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The Importance of a Business Governance Plan

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Abstract In order for an organization to operate ethically, external and internal measures should be implemented to avoid misconduct of senior executives such as those leaders of Enron; investors suffered as executives flourished (Watkins, 2004). The Sarbanes-Oxley Act was introduced to externally oversee the financial guidelines of organizations (Sarbanes Oxley, n.d.). In addition to this external control, internal controls such as business governance plans should be in place to proactively combat unethical behavior regarding profits and earnings.

Index Terms—business governance plan, corporate governance, ethics, moral underpinnings, organizational integrity, unethical behavior, Cadbury committee.

1 Introduction

CORPORATE governance can be defined as a system formed by the relationship of many individuals, whose job it is determine the direction of an organization and ensure that direction results in a profit on its initial investment and mitigates associated risks (Shleifer & Vishney, 1997; Corina & Roxana, 2011). Because an organization's fate can be contingent on its governance plan, it is imperative that an organization wishing to be profitable has a plan in place (Corina & Roxana, 2011; Millar, Eldomiaty, Chong Ju, & Hilton, 2005). The goal of this research paper is to paint a comprehensive picture of business governance, its moral and political underpinnings, the relationship with organizational integrity, and issues and solutions. A discussion of implementation and recommendations will also be provided.

2 Major Components of a Governance Plan

A governance plan, in short, is a comprehensive plan of best practices. These best practices, in conjunction with a governing structure are the foundation of a business' success (Business Roundtable, 2005). At minimum, a governance plan should include a clear division of responsibilities among members with high levels of integrity, who are transparent regarding their decision-making for the organization (Jo & Harjoto, 2012; Millar, et. al., 2005). Shareholders and stakeholders of the organization should be confident in the organization's success through the best practices and structure, the organization follows.

An effective governance plan contains a strong, diverse governing Board of Directors, who remains objective and are independent of any other business functions (Corina & Roxana, 2011; Jo & Harjoto, 2012). The Board directs the organization on behalf of the owners of the company and monitors management (Corina & Roxana). In addition to monitoring, the Board has a working relationship with management; management reports to the Board and executes the tasks of the organization's core functions (Corina & Roxana). A creation of wealth for share and stakeholders is reliant on an effective relationship between management and the Board.

The structural design of a governance plan also includes policies and procedures which outline the roles and responsibilities of those individuals carrying out the organization's mission (Othman & Rahman, 2011; Corina & Roxana, 2011). The mitigation of risks is not as challenging when roles and responsibilities are clear. Certain members' responsibilities can involve the identification of such risks which lessen the occurrence of them (Corina & Roxana). The culture of the organization is outlined in the governance plan, as well its core values, mission and strategic plans (Corina & Roxana). Strategies to achieve optimal success are described and incentives are detailed. The Board makes decisions about the incentives and monitors goal attainment and performance measures. The plan also innately expresses its plan for transparency behaviors to market conditions (Millar et. al., 2005). Whether the employees of the federal government also have a heightened sense of satisfaction, due to the e-government initiative is examined next.

3 Moral Underpinnings

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There is much discussion of the Enron scandal and how the leaders of the organization acted unethically for their own financial gains (Gandossy & Sonnenfeld, 2004). Based on their lack of commitment to an ethical code, is it automatically assumed they also acted immorally? There is a slight difference between morals and ethics. So slight, that in many instances, many assume that an individual acting unethically is acting immorally. As ethics may change from organization to organization, morals may remain constant (Wisegeek, n.d.). Ethics refer to expected behaviors of a group or organization while morals involve an individual's character (Wisegeek, n.d.).

An individual's moral standards has a relationship with how ethically the individual will act faced with a situation such as the Enron scandal. An overview of ethics and its theories may provide a clearer demonstration of the relationship between morals and ethics. There are two types of ethics theories; deontological and teleological (Baron, 2010). Deontological theories makes decisions about ethics based on how morally right the act, where teleological theories decide based on how the good the consequences are perceived to be (Baron, 2010). Deontological theories approach situations under the presumption that each party involved should be treated fairly. Policies, systems, and rules under this model are implemented to represent a notion good for all (Baron). The greater good approach, as described in Rawls theory of justice, implying equality for all, has positive moral underpinnings and would be beneficial in all organization's that follow it. Teleological theories, main purpose are to promote happiness of parties involved (Baron). Utilitarianism is an action that demonstrates all decisions regarding ethics are based on how those involved will receive utility (Baron). The main belief under this set of theories is that satisfaction of parties is more important than doing what is fair to all. A decision can be made under this theory, even if its contrary to the greater good. Under this theory, actions are not right if happiness isn't the outcome (Baron). To most accurately represent the interests of organizational shareholders and stakeholders, responding ethically and reasoning morally, is the best course of action of executives (Watson, 2004). However, some leaders may believe that their happiness is the ethically and morally right course of action.

4 POLITICAL IMPLICATIONS

In a corporate governance system, ownership of a company and management are two separate entities and operate independently (Bainbridge, 1995). This functioning likens a political system. The control of an organization is not of ownership alone but is governed by a Board who also must make decisions within the context of the law. When deciding facets of an organization's corporate governance plan, considerations of the political ramifications are involved (Bainbridge). Actions impermissible by law cannot be included in a corporate governance plan. Neither boards, nor owners of companies have absolute autonomy to create a governance plan without legal considerations (Bainbridge). Decision-making, which is mostly rendered by the board of directors, is essentially the governing body in such organizations. All business affairs are executed by Boards and voting on certain matters is also carried out by Boards; not employees of the organization (Bainbridge, 1995). Politics vary as structures and Boards differ from one organization to the other (Gandossy & Sonnenfeld, 2004; Bainbridge, 1995). Needs of the organization, such as technological, economic, and generation of income all determine the political implications. The implications vary from organization to organization as governance plans change based on organizational objectives. Shareholders and stakeholder involvement is also guided by political implications. The Sarbanes-Oxley Act is an important political provision created to control and limit the indiscretions of a busines's' fiscal activities.

