

PRACTICING CORPORATE GOVERNANCE

Thomas Ahrens, University of Warwick
Christopher S. Chapman, Imperial College London
Rihab Khalifa, United Arab Emirates University

Abstract

This paper proposes an alternative to a dominant theme of corporate governance research to date, namely, the engagement between diverse groupings with different interests, such as shareholders, stakeholders, directors, and non-executive directors. According to extant research, principles, rules and incentives are to influence the perceptions and motivations of individuals such that they form a complex system that governs corporations for the benefit of shareholders and stakeholders. By contrast, this paper starts not from the question of how diverse interests can be influenced to produce structured interactions between disparate groups but instead focuses on the practice of corporate governance as a holistic unit of analysis that is defined as possessing structured interaction. Following Schatzki's (2002) practice theory, practices and their constitutive activities and interactions are ordered by common rules, objectives, and practical understandings of practitioners. An essential element of functioning practices is their practitioners' ability and willingness to judge good and bad behaviour. A practice cannot, therefore, function without a shared basis for judging behaviour that draws on the rules, objectives, and practical understandings of the practice. Since extant corporate governance research used as its unit of analysis the perceptions, motivations, and incentives of individuals, and their aggregations in systems, it has thus far given less attention to exploring ways in which those diverse groupings might come to share a basis for judging good and bad behaviour. This paper uses the relationships between executive and non-executive directors and the relationships around the audit committee as examples to suggest that such a basis for judging behaviour is essential for innovation and reflection to strengthen corporate governance.

1. Introduction

Corporate governance research to date has assumed that corporate governance is influenced by diverse groupings with different interests that require some form of systematic reconciliation. Principles, rules and incentives have been discussed as ways of influencing the perceptions and motivations of shareholders, stakeholders, directors, and non-executive directors, etc., such that their various activities and

relationships can be ordered to govern corporations for the benefit of shareholders and stakeholders. Corporate governance research has chosen as its unit of analysis individuals' perceptions, motivations, and incentives, and their aggregations in systems in order to generate insights into the systematic functioning of corporate governance.

According to practice theory (Schatzki, 2002) the systematic functioning of complex practices such as corporate governance requires that their practitioners share a basis for judging good and bad behaviour. Without such a basis the practice would lack definition ('everything goes') and the capacity to adjust to changing circumstances and demands. Whereas extant corporate governance research has emphasised how diverse practitioners may more or less successfully overcome differences of interest through corporate governance mechanisms, a practice theory of corporate governance that chooses as its unit of analysis the practice of corporate governance itself can look at the problem of diverging interests as one that interferes with an essential quality of practices, namely, the shared basis for judging good and bad behaviour.

To be clear, we do not simply wish to define away a key problem of corporate governance. Instead we want to shift the question from 'how can we overcome the entrenched interests of diverse practitioners?' to 'how can we realise a latent quality of every practice?' This means that we can add to the important concerns of interests, motivations, and compromises of extant corporate governance research an equally important concern with how diverse practitioners might learn to develop shared bases for judging good and bad behaviour. It means also that we can add to the existing discussions of principles, rules, and incentives a discussion of what kinds of practical activities might give rise to the learning that creates shared bases for judging.

Is this too idealistic a stance for an area of research that studies the control of key institutions and valuable assets? Recent research into the effects of different kinds of interactions between executive and non-executive directors (Roberts et al., 2005) suggests that a focus on shared learning in action can generate more effective corporate governance scenarios than simply dividing the board of directors into those who execute and those who police the executives. Likewise, recent research into the functioning of audit committees (Turley & Zaman, 2007) suggests that a committee chairman who polices the rules and principles may do less for corporate governance than one who pursues shared learning in action through more complex forms of engagements with various corporate officers.

Still, an important challenge for achieving shared learning in action in the field of corporate governance lies in the fact that corporate governance is pursued by practitioners from diverse professional backgrounds. Unlike, say, auditing or managing, corporate governance is not the main pursuit of a large group of practitioners. For example, auditors and managers spend most of their time auditing and managing. For them, corporate governance is a minor pursuit—as it is for bankers, shareholders, activists and other stakeholders, etc. Professionals whose main pursuit is corporate governance exist, but they are a relatively small number of specialists who work mostly for corporations, banks, and regulatory agencies.

Whilst notionally in agreement on the significance and importance of general corporate governance objectives such as transparency and accountability, each of the

diverse groupings engaged in corporate governance mostly seek to bring these about through the interaction within their own particular practices, such as banking, investing, managing, auditing, etc. In their own spheres of activity they are used to common rules, practical understandings, and objectives such that they weave together in a complex patterning of individual action that is shaped by common goals, yet simultaneously offers flexibility to respond to emerging contingencies in ways that can be commonly understood to constitute those shared goals. By contrast, in corporate governance the space for collective judgement of skilful and good activity between these groupings is as yet unformed.

If corporate governance is to succeed in the ambitions which are currently loaded upon it this is something that these various groups must take collective responsibility for producing. In reality, however, corporate governance has remained somewhat fragmented. Corporate governance reports call for good governance and generate codes of practice. Investors often portray themselves as passive consumers of corporate governance information. And senior managers often perceive corporate governance as mandatory regulation. They have to do it but they have not fully grasped its potential benefits.

The remainder of this paper is structured as follows. Section 2 draws on practice theory (Schatzki, 2002) to develop the theoretical argument for why a practice such as corporate governance possesses a shared basis for judging good and bad behaviour and section 3 traces some of the antecedents to our argument in the accounting and accountability literature. Section 4 borrows empirical examples from different field studies to illustrate how shared learning between different corporate governance practitioners in action can function. Section 5 discusses the implications of a practice theory of corporate governance for corporate governance theory and practice.

