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Virtue Ethics and Corporate Governance

A thesis
submitted in fulfilment
of the requirements for the degree
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Abstract

The purpose of this interpretative phenomenological study was to explore directors' lived experience of ethics in their task of corporate governance so as to capture some of the multiple facets of this phenomenon: specifically how directors understand the role of ethics in their task of corporate governance and how they understand and practise ethics. The focus of the investigation was the role and relative importance of directors' personal ethics as opposed to corporate governance rules or regulations and to what extent their understanding and practise of ethics as such, resembled Kantian ethics, utilitarianism and Aristotelian virtue theory (AVT). Such issues have implications primarily for the influence of leaders' personal ethics in the context of corporate governance failure and whether AVT in particular can contribute to the achievement of best-practice governance. AVT differs from the other two ethical theories because it focuses on the importance of a good character for the making and carrying out of sound ethical judgments. It assumes that human nature contains the seeds of ethics and that a good character can develop over time with the help of role models and experience. The study also discusses the subjective aspects of the ethical experience and the debate about the relationship between descriptive and philosophical branches of business ethics. The researcher chose to take an interpretive phenomenological approach using an AVT conceptual framework. The focus of the inquiry was what the individual's narratives imply about what he or she experiences every day. This allowed the researcher to go further by interpreting the meanings for the purposes of practice and research. The use of the AVT conceptual framework facilitated the examination of the relevance of philosophical ethics for business practice in

general and in particular to investigate the relevance of AVT as opposed to the two other ethical theories.

Semi-structured interviews were conducted with thirty-four directors, eight of which were interviewed a second time. The Interpretative Phenomenological Analysis (IPA) technique was used to interpret the data. The findings revealed that directors understand ethics to be integral to their task and that they rely on their personal ethics in carrying out their corporate governance activities. Moreover their experience of ethics resonated with the key features of AVT, aspects which on the whole were not addressed by Kantian ethics and utilitarianism. What is more, directors' understandings seem to point to an innate objective element underpinning their personal code developed over time through learning and experience. This finding highlights the need to accommodate the subjective-objective complexity of the lived experience of ethics. The findings also indicate that philosophical ethics is needed to adequately account for the lived experience of ethics; directors' descriptions of their experience contained and were inseparable from ethical standards, the realm of philosophical ethics. In light of the resemblance between AVT and directors' lived experience of ethics, corporate governance reformers and educators should place just as much emphasis on the development of good character as on learning about ethical duties and how to balance outcomes.

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ACRONYMS

AFFCO - Auckland Farmers Freezing Company

ASX - Australian Stock Exchange

ASXCGC - Australian Stock Exchange Corporate Governance Council

AVT - Aristotelian Virtue Theory

BCG - Business Conduct Guidelines

BIL - Brierley Investments Ltd

Bk - Book

CEO - Chief Executive Officer

CHH - Carter Holt Harvey

CLERP - Corporate Law Economic Reform Program

DHB - District Health Board

FMA - Financial Markets Authority

FSA - Financial Services Authority

GAAP - Generally Accepted Accounting Principles

KPMG - one of the 'big four' auditors

IFRS - International Financial Reporting Standards

IMEV - International Management Ethics and Values course

IPA - Interpretative Phenomenological Analysis

MBA - Masters in Business Administration

MED - Ministry of Economic Development

MGP10 - Machine Graded Pine (grade 10)

NASDAQ - second largest American Stock Exchange

NE - Nicomachean Ethics

NYSE - New York Stock Exchange

NZ - New Zealand

NZX - New Zealand Exchange

NZSX - New Zealand Stock Market

NZDX - New Zealand Debt Market

OECD - The Organisation for Economic Co-operation and Development

SOX - Sarbanes-Oxley Act 2002

SOE - State-Owned Enterprise

TVNZ - Television New Zealand

UK - United Kingdom

US - United States

Chapter One - Introduction

10 years ago in *The Corporate Board*.

If *character counts*—and I have absolutely no doubt that character *does* count—the failings of today’s business and financial model, the willingness to accept practices that we know are wrong, the conformity that keeps us silent, the selfishness that lets greed overwhelm reason, all erode the character we will require in the years ahead.

— *John C. Bogle,*
Has Corporate Governance
Let Us Down?,
May/June 2002

(Bogle, 2012)

1.0 Introduction

This thesis explores New Zealand directors’ lived experience of ethics to capture their understanding of the role of ethics in their task of corporate governance and how they understand and practise it. In so doing it provides insight into the influence of directors’ personal ethics on governance and contributes to the debate about future directions for corporate governance reform. While the New Zealand location represents a distinct social and legislative environment, the findings have ramifications for corporate governance reform in other Anglo-American jurisdictions. The study contributes to international discussion about appropriate approaches to corporate governance reform.

Worldwide, corporate governance impacts on the current and future sustainability of organisations. Over the last twenty years governments internationally have sought to impose new rules and restrictions on businesses and their leaders in response to corporate governance failures (Lager, 2010). Unfortunately in many jurisdictions reforms have not been able to prevent poor governance practices. The approach to reform thus far has sought to strengthen the influence of independent directors and codes of ethics; but recent scholarship is calling on reformers to consider the potential impact of the directors’ personal ethics on governance practice (Arjoon, 2005; Bragues, 2008; Gandossy & Sonnenfeld, 2005; Huehn, 2008). This Chapter provides background to the broad domain in

which this research is situated - theoretical perspectives of corporate governance, business ethics and the New Zealand corporate governance regime. It then briefly outlines the significance of the research, the research objectives and an overview of the Thesis structure.

1.1 Corporate Governance - the state of the field

Corporate governance is concerned with the regulation, supervision or performance and conduct oversight of the organisation (Letza, Kirkbride, Sun, & Smallman, 2008). The mainstream theories of corporate governance can be situated in one of two paradigms or perspectives which are distinguished by how they answer fundamental questions such as, for what purpose the organisation exists and whose interests it serves (Letza et al., 2008). The debate is framed as a choice between the shareholder and stakeholder perspectives; contenders advocate the primacy of one or the other perspective; although in practice there is a trend towards mutual appreciation and absorption between these two poles (Letza et al., 2008). Williams and Conley (2005) claim that the global Corporate Social Responsibility (CSR) movement has been a major factor in moving corporate governance theory in the stakeholder direction.

Under the shareholder view, governors' primary aim is to ensure that suppliers of capital get a return on their investment; by maximising shareholder wealth, business meets its social responsibilities. The stakeholder view is that the central concern of governance is to add value to as many organisational stakeholders as is practicable (Bain & Band, 1996). Theories within the shareholder perspective include the finance model, and the myopic market model, both of which are informed by agency theory (Letza et al., 2008). These two models differ in that the finance model emphasises short term gain while the myopic market model advocates the maximisation of long term wealth. Governance problems arise because the interests of principal and agent may diverge; the solution is to provide the most efficient mechanisms to control the agent and align interests, while relying on the market to regulate management discretion. The myopic market model is critical of this reliance on the market to ensure efficient management

behaviour as it makes them focus on short term results which do not add value in the long term (Keasey, Thompson, & Wright, 1997b).

The shareholder perspective historically has dominated Anglo-American jurisdictions (García-Castro, Ariño, Rodriguez, & Ayuso, 2008; Koslowski, 2009; Wieland, 2005). In these countries, also known as common law jurisdictions, shareholders have been typically dispersed and separate from management and responsible for the election of the governing board (Ding, Richard, & Stolowy, 2008). But today, in most of these jurisdictions, corporate governors are required or recommended to take into account the interests of stakeholders (Letza et al., 2008; Mackenzie, 2007). This shareholder/stakeholder combination reflects the most popular stakeholder theory, instrumental stakeholder theory which justifies stakeholder interests as a means to improve efficiency, profitability and competition (Letza, Sun, & Kirkbride, 2004). Implicit in this approach is the belief that the ethical treatment of customers, suppliers and employees provides a competitive advantage in the long run; ethics is a means to economic efficiency (Letza et al., 2008). This has sometimes been called ‘enlightened self-interest’ (Wood & Jones, 1995).

Historically the stakeholder perspective is prevalent in most continental European jurisdictions and Japan (García-Castro et al., 2008; West, 2009; Wieland, 2005). In these code-law countries shareholders are typically founder families, the state, banks or even employees (Ding et al., 2008). Stakeholders are said to be valued as ends rather than means (West, 2009). There is an emphasis on the development of long term business and management are held responsible to all stakeholders involved in the business. This is also known as the enlightened stakeholder model. In countries such as Germany and Japan the corporation is viewed as an enduring social institution with a proper public interest-the interest of a wide range of stakeholder groups (Kay & Silberston, 1995). Suppliers and major customers are linked to the corporation through interlocking shareholdings and cross-directorships (Keasey, Thompson, & Wright, 1997a). Although stakeholder and shareholder perspectives seem to represent two very different approaches to

corporate governance they both are built on the basic tenets of capitalism (Letza et al., 2004).

Corporate governance failure within a shareholder perspective is interpreted as a breakdown in control and alignment mechanisms because the response has been to improve the capacity to control and align interests; tinkering with the independent component of the structure. But if the relationship between performance and governance mechanisms is not so simple or in fact misunderstood what are the implications for this approach to reform? In fact corporate governance scholars in reflecting on progress to date have concluded that the field of corporate governance research is at a crossroads. While much is known about the efficacy of mechanisms to protect shareholder wealth this has revealed that little is known about how to achieve best corporate governance practice (Daily, Dalton, & Cannella, 2003):

An intriguing element of the extensive body of corporate governance research is that we now know where not to look for relationships attendant with corporate governance structures and mechanisms, perhaps even more so than we know where to look for such relationships (p. 371).

For this reason these authors urge researchers to venture on different paths in their investigations in terms of assumptions made, aspects studied and approaches taken.

Multiple studies providing inconclusive data about the relationship between governance mechanisms and performance impede effective reform (Leblanc & Gillies, 2003). “They [regulators] are making regulations and decisions without any real knowledge about what is going on in boards of directors or, at worst, on the basis of an incorrect understanding of the major factors impacting on corporate governance” (p. 7).

As will be explained in detail in Chapter Two the structural approach to reform which is informed by the above research, has not had the desired effect leading some scholars to seek alternative ways of improving practice.

1.2 Business Ethics and Corporate Governance

Business ethics as an academic discipline originated in the US and became widespread in the 1970s (Bowie, 2000). In the sixties the study of business ethics was undertaken by a few scholars located in business schools (Alzola, 2009). Later, scholars began to systematically study the entire range of ethical issues in business as a comprehensive whole. Philosophers instigated this development by taking an ethical framework supplied by an ethical theory such as Kantian ethics, utilitarianism or an Aristotelian approach and applying it to the business context (Bowie, 2000; De George, 2005). Business ethics eventually developed into two branches: the philosophical which was normative and prescriptive and the empirical which was descriptive developed by scholars trained in the social sciences (De George, 2005, 2006; Freeman, 2009). The latter studies such things as the differing effects of differing practices such as codes or decision trees, or attitudes towards differing practices as between cultures or countries.

The descriptive approach being more empirical was well accepted by business academics but the philosophical approach was often not welcomed in business schools (Bowie, 2000; De George, 2005, 2006). This was because business scholars doubted the philosophers' capacity to evaluate complex business issues and felt they were critical of business as such (Trevino & Weaver, 1994). Also some philosophers resisted studying business ethics because they felt it was not really philosophy (Rossouw, 2008b). However many philosophers took up chairs in business schools and journal articles of an empirical cast proliferated while normatively oriented outputs dwindled. Not surprisingly by the year 2000 at least in the United States, the empirical branch came to dominate the philosophical branch in business schools and academic publications (De George, 2005).

Corporate governance reform in Anglo-American regimes has not neglected ethics. Reforms have required or recommended corporate governors to develop and implement codes of ethics. Although it is generally accepted that ethics cannot be legislated it is expedient and politically attractive to respond to business scandal by increasing sanctions around ethics (Lager, 2010). A 'comply or die'

approach to ethics codes has been taken in the US while a ‘comply or explain’ approach has been adopted in other jurisdictions. As a result of legislation and public expectations it is internationally standard practice now to develop a code of ethics for the organisation (Keeper, 2012). Unfortunately Anglo-American regimes take a legalistic approach to ethics; ‘good ethics’ is understood as compliance to quasi-legal rules of the code rather than clarifying values and fostering integrity to those values and to enduring principles (Covey, 2006). De George (2011) expresses a similar sentiment by describing the adoption of codes of ethics and corporate social responsibility statements as the ‘trappings of ethics’. In spite of this emphasis on ethics, corporate governance failures continue and so some scholars have turned their attention to the personal ethics of directors in a bid to improve practice.

1.3 The Corporate Governance Environment in New Zealand

The development of corporate governance practice in New Zealand is related to the development of the company and commercial law in general. The Companies Act 1955 copied the United Kingdom Act of 1948 and did not provide any guidance on corporate governance structures and practices apart from the requirement to have a board of directors. Gradually other legislation began to impose obligations on the board making it ultimately responsible where the entity is in breach. The collapse of some major companies in the seventies led to the enactment of the Securities Act 1978 to better control entities raising capital from the public by prohibiting for example the making of false and misleading statements in a prospectus. In 1989, the New Zealand Stock Exchange published corporate governance listing rules. The Securities Markets Act 1988 regulated trading in listed and unlisted securities and gives legislative force to the continuous disclosure requirements in the listing rules required by entities. Common law directors’ duties were codified into statute with the passing of the new Companies Act in 1993. The Financial Reporting Act was passed the same year which makes it an offence for an entity to publish financial statements in

breach of financial reporting standards. In this year also the Institute of Directors published a code of proper practice for directors. In 2004 the Securities Commission promulgated nine principles with guidelines to promote better corporate governance (Securities Commission New Zealand, 2004). The Listing Rules around independent directors and the code of ethics were also modified. The 2004 reforms in general had the objective of boosting investor protection, to safeguard the integrity and efficiency of the capital market and to improve New Zealand's image internationally (Blackmore, 2006).

1.4 Significance of the Study

What sparked interest initially for this particular study was the continuation of governance failure post reform, internationally and in New Zealand. Some researchers believe that the approach taken to corporate governance reform globally to date is flawed. There is evidence to show it has been unable to demonstrate any significant impact on preventing corporate governance failure (Ahrens, Filatotchev, & Thomsen, 2011; Boerner, 2011; Bragues, 2008; Erkens, Hung, & Matos, 2012; Finkelstein & Mooney, 2003; Gandossy & Sonnenfeld, 2005; Gillan & Martin, 2007; Kirkpatrick, 2009; Leblanc & Gillies, 2005; Morgan, 2009; Smallman, 2007; Smallman, McDonald, & Mueller, 2010; Verschoor, 2007). There is a growing body of research suggesting that a better understanding of the inner workings of the board of directors or the softer aspects of board practice is needed in order to refine the approach to reform and improve corporate governance practice (Daily et al., 2003; Erakovic & Overall, 2010; Huse & Gabrielsson, 2005; Huse, Hoskisson, Zattoni, & Viganò, 2011; Leblanc & Gillies, 2005; Lockhart, 2006, 2010; Roberts, McNulty, & Stiles, 2005; Sonnenfeld, 2004; Van Den Berghe & Levrau, 2004).

Scholars have noted the potential significance of a number of such factors for achieving better boardroom practice including: board dynamics (Erakovic & Overall, 2010; Leblanc & Gillies, 2003; Leblanc & Schwartz, 2007; Smallman, 2007; Sonnenfeld, 2004); the attitude and behaviour of the individual directors (Erakovic & Overall, 2010; Leblanc & Gillies, 2003; Van Den Berghe & Levrau,

2004); directors' understanding of corporate governance (Carter & Lorsch, 2004; Geale, 2007; Langevoort, 2001; Phan, 2000; Stiles, 2002; Tricker, 1994); board culture (Gandossy & Sonnenfeld, 2005; Leblanc & Schwartz, 2007; Parker, 2007a); the leadership skills of the chair and the relationship between the chair and the CEO (Kakabadse, Kakabadse, & Barratt, 2006; Kakabadse & Kakabadse, 2007; Leblanc, 2005); the role of the independent director (McCabe & Nowak, 2008) and the character of directors (Arjoon, 2005; Dalton & Dalton, 2005; Gandossy & Sonnenfeld, 2005; Levrau & Van Den Berghe, 2007b; Sison, 2008; Smallman, 2007). Furthermore a number of researchers argue that corporate governance failure stems from a lack of personal ethics on the part of leaders (Arjoon, 2005; Bragues, 2008; Gandossy & Sonnenfeld, 2005; Gini, 2004; Huehn, 2008; Schwartz, Dunfee, & Kline, 2005). This thesis therefore explores whether directors' personal ethics is another factor which could potentially contribute to better corporate governance.

Consequently the business ethics literature also became a focus of the study. The field of business ethics is plagued by a similar problem in that scholarly research has only focused on one part of the phenomenon. Studies have tended to centre on what respondents do rather than the mechanisms by which those outcomes are achieved or the context in which they occur; attention is centred on what respondents do but little is known about the how and why of the respondents' *perceptions* (Brand, 2008; Crane, 1999). Brand (2008) is also concerned about the lack of methodological clarity and rigour in most of the empirical business ethics journal literature. In this field there is also much debate about the relationship between normative ethics and descriptive ethics; opinions range from irrelevant to indispensable (Alzola, 2011; Byrne, 2002; Harris & Freeman, 2008; Hartman, 2011; Rossouw, 2008b). Normative business ethics is concerned with theories of how business persons ought to behave and how organisations ought to be governed (Alzola, 2011). Descriptive business ethics is concerned with how business persons behave and the actual objectives of organisations and how they establish and achieve those objectives; that is, with the antecedents and consequences of moral behaviour (Alzola, 2011). One of the aims of this thesis is to explore beyond the '*what*' of ethical behaviour to capture the '*why*' and '*how*'

of directors' understanding of ethics. This entails investigating the relevance of normative ethics in directors' lived experience of ethics. Are descriptive and normative ethics really so irreconcilable? To what extent do directors' understandings reflect any of the well-known ethical theories such as Kantian ethics, utilitarianism or Aristotelian Virtue Theory (AVT)?

1.5 Objectives of the Study

The objectives of this study are to capture New Zealand directors' lived experience of ethics to:

1. Explore how directors understand the role of ethics in their practise of corporate governance; whether ethics is integral to their task or only relevant in specific matters or moments; whether there is a role for their personal ethics; whether this reflects an Aristotelian perspective.
2. Explore how directors understand and practise ethics; whether they rely on their personal ethics, codes of ethics or other ethical structures; whether this reflects Kantian ethics, utilitarianism or Aristotelian Virtue Theory (AVT).
3. Explore the relationship between philosophical and descriptive ethics.
4. Explore the potential role of AVT in informing directors' task of corporate governance.

1.6 Structure of Thesis

Chapter Two reviews the corporate governance reform literature. It commences with a description of the major corporate governance regimes and outlines the more spectacular corporate governance failures prior to 2012 and the various reforms introduced to address these problems. The growing discontent is made manifest along with the persistent call for reformers and researchers to focus their attention on the personal ethics of corporate governors. The next section shows how both the academic and regulatory literature places great importance on the personal ethics of directors for the achievement of good governance. The

importance of the ‘tone at the top’¹ is also corroborated by the mainstream organisational leadership and culture literature. Finally the gap in the literature is outlined.

Chapter Three, Moral Philosophy and Corporate Governance, explains the state of the business ethics literature. The descriptive –normative relationship is described and analysed. This is followed by a detailed description and critique of the three major philosophical traditions of Utilitarianism, Kant and AVT. The next section summarises the literature which advocates the importance and appropriateness of AVT for business. The Chapter closes with an evaluation of the state of the literature.

Chapter Four, the research methodology chapter, explains how the ontological, epistemological, methodological and research design choices were made. This is an interpretive phenomenological study and an AVT conceptual framework has been used to interpret the findings in this thesis. The study was situated within the interpretative paradigm because directors’ lived experience of ethics was best captured by a qualitative approach (Brand, 2008). An interpretative phenomenological approach rather than a descriptive phenomenological approach was selected because it is not the pure content of human subjectivity that is the focus of the inquiry but rather what the individual’s narratives imply about what he or she experiences every day (Lopez & Willis, 2004). The researcher accepted that the meanings ultimately arrived at are a blend of the meanings articulated by both participant and researcher; and meaning is embedded in the practices, as meanings are not always apparent to the participants but gleaned from the narrative (Lavery, 2008). The interpretative phenomenological approach also allowed the researcher to interpret the findings through a conceptual framework and to use it as a lens through which to analyse the narratives. The biases and assumptions of the researcher are embedded and essential to the interpretive process. Semi-structured interviews were chosen to allow the participants to share their experience while reserving to the researcher some degree of control over the

¹ ‘tone at the top’-leaders who behave according to an explicit set of core ethical values (Schwartz, 2009).

topics covered. The unstructured nature of the process enabled participants to use and 'define' their own terminology and to leave space for the emerging of the unexpected. Interpretative Phenomenological Analysis (IPA) was used to achieve interpretation which respected directors' understandings but at the same time guided the filtering of these through theory, and the discovery of meaning implicit in the experiences shared.

Chapters Five to Seven each combine findings with discussion. Chapter Five analyses directors' understandings of the role of ethics in their tasks in light of the literature. Directors' understandings of how ethics fits into governance are best described by such terms as integral and positive rather than isolated incidents, and an attitude of compliance; furthermore personal ethics occupy a central role. They also reflected Aristotelian notions such as excellence and leading by example. Chapter Six analyses how directors understand and practise ethics. It shows how aspects of their experience reflect particular elements of AVT which Kantian ethics and utilitarianism theories fail to address contributing to the discussion about the complementary value of AVT for Kantian and utilitarianism approaches. This Chapter also reinforces the centrality of personal ethics revealed in Chapter Five. Chapter Seven, is based on second interviews of participants. Second interviews were only conducted with directors' whose first interview revealed that their understanding and practise of ethics resembled (according to the researcher) AVT more than Kantian ethics and utilitarianism. Their lived experience was explored in more depth to provide further evidence to reinforce the analysis of the previous two chapters and so support the conclusion that AVT has much to contribute to the development of corporate governance practice and business ethics practice in general. Chapter Eight draws the appropriate conclusions and implications based on the findings and discussion.

Chapter Two - Corporate Governance Reform

2.0 Introduction

This Chapter commences with an outline of the major corporate governance regimes, and the origin and nature of recent reforms, including a more detailed discussion of the New Zealand situation; highlighting the burgeoning call for a focus on the personal ethics of directors. It is followed by a discussion of the literature which attributes corporate governance failure to the lack of ‘tone at the top’. This is supported by the mainstream ethical leadership and organisational culture literature. The assumed link between the ethics of directors and corporate governance best practice is demonstrated by an analysis of the nature of corporate governance regimes and their relation to ethical standards. The gap in the literature is outlined.

2.1 International Overview

In very simple terms corporate governance refers to how an organisation is governed. There are many definitions of corporate governance and no commonly accepted definition (Bury & Leblanc, 2007). For the purposes of this project the following definition will be adopted:

Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD, 1999 p.11).

This definition has been selected because according to Leong (2005) it is the most commonly quoted definition of corporate governance in the field and so provides a coherent starting point for the following literature review.

This section outlines the distinguishing features of the major corporate governance regimes internationally and the origin, nature and effectiveness of

corporate governance reforms implemented in these jurisdictions. This illustrates how the reforms have sought to remedy governance failure by increasing the independence of the board; an approach informed by the corporate governance research to date which focuses mainly on the relationship between performance and the structure of the board, and associated committees (Leblanc & Gillies, 2003).

The various corporate governance regimes lie along a continuum between rules-based and principles-based approaches. A rules-based approach is a prescriptive set of rules concerning what boards and executives must do. It is backed by the full force of regulatory law. On the other hand, a principles-based approach focuses on the general requirements for good corporate governance, whilst allowing for some flexibility in how boards choose to implement these principles (Blackmore, 2006). This is to cater for the fact that behavioural issues are difficult to regulate (Minter Ellison Rudd Watts, 2003). Corporate governance issues are both 'structural' i.e. the composition of boards, the division of duties between board and management or conflicts rules for auditors, and 'behavioural' i.e. that directors should be prepared to engage in constructive debate with management, that directors should bring an independent point of view to company issues or that a culture of risk management and identification should be fostered (Minter Ellison Rudd Watts, 2003). It is thought that a principles-based approach facilitates responsible governance by fostering self-discipline (Quinn, 2005).

2.1.1 United States

The United States has a shareholder governance system which is based on the theory that the company's objective is to maximize shareholder wealth (Aguilera, Williams, Conley, & Rupp, 2006; Barnett & Maniam, 2008; West, 2009). There is however, a growing realisation that concern for the interests of stakeholders is important for long-term shareholder value, and most state corporations laws permit directors to take the interests of stakeholders into account when making decisions (Ho, 2010; Letza et al., 2004).

According to the shareholder perspective the purpose of corporate governance standards is to protect the rights of shareholders (Letza et al., 2004). The shareholders elect a board of directors to oversee the management of the firm (Barnett & Maniam, 2008). Historically the US model had placed immense power in the hands of the CEO - a single person who was both the CEO and chairman of the board and who picked his/her own board members (Valenti, 2008). However the spectacular collapses of Global Crossing (2002), Tyco (2002), WorldCom (2002) and Enron (2001) convinced regulators to change their approach reversing a decade-long trend of deregulation (Waring, 2008).

In 2002 the Sarbanes-Oxley Act radically overhauled the US system of corporate governance. This is the best example of a rules-based approach (Blackmore, 2006). It instituted what may be called the 'comply or die' approach by which those corporations that fail to comply with its requirements face significant corporate financial sanctions as well as criminal sanctions for their directors and officers (Calder, 2008).

Sarbanes-Oxley was enacted largely in response to reports of corporate mismanagement, managerial excesses, and misrepresentation by corporate executives. Congress acted swiftly and with determination to establish controls that would prevent the possibility of management's distortion of the company's financial position to the detriment of its investors, creditors, the government, and the public at large. A major concern echoed by several governance observers was that corporate boards had fallen short of their monitoring and control responsibilities in allowing falsification of financial records (Valenti, 2008, p. 401).

One of Sarbanes-Oxley's (SOX) objectives was to enhance corporate governance by promoting board independence. The major governance provisions of the Act deal with the composition of both the board and the various committees, and the definition of independence (Linck, Netter, & Yang, 2009). Sarbanes-Oxley requires listed companies to have majority independent boards, and audit, compensation and nominating committees to be composed entirely of independent

directors; and each member of the audit committee must be financially literate. Furthermore one of these members must be a “financial expert,” or the company must disclose and explain why it doesn’t have such an expert (Linck et al., 2009).

SOX not only legislates strong punishment for wrongdoers but also prescribes guidelines for corporations to establish an ethical culture in order to maintain a high level of integrity (Rockness & Rockness, 2005). The legislation reflects the conviction that the ‘tone at the top’ is key to an ethical corporate culture (Rockness & Rockness, 2005). Section 406 requires public corporations to have a code of ethics for senior executives or to state in their annual report why they do not have one. The code must be available to the public. The SOX reforms were also adopted by the New York Stock Exchange (NYSE) and NASDAQ (Morgan Lewis, 2002). Under Securities and Exchange Commission (SEC) rules, detailed guidance for the content of the code is provided including: promotion of honest and ethical conduct, full and fair disclosure, compliance with laws, internal reporting for violations, and accountability for adherence to the code (Rockness & Rockness, 2005). Chapter Eight of the Sentencing Guidelines were also amended to link the length of sentence to the extent an effort is made to train employees in and monitor compliance with the code of ethics (Canary & Jennings, 2008; United States Sentencing Commission, 2012).

Siemens is an example of corporate governance failure where a very large multinational was regarded externally as a model of good corporate governance in several jurisdictions. Pursuant to the stipulations of the Sarbanes-Oxley Act, the New York Stock Exchange, the German Corporate Governance Code, and other requirements, Siemens developed a code of conduct that also expressed corporate policy. A corporate compliance officer reported regularly to the audit committee of the supervisory board. Managerial employees signed a pledge renewing their commitment to uphold these rules. Ethics counsellors were widely available for employees who needed advice when confronted with a potential ethical conflict (Verschoor, 2007). These mechanisms and the following code declarations convey that Siemens is seriously concerned about ethics.

The code, which was also promoted in training programs, stated:

We base our strategic planning and our day-to-day business practices on high ethical and legal standards. Our Business Conduct Guidelines (BCG)-globally binding rules that apply to every Siemens employee and require us to abide by laws, to show mutual respect, and to act honestly and with integrity-set the basis for our conduct (Verschoor, 2007 p.12).

The text of the BCG itself is clear and unequivocal concerning bribery and corruption, stating,

No employee may directly or indirectly offer or grant unjustified advantages to others in connection with business dealings, neither in monetary form nor as some other advantage. In order to ensure a fair and corruption-free competitive conduct, Compliance Officers are specially designated at the level of Siemens AG and subsidiaries as well as at the level of the Groups (Verschoor, 2007 p.12).

And yet in 2007 Siemens was found to have engaged in large scale corruption. Siemens, in order to 'compete', and to pad its bottom line and gain market share, had engaged in wholesale bribery as a corporate strategy, to obtain contracts fraudulently rather than through level-field competition. They have since agreed to pay billions of dollars in fees and fines. Verschoor (2007) concludes that one lesson to be learnt from the Siemens' scandal is that a strong ethical culture is critical for effective corporate governance. However as was noted above, the establishment of a strong ethical culture was prescribed by the 2002 SOX legislation. Although anecdotal, this demonstrates to some extent that only so much can be achieved with regulation.

The post-reform 2007/2008 sub-prime mortgage scandals and resultant bank failures have re-ignited the debate on the importance of corporate governance in general and of boards of directors in particular (Teh, 2009). Several authors believe individual ethics should be the focus for US reformers (Bragues, 2008;

Gandossy & Sonnenfeld, 2005; Huehn, 2008; Schwartz et al., 2005). Gandossy and Sonnenfeld (2005) argue that for reformers globally:

It is time to shift the debate from rules and procedure, to focus now on what we really know about people and their character. Therefore, the language of the law and the guidelines of accounting matter but they are not the entire equation. In short, we argue that only so much deterrence is possible through even the most precise laws and expert systems of compliance. Ultimately, execution is guided by human judgment....The culture of the board must recognize that the firm's interests are not necessarily the same as those of management (p.242).

Bragues (2008) makes an interesting observation about the corporate collapses in the US. He suggests that if it is assumed that the problem lies with people's characters then reform would consist in instilling the practice of virtue in managerial activities. However, if it is assumed that individuals are selfish and can't change, then reform would require the rules to be changed to ensure that people's interests are properly aligned to produce the outcomes that justice and morality requires.

Huehn (2008) believes that one of the main causes of bad corporate governance is amoral management theories; such theories equate ethics with maximising shareholders' returns which in turn shapes the meaning of good governance. Ethics becomes an after-thought, relegated to the domain of codes and laws. This division, he says, needs to be remedied by the presence of ethical leaders: "good corporate governance depends on the ethics of a few good and trusted men and women not on a piece of paper; laws and regulations do not guide peoples' behaviour as strongly as ethical beliefs" (p 832).

Schwartz, Dunfee, and Kline (2005) assert that closer attention by directors to ethical concerns, rather than legalistic box-ticking, could have short-circuited some of the behaviours that ultimately brought down entire firms. They discuss the impotence of regulation without the support of an ethical tone at the top - the ethical example and action of directors. Causseaux and Caster (2007) in a similar

vein argue that any change in a corporate culture depends on committed leadership rather than external mandates.

These authors do not disparage legal reform and the *prescription* of ethical codes but merely argue that much more is required for good corporate governance. As Arjoon (2006) explains:

Effective corporate governance is much broader than ensuring legal compliance. It should ultimately provide a company with a set of practices that are embedded in procedures and processes across the organisation (ethical compliance)...Effective corporate governance means adhering to ethical principles not merely complying with legal rules (p.56).

Corporate governance failure is not necessarily fixed by legal reform; it depends on the underlying problem which often is to do with the morality of people rather than gaps in the law (Greenfield, 2004). Legal reforms are ineffectual without attention to ethical obligations (Schwartz et al., 2005). This thesis argues that research is needed to know more about directors' understanding of ethics in their task of corporate governance so as to begin to grasp the role of personal ethics in corporate governance in order to help fine-tune reform efforts.

2.1.2 United Kingdom (UK)

The UK corporate governance regime is based on a shareholder model where the main goal of corporate governance is to protect and increase shareholder wealth (Barnett & Maniam, 2008; Dignum, 2007; Tylecote & Ramirez, 2006; Wieland, 2005). However section 172 of the Companies Act 2006 introduced a stakeholder emphasis into the regime; it requires board directors must have regard to the impact of the company's operations on the community, the environment and to the desirability of the company maintaining a reputation for high standards of business conduct when promoting the success of the company (Waring, 2008). The concept of 'enlightened shareholder value' has now been incorporated into legislation (Cerioni, 2008). The board must now consider the interests of stakeholders in order to generate long-term shareholder value (Ho, 2010).

Another difference between the governance regimes in the US and the UK is the 'comply or die' vs. the 'comply or explain' approaches. In the US compliance with corporate governance standards is required by law. In the UK the principles of best practice are contained in the Combined Corporate Governance Code first published in 2003; the principles are recommended not required. This is intended to avoid a 'tick the box' mentality. Another interesting difference in the UK is that there is a higher proportion of institutional investor ownership which provides an extra layer of governance (Barnett & Maniam, 2008).

Corporate governance reform began in the UK in 1986 when various financial scandals created the need to increase investor protection; this was the catalyst for the passing of the Financial Services Act. In the early nineties the sudden collapse of some high-profile companies including Maxwell, Bank of Commerce & Credit International and Pollypeck, all of whom had clean bills of health from their auditors, led to general concern about accountability processes. The first response was in 1992 when the Cadbury Committee made specific recommendations on corporate governance practices. Many of these changes focused on the board of directors and director independence. There have been several committees since then (the Greenbury committee 1995, Hampel committee 1998 and Turnbull committee 1999). These committees were instigated by non-government bodies such as the London Stock Exchange (LSE), the Bank of England and the professions. The LSE Listing Rules adopted a 'comply or explain' approach to these recommendations. The Hampel Committee recommended that all previous recommendations be combined into a super code (Dignum, 2007).

The Financial Services and Markets Act was passed in 2000 which established the Financial Services Authority (FSA) as the main regulator of the financial sector. The FSA has recently taken over the responsibility from non-government bodies for the listing of companies and the publication and maintenance of the Combined Corporate Governance Code; this was first published in 2003 and is updated every year. Although the FSA is now the official regulator of the financial sector, on the whole the UK approach is still essentially principles-based in character as listed

companies are required to comply or explain why they have not complied with the principles of the Code (Dignum, 2007).

The Combined Code (now called the UK Corporate Governance Code) contains principles regarding board structure and director responsibilities (including the setting of values for the organisation), remuneration, accountability and audit, and relations with shareholders (Financial Reporting Council, 2012). Specifically, it requires that the majority of the directors on the board be independent including the chairman and that the role of chairman and CEO be split. It also requires that the audit and remuneration committees be entirely independent and the nomination committee consists of a majority of independent directors. It also stipulates that independent directors have their own meetings. Independence has also been defined in terms of a number of variables including tenure (limit of 6 years). Also at least one director of the audit committee must have recent and relevant financial experience (Barnett & Maniam, 2008).

Wieland (2005) is the main protagonist in the UK/European jurisdictions of placing more emphasis on personal ethics in corporate governance. He argues that effective and efficient leadership, management, and control of the firm will be impossible without integrating moral attitudes and requirements with behaviour. He refers to a “comprehensive” understanding of corporate governance which among other things considers the objective of ‘values management’ as a strategic management task, thus anchoring it at the top management level.

He asserts that such a comprehensive interpretation of corporate governance leads to the conviction that any efficient and effective governance structure needs to serve two functions: to constrain *and* to enable (Wieland, 2005). “Corporate governance cannot be interpreted solely as constraint of behaviour (e.g., as limitation of exposure to risk). It should also be understood as enabler of behaviour (e.g., in so-called grey zones) for managing transactions with integrity” (p.77). He believes Anglo-American jurisdictions over-emphasize management control and the defensive aspects of monitoring and neglect to foster individual integrity.

In 2008 the Halifax Bank of Scotland failed and in 2009 the Royal Bank of Scotland failed announcing the biggest loss in British corporate history (Smallman et al., 2010). Both failures were attributed to major failures in key aspects of corporate governance (Webster & Hosking, 2009). It is important to note that these occurred under the auspices of a recently reformed corporate governance regime.

2.1.3 Europe

Since the Cadbury Report in 1992, several member states of the European Union have provided national codes on corporate governance of best practice and the European Commission has declared its intention to see these coordinated and converge (Lau-Hansen, 2006). Recently the Commission has relied on non-binding instruments such as recommendations on the European level and self-regulatory measures such as codes of corporate governance or best practice at the national level. It has made recommendations about directors' remuneration and independence and plans to require a corporate governance statement which should include a reference to the national code and explain any departure from the said code (Lau-Hansen, 2006).

Germany has traditionally adopted a stakeholder model which does not limit its focus to the protection of shareholders. It emphasizes the cooperative relationship among banks, shareholders, boards, managers and employees. German companies have a two-tiered board structure: there is a management board and a supervisory board. The former is in charge of the activities of the corporation while the latter controls the management board, its compliance with the law and articles and business strategies. Members of one board cannot be on the other board. A striking difference to the boards in Anglo-American jurisdictions is that the supervisory board must consist of at least 50% employees. Also in Germany banks can own shares in a firm as well as be the main bank of the same company. Often such banks have representatives on the supervisory board. This system has been in place since the mid-nineties (Barnett & Maniam, 2008).

Historically corporate governance in Germany has been governed by law as in the US but in the late nineties reforms were provoked by the collapse of many companies in the steel and iron industry. Difficulties were attributed to failure and neglect of management and those overseeing their activity, particularly supervisory boards (Du-Plessis, 2003).

The Corporate Governance Code (introduced in 2002 and updated annually) is the centrepiece of Germany's corporate governance reforms for listed companies. It is intended as a code of best practice where corporations are obliged to disclose whether or not they are in compliance with the Code. It is the hope of the drafters that the financial markets will reward the companies that comply. With the introduction of this code Germany is following a more typically Anglo-American model of the firm (Hutter, Devlin, & Burkard, 2002).

In this respect the German corporate governance system is now similar to the United Kingdom's. Far-reaching reforms have complemented the traditional stakeholder system with important elements of the shareholder system (Odenius, 2008). At the heart of this reform was the improvement of the overseeing and controlling functions of the supervisory board, stressing the need for transparency (Barnett & Maniam, 2008). The Transparency and Publicity Act 2002 lends the Code additional force. This Act requires each listed company to disclose publicly whether it has complied with the Code during the previous year and whether it intends to do so in the current year. The Act does not force companies to provide reasons for non-compliance (Hutter et al., 2002).

The Netherlands has a similar system to Germany. Germany and the Netherlands are the only two member states of the European Union to have provided a legal basis for the compliance of their national codes; legislation requires listed companies to comply with the national code, and even though the codes themselves allow the companies to deviate, the companies must follow the individual codes' procedure for doing so (Lau-Hansen, 2006).

In other European countries the codes have become part of the listing rules of the national stock exchange, which offers a contractual basis to ensure compliance. Where the exchange is the only national exchange, which is the case in several European countries, inclusion in the listing rules does stretch the idea of voluntary adhesion (Lau-Hansen, 2006). Nordic countries have very similar corporate governance regimes. All have a two-tiered company model but it is quite different from Germany's. The Nordic corporate governance system embraces most of the elements of a stakeholder perspective (Ayuso, Ariño, Garcia Castro, & Rodriguez, 2007). All five Nordic (Sweden, Finland, Iceland, Norway and Denmark) Codes are adopted by the national stock exchange as part of the listing rules and all rely on the "comply or explain" principle. None of the five codes are supported by legislation (Lau-Hansen, 2006).

These Codes require the majority of directors to be independent of management and the company; of this majority two directors must be independent of major shareholders. The only exception is the Danish Code which requires a majority of the directors to be independent of all three (management, company and major shareholders). Independence is defined more narrowly in the legislation (Lau-Hansen, 2006).

After a detailed analysis of European corporate governance codes Wieland (2005) concludes that the codes are distinguishable based on the model of the firm assumed:

Corporate governance codes that focus exclusively on the agency problem and pursue the maximization model offer no entry points whatsoever for a dimension of business ethics that goes beyond the honouring of contracts on the part of the managers. Corporate governance codes, on the other hand, which pursue the economizing or cooperation model, directly and immediately lead to the integration of questions of moral and social responsibility of firms and their engagement in terms of corporate citizenship. Most of the European states follow one of the latter two models (p. 87).

