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**CORPORATE GOVERNANCE: THE REVIVAL OF AN
ACADEMIC, PROFESSIONAL AND POLICY FIELD**

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Abstract

This paper explores the basic concepts of corporate governance in relation to its intellectual foundations and historical development. The basic assumption relies on the fact that the reinforcement of corporate governance as an academic, professional, and policy field is a consequence of the many corporate failures that have occurred in recent years, mainly since 2002. Most theoretical developments for this new moment in history have been borrowed from the same academics and practitioners that reflected and worked on the field after the 1929 economic crash, with deep origin on general social scientific research. In addition, corporate governance is growing as a distinctive business function as well as a set of global prescriptions that impact business activities across industries and cultures. The role of the board of directors and the ideas on power and accountability remain critical issues in the new 21st century corporate governance debates.

Corporate Governance: The Revival of an Academic, Professional and Policy Field

Introduction

Since the beginning of the new 21st century, several corporate scandals have taken place in western countries, such as those controversies involving American companies like Enron, Arthur Andersen, Worldcom, Adelphia and Tyco. Essentially, Europe has not been different, taking into account diverse failures regarding corporations like Maxwell, Parmalat, Kirch, Grand Tibidabo or Royal Dutch Shell. Reasons behind such events have ranged from accounting frauds to use of insider information in stock markets, as well as simple irresponsible mismanagement of corporate assets. Main consequences have been the loss of jobs, wealth, and corporate credibility. But several groups in the international community, from politicians to judges, civic activists and the media, have blamed the lack of good corporate governance in the companies involved.

Additionally, the economic crisis of 2002, along with the political crisis of 2001, has helped too to generate a situation of public opinion in which corporate behavior is under suspicion. This climate produced a revival of concern about corporate governance in terms of academic interest, professional development, and political regulation. This paper tries to reflect on the concept of corporate governance itself, as well as the underlying intellectual and historical conditions that have contributed to its resurgence in these times.

The quest for a holistic definition

Corporate governance is a relatively new expression, even though concepts and activities behind it are as old as human beings. The Oxford English Dictionary (1989, 2nd ed.) defines

“governance” in ten different statements. Among them, three are particularly relevant: “Controlling, directing, or regulating influence; control, sway, mastery”; “The manner in which something is governed or regulated; method of management, system of regulations”; and “Discreet or virtuous behavior; wise self-command”. The verb “govern” includes definitions such as “To rule with authority, esp. with the authority of a sovereign; to direct and control the actions and affairs of (a people, a state or its members), whether despotically or constitutionally; to rule or regulate the affairs of (a body of men, corporation); to command the garrison of (a fort)”; “To guide, direct, lead (*in* some course); to guide *to* or *towards* an object”; “To direct or regulate one's actions; to conduct oneself, behave, act (in a specified way)”; “To hold in check, curb, bridle (esp. one's passions)”; and “To constitute a law or rule for; to be applicable to as a determining principle or limiting condition; to serve as a precedent, rule, or type for; esp. in *Law*, to serve in determining or deciding (a case)”.

As far as the concept of corporation itself is concerned, some of the main definitions for the term in the OED include: “A number of persons united, or regarded as united, in one body; a body of persons”; “A body corporate legally authorized to act as a single individual; an artificial person created by royal charter, prescription, or act of the legislature, and having authority to preserve certain rights in perpetual succession”; and “An incorporated company of traders having (originally) the monopoly and control of their particular trade in a borough or other place; a trade-guild, a city ‘company’. (Now so called only in legal or formal language.)”. It was a word mainly used for municipal institutions. That is why the municipal corporation is “the civic authorities of a borough or incorporated town or city; the mayor, aldermen, and councillors. (A leading current use.)”. In fact, the dictionary includes the historical background of the Corporation Act of 1661, which required “all persons holding municipal offices to acknowledge

the royal supremacy, to abjure resistance to the king, and to subscribe a declaration against the Solemn League and Covenant, and making ineligible for office all persons who had not within a year partaken of the communion as administered by the Church of England”.

According to Cadbury (2002, p. XV), corporate governance is concerned with “the system by which companies are directed and controlled, which is clearly the responsibility of their boards of directors”. Monks and Minow (2004, p. 2) have defined it as “the structure that is intended to make sure that the right questions get asked and that checks and balances are in place to make sure that the answers reflect what is the best for the creation of long-term, sustainable value”. Specifically these authors highlight the relationships among shareholders, directors and the management as the core object of corporate governance.