2. Theorising corporate governance as practice

Schatzki's (2002) practice theory defines the workings of practices in empirically traceable ways and is therefore useful for adding a set of practice level propositions to the extant corporate governance theories that are rooted in the motivations, perceptions, and incentives of individuals. Schatzki defines practices—be they cooking practices, educational practices, administrative practices, management practices, audit practices, or corporate governance practices—as arrays of activities that are ordered by three properties of the practice itself: practical understandings, rules, and “teleo-affective structures”. They facilitate a practice level discussion of the ways in which corporate governance activities exhibit practical understandings such as how to chair an audit committee, follow certain codes and prescriptions, and pursue projects such as the curbing of directors' remuneration or the strengthening of internal audit. We discuss them in turn.

Practical understandings are abilities that pertain to actions that compose a practice (Schatzki, 2001; 2002). In the case of corporate governance practice, practical understanding of how to use the audit committee to prevent a looming case of executive malfeasance means knowing which doings and sayings to use in order to achieve this in the circumstances. A person knows this if she knows, for example,

how to collect preliminary evidence, read and interpret the company's finance manual, speak with members of the audit committee and the suspect's boss at opportune times and with the right mix of concern and empathy, and call a meeting of the audit committee. Those doings and sayings will depend on her own and the suspect's position in the company, the expected magnitude of the malfeasance, past interpretations of the finance manual, etc.

In addition to being able to do those things it is important for practitioners to be able to identify, prompt, and respond to them. Herein lies a source of the ordering of actions that make up practice through which shared bases for judging good and bad behaviour can evolve. "The actions that compose a given practice, consequently, are linked by the cross-referencing and independent know-hows that they express concerning their performance, identification, instigation and response" (Schatzki, 2001, p. 51). For example, the actions that compose corporate governance practices are linked through expressions of ability to perform, identify, instigate, and respond to the setting of directors' pay, the revision of the internal audit manual, the study of annual reports, the communication with shareholders and journalists, the judging of the mood of investors, and the changing of the number of non-executive directors. In other words, "conceptual understandings of the actions that compose a practice are contained in the understandings that organize the practice" (Schatzki, 2001, p. 55). In this sense practical understandings are a practice level phenomenon. Corporate governance practices themselves hold understandings of what those actions are and what sorts of humans and non-humans may be bound up with them, such as directors, shareholders, auditors, pension fund trustees, newspaper articles, stock market crashes, and governance codes.

Schatzki's notion of practical understandings avoids two difficult questions that have occupied previous accounting (and social science) research: Are routines explained by practical consciousness (e.g. Burns & Scapens, 2000; Giddens, 1979) and, are all human actions within a field explained by that field's habitus or sens pratique or sense of the game (e.g. Bourdieu, 1992; Kurunmäki, 1999)? The fundamental difficulty here is that practical sensibility in and out of itself cannot explain anything. "To say that John x-ed in situation z either because he knows how to go on in z or because he has a 'feel for the game' played there does not explain why he x-ed. It only says that he is proficient at getting about in situations like z and that his proficiency saw him through once again. In other words, it does not indicate what specifically it was about John and z such that someone who is conversant with z-situations as John is would x; and John's x-ing in z is determined by these uncited features of John and z, not by his knowing how to go on. What is more, knowing how to go on can account for whatever John does. It fails, consequently, to explain why he x-ed instead of y-ed, moreover why he did anything at all" (Schatzki, 2001, pp. 50-51). Schatzki's alternative notion, in which practices are composed of mindful activities that are cross-referenced by practitioners and define practitioners, simply takes practical understandings as abilities that pertain to actions that compose a practice. These abilities are building blocks of actions. They subtend and thereby enable actions. By making cross-referencing possible, understandings also enable practitioners to identify which actions belong to which practices, and which actions are, under the circumstances, good for this or that practice. In that understandings are one determinant of the ordering of practices. They cannot, however, explain individual

actions, which are much more influenced by what people see as prescribed, regard as acceptable ends, or feel like doing - rules, telos, or affect.

Rules are another ordering dimension of practices. Unlike understandings, which subtend actions but do not determine them, rules often have great influence on action. Rules are "explicit formulations that enjoin or school in particular actions" (Schatzki, 2001, p. 51). Sometimes rules articulate pre-existing understanding (e.g., rules of grammar) but often they are normative instructions, such as rules of thumb, statute, or codes of corporate governance. A company officer's understanding that auditors require truthful information during the conduct of audits may not be as influential as the legal rule against taking "any action to fraudulently influence, coerce, manipulate, or mislead any independent public or certified accountant engaged in the performance of an audit of the financial statements of that issuer for the purpose of rendering such financial statements materially misleading" (Sarbanes-Oxley Act, 2002, Section 303a). The understanding and the legal rule may be acted upon in conjunction but the latter is more specific and carries legal sanctions. Rules of thumb may arise from oft-encountered situations. Practitioners are aware of them because they articulate practical intelligibility, i.e., what it makes sense to do for someone under certain circumstances. Rules of thumb, like rules, work in conjunction with understandings and they tend to have greater influence on actions than understandings. Rules add further to the shaping of practice through the understandings expressed by many practitioners' following of collections of rules. As a property of the practice of corporate governance, rules support the learning of how to judge good and bad behaviour in conjunction with Schatzki's third determinant of practical intelligibility.

This third determinant is more encompassing than practical understandings and rules: a mix of teleology and affectivity. Teleology is "orientations towards ends, while affectivity is how things matter" (Schatzki, 2001, p. 52). Both are mental determinations. "The determination of intelligibility by mattering, for instance, is a determination via emotions and moods. Moreover, the determination of how someone will proceed for the sake of certain ends is tied to her beliefs, hopes and expectations" (ibid.). For example, the chairman of a company that is criticised by shareholders at its annual general meeting for overpaying its executive directors whilst falling behind the performance of peer companies may feel embarrassment but also annoyance with the executive directors. He may make it his end to tie directors' remuneration to company performance measures in the hope of pacifying shareholders. He may expect better company performance which might attract new investors. This mix of teleological and affective determination may make it seem sensible for him to embark on a project to change the members of the remuneration committee and to have the committee meet more frequently.