Wieland's empirical study of 22 European corporate governance codes found that the majority of European codes orientate themselves to stakeholders *and* the company. The UK and Switzerland codes are distinguished by their focus on the agency problem and profit maximisation as they emphasise management control and defensive aspects of monitoring. This could explain the observation of Bonn and Fisher (2005) (see below) that codes based on the Anglo-American model need to make an explicit link of ethics to the task of corporate governance while in other regimes this is unnecessary as the underlying ethical orientation permeates the code.

2.1.4 Australia

Australia, like the US and the UK, has a shareholder model and the main goal of corporate governance is to protect and increase shareholder wealth (Grantham, 2004). However there is a growing recognition that the cultivation of stakeholder interests contributes to long term shareholder value. The Australian Securities Exchange (ASX) Corporate Governance Council Corporate Governance Principles and Recommendations suggests in Principle Three that the code of conduct include practices necessary to take into account the reasonable expectations of stakeholders (ASX Corporate Governance Council, 2010).

Australia has opted for a balance between a rules-based and principles-based regime. The 'comply or explain' approach coupled with the elements of SOX that have been adopted in new legislation push it further along the continuum towards the United States' response (Blackmore, 2006). Mandatory legislation is contained in the Corporations Act 2001 and listed companies are required to comply with the ASX Listing Rules. The Listing Rules are enforceable under the Corporations Act. But Listing Rule 4 allows a "comply or explain" disclosure in regards to the ASX Council's corporate governance principles; it is left to the market to draw its conclusions (Kimber & Lipton, 2005).

Corporate governance received media and policy attention in Australia due to the collapses of overseas companies such as Enron and WorldCom, and domestic

companies, such as HIH, OneTel and Harris Scarfe (Fleming, 2003). Reform in Australia took place in 2004. It consisted of the establishment of the abovementioned Corporate Governance Council by the Australian Securities Exchange (ASX) primarily to stiffen mandatory disclosure requirements of the top 500 listed companies and the introduction of CLERP 9 (Corporate Law Economic Reform Program) to strengthen the financial reporting framework, ending the era of audit self-regulation (Clarke, 2004; Robins, 2006). CLERP 9 also imposes civil liability under the Corporations Act for breaches of the ASX Listing Rules' continuous disclosure requirements (Listing Rule 3) and extends this liability to directors and executives (Hutchinson & Percy, 2008).

Corporate governance practices were also reviewed. Standards for good practice in governance were introduced by Standards Australia (Armstrong & Francis, 2008b) and the ASX Corporate Governance Council introduced a corporate governance code consisting of eight best practice principles and recommendations (Teh, 2009). As mentioned above listed companies are required to "comply or explain" why they have not complied. The Code can be divided into structural, behavioural and disclosure principles (Fleming, 2003). As with other jurisdictions greater emphasis was placed on director independence; Principle Two states that the majority of the board should be independent including the chairperson (ASX Corporate Governance Council, 2010). Both Standards Australia and the ASX Council emphasised the values and ethics that should underlie good corporate governance such as transparency, accountability, fairness, honesty and integrity (Francis, 2000). The ASX Council stated:

There is a basic need for integrity among those who can influence a company's strategy and financial performance, together with responsible and ethical decision-making...[organisations should] clarify the standards of ethical behaviour required of company directors and key executives . . . and encourage the observance of those standards (p. 3).

Principle Three of the Code provides that companies actively promote ethical and responsible decision-making and recommends that companies establish a code of conduct (ASX Corporate Governance Council, 2010).

Kimber and Lipton (2005) in surveying the corporate governance regimes of the Asia-Pacific countries including Australia, conclude poor ethics has caused the corporate governance failures and also found that there are two diverging belief systems underpinning attitudes towards directors and senior executives: either directors and senior executives are driven by self-interest and require stringent regulation to constrain their natural behaviour; or they have an innate capacity to be good stewards and virtuous leaders and their personal sense of high moral standards underpins good ethical behaviour in business. Kimber and Lipton (2005) observe that the US reflects the former while the “comply or explain” regimes reflect the latter. In fact Karin Hamilton, chief integrity officer of the ASX commented that the principles and guidelines approach is more relevant in Australia than the SOX approach (Hamilton, 2004). However, Kimber and Lipton (2005) point out that ethics in a principles-based approach to corporate governance depends entirely on the integrity of the individual leaders; they end their paper calling on those in senior roles to remember that sustainability rests ultimately on their personal capacity to maintain high standards, and foster ethical processes.

An analysis of the Australian corporate scandals by Robins found legal but unethical elements present in all cases (2006). “Human frailty rather than human law lies at the heart of the corporate governance problem”(Robins, 2006, p. 47). He concedes that ethical standards are much less amenable to the external influence of regulation than are technical standards and institutional conventions and that nothing can replace personal integrity; legal reforms cannot help cultural causes. Armstrong and Francis (2008a) attribute corporate governance failure to a loss of integrity and so further regulation may not be the answer to corporate governance failure. They argue that directors need to know and practice the ethical principles underlying corporate governance.

From the above discussion it can be concluded that corporate governance reforms internationally have followed similar paths. On the whole there is an emphasis on compliance with rules surrounding board and committee structures, procedures and codes of ethics, with the view to achieving board and auditor independence. The difference lies in the fact that the US has adopted a rules-based regime whereas the UK, Australia and Europe use a mixture of legislation and principles. Advocates for a shift in direction to emphasise the personal ethics of leaders can be found in all jurisdictions. Norburn, Boyd, Fox and Muth (2000) reflected this view even before the major reforms and governance failures of 2002-2008:

The predominant common theme from our review of international corporate governance encapsulates recommendations that essentially are mechanistic and structural....We believe governance problems today have much less to do with structure and much more to do with human behaviour (p. 131).

2.1.5 New Zealand Context

The New Zealand corporate governance regime is based on the shareholder model where the main goal of corporate governance is to protect and increase shareholder wealth (Grantham, 2004). But as with other common-law jurisdictions there is a growing awareness of how stakeholders can contribute to the performance of the organisation. Principle Nine of the Securities Commission's Corporate Governance Principles recommends the board to respect the interests of stakeholders and should establish clear policies in respect of significant stakeholders (Securities Commission New Zealand, 2004). The Enron scandal in 2001, which increased awareness globally of the significance of corporate governance, fuelled the discussion in New Zealand about how to make boards more accountable (Bell Gully, 2009). This led to some significant changes to the corporate governance regime in 2004. New Zealand reformers were influenced by approaches taken in the UK and the US.

The Table below presents a chronology of the various corporate scandals and legislative reforms which occurred in New Zealand between 1970 and 2011. This is followed by a detailed narration of these events.

Table 1: Chronology of Legislative Reform and Corporate Events in New Zealand

Corporate Events		Legislation/Regulation		Description
1970s	<i>Collapses:</i> Securitibank and PSIS	1978	Securities Act	
1980s	<i>Collapses:</i> Equiticorp, Chase Corp, Energycorp, and Goldcorp	1988 1989	Securities Markets Act NZX Listing Rules for corporate governance	
1990s	<i>Collapses:</i> Bank of New Zealand, AFFCO and Fortex	1993	Companies Act Financial Reporting Act Institute of Directors' Code of Proper Practice for Directors	
2001-2003	<i>Misleading behavior:</i> Carter Holt Harvey <i>Near Collapse:</i> Air New Zealand			
		2004 Reforms	NZX corporate governance Listing Rules amended (mandatory)	- inclusion of at least two independent board members - audit committee to contain an independent majority - explanation of why they have not complied with best practice code in Appendix 16
			Securities Commission published Corporate Governance in New Zealand -	Nine principles of corporate governance

		Principles and Guidelines (recommended)		
2006	<i>Collapse: Feltex</i>			
2006-2010	<i>Collapses: 60 Finance companies</i>			
2008	<i>Governance Failure: Fonterra-Sanlu crisis</i>			
		2011	Financial Markets Authority (FMA) established (replaced Securities Commission)	FMA enforces securities, financial reporting, and company law as they apply to financial services and securities markets.

Prior to the 2004 reforms New Zealand also had its share of corporate governance problems which probably contributed to the reform impetus. The corporate collapses or near collapses which have scandalised New Zealand in the past include: Securitibank and PSIS in the seventies; Equiticorp, Chase Corp, Energycorp, and Goldcorp in the eighties; the Bank of New Zealand and the large meat companies in the nineties and Air New Zealand crisis in 2001. The following section highlights the corporate governance failures implicated in the collapse of Fortex and the problems in AFFCO (Australian Farmers Freezing Company) in the 1990s, the misleading behaviour of Carter Holt Harvey 2001-2003 and the saga of Air New Zealand in 2001.

2.1.5.1 Fortex

The meat industry had always been unstable; fluctuations in market prices and lamb production, coupled with fierce competition within the industry contributed to the demise of a string of companies (Woodford, 2007). These included large companies such as Borthwicks, Weddel, New Zealand Refrigerating Company and Canterbury Frozen Meat. Fortex got into trouble in the early 1990s and tried to disguise this by fraudulent book-keeping (Woodford, 2007). In 1994 it

collapsed having lost over \$100 million. It was discovered subsequently that, among other things, the 1992 books overstated income by \$8.7 million. Martin (1994) explains how fraud became “entrenched” within the company and began to distort decision-making. In 1996 the CEO, Thompson, and the company’s former general manager-finance Michael Mullen, were jailed for six and a-half years and four years respectively for fraudulent accounting. Accounting firm Price Waterhouse had been the auditor of Fortex for several years, including 1992. Several authors suggest the Fortex board should have more strongly challenged its charismatic and determined chief executive over the decision to build a new plant in the small town of Silverstream in 1990 (Martin, 1994; Tyson, 2004). Woodford (2007) argues that the whole industry suffered from a combination of strong management and weak governance; too many directors lacked the drive to rattle the cage and bring the meat industry into the 21st Century.

2.1.5.2 AFFCO

AFFCO suffered huge losses in the early nineties culminating in the closure of some plants. It was exposed to a number of factors which contributed to the low profitability of all players in the meat industry in the 1990s. The industry had been deregulated. It was highly competitive and lambs were in short supply. After the research team of Lockhart and Williams interviewed past and present members of the governance team and industry commentators, it became evident that the collapse of AFFCO was due to corporate governance failure (Lockhart, 2006). The control of AFFCO was wrested from the Board by the ‘Finance Committee’ - a consortium of banks and financiers - who then set out to reduce their debt exposure across the entire industry, contributing to AFFCO’s demise (Lockhart, 2006; Williams, 2005).

2.1.5.3 Carter Holt Harvey (CHH)

Between 2001 and November 2003 CHH sold timber labelled MGP10 when it knew the timber did not consistently meet the grade (Commerce Commission, 2006). "Carter Holt Harvey's own internal report shows that since 2001 the company knew its timber was not consistently meeting the grade, yet they continued to sell it as high-grade MGP10," says Commerce Commission Chair

Paula Rebstock. "They took the view that to do otherwise would be 'financial suicide' - that is what their internal documents reveal"(Commerce Commission, 2006).

In 2006 six senior executives were prosecuted by the Commerce Commission. If six senior executives had this knowledge it is probable that at least 20 other employees knew about it (Purdon, 2008). The annual reports mention the responsibility of the board for ethical matters and the successful prosecutions show that the Board did not sufficiently exercise their legal and ethical responsibilities.

2.1.5.4 Air New Zealand

In September 2001 Ansett (a large Australian domestic airline) collapsed and according to Jim Thorn, Managing Director of Aviation Australia at the time, and others, the board of Air New Zealand was to blame. He claims Air New Zealand paid too much for Ansett, did not manage it properly and in the end left it to self-destruct (Roy, 2001). In 1999 Air New Zealand increased its holding from 50% to 100% ownership in Ansett, in order to block a bid by Singapore Airlines to buy a 50% holding and so to keep Singapore Airlines out of the region. Many believe this decision was the nail in the coffin for Ansett. The board approved a purchase Air New Zealand could not finance, failed to ensure the required resources were invested to maintain the business as a going concern, and took away what could have been a secure future for Ansett (Easdown & Wilms, 2002).

Lockhart and Taitoko (2005) provided more detail about the nature of Air New Zealand's corporate governance failures. After they interviewed the key executives involved, it was established the board acted in favour of the major shareholder. The board succumbed to pressure from Brierley Investments Limited (BIL) to 'block' Singapore Airlines' entry into the Australian market, by the high risk acquisition of the balance of Ansett. This directly resulted in the collapse of Ansett and the Air New Zealand crisis. Growing tensions between shareholders and stakeholders were observed as BIL dominated the board to achieve complete control over decision making (Lockhart & Taitoko, 2005).

The above four examples show what happens when directors fail to do their job. These and other examples as well as international scandals prompted corporate governance reform in New Zealand. The question is whether the remedy adequately dealt with the problem. In New Zealand as in other common-law jurisdictions the reforms centred on director independence and codes of ethics.

Since the 2004 reforms, New Zealand's corporate governance regime is three-tiered - a combination of a rule-based approach and a principles-based approach (Blackmore, 2006). The central core is the raft of legal duties embodied in the Companies Act 1993. Other statutes such as the Securities Act 1978 and the Financial Reporting Act 1993 have some import here as well. The Companies Act 1993 sets out directors' duties and specifically requires directors to act in the best interests of the company; the Securities Act 1978 which among other things prohibits misleading conduct when raising capital from the public and the Financial Reporting Act 1993 requires true and fair disclosure when reporting financial data. However, this legal core was not the focus for corporate governance reform in 2004. The most important developments occurred in the next two tiers; the mandatory rules for companies that are listed on the NZX and the principles-based best practice code and guidelines produced by the Securities Commission (Blackmore, 2006).

Listed companies are now subject to more stringent regulation including the following mandatory requirements established by the NZX: the inclusion of at least two independent board members; the appointment of a board audit committee containing an independent majority; the insertion of a statement about corporate governance practices of the company including an explanation of why they have not complied with code of best practice set out in Appendix 16 of the listing rules; the code of best practice includes the development of a code of ethics (Blackmore, 2006; NZX Limited, 2010).

All companies are advised to follow the Securities Commission's Principles of Corporate Governance; these are not mandatory so as to avoid a tick-the-box mentality and to foster self-discipline (Blackmore, 2006; Securities Commission

New Zealand, 2004). This Code is built on the tenets of agency theory which assumes that the interests of the owners and managers *will* diverge. Accordingly the Code accepts without question that the central problem of corporate governance is how to monitor more effectively senior management and thereby make them accountable as their actions are motivated by self-interest rather than corporate interest. The solution in the Code is in broad terms the establishment of the board as a quasi-external body by increasing the independent component (Grantham 2004). This type of approach has been criticised by Wieland (2005), as discussed above.

The Code contains nine principles dealing with matters such as ethics, board/committee structure, remuneration, reporting and disclosure. Principle One of the Code states that directors should observe and foster high ethical standards and the guidelines state that boards should adopt a code of ethics for the entity that sets out explicit expectations for ethical decision-making and ethical behaviour. Principle Two recommends there be an ‘appropriate’ balance of executive and non-executive directors (Securities Commission New Zealand, 2004).

In the face of the impending 2004 reforms, the New Zealand Institute of Chartered Accountants warned that regulation is no substitute for personal ethics:

While we can legislate for corporate governance processes, we cannot easily legislate for their effectiveness. We cannot easily prescribe ethical behaviour. This is well illustrated by Enron. In terms of the processes it had in place, Enron could almost have been regarded as best practice (Institute of Chartered Accountants of New Zealand, 2003, p. 9).

2.1.5.5 Recent Corporate Governance Failure in New Zealand

However it seems that the above regime has not been able to achieve good corporate governance practice in several instances in New Zealand. Since the 2004 reforms, there have been a significant number of finance companies exhibiting failures in corporate governance. Approximately 60 finance industry companies have collapsed or have arranged moratoria since 2006, which has put

at risk around \$8.5 billion of investors' money (NBR Staff, 2012). There have also been governance failures in other industries which will be discussed below.

Much soul searching and pointing the finger have occurred in the wake of these finance company collapses. Before the finer details of these collapses had been examined by the courts, two commentators blamed the failures on the absence of ethics. Jane Diplock, the then Chairman of New Zealand Securities Commission acknowledged that corporate governance failure was a contributing factor in the collapse of twenty nine finance companies between 2006 and 2008 (Diplock, 2009). In a speech to Auckland Rotary on 22 June 2009, she enumerates the poor governance practices which led to these corporate failures: inaccurate financial reporting disclosures-particularly related party lending and / or asset quality; poorly capitalized companies; too few directors; no independent directors; uninformed independent directors; ineffective audit committees (Diplock, 2009). But most interestingly she attributes these poor practices to a lack of ethics.

Gareth Morgan in his recent book *After the Panic* is adamant that the whole financial system in New Zealand lacks ethical foundations and it was the absence of ethics which led to the numerous collapses and corporate financial scandals. He cites the following as evidence for this: cases of masking the true performance of their loan portfolio; involvement in excessive related-party lending; engaging in transactions just to benefit a director or prop up poorly performing investments. He is even more scathing towards the lazy and / or incompetent independent directors who allowed such things to go on. He makes the point that there is plenty of scope under the current law to bring charges against those involved. But the most important objective is to instil ethics across the sector (Morgan, 2009).

The regulatory response was the establishment of the Financial Markets Authority (FMA) in 2011. It replaced the Securities Commission and took over some roles of the Ministry of Economic Development (MED), and some of the roles of the Registrar of Companies. The Financial Markets Authority now enforces securities, financial reporting, and company law as they apply to financial services and securities markets. Recently it has introduced a raft of legislation to tighten

the regulation of finance companies, financial advisors and financial reporting in general; a provision in the Securities Markets Act 1988 makes it a criminal offence to recklessly or intentionally breach directors' duties (Financial Markets Authority, 2012).

An inquiry in 2011 by the MED found the cause of the collapses to be poor governance practices which created precarious situations for the companies in times of economic downturn; risk was often concentrated by excessive lending to related parties and inadequate disclosure practices were common place (Commerce Committee, 2011). In some cases governance was described as negligent and unlawful with instances of serious misconduct ranging from deliberate misrepresentation of risks and non-disclosure of significant lending to related parties, to outright fraud and Ponzi-scheme-style scams (Commerce Committee, 2011).

The following comments represent the general post-crisis mood: KPMG financial services group deputy chairman Godfrey Boyce says boards just turned a blind eye to lending transactions that should have been critiqued and challenged on the way through, and clearly weren't (Peart, 2008); Registrar of Companies Neville Harris said some boards tended to lack the breadth of experience and skills required to oversee the scale, complexity and characteristics of financing operations (Commerce Committee, 2009); too often directors were not adequately informed, misled or failed to take sufficient interests in the affairs of the company (Commerce Committee, 2011).

Nineteen directors have been convicted in the High Court since 2010; seven of those are now in jail and a further nine are serving home detention, or facing community service or fines. There are approximately 13 more directors still waiting for their day in court (Carruthers & Heine, 2012).

What follows are some detailed examples of poor corporate governance behaviour which have recently occurred in New Zealand companies. The first group consists of typical cases from the large group of collapsed finance companies. This is

followed by commentary on the issue of whether some of these directors should have been charged as criminals. The second group consists of Feltex and Fonterra.

2.1.5.5.1 Group One

The majority of these cases were brought by the Financial Markets Authority under the Securities Act 1978, Section 58. Section 58 makes directors liable for distributing a prospectus or advertisement that includes an untrue statement. The penalties for a breach of section 58 are imprisonment of up to 5 years, and a fine of \$300,000. Because the offences under section 58 of the Securities Act are strict liability offences, the issue of whether or not the directors intended to distribute offer documents that were false or misleading is irrelevant (Hesketh Henry, 2012). The Crown merely has to prove that:

- a) The offer documents contained untrue statements (which could either be an affirmative statement or a material omission of information);
- b) The offer documents were distributed (as regards the prospectus); and
- c) The accused directors signed the prospectus, or it was signed on their behalf (Hesketh Henry, 2012).

The cases are summarised in the following table:

Table 2: Summary of Finance Company Court Cases

Name/Year	Alleged actions	Actors	Outcomes
Bridgecorp went into receivership in 2007 owing \$459 billion to investors	Making untrue statements in investment statements and registered prospectuses about: financial position, solvency liquidity, related party lending, lending policies and procedures (Securities Act 1978; criminal charges s58 civil proceedings s55C)	Chairman-Bruce Davidson	October 2011 All found guilty of criminal charges, civil proceedings pending: Bruce Davidson – guilty - nine month’s home detention.
		Non-executive director- Peter Steigrad	Steigrad, guilty of 2 out of 6 counts- has been remanded on bail
	Making untrue statements (Securities Act 1978; criminal charges s58, civil proceedings s55C) and Theft (Crimes Act 1961 s242) and knowingly making false statements (Companies Act 1993; criminal s377)	Rod Petricevic Cornelis Robert Roest	Both found guilty - 6 1/2 years in jail.
Nathan Finance went into receivership in 2007 owing \$174 million to 7000 investors	Making untrue statements in investment statements and registered prospectuses about: whether loans made to the related party parent company were on commercial arm’s length terms; whether there should have been disclosure that loans to the	John Hotchin	2 September 2011 All found guilty of Criminal Charges, Civil proceedings pending. As Mr Hotchin initially entered a guilty plea (unlike the others) he was sentenced on 4 March 2011 to eleven months' home detention

	parent were rolled over and capitalised; whether there should have been disclosure of the deteriorating liquidity profile of the company and misleading statements on corporate governance and credit management processes (Securities Act 1978; criminal charges s58, civil proceedings s55C)		and 200 hours community service, and was ordered to pay reparation of \$200,000
		Donald Young,	Mr Young nine months home detention, 300 hours community service and ordered to pay reparation of \$310,000
		Mervyn Doolan	Mr Doolan was sentenced to two years four months imprisonment and ordered to pay reparation of \$150,000
		Chairman- Kenneth Moses	Mr Moses for two years two months imprisonment and ordered to pay reparation of \$425,000
Dominion and North South Finance went into receivership in 2008 owing \$176.9 million to 5900 investors	Making untrue statements in investment statements and registered prospectuses about: related party transactions, lending standards, loan quality and impairment, liquidity and overall financial position (Securities Act 1978 ;criminal charges s58, civil proceedings s55C)	Vance Arkinstall, Richard Bettle (chairman) Terence Butler, Ann Butler, Paul Forsythe Robert Whale	Trial date June 17 2013
Lombard Finance & Investments put into receivership in	Making untrue statements in offer documents and advertisements about: liquidity, quality of the loan book,		29 March 2012 All found guilty of criminal charges and have appealed; civil

<p>April 2008, owing \$125 million to 4400 investors</p>	<p>adherence to credit policies and overall financial position</p> <p>(Securities Act 1978; criminal s58, civil s55C)</p>	<p>Sir Douglas Graham (chairman)</p>	<p>proceedings pending</p> <p>Sir Douglas Graham sentenced to 300 hours community service and ordered to pay reparation of \$100,000.</p>
		<p>Mr Bryant</p>	<p>Mr Bryant sentenced to 300 hours community service and ordered to pay reparation of \$100,000.</p>
		<p>Mr Jeffries</p>	<p>Mr Jeffries sentenced to 400 hours community service.</p>
		<p>Mr Reeves</p>	<p>Mr Reeves sentenced to 400 hours community service.</p>
<p>Nuplex Industries</p>	<p>Breaching its continuous disclosure obligations by failing to disclose a breach of a banking covenant between 22 Dec 2008 and 19 February 2009. The Commission argued that this lack of disclosure allowed the development and subsistence of a market materially influenced by false or misleading information, which is prohibited under the continuous disclosure provisions in the</p>	<p>Managing director-John Hirst,</p> <p>Chairman, Non-executive director- Robert Aitken,</p> <p>Non-executive directors- Barbara Gibson,</p> <p>David Jackson,</p> <p>Bryan Kensington</p> <p>Michael Wynter</p>	<p>Settled out of court 25 Feb 2011</p> <p>As part of that settlement, Nuplex paid a sum of NZ\$3,054,980.57 as compensation for all shareholders who purchased and retained shares in Nuplex over the period from 22 December 2008 to 18 February 2009.</p>

	<p>NZSX/NZDX Listing Rules. Those provisions are given legislative force by section 19B of the Securities Markets Act 1988,</p>		
	<p>Making untrue statements in investment statements and registered prospectuses (Securities Act 1978; s58 criminal)</p> <p>These statements included: National Finance's provisioning for bad debts; related party lending (including interest free unsecured loans to Ms Braithwaite and her de facto partner, Trevor Allan Ludlow, to purchase four luxury apartment s in Fiji); the types of assets or security held by National Finance</p>	Carol Braithwaite	<p>Mrs. Braithwaite was found guilty on 27 July 2012. On 18 September 2012 she was sentenced to 10 months' home detention and 300 hours of community work.</p>
		Mr Banbrook	<p>Mr. Banbrook pled guilty on 22 June 2012. He has a disputed facts sentencing hearing, that has been adjourned until 2013 at a date to be confirmed.</p>
	<p>Making untrue statements in investment statements and registered prospectuses</p>	Trevor Ludlow	<p>Mr. Ludlow pleaded guilty to the FMA charges and was sentenced on 26 January</p>

	<p>(Securities Act 1978; s58 criminal)</p> <p>Deliberately applying investors' money contrary to the terms of the trust deed or other requirements imposed by law and thereby committed theft and false accounting (Crimes Act 1961)</p>		<p>2012 to serve an additional nine months imprisonment cumulative on the existing SFO sentence. Accordingly he has received a total sentence of six years four months imprisonment</p>
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Some commentators have been critical of the use of criminal law in pursuing some of these cases-in particular *Lombard* and *Nathans Finance*. A leading commercial lawyer Stephen Franks argues that by calling statements the makers *thought* to be true, as false creates the impression that these directors were making deliberate or conscious untruths. He says the behaviour should have been described as recklessness leading to a misleading statement. In both cases the judges noted that they did not doubt the honesty of the directors. "I draw a huge distinction between 'misjudgement' (as the judge called it) or 'foolish optimism' on the one hand, and 'dishonesty' on the other. There are plenty of dishonest directors to hound" (Franks, 2012).

Justice Heath said the *Nathans* directors had failed to properly read and analyse the company's documents. "The directors wrongly left it to management to take professional advice and to confirm to them that the prospectus and investment statement was compliant. That was not a delegable duty. It was for them to read the contents of the offer documents and to determine for themselves whether they reflected the position of the company as they knew it to be" (*The Queen v Moses, Doolan & Young*, 2011, p. 134).

Denham Shale, president of the Institute of Directors, said the evidence in the *Lombard* case shows directors have not been fulfilling their clear responsibilities

by leaving it to company executives and advisors to make decisions and give advice relative to directors' responsibilities (TVNZ, 2012). Justice Dobson said: “Directors are appointed to exercise judgement and that extends to testing the competence of management within areas in which managers relied.The absence of warning signals from competent external advisors do not give reasonable grounds for the directors belief in the accuracy of the offer documents’(Chapman Tripp, 2012, p. 3).

Other cases illustrated more serious variations of ‘bad governance’. Unlike the *Nathan* and *Lombard* cases, *Bridgecorp* directors Petricevic and Roest, and *National Finance* director Trevor Ludlow have been found culpable of *actual* dishonesty when making statements about company affairs.

Bruce Davidson, former director of *Bridgecorp*, appealed against the Registrar of Companies’ decision to ban him from being a director for five years. In his defence he argued that he relied on the financial expertise of Petricevic and was persuaded by Petricevic not to resign as this would alarm the market. But the High Court held that it was Davidson’s failure to act and relying on others when making such important decisions which constituted bad governance and made him unfit to be a director (Chapman Tripp, 2012).

None of these cases involves any radical new statements of law. They involve the application of relatively settled law (Chapman Tripp, 2012). The advice for directors is summed up as follow: To the courts ‘governance’ means properly supervising management. It does not mean merely painting the big picture and letting management get on with joining the dots” (Chapman Tripp, 2012). It can be seen that making decisions after failing to be fully informed about the state of play, being unable to grasp the data provided, neglecting to ask the right questions, and inappropriately relying on the opinion of others, amount to illegal acts. This study suggests that one way of ensuring that such basic governance practices are less likely to be neglected is for reformers to pay closer attention to the personal ethics of directors. In fact Brian Gaynor and Gareth Morgan, respected New Zealand political and economic commentators, have repeatedly

questioned whether a lack of ethics rather than insufficient regulation, is the underlying problem.

2.1.5.5.2 Group Two

This second group describes situations which may have been avoided if directors had intervened. Fonterra's case may indicate that the involvement and support of the board of directors is pivotal for the implementation of an ethical culture. The Feltex case shows that legal behaviour is not necessarily ethical and it's the ethical standards that count in the end.

2.1.5.5.2.1 *Fonterra*

In 2008 many children in China became ill and some died due to drinking powdered milk containing melamine. Fonterra purchased 43 per cent of Sanlu in 2005, and appointed three members on the board of seven. Court papers showed that Sanlu first began receiving complaints of children becoming sick after drinking its milk, back in December 2007. Sanlu was slow to react, but by May 2008 it knew the milk it was selling was poisonous. Still the milk kept flowing, and it was only when the company's foreign partner blew the whistle that production stopped, and the arrests started (Sommerville, 2009).

The contamination was first made known to the Fonterra board on August 2 2008, but a public statement was not made by Fonterra until September 11. Between August 2 and September 12, Sanlu produced 72 batches of tainted baby milk food that added up to 904 tonnes. And it sold 69 batches of those products for 48 million Yuan (\$7 million). As Fonterra owns 43% of Sanlu there had been a substantial amount of discussion as to why Fonterra, on becoming aware of the situation, took so long to act and to go public (Parker, 2008). Andrew Ferrier maintains they did all they could: "As we have stated throughout, Fonterra consistently pushed for a full public recall of contaminated product from August 2 when we learned of the contamination" (Anderlini & Smith, 2008; Hembry, 2009; Janes, 2008).

Fonterra had quite a sophisticated ethics process compared to some and yet it failed. Interestingly, Fonterra had dismantled its ethics committee when CEO

Andrew Ferrier took the reins in 2004, prior to entering the joint venture with Sanlu. Dr Longstaff who has been the Executive Director of the St James Ethics Centre, Sydney since 1991 and was formerly the chair of Fonterra's ethics committee believes the committee was dissolved because it was too effective. "The ethics processes I had in place were more than just a hotline. It was cultural formation and deep engagement within the business". The chair of the ethics committee was independent-not as it is now- a Fonterra executive. Also the chair of the ethics committee had the right to by-pass the CEO and Senior Management to report directly to the board. The reason Fonterra gave for dismantling the system was that they wanted to integrate ethical responsibility into the Senior Management level. Longstaff commented that dismantling such a system amounts to a serious corporate governance failure. He claims that if his system had been in place, more questions would have been asked and more monitoring measures put in place, before entering into a joint venture with a company like Sanlu (Parker, 2008).

An observer confirms these sentiments when he says he felt worried with Fonterra's new venture. Jamil Anderlini, a New Zealander who has reported on business in China for several years for the *Financial Times*, was present at the ceremony in 2005 when Fonterra announced its \$153 million investment in Sanlu. "I remember feeling uneasy," he says. "I've been to a lot of Chinese milk operations and I've seen how they work. I remember thinking Fonterra was a little bit out of its depth and didn't quite know what it was getting into at the time" (Anderlini & Smith, 2008; Janes, 2008).

In fact Fonterra has admitted that it should have had better systems in place so it knew what was going on earlier. "As Sanlu's partner, Fonterra should have been informed of these earlier incidents and health complaint investigations," it told the *Dominion Post*. "It does raise governance and management issues" (Janes, 2008).

2.1.5.5.2.2 Feltex

Several thousand investors bought shares in Feltex at \$1.70 each in May-June 2004, investing \$250 million in the well-known carpet company. It is claimed the

seller of the shares, Credit Suisse Private Equity, made \$182m profit. But the shareholders lost their investment when just over two years later the company collapsed into receivership, and a few months later in December 2006 was placed in liquidation (Steeman, 2011).

At the time of preparing the 2005 financial statements, the directors of Feltex were aware that the company was in breach of certain of its financial covenants (\$100m) with ANZ, meaning the money was repayable on demand but this was not disclosed by the directors. Also Feltex had mistakenly failed to classify this liability as current (due to it being payable on demand), and so breaching the applicable financial reporting standard. This is a criminal offence under section 36A of the Financial Reporting Act 1993.

Feltex's directors and management, as well as Ernst and Young, failed to pick up that International Financial Reporting Standards (IFRS) differed from the previous accounting standards (Generally Accepted Accounting Principles-GAAP) in relation to this point in two material ways, with IFRS containing a more prescriptive test for the classification of debt as "current" or "non-current" and also more prescriptive requirements for disclosure of matters in the explanatory notes to interim financial statements. The interim financial statements in question were the first that Feltex had prepared under IFRS, during New Zealand's transition period from GAAP to IFRS. However, Judge Doogue accepted the Feltex directors' defence that they had taken all reasonable and proper steps to ensure compliance with the reporting standards (Gaynor, 2010).

The directors were found not guilty but Gaynor wonders whether the directors had an obligation (an ethical or moral obligation rather than a legal one) to keep investors better informed (Gaynor, 2011). Feltex was already in trouble by late 2005 with shareholders pleading for better disclosure from the company at the 2005 annual meeting. Chairman Tim Saunders rejected repeated requests at this meeting with shareholders to give up-to-date financial information and projections for the June 2006 year. Gaynor wrote in his column after that meeting: "Why are companies willing to give detailed financial forecasts when they are selling shares

to the public but are reluctant to supply forward-looking figures once investors have paid their money?" (Gaynor, 2010).

Even though investors were crying out for greater transparency the Feltex directors chose not to disclose that the company was in breach of a bank covenant and had major bank loans which really should have been shown as "current" in the interim report released in February 2006 (Gaynor, 2011). As is well known the directors escaped conviction for such behaviour but the whole incident clearly casts a shadow over their ethical standards and therefore the quality of their corporate governance.

From the above discussion about New Zealand corporate governance reforms and corporate governance failures it can be concluded that increased regulation and recommendations around director independence has had little impact on the quality of corporate governance. As Morgan affirms all of the behaviour exposed by the finance company collapses was forbidden by the existing law but it seems that was an insufficient deterrent (Morgan, 2009). The cases of Feltex and Fonterra are a reminder that unethical but legal behaviour can have devastating consequences and needs to be prevented. Furthermore, that the effectiveness of ethical codes and systems is questionable when the directors do not personally observe high ethical standards in their work and/or fail to foster their cultivation throughout the organisation.

2.3 Corporate Governance Failure and Ethics

As has already been mentioned, there is a small body of academic literature which suggests that the recent failures in corporate governance are fundamentally caused by a lack of personal ethics rather than deficiencies in the regulatory framework (Armstrong & Francis, 2008a; Gandossy & Sonnenfeld, 2005; Greenfield, 2004; Huehn, 2008; Robins, 2006; Schwartz et al., 2005). What these authors mean is that regulation and codes of ethics, of which there is no shortage, although necessary, are not sufficient as a means of ensuring ethical behaviour. Or as

Arjoon (2005) would say these structures lack the ‘moral firepower’ to ensure ethical action.

Several authors place the blame for failed corporate governance specifically on unethical leaders and unethical leadership because ‘Leadership, whether good or bad, ethical or unethical, creates and to a large extent controls the culture, character, and choices of an organisation’ (Gini, 2004, p. 11). He attributes governance failures to a lack of moral leadership because all leadership is value and vision laden. Fassin (2005) gives importance to the role of business leaders in implementing ethical discourse throughout the entire organisation. Knights and O’Leary (2006) concur in asserting that it is due to a failure of ethical leadership derived from the preoccupation with the self-that drives individuals to seek wealth, fame and success regardless of moral considerations.

Scharff (2005) has shown how the collapse of WorldCom was due to unethical leadership and culture. Armstrong and Francis (2008a) explain how corporate collapses in Australia were clearly due to unethical behaviour and argue that part of the directors’ duty of care is to build an ethical climate. Arjoon is in agreement when he says “the crisis of corporate abuses reflects a crisis of culture; a culture of governance to encourage ethical behaviour” (2006, p. 59). Potts and Lohr Matuszewski (2004) also link corporate governance failures directly to unethical culture. The next section demonstrates the close link between ethical leadership and ethical culture.

Kimber and Lipton (2005) analysed four countries’ governance models (India, China, Australia and Singapore) and concluded that good corporate governance depends on the personal capacity of corporate leaders to maintain high standards, principles and foster ethical practices. Othman and Rahman (2011) conducted a study of ethics and corporate governance in Malaysia. They interviewed those responsible for corporate governance (CEO, Head of Corporate Governance, and Head of Risk Management etc) in 15 publicly listed companies as well as other key players of the corporate governance regime including politicians, academics and consultants. The aim was to explore their perceptions of ethics in the context

of corporate governance and to examine aspects of ethics that could stimulate better corporate governance. They found that ethical culture and leadership were needed to supplement ethical structures. 'The personalities leading the corporations are crucial as they can be considered living proof of the ethical manifesto...having personalised ethical values can help to establish an ethical culture' (Othman & Rahman, 2011, p. 107).

This shift from an emphasis on compliance to ensuring ethical leadership, culture and the character of the individual seems to represent a willingness to revisit an actor-centred approach to ethics as opposed to an act-centred approach to ethics; focusing on the virtues of actors instead of the rules of behaviour (Rossouw, 2008a). Act-centred ethics informs approaches such as codes of conduct and ethical decision making models/procedures. This interest in the personal ethics of directors focuses attention on character (Hartman, 2008). This suggests that there could be a place for Aristotelian Virtue Theory (AVT) - to supplement existing rules and codes and so better support and develop best practice corporate governance (Rossouw, 2008a) .

2.4 Ethics, Leadership and Organisational Culture

This thesis has argued that corporate governance failure has been attributed to unethical leadership and/or unethical organisational culture. This smaller body of literature is reinforced by an abundance of articles in the mainstream leadership and organisational culture literature, which link unethical corporate behaviour generally to unethical leadership and an unethical culture (Brien, 1998; Dickson, Smith, Grojean, & Ehrhart, 2001; Fisher & Fowler, 1995; Key, 1999; Milton-Smith, 1997; Sims, 2000).

2.4.1 Organisational Culture and Ethical Behaviour

An ethical organisational culture refers to the shared perceptions of ethically acceptable behaviour and the ways in which ethical issues are addressed in an organisation (Victor & Cullen, 1987). At the same time, organisational culture can

also convey to employees that certain unethical practices are acceptable (Sims, 2000). Trevino and Brown (2004) argue that most unethical behaviour is supported by the context in which it occurs. McKee (2004) asserts that an organisational DNA that promotes a culture of trust, integrity and intellectual honesty is the solution to good corporate governance. Wallenberg (2004) argues that good corporate governance is (1) a management question- having the right ethical attitude at the top and (2) a cultural question-ensuring that the attitude permeates every aspect of business operations and conduct. Gebler (2006) argues that culture is the leading risk factor for compromising integrity and compliance in companies today. He claims that it was the culture at Enron which brought out the worst in some top executives, including inaction and passivity on the part of many others.

Loe, Ferrell and Mansfield (2000) in reviewing empirical studies of factors influencing ethical decision making, confirm that culture and climate are pervasive in influencing and adapting organisational ethics. In fact they assert that managing the culture of the organisation contributes to managing organisational ethics.

Llopis, Gonzalez and Gasco (2007) believe corporate culture studies provide the best insight into deepening our understanding of possible ways to improve organisational ethical behaviour. Schneider (2000) asserts that culture is the most powerful determinant of ethical behaviour. Douglas, Davidson and Schwartz (2001) hold that organisational ethical culture or, more specifically, the ethical environment within the firm created through management practices and espoused values, may be the most important deterrent to unethical behaviour. Chen, Sawyers, and Williams (1997) point out that behaving ethically depends on the ability to recognize that ethical issues exist, to see things from an ethical point of view. In their theoretical paper, they suggest that this ability to see and respond ethically may be related more to attributes of organisational culture than to attributes of individual employees.

Trevino (1990) believes that an organisational culture has an ethical component which is composed of a complex interplay of formal and informal arrangements that can support either ethical or unethical behaviour. The formal methods include leadership, structure, policies, reward systems, orientation and training programmes, and decision-making processes. Informal methods include norms, heroes, rituals, language, myths, sagas and stories.

An ethical culture seems to facilitate ethical behaviour and as the following section demonstrates, an ethical organisational culture depends on ethical leadership which is more the focus of this thesis.

