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## CORPORATE HARMONY AND CONFIDENCE BUILDING SPHERES ON THE FINANCIAL MARKET

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# CORPORATE HARMONY AND CONFIDENCE BUILDING SPHERES ON THE FINANCIAL MARKET

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## Summary

As the last financial crisis was caused by abuse of trust on the part of the financial institutions, this paper describes a proposed structure integrating sustainability and ethics based on trust and confidence. The author describes relations between business ethics and some theories of corporate governance and then sketches a square of rules and regulations in which the financial market with its regulations is immersed, split into four overlapping sectors of financial market law, company law, codes of best practices and corporate governance principles. Interactions between these sectors lead to the creation of an inner circle describing the integration sphere where all the areas merge together in harmony. The author then asks a question of whether trust can be measured and presents a possible solution with an example developed by the Hong Kong Institute of Directors. Lastly, the author formulates a proposal for the broadest understanding of corporate governance – corporate harmony.

## Keyword list

corporate governance, corporate harmony, business ethics, trust, confidence, financial market, financial institutions

## Introduction

The last financial crisis has already been named by several commentators as a crisis of trust that came about as a result of financial institutions abused the trust of their clients and shareholders on an unprecedented scale. It disrupted a process of sustainable development of financial institutions, largely due to unethical behaviour on the part of their managers. That negative relation was widely debated not only by commentators and journalists but also by governments and international organisations. There is a general understanding that something has to be done to restore trust and confidence in financial markets. We can find strong declarations at the highest levels that *“in a context of crisis, authorities must consider how to safeguard competition principles without hampering policy measures to avoid a slump or the erosion of trust in the financial sector”* (OECD, 2009a, p. 11). However, when we get down to more specific documents, such as another OECD report (OECD, 2009b) that identifies the major corporate governance weaknesses in financial institutions and tries to provide recommendations for some improvements, what we see, surprisingly, is that the words “trust” or “confidence” disappear completely. Several topics are discussed there, like remuneration and a system of incentives for high-level managers together with shareholders’ involvement in the process, risk management standards and practices, board responsibilities and fiduciary duties. All of that requires mutual trust and confidence, but those words never appear in the report.

It might seem like corporate governance had nothing in common with business ethics, which obviously is not true. In a recent study, Nordberg (2010) examines three main theories of corporate governance: agency theory, stewardship theory and stakeholder theory. Based on those theories he examines a role of ethics in corporate governance, discussing three ways in which it can be approached: as teleological, deontological or virtue ethics. One of his conclusions is that *“the link to the ethics of corporate governance comes in what directors aspire to achieve”* (Nordberg, 2010, p. 185) and he compares what implications those three theoretical perspectives may have on such a practical outcome as behaviour of individual directors and of whole corporations. The author has set out a table below that more concisely presents a table constructed originally by Nordberg (2010, p.186).

Table 1: Ethical Perspectives on Corporate Governance

Ethical Basis	Factor	Individual Focus	Corporate Focus
Teleology	Governance approach:	Agent-principal	Shareholder value
	Ethical assumption:	Ethical egoism	Utilitarian
	Outcome:	Greed is good. Unfettered agent	Directed greed. Channelled agent
Deontology	Governance approach:	Narrow stewardship	Strong stakeholder
	Ethical assumption:	Personal duty	Social responsibility
	Outcome:	Potential for interpersonal conflict	Potential for suboptimal performance
Virtue	Governance approach:	Personal stewardship	Collective stewardship
	Ethical assumption:	Higher-order personal achievement	Higher-order collective achievement
	Outcome:	Esteem, self-actualization	Long-term value creation

The above table explains the different outcomes that may result from different governance approaches and ethical assumptions. If we define the stewardship theory of corporate governance as a model where managers are *“motivated by a need to achieve, to gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority, and thereby to gain recognition from peers and bosses”* (Donaldson and Davis, 1991, p. 51), we can derive from this table that virtue ethics expresses itself in the stewardship approach to doing business. This is a model in which trust and confidence play a crucial role and the results may be optimal, in which satisfied managers earn esteem and create long-term value of “their” company. As Nordberg (2010, p. 187) explains, *“in a virtue-based system, individual and collective aims seem to be self-reinforcing”*. However, mechanisms have to be implemented to support such an approach and prevent would-be stewards from becoming frustrated and turning into unfettered agents. Here the author sets out an integrated corporate governance model based on a well-balanced equilibrium between all regulation and self-regulation spheres. The paper develops an idea of a rules and regulations square specified earlier (Grabowski, 2010) that leads to a concept of full corporate harmony, built on trust and confidence. This specific square is constructed for the financial market case, but may be easily applied to any branch or business area.