How the chairman is acting to pursue his ends is tied to his beliefs, hopes and expectations. In practice, telos is tied to affect. The desired state of affairs becomes the object of his beliefs, hopes and expectations. "The third dimension of the organization of practice can be specified as a normative 'teleoaffective structure,' a range of acceptable or correct ends, acceptable or correct tasks to carry out for these ends, acceptable or correct beliefs (etc.) given which specific tasks are carried out for the sake of these ends, and even acceptable or correct emotions out of which to do so" (Schatzki, 2001, pp. 52-53). Corporate governance practices embrace acceptable or correct ends such as increasing the share price, winning endorsements from

stakeholders, and making internal controls more reliable, acceptable or correct projects such as instituting performance related pay, redrafting of codes of conduct, and installing new accounting software, and acceptable or correct beliefs such that hierarchy should give way to inter-functional cooperation and organisational performance is difficult to attribute to individual work. The affectual structuring of the ostensibly rational world of corporate governance practices may for example express pride, ambition, and envy. Specific combinations of ends, projects, beliefs, and affects characterise particular teleoaffective structures.

Schatzki's scheme of practices as pools of activities organised by understandings, rules, and teleoaffective structures is open to change because none of the three determinants of what it makes sense for practitioners to do can predictably determine action. For one thing, the three determinants affect practitioners in relation to one another, giving rise to changing practical intelligibilities. A new scandal may change a director's ends, which may change the way she interprets a rule. Practitioners also often act as members of more than one practice, sometimes with conflicting ends. For example, corporate governance practitioners who hold directorships engage in practices of, among others, corporate governance, managing, recruiting, chairing meetings, career planning, etc., whereas corporate governance practitioners who hold auditor posts engage in practices of corporate governance, auditing, selling professional services, reputation building, and so forth.

For understanding the functioning of corporate governance it is important to have a sense of the extent to which a practice whose practitioners have dispersed identities (e.g., auditors, bankers, directors, investors) and whose constituent actions stretch over diverse arrangements of people, artefacts, organisms, and things (e.g., corporate governance working parties, company board rooms, stock exchanges, government agencies, investors' meetings) may attain states of greater or lesser order. Compared with the practices of auditing, directing companies, and trading shares, the governing of corporations, as articulated in codes of corporate governance, is a relatively young practice. Writers on corporate governance easily concoct histories of corporate governance as an age-old practice dating back to the concerns of Italian Renaissance merchants or even the desert caravans of Egyptian Pharaonic traders. Whilst the historic Italians and Egyptians of such tales of corporate governance shared with today's corporate governance practitioners certain understandings of organisational control, accounting rules, and profit ends, the scale of today's corporate governance problems is unparalleled, as is the particular mix of economic, social, and knowledge practices and contemporary arrangements.

The organisation of practices determines "the bringing about of arrangements through human activity" (Schatzki, 2001, p. 53). It also institutes "the meanings that humans and non-humans possess as components of arrangements" (ibid.). Today's institutions of corporate governance, such as codes or remuneration committees or special sections in annual reports, have relatively recently been brought about by changing coalitions of practitioners. They have created activities that explicitly qualify as part of corporate governance practices as well as the practices of auditing or company directing but the time for discussing and cross-referencing them has been short by comparison to these other practices. What has not so far emerged among practitioners is a good sense of how and under what circumstances to do what in order to further the cause of corporate governance and benefit their company.

An important aspect of Schatzki's practice theory to help create such a sense lies in the notion of practical understandings as knowing how to engage in doings and sayings that may count as certain actions but also knowing how to communicate with other practitioners about the activities that are deemed to make up corporate governance practice. Understandings that are key to a practice are thereby expressed through the actions that make up that practice (because they are abilities pertaining to actions). This makes those understandings an integral part of practices and not some distinct influence from a different level of sociological analysis. Practice as an array of activity transpires through actions, and what actions count as part of which practices changes over time. Practical understandings thereby give practical, and changing, effect to general ends and rules. The academic literature on corporate governance practice and the practitioners' debates and corporate governance reports and codes have thus far emphasised principles, rules and ends, without, however, connecting them clearly with practical understandings. It has an awareness of these, but not a means to understand and articulate how the constituent actions of corporate governance practice fit together.

Another key contribution that we see Schatzki's practice theory make is the emphasis on the cross-referencing of telos, rules, and practical understandings among practitioners. Schatzki's three determinants of practice thereby become ways of articulating what is meant by a functioning practice. It is an array of activities through which groups of interested participants continually work out good ways of fulfilling, but, in the process, also criticising and reforming, their structures of intentionality (Ahrens and Chapman, 2007). That means that the participating practitioners need commitment to engage in discussion and experimentation in a way that ranks the process of discussion more important than winning the argument. A practice is not characterised by dispersed groups with intrinsically opposed interests who are bent on winning contests. Rather, it is an array of activity one of whose determinants is a teleoaffective structure that evolves through shared learning. Whilst practice theory leaves the precise boundaries of practices to be determined empirically, the nature of teleoaffective structure is a normative ideal to which different practices variously live up.

Lastly, we should clarify why practical understandings, rules, and teleo-affective structure are properties of practices, not individuals, and how they relate to what individual practitioners do or say. Practices are not individualist in the sense that they reach beyond what any individual does and says and that they are not aggregations of individuals' doings and sayings, or their properties. "[T]he organization of a practice [...] [is] expressed in the open-ended set of actions that composes the practice. The relation of the practice's organization to its participants is that this organization is differentially incorporated into their minds. Understandings, rules, ends, and tasks are incorporated into participants' minds via their 'mental states'; understandings, for instance, become individual know-how, rules become objects of belief, and ends become objects of desire. Different combinations of a practice's organizing elements are incorporated into different participants' minds due to differences in participants' training, experience, intelligence, powers of observation, and status. In every case, however, the organizational element is distinct from its incorporations: the end of learning that helps organize educational practices is distinct from each individual

student's and teacher's goal of learning, and also from the sum of the latter. This organizing end is a feature of the practice that cannot be divided up into the goals of participants; the latter are versions of the former [...]” (Schatzki 2005, p. 480).