Mathiesen (www.encycogov.com, 2002) states that "corporate governance is a field in economics that investigates how to secure/motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational designs and legislation. This is often limited to the question of improving financial performance, for example, how the corporate owners can secure/motivate that the corporate managers will deliver a competitive rate of return”.

Colley et al (2005, p. 3) engages in a longer explanation of the phenomenon when they say that “today, the public corporation itself operates as a form of representative government. The owners (shareholders) elect directors as their representatives to manage the affairs of the business. The directors, who as a group are referred to as the board of directors, then delegate responsibility for actual operations to the Chief Executive Officer (CEO), whom they hire. The CEO is accountable to the board of directors, which collectively and individually, is accountable to the shareholders. In addition, to its role in selecting the CEO, the board also advises on and

consents to the selection of businesses and strategies of the firm as well as oversees results. In sum, this system of authoritative direction, or government, is known as corporate governance”. Even some professionals like Anand (2008, p. xviii) think that “instead of focusing on Corporate Governance as a phrase with a concrete definition, it is much more effective to think of it as a state of mind, a concept that is fluid and adaptable to the changing face of commerce”.

Apart from all these different views on how to define the governance of corporations, it has to be stated that the proper form of the corporation as we know it today is a brand new contribution in human history, rooted from the end of the 19th century. The principal forms of business organizations are proprietorships, partnerships, and corporations. But corporations are a particular kind of business enterprise usually distinguished by four main characteristics: limited liability for investors, free transferability of shares, perpetual life, and centralized management (Romano, 1993, p. 61).

To some extent, the founding fact of a corporation is the separation of ownership and management, which thereby generates the principal-agent problem. An agency relationship is a contract under which one or more persons (the principal or principals) engage another person (the agent) to perform some service on their behalf which involves some decision-making delegation to the agent. The theoretical foundations of the principal-agent problem and transaction cost are especially outlined in the works of some of the Chicago school economic theorists, such as Alchian, Demsetz and Coase.

The agency theory is complemented (or even confronted) nowadays with the stakeholder approach of the firm. According to Freeman (1984), in the traditional view of the firm, shareholders are the owners of the company, and the firm has the duty to increase value for them. The firm converts the inputs of investors, employees, and suppliers into products which

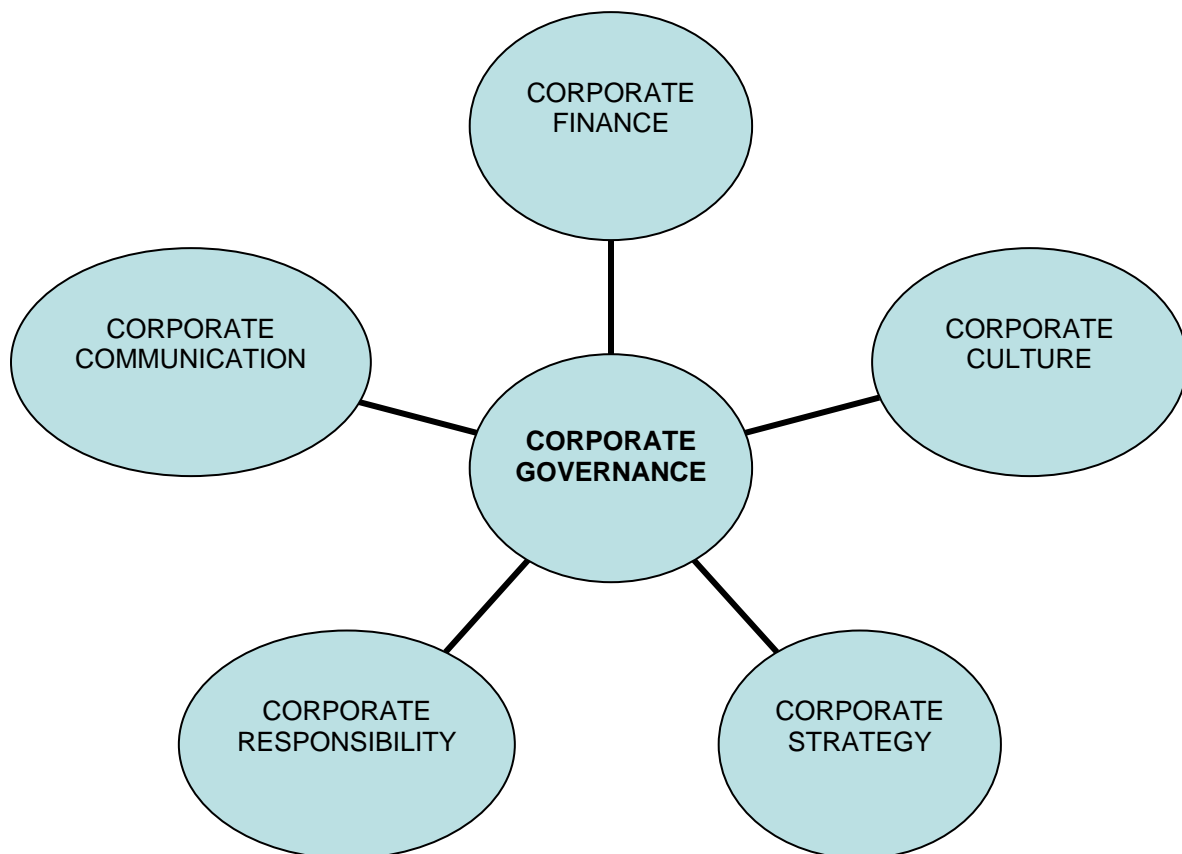
customers buy, thereby returning profits to the firm. By this model, firms only address the needs and wants of investors, employees, suppliers, and customers. However, stakeholder theory argues that there are other parties involved, like competitors, political groups, trade associations, trade unions, communities, associated corporations, and the public at large. Authors such as Kim and Nofsinger (2007) understand corporate governance as a broader social process involving several agents, mainly executives, accountants and auditors, directors, investment banks and securities analysts, creditors and credit rating agencies, shareholders and shareholder activists, as well as regulators.