### Financial markets’ customers

An average recipient of financial services, if asked to give an example of a financial institution, will answer immediately: “bank”. That is the most obvious reaction, as banks or credit institutions have been around “from time immemorial”, or at least since the invention of money. But it would be difficult to imagine a modern market economy without several other financial institutions that constitute financial and capital markets, enabling easy and constant flow of funds and financial assets. Those are investment firms, also known as brokerage houses, that may exist within bank structures or function as independent entities. Their main role is to enable access to stock exchanges for anybody wishing to buy or sell shares of listed companies or other financial instruments. Those are investment funds that facilitate that access and relieve investors from the necessity of constantly following stock prices and all the market information. Those are pension funds that invest our money to ensure our future pensions. Other tasks are performed by insurance companies that may also act as investors on the capital market, but their primary function is

to collect and reinvest assets (that we pay in instalments) to be re-paid when something unexpected (or expected) happens. Very often those roles merge, as is the case with well-known insurance funds performing some of the functions of investment funds. We can also find a whole spectrum of different financial intermediaries such as bank advisors, investment advisors, securities brokers, investment firms agents, insurance agents and brokers, and several others.

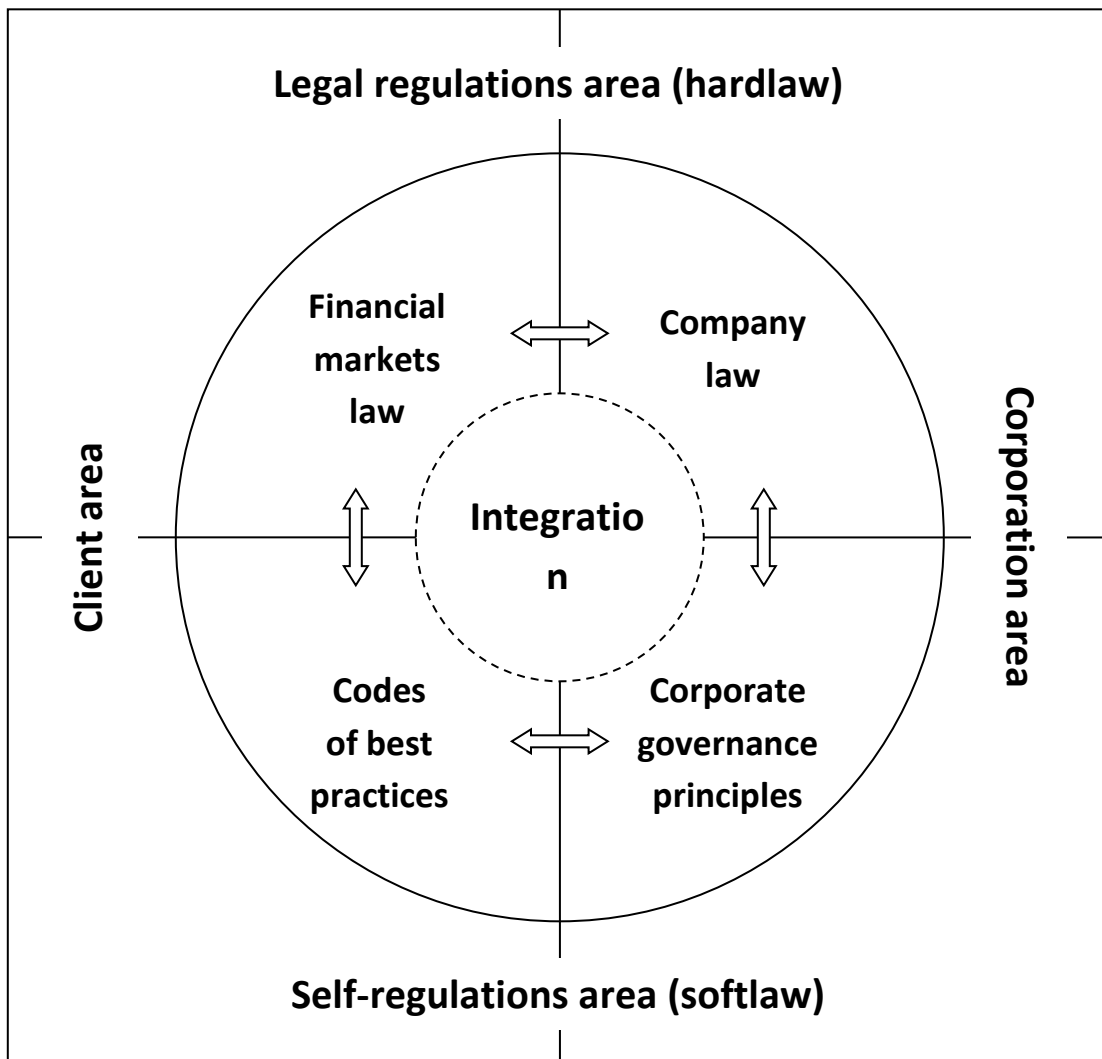
In this whole variety of different financial institutions and intermediaries, there is one thing in common: we entrust all of them with our financial assets that we earn during our lifetimes in the hope that these will be reasonably managed to assure our future profits or to safeguard us against losses. We entrust them with our fortunes in the confidence that they will not be lost. We entrust them with trust...