3. Regulatory strategy, subjectivity, and the performativity of corporate governance

Key to understanding corporate governance as a practice in Schatzki's sense is a conception of corporate governance activity as performative. By this we mean that in drawing on the practical understandings, rules, and teleo-affective structures of corporate governance practice, its constituent activities themselves establish the precise meanings of good and bad corporate governance in the specific circumstances. In the process the activities change to a greater or lesser extent the relevant practical understandings, rules, and teleo-affective structures of the practice and thereby alter it, as well as the subjectivities of practitioners.

Relevant extant research into regulatory strategy, subjectivity, and the performativity of corporate governance includes Young's (1994, 1995, 1996, 2003, 2006) work on the performativity of the fundamental principles that are supposed to underlie accounting standards. Inspired by Burchell et al. (1985), Young (1994) traces the outlines of the regulatory space in which financial reporting regulation is constructed. The concern is to demonstrate that attempts at regulation are neither natural nor inevitable. Rather they represent ongoing and changing attempts to construct both problems and solutions as appropriate. This line of argument is developed further in Young (1995) with the explicit introduction of the notion of governmentality as a means to engage fruitfully with this complexity. This strand of theorising, which has played a significant role in developing understandings of management control practices in the accounting literature (Ahrens & Chapman, 2007), proves to be particularly relevant in the context of regulation.

Governmentality is concerned with programmes for the regulation and standardisation of behaviour and in particular the role of systematic bodies of knowledge and forms of representation in this process. These effects are traced in the development of an “appropriate” response to the savings and loan crisis, in Young (1995) for example, and are shown to have powerfully influenced FASB's interests and their ability to construct solutions to the challenge of accounting for other developments (Young, 1996; 2003). Perhaps most fundamentally of all, however, the theorisation of discipline and distancing bound up with governmentality are traced in the construction of the primary purpose of financial reporting as now understood, in terms of the satisfaction of user needs in Young (2006). This latter article carefully traces the various steps and strategies through which something that was initially called for by only a minority of those involved in an early consultation (Miller, 1990) comes to be adopted as the contemporary *raison d'être* of financial reporting.

In her conclusion, Young notes the subtle repositioning of user needs effected through their connection to a particular understanding of the role of the capital markets and financial reporting. The effect is to position the task of regulators as satisfying the needs of users as they had become constructed (Young, 2006). Here the programmatic

intention was the reproduction of rational economic thinking. Quoting Shearer (2002), Young (2006) notes that this represents a choice that focuses accountability on a relatively narrow notion of financial performance to the exclusion of discussions of wider moral responsibilities that also might be owed to parties beyond shareholders. However, even from a shareholder perspective, this approach serves to build on the relative lack of participation on the part of shareholders in the determination of even their own interests. In an ironic twist of the principal-agent model, financial statement users have (at least for now) allowed themselves to be normalised, and so made governable, rather than governing.

A related debate concerns the specific approach to regulation that might most appropriately be employed. A common framing of this question is one of the adoption of a rules versus a principles based approach. Most writers recognise the interplay between these two rather than seeing them as strict opposites (e.g. Alexander & Jermakowickz, 2006; Bennett, Bradbury & Prangnell, 2006; Benston, Bromwich & Wagenhofer, 2006). Nelson (2003) structures his review of the literature around the distinction, but clearly sets out up front the pragmatic rather than fundamental nature of this structuring device. Principles are important in attempts to govern decision-making and behaviour but they risk being too abstract. The use of examples (rules) plays a valuable complementary role therefore. Likewise, whilst examples or rules are important, they can quickly form an incomprehensible mass of apparently contradictory suggestions and so principles can be helpful abstraction devices.

Principles are subject to creative accounting (Griffiths, 1992) and rules to creative compliance (Shah, 1996). In an intriguing interplay between the two, Sir David Tweedie referred to the “creeping crumble” whereby auditors anxious about the interpretation of a regulation would ask for more specific examples to clarify regulatory intent. These examples can, however, go on to be mobilised by others as if the example was a general rule rather than a context specific indicator of regulatory principle. Studies of regulation in practice have demonstrated that attempts to construct arms length disciplining of behaviour quickly runs into the challenge of engaging with the potential interests and creativity of those who were meant to be controlled (McBarnet & Whelan, 1999; McBarnet & Whelan, 1991; Shah, 1997).

Recent regulatory responses to such challenges have been a tendency to move towards tighter and tighter prescription leaving supposedly less and less room for discretion (to be abused) on the part of the regulatee. The underlying assumptions behind such reasoning are borrowed from agency theory. John Roberts (2001) summarises the agency assumptions that underlie much corporate governance thinking (see figure 1, section a). Agency theory takes as a given the self-interested, opportunistic character of managers and infers from this a highly specific requirement for control. Managers/agents are required by the shareholders/principals to agree to accountability schemes whereby their performance is connected to defined payoffs. Likewise managers/agents want to engage in such contracts to prove their high effort to the shareholder/principal. Either way the idea is to set up an arrangement to reward high effort and punish shirking in order to create greater shareholder value. The assumption of the conditional payment contract is that organisational performance allows some conclusions about managerial effort. In a management control context, Weick and Karleen Roberts (1993) have referred to such a scheme based on

straightforward objective functions and easily calculated payoffs based on defined performance matrixes as a 'simple system'.

[figure 1 about here]

Drawing on Foucault's ideas on the production of subjectivity, which also underlie accounting research into governmentality, John Roberts (2001) reverses the causality between the subjectivity of managers and the accountability arrangements of organisations. The implication is that organisations have a choice over their accountability arrangements. If managers are not by nature strictly self-interested but if, instead, observed instances of self-interestedness are the result of particular accountability arrangements that merely assume the self-interested nature of managers then it is possible to devise accountability mechanisms that can produce a different sort of subject as manager.