Given the assumptions of both agency and stakeholder theories, the most important issues in corporate governance are where the power lies and the degree of accountability in place for those who exercise it. There are several internal governance structures that mitigate the agency problem, such as the board of directors; stockholder voting rights; fiduciary duties; executive compensation; and outside shareholders (Romano, 1993, p. 146). But usually, stakeholders' interest is enhanced to a larger extent by external governance structures, especially those related with capital markets, regulatory bodies, and civic associations. The market for corporate control, especially in the case of takeovers, is a powerful governance tool. Regulations have been important to stimulate boards of directors. But the threat of an unwanted takeover offer can be considered even more important. This is often the answer of the market to poor board performance. In addition, legal and civil pressures of very diverse types have recently shaped the governance of public corporations.

To summarize, corporate governance can be defined as the academic, professional, and policy field focused on how business institutions must be ruled, directed, and accounted for the

welfare of all people involved. This a role particularly played by the board of directors as the representing body of shareholders (the ultimate decision-makers) in order to control the management (the immediate decision makers). Directors receive certain powers from shareholders and delegate authority to the management of the firm, but they can never delegate responsibility. They remain responsible for the corporation oversight according to excellent business practices, professional ethics and the general law.

Diagram 1. Main areas for corporate governance oversight



Traditionally, corporate governance has been seen as a business function played by the board of directors in terms of internal auditing, legal compliance and risk assessment. But

modern corporate governance should go beyond just a checking system in order to enhance a proper value creating function of the firm. This includes the rules, direction and accountability system of the corporation itself as an economic institution, not only the business or businesses in which is involved. In this view, corporate governance is concerned with critical corporate issues, particularly corporate finance (financial structure of the firm, capital markets, creditors and credit agencies, risk management), corporate communication (investor relations, media, political and civic relations, corporate image, internal communication), corporate strategy (in which businesses, industries and markets the company operates), corporate culture (which are the values, procedures and intellectual capital shared within the firm) and corporate responsibility (how the corporation and its members are made responsible, ethically and legally, towards stakeholders, the community and the law).

Corporate governance in history: theory and practice

Corporate governance is a field of inquiry with a long intellectual and practical tradition, although has only lately become relevant in the public sphere. Essentially, the immediate reason behind this change is the corporate failures which have occurred in the last few years. But the quest for how institutions must be governed in order to fulfill their goals can be found at least as far as the writings of some of the main ancient Greek philosophers.

In the middle ages, municipal and educational corporations in Europe were granted perpetual existence and control as a way of insuring independence from the kings. By the 17th century, corporations were created by the state for specific purposes, like the settlement of colonies. Limiting investors' liability to capital invested was critical in order to raise significant amounts of money. In the late 19th century, factors such as the need for larger firms with more

capital, and the social acceptance of private property converged in the creation of big industrial, financial and commercial corporations. Even by the 1930s, it was not so clear in the American jurisprudence that the right to create corporations was absolute if not aimed to procure a public utility to the community (Monks and Minow, 2004).

