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Implementing corporate governance: practices, practitioners, praxis

Niamh Brennan and Collette Kirwan consider the effect of practitioners and praxis on corporate governance practice.

In 2016, the Financial Reporting Council (FRC) revised the UK Corporate Governance Code. It also recently announced a new project to further review that version of the Code. The 2016 revisions of the Code of Practice for the Governance of State Bodies added more than 30 pages and three supplementary guidelines to the 2009 version. Thus, the standard of best practice is ever-increasing. But what about the practice of corporate governance?

The practice of corporate governance

We use the umbrella term “the practice of corporate governance” to refer to:

- Corporate governance practices (i.e. social norms and rules, best practice);
- Practitioners (e.g. chairmen, executive directors, non-executive directors, internal auditors, external auditors); and
- Praxis (i.e. activities).

In their approach to “the practice of corporate governance”, regulators hint at an awareness of the disconnect between best practice and corporate governance in practice (i.e. praxis). For example, in its recent report entitled Corporate Culture and the Role of Boards, the FRC states that “the combination of legislation, regulation and codes provides a flexible framework for companies and their stakeholders to pursue their objectives and achieve long-term success. Success depends, however, on the spirit with which companies and investors apply the principles and use the flexibility they have”.

Regulators now emphasise the importance of disclosing praxis (i.e. corporate governance in practice) and not simply reporting compliance with practice (i.e. rules, best practice). For example, the FRC’s Lab Project Report on reporting by audit committees emphasises the importance of audit committees “saying what you did” (i.e. praxis), “not just what you do” (i.e. best practice). The examples of audit committee reports cited in the FRC Lab Project Report highlight the importance of:

- Language (e.g. using “examined” instead of “reviewed”);
- Instilling soft confidence/assurance (e.g. “we reviewed” and “we are comfortable”);
- Adding “colour” to the description of audit committee work and avoiding boilerplate explanations; and
- Personalising audit committee reports, perhaps creating a sense of familiarity and trust.

Regulators seek better evidence that audit committees fulfil their oversight role, including examples of the praxis (i.e. activities) they undertake in fulfilling their role.

Practices, practitioners and praxis

Figure 1 illustrates the interconnections between the three elements of “the practice of corporate governance”. Practices provide the behavioural, cognitive, procedural, discursive and physical resources through which people interact to socially accomplish collective activity. Practices incorporate societal considerations and how society’s expectations and norms influence human activity. Practices refer to the shared understandings, rules, languages and procedures that guide and enable human activities.

In a corporate governance context, these shared understandings can be referred to as “best practice” or “good practice”. The distinction between practices and what happens “in practice” depends on practitioners and their skills and initiative to convert practices into activities or “praxis”. This distinction is captured by the FRC’s statement that “while legislation, regulation and codes influence individual and corporate behaviour, they do not ultimately control it”.

Practices inform praxis (A in Figure 1). Practitioners draw upon practices when they perform an activity. The conversion process from practices to praxis does not involve mindless reproduction of ascribed practices. Praxis represents activities that do not stand by themselves. Human actions create activities and practitioners can change and improve those activities.
Practitioners combine, coordinate and adapt practices to their needs and context (B in Figure 1). Without practitioners, practices (i.e. norms, rules, best practice) cannot be converted into praxis (i.e. activities). Practitioners perceive, interpret and adapt practices to convert them into activities. They can shape activities through who they are, how they act and what practices they draw upon in their action. Through this adaptation process, and in a recursive relationship, praxis can shape practices (C in Figure 1).

Illustrating the practice of corporate governance

The practice of corporate governance occurs at the nexus between practices, practitioners and praxis. Societal, regulatory and organisational forces influence corporate governance activities in practice (A in Figure 1).

Practices can come from the wider society (extra-organisational practices) or from specific organisational routines, procedures and cultures (intra-organisational practices). For example, norms and expectations set out in corporate governance best practice influence corporate governance activities in practice (i.e. praxis), such as the activities of boards of directors.

In a feedback loop, corporate governance activities in practice (C in Figure 1) influence societal shared understandings of rules and norms of corporate governance that are shaped by practitioners’ interpretation and adaption of practices (B in Figure 1). Thus, part of the resources of practice includes corporate governance legislation — rules and norms which practitioners both draw upon and change.

Conclusion

A better understanding of the importance of the dynamics and social interactions necessary for effective corporate governance might lead to more effective governance. A holistic view of “the practice of corporate governance” is required, incorporating the status quo practices that underpin “the practice of corporate governance” while recognising that effective corporate governance “in practice” is fluid.

We therefore agree with Sir Winfried Bischoff, Chairman of the FRC, who suggested that the next review of the current UK Corporate Governance Code should retain the Code’s flexibility and not involve throwing the baby out with the bathwater. Best practice (e.g. the UK Corporate Governance Code) serves as a reference point for “the practice of corporate governance”, which concerns what practitioners do (i.e. praxis). Thus, as suggested by the FRC, “actual behaviour... is far more significant than a hundred statements” about what practitioners should do.

A holistic view of “the practice of corporate governance” is required, incorporating the status quo practices that underpin “the practice of corporate governance” while recognising that effective corporate governance “in practice” is fluid.