Roberts' vision for that alternative subjectivity is grounded in his extensive field research into senior management leadership and boardroom processes. He found that under conditions of frequent face-to-face contact and in the absence of large formal power differentials socialising processes of accountability can develop. Those processes give rise to a sense of deep interrelatedness among participants. The self comes to be seen to exist, function, and flourish in its interrelation with others. Work and performance are regarded as outcomes of group activity rather than heroic individuals. Roberts acknowledges that the production of trust in the face-to-face relationships in the boardroom often needs to go hand in hand with the production of trust at a distance between the board and investors. The latter is usefully achieved with the sort of financial accountability that is seen to satisfy the relationships postulated by agency theorists. This is why it can be desirable to have social and individual accountability work in parallel in the same organisation.

What is missing from the agency version of accountability, as well as Roberts', is a sense of how corporate governance practitioners respond to regimes of accountability and how they can contribute to shaping them. Agency theory is deterministic in its portrait of the nature of agents and the regime needed to extract performance from them. Roberts' governmentality-inspired alternative sheds light on some of the processes of the production of specific kinds of subjectivity through the operation of different sorts of accountability regimes but it remains silent on the ways in which corporate governance practitioners, such as managers, internal auditors, directors, investors, regulators, or financial analysts, can respond to specific regimes, how they evaluate the adequacy of those regimes, and how they might go about changing them. Likewise it would be important to consider how the economic, social, environmental, etc. consequences of accountability processes and practices can come to influence, for instance through their mobilisation by corporate governance practitioners, the future of those processes and practices. To put it simply, Roberts' scheme focuses on outlining the different modes of accountability but leaves out the repercussions of subjectivities and consequences for the kind of accountability which gave rise to them.

Likewise, a theory of corporate governance practices should be able to conceptualise the intricate relationships between programmatic demands, technical solutions, and practical effects. Shah (1996), Young (2006), and Roberts (2001) all contribute to

practice research into corporate governance by showing how different corporate governance practitioners seek to make other practitioners in the image of their own programmes. Shah's (1996) tracing of some of the ways in which financial reporting can be made to be compliant with regulation is an instance of the ordering of context through action. Young's (2006) concern with the making of users through the shaping of political discourse marks her as a practice theorist. Roberts (2001) locates his governance research within the field of practice theories through his emphasis on the social constitution of routines and the self.

Like the extant corporate governance research that has been rooted in the motivations, perceptions, and incentives of individuals, these theorists have focused on the diverging interests of the diverse groups involved in corporate governance. Young (2006) has shown how a regulator has favoured certain powerful interests in conceptualising the regulation. Shah (1996) has shown how powerful business interests can keep the upper hand in interpreting disclosure and reporting rules. And Roberts (2001) has argued how regulation can further amplify differences in outlook between executive and non-executive directors.

4. Developing a practice of corporate governance through shared bases for judging good and bad behaviour

And yet, if corporate governance is a practice then it must by definition exhibit instances of shared learning between practitioners in action. At the centre of much corporate governance activity lie the production, circulation, and consumption of corporate information. Such information serves to discharge accountability in various tiers of accountability relationships, principally between the organisational members and management, management and the board, and the board and shareholders and stakeholders, with regulators mediating in particular the relationship between the board and shareholders.

However, accountability is not simply discharged from organisational members to management, management to the board, etc. Through particular histories of interaction those who report, those who receive information, and those who regulate the relationship all seek to construct one another's identity in ways which facilitate quite specific forms of accountability (Roberts, 2001; Shah, 1996; Young, 2006). Accountability between producers and consumers of information is mutual. The party that is informed is not a passive consumer of information. Instead, the production, circulation, and consumption of corporate governance information are highly political. They can give rise to attempts at avoiding accountability (e.g., Shah, 1996; Young, 2006) but also produce opportunities for shared learning (e.g. Roberts et al., 2005). In this section we borrow empirical material from published fieldwork principally into board meetings and, specifically, the relationship between executive and non-executive directors and the relationships of the audit committee.

4.1 The board of directors practicing corporate governance

The management-board relationship might best illustrate the notion of mutual accountability. Management prepares reports for the board, including the non-executive directors. Good non-executive directors, however, find ways of questioning the reports and asking for additional information in ways that enable them to bring their outsider experience to bear on the deliberations and actions of management such that they improve. They are accountable to executive directors to strengthen the executive by drawing on the business experience that made them eligible for their non-executive role in the first place. Depending on the situation, such improvement might mean that organisational action becomes more resilient to a recession, better accommodates the demands of government or trade unions, enhances product appeal, secures new product markets, guards against currency risks, etc.

Meetings of the board of directors can be instrumental in bringing about shared learning that may result in such improvements for the corporation. In many jurisdictions the rules of corporate governance have articulated clear expectations of the functions, frequency, and composition of board meetings and the roles of chairman and non-executive directors in relation to company management and the executive directors. Those rules give partial expression to teleo-affective structures of corporate governance. Such structures can also be articulated through the doings and sayings of directors that may be motivated by highly specific insights that non-executive directors may develop. They may draw on conversations with junior managers, government officials, investment bankers, or industry regulators or be motivated by their own observations of company sites, concerning, perhaps, health and safety practices, pollution, or organisational culture.

To function effectively as a director familiarity with the rules and the teleo-affective structures of corporate governance are, therefore, necessary but not sufficient. How is one to use particular insights to raise issues at the board that the other directors have not identified as important for the company? For example, how were the directors of Northern Rock in the run-up to its 2007 liquidity crisis to articulate the risk that was inherent in the reliance on inter-bank lending for financing retail mortgages? Alternatively, how is one to bring to bear the rules of governance on those issues that already occupy the board? What if the rules are in conflict with one another? What if they conflict with important projects and ends of management and shareholders? Which aspects of the teleo-affective structure should be emphasised and which are less pressing?

