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Book Reviews

Principles of contemporary corporate governance, Third edition, Jean Jacques du Plessis, Anil Hargovan, Mirko Bagaic, and Jason Harris, 2015, Cambridge University Press, UK, xxxvii + 563 pages, \$ 110.00, ISBN 9781107432420

This book is a third update to the initial 2005 publication of *Principles of Contemporary Corporate Governance* (and its 2011 revision). The main authors are based in Australia, and a large part of the book is devoted to describing corporate governance from an Australian perspective. However, the book also includes various chapters (co-authored or written by other contributors) on corporate governance systems and arrangements in other countries. The overall aim of the book is to offer a “comprehensive coverage of the key topics and emerging themes in corporate governance and their real-world application in an authoritative and engaging manner” (p. i).

The book consists of 14 chapters that are divided into the following four parts:

- Basic concepts, board structures, and company officers;
- Corporate governance in Australia;
- Corporate governance in international and global contexts; and
- Shareholder activism and business ethics.

In Chapter 1, titled “The concept ‘corporate governance’ and ‘essential’ principles of corporate governance,” the authors (with contributions by Jeanne Nel de Koker; she also contributed to Chapter 3) define, discuss, and delineate the most important elements of and principles underlying a corporate governance system. They do not simply follow prior work to come up with a definition of corporate governance; rather, they (re)define corporate governance themselves and opt for what they call an “inclusive approach” (p. 27). The key to this approach is the notion that *all stakeholders* are part of a corporate governance system. At the heart of this approach is the idea that corporate governance should help to “ensure responsible behavior by corporations and to create long-term, sustainable growth for the corporation” (p. 13).

In Chapter 2, “Stakeholders in corporate governance and corporate social responsibility,” Du Plessis and colleagues provide a more detailed discussion of the “inclusive approach.” A large part of the chapter is devoted to defining and describing the various stakeholders (e.g., shareholders, employees, creditors, the environment, and government), both from an

academic perspective and a legal perspective. Perhaps the most interesting part of this chapter is the section describing a (recent) case study on the James Hardie asbestos scandal, in which the Australian firm ultimately decided to “voluntarily” agree to compensate asbestos victims—this case clearly shows the importance of adopting, in practice, the “inclusive approach.”

Chapter 3 discusses board functions and structures. To a certain extent, this chapter discusses the various board roles from predominantly “legalistic” and “economic” perspectives. Specifically, while it briefly mentions some work of scholars from the managerial tradition, given that this book adopts the “inclusive approach” I found it surprising that the authors did not elaborate more on the resource provisioning role (i.e., legitimacy, advice, providing access to resources and knowledge). At the same time, this chapter also tries to offer insights that may be helpful to practitioners by including the key questions directors should ask and by pointing out (and illustrating) that also other governance features beyond board structures determine board effectiveness. Perhaps here again the authors missed an opportunity by not discussing some of the recent management literature on board processes. Basically, this recent line of research shows that boards, just like any other group of individuals, have to deal with all sorts of social–psychological phenomena that may affect how they (as board members) cooperate and, ultimately, how effective they are.

Chapter 4 is devoted to a detailed discussion of the various types of company directors and officers. While this chapter largely focuses on Australian and British systems, it also offers interesting insights for scholars and practitioners outside Australia, also because various (continental) European countries recently started to offer the possibility of opting for the one-tier system. Specifically, in one of the subsections, Du Plessis and colleagues provide an in-depth discussion of both the importance and dangers of board independence. This chapter also provides some insights into executive remuneration. The chapter ends with a subsection devoted to “board diversity.” While acknowledging that diversity also encompasses diversity in terms of age, nationality and race, etc., they focus on female representation on the board. In this subsection, diversity is mostly discussed from a regulatory (quota) perspective. I found this a bit disappointing given the considerable increase in academic research focusing on the antecedents and effects of more diverse boards on firm performance. Discussing this research in a bit more detail would help a reader form an opinion on the importance of diversity in boards.

The next five chapters (Chapters 5 to 10) offer an in-depth analysis of corporate governance in Australia. This part starts by offering details on the regulation of corporate governance in Australia, making it clear that Australian regulation involves both “hard law” (i.e., company law) and “soft law” (e.g., the *ASX Corporate Governance Principles and Recommendations*). In two chapters, the authors (assisted by Christine Jubb in one chapter) describe the accounting and auditing environment in Australia. In two others, directors’ duties and liabilities are discussed in much detail. As a non-Australia-based scholar, I find this part particularly interesting as it offers a detailed image of the Australian corporate governance system. I can also imagine that both scholars and practitioners based in Australia would find these chapters helpful as they present a thorough review of corporate governance arrangements in Australia.

After addressing corporate governance in Australia, Chapters 11 and 12 provide information on corporate governance arrangements in various countries, including (but not limited to) the United States, the United Kingdom, Canada, Germany, Japan, and China. The discussion of the features of various national corporate governance systems is generally helpful in gaining some insight into the characteristics and perhaps also “peculiarities” of the corporate governance arrangements. One disadvantage is that the discussion is structured differently per country. The authors may consider revising these two chapters in terms of structuring the coverage per country. Moreover, to bring the “inclusive approach” to the fore, I think it would be helpful if the authors present, *per country*, a brief and easily identifiable discussion of how the stakeholder approach is incorporated into the national corporate governance arrangements.

The fourth and last part of the book is devoted to shareholder activism (Chapter 13) and the ethical obligations of corporations (Chapter 14). Again, Chapter 13 has a strong Australian focus. It provides information on (mostly) legal arrangements that enable shareholders to exercise influence on firm policy. In line with recent discussions, in both the academic literature and in the policy arena, Du Plessis and colleagues pay attention to the role of proxy advisors and to the recent development of “say-on-pay.”

In the final chapter, the authors discuss the ethical obligations of corporations. The first part of this chapter provides a discussion of “the nature of morality” and is more abstract and philosophical than the remainder of the book. The second part involves a more application-based approach. While this chapter is interesting, I also found it too loosely coupled from the rest of the book. Given that “morality” and “business ethics” are crucial in cases where one is adopting an “inclusive approach” to corporate governance, I believe that the material discussed in this chapter would deserve a more central position in the book, for instance, by including it in the second chapter.

All in all, I think this book is valuable for a broad group of readers: academics, students, practitioners, and policymakers. Although readers with basic knowledge of the Australian setting are probably likely to benefit most from the book, readers from outside Australia can also benefit from reading it. I enjoyed reading the book, particularly because it employs a broader perspective to corporate governance than generally seen in other books on corporate governance. As such, I believe that the book is a nice contribution to the field of corporate governance.

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