### **Confidence building spheres**

We have just described the issue from the point of view of those who should trust financial institutions, but are afraid that their trust might be abused. Those are clients or customers, but not only that. The question is much more interesting as almost all big banks in Poland (and in several other countries) are stock companies that are often listed on the stock exchange. Their shares therefore may be bought by everybody, even by the same clients or customers described above, who enter into quite another relation with the banks – as their shareholders (which function should obviously also be read as “owners”). They may become shareholders with their direct investments or indirectly through investment or pension funds, or insurance companies that invest their money on the stock exchange. So even without their full knowledge of that fact, those customers enter into an inevitable conflict of interest, as they are to have an interest not only in their personal profits as customers but also in the long-term value of banks as their shareholders. When we look back at how listed banks are regulated, we can see they function not only under financial regulations but also under company law and other corporate regulations. We can thus specify two distinct (or not so distinct, as we will see further on in the paper) areas of regulation. Financial regulations are devised to protect clients from financial institutions, and corporate regulations are devised to protect their owners (i.e. their shareholders).

On the other hand we can look at those areas of regulation from the point of view of their authors, so that we will obtain another classification – legally binding regulations (hard law) and self-regulations (soft law) that are created by market participants themselves. Such overlapping categories prompted the author to draft a diagram below, and to take consider how their mutual interactions may influence the trust building process on the financial markets.

Figure 1: Rules and Regulations Square



In the diagram we can identify three regulation layers: the first, basic layer represented by the rules and regulations square depicting the system of law in a given jurisdiction, the second layer sketched as an outer circle of regulations for a given field of activities with four specific sectors, and the third layer with an inner circle representing the integration sphere where all four sectors merge in harmony.

The financial market works within the rules and regulation area sketched as an external square cut into four smaller areas delimited by two perpendicular lines crossing in the centre. The vertical line splits the square into two main areas – the client area on the left-hand side with external relations between market institutions and their clients, and the corporate area on the right-hand side with internal relations between those institutions and their shareholders. The client area is mainly about relations between financial institutions as public trust institutions and their clients, and the corporate area is about relations between those institutions as corporations and their shareholders. The horizontal line splits the square into two other main areas – the hard law area on top with the entire body of law regulations applying to the market institutions and their clients, and the soft law area below with the entire spectrum of self-regulations.

The whole regulation system for financial institutions and their stakeholders is immersed in the external rules and regulation square. This is represented by an outer circle just inside the square, divided between four sectors according to the primary division described above. On the top left-hand side we can see the financial market law sector where the hard law area and the client area intersect, and below we can find the codes of best practices sector where the soft law area and the client area intersect. On the right-hand

side there are two remaining sectors: the company law sector on top where the hard law area and the corporation area intersect, and the corporate governance principles sector below where the soft law area and the corporation area intersect.

