporate governance guidelines tend to take a stakeholder-centred approach to represent the African society, there is still a compromise with the application of UK laws in the legal framework that includes company laws. As indicated in Chapter Four of this thesis, a discussion focusing on African Ubuntu ethics would be a relevant guide in considering governance and legal issues in Africa.

6.8 AFRICAN UBUNTU ETHICS

The discussions of business ethics that are based on a stakeholder-centred approach are similar to those of an African society and its moral beliefs or ethics. For instance, in a typical Afrocentric setting, asset sharing among the community is a critical issue. This cultural aspect has facilitated the development of community-based development programmes and cooperatives where beneficiaries share the central resources.

However, in other circumstances, the community sharing phenomenon should not assume the form of removing the risk from the people who have come to own the resources (Shubane, 2007:170-175). Those who have capital should take the risk that goes with investing it. The proportions that are invested in any class of assets and investment horizons should be left to the sole discretion of the people who have accumulated the assets. Everything related to risk-taking should remain with the individuals investing the capital. In this way, they continue to retain their wealth, and can invest it in the economy to grow it for their own and everybody else's benefit. Importantly, the state also grows its revenue base to continue the good work it has done for the general community.

Regarding the sharing of value created, Luhabe (2007:18-27) agrees that the economy is not just a matter of numbers indicating economic performance, but a moral and cultural process by which nations choose to live and distribute their resources. Hence, nations must venture into powerful projects that invest in a secure future for all people in a country, the poor and the rich. Such economic projects must formulate a framework for choosing to live in a way that honours the dignity, aspirations and contributions of all national citizens.

On the same premise, it can be noted that even the founder of modern economics, Adam Smith (1776), argued that economic actions are conditioned by the social relationships in which they are embedded. Although *The Wealth of Nations* is considered the better and more influential of his works by many neo-classical scholars, his *Theory of Moral Sentiments* (Smith, 1790) was the text in which he argued for the importance of social morals in economic decision-making processes.

In an African context, the history of economic thought has since been characterised by the tension between rational utilitarianism, with its focus on individual self-interest on the one hand, and a socialist emphasis on state intervention for wealth distribution, on the other. The social world, in turn, is comprised of norms, values and assumptions about mutual obligations (Mangcu, 2007:1-6). Mangcu (2007) contends that issues of socio-cultural interactivity are as old as the earth itself. The connection of the economy to social values may even be older, since economics itself came about as a departure from and a narrowing down of earlier concepts, such as moral and political economy.

Praising African Ubuntu ethics, Moloketi (2009:243) recognises the urgent need for the establishment of a professional meritocratic public service that is able to uphold the values and principles of democracy, good governance and Ubuntu. There is extensive interaction between politicians, bureaucrats and business people when government intervenes in economic development activities. Such interaction usually takes the form of collaboration, collusion and corruption, or all of these. The application of the African Ubuntu philosophy to moral beliefs and ethics would contribute towards unifying people and also curb any corruption, which is an evil in society, as it enriches only individuals and defrauds the community of benefits that rightly belong to it (Moloketi, 2009:243-244).

Finally, corporate governance frameworks should regard an organisation as a community and not just as a collection of individuals (Lutz, 2009:313). This line of thought is basic to the African Ubuntu philosophy, where the community and group solidarity are paramount. Therefore, the purpose of management should be the promotion of the common good of all contributors to organisational activities and success. Thus, there should be rejection of all theories on business ethics and corporate governance that are rooted in individualist philosophical systems.

The researcher contends that a total “rejection” of foreign ideologies would not be ideal for the improvement and promotion of business management systems – there are always good lessons that can be learned from critically evaluating the concepts that underpin such foreign models. Moreover, there is no justification for reinventing the wheel, as the process can be very expensive and time-consuming. Therefore, the best approach would be to “redesign” existing foreign models (including the Balanced Scorecard model) so that they reflect and fit within the local African framework.

Central to the above discussion of Ubuntu-based ethics is the argument that human behaviour is not driven primarily by a rational utilitarian maximisation of shareholders’ wealth as the current Balanced Scorecard model suggests. Instead, human behaviour is driven by the relationships and continued interactions of different stakeholders, as is shown in the conceptual framework of the study (Figure 1, on p. 7). The literature review also reveals that new African management systems should incorporate cultural themes for more effectiveness and better productivity. The stakeholders' interests (apart from those of shareholders, customers, and employees) and organisational socio-cultural dimensions are not explicit in the perspectives of the current Balanced Scorecard model.

6.9 CONCLUSION

This chapter has reviewed literature on general theories of ethics. These are Aristotle's virtue theory, which proposes that the integrity of an individual's character determines ethical behaviour, Kant's deontological theory, which argues that there are objective ethical standards of behaviour that everyone should respect, hence the development of ethical codes, and John Stuart Mill's utilitarian theory, which focuses on the practical consequences of an action in order to determine whether that action was right or wrong, depending on the result experienced.

The chapter has analysed both the shareholder-centred and stakeholder-centred approaches in business ethics and corporate governance. The shareholder-centred approach is founded on utilitarianism, where results that take the form of a maximisation of shareholders' wealth are considered to be the primary objective of a corporation and are therefore the purpose for its existence. The benefits to other stakeholders are just a result of the "trickle-down" effects gained through the "invisible hand". It is clear from the discussion that the current Balanced Scorecard model is based on this premise.

By contrast, a stakeholder-centred approach accommodates all organisational stakeholders, including shareholders, customers, suppliers, management and employees, and the community. It has also been established that the stakeholder theory is in conformity with the African Ubuntu philosophy, where an organisation is seen as a community consisting of different interested members (stakeholders). This implies that all stakeholders should have a share in terms of wealth distribution, based on their respective contributions towards the activities of an organisation. The literature review also shows that issues of corporate social responsibility and corporate citizenship are very important, especially for organisations based in Africa. It reveals that corporate governance guidelines in Africa, apart from Nigeria, are generally inclusive and take a stakeholder-centred approach.

This chapter concludes the critical review of the relevant literature in this study. The chapter also integrates all the preceding chapters of this study. The problem statement regarding the irreconcilable mismatch between the generic Balanced Scorecard model and the African environment, the research aims and objectives, the research questions and hypotheses, and the conceptual framework of the study (Chapter One), are all directed towards promoting a more stakeholder-centred approach which would be appropriate in the African context.

It has also been established that the use of corporate performance measures, including financial measures (Chapter Two), is essentially to address the concerns of different stakeholders, including shareholders. The Balanced Scorecard model (Chapter Three), though very popular worldwide, especially in the West, has been proven to be limited in its application, as it follows a shareholder-centred approach rather than a stakeholder-centred approach towards corporate governance, and is therefore not reconcilable with the African environment. The literature review also demonstrates that the African Ubuntu philosophy (Chapter Four) is in conformity with a stakeholder-centred approach, where community and solidarity within the system is critical for long-term survival. Finally, the triple bottom line concept and sustainability scorecards (Chapter Five) focus on the need for organisations to focus their attention, not only on economic issues, but also on social and environmental dimensions.

Overall, the literature review supports the proposition that there is a need to redesign the Balanced Scorecard model, which follows a shareholder-centred approach. The new model would represent an African environment; and it should be inclusive and more stakeholder-centred than the current conceptualisation of the Balanced Scorecard model – hence, the topic of this study: *Redesigning the Balanced Scorecard model: An African perspective*.

The next chapter details the research design and research methodology that were used during the primary data collection and data analysis processes of the study.