Back in the early modern age, the East India Company was granted a Royal Charter to operate in 1600. This document is assumed to be the first explicit corporate governance structure in history, even though it can be argued that any human institution had an implicit system by which it is governed. Almost two centuries later, Adam Smith's *The Wealth of Nations* already identified the agency problem and discussed the relationship between the providers of capital and the agents that put it into use. Historical developments in the 19th century such as the industrial revolution, the progressive transition from mercantilism to liberal capitalism, and the legal recognition of corporations and their limited liability were essential factors driving the corporate governance of the age. The 1929 economic crash represented an influential cornerstone both in corporate governance theory and practice. Just three years after this event, Berle and Mean (1932) published the book *The Modern Corporation and Private Property*, which is recognized as the earliest analysis of a critical phenomenon in corporate governance: the separation of ownership and management. Before this work, intellectual antecedents can be routed in Veblen's *The Theory of Business Enterprise* (1904) and Commons' *Legal Foundations of Capitalism* (1924).

Since the late 19th century, but particularly by the 1930s, corporations had turned into bigger and more modernized economic institutions where the owners of shares were increasingly separated from the daily operations of firms. Between stockholders and managers, boards of directors were put into place, as mediating institutions in charge of representation of owners,

creation of rules, and control of the management. To some extent, the proper practice of corporate governance results from these years.

Jointly with Berle and Mean's, two other books on corporate governance seem critical for the development of this area of inquiry. Particularly, Jackson's *Corporate Management* (1955) and Eells' *The Government of Corporations* (1962) can be considered cornerstones in the academic thought on the field. Jackson focuses especially on selection, qualifications, election, organization, compensation, powers, functions and liabilities of directors, nearly half a century before these aspects have been considered as critical in good governance processes. Eells grounds what he calls "an old art but a new science" (1962, p.3) on general constitutional considerations, while focusing on corporate powers, restraints and policies. To some extent, he considers general business administration a different field from corporate governance, and recognizes the infancy of the discipline and the lack of good textbooks to be used at universities, a gap that still exists today.

However, there are many other examples of essential books in the configuration of the discipline. Some of the works focused on functions and responsibilities of directors and executives, like Spellman (1931), Burnham (1941), Gordon (1945), Baker (1945), Leighton (1946), Copeland & Towl (1947), Lepawski (1952), Dale (1952), Barnard (1953), Drucker (1954) and Harbison & Myers (1959).

Others focused on previous theoretical developments, such as Gulick & Urwick (1937), Drucker (1946), Truman (1951), Bendix (1956), Gouldner (1954) and Simon (1957). Some other academics and practitioners reflected on the role of business and government and the interaction between them, like Merriam (1944), Hale (1953), Buchanan (1958), Kelso & Adler (1958),

Mason (1959, ed.), Miller (1959) and Ferry (1959, comp.), while others were centered on the historical perspective, such as Hunt (1936), Cochran (1957) and Chandler (1962).

