

Steve LETZA, Xiuping SUN
Leeds Law School, Leeds Metropolitan University

Corporate governance: paradigms, dilemmas and beyond

Abstract. The current debate on corporate governance has been ‘polarised’ between, on the one hand, the shareholding paradigm and, on the other hand, the stakeholding paradigm. However, underpinning the main theories are hidden paradox assumptions which leads to concerns over the credibility and validity of this dichotomised approach. Both camps of the debate rely on a homeostatic and entitative conception of the corporation and its governance structures, they suffer from inadequate attention to the underlying philosophical presuppositions in which the static approach is rooted. To avoid the traditional trap in theorising, an alternative processual approach is proposed for a better understanding of the inherent overflow and heterogeneity of corporate governance practices.

Keywords: corporate governance, shareholding, stakeholding, dichotomy, static approach, representationalism, processual approach.

JEL Codes: B00, G30, Z00.

1. Introduction

Corporate governance has in recent years been a much-discussed topic in economics, management, business ethics, company law and other disciplines. Wider public concern over fraud and corporate collapse, executive overpay, abuses of management power and corporate social irresponsibility in the last two decades resulted in a series of formal reports and proposals put forward in many developed as well as developing countries. In the UK, for example, there have been four important and influential reports produced within eight years: Cadbury (1992), Greenbury (1995), Hampel (1998), and Turnbull (1999). Such a serious concern also triggered a fierce debate in academic circles as well as among politicians, managers and consultants (Editorial of *Corporate Governance*, 2000; Stoney and Winstanley, 2001). Both defenders and critics of the current governance arrangements approach the issue of corporate governance from different perspectives with different interests and judgements.

The purpose of this paper is to review and evaluate the current perspectives on corporate governance. Many scholars note that the debate has been *polarised* be-

tween supporters of the shareholding model and supporters of the stakeholding model of corporate governance and control with a clear-cut and stable boundary (Prabhaker, 1998; Friedman and Miles, 2002). However, there are concerns over credibility and validity issues created by the dualistic approach hidden in some paradox assumptions behind all those main theories and models. Many feel puzzled by the lack of sufficient support of either shareholding or stakeholding from empirical evidence (e.g., Griffin and Mahon, 1997) and feel uneasy about a crisis of uncertainty over the normative foundations of corporate governance (Millon, 1993; Sullivan and Conlon, 1997). This paper is concerned with the homeostatic and entitative conception of the corporation and governance structures/mechanisms on which both shareholding and stakeholding perspectives implicitly rely. Both conventional models suffer from inadequate attention paid to the underlying philosophical presuppositions in which such a static approach is rooted. Instead of this static and entitative view, a processual approach is proposed for a better description and understanding of the inherent instability and heterogeneity of corporate governance practices.

The following two sections present a brief review of the main theories and models of corporate governance which are categorised into either the shareholding camp or the stakeholding camp according to their mutually exclusive propositions and assertions. Thereafter, the assumptions associated with the dichotomised approach are identified and their academic dilemmas are highlighted. The next section is a critical examination of the static approach used by the main theories/models and their philosophical roots. By discovering the fundamental inadequacy of ontological and epistemological presuppositions inherently embedded in the static approach, an alternative processual approach is proposed. Following that, the significance of a processual understanding of corporate governance is outlined. Finally, some conclusive remarks are offered.

2. Shareholding perspectives

2.1. Inherent property rights theory

The inherent property rights conception is a very traditional wisdom based on the view that private ownership is fundamental to a desirable social order and to the development of an efficient economy. Thus, private ownership rights are inviolable in any way. The ‘inherence’ perspective was developed during the seventeenth and eighteenth centuries in corporate law theory. It was assumed that the right to incorporate is inherent in the right to own property and write contracts, and corporations should be regarded as legal extensions of their owners (see Allen, 1992).