Schatzki (2001, 2002) defined practical understanding, the third determinant of practices beside rules and teleo-affective structures, as abilities that pertain to actions that compose a practice. Practical understanding is not an understanding defined in isolation from a practice that could then be somehow "applied" to that practice. Rather, it is an understanding of how to go about the doings and sayings that make up the practice. It is, therefore, essentially a part of the practice. For example, without the chairman's practical understanding of how she can pursue her corporate governance reform agenda of reconstituting the remuneration committee in order to stop ratcheting directors' pay, she may still make changes to the remuneration committee but they would not form part of the practice of corporate governance. Practical understandings thus reside in doings and sayings that derive practical meaning from their motivation in rules and teleo-affective structure.

The requirements of corporate governance rules and teleo-affective structure in relation to board meetings can make great demands on the practical understandings of the chairman and the other directors. Extant corporate governance research that has focused on individuals' motivations, perceptions, and incentives has given much attention to the role of the non-executive directors and their relationships with the executive directors and the chairman. That role is often seen in a tension between collaboration and control. Non-executive directors are appointed in order to support and advise executive directors but also in order to use their own experience to warn and criticise.

In order to clarify how this tension might work out in practice, Roberts et al. (2005) conducted some field research into UK boards of directors. They suggested that collaboration and control are equally important for corporate governance but that they can be exercised more or less effectively. To give some substance to what it means for non-executive directors to practise corporate governance effectively they identified three couplets of characteristics that non-executive directors should seek to combine in the right manner.

The first was "engaged but non-executive" (p. S13). The requirement here was that non-executive directors should seek to become knowledgeable about key aspects of the business, for example, by visiting factories and key customers, and accompanying managers on trips. Yet they should not see themselves as assuming executive responsibility but stand back from the day-to-day demands of operations. Such distancing, combined with the detailed knowledge of important facets of the business would enable them to make valuable observations and suggestions without wanting to take charge of the executive.

The second was "challenging but supportive" (p. S14). It referred to the ability of non-executive directors to use their experience to define appropriate benchmarks for performance and process and to test the executive directors' abilities to meet those benchmarks. It was seen to be important that such testing be done persistently but also constructively, with the objective of being able to support the executive directors after establishing that appropriate benchmarks had been met.

The third was "independent but involved" (p. S15). Independence was seen as an ability to make independent judgements by keeping an open mind and a distinctive perspective that draws on different but complementary sets of experience. From the point of view of a distant investor, independence may have overtones of suspicion. In ongoing working relationships at board meetings, however, suspicion is not a helpful trait. It would make it difficult for non-executive directors to obtain vital information because those who could give it to them would expect the non-executives to interpret it suspiciously and not in the knowledge that the executives are pursuing multiple objectives under challenging circumstances.

Common to those three couplets are activities that afford opportunities for learning that is shared by different groups of corporate governance practitioners. Even though executive directors and non-executive directors are given different remits by the rules of corporate governance and possess different motivations, perceptions, and incentives in their work it is possible that in processes of learning how to improve the governance of the corporation together those two groups of directors create genuinely

shared teleo-affective structures and practical knowledge, and perhaps also rules of thumb.

The key difference between this notion of shared learning and the compromises between different standpoints described by the extant corporate governance research that focuses on individuals' motivations, perceptions, and incentives is that shared learning is created in action. Practice theory emphasises the creativity that is specific to the situation and the practitioners. Because of this creativity the resulting changes to a practice's teleo-affective structures may be more radical than what can be achieved in compromises that are not the result of shared learning in action.

4.2 The audit committee practicing corporate governance

Since the New York Stock Exchange endorsed the concept of audit committees in 1939 the role of audit committees have been seen as primarily overseeing the integrity of financial information provided by management. Although such role is hardly contested, the effectiveness of such committees has been the subject of debate for decades. Many studies suggested that audit committees lack the depth of insight to challenge effectively senior management. The functioning of audit committees became more pertinent especially after major corporate failures, such as Enron and WorldCom. The Sarbanes-Oxley Act has turned some requirements of custom and practice into statute.

Research has thus far mainly focussed on examining the structural setup of the audit committee (e.g. number of members and their expertise, frequency of meetings, formal aspects such as the preparation of agendas and papers and the writing and follow-up of minutes), rather than examining its interaction with management and internal and external auditors and other processes that may lead to their effectiveness or lack of it.

There have, however, been a number of recent process oriented studies that have variously shed light on the functioning of audit committees. For example, Turley and Zaman (2007) have reported on audit committee practices in a UK case company and found through informal processes involving mainly the audit committee chairman, he was able to respond to various irregularities in the company by engaging in shared learning with among others senior management and the head of internal audit.

Gendron et al. (2004) conducted field work in three Toronto Stock Exchange listed companies about the role of audit effectiveness. By focussing on some of the practices of the sampled companies, they highlight the centrality of the notion of comfort to conferring trust during audit committee interactions and meetings, which results in more information disclosure from the parties involved. Central to the notion of comfort was a sense by the members of the audit committee that different corporate officers offered them explanations of issues of concern that added up to a coherent story of what the problem was and how management proposed to address it. Audit committee members referred to this sense as "smell tests". The production of comfort was a result of shared learning between audit committee members and senior management about how best to communicate about internal audit issues.

A further example of the shared learning advance by audit committees comes out of a survey study (Beattie et al., 2000) that suggested that the work of audit committees produces discussions rather than negotiations between audit committees and boards of directors that help generate jointly conceived solutions to audit issues.

Still within the practice of auditing but without involvement of the audit committee, McCracken et al. (2008, p. 373) report how a company's Chief Financial Officer and his lead external audit partner discussed their heated discussions, that could generate solutions that come out of the collaborative search for solutions that would best apply GAAP to the specific context of the company.

5. Discussion and conclusions

At heart corporate governance aims to regulate the activities of corporations. This is a deceptively simple remit however, since both the ends and means of such regulation are multifaceted and subject to ongoing challenge and revision. Contemporary debates around the nature of corporate social responsibility, for example, raise fundamental questions concerning the rights to protection of the interests of shareholders versus other stakeholders (e.g. Owen, Swift, Humphrey & Bowerman, 2000). Setting aside this question of whose interests should be protected, the nature of protections that might be considered a part of corporate governance range from legislated actions (and prohibitions) through to statements of aspirational best practice in the reports of public (and private) bodies. The range of institutional arrangements for the monitoring, enforcement or discussion of compliance with such prescriptions are equally varied, ranging from the legally mandatory services of a profit seeking third party in the form of auditors, through the unpaid intervention of not for profit lobbying groups, to the voice of a single shareholder.