2.4.2 Top Management and Corporate Culture

There is a substantial amount of literature which claims that leaders have a significant influence over the corporate culture (Appelbaum, Deguire, & Lay, 2005; Gini, 2004; Grojean, Resick, Dickson, & Brent-Smith, 2004; Jayne, 2007; Knights & O'Leary, 2006; Schneider, 2000; Wallenberg, 2004; Zablou, 2006). Gini (2004) asserts that all leadership is ideologically driven and it is about passing on values so that the ethics of the leaders determines the ethics of the organisation. It has been suggested that any approach to building an ethical culture requires the active involvement of the organisational leader (Dickson et al., 2001; Paine, 1994). In fact, research has demonstrated that ethical leadership and top management support are more important in developing an ethical culture than codes of conduct and ethics training (Jose & Thibodeaux, 1999; Paine, 1994). Andreoli and Lefkowitz (2009) found that an ethical climate created by moral leadership was one of the most significant antecedents of ethical conduct.

Roper (2004) links the values of management to the level of compliance in sustainability practices. Gini (2004) makes the same point in asserting that employees are influenced by the actions rather than the words of top management. Zablou (2006) makes a similar point by giving importance to the influence of employees' perception of management. Formal ethics programs have also been found to be strengthened by consistency between stated policies and actions, open discussion of ethical issues in the organisation and ethical leadership (Trevino,

Weaver, Gibson, & Toffler, 1999), and a significant relationship has been found between top management's commitment to ethics and integrated practices of corporate social responsibility (Weaver, Trevino, & Cochrane, 1999). Along similar lines, others have emphasized the importance of consistency in communication and behaviour, in other words, 'leaders needing to walk the talk', and the resulting benefits in terms of effective role modelling and perceived integrity (Gini, 1997; Kouzes & Posner, 1992; Murphy & Enderle, 1995; Oliverio, 1989; Simons, 1999).

Some have suggested that leader role-modelling is the most critical factor determining ethical culture (Dickson et al., 2001; Morgan, 1993; Murphy & Enderle, 1995; Nielson, 1989; Paine, 1996; Schein, 1985; Sims, 2000; Sims & Brinkman, 2002). Jackall (1988) suggested that ethical behaviour in organisations is often reduced to adulating and imitating one's superiors, and other researchers agree. Lord and Brown (2001) suggest that leaders provide a 'natural source of values' for their employees while Bandura (1977), in discussions of socialization and social learning theory, suggests that employees imitate the values stemming from their leaders. Hood (2003), who looked specifically at the relationship between the CEO's leadership style, values and the ethical practices of the organisation, found that leadership styles do influence ethical practices in the organisation. Brown, Trevino and Harrison (2005) consider managers to be a key source of guidance for ethical behaviour.

Much has been written on how to create a corporate culture (Van Gates, 2004; Gebler, 2006; Kranacher, 2006; Rudolph, 2005; Van Sandt, Shepherd, & Zapp, 2006; Zablow, 2006). There is a general sentiment that organisational leaders can create an ethical climate by setting clear standards and holding employees accountable for following these standards (Gini, 1997; McClaren, 2000; Singhapakdi & Vitell, 2007). As indicated by Dickson et al. (2001), leadership behaviour is the critical determinant of an ethical climate in organisations. Ingram, LaForge and Schwepker (2007) proposed that transformational leaders may facilitate an organisation's journey towards instituting an ethical climate.

ConocoPhillips' CEO, Archie Dunham, gives tremendous importance to the whole person in that senior management must be role models at and outside of work (Hill, Hamilton, & Smith, 2005). In a similar vein Rudolph (2005) states that culture requires a commitment on the part of senior management and this commitment must be explicitly linked to a set of clearly expressed, credible and achievable values and principles. Of the CEO, Rudolph comments: "He or she must live and breathe these values and principles"(2005 p.4). A relatively high proportion of studies show that the behaviour of superiors and organisational peers seems to be the most influencing factor of ethical or unethical behaviour of managers (Baumhart, 1961; Brenner & Molander, 1977; Marquardt & Hoeger, 2009; Posner & Schmidt, 1984).

2.5 Business Ethics and Corporate Governance Regimes

This section reinforces the above link between the ethics of directors and corporate governance failure by exposing the strong interconnection between effective corporate governance and high ethical standards assumed by corporate governance regimes.

Many Corporate Governance "Best Practice" codes explicitly require directors to be vigilant for the ethics of the organisation and its members. Sir Adrian Cadbury's definition of corporate governance has implications for an organisation's approach to corporate social responsibility (CSR), business ethics and regulatory compliance (Bonn & Fisher, 2005). Managing the ethics of the organisation is often an explicit aspect of corporate governance. However it can be implicit to the extent that direction and control entail setting and achieving strategic goals and monitoring how this is done according to strategic, legal, ethical and societal standards (Bonn & Fisher, 2005). Strategy is influenced by the values and ethical aspirations of the leaders and compliance cannot be effective without commitment to high ethical standards of both leaders and followers (Gandossy & Sonnenfeld, 2005; Gini, 2004). So 'Best Practice' directorship is an essentially ethical task.

Bonn and Fisher (2005) claim that ethics is so fundamental to corporate governance that an organisation's approach to ethics must have its foundation in its corporate governance framework. Several authors reinforce this claim in arguing that all corporate governance regimes implicitly or explicitly include an ethical dimension (Bhimani, 2008; Johnson, Daily, & Ellstrand, 1999; Johnson, 2004; Rossouw & Sison, 2006; Schwartz et al., 2005). Arjoon makes a more radical assertion when he states that

The essential goal of an effective corporate governance program is an ethical one; it is to help governing authorities, managers, employees, and other actors work together to pursue the purpose of an organisation and achieve its more specific goals and objectives in a manner consistent with its standards for ethical business conduct (2006, p. 56).

Rossouw (2005) argues that corporate governance codes have a distinct ethical nature. The typical components of a corporate governance system such as requirements about board composition and functioning, risk management, auditing, reporting and disclosure requirements represent a framework to ensure the corporation acts in a manner that is fair, accountable, responsible and transparent; but he does not comment on their effectiveness or sufficiency in this regard. Bonn & Fisher (2005) note that codes in English-speaking countries tend to expressly link ethics to the task of corporate governance, while in other regimes the underlying ethical orientation has to be distilled in a second order analysis of what is presented on the surface. But there is no doubt that all corporate governance regimes or codes seek to ensure ethical governance; that ethics is intrinsic to good governance (Rossouw, 2009). This view is also reflected by the NZ Securities Commission. 'Ethical behaviour is central to all aspects of good corporate governance. Unless directors and boards are committed to high ethical standards and behaviours, any governance structures they have put in place will not be effective' (Securities Commission New Zealand, 2004, p. 8). In fact, the First Principle of New Zealand's Corporate Governance Code is quite explicit in regards to ethics. It states: 'Directors should observe and foster high ethical standards' (Securities Commission New Zealand, 2004, p. 7). This is further

elaborated in the Guideline which explains that this Principle requires the development of a code of ethics, a system to implement and review the entity's code of ethics and the provision of employee training.

Furthermore it is becoming common place to equate good corporate governance with ethical corporate governance as adherence to ethics is in the best financial interests of the organisation (Schwartz et al., 2005; Verschoor, 1998). Francis and Armstrong (2008) present compelling reasons to consider good ethical practice to be an essential part of risk management. Such a connection has significant commercial outcomes, which include identifying potential problems, preventing fraud, the preservation of corporate reputation, and the mitigation of court penalties should any transgression arise. The respondents in the study conducted by Othman and Rahman (2011) perceived corporate governance to be an intrinsically moral or ethical task.

Solomon (1992a) argues that ethics, in the Aristotelian sense, is intrinsic to business as the goal of business is to realise the mission of the organisation in the best way possible; ethics for Aristotle is equivalent to carrying out an activity or role in an excellent way. Excellent fulfilment is measured according to the purpose of the role, or the activity, so anything which furthers the goal of the role or the activity is virtuous; carrying out an activity or role well, leads to virtue and therefore is ethical (Moore, 2005; Solomon, 1992a, 2004). Some corporate governance scholars have argued that the adoption of this approach would greatly contribute to good corporate governance (Arjoon, 2005; Bragues, 2008; Knights & O'Leary, 2005; Rossouw, 2008a; Schwartz, 2009; Sison, 2008).

2.5.1 Directors

The leadership literature cited above endorses the benefits of ethical leadership at all levels but all attribute particular importance to those at the very top. This section highlights literature and regulation which consigns ethical responsibility to directors in particular. Schwartz, et al., (2005) argue that directors are directly responsible for ensuring their organisations are ethical because of the nature of their role. They refer to them as “some of the most important fiduciaries in

society” given that they are responsible for the protection of corporate assets; select and discipline senior management; approve major transactions and help ensure the accuracy of financial reports. Accordingly, they advocate an ethical tone at the top is the solution to corporate governance failure. Schroeder (2002) and Jayne (2007) give importance to directors’ place in the corporate hierarchy, which gives their words and deeds more weight. Others source this ethical responsibility in their legal obligation to act in the best interests of the company (Armstrong & Francis, 2008a; Schwartz et al., 2005).

This responsibility is reinforced by formal ethical exhortations found in corporate governance codes, corporate codes of ethics and directors’ associations’ codes of conduct. Ultimately directors’ ethical obligations have been enshrined in law in several jurisdictions.

Section 406 of the Sarbanes-Oxley Act 2002, which reformed corporate governance standards in the US, requires public corporations to have a code of ethics for senior executives or to state in their annual report that they do not have such a code as well as why they do not. Under Securities and Exchange Commission (SEC) rules, detailed guidance for the content of the code is provided including: promotion of honest and ethical conduct, full and fair disclosure, compliance with laws, internal reporting for violations, and accountability for adherence to the code (Barnett & Maniam, 2008).

The US Federal Sentencing Guidelines for Organisations require organisations to promote an organisational culture that encourages ethical conduct and commitment to compliance with the law (Canary & Jennings, 2008; Schwartz et al., 2005). “Directors have overall responsibility for the ethics and compliance programmes of the organisation. The tone at the top that they set by example and action is central to the overall ethical environment of their firms. This role is reinforced by their legal responsibilities to provide oversight of the financial performance of the firm” (Schwartz et al., 2005, p. 79).

In the UK Directors are responsible for setting the values of the organisation. The Higgs report, states that “[t]he board should set the company’s values and

standards and ensure that its obligations to its shareholders and others are understood” (Higgs, 2003, p. 21). The report also outlines the personal attributes that should be possessed by nonexecutive directors: “First and foremost, integrity, probity and high ethical standards are a prerequisite for all directors” (Higgs, 2003, p. 29). In addition to making board expectations explicit, there is also a recognised need for companies to provide information relating to expected behaviour to all employees (Bonn & Fisher, 2005, p. 732).

Section 172 of the Companies Act 2006 (UK) codifies the fiduciary duty of directors to act in good faith in the company’s best interest in order to promote the success of the company. This includes the long term consequence of decisions and the interests of the employees; the relationships with suppliers, customers; and the impact of the decision on the community and environment; the desirability of maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the company.

In Australia, the Australian Stock Exchange Corporate Governance Council (ASXCGC) advises organisations to “clarify the standards of ethical behaviour required of company directors and key executives . . . and encourage the observance of those standards” (ASX Corporate Governance Council, 2010, p. 25). It recommends establishing a code of conduct that identifies practices for directors, the CEO and other key executives necessary to preserve the ethical reputation and integrity of the company.

The Council (2010) identifies eight corporate governance principles. Principle Three requires directors to promote ethical and responsible decision-making and the Australian Standards Association has prepared a series of standards that outline many aspects of governance including directors' duties under the Commonwealth Corporations’ Act and other statutes. AS 8000-2003 (Australian principles of good governance), states in Appendix B: ‘a board should approve and foster an appropriate corporate culture matched to the organisation’s values and strategies and the underlying values of these principles are: accountability,

transparency, fairness and balance, honesty, dignity, legal compliance and good will' (Standards Australia, 2003).

In New Zealand directors are required to act in the best interests of the organisation under section 131 of the Companies Act 1993 (NZ). Principle One of the Corporate Governance Code (Securities Commission New Zealand, 2004, p. 7) states: 'Directors should observe and foster high ethical standards'. This Code goes on to recommend: 'The board of every entity should adopt a written code of ethics for the entity that sets out explicit expectations for ethical decision making and personal behaviour' (Securities Commission New Zealand, 2004, p. 7). The accompanying commentary exhorts the board to communicate the code of ethics to all and that ethical training be provided. It even recommends the establishment of a system for implementing and reviewing the code of ethics. Another point worthy of note from the commentary is the following: 'Unless directors and boards are committed to high ethical standards and behaviours, any governance structure they have put in place will not be effective' (Securities Commission New Zealand, 2004, p. 8).

Rob Challinor a partner and director of investment bankers Northington Partners (NZ) with twenty years' experience as a director, believes that the ethical behaviour of directors is very influential on the rest of the organisation:

I think that with all board behaviour-and indeed that of the company-the tone is set from the top. It starts with the chair and board, then the chief executive. If a chief executive sees behaviour in the boardroom which is lax in certain regards then they could continue that type of decision making down through the organisation" (Jayne, 2007, p. 83).

Despite regulatory rhetoric around directors' personal ethical standards little attention has been given to this topic in New Zealand. For instance the Registrar of Companies, in its report to the Ministry of Economic Development, cites deficiencies in board composition as a possible cause of recent governance failures in New Zealand (Commerce Committee, 2009). Bell Gully (2009)

includes the failure of non-executive and shareholders to effectively monitor decisions of the board in the list of poor governance practices contributing to the demise of these New Zealand companies.

The majority of New Zealand-based academic research to date has not ventured to investigate beyond variations in board characteristics (Gilbertson & Brown, 2002; Grantham, 2004; Hossain, Prevost, & Rao, 2001; Ingley & Van Der Walt, 2001, 2003; Mak & Roush, 2000; Prevost, Rao, & Hossain, 2002, 2003; Van Der Walt, Ingley, Shergill, & Townsend, 2006). In fact it was due to frustration with the dominance of agency theory and the testing of variations in board characteristics, and the lack of in depth process studies of governance that led to the Australian and New Zealand Academy of Management commissioning a special issue in 2010 (Smallman et al., 2010). There have been a small number of studies exploring the inner workings of corporate governance in New Zealand (Erakovic & Overall, 2010; Lockhart, 2006; Lockhart & Taitoko, 2005; Martyn, 2006; Mathias, 2009; Northcott & Smith, 2011; Peebles, 2010).

Furthermore there has been little written about business ethics in general in New Zealand. Alam (1993) surveyed the top 200 organisations in New Zealand to assess the state of ethics in these companies. He found that most New Zealand companies at that time gave a low priority to ethical values. He carried out a similar survey in 1999 and found little evidence that the situation had changed (Alam, 1999). A survey by Milton-Smith (1997) found there was a high degree of moral confusion in business ethics in Australia and New Zealand organisations. Pajo and McGhee (2003) investigated the institutionalisation of business ethics among New Zealand's top 200 organisations by surveying 100 companies and interviewing five senior managers. The survey results indicated that the majority were actively incorporating ethical values into their day-to-day to operations but very few could point to formal policies and procedures such as codes of ethics, ethics committees, ethics officers or formal ethics training. The authors concluded that informal mechanisms would have little effect without such formal systems in place.

New Zealand Management Magazine invited four New Zealand directors to discuss what sort of values guide director decision making, what role they play as a compass for both boardroom and corporate behaviour and whether those values outweigh regulation as a determinant for 'doing the right thing' (Jayne, 2007). The few directors interviewed were convinced that ethics dominate board activity and how the board behaves impacts right through the company. Tony Gibbs, a director familiar with both the Australian and New Zealand contexts, believes that directors need to have a strong commitment to their personal code of conduct as regulation is only a guide or backstop (Jayne, 2007). Professional director Sandy Maier asserts that regulation is never going to entirely address what at heart is an aspect of human nature (Jayne, 2007). This research provides anecdotal evidence that ethics could be a significant feature of corporate governance and the effectiveness of laws and rules depends on the character of the directors themselves.

The most recent study by Keeper (2012) examines the regulatory requirements with respect to ethical decision-making and codes of ethics for companies listed on the New Zealand stock exchange. She was surprised to find that in contrast to other jurisdictions New Zealand companies are not required to disclose their code of ethics and that few actually choose to do so. She concludes that NZ companies and regulators do not appear to place a high degree of importance on ethical practices because of the general apathy towards disclosure of codes of ethics. The findings of both Jayne (2007) and Keeper (2012) invite further research into the role of directors' personal ethics in carrying out their task of corporate governance and also their relative significance in relation to codes of ethics.

2.6 Gap in the Literature

The first part of this literature review has presented the complex picture of the state of corporate governance reform. Reforms internationally have focussed on board structure to strengthen the board's monitoring and control capacity. But continued corporate governance failure has led some scholars to call for reforms to focus on the ethics of the directors themselves. There is much rhetoric in the

regulatory frameworks about the importance of ethics in corporate governance and how ethics practised by the directors is indispensable for the effectiveness of corporate governance regimes. The academic literature also stresses the importance of practically ethical leaders to achieve an ethical corporate culture.

However there is very little knowledge about what directors actually do (Leblanc & Gillies, 2005; Leblanc & Schwartz, 2007; Levrau & Van Den Berghe, 2007a). Most studies about boards have focussed on the more external aspects such as board characteristics but little is known about how they behave, what motivates them, their group dynamics, what characterises their attitudes or whether ethics is really that significant.

Roberts, McNulty, and Stiles (2005) argue that corporate governance literature is dominated by the assumptions of agency theory and this is why research and reform have focussed on increasing director independence as a remedy to safeguard the interests of the shareholders. The most important mechanism to limit the agent's behaviour is the board and so research has focussed on testing variations in board characteristics against financial performance (Erakovic & Overall, 2010; Finkelstein & Mooney, 2003; Mohr, 1982; Tsoukas & Chia, 2002). Gandossy and Sonnenfeld (2005) have suggested that this type of research has mushroomed around ideal combinations of such elements because it is "easy to use, not because it is accurate and reliable" (p. 246).

A focus on regulatory reform has encountered heavy criticism because of ineffective outcomes and contradictory findings (Erakovic & Overall, 2010; Finkelstein & Mooney, 2003; Hermalin & Weisbach, 2003; Johnson et al., 1999; Levrau & Van Den Berghe, 2007a; Roberts et al., 2005). For instance, Van den Berghe and Levrau (2004) conclude that recent corporate failures have shown that living up to formal standards is not enough and that more attention should be paid to correct governance attitudes and behaviour of directors and management. Mainstream research has failed to reveal a consistent direct relationship between board structure and performance outcomes (Coles, McWilliams, & Sen, 2001; Dalton & Dalton, 2005; Dalton, Daily, Ellstrand, & Johnson, 1998). In fact Dalton

and Dalton (2005) after surveying the relevant literature found that current corporate governance 'best practices' are actually not supported by empirical results. While acknowledging these empirical studies to date have served the purpose of expanding and reinforcing a conceptual framework which the traditional knowledge of corporate governance is built on, researchers are calling for a new focus (Erakovic & Overall, 2010; Reddy, Locke, Scrimgeour, & Gunasekarage, 2008; Smallman et al., 2010).

Many scholars are calling for investigation of actual board behaviour; looking into the 'black box' of board behaviour (Daily et al., 2003; Erakovic & Overall, 2010; Huse & Gabrielsson, 2005; Leblanc & Gillies, 2005; Leblanc & Schwartz, 2007; Smallman et al., 2010; Sonnenfeld, 2004; Van Ees, Gabrielsson, & Huse). Recent reviews of corporate governance literature have found that little is understood about the interior working processes of boards as very few studies have examined the inner workings of the board of directors (Daily et al., 2003; Gabrielsson & Huse, 2004; Roberts et al., 2005). There is a lot of discussion about what boards should be doing but not much is known about how they go about accomplishing these tasks (Leblanc & Gillies, 2003; Pettigrew, 1992; Zahra & Pearce, 1989). Furthermore Geale (2007) has shown that directors' understanding of corporate governance influences their practise of corporate governance. Although there are varying perspectives in this movement such as more emphasis on process, individual director characteristics and behaviour, and director perspectives, they form a unified purpose: to develop a deeper understanding of the acts of governing rather than the outputs of governing (Smallman, 2007).

Within this group of critics, some are calling for more attention to be given to the personal ethics of directors (Arjoon, 2005; Bragues, 2008; Dalton & Dalton, 2005; Gandossy & Sonnenfeld, 2005; Huehn, 2008; Knights & O'Leary, 2005; Knights & O'Leary, 2006; Schwartz et al., 2005; Smallman et al., 2010). In fact, Smallman (2007) and Sison (2008) have suggested that governance should be viewed as a *praxis* in the Aristotelian sense where the character of the actor is closely linked to the resulting behaviour.

There are a small number of empirical studies which have endeavoured to penetrate the ‘inner workings’ of the board. The following aspects have been explored to date: how the board's agenda is set and who dictates what directors discuss (Peebles, 2010); the beliefs and values of the board directors and executive managers in their boardroom culture (Fortuna & Loch, 2012); the governance processes of not-for-profit boards (Parker, 2007b); the CEO-Chair relationship (Kakabadse et al., 2006); factors which contribute to effective board processes and decision-making (Maharaj, 2009); how board ‘talk’ reveals insights about board processes (Samra-Fredericks, 2000); how board decision-making is conducted (Leblanc & Gillies, 2005; Martyn, 2006); the role and contribution of non-executive directors (Kakabadse, Ward, Korac-Kakabadse, & Bowman, 2001; Nowak & McCabe, 2003); director selection (Lockhart, 2006) and the role of the board in organisational failure (Lockhart & Taitoko, 2005); director perceptions of effective boards (Northcott & Smith, 2011); healthcare governance (Mathias, 2009); board dynamics, board-management relationships, board-stakeholder relationships (Erakovic & Overall, 2010); director perceptions of corporate governance (Geale, 2007); characteristics of individual directors which contribute to board effectiveness (Leblanc & Gillies, 2005; Yusoff, 2010). Othman and Rahman (2011) explored ethics in corporate governance to discern which ethical mechanisms could contribute to better practice.

To date there has been no research on how directors understand the role of ethics in corporate governance; and to what extent directors’ personal ethics inform their task of corporate governance. This project will address the gap in the literature by exploring directors’ lived experience of ethics in their task of corporate governance. One of the aims of this thesis will be to explore how directors understand the role of ethics in corporate governance practice.

Corporate governance scholars believe that a proper understanding of the complexities of good governance will enable the construction of more sophisticated models of governance (Smallman, 2007). It will help to dispel the assumption that governance takes place in a vacuum; to be aware of the influence of politics, trust, stakeholders, leadership, culture, economics and the natural

environment (Erakovic & Overall, 2010; Smallman, 2007). It will also provide guidance on the education of directors for the future.

Researchers... must return to the drawing board seeking deeper and more meaningful evidence from which to inform and improve practice, based upon a theoretical framework that reflects the genuine complexity of post-modern corporate governance and regulation (Smallman, 2007 p.246).

As stated above, one of the aims of this thesis is to explore how directors understand the role of ethics in corporate governance practice in light of AVT. However it is acknowledged that this is only one small aspect of corporate governance practice.

2.7 Conclusion

This Chapter has provided an overview of corporate governance reform. First, the corporate governance regimes of the US, UK, Europe, Australia and New Zealand were described and nature of the problems and reforms to date outlined. It was noted that the approach to reform focussed on structural aspects such as board composition and reporting requirements but that in each jurisdiction there were some scholars calling for more attention to be given to the personal ethics of directors. Next it was shown how there is much leadership and organisational culture literature which testifies to the influence of the personal ethics of leaders in an organisation. Then it was shown how corporate governance reform regulatory and academic literature place great reliance on the personal ethics of directors for the achievement of effective governance. Finally a summary was provided of the growing body of literature calling for and embarking on research into actual board behaviour so as to fine-tune the approach to reform. An overview of recent studies on different aspects of board behaviour was provided and it was noted that the role of the personal ethics of directors was yet to be investigated. How do directors understand the role of ethics in their task? Do ethics influence their behaviour? A way of exploring these aspects governance is to capture the directors' lived experience of ethics.

Chapter Three - Moral Philosophy and Corporate Governance

3.0 Introduction

This Chapter summarises the business ethics literature and explains the status of Aristotelian Virtue Theory (AVT) in relation to two other moral theories: Kantian and Utilitarianism and includes a critique of all three theories. Literature advocating the practical value of AVT for the business context is outlined. This is followed by a summary of the major critiques of corporate governance research to date in the business ethics to reveal inadequacies in the literature.

3.1 Business Ethics and Aristotelian Virtue Theory

In light of the growing interest in the individual ethics of leaders in both the corporate governance and leadership literature it makes sense to investigate the business ethics literature. In fact McNutt (2010) claims his article introducing a special issue of International Journal of Social Economics, is *opening* the debate on the need for an ethical foundation in corporate governance that goes beyond a public relations exercise. This section outlines the key areas of the business ethics literature and suggests how AVT compares with other theories in contributing to corporate governance scholarship and practice.

Business ethics in its current form is a growing, and changing field. It has developed as a discipline since the eighties as a result of work done by two types of researcher; moral philosophers and business scholars (Bowie, 1986; De George, 2005; Donaldson & Dunfee, 1994). Robin (2009) and Shaw (1996) claim there is no unified body of knowledge in the business ethics field to enable practical guidance for management practitioners. Some commentators have described the field as containing diverse and independent research streams and being full of controversy and disarray (Bartlett, 2003). Robin (2009) surveys instructional resources and finds that each book seems to take its own approach.

He finds this disturbing given the academic literature can boast of almost three decades worth of articles.

McDonald (2010) warns of the implications of differing understandings or definitions of ethics:

Effectively, moral relativism at the individual level advocates that each individual will do what is perceived as correct for him or her. In doing so, each individual will subscribe to his or her own moral standard although, naturally, each individual will be unable to determine whether one decision is better than another from a moral point of view because of their differing standards. An individual is, therefore, unable to undertake a comparative analysis, which would be the first step to a reflective and evaluative process that might result in the revision and improvement of ethical standards. Similarly, in an organisational context, if one subscribes to the relativist view one is also circumventing the task of developing and articulating a consistent set of moral principles that could be helpful in formulating and implementing organisational decisions that possess an ethical dimension (p.457).

O'Fallon and Butterfield (2005) divide the field into two – philosophical or normative ethics which is based on moral philosophy and guides individuals as to how they should behave, and descriptive ethics which is built around management theory and deals with the explanation and prediction of individual's actual behaviour and includes topics such as ethical decision-making. Bartlett (2003) divides business ethics into three areas of inquiry: (1) philosophical theories of ethics; (2) cognitive moral development and (3) work values, moral reasoning and ethical decision-making. Within the discipline of philosophy, business ethics is understood as one type of applied ethics. Descriptive ethicists criticise philosophical ethicists for being too abstract and not knowing enough about the business context, while moral philosophy scholars believe that business scholars do not know enough about philosophy to be ethicists (Weaver & Trevino, 1994).

Byrne (2002) while acknowledging the existence of a clear separation between philosophical and descriptive ethics insists they should articulate a closer relationship. He argues that business ethics must be grounded in philosophy if it is ever to achieve maturity as a discipline comparable say to biomedical ethics. He makes the point that business ethics scholars assume that they should base their work on some source of ethical norms or standards but do not seem to be concerned with justifying those they select for this purpose. Rossouw (2008b) agrees that the relationship between the two fields should be closer. He also believes that business ethics needs to be founded on philosophy and argues that AVT provides the foundation on which any form of responsible applied ethics should be based. This is mainly due to Aristotle's emphasis on the importance of practical wisdom or 'phronesis' for knowing how to act well. Alzola (2011) argues that the relationship between the two fields should be one of reconciliation rather than integration.

Other scholars criticise the empirical business ethics field for being too outcome focussed. They focus on what individuals do (would you do X?) rather than the mechanisms by which those outcomes are reached; questions about the 'how' and 'why' of perceptions - why do you think X is good or bad and how did you come to that understanding - are not common (Brand, 2008; Crane, 1999). This gap in knowledge is due to the methodological approach uncritically adopted by the majority of studies in this field (discussed in the following chapter).

Up until the eighties two major approaches dominated the field of moral philosophy; deontology based on the philosophy of Immanuel Kant and consequentialism or teleology derived from ideas of Jeremy Bentham and his disciple J.S Mill (Hursthouse, 1999). Virtue ethics was not considered to be a reputable theory.

The origin of the disregard for AVT and the general attitude that all theories are equally valid has been explained by Alasdair Macintyre (1984). He claims that the existence of competing ethical theories is a symptom of a deep crisis in moral philosophy - the interminable argument about the meaning of ethics. He argues

that during and after the 'Enlightenment' there was a rejection of the human teleology of Aristotle, leaving ethics without its original foundation. What remains is essentially a vocabulary list with few definitions and no context and a lot of theories about applying rules. He argues that the real meaning of ethics is linked to the nature of the decision maker (human nature) and that action impacts on the actor (his/her character) - not just on others (MacIntyre, 1984; Torres, 1997). Torres (1997) explains that the decision making process develops or depletes virtue and that neglect of this aspect leaves ethics in the realm of law as there is nothing at stake other than rewards or punishments. This leads to people only being ethical because they may get caught or there is something in it for them rather than personal improvement or in Aristotelian terms attaining the 'good life'.

The revival of AVT (sometimes called neo-Aristotelian virtue ethics) in moral philosophy is generally attributed to dissatisfaction with the deontological and utilitarian theories of ethics then prevalent. One of the main catalysts for this revival was Elizabeth Anscombe's essay *On Modern Moral Philosophy* written in 1958 (Richter, 2000). This was responsible for breaking the almost unquestioned assumption that there are only two kinds of ethics: deontological ethics (based on rules) and teleological ethics (based on consequences). Anscombe argued for a return to an ethics based on human virtues and on a detailed account of human action and human flourishing (Anscombe, 1958). The role of virtue in the moral life has since received increasing attention from several influential authors (Foot, 2001; Hursthouse, 1999) and particularly MacIntyre (1984) who pointed out the limitations of act-centred approaches such as deontology and utilitarianism which ignore the impact of the actor's character on ethical behaviour and moral judgement (Mele, 2009). Many felt that deontology and utilitarianism did not address a number of topics considered to be very important for any ethical theory. These include: moral motivation, the character of the actor, moral education, moral wisdom, friendship and family relationships, a deep concept of happiness, the role of the emotions in the moral life and the questions of what sort of person I should be and of how we should live (Hursthouse, 1999). This re-emergence of Aristotelian virtue ethics also generated versions of virtue ethics based on

Nietzsche (Swanton, 2003) and Hume (Slote, 2001) and attempts to re-interpret Kant and Mill in terms of virtue (Hursthouse, 1999).

The most developed and influential classical theories of virtue are naturalistic i.e. that its claims about our final end and virtues depend on a particular view of nature, especially human nature. Most modern versions are naturalistic. The best-known modern virtue theories, Foot's and Hursthouse's, characterise themselves as neo-Aristotelian, and this is the form of naturalism most commonly associated with classical virtue ethics (Annas, 2005). It is Aristotelian in spirit in that the assertion that the virtues benefit me, by constituting my flourishing, is supported by the claim that having the virtues benefits me as a human being. I flourish only if I am virtuous, because human nature is such that flourishing, for humans, requires us humans to live in a virtuous way (Annas, 2005).

The neglect of AVT by the two major ethical traditions led to AVT being classified as a distinct and rival approach (Shaw, 1996; Torres, 1997); but many virtue ethicists do not agree with this framework. Some authors favour a tripartite approach to ethics and argue that virtue theory is a necessary complement to deontological and utilitarian theories (Arjoon, 2007; Hartman & Beck-Dudley, 1999; Meara, Schmidt, & Day, 1996; Murphy, 1999; Torres, 1997; Whetstone, 2001). Byrne (2002) describes it as supplementary to the mainstream theories of Kantian ethics and utilitarianism. Mele (2005) argues that virtue and rules constitute two sides of a figurative morality triangle with the remaining side consisting of goods. Rules or norms are valid guides for human conduct which they protect the goods or moral values universally suitable to decision makers of a specific nature; virtue reinforces the role of norms. Growth in virtue increases the ability to and desire for following norms and it also leads to the growth of prudence; the ability to judge how to apply a moral rule to a particular situation (Meara et al., 1996).

So although in moral philosophy today there are many ethical theories, it is generally accepted that there are two main traditions: character-based ethics and rule-based or act-centred ethics (Annas, 2004; Arjoon, 2000; MacIntyre, 1984;

Rachels & Rachels, 2007; Rossouw, 2008a; Torres, 1997). The two best known act-centred approaches are consequentialism and deontology (Rossouw, 2008a; Solomon, 2003). The most common variant of consequentialism is utilitarianism (MacDonald & Beck-Dudley, 1994; Torres, 1997).

Neo-Aristotelian virtue ethics is one of several theories which have been proposed as a basis for business ethics (Arjoon, 2000; Bragues, 2008; Desjardins, 1984; Harris, 1999; Hartman, 1998, 2008; Koehn, 1998; Mintz, 1996; Moore, 2005; Morse, 1999; Murphy, 1999; Rossouw, 2008a; Sison, 2003; Solomon, 1993, 1999, 2004; Walton, 2004; Whetstone, 2001; Wijnberg, 2000). On the whole Kantian ethics and utilitarianism dominate the business ethics curricula and business academic literature in general (Hursthouse, 1999; Klein, 1998b).

Textbooks typically present two alternative normative approaches - deontology and teleology. "The resulting tunnel-vision makes deontology and utilitarianism appear to be the only players on the field..." (MacDonald & Beck-Dudley, 1994, p. 620). And a recent study on key elements of the dominant English - language business ethics textbooks attributes differences between Europe and the US to their deontological and teleological worldviews respectively (Crane & Matten, 2004).

Ferrero and Sison (2012) conducted a survey of virtue theory (Aristotelian and non-Aristotelian) in business and management scholarship between the years 1980 and 2011; interestingly they begin their paper acknowledging the dominance of teleology and deontology and cite this as a reason for the study. They found that of the 135 articles published across 20 of the top journals, 1 had been published in the eighties, 43 in the nineties and 91 since the beginning of the new millennium which definitely shows the field is growing. However it is still questionable whether scholars recognise that all three theories focus on only part of the ethical experience respectively. It seems more often than not that AVT is overlooked in scholarly literature dealing with moral philosophy in the business context. For example Nordberg (2008) in discussing the role of ethics in corporate governance and how directors should determine 'the right decision' assumes the debate only oscillates between teleological approaches and deontological ones. A

similarly narrow focus is noticeable in other fields. In recent studies seeking to identify the normative ethical theory underlying manager behaviour, respondents were asked to select the option which best reflected their reason for doing or not doing the actions set out in four vignettes. These options were constructed to represent three different moral philosophies, teleology, rights theory and Rawls theory of justice which is built on deontology (Fritzsche & Becker, 1984; Premeaux, 2004, 2009). In a study on the ethical decisions of college students participants were asked to rank three moral philosophies (deontology, teleology and ethical relativism) according to how they themselves determined right from wrong (Caples, Hanna, & Phelps, 2008).

Both Kantian ethics (deontology) and utilitarianism (teleology) are act-centred theories, meaning the act itself is evaluated in light of an ethical principle or rule (Arjoon, 2000; Bhuyan, 2007; Duska, 1993; Klein, 1998b; Rossouw, 2008a; Solomon, 1993; Torres, 1997; Whetstone, 2001). The primary question becomes: What is the right thing to do in a particular moral situation? To answer this question, a rule that fits the situation must be produced and applied, which is some version of Kant's fundamental moral principle or some version of the utilitarian principle. AVT is actor-centred, in that the focus is on the development of a good character which becomes both the source and object of virtuous action (Annas, 2005; Mele, 2005; Whetstone, 2001). It attempts to make the character of the actor, basic to moral theory rather than just the intention (adhering to a rule) of the actor (Kant) or just the consequences of the action (utilitarianism) (Annas, 2011; Bhuyan, 2007; MacDonald & Beck-Dudley, 1994; Solomon, 1992a; Torres, 1997).

Utilitarianism holds that an action is morally right if it produces more total utility than any other alternative (Boylan, 2000; MacDonald & Beck-Dudley, 1994; Torres, 1997; Whetstone, 2001). An act is evaluated by the net utility produced for all the people affected by that act and not just the actor. Bentham's original formulation equated utility with happiness meaning pleasure. In the business context an action would be morally right if the immediate and future net benefits

over costs are greatest for all affected, than for any other alternative act (Weiss, 2003).

Kant's deontology gives primary importance to the intention of the actor in determining the morality of an act (Torres, 1997). Deontology is derived from the Greek word for 'duty'. If the actor is acting out of what they consider to be their moral duty then the act is moral regardless of the consequences and the nature of the act itself. A Kantian approach upholds the importance of acting *for the sake of* duty, expressed as universally accepted rules (MacDonald & Beck-Dudley, 1994; Torres, 1997; Whetstone, 2001). One must act out of duty regardless of the consequences if the act is to be considered moral. Kant's categorical imperative ascertains the content of moral duty through a logical test of consistency (Torres, 1997). "Act only according to that maxim by which you can at the same time will that it should become a universal (moral) law" (Kant, Trans. 1969, p. 44). If you consider that all people thinking rationally would consider that the rule underlying the action should be a universal law then that rule becomes your moral duty. In applying this approach, discussion revolves around how codes of ethics can guide ethical conduct (McNutt 2010).

Both Kantian ethics and utilitarianism have been criticised for being too reductionist. They try to combat what is really a very complex reality with a single rule or principle. Lived ethics is characterised by complexity and is multi-dimensional; intention, consequences, circumstances, the actor, and the actual act or decision are all important (Torres, 1997). Kant gives prime importance to the *intention* of the actor while utilitarianism focuses solely on *consequences*. The root cause of this reductionism is the fact that these two approaches lack any serious engagement with an anthropological foundation (Torres, 1997). The approaches fail to take into account the impact of the decision on the decision maker and neglect the role of prudence in the application of an abstract principle to a concrete situation (Torres, 1997). Choices actually change the maker of those choices for better or worse which in turn impacts upon their future capacity for judging and making choices (Alzola, 2008; Murphy, 1999). In other words, it excludes the role of virtue in ethical choices, rendering ethics more akin to law,

bereft of moral motivation. As there is no link between ethical behaviour and happiness or becoming a better person, ethical behaviour is more likely to be driven by the fear of getting caught (Arjoon, 2005).

The reason for the recent revival of AVT is precisely its focus on the whole person: “As an approach in normative ethics, virtue ethics has an advantage over other normative approaches of teleology (utilitarianism) and deontology (Kant) in terms of its focus on an actor as a whole as opposed to an evaluation of any particular action or behaviour of an actor” (Bhuyan, 2007, p. 45).

As utilitarianism is based on measurement it only accommodates empirical consequences but these are neither the only nor the most important consequences of an action, morally speaking (Perez Lopez, 1991, 1993). More important are the consequences on the acting individual. Moral acts are ‘moral’ precisely because they express and determine the goodness or evil of the individual who performs them (Murphy, 1999; Wojtyla, 1981). Both AVT and utilitarianism view happiness as the ultimate end of human action but the latter equates happiness with satisfied desires while the former argues that happiness is realised through a participation in a short list of goods basic to human beings. Utilitarians are left to figure the rightness of actions by how generally pleasing they are. Of course, because what pleases and displeases varies so much from person to person, time to time, and place to place, utilitarian identifications of right and wrong sorts of actions are highly fluid (MacDonald & Beck-Dudley, 1994). Something morally essential is lost in all forms of utilitarianism in that it could allow the end to justify the means (MacDonald & Beck-Dudley, 1994).

In Kantian ethics, an act is moral if it is done for the sake of duty but this obscures the *reasons for* the duty/rules; which is guidance towards the promotion of the good of the human being (MacDonald & Beck-Dudley, 1994). AVT also shares an awareness of the essential contribution of good will to the moral act and abhorrence for basing decisions solely on consequences. However for AVT, a good will means to will the good while for deontology it signifies to will duty. In the former a good will means actually choosing an authentic good for man while

in the latter it only means intending well (Torres, 1997). Kantian theory boils down to, do as you would be done by, but leaves the question *how we should* be done by unanswered. It does not explain how I should treat myself and therefore others; there is no notion of what is good for the actor. This is because Kant made a clear distinction between moral law and moral anthropology and insisted that rational ethics should be kept free from empirical facts (Frierson, 2003). Solomon (1992a) criticises both utilitarianism and Kantian ethics in its ‘dotting’ over principles and rationalisation and its neglect of individual responsibility and the cultivation of character.

The stark reductionism of Kantian ethics and utilitarianism is summed up by Kuppermann (1988):

Despite the opposition between Kantians and Consequentialists, it is easy for someone who is reading some of the works of either school to get the picture of an essentially faceless ethical actor who is equipped by theory to make moral choices that lack psychological connection with either the actor's past or future (p.116).