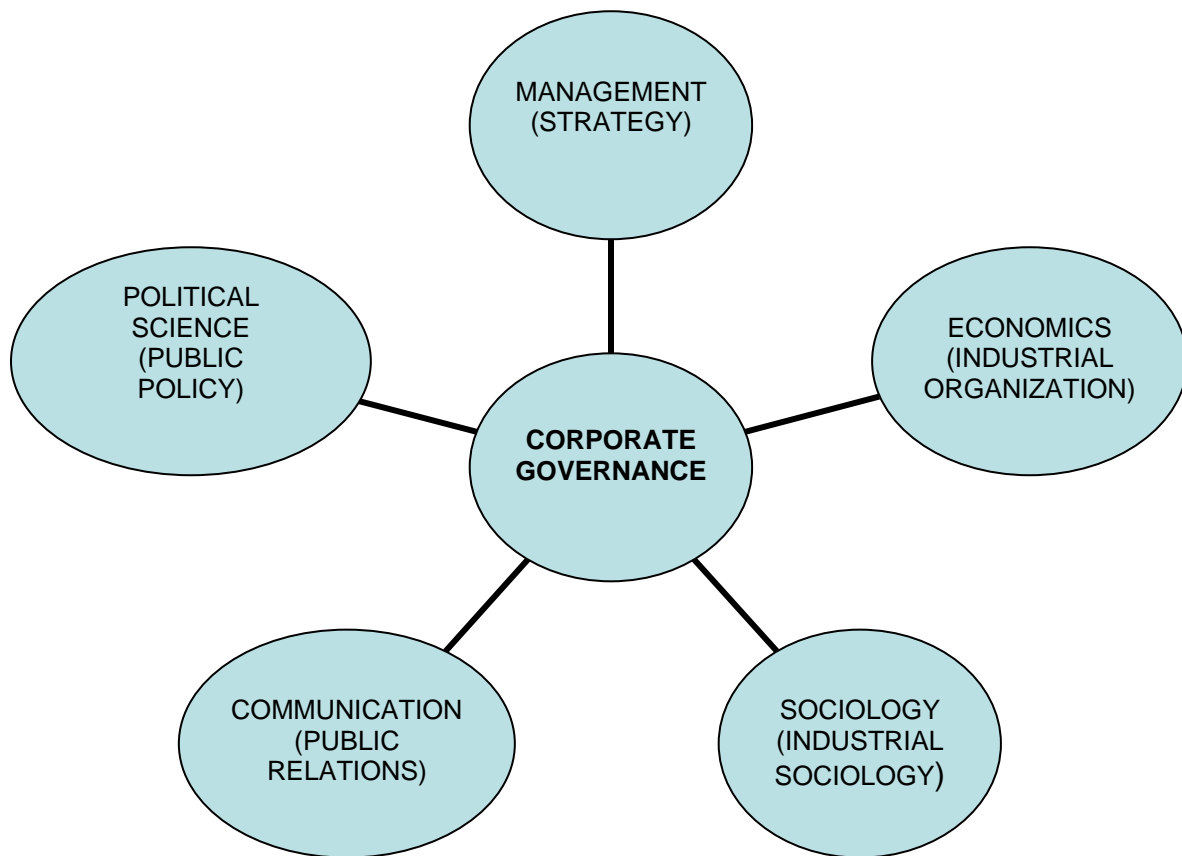
In sum, it can be stated that roughly between 1930 and 1960, the main theoretical foundations of corporate governance were put into place, in part as a long-term intellectual consequence of the economic crash of 1929. The governance environment we live in today, in terms of the professional and academic resurgence of corporate governance, can be identified as a deep consequence of the many 2002 corporate scandals. History, once more, has followed similar patterns. Most proper specialized academic works have been done between the 1960s and the 1990s, but from the beginning of the 21st century, a new publishing fever is taking place in corporate governance. Whether or not ideas containing these books are new and relevant in comparison with the pre and post-war publications can be put into question. It must be recognized, at the same time, that many of the early 20th century first publications in business administration studies included corporate governance considerations, even though none of them used the term itself. They constitute the grounding theory of the field, and are comprised of the writings of seminal management thinkers such as Taylor, Parker Follet or Fayol; economists like Smith, Friedman or Schumpeter; sociologists such as Weber, Lazarsfeld and Parsons; communication thinkers like Schramm, Gerbner and Bernays; political scientists like Wilson, Laswell and Dahl; and even draw on the work of such important thinkers as Aristotle, Machiavelli or Montesquieu. In fact, Aristotelian *Politics*, *The Prince* or *The Spirit of the Laws* can be considered at least as important as *The Wealth of Nations* or *The Modern Corporation and Private Property* in seeking the intellectual foundations of current corporate governance.

A new academic and professional field

At this point, it seems self-evident that corporate governance is a corpus of knowledge and a professional activity within business administration and policy which also receives contributions from many other social sciences. As stated before, its main theoretical principles come from ancient, medieval and modern philosophy, diverse pioneers in the social sciences, and some of the early management thinkers. Apart from that, corporate governance is growing as an emerging discipline mainly within business schools, even though academics devoted to its study come from very diverse backgrounds, as shown in the diagram below. In addition, it is worth mentioning that philosophy has provided the grounding for corporate governance; just as jurisprudence has incorporated some of the consequences of previous social scientific considerations.

However, it is an emerging academic field still to be recognized as very distinctive from other disciplines of management in particular and the social sciences in general. Just as a quick measurement of the interest and literature in the field, by December 2007 the search term “corporate governance” shows roughly 3,760,000 results in Google, 17,073 references in the database Business Source Complete, and 9,863 books and 12 magazine subscriptions in Amazon. According to the US Library of Congress catalogue only 287 references include that term in the title, while the figure at the British Library amounts to 776 books. The main empirical research papers have been published in the gap decades (1960s-1990s), but the lack of a social consciousness about corporate governance issues did not help the development of the field. Nowadays, the revival of the area is a fact, with both professionals and academics trying to find a distinctive space from other related business activities.