Extant corporate governance research has sought to conceptualise this complex field as an engagement between diverse individuals, giving rise to a complex system of aggregate interests. Corporate governance appears inherently antagonistic when viewed as such an engagement. By contrast, practice theory can highlight areas of genuinely shared learning because as a functioning practice corporate governance needs common bases for judging good and bad behaviour.

This kind of practice theory is in some respects conservative. It works with definitions of practices, such as corporate governance, that rely on contemporary dominant coalitions of actors who assure us that they have ways of designing good processes and that that is what corporate governance should concentrate on. The notion of practice as a complex but ultimately empirical phenomenon can serve as a basis for, but does not immediately invite, criticism that is motivated by perceived undesirable outcomes. In relation to criticisms of corporate governance practices, a typical recommendation to activists and stakeholders might be to try to influence the shareholders and let them make the stakeholders' claims on their behalf.

Crucially, however, a practice perspective opens up the corporate governance arena for greater engagement with diverse normative debates. Much corporate governance discourse has been couched in very formal terms, emphasising for example

transparency and due process. At heart, however, corporate governance practice is normative, seeking to open up governance for example to the ideals of capital market efficiency, shareholder democracy, or sustainable economy. They have very different implications for the future shape of the economy. Yet the formal corporate governance discourse speaks to the requirement to deal with those diverse normative agendas in a distancing way, somehow taking the normative sting from the tail of individual action. Normative agendas appear then merely technical and objective, much as political questions of the distribution of economic surplus can be made to appear technical through accounting discourse.

A practice perspective offers opportunities for reengaging corporate governance with normative agendas by drawing our attention to the ways in which normative agendas are collectively constructed through the active participation of diverse interested parties (c.f. Cooper & Owen, 2007). From a practice perspective activism therefore has an important role to play. Corporate governance is not best served if those in whose names regulation is made behave, and are treated like, passive consumers of information. It does not help corporations if non-executive directors fail to engage and simply listen to the reports from executive directors. Nor are corporations best served by shareholders who take no interest in, or responsibility for, their investments.

By foregrounding activity practice theory delineates a communicative space for the discussion of what, in the abstract, often appear as insurmountable differences of principle. In action, opposing principles can be negotiated practically. From the practice point of view such discussion is about shared learning, not winning contests because an important part of practising is to change resources of corporate governance in the processes of adopting them, and feeding them back into the domain of shared practices. Functioning practices are characterised by lively interaction between practitioners. Practice theory also cautions against the ready adoption of management control theories to corporate governance because this tends to reduce unduly the space for defining the objectives of the corporation.

Practice theory can identify the unfolding project of corporate governance through the various pieces of regulation. It can also identify that the actions of individuals who seek to follow the broad corporate governance agenda but who, without much practical guidance, are finding it difficult. One would hope that it can contribute to changing a situation in which corporate governance appears too often as a residual practice, overshadowed by older, internally and externally better connected practices. In this the notion of a teleo-affective structure that can accommodate more diverse standpoints than any one individual's ends and objectives is a useful resource. Offering a synthetic framework beyond lists of components of good corporate governance, such as ethical and dedicated practitioners or incentives that recognise good corporate governance as well as good organisational performance, a practice theory of corporate governance focuses on the arrays of activity through which ethical convictions can be brought to bear on corporate governance, and incentives can be made to connect corporate governance with organisational performance.

Figure 1 from Roberts (2001)