This holistic approach of AVT has several dimensions. The seeds of a good character are contained in human nature and character is developed over time; role models and experience are indispensable and character is intimately linked to the capacity to judge and act and to one's ultimate fulfilment. What follows is a brief overview of AVT.

3.2 Aristotelian Virtue Theory

3.2.1 Character

Aristotle distinguishes between the activity of making something (production or *poesis*) and the activity of doing something (action or *praxis*) (Sison, 2008, 2011). Good *poesis* is indicated by the quality of the product, while good *praxis* is indicated by the impact of the action on the actor themselves. In production the aim is to improve the technique while

in action the aim is to grow in prudence or practical wisdom. Excellent *praxis* is prudence, right reason in action and is acquired with the development of character; through habit, appropriate mentoring and discipleship as well as broad experience (Annas, 2011; Murphy, 1999). This is why Aristotle places great emphasis on the education of mind and character (Sison, 2008). It also explains why Aristotle gave so much importance to the character of the ruler for the achievement of good governance (Bragues, 2008). In order to govern well, first and foremost one needs to cultivate excellences, character traits or virtues proper to a good ruler. For Aristotle these virtues are far more important than the laws, principles or rules they may later lay down - not that they are not important but they are secondary to excellence of character. Aristotle wrote: 'the best character is always a cause of a better regime' (Aristotle, Trans. 1984, p. 1337a). This is reflected also in the way Aristotle categorises regimes. He classifies regimes by the number and *type* of people ruling them. Whether the rulers are selfish or dedicated to the common good forms a tyranny, oligarchy or polity on the one hand or a monarchy, aristocracy or democracy on the other (Bragues, 2008).

This excellence of character or moral capital as Sison describes it, is more than a superficial commitment to values: "moral capital depends primarily on cultivating the right habits or virtues" (Sison, 2003, p. 35).

Furthermore, people seek advice from persons of good character. As Annas explains:

We don't emulate or get advice from airheads or untrustworthy people - we know that the character of the person we go to will be shown in the advice we get. It would be bizarre for me to say I will do what John tells me to do, though I thoroughly despise John. And we do take my actions to show something about my character, not just my ability to understand a theory (Annas, 2004, p. 73).

3.2.2 *Virtue*

The core notion of AVT is virtue as one's character is a culmination of striving for virtue (Bhuyan, 2007; Bragues, 2006). Aristotle explains virtue as follows: "Human excellence (virtue) will be the dispositions which make one a good man and which cause him to perform his function well" (Aristotle, Trans. 1976, pp. 1106b-1107a). In other words virtues are attitudes, dispositions or character traits that enable us to be and to act in ways that allow us to pursue our human potential for moral excellence. Aristotle arrives at his notion of virtue in the following way: when we say something performs well we mean it is fulfilling its purpose and the act or performance is 'good'; if the purpose of the human being consists in the exercise of our cognitive capacities then virtue is nothing more than reason excellently used² (Bragues, 2006).

Neo-Aristotelians have developed this further. Human nature contains a set of natural principles of practical reason. When a person uses their practical reason (i.e. turns their mind to action), they open themselves to understand that in general, good should be done and evil avoided and that virtue is good (Rhonheimer, 2008). In other words, human nature itself provides ethical goals (Annas, 1993). This is the basis for Aristotle's conclusion that a virtuous life is indeed a good life and that virtuous acts make us a better and more fulfilled person (Bragues, 2006; Flynn, 2008; Solomon, 2004).

'Right reason' and 'moral good' or 'morally valuable' are used interchangeably (Mele, 2005). Mele distinguishes between moral values and values in general. Living according to *moral* values contributes to the good of the person (virtue) whereas making decisions based on other (non-moral) values does not affect our character or our goodness (Murphy, 1999). Values guide all human decisions but a virtuous act is a special kind of act guided by moral values (Mele, 2005). We define a value (non-moral) as that which

² "Reason excellently used" or the cultivation of character, involves our capacity to reason but is distinguished from the field of rational decision making (Solomon, 1992a)

is worth having, getting or doing. In this sense it is relational, that is, it is a value for some person (Bond, 2001). A *moral* value (or good), on the other hand, when one lives according to it, leads to virtue and contributes to the perfection or flourishing of the individual as a human being. They are those things worth possessing if you want to become more human (Guardini, 1999). In this way, moral values are objective. For example many people value success and fame but pursuit of these does not make one a better person in the Aristotelian sense. On the other hand valuing and so striving to acquire courage, humility and honesty would make that person courageous, humble and honest, developing them as a person (Mele, 2005). AVT has considered and elaborated the ontological foundations of the human being and what this means for ethics; the impact on and influence of the nature of the actor is not addressed by Kantian and utilitarian theories (Bhuyan, 2007; Kuppermann, 1988; Torres, 1997).

However it would be difficult for a person to recognise and describe their own experience of virtue. Annas (2008) has explored the phenomenology of virtue and coins the notion of 'flow' to describe it. 'Flow' expresses the phenomena that a virtuous person is not even aware of their own virtuousness and that they operate in a virtuous way without actually turning their mind to deciding to act virtuously (Annas, 2008). This has methodological ramifications and will be discussed in the next chapter.

3.2.3 *Flourishing*

One of the distinguishing features of virtue ethics is precisely that there is some kind of connection between the act and the happiness of the acting individual (Arjoon, 2005; Mele, 2005; Torres, 1997; Whetstone, 2001). According to Aristotle, a life lived in accordance with virtue leads to a flourishing life or 'eudaimonia' By eudaimonia, Aristotle meant a life in which our human capabilities are put to their best use (Flynn, 2008). This is a life lived *kat' areten*, that is, a life lived in accordance with virtue; it is ultimately one's character that determines happiness, not the bottom line (Solomon, 2004). Striving for moral

excellence which is the essence of the good life, (honesty, loyalty, fairness courage) is like a two-edged sword; doing good and well are two sides of the same coin and lead to inner fulfilment". For Aristotle, a fulfilled, happy or successful life consists finally in living entirely virtuously, together with moderate good fortune, throughout an entire lifetime" (Hutchinson, p. 203).

In this sense acting well and living a meaningful life are interconnected.

In fact what most distinguishes virtue theory from deontology and teleology is the actor is ultimately responsible to himself. It answers the question – why should I be ethical if I can be unethical and escape punishment or even prosper materially? Because I will be better, happier if I am and destroy myself from within if I'm not (Torres, 1997, p. 24).

The actor is always the subject and object of the decision. Utilitarians and Kantians place the foundation for morality in notions such as externally derived consequences and duties whereas virtue ethicists focus on the inner dispositions and habits and a developed sense of personal integrity known as the character of the individual (Bhuyan, 2007).

This makes space for moral motivation; that ethical behaviour can be driven or encouraged by something internal such as personal integrity rather than fear of being caught or just doing one's duty (Arjoon, 2005; Pinckaers, 1995; Torres, 1997). According to AVT the motivation to act well comes from inside each person because they are seeking personal improvement or in Aristotelian terms attaining the 'good life'; in this context rules and codes are the base line which is hardly questioned (Arjoon, 2005).

Furthermore Aristotle's notion of the good life assumes there must be an inherent unity of personal and professional life as they are linked through the character of the person striving for the 'good life' (Bhuyan, 2007; Solomon, 1992a, 2004; Torres, 1997). Virtue ethicists speak of the prudent or practically wise person (the phronimos) who exhibits their wisdom in all aspects of their life (Klein, 1998b). As Aristotle stated:

The prudent individual consistently makes the right decisions to further every facet of a good life for himself, making sure to maintain their health, finances, social relationships and most importantly moral virtue (Aristotle, Trans. 1976, p. 1140a).

So the 'good life' of Aristotle has many facets not compartments. A virtue is a stable disposition so if possessed would influence one's behaviour in all and any situation (Alzola, 2008). The virtues of business are not isolated from the rest of our lives (Solomon, 1992a). Accordingly a person's character is reflected in all their actions.

3.2.4 Learning and Role Models

Virtues develop through learning and practice (Murphy, 1999). This development of ethical knowledge proceeds like the acquisition of a practical skill or expertise. As Aristotle says, becoming 'just' is like becoming a builder:

Virtues we get by first exercising them. For the things we have to learn before we can do them, we learn by doing them e.g. men become builders by building and lyre-players by playing the lyre; so too we become just by doing just acts, brave by doing brave acts; by doing the acts that we do in our transactions with other men we become just or unjust and by doing the acts that we do in the presence of danger.....we become brave or cowardly (Aristotle, Trans. 1976, p. 1103a).

Annas (2003, 2005, 2008) has explored Aristotle's notion of virtue in depth. She explains that although virtue is built up from habituation, and can be called a habit, it is not a mindless habit which bypasses the actor's practical reasoning (Annas, 2005). It is a disposition to act, exercised through the actor's practical reasoning-the reasoning which is exercised in doing something. It is a disposition built up as a result of making choices, and also a disposition exercised in making choices. When the honest person refrains from taking something to which she is not entitled, this is not a reflex, or the predictable causal upshot of a habit, but a decision which endorses and strengthens her honesty (Murphy, 1999).

Above it was noted how Aristotle gave a lot of importance to mentoring and discipleship. Scholars have explored in more depth the Aristotelian notion of acquiring virtue and the importance of role models for that process (Annas, 2004, 2008; Bragues, 2008; Hartman, 2008; Murphy, 1999). “We all start with some conventional grasp of virtue that we pick up as we grow up from parents, teachers and so on” (Annas, 2004, p. 70).

Annas develops this idea using Aristotle’s analogy of building. The beginner builder has to learn by picking a role model and to copy what she does and gradually she learns to build better and in a way which is less dependent on the example of others and expresses more understanding of his own. The point is that AVT acknowledges that we ‘take over’ the moral beliefs of others at the beginning, we *start* as learners, depend on role models and progress to develop our own understanding (Annas, 2004). She goes on:

We don’t become virtuous over night or without effort..... It is a process which requires time, experience and practice. It requires learning and thus requires teachers - parents, school teachers and other role models of various kinds. One learns what the teacher does as the teacher does it, but at some point the learner comes to practice the skill herself, in a way not dependent on simply doing what the teacher does (p. 23).

It is important to note that the learner needs to take responsibility for this process at some point. As Annas reminds us: “It is up to us to put in the work needed to develop into someone who has more understanding” (Annas, 2004, p. 70).

Kantian ethics and utilitarianism have nothing to say about learning or developing an ethical capacity.

3.2.5 Prudence or Practical Wisdom or Phronesis

Another distinguishing feature of AVT is that the striving for virtue leads to the acquisition of an inner wisdom.

‘Aristotle thought that it was ‘good judgment’ or phronesis that was of the greatest importance in ethics. Good judgement (which centred on

perception rather than the abstract formulation and interpretation of general principles) was the product of a good upbringing, a proper education....what is required in and every particular case is the ability to balance and weigh competing concerns and come to say a 'fair' conclusion. What's say fair is not the outcome of one or several pre-ordained principles of justice, it is a judgement call' (Solomon, 1992a, pp. 328-329).

Phronesis guides us when we start thinking about how to act (*praxis*). It's the capacity to make wise decisions regarding which virtues are called for in particular situations and the best way to enact those virtues (Fagothey, 2000; Kane & Patapan, 2006; Klein, 1998a, 1998b). Bragues (2006) has written about the importance of this in the business context. He explains how practical wisdom has the task of guiding action through the thickets of particularity. Human behaviour is messy and unpredictable and to act well one needs certain sensitivity to the particular good of the people involved and to the contingency of the circumstances.

Practical wisdom or phronesis depends on the virtuous dispositions of the acting individual (MacIntyre, 1999). Aristotle held that phronesis encompassed all the virtues, as it was impossible without a virtuous orientation. As Mele (2005) has noted:

Ethical perception depends on certain human capacities, related with character. This capacity to perceive the ethical dimension of the reality is no more than practical wisdom or prudence (in the moral sense), an intellectual virtue, which is the result of striving for virtue (p. 102).

This is because judgements about what to do are determined to some extent by how a person habitually acts. The more virtuous the actor is, the more clearly will a virtuous act be judged as a good thing to do. This is due to the intimate link between the human intelligence and will. For example, a lazy person is more likely to subjectively judge cutting corners in work to be OK for him/her; whereas

a virtuous person would not want to work like that - they would subjectively judge that to be unacceptable for her/him.

A virtuous character and phronesis are connected because the actions of the actor modify the actor. One's free actions have exterior but more importantly interior effects (Mele, 2005). Virtuous choices make a person more virtuous because human nature has a purpose or end; as has been seen, certain actions are not morally indifferent to that end and so either distance a person from or move a person closer to their proper end - that end established by human nature (Guardini, 1999). Furthermore, Arjoon (2008b) asserts that phronesis assists not only with judging well, but also in carrying out the judgement made; he calls phronesis 'a disposition to act'. He explains this as follows:

Philosophers have long realised the gap between knowledge (to know the good) and action (to do the good). It is precisely the virtues, in particular phronesis, that establish the link between knowing and doing; virtues regulate the dynamic interplay between knowledge and behaviour in concrete situations. Practical judgement entails having the right moral beliefs and the requisite knowledge to reach a decision in a concrete situation and to act on this disposition to do the right thing (p. 235).

MacIntyre (1999) concurs on this point. He argues that practical judgment entails:

A chain of reasoning whose first premises concern the human good (goods that one desires, that would achieve human flourishing), whose intermediate steps specify what virtues require, if the human good is to be achieved, and whose conclusion is the action that is good and best for us to perform here and now (p. 159).

Phronesis distinguishes AVT from Kantian ethics and utilitarianism. According to Annas (2004) AVT is not a theory which tells us what to do (like the formulaic Kantian ethics and utilitarianism) rather it guides us by improving the practical reasoning with which we act.

If a moral actor neglects Aristotelian phronesis (which includes excellences of character or moral virtue), he or she cannot mediate adequately between moral rules and principles and moral problems (Klein, 1998b). AVT says that morally good habits arise from repeated experiences that are good, and these experiences help to develop the moral perceptiveness and sensitivity found in phronesis (Klein, 1998b).

Principles-based approaches such as deontology and teleology ignore the impact of the actor's character on ethical behaviour and moral judgement (Mele, 2009). Kupperman (1988) maintains that deontology and teleology are incomplete without Aristotelian phronesis. He argues that the way a Kantian maxim is perceived is dependent upon the type of character nurtured. In utilitarianism the consequences that we do consider relate to our moral perceptions of what is relevant. These theories provide in simple terms a decision procedure totally detached from the life of the actor (Annas, 2004). Such theories are praised for being egalitarian - available to anyone who takes the trouble to master the decision procedure. However, Hursthouse (1999) has rightly pointed out that if these theories were a reflection of the real world we could perhaps look to the advice of very clever teenagers or very brilliant people regardless of their character.

3.2.6 Codes and Character

The above discussion about phronesis is extremely pertinent for the corporate governance context as corporate governance codes in Anglo-Saxon jurisdictions rely predominantly on codes of ethics to guide ethical conduct (Wieland, 2005). Research to date on the effectiveness of codes of ethics is ambivalent as both conceptual and empirical studies have produced conflicting results (Kaptein & Schwartz, 2008). A review of existing literature revealed at least 79 empirical studies have examined the effectiveness of business codes. The findings varied: 35% of the studies have found that codes are effective; 16% have found that the relationship is weak; 33% have found that there is no significant relationship, and 14% have presented mixed results. Only one study has found that business codes

could be counterproductive (Kaptein & Schwartz, 2008). However the reality is, internationally, the adoption of a code of ethics has become an accepted part of business (Cowton & Thompson, 2000; Keeper, 2012). This represents a deontological approach where one's moral duties are enshrined in a code (Whetstone, 2001). Some scholars argue that moral character is necessary for the implementation of or compliance with codes (Arjoon, 2005; Bragues, 2008; Gandossy & Sonnenfeld, 2005; Rossouw, 2008a; Solomon, 1992a; Termes, 1995; Torres, 1997). These authors believe it is the cultivation of character which supplies the know-how of action or phronesis as discussed above. Ethical thinking is not like using a computer manual; looking up a rule and applying it (Hursthouse, 1999). AVT links the ethical maturity of the actor to the ability to know how to act well in a particular situation (Kuppermann, 1988; Solomon, 2003).

There is no doubt that rules and principles such as the ones contained in codes are indispensable for guiding behaviour. However much more is required to instil ethical behaviour; the character of the actor is more important than the number and type of rules. Some scholars have found that a code in isolation is insufficient to ensure ethical behaviour (Arjoon, 2006; Pajo & McGhee, 2003; Stevens, 2008). Tony Gibbs, a director of Guinness Peat Group, Turners and Growers and Coats and Tower in New Zealand, says:

You can write charters until you are blue in the face - the other thing is abiding by them. It is about directors strongly abiding by what they see as their code of conduct-what they themselves personally see as the right thing to do (Jayne, 2007, p. 84).

Termes (1995) compares codes to virtues and concludes that the ethical functioning of institutions cannot be trusted with the imposition of codes of ethical conduct alone, as the only way in which companies can be ethical is for the people themselves to be ethical. Torres (1997) claims that without the help of virtue, ethical compliance is indistinguishable from legal compliance. Donaldson

(2003) observes that the legalistic (or tick-the-box) approach to good corporate governance will not inspire a true sense of ethical obligation.

In the discussion in the previous section about ‘ethics and corporate governance regimes’ it was noted how some jurisdictions take a more negative approach to ethics. Anglo-American countries over-emphasize management control and the defensive aspects of monitoring and neglect to foster individual integrity (Wieland, 2005). Wieland suggests that a more comprehensive interpretation of corporate governance would lead to the conviction that any efficient and effective governance structure needs to serve two functions: to constrain and to enable (Wieland, 2005). “Corporate governance cannot be interpreted solely as constraint of behaviour (e.g., as limitation of exposure to risk). It should also be understood as enabler of behaviour (e.g., in so-called grey zones) for managing transactions with integrity" (Wieland, 2005 p.77).

AVT precisely can assist in understanding ethics in a more positive way. Torres (1997) presents an overview of the variety of theories employed in business ethics which includes an insightful discussion about the advantages and unique features of virtue ethics in comparison to other business ethics theories. He argues that: firstly, a focus on virtue converts management into a transformational task. ‘Moral character can be managed to some degree. It may not be done perfectly but it can be done’ (Kennedy, 1995/1996, p. 12). Secondly it makes business ethics a positive rather than a negative subject; the goals of ethics and profit maximisation are guided by the pursuit of moral excellence for the organisation as a whole. Finally, it helps to broaden managers’ horizons as ‘they realise that practically every decision they make has an ethical dimension as every choice shapes the person making it’ (Dobson, 1997a, p. 23).

3.2.7 Governance as Praxis

The above literature review lends credence to the scholarship of both Smallman (2007) and Sison (2008, 2011) who have suggested that corporate governance should be viewed as ‘*praxis*’ in the Aristotelian sense. Corporate governance is an instance of action rather than production; so good corporate governance is a

function of the character of the governor (Sison, 2008). Sison is critical of the current approach to governance which seems to forget that the outcome of good governance cannot be separated from the internal or personal dispositions of the actor. He claims that most approaches to governance treat governance as production - to produce codes, structures and processes - instead of focussing on the acts of governance and thus the governors themselves.

Smallman (2007) also complains that the focus of the recent reforms has been the tightening of requirements around board structure and procedure but these have little to do with governance as *praxis* and particularly *eupraxia* (good action). He argues that reformers need to find out more about the directors themselves; 'their knowledge, experience and skills: we need more evidence from acts of governing rather than the output from such acts if we are to develop a deeper understanding of governance; we need to understand directors as well as the artefacts they produce' (Smallman, 2007, p. 243).

Treating corporate governance as *praxis* emphasises the two-way connection between the character of the actor and the resulting behaviour and thus an actor-centred approach to ethics. This is distinguished from the act-centred approaches to ethics which evaluate the action in isolation from the actor. AVT accommodates this way of understanding corporate governance. It provides a rich philosophical explanation for the interconnectedness between the actor, the act and the circumstances, moral and professional excellence, and their happiness and so is better able to cater for the complexity of the human experience and the role of ethics. It understands ethics to be at the heart of acting rather than at the periphery.

Viewing corporate governance as *praxis* would also provide scholars and regulators with a fresh perspective on this phenomenon. It highlights the significance of the characteristics of the actor themselves for corporate governance practice and so seems to be appropriate for the new direction emerging from the literature.

3.3 Critique of Aristotelian Virtue Theory

The limitations of Aristotle's approach in general and for the corporate world in particular have been acknowledged and discussed by several scholars (Alzola, 2008; Doris & Stich, 2005; Harman, 2003; MacIntyre, 1984). AVT has been criticised for a number of reasons. Schneewind (1990) argues that it does not provide a way of knowing who is virtuous and hence how to determine whose action is virtuous. Louden (1990) agrees that virtue ethics cannot give guidance in solving specific ethical problems and furthermore it can't account for mistakes, changes in behaviour, prevent moral degeneration or state what is morally unacceptable. These criticisms are clearly made from an act-centred or third person view of ethical theory. Both deontological and consequentialist theories focus on developing rules to evaluate action, making the resolving of specific issues easier - at least in theory. However many virtue ethicists would view AVT as a supplement to an act-centred or rules-based framework; virtue is a way of reinforcing the acceptance and compliance with existing codes and rules, within the company or in society in general (Hartman & Beck-Dudley, 1999; Louden, 1984; Murphy, 1999). Virtue ethics is a first-person or actor-centred theory. It focuses on developing a person of good character which at the same time supplies the subject with practical wisdom. The subject is guided by their own character in the moment of action. AVT does not claim that mistakes, moral degeneration and changes of behaviour can't happen and surprise at this belies a misunderstanding of the notion of character as discussed by Solomon below.

A small group of scholars assert that people cannot be virtuous in business (Beadle, 2001; Dobson, 1997b; MacIntyre, 1984; Sundman, 2000). MacIntyre (1984) in particular argues that management cannot be a 'practice' through which one acquires virtue because the practice of business does not contribute to the development of the wider human good; the goal, he thinks, is to promote self-interested liberalism through profit maximisation. Beadle (2001) adds that the competition to create this wealth makes immoral practices the norm preventing this activity from being a 'practice'. But management could become a 'practice' if

the pursuit of wealth was not the main and only goal of the practice (Dawson & Bartholomew, 2003; Hadreas, 2002; Morse, 1999).

This idea has been made palatable and comprehensible by the growing impetus for sustainable business globally - calling for businesses to focus on the long term survival of the planet rather than their own short term profit-making. A growing number of scholars are recognising the power organisations have to influence the lives of their members and the social structures in society. Business and its institutions can be one of the important avenues through which communities promote the virtues (Solomon, 1992b) . As such some argue that ‘businesses not only have an opportunity but a responsibility to promote moral virtue’ (Dawson & Bartholomew, 2003, p. 6).

One of the most radical challenges to AVT has been the assertion by Harman (2003) and Doris (2002) that character traits do not exist based on evidence from experimental social psychology. It is argued that personality traits are so weak that “one cannot predict with accuracy how particular people will respond and that human behaviour is determined by situational forces” (Ross & Nisbett, 1991, p. 2). Solomon (2003) attacks this position by arguing that they misunderstand the Aristotelian notion of character and virtue. The notion of character in virtue ethics is not meant to be a bullet proof vest against overwhelming pressures without peer or institutional support (Solomon, 2003). In fact he uses Harman and Doris’ critique to call for sound ethical policies and rigorous ethical enforcement in companies and in the business community in general. He acknowledges that character makes the difference between ethical and unethical behaviour but not *all* the difference. A person of character is not a rock and is not always impervious to their environment or the challenges of their own passions (Solomon, 2003).

Interestingly neurological psychologists, Haidt and Joseph (2004) provide support for the existence of virtues. They have pinpointed moral intuitions as the meeting point between the biological and sociological facts. They argue that these are the building blocks for the development of virtue. It should be noted that Annas

(2008) has critiqued their work on the grounds that this is inconsistent with the Aristotelian notion of virtue.

Moreover Alzola (2008) and Solomon (2003) question the validity of these psychological experiments used to discredit character. Alzola discusses six methodological problems with these experiments stating that the situationist argument relies on a misinterpretation of the experimental evidence. Solomon is critical of the fact that such a strong and generalised conclusion - 'no empirical basis for the existence of character traits' - is based on very few studies conducted in contrived and unusual situations (Harman, 1999, p. 67).

3.4 Virtue in Business

As mentioned above there is now a substantial amount of literature in existence which discusses the importance, relevance and benefits of virtue for business (Ferrero & Sison, 2012). There is a significant number of articles in the areas of virtuous organisational culture (Arjoon, 2008a; Moore, 2005; Whetstone, 2003); virtue and ethical decision making (Bastons, 2008; Bhuyan, 2007; Mele, 2005; Perez Lopez, 1991; Whetstone, 2001) ; the virtuous organisation (Collier, 1995b; Crockett, 2005; Moore, 2005) and virtuous leadership, the focus of this investigation (Bragues, 2008; Ciulla, 2004; Flynn, 2008; Havarde, 2007; Manz, Cameron, Manz, & Marx, 2006; Sarros, Cooper, & Hatican, 2006). Much of the literature acknowledges the pre-eminence of virtuous leadership and its potential to foster an ethical culture.

Much research points to virtuous leadership as a possible antidote to unethical behaviour in organisations (Arjoon, 2000, 2008a; Bragues, 2006; Flynn, 2008; Hartman, 2001; Havarde, 2007; Manz et al., 2006; Mele, 2005; Sarros et al., 2006; Sison, 2003).

Virtuous leadership has also been implicitly endorsed by more mainstream ethical leadership researchers. A number of authors argue that the ethics of leadership rests upon three pillars: (1) the moral character of the leader, (2) the ethical legitimacy of the values embedded in the leader's vision which followers either

embrace or reject and (3) the morality of the processes of choice and action which leaders and followers collectively pursue (Conger & Kanungo, 1998; Greenleaf, 1977; Kouzes & Posner, 1992; Wren, 1998). Trevino, Hartman and Brown (2000) assume that ethical leadership consists of among other things a moral character. Brown and Trevino (2006) in a review of ethical leadership concluded that transformational, spiritual and authentic leadership theories represent the main normative theories which have moral implications. Authentic leadership, sometimes referred to as authentic transformational leadership, is often defined in terms of virtue and character. Authentic transformational leadership is said to be characterized by existential practice, where one engenders virtue in self, others and society through example and virtuous conduct (Bass & Steidlmeier, 2004).

Goffee and Jones (1998) assert that leaders with character are essential building blocks to ethically sound management practices. Likona (1991) defines character as doing the right thing despite outside pressure to the contrary. The early Greek philosophers saw character as central to a life of moral conduct (Sherman, 1989). Bennis (1989, 1993) believes that character is the most important quality of a leader, consistent with more recent research by Calabrese and Roberts (2002). Despite the acknowledged importance of character to effective leadership behaviour, very little is known empirically about the character of business leaders (Sarros et al., 2006). These same authors found in their survey of Australian managers that integrity is a key character attribute for ethical leadership.

Sison (2008) argues that directors of good character in the Aristotelian sense are a possible avenue for achieving ethical corporate governance. This is because of its potential to develop leader-role models who understand ethics to be integral to their ordinary actions and a meaningful life; their virtuous character itself provides guidance in concrete situations.

Schwartz (2009) has called for more research into the best means by which an appropriate 'tone at the top' can be established and sustained. He recently conducted a study on a training programme based on Aristotelian virtue. After observing and interviewing senior executives participating in the ethics training

programme he concludes that an Aristotelian approach to ethics training could be a potential candidate for this task (Schwartz, 2009). It is interesting to note that Petry (2001) found in a UK survey that directors are the ones who receive the least ethical training and support in the organisation. Sekerka, after reviewing ethics training best practices across eight organisations concludes that: "...an emphasis on ethical competency development [i.e., a virtue-based ethics approach] will help employees exercise ethics as an active 'practice' rather than seeing ethics as a form of forced compliance" (2009, p. 94).

So it seems a growing number of researchers while acknowledging the importance of codes, are advocating virtue as a necessary component for developing ethical competency. This may explain why Schwartz et al. (2005) have suggested that directors should have their own code of ethics formulated in terms of virtue.

3.5 Inadequacies in the Field of Business Ethics

The review of corporate governance reform literature in Chapter Two found that the personal ethics of directors seems to be very important for their task but little is known about the role of directors' personal ethics in corporate governance. The review of business ethics in this Chapter exposed several gaps.

The field of business ethics is fraught with disunity. Philosophical and descriptive business ethics streams seem irreconcilable for some, while others claim it is crucial for business ethics to be grounded in philosophy for the field to reach maturity (Alzola, 2011; Byrne, 2002). Is moral philosophy relevant to the lived experience of ethics? It must be if the business community operates on the assumption that there are objective standards (Alzola, 2011). Is it possible to show they are interdependent? Furthermore little is known about the subjective ethical experience (Brand, 2008; Crane, 1999). The descriptive ethics stream has mainly focussed on the antecedents and consequences of ethical behaviour, neglecting the 'how' and 'why' of ethical perceptions. How do individuals understand ethics, how do they practise it, why and how do they have this understanding and how does it translate into practice? Moral philosophy is characterised by fragmentation (MacIntyre, 1984); a multitude of theories vying for acceptance thereby providing

scant guidance to practitioners and students (McDonald, 2010; Robin, 2009). It also seems to be imbued with a conviction that act-centred theories adequately explain the ethical experience even though some scholars argue that the consideration of character and virtue could be greatly beneficial for the credibility of these theories (Hartman & Beck-Dudley, 1999). Can moral philosophy provide the clarity expected and needed by society which operates on the basis of objective standards? Can rules, consequences and character engage in cooperation rather than competition? Does AVT have anything to contribute to the practise of business ethics? These are some of the areas that are under-researched in the literature.

This thesis has four aims, to:

-explore the role of ethics in corporate governance; whether directors understand ethics to be integral to their task or of relevance in specific situations and moments; whether there is a role for their personal ethics; whether this reflects an Aristotelian perspective. (From Chapter Two)

-explore how directors understand and practise ethics; whether their personal ethics inform their task; whether their understanding reflects theories from moral philosophy such as Kantian ethics, utilitarianism or AVT

-explore the relationship between philosophical and descriptive ethics; could this be better articulated by exploring the lived experience of ethics?

-explore the potential role of AVT in informing corporate governance; is it relevant for corporate governance practice?

This thesis makes a contribution to both Corporate Governance and Ethics. The review of the corporate governance reform literature found that more studies were needed to find out what boards do in order to better focus reform action; moreover some argued that more attention needed to be given to the personal ethics of directors. Accordingly one aim of the thesis was to explore the role of directors' ethics in their task of governing. At the same time the business ethics literature was in need of research to explore ethics in practice but from the perspective of

the actor. This gap was also met by this project. While finding out about directors' experience of ethics in corporate governance, this also provided the occasion to explore unanswered questions posed by the business ethics literature.

3.6 Conclusion

This Chapter has presented an overview of the business ethics literature. The major divisions of descriptive and philosophical ethics were described and issues confronting the field noted. The area of philosophical ethics was then expounded in more detail. The best known traditions of Kantian ethics and utilitarianism were outlined and then compared and contrasted with AVT. This was followed by a detailed overview of the main features of AVT. This section sought to show that AVT deals with aspects of the lived experience of ethics which Kantian ethics and utilitarianism do not address so that AVT should be considered more as a complement rather than an alternative; contributing to a more complete understanding of the ethical experience. It was noted how codes of ethics were a key component of corporate governance regimes and literature advocating the importance of character for the effectiveness of codes was provided; then the work of two authors who argue that corporate governance is *praxis* in the Aristotelian sense was briefly discussed. Then literature advocating the potential benefits of virtue and character for business was outlined. The chapter also included a critique of all three ethical traditions. Ultimately several under researched areas crystallised: the appropriate relationship between philosophical and descriptive branches of ethics; the empirical exploration of the ethical experience; and the relative relationship between the main theories within the branch of philosophical ethics.

Chapter Four - Methodology

4.0 Introduction

Chapters Two and Three have provided a review of the literature of corporate governance reform and business ethics respectively revealing a number of gaps in need of exploration. It was demonstrated how directors understand the role of ethics in corporate governance practice, how they understand and practise ethics, the relevance of moral philosophy and AVT in particular were relatively uncharted waters. It seemed appropriate to the researcher that she needed to explore directors' lived experience of ethics in their task of corporate governance in order to gain knowledge about these areas. This chapter outlines the methodological choices which guided this study such as choosing: a qualitative over a quantitative approach; interpretivism as opposed to critical realism; interpretative rather than descriptive phenomenology; and semi-structured interviews as opposed to surveys or narratives.

4.1 The State of the Methodological Debate

The methodology issues discussed in this section are very much related to some of the gaps and inadequacies revealed in the literature review above – how directors understand the role of ethics in corporate governance and the subjective dimension of the ethical experience. Both the corporate governance and business ethics fields have been dominated by a quantitative approach to research which is unable to capture this type of knowledge (Crane, 1999; Van Den Berghe & Levrau, 2004).

Up until relatively recently management and organisation science research has been dominated by an objectivist-positivist paradigm which has influenced the fields of both corporate governance and business ethics (Guba & Lincoln, 1994; Prasad, 2005; Sandberg, 2005). It assumes an independent reality exists 'out there' and the researcher is a neutral collector of data (Johnson & Cassell, 2001). This position seeks causal relationships and emphasises hypothetico-deductivism. Such an approach generally uses quantitative methodologies which consist in the

testing of hypotheses about how certain variables relate to each other. Perceptions, attitudes, motivation, understandings and experiences are significant realities beyond the scope of the quantitative approach (Dawson, 2006; Silverman & Marvasti, 2008). Where there is little knowledge it is not possible to develop theory and where there is a lack of theory it is necessary to explore and describe the phenomenon and to develop theory (Glaser & Strauss, 1967; Gray, Kouhy, & Lavers, 1995; Smith, 1991; Yin, 1994).

So until quite recently empirical work in business ethics has focussed on quantitative methodologies (Brand, 2008; Brand & Slater, 2003; Crane, 1999; Rossouw, 2001). As a result descriptive business ethics research has prematurely developed theories and decision making models before adequately understanding the research field itself (Alzola, 2011; Crane, 1999; Hartman, 2011; Hunt & Vitell, 1986). Such circumstances call for a qualitative approach to research because this can provide a richer description and deeper understanding of the phenomena (Crane, 1999; Rossouw, 2001; Weathington, Cunningham, & Pittenger, 2010). Also a qualitative approach is more appropriate for the research of moral dimensions in business (Crane, 1999; Rossouw, 2001). Crane outlines several reasons for this including the fact that morality is an area which defies a counting approach due to its complexity and requires understanding the actor from the inside.

Furthermore Brand (2008) and Rossouw (2001) claim that no significant body of work in business ethics has been developed to address the links between underlying paradigms, research methodology and methods in general. Brand (2008) synthesises three of the major research paradigms in the table below - Burrell & Morgan's 'Four paradigms for the analysis of social theory' (1979), Guba & Lincoln's 'Basic Beliefs (Metaphysics) of Alternative Inquiry Paradigms' (1994) and Crotty's 'Representative Sampling' table (1998). Brand believes this will facilitate the debate over, and better identification of, underlying paradigm assumptions for future empirical business ethics research.

Capturing directors' lived experience of ethics situates this study in Brand's (2008) non-positivist, non-critical paradigm which will be elaborated further in the next section. Rossouw (2001) also laments the superficial approach to business ethics research to date due to the lack of attention to paradigm issues. He also warns against adopting one-sided (Objectivism *or* Constructionism) and therefore restrictive ontologies, methodologies and research design (Rossouw, 2001). This issue will be addressed below.

Table 3: Summary of Positivist / Non-Positivist Paradigms - Business Ethics Context

Paradigm	Ontological assumptions	Epistemological assumptions	Business ethics context
Positivist/post-positivist	A reality exists which is apprehendable/imperfectly so	Findings true/probably true	Hypotheses test propositions about business ethics' 'reality'
Non-positivist, non-critical	Relativist; truth is constructed	Transactional/to an extent subjectivist; findings are created	Seek contextual understanding of business ethics perceptions of research participants

Adapted from Guba and Lincoln (1994); other sources: Burrell and Morgan (1979) and Crotty (1998)

From a different angle and as was mentioned in Chapter Three, some business ethicists argue that a normative-descriptive dialogue between normative (philosophical) ethics and descriptive (business) ethics is vital if progress is to be made in business ethics research (Alzola, 2011; Byrne, 2002; Hartman, 2011; Rossouw, 2008b). They stake the development of business ethics into a mature field of research on its reconnection with philosophical ethics. They deplore this historical separation and argue that the fact/value distinction underlying this

antagonism is unrealistic as value creation actually brings together economics and ethics. Good corporate governance is not merely about maximising profit but making profit in an ethical way. Facts and values are entangled in reality - best practice corporate governance is not morally neutral as it implies an ethical stance. Similarly normative theories are pointless if they do not have realistic assumptions about the persons to whom they are directed. Just as it is impossible to aim at a value-free business ethics (i.e. all my rational choices are 'good' ones because I choose them, see Hartman (2011) and Giovanola (2009), it is impossible to envision a normative theory disconnected from the sociological and psychological facts that inform those theories. Alzola (2011), Byrne (2002) Hartman (2011) and Rossouw (2008) do not advocate a fusion or integration of the two fields but a reconciliation where normative theorising recognises behavioural constraints and descriptive theories recognise normative constraints (Alzola, 2011).

This study seeks to contribute to the business ethics field by using an approach which is able to capture the lived experience of ethics in business; at the same time justifying the associated ontological, epistemological and methodological positions. It will also explore in more detail the relationship between normative and descriptive ethics.

As mentioned above, a quantitative approach is prevalent in mainstream corporate governance research (Van Den Berghe & Levrau, 2004). Most studies have focussed on testing variations in board characteristics against financial performance (Erakovic & Overall, 2010; Finkelstein & Mooney, 2003; Mohr, 1982; Tsoukas & Chia, 2002; Van Ees et al., 2009). One such characteristic is the number of independent directors. This type of research has both influenced and been influenced by the direction of corporate governance reform. But as previously mentioned there is a need for more knowledge about the soft elements of corporate governance (Levrau & Van Den Berghe, 2007b; Van Den Berghe & Levrau, 2004).

Gillies and Morra (1997) and Pettigrew (1992) called for more research involving the direct study of boards and contact with corporate directors, before further quantitative testing can or should occur. There have only been a small number of studies based on interviews of directors in the US (Demb & Neubauer, 1992; Lorsch & MacIver, 1989; Mace, 1972). European researchers have carried out a much higher number of qualitative corporate governance studies based on interviews and this continues to grow (McNulty & Pettigrew, 1999; Pettigrew & McNulty, 1995; Pye, 2001; Roberts et al., 2005; Spira & Bender, 2004). New Zealand researchers have also heeded the call (Martyn, 2006; Northcott & Smith, 2011; Peebles, 2010).

This quote from Leblanc and Gillies is a magnificent summary of the overall problem with corporate governance research methodologies to date:

What the disconnects between what directors think, what researchers can prove, and what regulators regulate, probably mean is that the proper type of research on corporate governance has not been done, or, it has been done badly. More significantly, it means that regulators, chief executive officers and directors, when they are searching for ways and means of improving corporate governance, are functioning in a knowledge vacuum; that is, they are making regulations and decisions without any real knowledge about what is going on in boards of directors or, at worst, on the basis of an incorrect understanding of the major factors impacting on corporate governance. (Leblanc & Gillies, 2003 p.7)

These authors are mainly referring to a major imbalance in the type of studies found in the Corporate Governance literature to date. There is a prevalence of quantitative research which is based on the measurement of variables external to the board such as the relationship between board structure and composition variables and financial performance. And there is very little research about attitudes, behaviour, characteristics and motivations of and relations between directors which is captured best by a qualitative approach (Dawson, 2006; Silverman & Marvasti, 2008). Leblanc and Schwartz (2007) acknowledged that in-

depth interviews are a step in the right direction to opening the black box of board process but argue the best method would be the direct observation of how the board makes decisions. However one of the conclusions of the Leblanc and Gillies study (2005) which was based on interviews and observation was that individual director characteristics are very influential in board decision making. Furthermore Geale (2007) found in her qualitative study, that directors' understandings of corporate governance influence their practice. So gaining an understanding of individual directors' perceptions of the role of ethics in governance and their understanding and practise of ethics can provide additional insight into this relatively new area of research.

The areas in need of more research delineated in Chapters Two and Three can ultimately be ascribed to an imbalance at the methodological level. Quantitative methodology has prevailed in both areas which is limited in scope and has not and could not reach the type of knowledge currently lacking in the fields of business ethics and corporate governance. Ultimately this has been attributed to treating social science like natural science. The fields of corporate governance and descriptive business ethics have inherited the problems of the disciplines of management and ultimately economics which have encouraged quantitative methodologies. Due to the dominance of agency theory corporate governance reform has assumed that increased regulation is the solution to corporate governance failure. It seemed logical to seek the ideal structure-performance relationship which was amenable to a quantitative approach. The subjective experience of individuals is beyond the domain of a quantitative approach and so little is known about the 'how' and 'why' of the meaning attributed to ethics by directors.