Diagram 2. Corporate governance contributions from diverse scientific fields



Whether or not corporate governance can be already considered a business field apart from strategic management is a question which only time will tell. The situation between strategy and governance reflects that in similar/unified fields such as accounting/finance, operations/information systems, marketing/sales, and human resource management/organizational behavior. To some extent, it depends on the opinions and experience of different academics and professionals.

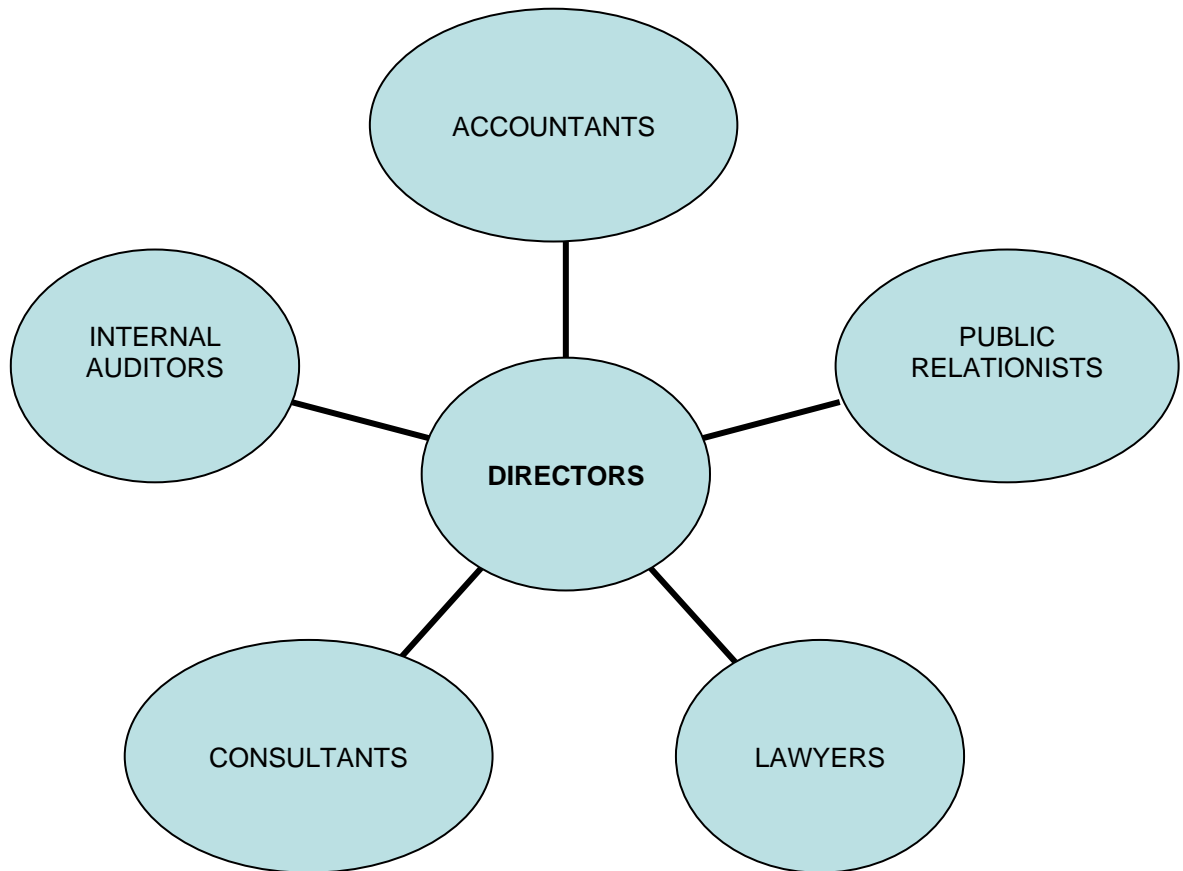
From a professional standpoint, the development of the modern economy helps corporate governance to be recognized as a distinctive field. The corporate sector has grown widely while

the state sector has decreased its weight in most economies. Corporations are now bigger, global and powerful, which raises the issue of their accountability. Moreover, the development of international capital markets requires reliable corporate governance structures for the companies to receive equity or debt capital from global investors.

As cornerstones in the way to institutionalization of corporate governance, in 1977 the US Securities and Exchange Commission (SEC) stated a rule by which all companies with shares being traded in the New York Stock Exchange should create audit committees composed of outside directors. In 1991, the Committee on the Financial Aspects of Corporate Governance was created in the UK. The approval of the Sarbanes-Oxley Act of 2002 (Sarbox) has consolidated the trend to more a more homogeneous and recognized modern business practice, as far as any corporation in the world which want its stocks to be listed on the US markets have to comply with this law.