The most interesting part of that diagram is the two-directional arrows crossing the boundaries of the sectors. They symbolize a mutual penetration of boundaries, which will be discussed to a greater extent further on. The more we come to the central part of the diagram, the more this interpenetration becomes intensive, finally leading to the creation of an integration sphere represented by the inner circle. This circle is sketched with a dotted line to emphasize its flexibility, as it surrounds an area where all the regulation fields merge together in harmony. The author wants to show in the paper that the deeper and more harmonious this integration sphere is, the better conditions exist for building trust between financial institutions and all their stakeholders (both external customers and internal shareholders).

### **Interactions between client area and corporation area**

The mutual penetration of boundaries between these two areas is the easiest to identify, as several financial institutions are organised as stock companies (for some of them it is even a legal obligation). Those institutions consequently fall under company law regulations, and at the same time – under regulations appropriate for specific branches of financial market law – under banking law, capital markets law (the whole set of interconnected acts of law), insurance law, investment funds law, pension funds law, etc. The more those two regulation areas are consistent, the easier they are to apply and enforce, and the more effective they are. Such a clarity and uniformity of law promotes the protection of its “consumers”, which in this context we can refer to as being both financial institutions and their clients. That is because clear, effective and easy-to-understand regulations facilitate their usage and promote trust in the whole system of law and in all the institutions functioning under such a system.

These interesting relations can be observed in the self-regulation area at the lower part of the diagram, as the client of a bank may at the same time be a shareholder of that bank, especially when that bank is listed on the stock exchange. He is therefore interested in the highest level of protection of his client's rights and in the lowest level of all fees for the services the bank is providing to him, even if that comes at the cost of lower protection of the bank's interests as such. On the other hand, as a shareholder of that bank he is interested in the highest earnings, but the easiest way of creating high earnings is to make the fees as high as possible. But those are the same fees for services that his bank (where he is a shareholder) offers him as a client. The conflict of interests is obvious and makes a nice contribution to the discussion about what a “company interest” means. It may be resolved only when we consider the company interest in the holistic and long-term context, as in the short-term period the most important factor is quick profit only, with all other factors becoming unimportant. By contrast, when we consider the long-time perspective we easily discover that security and the bank's development become much more important, as they ensure a constant grow of client numbers and also the security of their deposits. The conscious client-shareholder will therefore tend to favour the equilibrium between the needs of “his” bank and its clients, leading him to the conclusion that the company interest should be understood as a mutual interest of all shareholders that understand and take into account the interests of all other stakeholders, including clients (which is the main motive of modern stakeholder theory).

Such reasonable client-shareholder will therefore be very careful to ensure that the self-regulations created by the bank or branch organisations take into account all those complex interdependences, promoting sustainable development of the bank itself and building long-term ties between bank and its clients based on mutual trust.

### **Interactions between hard law area and soft law area**

Let us start with the right-hand side of the diagram, namely with the corporation area, as it is more clear-cut and easier to examine. The author has already studied the issue (Grabowski, 2006) and analysed some best-known models of mutual interrelations between law regulations and self-regulations in the field of corporate governance, where corporate governance is understood as a splice of law regulations (mainly company law) and self-regulations (corporate governance codes and principles). In some models the regulation crux is shifted to provisions of codified law (hard law), in others more emphasis is put on corporate governance codes (soft law) that are developed and applied by the business environment itself on a more voluntary basis. However, the boundary is dynamic and we can identify its constant flow in both directions. The most typical movement is the “hardening” the law by absorption of particular principles of corporate governance in company law, but from time to time we can observe some softening

moves in the opposite direction, especially under a banner of “deregulation” that has become fashionable of late.

An interesting approach could be seen in the case of the shareholders rights directive (Directive, 2007). The directive introduced a set of universal regulations that are obligatory for all Member States, but left them a great deal of freedom in enacting some supplementary regulations allowing for a choice as to the area (hard law or soft law) in which they should be applied. One important condition, though, had to be observed: only those additional regulations could be implemented that were really necessary, and companies (with their shareholders) were given the freedom to decide whether and how they would like to use them. In his earlier paper (Grabowski, 2008, p. 486) the author discussed an interesting example of such an approach with the possibility (but only the possibility, not the necessity, to be decided by a given company) of casting votes by correspondence. In the Directive (2007, motive 12) it is specified as follows: *“while the timing of disclosure (...) of votes cast in advance of the general meeting electronically or by correspondence is an important matter of corporate governance, it can be determined by Member States”*.