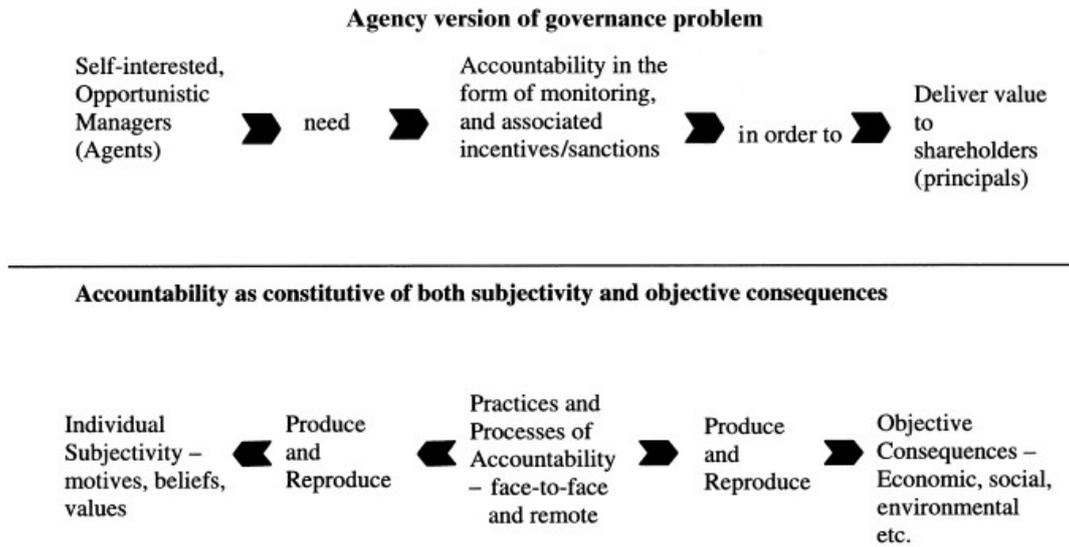


Figure 1 Reconceptualizing governance

References

- Ahrens, T., & Chapman, C.S. (2004). Accounting for flexibility and efficiency: A field study of management control systems in a restaurant chain. *Contemporary accounting research* 21, 271-301.
- Ahrens, T., & Chapman, C.S. (2007). Management accounting as practice. *Accounting, Organizations and Society* 32, 1-27.
- Alexander, D., & Jermakowickz, E. (2006). A true and fair view of the principles/rules debate. *Abacus* 42, 132-264.
- Barnes, B. (2001). Practice as collective action. In T.R. Schatzki, K. Knorr Cetina, & E.v. Savigny, *The practice turn in contemporary theory*. London and New York: Routledge, pp. 17-28.
- Beattie, V., S. Fearnley, & R. Brandt (2000) Behind the Audit Report: A Descriptive Study of Discussions and Negotiations Between Auditors and Directors, *International Journal of Auditing* 4 (2), 177-202
- Bennett, B., Bradbury, M., & Prangnell, H. (2006). Rules, principles and judgements in accounting standards. *Abacus* 42, 189-204.
- Benston, G., Bromwich, M., & Wagenhofer, A. (2006). Principles- versus Rules-Based Accounting Standards: The FASB's Standard Setting Agenda. *Abacus* 42, 165-188.
- Bourdieu, P. (1992). *The Logic of Practice*. Cambridge: Polity Press.
- Burchell, S., Clubb, C., & Hopwood, A.G. (1985). Accounting in its Social Context: Towards a History of Value-Added in the United Kingdom. *Accounting, Organizations and Society* 10, 381-413.
- Burns, J., & Scapens, R. (2000). Conceptualizing management accounting change: and institutional framework. *Management Accounting Research* 11, 3-25.
- Cadbury, S.A. (1992). *The Financial Aspects of Corporate Governance - a report of the committee on corporate governance*. London: Gee and Co.
- CIMA. (2000). *Corporate Governance - History, Practice and Future*.
- Cooper, S.M., & Owen, D.L. (2007). Corporate social reporting and stakeholder accountability: The missing link. *Accounting, Organizations and Society* 32, 649-667.
- Dalton, C.M., & Dalton, D.R. (2005). Boards of Directors: Utilizing empirical evidence in developing practical prescriptions. *British Journal Of Management* 16, S91-S98.
- Giddens, A. (1979). *Central problems in social theory: Action, Structure, and Contradiction in social analysis*. Berkley, CA: University of California Press.

- Griffiths, I. (1992). *Creative Accounting: How to make your profits what you want them to be*. London: Routledge.
- Hampel, S.R. (1998). Committee on Corporate Governance; Final Report. London: Gee and Co.
- Kurunmäki, L. (1999). Professional vs financial capital in the field of health care - struggles for the redistribution of power and control. *Accounting, Organizations and Society* 24, 95-124.
- McBarnet, D., & Whelan, C. (1999). *Creative accounting and the cross-eyed javelin thrower*. London: John Wiley.
- McBarnet, D., & Whelan, C.J. (1991). The Elusive Spirit of the Law: Formalism and the Struggle for Legal Control. *The Modern Law Review*, 838-873.
- McCracken, S., S. E. Salterio, & M. Gibbins (2008) Auditor–client management relationships and roles in negotiating financial reporting, *Accounting, Organizations and Society* 33, 362-383.
- Miller, P.B.W. (1990). The conceptual framework as reformation and counterreformation. *Accounting Horizons* 4, 23-32.
- Nelson, M. (2003). Behavioral evidence on the effects of principles - and rules based standards. *Accounting Horizons* 17, 91-104.
- Owen, D.L., Swift, T.A., Humphrey, C., & Bowerman, M. (2000). The new social audits: accountability, managerial capture or the agenda of social champions? *European Accounting Review* 9, 81-98.
- Roberts, J. (2001). Trust and control in Anglo-American systems of corporate governance: The individualizing and socializing effects of processes of accountability. *Human Relations* 15, 1547-1572.
- Roberts, J., McNulty, T., & Stiles, P. (2005). Beyond agency conceptions of the work of the non-executive director: Creating accountability in the boardroom. *British Journal Of Management* 16, S5-S26.
- Roberts, J., Sanderson, P., Barker, R., & Hendry, J. (2006). In the mirror of the market: The disciplinary effects of company/fund manager meetings. *Accounting, Organizations and Society* 31, 277-294.
- Schatzki, T.R. (2001). Practice mind-ed orders. In T.R. Schatzki, E. von Savigny, & K. Knorr Cetina, *The practice turn in contemporary theory*. London and New York: Routledge, pp. 42-55.
- Schatzki, T.R. (2002). *The site of the social*. University Park, PA: Penn State Press.
- Shah, A. (1997). Exploring the influences and constraints on creative accounting in the United Kingdom. *European Accounting Review* 7.

- Shah, A.K. (1996). Creative Compliance in Financial Reporting. *Accounting, Organizations and Society* 21, 23-39.
- Shearer, T. (2002). Ethics and accountability: from the for-itself to the for-the-other. *Accounting, Organizations and Society* 27, 541-573.
- Taylor, B. (2001). From corporate governance to corporate entrepreneurship. *Journal of Change Management* 2, 128-147.
- Turley, S., & Zaman, M. (2007). Audit committee effectiveness: informal processes and behavioural effects. *Accounting, Auditing and Accountability Journal* 20.
- Weick, K., & Roberts, K. (1993). Collective Mind on Organizations: Heedful Interrelating on Flight Decks. *Administrative Science Quarterly* 38, 357-381.
- Young, J.J. (1994). Outlining regulatory space: Agenda issues and the FASB. *Accounting, Organizations and Society* 19, 83.
- Young, J.J. (1995). Getting the accounting "right": Accounting and the savings and loan crisis. *Accounting, Organizations and Society* 20, 55.
- Young, J.J. (1996). Institutional thinking: The case of financial instruments. *Accounting, Organizations and Society* 21, 487.
- Young, J.J. (2003). Constructing, persuading and silencing: the rhetoric of accounting standards. *Accounting, Organizations and Society* 28, 621.
- Young, J.J. (2006). Making up users. *Accounting, Organizations and Society* 31, 579.