Since then, governance codes have been launched in most developed countries, such as Cadbury and Smith reports in the UK; Olivencia and Aldama reports in Spain; Noerby report in Denmark; or King Committee in South Africa. Others have been proposed by international organizations such as the World Bank, the International Monetary Fund (IMF) and Organisation for Economic Co-operation and Development (OECD). In other countries, not only recommendation codes, but specific laws have been put into place. In the US today, most public corporations are governed primarily according to the regulations contained in the Sarbanes-Oxley Act, the Securities Exchange Commission (SEC) rules and the general principles of the Delaware corporate law, the state where most of these companies are incorporated. But despite all this diversity of documents, a high degree of convergence of corporate governance standards is taking place internationally.

Diagram 3. Professionals usually involved in corporate governance activities.



Similarly, professional profiles are converging in a global manner. Directors are being helped in their tasks by different corporate professionals, particularly accountants, lawyers, consultants, public relationists, and internal auditors, as shown above. In addition, a space for corporate governance policy activists is being created among universities and research centers, international organizations and advocacy groups. Moreover, politicians and regulation agencies have more and more to do with the governance of corporations, as dealing with lobbyists and civil society institutions is becoming a critical issue for their public service. Industry and

consumer associations are playing their role too in the development of this new professional and academic area.

Globalization and differentiation on corporate governance standards

Companies and their boards of directors work within boundaries. They are set by laws, rules, and regulations; institutional investors and shareholders; corporate bylaws and internal practice codes and values; as well as the community and public opinion. The problem is that even though governance regulations are increasingly similar among industries, markets and countries, the legal and cultural frameworks have key differences among corporate governance conceptions.

For instance, the World Bank has encouraged countries to develop their own corporate governance systems, given that they meet three goals: transparency, independent oversight, and accountability. This is one more step to assume that governance of any kind of institutions is grounded in universal values that make the most in those countries which enhance democracy; capitalism and pluralism. But capital markets have been with no doubt more accessible to globalization than the corporate law which governs them. According to Steger et al (2004, p. 2), shaping forces of current corporate governance jointly include personalities, capital markets/owners, strategy and cultural/legal influences. In addition, Cadbury (2002, p. 236) accounts among the factors that are driving changes the concentration of share ownership from individuals to institutions; the more interventionist attitude of investors; the need for any country to attract international investments; the need by companies to tap world capital markets; the worldwide move towards privatization; and the changing expectations which society has of companies.

Compliance with codes of corporate governance has depended on the degree to which shareholders, boards of directors and institutional investors believe in their ability to improve performance. But in Cadbury's words, "belief in the economic value of high standards of corporate governance is no longer primarily a matter of faith. It is, however, the combination of the soundness of a governance structure, and the integrity and competence of those responsible for it, which counts" (2002, p. 240).

To some extent, it is not possible to demonstrate mathematically that good governance standards results automatically in good financial performance. History teaches that, more often, companies that are able to deliver outstanding results to shareholders can meet the public interest in a satisfying manner as well. For instance, the US Courts recognize that boards of directors must conduct businesses in order to enhance corporate profit and shareholder gain. However, whether it happens or not, the board must act within the limits of the law; has to take into account ethical considerations; and may devote a reasonable amount of resources to philanthropic purposes.

Because of legal, social and business obligations, boards of directors have gone through dramatic changes in the last few years. They are taking a more active role in the activities of the corporation. Main duties of directors include fiduciary responsibilities, loyalty and fair dealing, care, not to entrench and supervision (Colley et al, 2004, p. 10). But they are general obligations included in more complex and particular organizational cultures. Steger et al (2004) differentiate four types of corporate governance systems: CEO-dominated, checks-and-balances, owner-centered and consensus-oriented. In addition, Colley et at (2004) have identified that the governance model of successful businesses includes some basic elements: a) effective board of directors (integrity and competence); b) competent CEO; c) selection of appropriate business or

businesses; d) valid business concept; e) appropriate implementation of the business concept; f) systems to ensure integrity and legal compliance; and g) full and timely disclosure of the performance.

Some of the most generally accepted good corporate governance practices include the separation of roles of the chairman and the CEO, the inclusion of independent/outside directors, the medium-sized composition of the board (normally between 10 and 20 members), the creation of specialized committees (at least those of audit, nomination, and remuneration), and the publication of written corporate governance guidelines or the development of different kinds of corporate social responsibility programs. But more importantly, the corporate governance function must be able to install a culture of internal control within firms. Internal auditing is designed to provide reasonable assurance in economy, effectiveness and efficiency of operations, reliability of financial reporting and information systems, and compliance with the law. As Colley et al (2005, p. 40) recognize, “it should be noted that internal control goes beyond the financial function of the business, to include the much broader areas of operations and legal compliance. The internal control function should include managing the control environment, risk assessment, control activities, information and communications, and the monitoring efforts”.