One of the particular characteristics of self-regulations in the corporate area is that most often they are highly centralised – on a given market only one document with a corporate governance code exists that is directed to all companies listed on that specific stock exchange, and only in some exceptional cases may a few codes co-exist in one country. Such a central role is usually played by the stock exchange that develops a code with the co-operation of listed companies, which is then implemented on a comply-or-explain basis, which means: “comply or explain why you do not comply with the whole code or with specific provisions of that code”. We can observe different levels of that principle, starting with the basic “comply-or-explain”. A somewhat hardened version was chosen some years ago by the Warsaw Stock Exchange (WSE Rules, 2011, § 29(3)) where it is not enough to explain why you do not comply with some provisions, but you also have to explain *“how the issuer intends to remove effects, if any, of not having applied a given rule on an occasion or what steps it intends to take to mitigate the risk of the corporate governance rules not being applied in the future”*. According to the next model that might be called “comply-and-explain”, it is not enough to comply with the code, but you are also required to explain exactly how you comply with it. Something of that may be seen in a current requirement of the European Union capital markets to publish a corporate governance statement in an annual report of a listed company (this is a hard law regulation). The author then defines, somewhat jokingly, a “complain-and-explain” variation that might be described as: “you may complain that the code is too stringent, but you are nevertheless obliged to comply with it and explain how you do that”. The highest level of compliance may be simply named “comply”, which means “comply with no exceptions”, but in practice it is already a hard law regulation.

To avoid any doubts we have to stress that corporate governance does not limit itself to listed companies only, but is (or at least should be, as the author believes) an important issue for all enterprises where some relations between shareholders/owners and managing body/bodies may be identified. A new example of such an approach may be seen in corporate governance guidance developed by the European Confederation of Directors’ Association (ecoDa, 2010) and directed specifically to unlisted companies.

A much different and more complex situation exists in the client area on the left-hand side of the diagram. Apart from the set of acts of law mentioned earlier in the paper, we have to specify another set that deals directly with protection of consumers, clients and competition, including the Unfair Commercial Practices Directive (Directive, 2005). Especially the last one intervenes strongly in market practices, stating in hard terms which of them are “unfair practices” – no freedom is left for self-regulation here. The hard law area is highly centralised and regulated. Quite the opposite situation may be observed in the soft law area here, as the granulation in the codes of best practices sphere is really extensive in Poland. Let it suffice to say that over twenty different sets of such codes can easily be found on the most popular websites of different branch organisations of financial institutions only, not to mention those of other non-financial entities. An attempt was therefore made to prepare a Canon of the Best Practices on the Financial Market (Kanon, 2008), which sets out the basic virtues and ethical concepts common to all financial institutions. This is a good example of co-existence and infiltration of both areas – legal regulations and self-regulations, as the Canon was worked out together by thirty different organisations that are interested in sustainable development of the financial market and in the security of its participants. They represented not only all types of financial institutions and consumer protection organisations but also some governmental agencies, including the Polish Financial Supervision Authority.

### **Crossing the boundaries – recommendations and green papers of the European Commission**

The works of the European Commission on the field of corporate governance and company law are a good example how the boundaries of four sectors described above could and should be crossed. Let us begin here with four recommendations of the European Commission (2004, 2005, 2009a, 2009b) that create a set of complementary documents touching on some crucial problems of corporate governance in financial institutions and listed companies. Those problems, if left unresolved, can jeopardise confidence in the capital market. The Commission therefore proposes some corporate governance mechanisms that can help build trust in those institutions by setting some good standards in the relations between shareholders and managers. The first recommendation (2004) is about a remuneration regime of directors in listed companies; the second one (2005) about specific tasks of board in listed companies; and the third one (2009a) about specific remuneration policies in the financial sector. The fourth recommendation (2009b) compiles some mechanisms that are supplementary to initial recommendations (2004 and 2005). As a next step the European Commission (2010) issued a green paper on corporate governance in financial institutions and remuneration policies, starting a process of public consultations with several questions and proposals for future regulations. When we look at only the titles of those documents, we can easily conclude that they take up a subject of specific regulations concerning both the client area and the corporate area that are indicated in the rules and regulations square. The green paper clearly points out the overlapping interests of financial institutions' creditors (clients) and their shareholders, leading to the conclusion that *"the rules of corporate governance within financial institutions must be adapted to take account of the specific nature of these companies"*. Therefore *"the supervisory authorities, whose mission to maintain financial stability coincides with the interests of depositors and other creditors to control risk-taking by the financial sector, have an important role to play in shaping best practices for governance in financial institutions"* (European Commission, 2011, p. 4).