4.2 An Interpretative Research Approach

Although the previous section has provided an abundance of evidence for taking a qualitative approach what follows is a narration of how the ontological, epistemological and methodological choices were made to best achieve the aims of this study. The next section recounts how appropriate methods were

implemented to capture the data. The final section details the analysis process with concluding comments in regards to reliability and validity.

Social research has been influenced by two main philosophical perspectives: one strongly linked to the natural sciences (Objectivism), the other developing as a reaction to the former, prevalent mainly in the social sciences (Constructionism) (Silverman, 2006). Ontologies and epistemologies can be represented along a continuum ranging from Objectivism-Positivism to Constructionism-Interpretivism (see Figure 1).

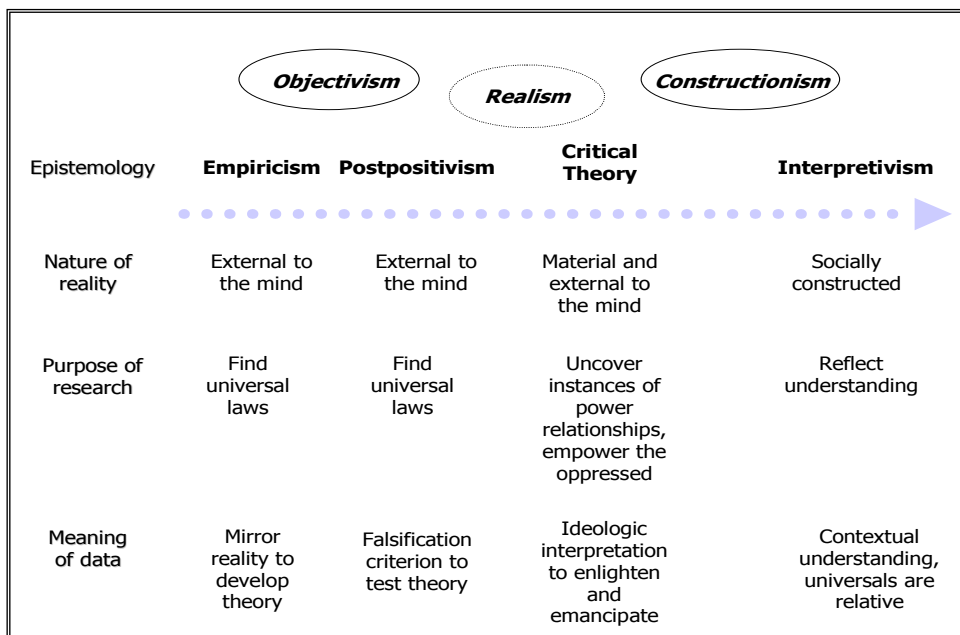


Figure 1: Mapping of Main Ontological and Epistemological Perspectives

Source: Compiled and adapted from Willis (2007)

Ontology is concerned with the nature of reality; it defines what we can know as reality (Willis, 2007). Epistemology addresses the nature of knowledge and consequently the best way to capture it (Guba & Lincoln, 1994). It also defines the relationship between the researcher and the reality i.e. whether the researcher is detached from or part of what is being researched (Blaikie, 2007).

The Objectivist world view, sometimes referred to as the Positivist paradigm originated with Rene Descartes and August Comte. Reality in both the natural

and social world is perceived as being organised by universal laws which can be known with certainty through reason (Rationalism). Essentially they look for the existence of a constant relationship between two variables (Robson, 1993).

Knowledge is that which can be empirically proven (Positivism). So human behaviour is on the whole predictable and can be controlled once causal relationships have been determined (Jennings, 2010). The aim of the researcher operating within an Objectivist worldview is to explain phenomena based on discerning the causal relationships. So Objectivism holds that social reality is independent of human consciousness; the reality exists out there irrespective of the identity of the researcher and the participant or what they do, think, feel or perceive. The methodology is deductive and consists of controlled experiments and repeatable procedures to test the theory in the empirical world.

Interpretivism takes issue with applying natural science methods to social science. Interpretivists consider that knowledge of reality comes through reason but that this knowledge is influenced by the conditions or context of the knower.

Interpretivists do not necessarily deny the existence of an external reality (Creswell, 1998). The Interpretive paradigm is based on the work of Max Weber and his term 'verstehen' or empathetic understanding (Jennings, 2010). This paradigm assumes a relativist ontology meaning there is not one reality but multiple realities that are constructed and can be altered by the knower. Reality is not something 'out there', but rather something that is local and specifically constructed. Social phenomena exist not out there but in the minds of the people and their interpretations (Robson, 1993). It assumes a subjectivist epistemology and a naturalistic set of methodological procedures (Jennings, 2010). The researcher must enter the world of the participant to capture the latter's process of interpretation through which they construct their actions. Realities are not more or less true, rather they are simply more or less informed (Denzin & Lincoln, 2000). Sandberg (2001) states that an interpretive perspective posits the world and the person are inextricably linked through the person's lived experience of the world. It seeks to understand phenomena from an insider's perspective. Interpretivist methods include in depth interviews and focus groups. The researcher assumes an inductive approach and commences their study in the empirical world in order to

develop explanations of phenomena which are then used to build theory (Jennings, 2010).

This radical dichotomy which has developed between the natural sciences and social sciences, based on the age-old distinction between facts and values is what divides qualitative and quantitative approaches to research today. The implications of this stark division for this particular investigation will be discussed in a later section.

Given the aim of this research is to explore directors' experience of ethics it became clear that Objectivist ontology was inappropriate. Directors' lived experience of ethics does not exist independently of their consciousness but is created by their interaction with the world. Directors' understanding of ethics is inextricably linked to their lived experience of ethics as their practise is based to some extent on their socially constructed understanding. This reflects a Constructionist view of reality which denies the existence of the social reality as an object. It rather holds that social phenomena are constructed by social actors who attribute meanings to them usually through interaction (Bryman, 2004). Meaning is constructed through the subject's interaction with the outside world (Gray, 2004). This subjective understanding is experienced by a particular type of subject (person) who is affected by other factors such as prior experiences, structures, culture, acquired knowledge, beliefs and relationships. Directors have their own perceptions, understandings and ways of practising ethics which are influenced by a variety of these factors including those of other peers. Consequently the Constructionist ontology best reflected the nature of the reality to be explored in this study.

Philosophical coherence is essential if research is to have integrity (Brand, 2008; Collier, 1995a). This means that the nature of the reality (ontology) being studied should inform or be reflected in the knowledge of it- *what* we can know and *how* we can know it (epistemology) thus influencing research design and analysis. In terms of epistemology, Interpretivism is closely linked to Constructionism which holds that on the whole perceptions and experiences are socially, culturally,

historically and linguistically shaped. Interpretivism seeks to understand the social reality through the experiences of the actors by capturing the meaning of this human experience for the individuals who experience it (Crane, 1999). This meaning is conveyed through the words, feelings, attitudes and behaviour of these individuals (Colaizzi, 1978; Streubert & Carpenter, 2007). Given this perspective, the best way to know the social reality is to understand the behaviour from the perspective of the actor rather than trying to explain the behaviour from an external view point (Bryman & Bell, 2007).

For this thesis, the researcher's goal was to primarily understand the individual director as a subject from within.

Subjectivity refers to the inner conscious life of the human person. Persons, while maintaining an inner life, remain open to the world around them..... Not only is consciousness directed outwardly to one's immediate environment, persons are also self-aware. Essentially, self-awareness means that persons experience themselves from within.....It is understood as something dynamic, as always changing in response to new circumstances and discoveries of need and value. But an enduring subject remains at the basis of this dynamic structure. There is a real, personal 'I' grounding every act. This 'I' is a conscious personal self. It is the person who really exists and really acts. Subjectivity is therefore the link between existing and acting. (Gronbacher, 1998, p. 6)

One of the aims of this thesis is to explore the role of character or virtue in directors' lived experience of ethics. On the whole, the interpretive approach is suited for doing this. As an ethical theory, AVT is distinguished from deontological and utilitarian ethical theories by the importance given to the individual's subjective perceptions and dispositions in making ethical choices. AVT accepts that ethics is an ambiguous subject which resists precise definition and measurement (Rossouw, 2001).

Aristotle already admitted this when he said that we should not expect to speak with the same precision in all our discussions...it is the mark of the

trained mind never to expect more precision in the treatment of any subject than the nature of the subject permits (Rossouw, 2001, p. 206).

Deontological and utilitarian approaches focus on conforming isolated actions to externally established rules. AVT focuses on a person's character as a whole which is a reflection and result of specific internal attitudes developed through constant effort. Virtuous/vicious choices modify the actor's character, influencing their capacity to judge and act in later decisions. For Aristotle ethical judgements are to a certain extent grounded on subjective perceptions; according to the researcher the latter are best captured by an interpretive approach.

Horgan and Timmons (2005) believe that character is of primary consideration in moral phenomenology as the distinctive nature of one's moral experiences will be significantly influenced by one's character. They recognise the need for more empirical investigation in this area. Annas (2008) has explored the experience of being virtuous and argues that the phenomenology of virtue would not include a self-conscious working out of what virtue requires. She concludes that virtuous activity is like 'flow'; an unforced expression of the person's reasoning and feelings in harmony with the rest of his/her character and structured system of goals. A builder who has acquired the practical skill of building will not turn their mind to the question of how to build but will focus on exercising the skill as required by the situation; a person who is virtuous similarly will not think specifically about virtue. The task of the researcher will be to probe the participants' responses, helping them to reflect more deeply on their reasons for acting in specific situations. However in 'beginners' the struggle to act virtuously will be more self-conscious or studied (Annas, 2008). The work of Annas significantly influenced the approach to data collection and analysis of this study.

Epistemologically, the Constructionist paradigm sees a relationship between the knower (as researcher) and the known (the participant). It challenges the notion of value-free research and believes that attempts to attain such a stance have resulted in the loss of certain kinds of knowledge about human experience, such as meaning making (Cotterill & Letherby, 1993; Jagger, 1989). Polkinghorne (1983)

viewed research as a human activity in which the researcher as knower is central. Denzin and Lincoln (2000) viewed the investigator and the investigated as interactively linked in the creation of findings, with the investigator as a passionate participant. Methodologically, the Interpretivist perspective may evolve, for example, in a process of interpretation and interaction between the investigator and research participants. The primary aims are understanding and the reconstruction of experience and knowledge.

So far the research question has been positioned ontologically and epistemologically in the Interpretivist - Constructionist paradigm. However Aristotelian Virtue Theory (AVT) is based on human nature which is presented as ontologically real. The most developed and influential classical theories of virtue are naturalistic— that is, that its claims about our final end and virtues depend on a particular view of nature. The ‘enduring subject’ of Gronbacher above, has a human nature. Furthermore most modern versions of virtue theory are naturalistic. The best-known modern virtue theorists, Philippa Foot and Rosalind Hursthouse, characterize themselves as neo-Aristotelian, the form of naturalism most commonly associated with classical virtue ethics (Annas, 2005).

The researcher used an AVT conceptual framework in the interpretation of directors’ lived experience. Theoretically this represented a contradictory approach. This is because the use of this conceptual framework required a worldview which accommodates the reality of human nature which impacts on our subjectivity; which acknowledges that ethical perceptions could be a combination of subjectivity and objectivity. This study seemed doomed at the outset because to make sense it needed a methodology which was able to capture objectively informed social constructs. This moved the methodological approach of this study into unknown and uncharted territory. This path however is supported by Rossouw’s (2001) critique of the unquestioned acceptance of one-sided ontologies in business ethics research; that studies can only be located in the Objectivist *or* Constructionist zone. Most business ethics research to date has followed a quantitative approach rooted in the objectivist-positivist tradition. Recently scholars have been calling for studies using a qualitative approach which

of course is very necessary but the overall attitude informing this debate is uncritical of this subtle but powerful underlying dichotomy. For instance Brand (2008) makes a brilliant case for greater methodological rigour in business ethics and at the same time encourages researchers to consider more qualitative research. Her article assumes there is this ontological dichotomy. When discussing the process of paradigm identification she presents *the* ontological choice:

In an ontological sense, we have to ask what the inherent nature of the knowledge is. Is there a 'reality' of people's response to such a situation (positivist ontology) or only the constructions people make in relation to the subject matter (non-positivist ontology)? (p. 445)

This example is significant as Brand's article is the first attempt to provide a typology of the major paradigms available for business ethics research.

Critical Realism has developed in an attempt to bridge this divide. The worldview 'in between' Objectivism and Interpretivism seems to be Realism (Critical) which at first glance seems to accommodate the coexistence of both objective and subjective realities in the social world.

Wright (1992) offers a good general account of critical realism:

[Critical realism] is a way of describing the process of 'knowing' that acknowledges the reality of the thing known, as something other than the knower (hence 'realism'), while also fully acknowledging that the only access we have to this reality lies along the spiralling path of appropriate dialogue or conversation between the knower and the thing known (hence 'critical'). This path leads to critical reflection on the products of our enquiry into 'reality' so that our assertions about 'reality' acknowledge their own provisionality. Knowledge, in other words, although in principle concerning realities independent of the knower, is never itself independent of the knower (p.35).

Critical Realism arose as a critique of both Objectivism and Interpretivism. Critical Realists distinguish between the real and theories or discourse about the real. The transitive dimension is essentially our perception of reality, whereas the intransitive dimension is the actual underlying structure of reality (Bhaskar, 2008). Critical Realists criticise Interpretivism for its epistemic fallacy which asserts that as there can be no epistemological objective view of the world therefore there is no objective world ontologically. Critical Realists accept that the natural world is naturally produced but our understanding is socially constructed and that the social world is socially constructed. Their point is that this social construction does not nullify the reality (Danermark, Ekstrom, Jakobsen, & Karlsson, 1997).

So if researchers change their minds about a concept such as ethics, this has no impact on the phenomenon itself. Social scientists in this paradigm construe as opposed to construct the social world. Critical Realists accept that there is no such thing as an objective view of the world. Human beings interpret the data received from their senses through a multifaceted interpretive grid (Nagel, 1986). This grid includes such things as expectations, memories, stories, psychological states, cultural artefacts and so on and is heavily influenced by the individual's community.

Critical Realists criticise the Objectivists for their denial of this interpretive aspect of knowledge. They claim Objectivists fall into an Ontic fallacy - knowledge can be analysed directly without recognising the cognitive and social mechanisms by which knowledge is produced (McGrath, 2002). So Critical Realists agree that there is a world of events independent of human consciousness and which can be observed. Such a reality could include ethical behaviour, codes of ethics etc. However our knowledge of it is socially constructed. Society consists of human beings who have specific understandings and experience of ethics and this is what one can explore. At this point it seemed like this paradigm was perfectly suited to a study which accepts that ethics is somehow linked to human nature and seeks to explore how individuals understand ethics. However there were other features of this paradigm which did not seem appropriate for the aims of this particular study.

Critical Realists stratify reality into the real, the actual and the empirical. The real is whatever exists, whether physical and social and includes their causal powers. These can also be called mechanisms. The actual are the outcomes of reality and can be states of affairs or events. These are also known as mechanisms. The empirical is the domain of experience (which may be real) and deals with our knowledge of the real and the actual. Bhaskar (2008) emphasises that the real or the actual is not necessarily experienced or observable but that it still exists. Each level has its own ontology and corresponding epistemology, methodology and research design (McGrath, 2002). The levels are interconnected i.e. one level cannot exist without the next. Also mechanisms at one level could explain mechanisms operating at the next. Gaps in understanding at one level could be better understood by exploring mechanisms at a deeper level. The aim of Critical Realist research is to explain the causes of our experience. This particular project did not aim to explain the causes of directors' understandings and experience of ethics.

It must be remembered that Critical Realism has developed out of Objectivism and has inherited the Objectivist approach to research. Critical Realists test hypotheses. The central problem for Critical Realism is how to establish the plausibility of the hypothesized structures and causal powers, given that they are not immediately available to experience (Sayer, 1992). The research process entails building a hypothetical model, involving structures and causal powers located in the domain of the real, which, if it were to exist and act in the postulated way, would provide a causal explanation of the phenomena in question. This postulated explanation is then subjected to empirical scrutiny (Leca & Naccache, 2006).

Furthermore testing theory about phenomena assumes that much is known about the phenomena, as theories develop from a growth in knowledge in a particular field. It is only then that theories can be tested. However if there is little known about a particular field, it is not possible or advisable to develop robust theory let alone test it. The field of ethics in corporate governance needs basic exploration as little is known about the phenomenon. This current study sought to capture New

Zealand directors' lived experience of ethics precisely because there was very little knowledge about how directors understand and practise it. Once more is known about these phenomena it may be useful to hypothesise the causes of particular meanings of ethics but such a project was thought to be premature.

In summary Critical Realism was not the most appropriate perspective for this project as although it accommodates real aspects in the social world it seeks to look for causes of behaviour in mechanisms (these real things). This project did not seek to explain the causes of things but just to understand phenomena. Moreover as little is known about how directors understand the role of ethics in corporate governance, the development and testing of a theory was deemed inappropriate.

However AVT assumes ethical values are to a certain extent based on something objective - which to a degree aligns with Critical Realism - but which Interpretivism cannot comprehend or accommodate. This investigation reveals a limitation of the Interpretivist paradigm in that it gives primary importance to subjectivity while ignoring the possibility that the nature of the enduring subject which contains that subjectivity may contribute to the process of meaning making. The researcher wished to respond to the call by business ethics researchers to take ontological, epistemological and methodological aspects of business ethics research seriously. But this response was found to be restricted by the worldviews currently recognised throughout the entire research community. Interpretivism assumes that the social world is entirely socially constructed. Objectivism assumes the social world is determined and predictable.

Ultimately the researcher chose Interpretivism over Critical Realism because the aim of this project is to *explore* not *explain* directors' understandings and practise of ethics in governance. It was acknowledged that the approach could have limitations in regards to accommodating the AVT conceptual framework and achieving one of the aims of the project: exploring whether any elements could be found in these understandings and practices which resonate with AVT. This issue will be addressed in the conclusion.

4.3 Methodological Choices

Many perspectives have emerged from Interpretivism such as modern hermeneutics (as opposed to biblical exegesis), phenomenology and ethnography. Phenomenology represents the view that any attempt to understand social reality has to be grounded in people's experiences of that social reality (Gray, 2004). 'Phenomenology serves as the rationale behind efforts to understand individuals by entering into their field of perception in order to see life as these individuals see it' (Bruyn, 1966, p. 90).

Phenomenology is essentially the study of lived experience or the life world (Van Manen, 1997). Its emphasis is on the world as lived by a person, not the world or reality as something separate from the person (Valle, King, & Halling, 1989). This inquiry asks "What is this experience like?" as it attempts to unfold meanings as they are lived in everyday existence (Lavery, 2008). This approach seemed appropriate for exploring directors' lived experience of ethics.

Descriptive phenomenology has its roots in the ideas of Husserl. He saw intentionality as a process where the mind is directed toward objects of study. Conscious awareness was the starting point in building one's knowledge of reality. By intentionally directing one's focus, Husserl proposed one could develop a description of particular realities such as a lived experience of ethics. This process is one of coming face to face with the ultimate structures of consciousness. These structures were described as essences that made the object identifiable as a particular type of object or experience, unique from others (Edie, 1987; Lavery, 2008).

A major emphasis of phenomenology is the need to 'bracket' one's current understandings to allow the phenomena to 'speak' for themselves, unadulterated by our preconceptions (Gray, 2004). Husserl proposed that one needed to bracket out the outer world as well as individual biases in order to successfully achieve contact with essences. This is a process of suspending one's judgement or bracketing particular beliefs about the phenomena in order to see it clearly (Lavery, 2008).

Modern hermeneutics has connections with phenomenology but argues that more importance should be given to interpretation rather than description (Gray, 2004). Heidegger was a student of Husserl but constructed a different way of exploring the lived experience and so developed what we know as interpretive phenomenology (Lavery, 2008). He focuses on the individual's relationship to the life world because an individual's realities are influenced by the world in which they live. In fact Heidegger thought that the being-in-the-world and the life world were a fluid continuum. A contemporary of Heidegger, Marcel criticised this understanding and distinguished between the individual's being and their life in the world (Wahl, 1969). In a hermeneutic or interpretive phenomenological study it is not the pure content of human subjectivity that is the focus of the inquiry but rather what the individual's narratives imply about what he or she experiences every day (Lopez & Willis, 2004). The focus of this type of study is how the particular context influences the experience and meanings and how these meanings in turn influence their choices (Lopez & Willis, 2004). The aim of the study was to capture directors' lived experience of ethics so it was important to be able to delve deeply into their responses and draw out what they imply about the corporate governance and the individual's context and how the context contributes to meaning. For example what do directors' understanding of ethics and its role imply about the existing regulatory framework and the individuals' particular backgrounds and how do these 'contexts' impact their understanding? The interpretative phenomenological approach suited the purpose of this study.

Another relevant philosophical assumption underlying interpretive or hermeneutic phenomenology is that pre-suppositions or expert knowledge on the part of the researcher are valuable guides to inquiry (Lopez & Willis, 2004). This is because it is believed to be impossible to rid the mind of the background of understandings that has led the researcher to consider the topic worthy of research in the first place (Koch, 1995); and it is the researcher's knowledge base that leads to ideas on how to proceed to produce useful knowledge. Rather than bracketing pre-conceptions they are made explicit and explained how they are being used in the study.

Furthermore hermeneutic phenomenology does not negate the use of a theoretical orientation or conceptual framework as a way of focussing the inquiry (Lopez & Willis, 2004). The framework can be used to interpret findings. The meanings ultimately arrived at will be a blend of the meanings articulated by both participant and researcher. There is not one true meaning but the meanings that are stated in the findings must be logical and plausible within the study framework and they must reflect the realities of the study participants. Furthermore the researcher is required to go further by interpreting the meanings for the purposes of practice, education, research and policy (Lopez & Willis, 2004).

A hermeneutical phenomenological approach matched the assumptions and aspirations of this project. The lived experience of directors' ethics is a blend of their individuality, background and environmental pressures and expectations. Their understandings of their experiences are influenced by their experience, pressures, expectations, values, lifestyle, upbringing, biases, prejudices, knowledge and reflections. It also is not possible for the participant to perfectly describe such a complex reality and the researcher herself receives these descriptions from within her subjectivity. 'The researcher and participant worked together to bring life to the experience being explored' (Lavery, 2008, p. 21).

In an interpretive phenomenological approach it is important to be able to go beyond mere descriptions of core concepts and essences to look for meaning embedded in the practices, as meanings are not always apparent to the participants but can be gleaned from the narrative. The focus of this type of inquiry is the humans' experience rather than what they consciously know (Solomon, 1987). For example this approach is particularly suited for this study as few of the participants would be familiar with ethical theories and their distinguishing features. They probably won't even realise or know that they are utilitarian or an adherent of virtue ethics, even though this may be reflected in their sharing of the experience. In this sense there is no real need for the researcher to bring up such terms and notions which has many advantages in regards to the social desirability bias (Crane, 1999).

This approach also allows the researcher to interpret the findings from her own perspective; to make her position in regards to virtue and character explicit and to use it as a lens through which to analyse the responses; as the biases and assumptions of the researcher are embedded and essential to the interpretive process (Lavery, 2008). Also as the hermeneutic aspect provides the possibility of using interpretation to guide future policy recommendations for such matters as corporate governance reform, it enables the project to potentially benefit a wider group of people and institutions.

A descriptive phenomenological approach would have been useful to explore whether in fact there are a common set of descriptions which could represent ‘a lived experience of ethics of directors’ and what they might be. However these findings would have been of limited use. Finding that these experiences occur would have been valuable but an interpretative approach facilitates a deeper understanding. By using a descriptive approach the researcher would have been quite restricted in terms of seeking the meaning embedded in these experiences - so important for contributing to corporate governance reform. If corporate governance reform was going to focus on ethics training say, it would be useful to enhance our understanding of directors’ experience in light of ethical theory; the resulting interpretations could become the basis for new ethics programmes. Further insight is also gained by contextualising the lived experiences – viewing the experience in light of the particular characteristics of the participants. Also using a descriptive approach would have prevented the researcher from contributing her knowledge of ethics and in particular the ethics of character which added some insight into the narratives of participants.

There have been two empirical studies which have used an interpretative phenomenological approach based on Aristotelian Virtue Theory. In 2002 the European Commission sponsored a study into the relevance of AVT for the experiences of patients with chronic illness (Swift, Ashcroft, Tadd, Campbell, & Dieppe, 2002). AVT was explored as an alternative to the modern psychological explanations of the role of character (value-neutral modern theories of character using terms such as ‘cognitions’, ‘personality’ and ‘attitudes’) in chronic illness

and as a possible explanation of people's choice of coping strategies and of variations in their quality of life. This was the first empirical study focusing on the patient's perspective. Aristotle's theory of virtue and vice was used to construct a guide for in depth interviews.

The focus of the interview was on qualities patients felt were relevant to how they coped with their illness, where those qualities came from and their understanding of happiness. The analysis included comparisons between the data obtained and what Aristotle wrote about virtue and vice. It was found that their experiences had a relationship to the virtues. The practical significance of the study was the recommendation that the personal development of those patients, who cope well, may provide a useful source of advice for patients at risk. This study employed Interpretative Phenomenological Analysis (IPA) to analyse patients' experiences about the personal qualities or intellectual approaches thought to be necessary to thrive in the face of chronic disease.

Braunack-Mayer (2005) used AVT to explore General Practitioners' (GPs) views about good doctoring and living a good life. The interviews focussed on the GPs' experience of practising ethics in their work. They were asked to recall one or two ethical dilemmas they had encountered in their work and reflect on why they responded as they did, why the situation was a problem for them and why they considered it to be an ethical problem. The influences on their decisions were also discussed, focusing on beliefs and values already identified in the interview, what those values meant and how they came to hold them. The responses were analysed to determine to what extent they resembled characteristics of virtue ethics. They were also asked about their understanding of good practice and good practitioners. It was found that the good GP was a doctor who practised in a certain way, providing accessible, comprehensive, and continuing care to patients. It was found that the way the GPs used these ideals in their moral deliberation resembled virtue theory.

This section has outlined how the researcher decided that an interpretive phenomenological approach would be appropriate for her inquiry. The next

section drills down to the next level and explains which data collection methods were judged to be most suitable for this methodological approach; the implementation process is also outlined.

4.4 The Data Collection Phase

The decision to take a hermeneutic phenomenology approach required the researcher to simultaneously begin a process of self-reflection (Laverty, 2008). This was because she needed to acknowledge and make explicit her own biases and assumptions in order to incorporate them into the interpretation process (Allen, 1996; Smith & Osborn, 2003). A reflective journal was used to assist in the process of reflection and interpretation and so represented one source of data. Immediately after each interview the researcher jotted down a general description of her experience and any particular observations about the participant. She would also record insights, if any, about the interview's significance for the project in relation to such things as methodology, literature or research aims and her own assumptions/biases. The main source of data consisted of two phases of interviews. First directors were asked about their lived experience of ethics - its role in corporate governance, how they understand it and how they practise that understanding. Second interviews were conducted with those directors whose understanding of ethics aligned more with AVT. The researcher adopted some of the initial or general questions from the Swift et al. (2002) study and the Braunack-Mayer study (2005) into her interview guide for the first interviews in order to identify directors who seemed to articulate ethics in terms of virtue theory. These directors were interviewed a second time using the more directed questions from these studies in order to explore in greater depth their understanding and practise of virtue. After each first interview, the researcher reflected on it and kept notes of these in her journal (Appendix 8); other observations and thoughts were also written down as experienced. This process of gradually selecting a core group of informants facilitated the exploration of critical themes. The philosophy of iterative development consists in devoting time after each interview to reflect upon its content and identify emergent critical themes to be explored in future encounters (Benner, 1994; Polkinghorne, 1989).

The aim of the data collection phase of the thesis was to ‘borrow’ directors’ experiences and their reflections on their experiences in order to be better able to come to an understanding of the deeper meaning or significance of this human experience under study (Van Manen, 1997). What were being sought were the characteristics of the experience. Kvale (1996) states ‘If you want to know how people understand their world and life, why not talk to them?’ (p51). The aim is that both interviewer and interviewee should understand the phenomenon better as a result of the interview.

Interviews have been described as collaboratively produced narratives but the interviewer should put every effort to minimise their impact on the informant’s expressions and responses (Dahlberg, Dahlberg, & Nystrom, 2008). This is because the purpose of the interview is to reveal the lifeworld experience of the informant not the researcher (Dahlberg et al., 2008). For this reason interviews are called open dialogues but it is crucial that the interview be guided by the research aims and not degenerate into a friendly conversation about life.

Accordingly the interviewer needed to develop questions and techniques to guide directors’ revelations of their life world. To explore the lived experience of the participants, the researcher needed to be flexible enough to allow them to tell their story but not to the extent of losing control of the agenda. Semi-structured interviews were selected as they enabled the researcher to control to a certain extent the direction of the interview but allow the flexibility for including open questions and improvisation (Arksey & Knight, 1999; Bogner, Littig, & Menz, 2009; Denzin & Lincoln, 2000). This type of interview allows for dialogue - to hone in on specific topics, to follow up ideas, probe responses and ask for clarification or elaboration (Arksey & Knight, 1999; Devine & Heath, 2009). Understanding complexity requires the use of more open questions (Arksey & Knight, 1999; Devine & Heath, 2009). A true question in this type of study is one that does not pre-suppose a particular reply (Dahlberg et al., 2008).

Having some structure means that every participant is asked the same questions which facilitates comparisons in the data analysis. Producing a schedule

beforehand forces interviewers to think explicitly about what they think/hope the interview might cover. More specifically, it enables them to think of difficulties that might be encountered, for example, in terms of question wording or sensitive areas, and to give some thought to how these difficulties might be handled (Smith & Osborn, 2003).

Semi-structured questions encourage participants to reflect on their own understanding of the phenomenon which is important for capturing the lived experience (Hasslegren & Beach, 1997). They also permit the interviewer to move back and forth and create new questions based on what has been heard (Smith & Osborn, 2003). It is important that the interviewer has the flexibility to raise questions about what has been said to get directors to reflect on their thoughts and so help them to fully express their understanding (Francis, 1996).

Methods such as surveys and questionnaires would not enable the researcher to access the desired data as they are too distant from the governance phenomena (Roberts et al., 2005). This is particularly important so as to be able to note body language of the subjects when being asked about sensitive topics (Fineman, 1996). This would be the case when attempting to understand complexities and nuances of moral discourse (Brigley, 1995). If the researcher does not interact directly with her subject she is in danger of de-contextualising relevant moral issues to the extent that essential layers of meaning are lost (Bonoma, 1985; Crane, 1999). Furthermore the *a priori* construction of morality variables and data collecting instruments involved with surveys and questionnaires eliminates the discovery of the unexpected (Crane, 1999). It is interesting that to date mainly surveys have been used to investigate what companies are doing in terms of ethics in New Zealand (Keeper, 2012; Pajo & McGhee, 2003).

When thinking about the number and types of questions the researcher realised the importance of probing to gain the necessary depth, so she incorporated aspects of the laddering technique. The laddering method of interviewing originated in the field of psychology as a way of understanding people's core values and beliefs (Hawley, 2009). Marketing scholars have used this technique within a framework

based on the Means End Chain theory (Gutman, 1982). According to this theory there is a hierarchy of consumer perceptions and product knowledge that ranges from attributes (A) to consumption consequences (C) to personal values (V), as follows:

Attributes - at the top level of this hierarchy, attributes are most recognisable by individuals. For example I like this car because it is a convertible.

Consequences - the attributes have consequences for the individual. For example, a manual makes one feel young and free. Each attribute may have one or more consequences for any given individual.

Core values - each consequence is linked to a core value of the person's life. For example, the sense of youth makes one feel attractive (Gutman & Reynolds, 1988).

In the marketing context consumers buy a product because of its attributes but these don't explain the underlying reason for the purchase - why are *those* attributes important to *that* person? So the consequences reveal more personal aspects about the person's relationship to the product. Core values are the source of the consequences and reveal fundamental perspectives which ultimately influence choices. Marketing uses the discovery of core values to inform product strategy and design decisions (Hawley, 2009).

Laddering is the actual interview technique which is used to uncover the attributes, consequences and core values that the Means End Chain defines. First the participant is asked about features or attributes of a product and then they are asked for the reasons for their attribute preferences (consequences) (Why is this important to you?). To uncover values the same 'why' type of question is employed. The aim of this type of questioning is to reach higher and higher levels of abstraction.

In the context of developing the interview guide for interviewing directors about ethics, laddering was incorporated where anticipated answers could show a preference for one view or person or characteristic over another; in relation to

their view of ethics, qualities of a good director or why something was a highlight/disappointment in their career. I have included the 'laddering' or probing (p) column in the interview guide in Appendix 1 which includes questions aimed at uncovering consequences and core values. This technique was used by the researcher to aid in uncovering the person's inner world.

Scholars have outlined some disadvantages to this technique which influenced how the researcher used it. Participants can find repetitive 'why' questions tedious and even annoying especially when the response to the 'why' question is obvious. Those who have used this technique recommend that the participants be told about the technique so they know what to expect. Another problem is where the participant can't explain 'why' as they are not used to thinking abstractly. Another difficulty relates to the task of the interviewer - it is quite difficult to keep track of the various ladders or avenues needed to be explored as the participant responds to questions (Hawley, 2009).

A modified version of this technique was adapted for this particular study. The researcher felt the relationship was not strong enough in the first interviews to repeatedly pursue the 'why' questioning. Also the researcher did not alert second interview participants to this questioning technique as she thought it might ruin the informal and relaxed atmosphere. Furthermore, as will be discussed later, often the participants could not explain the 'why' as they were not used to thinking abstractly and reflectively. And finally the researcher already felt quite challenged by these interviews and did not want to be keeping track of the various 'ladders'.

The interview process must occur within an environment of safety and trust, that needs to be established at the outset and maintained throughout the interview (Laverty, 2008). As mentioned above it is crucial to build trust and ensure the participant is relaxed and feels safe. The researcher worked at this at the outset of the interview. She observed that often trust was established more quickly when the encounter was gained via a personal contact or from another participant. This is because they trusted the personal contact's advice about the researcher or the

interview experience. In regards to the first phase of interviews, the researcher found that usually the atmosphere became quite relaxed after two or three questions during which the researcher really tried to be interested in the responses; often asking questions just out of curiosity. This process was facilitated by the manner of the researcher. She is a shy but friendly person, which seemed to win over people's trust and foster an atmosphere of genuineness.

4.4.1 Other Methods

Public documents were used as sources of background information about the respective organisations and individuals to facilitate later interpretation of the data. These included relevant websites, media commentaries and company publications.

4.4.2 Beginning the Interview Process

The researcher conducted one pilot interview with a supervisor present towards the end of November 2011. It was very useful for a number of reasons. The researcher was quite nervous and the good experience boosted her confidence for subsequent interviews. She was able to practise probing in a safe environment. And the supervisor was able to point out the responses where the researcher could have dug deeper. As a result of this interview some questions were re-worded to improve clarity (see Appendix 3). One change was asking directors to distinguish between management and governance rather than just asking them about governance. The researcher became more mindful of the need to encourage the participant to talk freely and that her role was to guide the dialogue with open questions, listening for points for the researcher to probe and most importantly helping them to personalise their descriptions and examples. The researcher understood better that she had to foster a conversation and so from then on memorised the questions to create a more informal atmosphere. She was also very careful about trying to make the participant feel comfortable and to build rapport quickly. Overall from this experience the researcher gained a more practical awareness of the importance of probing well. As discussed above, the laddering technique supplied a good guide for this. The researcher needed to get beneath the

surface of what was said in order to reach reasons, motivations, feelings and values.

As mentioned above when developing the interview guide the researcher did not want to directly bring up the topic of ethics. It is a sensitive and very personal topic and it was important to first build rapport and initiate relaxed conversation. The first question about the director's background was really meant to contribute to an informal atmosphere as it was quite a benign question and allowed the person to talk about quite positive things; and people like talking about themselves. The researcher initially tried to probe here but realised it was too early on in the interview when rapport had not yet been established.

The next questions about their understanding and practise of corporate governance were also quite tame and helped to build rapport. At this stage the researcher was looking for any words or phrases which made reference to ethics in order to later probe such as 'doing the right thing'. In this case she would ask what they meant by that and how they knew what that was. The researcher deliberately chose not to make any connection between corporate governance and ethics initially to minimise any bias. This connection was made very vaguely in the first email and in the interview explanation sent just before the interview. For the same reason the researcher probed indirectly about ethics by using less loaded words like personal standards and goals as opposed to ethics or morals.

After this, the researcher asked the interviewee to give an example of how they put the standards they had described, into practice. This was a way of ensuring authenticity and gaining further insight into the lived experience. Around this time the researcher asked participants how they had come to have such standards. This question was not actually in that part of the guide but was asked then, initially out of curiosity. Due to the interesting and personal responses received, the researcher just kept asking it. This was also relevant due to the researcher's personal interest in the relative relevance of ethical theories for governance and business practice in general (see notes in Journal 20 December 2011-Appendix 8). Having taught business ethics for many years and having written theoretical articles about

business ethics she *really* wanted to know ‘how ethics happened’ in the business context.

Reflections in my Journal dated February 8 (Appendix 8) show the researcher was quite surprised that a clear theme was emerging only after four interviews - that directors rely on the ethical values received from their parents (and/or they are inherent) and that ethical behaviour is fostered by example, by leading, not from books and classrooms. The researcher carried out a personal self - examination at this point wondering if her questioning was causing a bias. As far as she could tell she was not ‘interfering’ in this sense. Later on, this theme continued to appear. The Journal records this on February 25 2012 (Appendix 8). The researcher began to think about what this meant in terms of her initial decision to work within an interpretative paradigm using an AVT conceptual framework. How does this theme sit within a social constructionist paradigm? Are ethical values which are transmitted from generation to generation just a social construction? What does this theme have to say to AVT? Aristotle’s world view posits that ethical values are based on human nature and galvanised with the help of role models. This potential conflict had been anticipated at the outset and as can be seen surfaces again and again throughout the thesis. The findings seemed to be ambiguous at this stage. After this reflection the researcher resolved to further probe such responses with questions like - but haven’t your values changed over time, why haven’t you rejected what your parents taught you?

Next, the questions took a different tack by asking directors about a specific person (without identifying them) they would consider to be an ideal director. The purpose of this question was to find out more about the interviewee’s perceptions of a good director. Once they had thought of someone they were asked to describe the features which made them an ideal director for them. The researcher probed here and asked why those features were important for them. Related questions were asked next about whether they thought being a director was a technical role and what competencies were important for a director to have. These questions were meant to further delve into their perceptions of a good director. This previous group of questions was modelled on some of the questions in the Swift et

al. (2002) study. They asked patients about the qualities they thought someone might need to cope with long term illness and the qualities they themselves had which hindered/helped them to cope. The Swift study explored AVT as an alternative to the modern psychological explanations of the role of character in chronic illness and as a possible explanation of people's choice of coping strategies and of variations in their quality of life.

The next and final set of questions was the hardest because in the researcher's opinion they put the interviewee on the spot. First directors were asked to think of a situation where they felt uncomfortable or felt pressure to compromise their personal values and then they were asked in certain sense to re-live it and describe the experience. At this point the researcher planned to ask about their reasons for acting, how they felt, if their experiences had changed with time, age, etc, if they would act differently at home etc. Most directors could provide examples although one or two seemed a bit offended by this question. But most directors could not re-live the experience and share it 'in slow motion'; whether this was because of lack of memory or lack of reflection or both is hard to tell.

Upon reflection the researcher feels it may have been her lack of probing experience or lack of confidence in the face of confronting such highly regarded and successful persons which contributed to these somewhat incomplete responses. Also there may have been a lack of trust. She did notice some were quite nervous because of their body language and that this diminished once the recorder was switched off. She observed that directors spoke much more freely in the second interview. The researcher noticed a pattern of resistance to this question very early on (noted in her Journal in Feb 20 & 24 2012-Appendix 8) so she began to throw these types of question in earlier or wherever they seemed relevant when directors spoke about examples of their standards or just mentioned their values or standards. This last set of questions was modelled on questions from the Braunack-Mayer (2005) study where GPs were asked to recall two ethical dilemmas and to elaborate on what happened and why they responded as they did. GPs were also probed about the values that they freely brought up; what they meant for them and how they thought they came to hold them. The

Braunack-Mayer study used AVT to explore General Practitioners' views about good doctoring and living a good life.