5 ORGANIZATIONAL INTEGRITY

For an organization to have organizational integrity, it must have a high level of morality and ethics in its governance system (Fouchet & Keramidas, 2010). How an organization obeys rules and regulations, and responds to challenges all demonstrate its level of organizational integrity. These characteristics; high morality and ethics, should first, be exhibited by leadership, and trickle down to the rest of the organization. If not exhibited and the high levels, the likelihood of its exhibition in lower levels is decreased (Fouchet & Keramidas). However, organizational integrity is more than soley possessing a company with ethical leaders and managers, as these individuals cannot alone make an organization fully ethical or have a high level of integrity.

Organizational integrity involves the people (e.g., managers), their organizational norms, the actions of the people, and how decisions and resolutions are formed (Pinchot, 1997; Fouchet & Keramidas, 2010). Possessing a strong organizational community that places emphasis on its values promotes organizational integrity (Pinchot). Strong community involves internal and external community building; within the organization includes building a strong and trusting relationship between members while simultaneously strengthening the community in which the organization is in (Pinchot). Pinchot also discusses the quality of allowing choice in strengthening organizational integrity. Allowing employees a level of autonomy to make decisions or increasing choices available to them regarding project teams or work assignments also increases integrity. Motivating people to have integrity and allowing free expression of what

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integrity means to each person is also a good tool in promoting organizational integrity (Pinchot, 1997). Southwest Airlines is an example of an organization that motivates people to have integrity and allows free expression; in fact, their mission is, "...dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit" (Southwest, n.d., pp. 1). These factors, if possessed by organizations, amplify organizational integrity.

6 Issues resulting from lack of organizational integrity

The debacle with Enron was the epitome of an organization experiencing issues resulting from low integrity. The executives of Enron's main objective was personal advancement, despite the unethical ramifications it involved (Watkins, 2004). Leaders at Enron and other organizations world-wide can become self-absorbed. Leaders exhibit narcissistic behaviors at the expense of other organizational members, shareholders, and customers (Kets de Vries & Balazs, 2004). These behaviors can be violatile and influence leaders to make unethical decisions that can affect the greater majority. The emphasis for leaders of this type is personal satisfaction and financial gains. This could cause an organization to be short-lived. Subordinates witnessing leadership's behavior may influence their own selfishness and cause them to act unethically nor identify and report witnessed acts of harmful behavior. The ethical policy should be familiar to employees so that they are aware of misconduct, report it, and, not commit any infraction themselves (Othman & Rahman, 2011).

7 Application of established practices to solve issues

Although it is impossible to predict if a top executive will be self-absorbed, or a Board member will be subjective, there are practices that can be instituted that may lessen the chances of such occurring. The Cadbury Committee (as cited by Dahya, McConnell, & Travlos, 2002), recommends, in a report they authored, that a Board be composed of no less than three outside the organization members, as we as two separate individuals to hold positions of CEO and chairman of the company. This approach has some benefits; it provides increased oversight to organizations and an even more objective approach to governing as it relates to the Board. Dahya et al. (2002) further contends that with increased oversight, Board members are more aware of CEO's imperfections, and exhibits their narcissism more readily. As such, CEO turnover is increased and misconduct is decreased (Dahya et al., 2002). This could decrease the number unethical issues as more oversight catches them before they spiral out of control. The number of unethical occurrences could decrease as a result of utilizing this established practice.

8 Factors affecting Successful implementation

The Cadbury Committee was implemented in United Kingdom (U.K.) as a result of a multitude of scandals within corporations (Dahya et al, 2002). Corporations in that jurisdiction are recommended to follow the rules of set forth by the committee such as, the three outside Board member rule and separate positions for Chair and CEO. Factors affecting successful implementation could include the mere fact organizations are less likely to comply with it without guidance or a mandate from the government. If an organization is led by ethically correct leaders, than an explanation of the benefits of this system will likely persuade that leader to implement. However, a typical leader, one who is self-serving and interested in own financial interests may decide against this implementation. A Board and CEO truly serving for the interest of shareholder's would implement (Dahya et al, 2002).

9 Solutions to impediments

United Kingdom (U.K.) and the United States share similarities regarding CEO's and Chairmen leading the organizations (Dahya et al., 2002). Historically speaking, in their respective fortune 500 companies, many CEOs were also Chairmen of the Boards. Therefore, to increase objective oversight of the company and ensure optimal ethical compliance, these two positions should be filled by two different individuals (Dahya et al., 2002). What could improve the chances of implementation would be to push for legislation and regulations to govern this. In The U.K., the Cadbury Committee recommended this implementation, which gave organizations an option. If this idea is mandated and has some governmental backing, it will affect more change (Dahya et al., 2002). To overcome the impediments the U.K. faced, seeking support from legislators to move this agenda forward may be most effective. However, a start would be forming an independent committee like the Cadbury Committee, independent of any government entity and individuals involved with the organizations in question. This could provide the platform for exposure and attention to legislators and organizations themselves. That gesture alone could cause some organizations to institute the suggestions on their own.

10 Conclusion

This research paper provided a comprehensive outline of business governance; it's moral and political underpinnings, the relationship with organizational integrity, and issues and, solutions for organizations. A discussion of implementation of methods to increase organizational integrity and recommendations were provided. Future research on this topic may involve examining the audit process of these organizations and how that endeavor is executed.

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