In all the above documents we can see a deep infiltration of the area of legal regulations and that of self-regulations. This was also emphatically pointed out directly by the European Commission (2005, motive 4), which invited Member States *"to take the steps necessary to introduce at national level a set of provisions based on the principles set out in this Recommendation, to be used by listed companies either on the basis of the 'comply or explain' approach [soft law area] or pursuant to legislation [hard law area]"*. Some conclusions were then converted into hard law directives specifically addressed to the financial institutions, but others concerning all listed companies are still being examined. Later on the European Commission (2011) opened a next step of public consultations with a green paper on the EU governance framework. The results were published during the corporate governance conference in Warsaw in November 2011 with a clearly stated intention to leave ample manoeuvring room for self-regulation.

Practice shows that the boundaries between particular sectors are floating and are delimited variously in different Member States. However, some specific differences may be observed between the Anglo-Saxon and continental systems. In the former, tradition and self-regulation play a leading role, whereas in the latter more emphasis is put on legal regulations. Poland is an interesting case, as company law there definitely follows the continental system. However, its capital market was rebuilt in the early 90s on American patterns (but with some French influences). It thus bears some resemblance to the Anglo-Saxon model. Maybe this is the reason why only a small number of recommendations discussed in this part of the paper have been implemented in the legal regulations area, like the obligation to disclose individual earnings of board directors in annual reports. The rest has been left in the self-regulation area, with some recommendations more or less touched on either in stock exchange corporate governance principles or even left as a matter to be decided autonomously by a company itself under the fashionable banner of freedom of entrepreneurial activity.

### **Integration sphere**

All the above considerations lead us to the inner circle in the centre of the rules and regulations square that delimits an integration sphere. This is the area where all four specific sectors discussed earlier co-exist in harmony. The better all the regulation areas are co-ordinated, the more this integration sphere is homogenous, clear and transparent for all financial market participants. In the deep integration sphere all regulations are consistent and no small-print provisions are hidden in regulations or advertisements. Only such a system creates a level playing field free of suspicions and fears of being cheated. Only then may an atmosphere of true co-operation and mutual trust be built effectively.

In that internal sphere some new and even more interesting initiatives or self-regulations may appear, amongst which the so-called stewardship code (not to be mistaken with the stewardship theory of corporate governance) is worth mentioning. As one example of such a self-regulation in Poland, a code created by two organisations, namely the Chamber of Fund and Asset Management (IZFiA) and the Chamber of Pension Funds (IGTE) should be pointed out (IZFiA and IGTE, 2006). This is a set of self-regulations for institutional (financial) investors who play a dual role in both the corporation and client spheres. On the one hand they are shareholders exercising their corporate rights, but on the other they earn those rights through individual investors entrusting them with their financial assets to be invested in listed companies. Those institutional investors therefore should exercise their corporate rights in such a way that the interests of the beneficial owners are respected, so as to promote relations built on trust and confidence.

The well-known OECD Principles of Corporate Governance (OECD, 2004) should also be situated in this sphere together with another important document that supplements the Principles with methodology for assessing their implementation (OECD, 2007). The methodology identifies directly the company law (marked at the right-hand side of the rules and regulations square, in the corporation area) and the securities regulation system that is part of financial market law (left-hand side of the square, in the client area). Of course it is all mainly about self-regulation, so all areas are covered there. The document is based on the assumption that it is not enough to examine the regulations only, as their assignment to specific regulation areas is less important than their practical simplicity and effectiveness. That is why another factor is also studied there, namely what recourse mechanisms are open to shareholders and other stakeholders when their rights are breached and how they are situated in the system as a whole. By way of general conclusion, it may be stated that even the best regulation system cannot be assessed positively if court procedures (which ultimately have to be applied to in the case of direct conflicts) are too slow or ineffective. Here, too, the soft law area might be useful, as *“in many cases (...) enforcement and redress might be handled by special courts and institutions such as arbitration tribunals. In forming a judgement, the reviewer should examine the effectiveness of such institutions and their achievements”* (OECD, 2007, p. 74). Other dispute mechanisms such as mediation can also be used. One good example to be cited here is a case from Poland in which mediation between a bank and its client helped to discover that no real conflict existed (since the mistake made by the bank was in fact of rather minor nature), but what was lacking there was a simple “sorry” that would have made the client completely satisfied with the result.