A lot of other topics came up naturally like the governance problems in the finance industry, the court decisions, failure by respected directors, director training, cultural differences, board diversity, sustainability, whether there are just bad people and good people etc. Every interview was very enjoyable. In most cases the researcher experienced a 'good' feeling afterwards because she felt she had had a genuinely candid and personal encounter.

Some specific incidents are worthy of note. The researcher found her explanation in layperson's terms about the taking of a qualitative approach, at the beginning of the interview, was received well and even perhaps encouraged the director to be more open. She explained that research in this field required an interview as opposed to a survey approach as academics and regulators wanted to get directors' perspectives on the various issues around the state of corporate governance in New Zealand; that the researcher needed to get as close to their experience as possible and if possible to get inside directors' heads. I think some even found this amusing!

Once the recorder was off, many directors continued to chat about various matters. The researcher felt this was a good indication of the degree of trust that had been established. In some cases they were visually more relaxed but the conversation did not contain anything radically new or different. In one instance a director volunteered that he was Aristotelian in his approach to his work. It turns out that he had studied Philosophy at university before changing to Law. The researcher was quite surprised as his responses did not seem very Aristotelian, as he spoke a lot about respecting social norms and legal duty. This re-affirmed the researcher's decision not to mention ethical theories in the interviews and to interpret their naïve responses using her own expertise.

After the recorder was off in another instance I mentioned to a participant that some of my cynical acquaintances believed directors would not tell me the truth. He immediately re-affirmed with passion that ethics *is* the glue of business as it

holds it all together. He said directors never talk about ethics explicitly but it is always present. Other interesting commentary included one who thanked the researcher for the opportunity to reflect upon and discuss this topic as it had really helped him in his practise of corporate governance. It seemed that these types of questions helped him to gain more out of materials provided by the Institute of Directors. Admittedly he was perhaps not as experienced as other participants but it perhaps shows directors need more opportunities to reflect about these matters and discussion fosters reflection. This could be especially important at the beginning of their careers as directors. Another participant liked the depth of the topics and questioning and said the Institute of Directors needed to also address ethics at this level.

4.4.3 The Second Interview

Initially the first interviews were meant to be a means to discover directors whose responses seemed to reflect more an AVT notion of ethics. They were used for this purpose too, but on looking back, once all the interviews were analysed, it became apparent that on the whole most directors' understandings of ethics reflected features of AVT rather than those of Kantian ethics and utilitarianism.

The second interviews were crafted to explore directors understanding of ethics in much more depth so as to have more data to investigate this in light of the AVT conceptual framework. Some questions were new, others a repetition from the first interview and others probed responses from the previous interview (see Appendix 4). The questions were sent beforehand and directors were asked to think of situations which were 'tricky' to handle. As was mentioned above, rapport had already been established so it was easier to foster a conversational style. It was easier to draw out uncomfortable experiences and get some directors to reflect on them in detail. Directors were asked to think of their examples when responding to the questions.

The first question specifically asked how they would describe their approach to ethics - do they use rules, or procedures, models, principles, intuition etc. Then their actual ethical values were explored in more depth: their origin, content, and

the differences between personal/professional lives. A number of questions were specifically based on responses from the first interview, and effectively probed these answers; asking for clarification and more explanation. Due to the relaxed atmosphere the researcher was able to ask daring questions about the meaning of life and the relative importance of their personal code for the meaning of life, happiness and the overall scheme of things. These last questions were also modelled on the Swift et al. study (2002). Patients were asked ‘what gives you fulfilment/happiness in your life at the moment, despite the difficulties caused by the condition?’

4.4.4 Selection of participants

The aim in participant selection in both phenomenological and hermeneutic phenomenological research is to select participants who have a lived experience aligned to the focus of the study, who are willing to talk about their experience, and who are diverse enough from one another to enhance possibilities of rich and unique stories of the particular experience (Polkinghorne, 1983; Van Manen, 1997). The researcher selected directors with corporate governance experience in New Zealand. It was essential that they had experience in the New Zealand regulatory/business context; the longer service time and the greater variety of experience the better. It was important to try and reach a mixture of positions to gain a richer and more comprehensive understanding of views. The researcher realised this would also be enhanced by accessing directors from a variety of backgrounds; including gender, age, company size, and industry.

Within the above parameters directors were selected on the basis of structured snowballing and convenience sampling. The former involves the researcher initially identifying eight to ten individuals from the above population. Upon conducting interviews with them, these interviewees are then asked to identify other informants who are in turn used as informants until the desired number is reached (Arksey & Knight, 1999; Robson, 1993; Silverman & Marvasti, 2008). Convenience sampling involves choosing the nearest and most convenient persons

to act as respondents. The same process is repeated until the required sample size is reached (Arksey & Knight, 1999; Robson, 1993; Silverman & Marvasti, 2008).

The researcher began by constructing a generic type of matrix of potential candidates. This specified the number of position types, entity/industry types, and age/gender/ country types (see Appendix 5) that would ideally satisfy the needs of the project. From here she began to peruse the internet, the companies listed on the NZ Stock Exchange and to ask friends and acquaintances about their contacts. The researcher made a random selection of some entities from the internet and then looked at their websites. She then looked at the faces and biographies of the board members and selected approximately two from each. Some of these contacts were successful and others not; and a substantial number of the former referred the researcher to fellow directors. Other participants were selected because of their commentaries in the media or because of their reputation. The researcher was really surprised how successful she was at gaining access to so many top directors given that she was just a random PhD student to them (see Journal dated 19 December-Appendix 8). All were formally contacted by emailing their Executive Assistant a brief explanation of the project and an invitation to participate (see Appendix 2). A total of 42 interviews were conducted consisting of 34 first interviews and 8 second interviews with a good balance of entities, gender and positions (see Appendix 6). Many directors held several directorships and so amongst all participants the researcher was able to tap into the experiences from 60 different entities across 14 industries (see Appendix 6). Entities included listed and unlisted companies, cooperatives, State-Owned-Enterprises (SOEs), District Health Boards (DHBs) and not-for-profits. A summary of Appendix 6 follows:

Table 4: Range of Participants - position / entity / industry

Directors	Entity	Different Types of Entities		Type of directorship		Span of Industries	
34	60	Listed	21	Single	11	Manufacturing & Retail	1 1
		Unlisted	17	Multiple	23	Agriculture	7
		SOE	4			Finance services	6
		Cooperative	7			Transport	5
		DHB	3			Energy	4
		Not-for-Profit	8			Health	4
						Investment	4
						Property	3
				Media & Communications	3		
				Information Technology	2		
				Leisure & tourism	1		
				Building	1		
				Intermedical & Durables	1		
				Not-for-Profits	8		

After 34 interviews the researcher realised she was not being told anything new. Merriam (1998) suggests the number of research participants should enable the maximum possibility of identifying variation in participant understanding of the phenomena under investigation. In Geale’s (2007) phenomenological study on Corporate Governance (CG) directors were added until it became evident that a finite number of understandings of CG had emerged and this began to occur after 16 directors. She stopped her interviews at 23. This also corresponds to the notion of saturation; the point where a clearer understanding of the experience will not be found through further discussion with participants (Sandelowski, 1986).

4.5 Data Analysis

There are basically five different approaches to the analysis of meanings of interviews. These are condensation, categorization, narrative, interpretation and ad hoc. Interpretation goes beyond a structuring of the manifest meanings of a text to deeper and more or less speculative interpretations of text. In contrast to the

decontextualisation of statements by categorisation, interpretation recontextualises the statements within broader frames of reference (Kvale, 1996).

As mentioned above, in a hermeneutic or interpretive phenomenological study it is not the pure content of human subjectivity that is the focus of the inquiry but rather what the individual's narratives imply about what he or she experiences every day (Lopez & Willis, 2004). The interviewer goes beyond what is directly said, to work out structures and relations of meaning not immediately apparent in a text with the help of a particular theory and or the perspective or expert knowledge of the researcher. Interpretation can be done looking through the lens of a conceptual framework or theory. It is assumed the researcher has a perspective on what is investigated and interprets the interviews from this perspective. In this approach the pre-suppositions or expert knowledge of the researcher are valuable guides to inquiry. Rather than bracketing pre-conceptions they are made explicit and explained how they are being used in the study. Hermeneutic phenomenology does not negate the use of a theoretical orientation or conceptual framework as a way of focussing the inquiry. The meanings ultimately arrived at will be a blend of the meanings articulated by both participant and researcher (Kvale, 1996; Lopez & Willis, 2004).

The use of Interpretative Phenomenological Analysis (hereafter, IPA) enables the further abstraction and interpretation of participants' experiences through the interaction between the researcher (with their theoretical knowledge and personal experience) and the participant (Reid, Flowers, & Larkin, 2005). IPA was found to be well suited to provide the data needed to answer the research question of this present study. It allowed the researcher in this study to capture the experiences of corporate directors and to explore how they understand and practise ethics. Asking directors what ethics meant for them, instances where they had implemented this, origins of their ethics, how they resolved ethical dilemmas, which qualities are important to be a good director, provided rich data against which to compare characteristics of virtue theory.

IPA is ‘a version of the phenomenological method which accepts the impossibility of gaining direct access to research participants’ ‘life worlds’ (Willig, 2008, p. 53). The core aim of IPA is to examine how people make sense of their major life experiences (Smith & Osborn, 2003; Willig, 2008); it does not test hypotheses but aims to capture and explore the meanings that participants assign to their experiences. This was particularly suitable for this study as the interview process itself helped some directors make more sense of their experiences and discover more meaning as mentioned in the previous section. It is probable they are unaware of theoretical labels given to certain ways of thinking or behaving. It was suggested above how one director inaccurately ‘labelled’ his approach to ethics. IPA allowed the researcher to join the dots with her expertise.

IPA as a recently developed and quickly growing approach to qualitative inquiry originates from social psychology but is of increasing interest to social scientists from other disciplines, particularly sociology and human geography (Convery, Soane, Dutson, & Shaw, 2010). Jordan, Eccleston and Osborn (2007) believe that IPA is an inductive approach ideally suited to the development of complex and interrelated themes.

IPA is intellectually connected with hermeneutics and theories of interpretation in addition to its phenomenological origins (Smith, 2004; Smith & Osborn, 2003). It permits the identification of themes that runs through all or most of the pertinent data or one in the minority that carries heavy emotional or factual impact (Kavoura, 2007). At the same time, IPA also emphasises that the research exercise is a dynamic process with an active role for the researcher in that process. In other words, IPA involves what Smith, Flowers, and Larkin (2009, p. 3) refer to as a ‘double hermeneutic’, where participants make sense of their world (what is happening to them) and the researcher’s role is to make sense of the participants’ sense-making process. ‘The participants are trying to make sense of their world; the researcher is trying to make sense of the participants trying to make sense of their world’ (Smith & Osborn, 2003, p. 53).

Thus, the usefulness of IPA lies in its capacity for the researcher to gain greater understanding of an experience while upholding the context of the everyday lived experience where meaning resides (Reid et al., 2005). This was why it was important for the researcher to keep a journal to capture her reflections, thoughts, views and experiences in regards to each interview; references to it in the previous section show how this helped to enrich her own interpretation of the interview.

IPA accepts that the person is a cognitive, linguistic, affective and physical being and assumes there is a connection between their speech, thought and emotional state (Smith & Osborn, 2003).

At the same time, IPA researchers realize this chain of connection is complicated - people struggle to express what they are thinking and feeling, there may be reasons why they do not wish to self-disclose, and the researcher has to interpret people's mental and emotional state from what they say (p. 54).

Before entering into the field the researcher wondered whether directors would be able to articulate their thoughts and feelings when sharing their lived experience of ethics. And as was related in the previous section the researcher's interview experience confirmed a certain inability to articulate their ethical experiences.

Smith (2004) provides three characteristic features of IPA, which are: idiographic, inductive, and interrogative. Due to the idiographic approach, IPA is particularly suitable for studies with small samples and case study analyses (Smith, Harre, & Langenhove, 1995). By means of that, one can learn a great deal about that particular person and their response to this specific situation (Smith, 2004).

Brocki and Wearden (2006) note that the number of participants can range from 1 to 30 with the norm being towards the lower end. One can retain the idiographic emphasis by interviewing the same participants a second time. For example Clare (2003) interviewed twelve couples twice resulting in 48 transcripts. This was a strategy to retain idiographic attributes while at the same time allowing for any embedded patterns to emerge (Eatough & Smith, 2008). The total of 34 directors,

with 8 being interviewed twice provided the basis for patterns to emerge as well as more in depth knowledge about particular experiences.

IPA is phenomenological in that it is concerned with the subjective meanings people ascribe to their experiences, but with the recognition of the ‘dynamic’ process of interpretation which the researcher engages in (Meek, 2007). While it is possible to obtain data suitable for IPA analysis in a number of ways such as personal accounts, observations, and diaries, most IPA studies have collected data via interviews, specifically semi-structured in-depth interviews (Convery et al., 2010; Kavoura, 2007; Meek, 2007; Mulveen & Hepworth, 2006). Smith and Osborn (2003) explain that this form of interviewing allows the researcher and participant to engage in a dialogue whereby initial questions are modified in the light of the participants’ responses and the researcher is able to probe interesting and important areas which arise. IPA researchers normally employ techniques which are flexible enough to allow unanticipated topics or themes to emerge during a data analysis (Smith, 2004).

Additional reasons for the appropriateness of semi-structured interviews have been discussed above.

4.5.1 How the Data was Analysed in this Study

The following is an outline of how the transcripts were dealt with compared with the method recommended by Smith and Osborne (2003). The researcher followed the advice of Smith and Osborne (2003) of keeping a journal. While the interviews were being conducted she endeavoured to reflect, question and write notes in her Journal about the interviews conducted. This process assisted in the interpretation of the content (Creswell, 2009; Singleton & Straits, 2010). Notes taken after each interview helped to bring the interview to life at the interpretation phase. These conserved the emotions, feelings, impressions and reflections of the researcher immediately post interview thereby conveying the level of confidence gained and therefore the authenticity value of the particular encounter. They also recalled which aspects the participant particularly emphasised or felt strongly about.

About ten transcripts were read a number of times to become as familiar as possible with the account. One of the margins was used to annotate what was interesting or significant about the responses in light of the research questions and the literature. These were paraphrases, connections that came to mind, or preliminary interpretations. For example, words or phrases containing words such as 'learning' 'experience', 'know-how', 'parents', 'upbringing', and 'judgement' were highlighted and linked to AVT. The word 'virtue' was written beside words like honesty, fairness and integrity. Learning from parents was labelled with 'role models'. Phrases about 'reputation', 'a good person', or 'choosing the company you keep' were linked to 'character'. Certain ways of understanding good/bad corporate governance were noted. Ideas and topics not linked to the research questions and the literature were marked to be set-aside for later.

With these ideas in mind the researcher returned to the research questions and literature and developed four major themes each containing sub-themes. The first three themes basically reflected the research questions embellished with the main currents of thought from the literature respectively; corporate governance and ethics, understanding of ethics/ethical theory, and AVT. The fourth was labelled 'black-box' and absorbed any other topics which arose in the interviews as the researcher was open to discovering new themes as she worked through the transcripts. Next, all transcripts were read and further clustered in light of the four themes. During this process new sub-themes emerged alongside the sub-themes derived from the literature. Within the theme of understanding of ethics and ethical theories were sub-themes such as 'type of person', 'lived experience not slogans', 'learning over time' and 'rules'. Within AVT were smaller themes like 'learn by doing', 'role models', 'examples of virtues', and 'deeper than a code'. Corporate governance & ethics contained things like 'good healthy discussion', 'monitoring', 'strategy', 'personal ethics', 'full understanding of the state of play' and 'leadership'. The 'black box' collected all types of issues such as 'board diversity', 'comparisons across culture', 'legal regulation', 'finance companies', 'recent court cases' and 'old boys' network'. All quotes were appropriately referenced back to the original transcript. At this stage the researcher had narrowed the data down to 110 000 words.

Writing up the results involved translating the themes into a narrative account. Links to the literature could have been included here or discussed in a separate section. The researcher combined the findings with the analysis to create a more interesting and straightforward account. The titles of the following three chapters reflect the three major themes. Chapter Five is entitled ‘Corporate Governance and Ethics’ and reveals how directors understand good corporate governance to be intrinsically ethical. Chapter Six is entitled ‘Directors’ Understanding of Ethics’ and compares directors’ understanding of ethics to three ethical theories. The business ethics literature was used to classify directors according to their understanding of ethics. Chapter Seven specifically explores the interviews of directors who were selected for a second interview, for similarities with key features of AVT. See Appendix 7 for a summary of themes and sub-themes.

4.6 “Reliability and Validity”

Many interpretive researchers argue that issues of reliability and validity are only appropriate for assessing the quality of research based on a quantitative approach (Angen, 2000). Research based on a qualitative approach needs to address the following question: ‘how do we know when we have specific social inquiries that are faithful enough to some human construction that we may feel safe in acting upon or more importantly that members of the community in which the research is conducted may act on?’ (Lincoln & Guba, 2000, p. 180).

Angen (2000) is critical of using the notion of validity for qualitative research. She argues that ethical and substantive validation is more appropriate which emphasises that achieving trustworthiness involves a process. *Ethical validation* requires ensuring that the research is helpful to humanity in providing new understandings and transforming actions. This project reveals how directors understand ethics in their role of corporate governance. It is hoped that these findings can help to improve the practice of corporate governance.

Substantive validation means the researcher must show how they have done justice to the topic by bringing into play all the various present and historical, intersubjective understandings of the topic, including their own. This requires the

researcher to engage in a self-critical reflection. Interpretative research is a chain of interpretations that must be documented in order for others to judge the trustworthiness of the meanings arrived at in the end (Nielsen, 1995). ‘This substantive approach should allow the researcher to face criticisms of subjectivity - of this being just their opinion or even just the opinion of their participants - with evidence of what has been brought to bear on the interpretation’ (Angen, 2000, p. 390).

So substantive validation depends on procedures that are carefully thought out ‘from the inception to the completion of the inquiry process; from assessing one’s biases in the early stages through considering how they are changed by one’s engagement with the topic to giving a written account in the final product’ (Angen, 2000, p. 391). This requires the researcher to keep a written account of their own transformations which are intelligible and coherent. Ultimately the audience needs to be satisfied of the trustworthiness and feel the work is a worthwhile interpretation.

The following details the procedures that have been and will be maintained to ensure the trustworthiness of the research resulting from this study based on the work of Angen (2000) .

4.6.1 Substantive Validity

The researcher used techniques to minimise the social desirability bias. One of the problems with methods which rely on direct responses is the social desirability bias. This is particularly likely when dealing with self-reports of executives and with a topic such as morality (Crane, 1999; Mathews & Diamantopoulos, 1995; Mintzberg, 1989). It was possible the researcher would be fed the party line or what the participants perceived the interviewer wanted to hear. This problem was minimised by: indirect questioning which helped to expose their true views; semi-structured interviews so as not to lead the participants with set concepts and questions and which enable the researcher to probe; interviewing some participants twice in order to build greater trust; getting the participants to give

examples which illustrated their views and their attempts at implementation. The researcher needed to avoid imposing her own terminology when asking questions.

In the approved ethics application for the project the researcher had explained there would initially be an element of non-disclosure about the purpose of the project. The researcher did not want to reveal to the participants that her main interest was ethics. So in the initial contact material she wanted to give the impression that the study was about corporate governance and would include some questions about ethics. This was to avoid any social desirability bias. The researcher wanted to see if directors would make an association between ethics and corporate governance as opposed to her asking questions which assumed this connection. This rationale also informed the construction of the questions in the interview guide.

Both Mathews and Diamantopoulos (1995) and Minzberg (1989), consider executives' responses to be typically unreflective as they found that they could give conflicting views without even realising it. Accordingly they advocate the use of qualitative methods which focus on meaning as opposed to facts. Probing questions, as discussed in a previous question were used to enable the researcher to explore the underlying reasons for the responses.

Miyazaki and Taylor (2008) discuss the impact of interviewer characteristics on the responses of participants in business ethics research (2007). They classify characteristics into psychological, physical and background of the researcher. They cite studies on the impacts of various types of characteristics but on the whole none of the studies are conclusive. They recommend ways for minimising the effects of such characteristics on the responses of participants. The researcher removed all symbols from her person and her office which may have revealed her own biases and so possibly create an affinity or other type of reaction in the participant. These included parts of her jewellery and office pictures.

Apart from trying to minimise the social desirability bias the researcher pursued two other practices to ensure substantive validity in relation to the final interpretation of the data. First, as explained above, she kept a journal to record

her biases, insights, thoughts and transformations throughout the data collection and analysis period. This in a sense records and to some extent authenticates the interaction process between the researcher and the participant allowing it to be used as a legitimate support for the subsequent interpretation process. This consists of an explanation of why the researcher undertook the project, why she asked that particular research question, what values were driving her and what she was expecting or hoping to discover from the data collection. She also recorded her impressions of the interview, her frustrations in carrying out the interview, any evidence of her having influenced or changed the interviewee, or whether she herself had been influenced or changed by the conversation. Second, the researcher ensured that the interpretation is well supported by the experience of participants and the literature. This included comparing the data with not just AVT literature but with that of Kantian ethics and utilitarianism allowing the possibility of being presented with other interpretations different from the particular interest of the researcher. Once the researcher realised that an interpretive approach was appropriate she was careful to protect the integrity of the project by acknowledging and documenting the path towards the final interpretation.

4.6.2 Limitations

Getting access and consent to this number of directors presented a challenge but was not ultimately a problem. But it was difficult for the researcher probe deeply and persistently. This was as much to do with inexperience and the perceived 'status' of the researcher, as the subject matter. She felt she did not have 'peer' status and so thought probing could border on being disrespectful. Also due to her inexperience she also felt her probing could make participants feel awkward. This concern was realised in one of the second interviews. The researcher began probing about a couple of quite controversial and high profile scandals based on comments from the first interview and media commentary. This created tension and awkwardness in the interview and in the opinion of the researcher destroyed the trust which had been developed to date. The researcher truly felt she had betrayed the trust of this director (see Journal dated July 26 2012 Appendix 8).

4.6.3 Ethical Issues

Ethical considerations were particularly important when exploring 'sensitive' or personal issues and they encompassed the whole research process (Miles & Huberman, 1994). It was anticipated that directors would feel uncomfortable sharing their lived experiences of ethics to an unknown researcher. This was why it was important to ensure there was informed consent and the guarantee of confidentiality. Willig (2008) stresses the responsibility researchers in psychology have regarding the effects the study may have on participants especially when it touches on highly sensitive experiences. Discussions about a tricky ethical situation may be potentially traumatic or stressful. This is all the more reason why the researcher couched the questions in a way which made the participants feel free in answering the question and to make the process as comfortable and relaxed as possible.

Informed consent implies that participants fully understand what they are going to participate in and do so voluntarily (Kvale, 1996). One of the main issues in this study related to what may seem to be deception of the participants. The research title and aims (at the time) were meant to be concealed from the participants as the researcher believed that this would bias or influence the responses of the participants. The title at the time (The Role of Virtue Ethics in Corporate Governance) may have linked virtue ethics or ethics with corporate governance in the minds of the participants when prior to knowing about the project they had not believed they were related. Such influence could have substantially impacted the responses of the informants.

The researcher intended to convey to participants at the outset that she was being very general in explaining the research purpose so that she would not sway their responses and to enable important points to materialize naturally. Furthermore they were to be informed that they would be told more once all interviews have been completed. This was stated and accepted in the Ethics Application.

However the researcher did not follow through with this *exactly*. In the initial contact email, participants were given a brief description (one paragraph) of the

project which mentioned it was about corporate governance *and ethics*. This was to ensure they were informed that this topic would come up. The researcher felt she would be misleading them if she had just said the interview was about corporate governance. Including the word 'ethics' at this initial stage may have caused some who were invited, to decline the invitation to participate. About 12 directors either declined to be interviewed or just did not respond to the invitation. The inclusion of the word 'ethics' may also have influenced the kind of participants selected - in a sense they may have self-selected. Closer to the interview a more complete description (one page) of the interview and the project was sent. This contained information about recording and confidentiality, assuring them that they could withdraw themselves or their transcript any time up until the commencement of writing-up (date given). The title on this page here was quite general - Perspectives on Corporate Governance. In describing the types of questions in the interview, ethics was mentioned again but more as an appendage rather than as the central topic. So the participants were aware that this topic would come up but that it was not the main focus. In actual fact it was the main topic of interest. Before commencing the interview the researcher asked directors to sign the consent form. At the start of the actual interview the researcher again briefly summarized the purpose of the interview but did not mention ethics. The first few questions focused on their views about corporate governance only. The researcher was particularly interested in virtue ethics which was not mentioned at all before or during the interview. The researcher believes that this was not deception, but just appropriately concealing her own biases.

Confidentiality implied the need to protect the identity of the participants at two levels: to make sure they could not be identified (by their name or position or company), and to make sure they could not be traced by the quotes used in the data analysis. This has been achieved by changing the names and the places without altering too much the quality of the data (Miles & Huberman 1994). Identities remain confidential and will not appear in any publications. Neither the respondents' names, job titles nor names of firms are mentioned in any section of the thesis; codes are used to disguise identities and any references to circumstances, company names or events which may point to identities have been

omitted. Each quote is referenced by: the participant number; a suffix number of one or two depending on whether the quote has been taken from their first or second interview; and the page number indicating the location of the quote in the interview transcript (e.g. Twentyone-2 p5). Company names have been replaced with codes such as 'XXX' or 'AAA'. References to well known incidents or circumstances which could identify the person or the company have been changed or removed. Some grammatical editing has been carried out for the purposes of clarity but care was taken not to alter the original meaning. Transcripts and consent forms are currently stored in a locked filing cabinet in a locked office.

Ethical dilemmas revealed remain confidential and the identity of these participants will not be revealed in connection with these actions. The processes around these situations have been discussed in the thesis but the content and nature of these dilemmas has not been revealed. It should be noted that the purpose of the study did not require details of outcomes of dilemmas. The researcher was more interested in the principles which guided behavior so the outcome of the deliberations did not need to be revealed.

4.7 Conclusion

This Chapter has outlined the most suitable way to collect and analyse the data in light of the research aims established in Chapters Two and Three. Chapter Two outlined the state of corporate governance reform and found that there is much dissatisfaction with the approach to date, characterised by modifying different aspects of the governance structure. Consequently pockets of scholars in the US, UK, European, Australian and New Zealand jurisdictions are urging reformers to consider the role of the personal ethics of directors. Furthermore there is a growing conviction amongst scholars that little is known about how directors actually accomplish their task of governance. This 'black box' status has initiated a flurry of research into the 'inner workings' of the board exploring aspects such as board dynamics, the Chair-CEO relationship, and the board process. Researchers in the area deem it imperative to find out more about the behaviour of directors in order to improve corporate governance practice; pertinent aspects

include motivations, attitudes and perceptions of directors (Levrau & Van Den Berghe, 2007b; Van Den Berghe & Levrau, 2004). No studies to date have investigated how directors understand the role of ethics in corporate governance. One of the aims of this thesis is to capture New Zealand directors' lived experience of ethics so as to explore how directors understand the role of ethics in corporate governance and how this compares to an Aristotelian approach to ethics.

Chapter Three reviewed the business ethics literature which revealed a number of gaps. This was found to be a fragmented field. It seems that a stalemate has been reached in regards to the relationship between the philosophical and descriptive research; descriptive business ethics research has dedicated little effort to the subjective aspects of the ethical experience; philosophical ethics seems to consist of a smorgasbord of competing theories, casting doubt on the relevance and usefulness of moral philosophy. This thesis aims to capture New Zealand directors' lived experience of ethics so as to investigate these three under-researched areas. To explore: whether there can be a connection between descriptive and philosophical ethics; how do directors understand and practise ethics in corporate governance; the comparative relevance of Kantian ethics, utilitarianism and AVT; and whether AVT has potential for informing corporate governance practice.

Focusing on the lived experience of directors demanded a phenomenological approach. This is an interpretive phenomenological study of directors' lived experiences of ethics, viewed through the lens of Aristotelian Virtue Theory (AVT). Interpretative as opposed to descriptive phenomenology was adopted because subjective understandings and understanding these understandings are to a certain extent socially constructed, permitting at best an 'interpretation' rather than an accurate description. The focus of the inquiry is what the individual's narratives imply about what he or she experiences every day (Lopez & Willis, 2004). The meanings are ultimately a blend of the meanings articulated by both participant and researcher. As this is an interpretive phenomenological approach it was important to go beyond mere descriptions of essences and to look for meaning embedded in the practices, as meanings are not always apparent to the

participants but gleaned from the narrative. The focus of this type of inquiry was the humans' experience rather than what they consciously know (Solomon, 1987). This allowed the researcher to go further by interpreting the meanings for the purposes of practice (Lopez & Willis, 2004).

A conceptual framework can be used to interpret the findings and in this thesis an AVT framework has been used (Lopez & Willis, 2004); this was attributed to the researcher's particular interest in Aristotelian Ethics. The emerging themes were filtered through key features of virtue theory; at the same time the researcher remained open to discovering resonance with the two other main philosophical ethical theories, Kantian ethics and utilitarianism. This interpretative aspect was particularly suited for this study as many of the participants were not familiar with ethical theories and their distinguishing features. They probably did not even realise or know that they are utilitarian or an adherent of virtue ethics, even though this was reflected in their experience. So there was no need for the researcher to bring up such terms and notions which had many advantages in regards to the social desirability bias (Crane, 1999). This approach also allowed the researcher to interpret the findings from her own perspective; to make her position in regards to virtue and character explicit and to use it as a lens through which to analyse the narratives. The biases and assumptions of the researcher are embedded and essential to the interpretive process (Laverty, 2008). The researcher had trouble grounding AVT in the interpretative paradigm the causes and consequences of which will be discussed in the thesis conclusion.

It was decided that semi-structured interviews would be the best way to access directors' understandings allowing a good balance of flexibility and structure. IPA was found to be most suitable for pinpointing themes for the basis of the discussion. The choice of criteria for ensuring the 'validity and reliability' of the interpretation was explained and justified. The limitations of the study were acknowledged and discussed and ethical issues outlined. Both findings and discussion are combined in the following three chapters.

The following three chapters present *and* discuss directors' lived experience of ethics. They explore how they understand the role of ethics in their task, how they understand and practise ethics and finally whether Aristotelian Virtue Theory (AVT) can inform corporate governance practice as 'ethical practice is fundamental to good governance' (Institute of Directors in New Zealand (Inc), 2012, p. 87). Each chapter consists of a summary of the relevant themes found in the literature, a presentation of emerging themes illustrated by interview quotes and an interpretative analysis supported by the literature. The three chapters correspond to the aims of this thesis: (1) Chapter Five: How do directors understand the role of ethics in corporate governance? How does this compare to an Aristotelian approach? (2) Chapter Six: How do directors understand and practise ethics? How relevant are the ethical theories of Kantian ethics, utilitarianism and AVT? (3) Chapter Seven: To what extent can AVT inform the practise of corporate governance?

Chapter Five - Corporate Governance and Ethics

5.0 Introduction

As mentioned above, little is known about how directors understand the role of ethics in the task of corporate governance. An overview of the corporate governance reform literature (Chapter Two) shows that reform initially focussed on tightening the rules around disclosure and independence. Subsequently some reformers and scholars began to question this approach as corporate governance failures continued. These researchers argued that better corporate governance practice depended on learning more about how boards work. Within this literature there are scholars who believe more serious attention should be given to fostering personal ethics of governors to improve corporate governance practice (Diplock, 2009; Gandossy & Sonnenfeld, 2005; Greenfield, 2004; Huehn, 2008; Kimber & Lipton, 2005; Morgan, 2009; Robins, 2006; Sison, 2008; Smallman, 2007; Van Den Berghe & Levrau, 2004; Wieland, 2005). This Chapter presents the findings and discussion around how New Zealand directors understand the role of ethics in their task of corporate governance in light of the literature and AVT in particular. The Chapter is organised in sections based on the themes which emerged from the analysis of interview transcripts.

As described in Chapter Four themes and sub-themes developed out of the following process: the researcher initially read about ten transcripts to get a feel for the common themes; at the same time she noted significant words which linked to the research questions or the literature. These links were written in the margin. Based on this experience the researcher went back to the literature and research questions to develop four major themes and tentative sub-themes.

The first three main themes basically reflected the research questions embellished with the main currents of thought from the literature respectively; corporate governance and ethics, understanding of ethics/ethical theory, and AVT. The fourth was labelled 'black-box' and absorbed any other topics which arose in the interviews. At this point the researcher began reading through all transcripts

allowing new sub themes to emerge while letting others disappear according to the data found in the transcripts.

As the data collection process progressed the following sub-themes emerged within the theme of corporate governance and ethics: corporate governance has an intrinsically ethical character (*Ethics is intrinsic to corporate governance (CG)*); an ethical rather than a legal approach to fostering ethical behaviour is more effective (*Regulatory approach to ethics ineffective*); excellent corporate governance is ethical corporate governance (*Excellent CG= ethical CG*); ethics is contextual and messy and rules are inadequate for dealing with the complexity (*Rules inadequate for complexity*); the ethical tone at the top influences the ethical culture of the organisation (*Tone at the top*).

5.1 Theme One: Ethics is Intrinsic to Corporate Governance

As discussed in Chapter Two, both the academic and regulatory literature understands effective corporate governance to be ethical corporate governance. Moreover there is some literature that argues that corporate governance as such has a distinctly ethical character (Arjoon, 2006; Bonn & Fisher, 2005; Rossouw, 2009; Rossouw & Sison, 2006; West, 2009). Several authors argue that all corporate governance regimes implicitly or explicitly include an ethical dimension (Bhimani, 2008; Johnson et al., 1999; Johnson, 2004; Rossouw & Sison, 2006; Schwartz et al., 2005).

After inviting each director to briefly summarise their background they were asked to describe their understanding of corporate governance. The researcher deliberately did not mention ethics initially to see if it would feature in how they explained their understanding of corporate governance. In general directors described the typical features of corporate governance but they did not explicitly mention ethics. They spoke about setting goals with management and monitoring the achievement of those goals, and the hiring, mentoring and firing of the CEO; their respective backgrounds may have led them to emphasise particular aspects.

The following phrases are illustrative of most of the responses: *'The most important decision any board will make is the appointment of the chief executive'*; *'to test the thinking of management and the CEO and make sure they have thought through all the implications'*; *'to challenge, debate and monitor the performance of the CEO and the senior leadership team'*; and *'to oversee that the strategic direction is right, the systems are right, the regulations and management are right'*.

What can be concluded from the above? As directors have not mentioned their responsibilities in regards to ethics does this mean they think ethics has no role in corporate governance? The particular quotes above are from the most experienced and respected directors amongst those interviewed for this study; this fact already communicates much about their ethical standards. As several directors said during interviews, their reputation and therefore their whole livelihood is at stake if they compromise their ethical standards. For instance participant Fourteen explained that his reputation is the culmination of his stories, his relationships, and his past behaviour and that *to me my ethics reflects my reputation and my reputation reflects my ethics. I would seek to bring those to bear fearlessly in any circumstance* (p. 4).

So why have they not mentioned ethics explicitly? Could it be because governing the corporation is so intertwined with ethics for them that they understand their task to be an intrinsically ethical one as Rossouw (2009) and others suggest? In fact, when the researcher began to probe more this is exactly what she found. When directors were asked about their personal standards or goals in relation to carrying out their task they seemed almost surprised with the question. The impression they gave was that acting ethically 'goes without saying' and perhaps is even more fundamental than the corporate governance framework. What follows are the responses of these directors when asked about ethics.

The first quote is from a director who, in the course of sharing his experience, gave examples of an organisation he had previously headed as CEO. When I told him that the current CEO would not give me an interview he rang him and

organised an interview for me. He wanted me to touch the ethical culture of that organisation, the cultivation of which he had personally fostered and developed.

That is a really good question, to me ethics are everywhere and that is sort of personal..... I mean you have your own personal code you live by, and that to me is critical, so I would never do anything that breached my own personal code of ethics. I couldn't work with a group of people who did that. [Transcript Nine p3]

The next director described ethics as being inherent to his task. The following was given in response to a question about the goals he tries to live up to in carrying out his task. He considers integrity and honesty to be as important as diligence and intelligence.

I believe there are five things that directors need to have, some of them are inherent and some of them are practiced, to not get into trouble. I think directors need to be intelligent, you don't have to be a rocket scientist, but I think you probably have to have a bit more than average intelligence, there are some quite complicated ideas, materials, things that come across the board table, and you have to be able to work it through and understand the significance of it. I think you have got to have commercial, what I call commercial savvy, or commercial common sense, or instinct or value. This would be a daft thing to do; this is not going to have any value here. Sometimes I can rationalise it, and sometimes I can't, most people at board level would be expected to articulate their view. The third thing, which is maybe inherent, it may be practiced, but you have to act with integrity and be honest. The fourth thing is you have to be diligent, there is quite a lot of material which appears in front of you and you think 'I can just read the board papers ½ hr before and I will wing it at the board meeting'. [Transcript Ten p3]

In the next quote, the director is adamant that ethics is fundamental to good business and he later commented that integrity is the glue that makes business

possible. The researcher recently attended a function where this director spoke about his long and very successful business career and he repeated this same idea.

Oh heck yeah, yeah very important, because the whole of business is trust, and unless you have impeccable integrity standards you find that things sort of don't work, if you can't trust. Now I will not do business with crooks, the only time I really get burnt is when I don't realise they are a crook.
[Transcript Twenty-one p3]

The next quote reflects the idea that integrity should permeate one's whole approach to the task.

Making sure you do your homework, you are informed, you don't have an easy ride, and you don't take an easy ride; that you deliver to the greatest extent of perfection possible on time, on budget, to your customers needs whatever they are, as you have contracted to do, and that there is integrity in everything you do. [Transcript Twenty-six p2]

The next is a response to a question about whether the director had personal standards *or* goals when operating as a director. It is interesting how she distinguished between 'goals' and 'standards', equating 'standards' with ethics.

Not goals, standards I do, oh I guess personal goals as well. Standards absolutely, if there are things I don't agree with, and you must be honest, if you are part of this board team and with management you must be very open with your views. [Transcript Thirty-two p4]

The following director believes dealing with people as such, is intrinsically ethical. After this response he proceeded to explain in detail two incidents of bullying in the boardroom by quite a high profile director as examples of unethical behaviour, illustrating his belief that respect is an ethical value.

Well in my mind, the greatest thing in business is a) reputation, and b) respect. And to get that you must act in the most proper and ethical way

you can, and you expect others to act the same way. So that comes from the heart. [Transcript Fifteen p2]

Even though directors' initial descriptions of corporate governance seemed almost amoral, further questioning revealed quite the opposite. This somewhat hidden ethical dimension resonates to some extent with Rossouw's (2005, 2009) research on corporate governance regimes. Rossouw (2005) and Arjoon (2006) are of the view that ethics is implicit in any corporate governance regime because its goal is an ethical one; although some scholars disagree with such a claim which will be discussed below (Collier & Roberts, 2001).

Rossouw & Sison (2006) coordinated a global survey of corporate governance models with the purpose of gaining an international perspective on the relation between business ethics and corporate governance and found that ethics is associated with corporate governance in two different ways. The first way relates to the ethical values and assumptions that underpin a specific corporate governance regime or code. This is the 'ethics of governance' and is often not explicit but is gleaned from analysing the explicit corporate governance principles or directives. The various components of a corporate governance system such as board composition & functioning, risk management and auditing, reporting and disclosure requirements etc are the means to ensure that the organisation will act in a manner that is fair, accountable, responsible and transparent (Rossouw, 2005). Codes typically cover the following areas (Securities Commission New Zealand, 2004): Board composition and performance, Board committees, Reporting and disclosure, Remuneration, Risk management, Auditors, Shareholder relations and Stakeholder interests. This is described by Rossouw (2005) as the implicit ethical nature of corporate governance ('ethics of governance').

Bonn & Fisher (2005) concur with Rossouw's assertion that ethics is implicit to corporate governance codes. They understand direction and control of a company as involving the setting and achieving of strategic goals and monitoring how this is done according to strategic, legal, ethical and societal standards. Schwartz, et

al., (2005) similarly argue that directors are directly responsible for ensuring their organisations are ethical because of the nature of their role. They refer to them as “some of the most important fiduciaries in society” given that they are responsible for the protection of corporate assets; select and discipline senior management; approve major transactions and help ensure the accuracy of financial reports.

None of the directors mentioned ethics explicitly but it could be said that their understanding reflects Rossouw’s (2009) notion of the ‘ethics of governance’ - it’s implicit. They see their task as an ethical one. The next quote from participant Fifteen actually acknowledges the fact that ethics is built into the corporate governance framework and inculcates ethical thinking and behaviour.