However, emphasis on control processes can help boards to avoid trouble, but it is very unlikely to provide real added value to the firm. That is why boards of directors must be diligent in complying with their control duties while shaping positively the future of the firm. Otherwise, the risk relies on creating bureaucratic structures that just entrench the regular business operations. As many other aspects of management, it must be recognized that this one is a matter of equilibrium among equally important ends. Steger et al (2004, pp. 1-2) have pointed out four dilemmas the boards are confronted with: micromanagement versus detachment (the division of

labour and cooperation between management and board); risk taking versus financial control (the system and processes to set directions and monitor results); the eroding boundaries in global companies versus national frameworks; and the conflicting expectations of stakeholders for the license to operate. Reconciliation of these pressures is a critical aspect for modern boards of directors.

Conger et al (2001) have identified seven key activity areas for the board: giving strategic direction and advice; overseeing strategy implementation and performance; developing and evaluating the CEO; developing human capital; monitoring the legal and ethical performance of the corporation; preventing and managing crises; and procuring resources.

More and more, corporate governance is going well beyond the legal compliance aspect through more excellent (though demanding) frameworks. The role of corporate culture on financial and ethical performance has been shown as critical in this process. As Cadbury states, “the best assurance of consistent performance is that companies should have both good governance and strong values, with their system of rewards and promotion based firmly on adherence to those values” (2002, p. 241). Colley et al (2005, p. 13) think that “the board must establish policies of ethics and disclosure that set the standards of behavior for directors and senior executives. (...) The board must also establish policies addressing which decisions require board approval, and what information the board should regularly receive about the performance of the corporation and its various entities”. The ability of the board leadership to create a positive and value-adding corporate culture is essential for any successful corporation. When the board fails in this, the whole organization is affected. Consequently, corporate governance is now the key business function in order to assure the fitness of corporations in the changing social and competitive environment.

Conclusion

This review paper represents a preliminary step in what should be a continued exploration of the implications of modern corporate governance in the performance of firms. While much more work needs to be done, a few points can be articulated that can hopefully be useful in guiding future business administration and policymaking.

Firms are obviously created to generate profits by meeting people's needs and wants. They have both a clear duty to respect the rights of others; and no obligation to promote the interest of others. In addition, corporations operate not only under the laws of governments, but also under the *laws* of markets and societies. It is no laughing matter that some institutional investors (such as investment or pension funds) are adopting publicly socially responsible investment principles that inform their decisions. This is one more indicator in the legal, social and business pressure towards a more transparent, accountable, and responsible corporate governance.

The resurgence of corporate governance in the last few years has followed similar patterns than those given after the 1929 economic crash. The intellectual foundations of the field were mainly put in the years after the crisis. To some extent, 2002 has meant a significant revival of that environment in terms of public concern about the consequences of corporate activities, academic research on the topic, and extension of professional profiles devoted to corporate governance. Though empirical research has grown substantially in the last four decades, the theoretical frameworks in which this knowledge relies come directly from academics and practitioners working between the 1930 and 1960.

The role of the board of directors as the center of corporate governance activities has changed dramatically as a consequence of new legal obligations, social pressures and management science developments. Former boards mainly composed by owners maintaining a passive attitude have led to modern boards with independent directors which see themselves as a critical organizational function capable to add value to the rest of business activities of the corporations. Consequently, directors must have their own resources and specialized personnel in order to play their role.

Finally, governance of any kind of institutions has been shown as an essential issue for the wellbeing of human societies. The trend towards better corporate governance is influencing political and social institutions as well. In fact, the fever for corporate control could be just the beginning of higher demands for responsibility and accountability in public and not-for-profit institutions. The separation of powers is an accepted principle in modern democracies. The move towards corporate governance can be understood too as a demand for corporate democracy. To some extent, the management can be considered the executive branch while the board of directors would assume the legislative aspect of the political society, composed by all shareholders, who would exercise the ultimate judiciary rights in a sort of people's justice. Critics of excessive legal pressures towards commercial corporations argue that similar standards should be put into place in order to monitor the performance of organizations of any kind. As a consequence, all institutions in developed countries, not only business ones, are being increasingly required to comply with good governance principles.

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