### **How can trust be measured?**

In the paper, trust is discussed extensively, so one question that naturally arises here is how trust can be measured, if at all. In several works some results of such studies are described relating to the effectiveness of good corporate governance in listed companies, but the author did not manage to find a study that would prove beyond a doubt any fully measurable connection between trust in listed companies and their value assessed by investors. Of considerable interest in this regard are the results of studies organised by the Hong Kong Institute of Directors and presented by prof. Cheung from the City University of Hong Kong (Cheung, 2007) that neither of these proved such a straightforward relation but allowed for examination of its volatility in time. In the study a Corporate Governance Index (CGI) designed on the basis of OECD Principles (OECD, 2004) was plotted against the ratio of market value to book value (market-to-book ratio) of companies listed on the Hong Kong Stock Exchange. A statistically significant positive relation was proved and further conclusions were presented by Cheung during the Asian Roundtable on Corporate Governance in May 2008 on the basis of a presentation prepared together with his colleagues (Cheung, Connely, Limpaphayom and Jiang, 2008). Amongst other things, the study showed that in 2003-2006 corporate governance practices measured by CGI were improving continuously. More interesting, however, were the next results that showed *“an asymmetric response between stock returns and changes in corporate governance practice”* that might be summarised in two points (with the second point consisting of two sub-sentences):

1. *Stock returns are less sensitive to improvement in CGI and more responsive to deterioration in CGI*
2. *Investors reward low-CGI (bad) companies for improvement but [impose] no penalty for deterioration, and penalize high-CGI (good) companies for deterioration but [provide] no reward for improvement*

If we try to translate those relations into the language of trust, we may derive the following three conclusions:

- A low-priced company whose level of corporate governance is improved substantially is rewarded in that it earns trust, which in turn translates into an increasing price of its shares
- A high-priced company whose level of corporate governance deteriorates substantially is penalized in that it loses trust, which in turn translates into a decreasing price of its shares
- Since trust is built slowly, an increase in share prices with an increasing level of corporate governance is insignificant in the short term; but trust is lost very quickly, resulting in a sudden decrease in share prices provoked, however, by a disproportionately moderate decrease in the level of corporate governance

The above conclusions are universal and valid in different circumstances. Psychological and pedagogical studies prove similar correlations: a decreasing level of social adaptation results in a sharp increase in antipathy to a given person or group, whilst an increasing adaptation level results in only a small increase in sympathy. Another correlation is well-known to all service providers: a disappointed client will leave away taking ten other clients with him, but a satisfied client will come back with only three new clients. Returning to our financial market area, we can only repeat that trust is built slowly, but may be lost very quickly.

### **Corporate harmony**

All the above considerations lead the author to make a proposal of a new definition of corporate governance understood very broadly as a whole set of relations between the company and its stakeholders built on mutual trust and confidence. Such a definition takes into account not only the company itself but also all the external regulation spheres, both legal regulations and self-regulations together with local corporate culture and tradition. As it seems to integrate not only the three main theories of corporate governance, namely agency theory, stakeholders theory and stewardship theory, but also the most basic notions of business ethics, the name “corporate governance integrated”<sup>1</sup> looks like the best one. This is even more adequate as it incorporates also the word “integrity” that is crucial when we try to describe a very good manager. But another name appears even better, which takes its source from the Polish name for corporate governance: “Ład korporacyjny”<sup>2</sup>. The Polish word “Ład” means in English “beauty”, but also “order” or “harmony”. The author strongly believes that “harmony” constitutes the best characteristics of really good corporate governance in its broadest sense, and therefore proposes the name “corporate harmony”.

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<sup>1</sup> I would like to thank dr. Boleslaw Rok from the Kozminski University who, after reading the first version of my paper, suggested the name “corporate governance integrated”.

<sup>2</sup> “Ład” should be pronounced something like “wad” or “wa:d”.

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