Well, firstly a) that [ethics] comes in the terms of reference, which the board should have in its board agenda. Of course everyone in a public company has stock exchange rules, but even in a non-public company, or a government organisation it is taken for granted, it is engrained in you - if you have any conflict whatsoever you should immediately say I have got a conflict. And then b) that you should excuse yourself from the discussion or any influence in a decision where if you have any personal involvement whatsoever or any associate of yours involved with the company has an association... All the boards I sit on, we take it as a matter of course and we document the rules and protocols of the board, and included in these is a strong ethical dimension..... [Transcript Fifteen p2]

As mentioned above Rossouw (2005) concluded there were two ethical dimensions of corporate governance. He describes the second dimension as the explicitly ethical nature of corporate governance and calls it the ‘governance of ethics’. This refers to how companies specifically govern their ethical performance through such means as codes of ethics, ethics training ethics audits etc (Rossouw, 2005, 2009). For example the First Principle of New Zealand’s Corporate Governance Code published by the Securities Commission in 2004 states that directors should observe and foster high ethical standards; this is further elaborated in the Guideline which explains that this requires the development of a

code of ethics, a system to implement and review the entity's code of ethics and the provision of employee training (Securities Commission New Zealand, 2004). It recommends the code of ethics set out explicit expectations for ethical decision making and personal behaviour in respect of: conflicts of interest, including any circumstances where a director may participate in board discussion and voting on matters in which he or she has a personal interest; proper use of an entity's property and/or information; including safeguards against insider trading in the entity's securities; fair dealing with customers, clients, employees, suppliers, competitors, and other stakeholders; giving and receiving gifts, facilitation payments, and bribes; compliance with laws and regulations; and reporting of unethical decision making and/or behaviour. Also the NZSX Listing Rules contain the NZXS Corporate Governance Best Practice Code (Appendix 16) which recommends the adoption of a code of ethics (NZX Limited, 2010).

It was very interesting that when directors were asked about their understanding of corporate governance not one director referred to any of the ethical exhortations found in the NZSX Listing Rules nor the Securities Commission's Corporate Governance Principles and Guidelines; specifically Principle One. When directors were asked specifically about the standards they rely on in carrying out their task, they spoke about their own personal ethics and did not refer to the explicit ethical codes and processes of their organisation, the Securities Commission or the Listing Rules. This is overwhelmingly confirmed by the findings presented in Chapter Six. It seems the explicit ethical dimension of the corporate governance regime does not occupy an important place in their minds.

What could this mean? Much of the recent corporate governance reform literature is calling for more attention to be given to the personal ethics of corporate governors as opposed to rules and regulations (Huehn, 2008). This trend seems to be sensible based on the above quotes. Personal ethics have more influence than codes of ethics in light of the respective significance accorded to them by directors. It also may indicate that personal ethics can't really be codified.

These findings also provide evidence to refute the ‘separation thesis’; the view that business and ethics are seen as conceptually distinct and separate hence the notion that business ethics is an oxymoron (Arjoon, 2000). In the corporate governance context this would mean ‘there is effective corporate governance practice and then there is ethics’. Collier & Roberts (2001) argue that Anglo-American models assume the separation thesis and so are fundamentally amoral. This is because these models adopt the tenets of agency theory which assumes individuals, when given competing choices, will always optimise their economic benefits, which excludes altruism and selflessness; although some would characterise this as moral in the utilitarian sense (West, 2009).

Accordingly Collier & Roberts (2001) disagree with Rossouw’s claim that such regimes are implicitly ethical as in theory there is no room for ethics and this is why ethics has to be explicitly included. Bhimani (2008) agrees with Collier & Roberts and describes corporate governance ethics as being ‘captured’ by agency theory and just seeks to restrict and restrain the self-interested agents.

Interestingly, Bonn and Fisher (2005) and Wieland (2005) observe that regimes in English-speaking countries, in contrast to all other jurisdictions, tend to expressly add ethics to the tasks of corporate governance by requiring the development and the implementation of ethical codes.

Whether the Anglo-American corporate governance codes reflect the ‘separation thesis’ is then a matter of debate; but directors’ understandings of corporate governance on the whole do not. Directors understand corporate governance as an intrinsically ethical notion and ethics is not just something contained in the explicit ethical rules and structures of the company and/or those recommended by regulation. Ethics is an intimate part of the corporate governance context. It is interesting that participant Twenty-one equates ethical business with good business. It is also noteworthy that this point is made by the Institute of Directors in their recent publication, *The Four Pillars of Governance*, ‘running a company with consistent integrity and high ethical standards is simply good business’ (Institute of Directors in New Zealand (Inc), 2012, p. 87). Furthermore Solomon (2009) argues that from an Aristotelian perspective business ethics is not ethics

applied to business but it is the foundation of business. This will be explored in the next section.

These findings also challenge the assumptions underlying corporate governance codes and ultimately agency theory that individuals tend to act out of self-interest. They suggest that individuals actually have a sense of ethics that takes them to rise above their egotism. This makes space for the recommendation of Wieland (2005) that the approach to governance in Anglo-American jurisdictions should incorporate an ethic of enabling rather than just control. Although further research is needed to explore whether safeguarding one's reputation is disguised self-interest.

The literature suggests that the task of corporate governance is intrinsically ethical although there are differing views about the nature of the ethical underpinning (Bonn & Fisher, 2005; Collier & Roberts, 2001). Rossouw (2009) explains this in terms of 'ethics of governance' and the 'governance of ethics' which refer to the inbuilt goals of the governance code and the explicit implementation of ethical structures respectively. The findings suggest directors understand ethics to be an integral part of corporate governance. The interviews indicate that ethics is more like an unspoken attitude, something taken for granted, basic to the role and noticeable when absent. However these findings also suggest that directors rely primarily on something more fundamental than the implicit goals and explicit requirements contained in the corporate governance structure - their personal ethics. This conclusion is supported by the findings and analysis in Chapter Six which shows that the majority of directors rely on their personal ethics received from parents.

5.2 Theme Two: Legal vs. Ethical Approach to Ethics

Traditionally an attempt has been made to ensure ethical behaviour using regulation. This has included mandatory adoption of codes in a 'comply or die' context in the US and the recommended adoption in a 'comply or explain' context in most other English-speaking jurisdictions. There is doubt as to the effectiveness of this approach and some advocate an ethical approach to ethics, meaning the

development of ethical competency in the actors themselves (Arjoon, 2005). This requires a much more proactive and positive approach to ethics. It assumes that people can rise above their own self-interest and can improve. The quotes from directors in the previous section seem to accommodate this view too. Although for them ethics is taken for granted, they acknowledged that it was something positive and something to do with individual integrity rather than complying with an ethical code.

Arjoon (2005) distinguishes between a legal and ethical approach to fostering ethical behaviour in the corporate governance context. "Under a legal approach, ethics is regarded as a set of limits or something that has to be done, with the objective of preventing unlawful conduct...an ethical approach views ethics as permeating every part of an organisation's business practice and is based on individual and communal values" (p.347-9). A legal approach would equate ethics with ticking all the boxes, complying with the governance code, making sure there is a code of ethics, aiming to eliminate the potential for illegal behaviour. An ethical approach would demand more of the individuals themselves in a positive way by fostering virtue (Arjoon, 2005).

Wieland also recognises this distinction: "Corporate governance cannot be interpreted solely as constraint of behaviour (e.g., as limitation of exposure to risk). It should also be understood as enabler of behaviour (e.g., in so-called grey zones) for managing transactions with integrity"(Wieland, 2005 p.77). He believes Codes in Anglo-American countries over-emphasize management control and the defensive aspects of monitoring and neglect to foster individual integrity (Wieland, 2005).

The quotes in the previous section show directors using words such as 'honesty' 'respect', 'integrity', 'diligence', 'perfection' and 'trust'. These are very inspirational and uplifting ideas which reflect more of an ethical than legal approach to ethics. The following quote is an example of the positive attitude to ethics revealed by the interviews. This director had just declared that integrity was

a very important ethical value and the researcher asked him what he meant by that:

Well integrity is seen in your actions, it is what is right and what is wrong, and to be true to yourself, and be true to the business. Look there are many times when it would be so much easier to make short term decisions, short term profit by throwing the integrity away, and what does that make you, what do you become, I mean the lowest of the low. [Transcript Eighteen p8]

The researcher was also lucky enough to witness through an acquaintance the impressive way this participant in particular and other members of the board dealt with employees in need. For instance the above director phoned the hospital daily when one employee was seriously ill in hospital.

In stark contrast there are the references to ethics in the corporate governance code and listing rules. A perusal of the recommended content of the ethics codes reveals a legalistic approach to ethics as on the whole they are prohibiting illegal behaviour such as: conflicts of interest, insider trading, bribery and breaking the law in general. Directors' understanding of the relationship between ethics and corporate governance is much more positive than that envisioned by the New Zealand corporate governance regime.

5.3 Theme Three: Excellent Governance is Ethical Governance

Another theme is the intimate link between ethics and excellence in the context of corporate governance. There is literature which explains how in certain contexts striving for excellence is the same as striving to be ethical (Aristotle, Trans. 1976; MacIntyre, 1984). As mentioned in Chapter Three many scholars have explored AVT in the business context (Morse, 1999; Murphy, 1999; Solomon, 1993, 2009). Solomon (1992a) and Moore (2005) argue that carrying out an activity or role well, amounts to virtue and therefore is ethical; carrying out a task well is measured according to the purpose of the role, or the activity so anything which furthers the goal of the role or the activity is virtuous. This approach implies that

ethics is intrinsic to business, as the whole point of doing business is to realise the mission or the vision of the particular organisation such as providing the best product or service at a reasonable cost (Solomon, 1992a).

At the beginning of the interviews when directors described their understanding of corporate governance, there is reference to a standard which is linked to a sense of purpose or mission. The following phrases refer to a standard implicitly linked to a purpose: *and you invariably come back with a better proposal (Transcript Nine); ensure that its practices are the appropriate vehicle (Transcript Ten); formulate strategy on where you are going (Transcript Twenty-one); it's a strategic plan towards achieving that vision (Transcript Twenty-six); give a lot of damn tough coaching advice (Transcript Thirty-two); oversees that the strategic direction is right, the systems are right, the regulations and management are right (Transcript Fifteen)*. The directors' explanation of their task is very much centred on governing to achieve the purpose of the organisation.

People in business, although ultimately responsible as individuals, are also responsible as individuals in a corporate setting where their responsibilities (purpose) are at least in part determined by their roles and duties in the company, and the bottom line (Solomon, 1992a, 2004). AVT acknowledges that people are social by nature and cannot be understood apart from the larger community in which they participate (Arjoon, 2000). A company is an example of a community in the Aristotelian sense, with collective goals and a stated mission - to produce quality goods and/or services and to make a profit for the shareholders (Solomon, 1992a). Companies are themselves part and parcel of the larger community in which they operate and so should work for the betterment of society as a whole. For Aristotle the purpose of society and all the intermediate levels of 'community' are bound to furthering the excellence of the participating individuals. Virtue encapsulates excellence in that particular task and enables one to fulfil their task in the community well or excellently (Arjoon, 2000).

When directors were asked about their personal standards or how they perceive an ideal director we find some directors actually connecting behaviours which

contribute to carrying out the task well (excellence) with ethics. In fact some directors explicitly associated doing well with being ethical or responsible, fair, or having integrity.

The following four quotes show directors explicitly connecting ‘doing well’ with ethics.

Well I haven't checked the meaning of the word [integrity] in the Oxford recently, but it is honesty, it is best practice to, its principled, it is with reference to the impact of what you do on other people, it is, above all its honesty, clarity, principled Do the right thing, and it's all about delivering on what you are there for, if it is a commercial company there it is delivering growth, and an income return; if it is on a District Health Board then there is delivering on the contract you have with the Crown; if it is for a charity its delivering what the thrust of that charity is, or the purpose of the charity. So don't stuff around getting too confused about your purpose, your purpose is you know what are you there to do, if it is commercial you make a commercial decision. So I think there should be a lot of emphasis on ethics, and you know a lot of the failures were not so much lack of ethics, probably about lack of particular expertise that was needed for that particular job. And maybe part of the discussion about ethics is to take into account whether you have got skills to undertake the role you are picking up and being paid to do. [Transcript Twenty-six p2-4]

The director quoted above is emphatic about the link between doing your job well and integrity and she equates being incompetent with being unethical.

Participant Thirty who is quoted next, has done extensive research in governance in the healthcare industry. She was critical of the general apathy of directors in regards to the need to up skill and to participate in continuing education. She equates responsibility with having the competence to ask the right questions.

And I am quite sure the 'good' directors of all those finance companies, had they made that personal enquiry more vigorously and more often they wouldn't have been bamboozled, they would have actually asked the right questions. And it is a responsibility to ask the very difficult questions.

[Transcript Thirty p6]

The following director was very frank and for him doing one's best includes being fair and acting with integrity.

When I think about personal values, I think being fair is incredibly powerful and it makes people feel, sleep well at night, it's when you look in the mirror and you see yourself in the morning unshaven, looking pretty grotty, you can say 'have I done anything I am ashamed of?' and if you can say no, you feel bloody good about that. And I think that is what a team should do, give it our best on the field, what a board should do, did we give it our best, have we got the performance right, have we been fair. Now while there are no definitions of that, that might sound bullshit, I think it is actually what does drive people, and ultimately in my way that equals ethical behaviour.

[Transcript Twenty-seven p7]

In the last quote below the director also makes a sporting analogy where winning implies playing fairly.

It's on sporting fields and everything, it is the way you play the game, its, you know I have always been a cricket player, cricket has always had a great sense of values you know, captains hand on your shoulder, spoke about play the game sort of thing. And you learn a lot from that sort of ethos through games. You don't win by cheating. And that translates to business. [Transcript Fifteen p3]

The application of Aristotle's notion of excellence to corporate governors has been advocated by several scholars (Arjoon, 2005; Bragues, 2006; Knights & O'Leary, 2005; Rossouw, 2008a; Schwartz, 2009; Sison, 2011). Effective corporate governance depends a great deal on leaders being committed to such

values as fairness, honesty and integrity understood as the fundamental means to personal happiness and a good character (Arjoon, 2005; Sison, 2008). This is because the personal commitment of the leaders engenders their own moral motivation; they then imbue this throughout the organisation when they develop, oversee and communicate the organisational strategy. Rossouw (2008a) believes it is important for leaders to allow talk about and opportunity for the formation of moral character; business leaders need to make clear that the attainment of business goals is intimately linked to the moral quality of the organisation and its members.

In a corporate governance context, to accept the role as director is to accept a set of particular obligations. To assume a *prima facie* loyalty to the company, to adopt a certain standard of excellence and conscientiousness that is largely defined by the job itself. A person's integrity on the job typically requires him to follow the rules and practices that define the job rather than allow oneself to be swayed by distractions and contrary temptations (Solomon, 1992a). There may be general ethical guidelines and rules that cut across most positions but as these get more general they become useless in concrete dilemmas (Solomon, 1992a). It ultimately rests on the individual's sense of personal integrity.

So we can see from the above quotes about directors' perceptions of the nature of corporate governance (page 144) directors refer to achieving goals to a certain standard. AVT understands the relationships between the purpose of an activity or role and how well it is achieved as an ethical one. When sharing their perceptions about their personal standards and the ideal director they explicitly link doing the task well with ethics. AVT calls behaviour which furthers the goal of the role or activity as virtue and therefore is ethical (Solomon, 2009). Directors' acknowledgement of the importance of aiming to do their task well manifests an understanding of ethics which resembles AVT.

In contrast, Kantian ethics, with its preoccupation with duty - don't lie, don't cheat etc shifts the attention away from the inspirational aspect of ethics and the emphasis on excellence or doing a good job. Virtue is doing one's best and not

merely toeing the line. Kantian ethics also shifts the focus away from the actual context of the individual occupying a significant role in a productive organisation to an abstract morality irrelevant of meaning for most of the matters and motives of the company setting. Virtue ethics understands that all ethics is contextual and is able to cater for the particular person in their concrete situation. One's duties are made clear by one's roles and not by any abstract reasoning process. Furthermore and most importantly, one's character, choice and personal judgement precede one's abstract ethical pronouncements (Solomon, 1992a).

The Aristotelian approach can also be contrasted with Utilitarianism:

Utilitarianism shares with Kant that special appeal to anal compulsives in its doting over principles and rationalisation and its neglect of individual responsibility and the cultivation of character. All decision procedures neutralise the annoyance of personal responsibility. Utilitarianism's problems with measurement and incommensurability can magnify the importance of public utility and play down the significance of our personal sense of integrity and 'doing the right thing' (Solomon, 1992a, p. 324).

AVT rather than Kantian ethics or utilitarianism seems to be better able to account for the link made by directors between 'quality governance' and 'ethical governance'. The next section compares directors' understandings of excellent governance with Solomon's business virtues to further support this proposition.

5.3.1 Corporate Governance Virtues

This section is based on responses to questions about directors' personal standards and their understanding of an ideal director. The emerging themes are as follows and characterise directors' understanding of good governance: a) being informed; b) a healthy debate; c) beyond profit maximisation; d) putting the company before self; and e) trust. At the end of section 5.3.1.5 these themes will be discussed in relation to Solomon's notion of excellence in business and the related virtues. It will be shown how these themes involve habitual behaviour which sustains and improves the practice of corporate governance in a similar way in which

Solomon's business virtues make business possible. McCloskey (2006) supports this approach as she argues that Capitalism could not flourish without virtues such as trustworthiness or honesty; that virtue sustains Capitalism

The first theme: Good governance depends on directors being informed. In all of the quotes in section 5.3.1.1, directors explicitly make a connection between being informed and ethical corporate governance.

5.3.1.1 Being Informed

The first quote is a very long one from a director of a top New Zealand listed company. I have included it because he was intensely proud and passionate about this company's approach to governance (full involvement) and scathingly critical of how he perceives the quality of many boards (too hands off) in New Zealand. Ultimately he explicitly equates being informed with being ethical.

So the board is experienced, passionate and understand the business. We meet every quarter and a board meeting lasts for two days, and could be anywhere in the world, in fact the June board meeting they will fly to a city in China for a day's board meeting, they will then fly to a city in Europe for a day's board meeting, then they will fly to a city in the US for a day's board meeting. Each one of those board meetings will be held in the facilities of our operations in those countries, and they will meet the team, they will hear presentations from senior members of that business, and they will likely meet customers, and they are likely to meet everybody who works in the business afterwards where they will stand around and maybe have a drink and a sandwich together, and they will have lunch in the team's cafeteria in each one of those operations. The last board meeting was in a city in New Zealand in March, and they were there for the opening where we had about 150 customers, and we were mixing and mingling amongst those customers. So each board meeting no matter where it is held, they spend those two days hearing from the leaders of each of the business units, understanding the business. The business has a weekly profit and loss structure reporting system where over XX branches from around the world

call in their profits and losses on a Monday night/Tuesday morning for the previous week, and the directors all receive a copy of that by email by Tuesday lunchtime. So they understand how every branch in the organisation has gone for the week before, and are handed that information on a regular basis, on a weekly basis. So we've got them in touch..... If we had a board of people who didn't know anything about what we were doing or didn't know how to implement the strategy, or didn't know the nature of our business, or what you were trying to achieve, I can guarantee that we could have sat here and argued about that major strategic decision, and at the end of the argument they'd want consultants and merchant bankers to be advisors. We didn't have that. We worked very closely with one team of merchant bankers, but our board was able to make these decisions like that, like that, like that, because we knew what we were doing was right, and it is right because we now have a business which has revenues of \$X billion, and that is because, I think in my time, since 1978 we have done over 20 purchases, and that is because we have a strategy, we stuck with that strategy and more importantly we have had a board who knew how to implement that strategy. Not just throw vague ideas in the air and say oh we are here to strategise. Strategise is just a bloody talk fest.....Because we have a strategy vision, we have vision to become global, fully global, a New Zealand company going truly global. And a symbol of what we can achieve, is this BBB deal (foreign business purchase) we did, that we had a board that was able to move very, very quickly in public..... So board members who sit around this table, the XXX Ltd table not only have to know strategy, that is just a word, it is how you implement that strategy, and how you do it quickly and efficiently minimising business risk, and thereby enhance shareholders

R: So, some people keep saying, like you have to be careful not to encroach on management, that directors...

That is just absolute rubbish..... But to have them intimately involved in the business, understanding the business, it allows them to make

better, quicker decisions for the betterment of the growth of the business.....God how can you have ethics if you don't know what management is up to. I mean there is a lot of catch phrases that are going around in boards at the moment, you are getting people who don't know what they are talking about, who are trying to form an opinion on nothing. How can you have, how can you know that someone is doing something unusual if you don't know the actual business you are in. I can tell you I know that if our employees do X that is unethical to me to allow that because they could harm somebody. But you would get directors who know nothing about KK, the rules and regulations that go with KK, it is not the corporate compliance that we have to deal with the NZX, it is how we conduct ourselves as corporate citizens, what we do with our contractors, what we do with our people out there. You just can't do that if you don't know how this business works, and that means you have got to know something about management. And by the way, all our directors are expected to be here and talk to him; if they don't (Managing Director also present) he gets very grumpy. [Transcript Thirty-four p6]

The next director equates being informed with being responsible.

So yeah there is a sense of responsibility for what you are doing. You can't just turn it on and off; you would be amazed how many people on a board walk away when things get a bit difficult, they will say 'oh no it is too hard'. I have had that happen on boards I have been involved with, people who when the going gets a bit tough they turn around and just walk out. But you have got to balance that against knowing what is going on in a company and being responsible for it. Because if you look at all these finance company collapses, these high profile directors, most of those guys didn't have a clue what was happening.....I think that is a golden rule in terms of being a director, you have to actually understand the business your company is in, but you actually have to be totally up to speed with what the company is doing and what its financial situation is at any time, and so on and so forth. You can't

just operate without having that basic understanding of what is going on day to day, and month to month.....And if you don't, if you are not prepared to keep up to speed with what is going on, you are entitled to rely on some people to a certain extent, but you shouldn't take on a role, you shouldn't do it if you are not prepared to understand the business.
[Transcript Two p8]

The next quote refers to how ethics drives one to act for the good of the company and how not being informed makes you unfit for the role.

Well actually ethics drives all of the personal standards that I just said before around actually making sure that you are not shrinking or standing back, or worried about something; [ethics requires] that you actually raise it. It also has a big role in making sure they understand that they're acting for the good of the corporation (p4)..... And I think in New Zealand and I suspect the world, there are two camps of people, there is the first camp where probably 99% of people sit, where they are very, very conscious of their responsibility, and try to discharge it to their utmost, and then probably I am guessing maybe 1% or 2% of the population that are using it as an opportunity to just extract stuff for themselves or for somebody else. You don't take a board position in New Zealand because you are going to get money, retire on the income from your position by any stretch, you take it because you want to do some good, or you take it because you, and this is probably the 1% or 2% you want to extract some opportunity for yourself and you probably shouldn't, that would be the only two reasons why you would do it (p4).....You do truly and I really do believe this now that I have seen it a bit, you do actually have to understand the business model of the organisation that you are on the board of. And you need to understand the strengths, weaknesses, and where opportunities stretch, you need to understand how does the business actually operates, where cash comes in and cash goes out, how that all works, and how you create a profit out of all that, and what sensitivities are involved. If you can't, if the business isn't in a space where you can't get that then you shouldn't be sitting on the

board no matter what your other contribution could be. [Transcript Twelve p7]

This next director associates being informed with being responsible.

Most of the directors that I work with do not consider being a professional director their job; they consider it as some sort of add-on. If they considered it their job, as with anything else they would keep themselves up skilled and current with whatever they are doing. So accountability for example is getting that education. It is making sure you have the right experience, it surprises me the number of directors who don't have a clue what happens in the business. They don't go and say could someone give me a tour of x, y or z. I want to be current in this. I organised a tour of the new XX unit, a home training unit we have put in at YY, my clinical background is ZZ so I have an interest. But not one other director or board member thought maybe it would be of interest to go and have a look, to actually get some idea of what it was that they were talking about, and what it was that was costing us X million per year. So I think there is that responsibility, and in terms of probity, yeah I think you do have to have, or demonstrate some qualification. And making some of the decisions we expect them to make they need to be up to scratch, meeting whatever the current standard is and so forth. So yeah it is a director's responsibility. [Transcript Thirty p3-4]

From the above it can be seen that being informed is a necessary quality for governing the organisation to achieve its purpose. In this sense it can be described as a virtue. This is because, as was explained above, AVT as developed by Solomon (1992a, 2009) designates behaviour which furthers the goal of the role or activity as virtue and therefore is ethical.

The next section presents theme (b): contributing to a healthy debate is essential for reaching the best or right decision for the organisation.

5.3.1.2 Healthy Debate

Most directors emphasised the importance of being able to contribute to vigorous debate around the board table so as to facilitate the making of the right or appropriate decision. Within an AVT framework as this is behaviour which furthers the goal of the practice it amounts to virtue and could be characterised as ethical behaviour. Whether it be asking the dumb question, being able to articulate a well thought-out view point and at the same time being open to others points of view. The following four quotes are representative of most participants:

So as a director you have to basically understand, and to have a point of view, you are paid for that point of view, but if everyone else thinks differently that is fine. And that takes a bit of training. So that is one thing, the other thing is boards work best in my view, where there is a diversity of opinions, and a diversity of background, so that you get people lobbing ideas that make you think. This is confidential but one of the best directors I worked with is a guy called XXX, who you have probably heard of.....And XXX's great ability is that he just thinks differently to people. So when he lobs something in it makes you think, and sometimes after debate you realise he is wrong, that is alright, I mean at least you have thought it through. So that to me is the most important thing, it is just getting that diversity of thinking so that you reach the right decision in the end. [Nine p2]

The director, to whom participant nine referred, is a long-serving founder/director of one of New Zealand's most well known companies. This made the point even more powerful – 'doing well' is about contributing to a constructive discussion rather than pretending to have all the answers.

You have to, you have to get your position and think it through very clearly before you get to the board table. It is no use making it up in there, sort of bouncing from one argument to another, you've got to sort through your logic, you've got to articulate your logic, you've got to stay open minded, in

other words not get defensive, thinking maybe I have missed something.

[Transcript Ten p4]

In the above quote the director emphasises how much the pre-meeting preparation contributes to a fruitful debate in terms of ensuring there are independent views which are well articulated.

But I have had situations where there was quite a heated debate, around a probably relatively important thing, and I didn't actually say enough because I felt too newI just, yeah, it wasn't so much that the decision reached was one that I felt was an unethical decision, I just think that it's wrong to do that, you are paid to have a point of view, and to express it when it is appropriate, and I don't think I lived up to my standards on that. [Transcript Twelve p9]

The above quote shows that this director understands that contributing to a healthy debate is part of doing a good job and at the same time forms part of her personal ethical standards.

And if you come around this board table and you don't know what the topics are on the table, our chairman who sits there he will rip you to pieces. He will rip you to pieces, and this is like a piranha tank [Transcript Thirty-four p5]What he is saying (two directors present) here is that there is great debate, so you know we expect the directors to be informed and then we will have good vigorous debate, and find an outcome that is right for the company, and then once that is done, you are right behind that outcome. [Transcript Eighteen p6]

Again we see how important the quality of the debate is in order to reach the best outcome.

All of the quotes above show how directors understand that governing well depends on having a serious and thorough debate; which in turn requires the possession of a range of knowledge, abilities and skills. According to Solomon

approaching discussions in this way could be understood as a virtue in this context (Solomon, 2009).

Theme (c) relates to the purpose of governance. Many directors were found to understand that ideally governance entailed achieving a broad range of aims in addition to profit.

5.3.1.3 Beyond Profit Maximisation

At least thirteen directors revealed a contextual understanding of the mission of the organisation; that the organisation does not operate in a vacuum but is part of and impacts the wider community. They expressed quite a broad understanding of the phrase ‘acting in the best interests of the company’ - that it is not just about maximising profit. It is interesting to note that this understanding is more inclusive than that contained in the literature on corporate governance regimes in English-speaking jurisdictions. On the whole the literature describes the regimes to be in practice, shareholder models, focused on the maximisation of shareholder wealth with varying degrees (in some cases minimal) of stakeholder recognition (Blackmore, 2006; Ho, 2010). The following four quotes illustrate directors’ understanding of the purpose their role.

The first quote is from a director who has a legal background, specialising in corporate governance; and so the fact he gave importance to the stakeholders was even more surprising.

So if you are a director and you know, and for your own sake, say for your sanity and for your safety in terms of being sued by people or be held accountable, you think well I should get out of that. But if you have got several hundred employees depending on the company for their living, and you have got a whole lot of trade suppliers depending on the company keeping going for them to get paid. So what do you as a director in those certain circumstances? Do you take the easy way out and say well I am out of here which is I think what most people will do and then the receivers are appointed so no-one gets anything.....So you really have to act in a way that you are doing your best for not only the company but to

that extended group of people to some extent, but only to some extent. And I think that is what we did in that situation, we came up with a solution that was in the best interests of the company without a doubt, but it was also in the best interests of those stakeholders. [Transcript Two p11]

This next director is the founder, chair and for many years was the CEO of the organisation. But the researcher detected that it was not just a business cause for him and she sensed a genuine desire to inspire employees and ensure they also considered the organisation their cause.

See I think a company is not just a profit-making enterprise; a company is almost a cause. It is a social unit and I think you have got to have an emotional attachment, and I think that is to be encouraged. And there are some who turn around and say you don't get emotionally attached, it's a job, and it's an entity. But I think you do get your best results if you do get emotionally attached, at the board level as well as at the senior management level so I love that directors will get pleasure out of seeing senior management come through and take on increasing responsibilities, or middle management, even lower management. And that they get pleasure out of the ethos, the culture that is in the company; and actually we will be later doing a workplace survey just to try and get a regular measure of that. [Transcript Six p5]

The next quote is from a director who has served as a director in several different countries, mainly in the Energy sector, and shared experiences which showed he was genuinely concerned about the negative impact companies can have on the lives of people.

The more difficult aspects are when you are faced with subjective judgements of management which you feel inherently uncomfortable about because of the consequences on other humans. And so in industries where the ability to push the boundary for the purpose of the bottom line is quite flexible, I have been challenged personally and I have actually decided to

leave boards where I think the boundary has been pushed too far in the favour of the bottom line, as opposed to the social underpinning consequences of the business. [Transcript Fourteen p3]

The following director's governance career is characterised by a continuous effort to provide career opportunities for youth with talent but the 'wrong' background. This may reveal an interest in employees well beyond the needs of the bottom line.

Well they used to say, this is at XXXX, when I ran XXXXX (subsidiary) for YYYY that I'd employ young ambitious poor people, and they would really strive when they were given the opportunity to succeed. 30 of them ended up chief executives in New Zealand or around the world, and I gave them the opportunities, and some of them have done extraordinarily well and run big corporations. It is just getting a person to follow their dreams and go for it; that is part of being a CEO. [Transcript Fifteen p7]

The above quotes present directors who are very passionate about achieving many goals through their task of governance. They have not lost sight of profit but they exhibit a desire to achieve much more than that - to go beyond the legal minimum and to do well by those affected by the organisation. Mainly they are concerned for people - developing people's careers, corresponding with loyalty to employees, paying a fair wage, looking after creditors, and making profit safely.

AVT can ultimately be reduced to 'respect for the other' (and oneself at the same time) because consistently treating others with respect is a distinguishing feature of a good character. Virtue takes a person to respect the other, whatever the context. In the words of Solomon 'the Aristotelian approach to business ethics is, perhaps, just another way of saying that people come before profits' (Solomon, 1992a, p. 338). In exploring AVT for the business context, Solomon describes virtue as an excellence which orientates the individual towards 'the other'; virtue is an exemplary way of getting along with other people (Solomon, 1992a).

Theme (d) relates to the supposed basic driving force of business - self-interest. The way directors referred to such behaviour made the researcher associate it with leprosy.

5.3.1.4 Putting the Company First

Thirteen directors equated acting out of self interest with being unethical. This of course is logical but it does confirm the point of Solomon (1992a) that ethics is all about fulfilling one's assigned role well, putting aside one's own interests.

The first two directors appear to be baffled by directors who use their position to enrich themselves at the cost of their shareholders or employees.

I didn't think those guys were ethical in what they were doing, they were acting out of self interest and they were bordering on being dishonest. And that happens; there are so many people that have self interest in these situations. [Transcript Two p13]

I don't know any of them (directors of collapsed finance companies) personally, I don't understand what motivates them to take other people's money and spend it like it is their own. But I can only assume that it is greed, you know there was a bubble there, a financial bubble that it all seemed too easy, you know I think when it seems that way, that is when those ethics need to kick in. [Transcript Eighteen p12]

The CEO in the following quote looks at integrity before skills when selecting a director.

(I think a good director is) someone who puts the cooperative first. Naturally the first thing they would say well is that the right thing for the cooperative as opposed to, is this the right thing for me, my mates, or whatever? And that is something that is at the core of being a good director. So that is what we would look for first, does he always put the cooperative first before himself or herself. And then the next thing will be the specific skills that we are looking for, and the track record of exhibiting those values. [Transcript Twenty-eight p5-6]

The notion of virtue or excellence precludes habitually self-interested behaviour. The above quotes convey the view that the presence of such a vice or multiple vices would make that person unfit to be a director. This highlights the importance of appointing directors of good character for achieving good governance. The next theme (theme e) is that directors understood trust to be an indispensable foundation for good corporate governance.

5.3.1.5 Trust

Eight directors placed significance on mutual trust around the board table. According to Solomon (2004) the virtue of trust creates a certain type of relationship whose viability depends on the excellent character of both of the parties. And in fact some of the directors in the following quotes make the 'bestowing of trust' dependent on the integrity of the other person. Four quotes are set out below.

The first quote shows how a director cannot and is not willing to work with directors he cannot trust. To be able to trust the other directors seems to be essential for the proper functioning of a board.

I suppose an ethical problem I had was when I was actually chair of YYY. Where suddenly the CEO was in court for using taxi chits from the previous employment he got. He was still using them after he had left the job and he was caught. What do you do? And because he was not named, and he got fined, it was a private matter. I looked at that and I said well I have a problem here, so I quietly gave notice that I will be retiring in a couple of month's time.....I know it was before the end of my term, but I had other things I had taken on and I made sure, you know they have the right person in its chair after me.

R: So what ethical principle made you get you off that board?

Well because how could I trust the CEO again? [Transcript Fifteen p4]

This next quote explains why trust is so important - because being a director is being part of a team and imposes a shared responsibility.

Although we had reached a consensus the chairman of the company would change it a little bit so that it was more the way he thought you know. So restating the facts all the time, you just can't have that, and you know might happen once, might be a mistake; second time maybe a bit more scrutiny and so on. But there was a series of those points, where I had lost trust and confidence with people around the table and so I wasn't going to be part of that. and so it is, it is a team effort you know... .. you have to have trust in all the others, you can't just sit there and say these are my views, these are my values, but nobody else has them so what. It has to be a shared responsibility. [Transcript Three p9-10]

In the following quote the director views trust as *the* essential quality to help the board function.

I still have to think about the vast, vast, vast majority of people that I sit around the table with about which I have never had a question; and in truth the most important one for directors is honesty and integrity with each other. We don't do deals; we don't go and negotiate in back rooms; we don't sell things; we don't buy things; we don't set up advertising campaigns. We provide governance oversight to the management to do it. What we want to know is that they conduct themselves honestly, straightforwardly and with proper respect for everybody they deal with. So that leaves me sitting in a board table with half a dozen or so others, what I need to know is when someone says something that is what they mean, what they tell me I can trust, they don't walk out of the room afterwards and say I just said that because the rest of the board wanted me to say that, or actually I don't really believe it. That's just, that's all I need probably, or it's largely what I need. [Transcript Ten p5-6]

This next quote shows that the first sign of untrustworthiness is a sufficient reason 'to walk'.

I know a guy on the YYY board called XXX and in the very early days was on the Nathan's board (a finance company which recently collapsed and directors sent to jail), and he resigned because he did not trust the board running the company; he got out of there as soon as he could. You know he said, that was his judgement call, because he couldn't trust some of the people around the table. [Transcript Nine p7]

As will be discussed below it can be seen how excellence of character is indispensable to be able to operate as a board; personal integrity is essential for trusting relationships and therefore fruitful board dynamics.

From the above quotes in this section the following themes characterised directors' understanding of good governance: being informed; a healthy debate; beyond profit maximisation; putting the company before self; and trust. What follows is a discussion on how these ways of approaching governance can be characterised as virtues in the Aristotelian sense. The Aristotelian approach presents ethics in a very positive way (Solomon, 1993, 1999). Ethics should not and does not consist of a set of prohibitive external principles but is an intrinsic part and driving force for one's whole life; it is a life well lived which includes fulfilling one's professional role excellently or virtuously (Solomon, 1992a).

Solomon (1992a) argues that Aristotelian ethics is a colourful, multifaceted appreciation and engagement with other people in the world. Solomon's business virtues encapsulate specific types of ideal behaviour important for achieving excellence in business. *Honesty* is a virtue because it represents the ideal of straight dealing, fair play and open inquiry. *Fairness*, meaning to give and receive something of equivalent value, is absolutely required if one expects to engage in the relationship again. *Integrity* (honour) is not so much a virtue but is a sum of the virtues, one's character as a virtuous person. Honour or reputation is the basis of trust (Solomon, 1992a). *Toughness* is having a vision and persevering in the long term plans and strategies necessary to achieve that vision. Its opposite is incompetence. It is neither opposed to integrity as toughness is a proper sense of

purpose, insulated against greed as well as weakness. Sometimes this is called moral courage (Solomon, 1992a).

Moore (2005), exploring the work of Alasdair MacIntyre, explains this in a different way. The goods of excellence (treating people well and work well done) are derived from the exercise of virtue and the goods of effectiveness (prestige, status, money) are not at odds with one another. They are not mutually exclusive but the good life (in the Aristotelian sense) requires that the former be privileged over the latter. If excellence is the main motive of the action and not just self-interest, this renders the act ethical.

The above themes ((a) - (e)) to a certain extent reflect behaviours described as virtue by Solomon. *Being informed* or having a thorough understanding of the issues and the business itself: this corresponds to the virtue of 'toughness' - putting in the necessary work and implementing the appropriate strategies to achieve the company goals. This would include making sure one is up to speed with the business and related issues and would revile incompetence which has been a common problem in New Zealand corporate governance failures.

Contributing to a healthy debate: This behaviour could be classified as a combination of 'honesty' and 'toughness'. To be able to make a useful contribution one needs to be informed but also one needs to give their honest opinion and be open to others' views. This whole process has to be fair and should not involve the wheeling and dealing characteristic of politics.

The goal of the company is broader than just maximising profit: directors gave a lot of importance to people and according to Solomon this is an intrinsic aspect of virtue; ultimately a good life is about how we treat people whether at home or work.

Putting the company ahead of self: this reflects the virtue of 'toughness', particularly being strong in the face of threats and temptations. It is a proper sense of purpose, insulated against greed and weakness.

Being trustworthy and being able to trust other directors: This relates to the virtue of ‘integrity’ and ‘trust’ itself. Integrity is more like a product of having many virtues and is akin to having a good character. Such a person is faithful to their responsibilities and will not be swayed from carrying them out. A trusting relationship depends on the character of both parties but being able to trust is a basic human virtue and a basic human need. This does not just refer to trusting someone to do/not do something specific but a general trust that they will act with integrity in all matters. A person of good character needs to choose the company they keep especially when having to work in a team which bears collective responsibility for the money of others.

So from the above we can say that directors’ perceptions of ideal corporate governance behaviours are not dissimilar to Aristotelian virtues as developed by Solomon for the business context. In this sense directors understand ethics and good corporate governance to be inseparable.

5.4 Theme Four: The Complexity of Ethics

The previous section explored how ideal corporate governance behaviours could be interpreted as different aspects of excellence in the Aristotelian sense. This section presents responses by directors when asked to describe situations which made them feel uncomfortable or which challenged their own standards. They were encouraged to elaborate on how and why they made the decision they did. On the one hand directors found it easy to give examples of situations. But on the other hand they found it difficult if almost impossible to explain (and remember) *how and why* they made the decision they did, i.e. how they felt, what they thought about, the reason for the decision, the influences etc. This may indicate that there is no one procedure or rule they follow and that being ethical is a complex task and depends on the circumstances. The following dialogue with a director began when he was asked to describe how his approach to ethics differed between work and home.

No, no. Again it comes back to this, life isn't silos; life is just life. And then, sorry just going back to one point, you know the lawyers tend to

silo things, so you look at the legislation that's being enacted, it tends to silo things very well because that is how lawyers think. I am not picking on lawyers, but that's how regulators work, you know they say well what are we responsible for, that's in our silo. But as a director actually you basically have to be horizontal not vertical. [Transcript Fourteen p9]

He seems to be saying that ethics is just part of you and therefore part of your whole life. Previously he had said *I don't tend to think in silos, so I don't think of one situation as an ethical issue and another situation as not involving ethics. I think what you do is you bring your character and your reputation and your values to a boardroom and you choose to act those out without bias on any issue (p3)*. So ethics is about just being yourself. What follows is an attempt to get this director to share the why and the how, and as can be seen he could not provide anything specific.

Well you, if your integrity is challenged, and I can only relate to a certain circumstance, an example being where another director challenged the, the way something happened, and they re-wrote 'history', and you listen to it and you know that actually the way that this is now being cast and promoted is not actually what happened, you are faced with a simple binary decision, do you speak up or do you agree. If you stay quiet you agree, you are agreeing by staying quiet, so you face a personal choice. In my circumstances I did and I would speak up, primarily because I think truth is a lot easier to defend than untruth, you know it is just simple. So in those circumstances I spoke up and actually got kicked off the board, but actually that was a good outcome as far as I was concerned.

R: So that was, when you spoke up did you know that was a possibility, you might be kicked off the board?

I suppose I did, but I really wasn't thinking about that. You know I was sitting there as an equal, or as a semi-equal because I was really a major

shareholder, but I was sitting there as an equal and my responsibility was simple, I had to speak up.

R: And did you feel, did you feel anything, like did you feel indignant or a bit humiliated?

No quite the opposite actually, it was quite liberating.

R: Oh you enjoyed it, okay, and did it take you long to make that decision?

No, it was spontaneous.

R: Spontaneous, and so what sort of principle did you call on?

It was the right thing to do; it was the right thing to do. [Transcript Fourteen p5-6]

The next quote of another participant shows that he had never really thought about whether his own behaviour was ethical until it was made public which suggests that a lack of reflection could explain the general inability to articulate underlying reasons for previous decisions. There is literature which suggests that management executives are quite unreflective when it comes to topics such as ethics: ‘We were often fascinated by the way in which businessmen were able to hold two, for us, contradictory views without themselves perceiving any conflict between them’ (Nichols, 1969, p. 250) and Jackall (1988) and Bird and Waters (1989) found that corporate managers tend to avoid moral reflection and discourse.

The hardest thing I have ever experienced- I got interviewed, someone got into my office because I take every interview on, TV Y, cameras were rolling and the lady lent forward and said you do a lot of XXX (use of legal but perhaps unethical techniques) in your business? You know, I couldn't, well I didn't understand it, you ought to watch it, I acted really, I reacted just totally out of surprise you know,Yeah, hey I was totally ambushed but that is not the point. The point is it felt most uncomfortable,the point is that it tested me, yes I did, well I mean I allowed my staff to do this, but I had never asked myself that

question. (Was it ethical or right to allow those practices?). [Transcript Five p28-29]

The next quote shows again how difficult it was for this same director to describe how he makes decisions. The terms judgement, instinct, experience and values are mixed in such a way that does not mean a lot. This may indicate that in the crucial moment it is a complex process which is only understood by that person in the moment.

Yeah but I, you know we acted in good faith, we acted honestly how we could, how we think we could have saved more, more to protect the most people. But everyone, most people in New Zealand might have made a different decision; that is where we had to exercise judgement.What they said is we should have blown the whistle around the world. And then the XXX government would have actually listened. You know we said look lets act quickly, lets act quickly and get all the product off the shelves rather than those are judgement calls you have to make but you let your instincts, your experiences, and your own values drive those decisions. You know I will stand up in front of you and I think we made the right decision you know and we made, that's fine, I am comfortable with that you know, but you have never been in the position either. [Transcript Five p30]

From the above quotes we could surmise that ethics in corporate governance is complex and messy. In fact Crane (1999) uses this as a reason for advocating the need to take a qualitative approach to capturing morally relevant organisational phenomena. As Bragues (2006) asserts human behaviour is messy and unpredictable and to act well one needs certain sensitivity to the particular good of the people involved and to the contingency of the circumstances. Rules and codes are not adequate to deal with such complexity. Aristotelian phronesis would seem to be very useful in this context.

‘Aristotle thought that it was ‘good judgment’ or phronesis that was of the greatest importance in ethics. Good judgement (which centred on

perception rather than the abstract formulation and interpretation of general principles) was the product of a good upbringing, a proper education....what is required in and every particular case is the ability to balance and weigh competing concerns and come to say a 'fair' conclusion. What's say fair is not the outcome of one or several pre-ordained principles of justice, it is a judgement call' (Solomon, 1992a, pp. 328-329) .

So it is quite difficult to isolate ethics from governance; it seems more like an underlying attitude which permeates every action. This highlights the need for developing an ethical capability like phronesis rather than relying solely on rules for guidance.

What follows are descriptions of 'ethical challenges' shared by directors. It is interesting to note the variety and novelty of the examples. The following selection of quotes tries to depict the diversity of situations which were perceived as ethically challenging. In the first two quotes the directors were able to point to the reason for their decision. It is interesting that these particular participants showed more confidence and clarity of mind and expression in regards to their ethical stance when reflecting on their experiences. In this sense they differ from the quotes above. Maybe they could be described as wiser in the Aristotelian sense. This first one for example shows the ability to see how his ultimate decision relates to the value of honesty.

Going back to the very first significant board appointment I had, I resigned because I had a difference of opinion. I actually had a disagreement with the way, in this particular instance that the major shareholders in the company effectively controlled the board of directors, and of the two people, or three people on the board, I was the only one, (and it was a public company, a listed company), that actually disagreed with the way they wanted to account for some transactions which were related party transactions. These days they wouldn't, they wouldn't even be allowed to do what they did back then. They did it, I disagreed with how they treated it

from an accounting point of view, I challenged it, I argued with the auditors about it, who, back in those days there was no separation of auditors and accounting advisors, and obviously the auditor did what they told him to do because he wasn't going to have the job if he didn't, that sort of thing went on. So in the end I believe they were doing something that wasn't really honest, basically dishonest, so I said I didn't want anything to do with it and I resigned, and so that's, it is just basic honesty. [Transcript Two p7]

In the next quote the director is firm and clear about why the decision was made—loyalty to employees.

We looked at merging the company with another company about three or four years ago, and it was a company that was about the same size as ours was. So more sort of XXX rather than YYY, and there were a lot of synergies between the two. They were based in a close city; they had a whole lot of land, a lot of space there, and we were being compromised here with space but had a very strong and loyal workforce. And the idea was when we amalgamated we would close down the site here and move the manufacturing capacity to the other city. A lot of the senior management would go down, some would end up with better jobs, but most of the factory staff would or couldn't because of family connections, Polynesian staff you know, family and church is very important. So probably about two thirds to three quarters of our staff would have been made redundant as a result of the merger and a whole lot of fresh people would have been employed in the other city. We said no; that was too high a price to pay, ethically we weren't prepared to do that. The staff up here had been here from day one and for the first five years, worked hard and supported us when the company was growing under a lot of stress and weren't being that well paid; we weren't prepared to dump them. So we said no to the merger. [Transcript Six p9]

In the next quote a director (A) tells the story of another director (B) who acted ‘very unethically’ (according to A) by bullying fellow directors. By pure chance B had been interviewed by the researcher a week before. In his interview B had placed great importance on respect for people and animals. However his (B) behaviour as described in the following quote does not seem to reflect what he said. Upon reflection the researcher feels that this director (B) was not trying to cover up anything due to the frankness of the interview. She in fact had written in her journal that she had never interviewed anyone so straightforward (see Journal March 2 2012). Could it be that he does not register or recognise this poor behaviour as unethical? Does this point to a lack of phronesis? It is noteworthy that director B was one of the three directors who understood ethics to be more about duty and rules not character (see end of Chapter Six).

I will give you an example of XXX ltd. Well the chairman (B), he is still the chairman, used to belittle his chief financial officer to the point where two directors, one of them was Z, you know the one that is with PPP, and they both said enough is enough chairman, you are acting in a manner where you are bullying executives, you are acting in the most appalling manner, and quite frankly we don't want to work on this board or with you. So we resign. So that same chairman was also the chairman of the YYY ltd and the CEO of YYY was recounting the story (above) to me. I used to work for them way back in the markets days in the 70s. This CEO had an argument with this chairman (B) and so the chairman took a bottle of sparkling water and poured it all over the CEO in front of the board. He said 'You know how long can I work with a guy like that?' So Q his name was, quietly left and found another job within the next three months; he said 'I don't need to work with a chairman like that'; so there are people who have got different sort of ways of looking at things. Some of them are quite unconscious, they are incompetent. [Fifteen p5-6]

The next quotes from four directors represent the wide range of governance situations in which directors felt they encountered an ethical dilemma, highlighting the interconnectedness of ethics and governance. These examples

also show that directors had to exercise their ethical judgement because of the existence of ethical and unethical options, all of which were legal. The need for the exercise of judgement and discretion arose constantly, highlighting the need for a well-formed judgment. The key to good governance seems to revolve around judgement.

What follows are four examples provided by one director, of situations where the existence of a range of legal options still contains the possibility of acting unethically; operating in a legal space does not eliminate the need to have to make an ethical judgement.

- 1. A new computer system, you will get a paper up from management, we think all this here is deductible expenditure, and this here is capital (non-deductible), and so there are assessments being made there. You know some good questions are being raised, how have you gone about that assessment, have you taken some independent advice, we are talking about a multi-million dollar worth of 'capex', if you get that wrong there is a lot of income tax involved.*
- 2. From time to time organisations receive unintended benefits, you know we get a shitload of widgets and never get invoiced for them. You know those things occur so, they do occur. I remember some time back when an organisation which I was involved with was not charged for a large amount of product supplied. So the organisation created a provision that it was charged believing that it would come in. And about 18 months later it still hadn't come in, and there was a large provision sitting in the balance sheet, and the discussion was held around well shit it doesn't look like we are ever going to get charged for this, and the impact of saying let's just lose it would be an increase in profit, but in fact, and it was quite a lengthy agonising discussion around the table about whose problem it was. At the end of that discussion I think unanimously, reluctantly in some cases, the decision was we have to get back to this supplier and say what are you doing, this is crap, we have been waiting to pay you, and they did. And it was an incredibly*

favourable response from this guy, not just in the sense that they got paid something they didn't know they were getting, in fact it really strengthened the relationship from then on out, so that was a small example I think of the sorts of things that you are faced with.

3. *A sort of example I've given, I might have told you this one where an associated company investment, stop me if have already mentioned this, the young lady looking after books got addicted to pokies, and she started dipping into the tin, and she was very advanced in her accounting qualifications, and a very nice pleasant young lady to boot. So what do you do, how to you handle it, when do you go to the police, when don't you?*
4. *Another thing is when you have got unequal power, and this one really bothers me, if I took an example of YYY Ltd, a little two bit business that does some GGG, renegotiating BBB prices with a supplier XXX, right? So what do the big boys do, they come and beat the shit out of you. That is the game they play, and if I was XXX I guess I would understand that, but we're, and I am only using this is as an example because XXX is a very ethical principled company, but they are very tough with BBB prices, as the court cases will show, and there is power disparity there, and so that is quite intimidating, and I am only using them as an example. Whether you are the little fellow, or you are the big fellow, are you unreasonably using your unequal power? [Transcript Twenty seven-2 p14]*

The following director laments how being legally over cautious swayed him from doing what was ethical.

And we had an outside contractor that was in painting some ceilings or fixing some ceilings one weekend, and one of the young lads up on the boon must have pressed the wrong button and went against something, anyway he got killed. So there was an accident in the workplace. So it wasn't one of our staff, it was an outside contractor. The chief executive of the company rang me and told me what happened. And then he said well the lawyer's

advice is not to go to the funeral of this chappie because he wasn't an employee, we don't want any suggestions of liability or anything like that. And I took that advice and I thought afterwards that is a load of bollocks, I should have gone, because what would it have meant to the family of that young man, if I as chairman of the company had gone to the funeral. So we were coming from a legal approach, when actually there was a very moral consideration there that should have overridden that approach. [Transcript Six-2 p5]

The same director reveals how a genuine interest in what is best for one's employees makes a difference when it comes to implementing employment law. This could be an example of how virtue assists in judging how to apply the law to a particular situation, which is discussed in more depth in the following chapter.

About three, four years ago a long term employee came and explained she was struggling health wise, and asked if she could do a four day week, so the company agreed to that, so someone else had to come in and work the one day she wasn't there. Then about a couple of months ago she asked if she could go down to a three day week, and the chief executive rang me and said I am not very comfortable about this.....So I look at it, I said let's see if we can put parameters around that, she is 66. Then we decided that it would be better if we did let her go but with a good generous redundancy package and she has got six months redundancy. Technically we could argue that she is not being made redundant, she is leaving because she wanted a three day week and we said no, but we have treated it like a redundancy anyway. Now she rang me up and said she had been made redundant, and she kicked up about that, I am very upset. I actually knew that, it was my decision, even though she is upset. She has grandchildren moving to Auckland, I know a bit about her family and circumstances, and once she actually leaves and gets into the grandmother role, and it is easier on her health and all of that she will be better off for that. So I am happy that ethically I have made the right decision on that, at the moment she

wouldn't see it that way, but give it six months or a year, she'll say that is the best thing that could have happened. [Transcript Six 2 p10]

This next quote presents the dilemma of dealing with foreign companies where bribes are part and parcel of doing business. This New Zealand company was not doing anything illegal but it was the ethics and ethical judgement of one person which helped recognise and address the ethical issue in that particular business context. Furthermore it took one person of good character in an important position to help preserve the ethical culture of the organisation. The importance of directors' personal ethics for organisational culture is discussed under Theme Five in the next section.

I guess that (XXX country) one was a real good example because I came into new business, you know became a new manager, and heard about, you know just sort of off the cuff, of course, and I said something, why is that payment, I thought we were paying \$1400, why are we paying \$1600. Well you pay \$1600. What? Yeah you've got to learn 'Bob' that in these sorts of countries, if you want to do business in X country that is the way it works otherwise... no, that is a lot of money, no we can't do that. But we have been doing that for years and everybody does it. Well I don't care. Well we will miss all the business and all these New Zealand farmers will starve. Yeah we have bigger issues than that you know, I said we are not going to do it. Crikey you'd better check that. So I rang..... told you we are not going to do that.

R: And what was the reason that you shouldn't do it?

Well because the payments that were being siphoned to other people you know, it was corruption basically. People who were in the middle doing the sales were actually charging on, you know it didn't affect us that they were getting a kick back, they were telling the customer that the product was more expensive than it was and getting them to pay, and we were helping that. You know you could be arming an army, a civil war or something, and you can't do that. So I rang all the suppliers and said well you can do what

you want but we won't do that, and they said we always felt uncomfortable, we won't do that either, and that stopped it... .. Yeah I think that that these people, you know I was dealing with ethical people who knew it was wrong, but sort of rationalised it in their mind and said well what is the greater good here, sort of that is the way they want to run their country, it is not our business, but actually it is. It doesn't matter about countries or whatever you know, we run businesses ethically if that is the price of the product that is all you need to pay.

R: That would be an example of clashing cultures

Well cultures, but in war torn countries all sorts of things happen, you know when government starts to collapse and civil war, and they have to do what they have to do, but we don't. We have to make sure we don't participate in it. You learn as you go along what is the answer. [Transcript Three -2 p4]

This last quote is a response to the question asking about situations which challenged directors' values or ideals. The director describes an irreversible 'falling-out' between the chairman and the CEO which broke up one of the largest companies in New Zealand. Could this have been healed if both had better characters?

If you take XXX ltd when X was in charge and Y was CEO, and Y bought AABB which turned out to be a bad investment. X never forgave him for that. So when they had a board meeting, X and his board members sat at one end, and Y and his executive sat at the other, and the company became dysfunctional. And that eventually led to the break-up of XXX. And how would you handle that role? And there were a couple of extremely competent directors on that board, one of them came on mine, and he was chairman of one of the biggest companies in New Zealand, and he said I am lost to know what to do because you have two very strong figures who are never going to get an agreement. And that's, the real role is if you have a situation where the chairman and the CEO don't get on you have a major problem, one has to go, it is as simple as that. [Transcript Fifteen p4]

The assortment of situations suggests that ethics is part of the fabric of corporate governance and can come up anywhere, anytime - having integrity and honesty when the law 'allows' dishonesty in financial reporting; integrity and honesty in dealings with suppliers and customers; honesty and integrity around the board table and around appointment/ redundancy/dismissal issues; honesty and toughness between companies. In all these governance situations directors could opt for either the ethical or unethical alternative, both of which were legal. In this space directors on the whole were informed by their personal ethics. Again in the words of participant Fourteen: *Again it comes back to this, life isn't silos; life is just life.... I don't tend to think in silos, so I don't think of something that is an ethical issue but this is not, I think what you do is you bring your character and your reputation and your values to the boardroom.*

5.5 Theme Five: Tone at the Top

Another major theme surfacing from the interviews was that directors are very aware of the influence their words and conduct have on the ethical culture of the organisation which confirms the large body of literature on this topic. This 'walk the talk' behaviour is usually described as 'tone at the top' - leaders that behave according to an explicit set of core ethical values (Schwartz, 2009).

Anecdotal evidence from five New Zealand directors interviewed in 2007 supports this literature (Jayne, 2007). One of the participants, Rob Challinor, a partner and director of investment bankers Northington Partners (NZ) with twenty years experience as a director, believes that the ethical behaviour of directors is very influential on the rest of the organisation:

I think that with all board behaviour - and indeed that of the company - the tone is set from the top. It starts with the chair and board, then the chief executive. If a chief executive sees behaviour in the boardroom which is lax in certain regards then they could continue that type of decision making down through the organisation (Jayne, 2007, p. 83).

The following quotes unquestionably substantiate these sentiments.

Several interviewees spoke about the importance of the chairman and the CEO for creating and maintaining an ethical organisational culture. Three quotes follow.

Oh there is no doubt; I mean he (The founder and current chair) formed the company, and the values and the actions that we have within the business all came from his beliefs early on, and those have just continually been built on.....but it is important that you understand our culture. It started in 19XX when Y and Z decided to take on the big boys. And they started with simple things like clean sites, getting things done on time, if the delivery wasn't made, Y would do it himself, I have seen that before. And all these little things, you look at our premises, look at our machines, look at the way we present ourselves, we changed the MMM industry. Y has a habit of going to every branchhe judges the performance of his branch, the branch he is visiting and he visits most branches every year, right ... he goes to the toilet, if the toilets aren't clean he knows the kitchen is not clean, and he knows that someone's desk is not clean, and he will give that branch manager an absolute bollocking. And he will turn up unannounced, like he is travelling up and down the country now looking into branches, seeing if this culture is still thereyou know the clean toilet thing is a funny little thing, but it is all about the ethics and about what is required to run a very good business with happy people and informed people.

[Transcript Eighteen p6-7]

In the next quote the chairman explains how the type of CEO influences the ethical culture of the organisation.

The chief executive that we had had, came from XY Ltd, which is a very aggressive macho male culture, where you watch the gap between your shoulders blades, and you are only as good as your last job and if your boss says you are not up to it then you are just out and that is that. It is a real rough and tough environment, which is not the way GG Ltd (our company) works. Whereas now we have gone to great pains to find someone who does

understand the value and the importance of culture; and how to nurture people, and good principles of inclusive leadership. [Transcript Six p5-7]

The following quote confirms this idea.

At the top, yeah starts at the top. You can't sort of, you know you can't have the top not displaying that sort of act of integrity but it still works down here, it has got to be the other way around, you know it has to be displayed here and then reinforced across the whole company. And the board has got to protect it, but it is the CEO, if you have to point to anybody it is the CEO, who primarily creates the culture of the organisation. [Transcript Three p15]

Schroeder (2002) and Jayne (2007) give importance to directors' place in the corporate hierarchy, which gives their words and deeds more weight. This literature is clearly supported by the following three quotes.

This first quote is from the CEO of a large listed company:

Yeah and I think those values, are even more important for Y (Chair) or for me (MD), because then we are looked at- hey if that is the way you behave, then it must be okay for us to behave that way. [Transcript Eighteen p9]

The second one is from the founder and chairman of a cooperative:

I built up the company with a particular ethos, which has an emphasis on social responsibility, ethics which we will touch on later. And the culture of the company places the emphasis on people, and I make sure that as Chairman I am and still am keeper of the culture. At making sure the culture stays there, the values of the company are there. So it is not just about chairing the company as far as I am concerned for financial profit, it is also making sure that we do have the culture in place. The two are intrinsically linked because if you get the culture in place then the chances are you will end up with good profitably anyway. Transcript Six p2] I am more than just one person, I am chairman, so you do get a bit of status associated

with that, people look up to you for guidance and counselling in that area. And I like to think that when I speak, I do things and people see that, and not only do what I say, they also see what I am doing, and how I react in those circumstances. So if I have a board meeting, and I am taking the company along, chairing it and making sure we are offering the right framework..... And they all see that, and how we operate and how I operate, and that will translate into their actions. [Transcript Six-2 p8]

This last quote is from the chairman of a very large New Zealand organisation.

Yeah I think it (ethics) is simply what you say is what you do; yeah I don't think it is any more complicated than that. [Transcript Five-2 p5]

5.5.1 The Impact of Directors who are not the chair or the CEO

The next three quotes relate to how directors understand the influence of the other directors (not a chair or CEO) on the board.

This first director explicitly refers to all the directors as moral leaders in the organisation.

They do, they do, well I think the only way to do it [get people to behave ethically] is to lead by example. It is a bit like how you bring up your kids. Your kids will either copy you or do the opposite depending on.....Yeah, but I think it is very much the same with leadership from the organisation with the people in positions of responsibilities, if they behave in ethical ways and espouse ethical views then I would expect that to have a big influence on the rest of the organisation. So I think it is much about leading by example, it is a bit philosophical but I am often disappointed that politicians don't talk more about ethics. The behaviour of society and the way young people, in particular, sort of throw rubbish, I have never seen anything in our society that says you really shouldn't do that, and it wouldn't be a very difficult thing to do. There isn't much moral leadership in society, and I guess it is a bit the same in organisations really. [Transcript Twenty-nine p11]

This next quote highlights how directors can lead or influence by the way they question management.

Everybody yeah, my observation is that, with interaction with management individual directors bring to bear by way of individual questioning, their own ethical frameworks I think..... And also by contesting reports, you know you can write a management report for the board and you can read that report and think oh I see, I wonder what he is not saying. So there are, yeah. And also I think the board at different times get a chance to select a new CEO, and that is when you can sort of, I have got a mate who says, another wealthy individual who says you have to look at the colour of their eyes, you have got to see what your waters are telling you, and there is something about that you know. But however I think that boards can in the way that they contest information and read it and digest it, can head discussion that is guided by their own ethical framework, and that has to rub off, I have watched certain things happen and you think oh yeah that report was refined, or some other information was given because you asked. [Transcript Thirty-three p8]

This last quote emphasises how a leadership position in the organisation implies being an ethical leader.

But you know I think people have got to do things with a straight bat, and business in particular, you have to have a straight bat, if you are a leader you set the tone, you set the code of values and you get that sort of thing in the organisation. [Transcript Twenty-seven-2 p16]

Directors are clearly aware of the influence they exercise over the ethical culture of the organisation. They give a lot of importance to their actual behaviour rather than their words and they acknowledge that people in the organisation learn from or imitate them. As mentioned above it is not difficult to find support for these perceptions in the literature.

Scholars have emphasized the importance of consistency in communication and behaviour, in other words, 'leaders needing to walk the talk', and the resulting benefits in terms of effective role modelling and perceived integrity (Gini, 1997; Kouzes & Posner, 1992; Murphy & Enderle, 1995; Oliverio, 1989; Simons, 1999). A relatively high proportion of studies show that the behaviour of superiors and organisational peers seems to be the most influencing factor of ethical or unethical behaviour of managers (Baumhart, 1961; Brenner & Molander, 1977; Marquardt & Hoeger, 2009; Posner & Schmidt, 1984). Hood (2003), who looked specifically at the relationship between the CEO's leadership style, values and the ethical practices of the organisation, found that leadership styles do influence ethical practices in the organisation.

Much of the literature emphasises the importance of an ethical tone at the top as an antidote to corporate governance failure. This view also lies behind the literature which argues that corporate governance failure is simply unethical leadership or lack of tone at the top (Fassin, 2005; Gini, 2004; Huehn, 2008; Knights & O'Leary, 2006; Schwartz et al., 2005). The latter and others also believe that ethical leadership can facilitate an ethical corporate culture (Potts & Matuszewski, 2004). McKee (2004) asserts that an organisational DNA that promotes a culture of trust, integrity and intellectual honesty is the solution to good corporate governance. Wallenberg (2004) argues that good corporate governance is (1) a management question- having the right ethical attitude at the top and (2) a cultural question-ensuring that the attitude permeates every aspect of business operations and conduct. Gebler (2006) argues that culture is the leading risk factor for compromising integrity and compliance in companies today. He claims that it was the culture at Enron which brought out the worst in some top executives, including inaction and passivity on the part of many others. In fact, research has demonstrated that ethical leadership and top management support are more important in developing an ethical culture than codes of conduct and ethics training (Jose & Thibodeaux, 1999; Paine, 1994). Andreoli and Lefkowitz (2009) found that an ethical climate created by moral leadership was one of the most significant antecedents of ethical conduct.

It is interesting that the New Zealand Best Practice Guidelines and Principles place great significance on the personal ethics of governors. The commentary following Principle One states: 'Ethical behaviour is central to all aspects of good corporate governance. Unless directors and boards are committed to high ethical standards and behaviours, any governance structures they have put in place will not be effective' (Securities Commission New Zealand, 2004, p. 8). Are directors just parroting what they have read from these guidelines or what they have been told in the Institute of Directors' courses? Well not one director mentioned these guidelines and many directors had not done any of these courses. In several cases they made an analogy with their own experience from being a parent or grandparent so it seems reasonable to conclude that they truly believe they hold influential roles in this regard.

These perceptions about the tone at the top are similar to Aristotle's understanding of the role of the governor. Aristotle gave a lot of importance to the character of the governor for the achievement of a good community or society. A key aspect of AVT is the teaching/learning of virtue via role models. Furthermore, there is a lot of literature which points to virtuous leadership as a possible antidote to unethical behaviour in organisations (Arjoon, 2000, 2008a; Bragues, 2006; Flynn, 2008; Hartman, 2001; Havarde, 2007; Manz et al., 2006; Mele, 2005; Sarros et al., 2006; Sison, 2003).

Virtuous leadership has also been implicitly endorsed by more mainstream ethics of leadership researchers (Conger & Kanungo, 1998; Greenleaf, 1977; Kouzes & Posner, 1992; Wren, 1998). Trevino, Hartman and Brown (2000) assume that ethical leadership consists of among other things a moral character.

Goffee and Jones (1998) assert that leaders with character are essential building blocks to ethically sound management practices. Bennis (1989, 1993) believes that character is the most important quality of a leader, consistent with more recent research by Calabrese and Roberts (2002).

These findings support Sison's work on Aristotle and corporate governance. Sison (2008) argues that directors of good character in the Aristotelian sense are a

possible avenue for achieving ethical corporate governance. This is because of its potential to develop leader-role models who understand ethics to be integral to their ordinary actions and a meaningful life; their virtuous character itself provides guidance in concrete situations. Kantian and utilitarian ethical theories do not take the nature of the acting actor into account nor recognise the fact that people can be inspired to be better.

So we can conclude from this section that directors perceive themselves as ethical role models in the corporate context; that both their words and conduct influence the employees and so shape the ethical culture of the organisation. This awareness of being role models resembles a key feature of AVT.

5.6 Conclusion

This Chapter has provided some insight into how directors understand the role of ethics in corporate governance. The findings have been discussed and interpreted in light of the literature and the researcher's expertise. Directors understand ethics to be an integral part of corporate governance practice which is not dissimilar to a neo-Aristotelian perspective on the relationship between business and ethics; there was also a suggestion that directors' personal ethics play an important role. It was also observed that directors referred to ethics using quite positive terms such as integrity and respect which did not reflect the language of compliance in the governance code. It was shown how this supports literature on the effectiveness of ethical over legal compliance mechanisms. AVT also characterises ethics in a very positive way as it consists of aiming for excellence.

Many made a connection between the purpose and excellence of corporate governance practice which reflects an Aristotelian understanding of the social world; that striving for the excellent fulfilment of a task is the same as striving to be ethical. In fact some directors explicitly associated excellence with ethics as does Aristotle. It was shown how behaviours which directors identified as good quality corporate governance bear a resemblance to virtuous behaviour within a neo-Aristotelian understanding of the business and corporate governance context. Directors acknowledged that ethics is inseparable from life and their task,

admitting a complexity which rules and codes cannot completely accommodate. It was noted that the Aristotelian notion of phronesis may bridge the gap between rules and action in the complexity of the lived experience. Finally it was clear they perceived themselves as role models and teachers of ethics which is interestingly a key tenet of AVT. This confirms Ciulla's (2004) argument that virtue is at the heart of good business and good leadership. On the whole it was found that directors' perception of the role of ethics in corporate governance reflects many elements of AVT. Chapter Six shows how directors' understanding and practise of ethics has more in common with AVT than Kantian or utilitarian ethics; in fact there are many features of their experience which are not dealt with by Kantian ethics and utilitarianism; ethics is more akin to wisdom than a rule to call on in specific situations. This also reinforces the conclusions of Chapter Five; that ethics is intimately tied up with the practise of corporate governance itself.

Chapter Six - How Directors Understand and Practise Ethics

6.0 Introduction

This chapter shares directors' lived experience of ethics and explores how they understand and practise ethics. It also discusses what this may mean in light of and for the scholarly research to date. First there will be a brief summary, discussion and comparison of AVT, Kantian and utilitarian ethical theories. Then the themes emerging from the interviews will be presented and analysed in light of the literature and researcher's expertise to show the extent to which directors' understanding and practise of ethics contain elements which resembles key aspects of AVT but are unaccounted for by Kantian ethics and utilitarianism; providing support for the argument that AVT should be considered a valuable complement to consequentialist and deontological theories for informing the practise of ethics in the corporate governance context. Moreover it is suggested that philosophical ethics may not be so irrelevant for the practise of ethics in the business context; a finding of great importance for the field of descriptive ethics.

The following themes were found: a person is judged to be ethical by his/her character (*Type of Person*); directors call upon their personal ethics in carrying out their task (*Governance Ethics = Personal Ethics*); ethics is linked to meaning (*Who Am I?*); ethics is learned through experience and with the help of role models (*Ethics is a Learning Process*); good character is a prerequisite for the effectiveness of codes (*Codes and Character*); the ethical approach seems more intuitive than rules-based (*Ethical Approach*).

6.1 Ethical Theories

Virtue ethics is both an old and new approach to ethics; old in so far as it dates back to the writings of Plato and Aristotle and new as this ancient approach has recently been revived to be an addition to contemporary moral theory. Up until the eighties two major theories dominated the field of normative ethics; deontology

based on the philosophy of Immanuel Kant and the consequentialist theory utilitarianism, derived from ideas of Jeremy Bentham and his disciple J.S Mill (Hursthouse, 1999).

Kantian ethics and utilitarianism were also included in this study because of their predominance in business ethics curricula (Hursthouse, 1999; Klein, 1998b; Solomon, 1992a). “Textbook distinctions between deontology and teleology typically identify the latter with utilitarianism.....leaving the objectivist variant [virtue ethics] unmentioned. The resulting tunnel-vision makes deontology and utilitarianism appear to be the only players on the field” (MacDonald & Beck-Dudley, 1994, p. 620).

The revival of AVT is generally attributed to dissatisfaction with deontological and utilitarian theories of ethics then prevalent. Many felt that these theories did not address a number of topics considered to be very important for any ethical theory; hence the appropriateness of advocating AVT as a supplement for Kantian ethics and utilitarianism. These neglected topics include: moral motivation, the character of the actor, moral education, moral wisdom, friendship and family relationships, a deep concept of happiness, the role of the emotions in the moral life and the questions of what sort of person I should be and of how we should live.

Both Kantian ethics and utilitarianism are act-centred or right action theories, meaning the act itself is evaluated in light of an ethical principle or rule (Arjoon, 2000; Bhuyan, 2007; Duska, 1993; Klein, 1998b; Rossouw, 2008a; Solomon, 1993; Torres, 1997; Whetstone, 2001). The primary question becomes: What is the right thing to do in a particular moral situation? To answer this question, a rule that fits the situation must be produced and applied, which is some version of Kant's fundamental moral principle or some version of the principle of utility. Virtue ethics is actor-centred, in that the focus is on the development of a good character which becomes both the source and object of virtuous action (Annas, 2005; Mele, 2005; Whetstone, 2001). It attempts to make the character of the actor, basic to moral theory rather than *just* the intention of the actor (Kant) or *just*

the consequences of the action (utilitarianism) (Annas, 2011; Bhuyan, 2007; MacDonald & Beck-Dudley, 1994; Solomon, 1992a; Torres, 1997).

As an approach in normative ethics, virtue ethics has an advantage over other normative approaches of teleology [utilitarianism] and deontology in terms of its focus on the actor as a whole as opposed to an evaluation of any particular action or behaviour of an actor (Bhuyan, 2007, p. 45).

According to utilitarianism the right action is the one which maximises the utility of all affected, as compared to all other alternatives (MacDonald & Beck-Dudley, 1994; Torres, 1997; Whetstone, 2001). Whether an act is ethical or unethical depends solely on its consequences. A Kantian approach upholds the importance of acting *for the sake of duty*, expressed as universally accepted rules (MacDonald & Beck-Dudley, 1994; Torres, 1997; Whetstone, 2001). One must act out of duty regardless of the consequences if the act is to be considered moral.

Each of the following sections is devoted to a theme found in the interviews and interpreted using the literature and the researcher's expertise.

6.2 Theme One: The Type of Person

As outlined above good character is the centrepiece of AVT. Aristotle placed great importance on the character of the ruler for the achievement of good governance; this was much more fundamental than the types of laws or rules they may later lay down (Bragues, 2008). Excellence of character consists in cultivating the virtues (excellences) proper to a good ruler (Sison, 2008). Aristotle distinguished between selfish rulers and those dedicated to the common good (Bragues, 2008). The corporate governance reform and leadership literature also place great hope in the character of leaders (Gandossy & Sonnenfeld, 2005; Gini, 2004). Archie Dunham, CEO (1996-2002) and Chairman (2002-2004) of ConocoPhillips, asserts that senior management must be role models inside and outside of work; that ethical leadership involves the whole person (Hill et al., 2005). Fifteen directors expressed unequivocally that ethics is somehow

connected to the calibre of the entire person; the *type* of person you are or in Aristotelian language, ‘character’.

The following three quotes have been selected to show how directors make a strong association between ‘how’ a person is and how they will act:

I think ethics are inextricably tied up with how you, how one, one deals with their self, who they are, what they are, and what are the complexities in their life, what are they; a bit of self-analysis I think comes before any code of ethics. I think you have got to sort of refine what you are about, why you are what you are, and are you happy with yourself, if so why, and if not why? And then where do values come into that? I think we are creatures of habit, we just need to know a bit more about the habit or relearn old ones if we can. [Transcript Thirty-three p6]

Although the director is grappling with how to express himself it is clear he thinks our habits or ways of acting are a product of who we are (character) and who we want to be; and that we can change that. It’s a matter of reflection and a conscious decision to redirect our actions in accord with our chosen values. For him ethics is very much focussed on the ‘actor’ not the ‘action’.

I think some of it comes down to the person that you are; actually I think a lot of it does. [Transcript Thirteen p4]

The above quote also points to character as the source of ethical behaviour.

I will give you an example where we had a chairman of a company who was having an affair with the secretary..... and he was shacking up with her and travelling around the country when he should be thinking about the company and the meetings he was going to the next day and all of that, and when it came up around the board table, the others were prepared to give him a second chance. I stood very strongly and said no, I think if a guy is cheating on his wife, then he is cheating on his time, he is cheating on, you know he is trying to hide that, I don’t think that is the values we should have with someone leading our company. And I stood strongly

against it, swung the board and he was tipped over Well I argued on the basis that a person's moral integrity is basic to their, to them as a human being, and if they can cheat on their wife, cheat on the company and business they are involved in, and cheat on their fellow directors, then I don't believe they are in strong leadership. They are doing these things behind the back of so many people who are close to them. If they are prepared to do that to those who are closest to them, what other areas in their life are they prepared to do and compromise them.
[Transcript Nineteen p6]

This director considers moral integrity as a defining feature of a person – its ‘basic to them as a human being’; moral integrity is inseparable from one’s identity. Integrity is the key to Aristotelian ethics as it is the linchpin of all the virtues (Solomon, 1992a). Participant nineteen also seems to insinuate that cheating in this specific matter, over a long period, in relation to so many different people, makes it almost inevitable that he will cheat in other areas of his life. This reveals an understanding that actions don’t happen in isolation but form the past and the present character of the actor and so affect how they may behave in the future. AVT acknowledges that actions impact upon the actor and their subsequent dispositions, judgements and actions (MacIntyre, 1984; Torres, 1997).

It is of great interest that of the three abovementioned ethical theories, only AVT places emphasis on the entire character of the person when describing ethics. Kantian and Utilitarian ethics do not place any significance on the state of the acting actor:

despite the opposition between Kantians and Consequentialists, it is easy for someone who is reading some of the works of either school to get the picture of an essentially faceless ethical actor who is equipped by theory to make moral choices that lack psychological connection with either the actor's past or future (Kuppermann, 1988, p. 116).

AVT holds that past actions and experience contribute to the character of a person which then influences the quality of subsequent judgements and actions. “The

moral judgments of corporate employees and managers function as perceptions. Thus, as Aristotle says, they should be grounded in good character and nurtured by experience in making sound moral judgments” (Klein, 1998b, p. 5).

We can see from the above quotes that a substantial number of directors have no doubts about the significance of past actions and experiences for the development of their personal ethics and ethical competency and that these are intimately connected to their personal identity and way of being.

Furthermore when seeking advice from, having respect for, or placing their trust in someone, seven directors gave importance to the *type* of person and not just their knowledge or experience. Three quotes follow:

First thing I always ask who are your directors; when a company is coming to do business with us, first thing I do is look at who their directors are, and I will just look at the names,..... The reputation, your reputation is everything, it is just everything, and one sort of sleazy move and that's it, that's your dash, so most people are extra careful with that.That's why the reputation of the person is huge, that's why I don't just look at the company, I look at the board, oh yeah that will be a good company, straight away I can tellgood strong ethical people will not make board appointments of companies that don't fit their characters, they just won't do it, they don't have to. [Transcript Twenty p7]

This director judges the practices of a company on the ethical reputation of the board members; reputation is based on a person's actions over time. He seems to give priority to ethical reputation over other attributes. This quote also resonates with AVT's focus on the connection between ethical judgement and character. Good characters will appreciate similar characters. This is expressed by Aristotle as follows:

The wise do not see things in the same way as those who look for personal advantage. The practically wise are those who understand what is truly worthwhile, truly important, and thereby truly advantageous in life: who

know in short, that is worthwhile to be virtuous (Aristotle, Trans. 1976, p. 1144b).

The following quote seems to link character with action as it implies that having the traits of integrity and honesty leads to ethical behaviour.

Being ethical is sort of a subset of having integrity and being honest, isn't it? [Transcript Two p13]

This next director only gets advice from someone he trusts which grows with getting to know the person's character.

There will be issues where you rely on somebody else, say okay I don't quite understand it, this tax thing, is this avoidance or evasion you know, just tell me, you understand it exactly how it works, so you rely on someone else. But you would only do that if you had come to trust them over a period of time. [Transcript Three p12]

As has been mentioned in Chapter Three virtue theory places great emphasis on the character of the person which in turn influences in a positive way the judgements and counsel of such a person. Deontology and teleology ignore the impact of the actor's character on ethical behaviour and moral judgement (Mele, 2009). This is the basis for Aristotle's insistence that 'the best character is always a cause of a better regime' (Aristotle, Trans. 1984, p. 1337a). Whether the rulers are selfish or dedicated to the common good forms a tyranny or monarchy, oligarchy or aristocracy, polity or democracy respectively (Bragues, 2008).

As can be seen from the above quotes from directors, and probably from our own experience, we do recognise that the worth of the advice and the direction we get from other people depends on their degree of moral development.

We don't emulate or get advice from airheads or untrustworthy people-we know that the character of the person we go to will be shown in the advice we get. It would be bizarre for me to say I will do what John tells me to do, though I thoroughly despise John. And we do take my actions to show

something about my character, not just my ability to understand a theory (Annas, 2004, p. 73).

Directors' understanding of ethics contains elements not unlike the Aristotelian notion of character. The other two theories do not take this aspect of ethics into account. This illustrates how AVT can be useful to supplement the deficiencies of utilitarianism and Kantian ethics and so contribute to a more unified framework in philosophical ethics and business ethics education at all levels.

6.3 Theme Two: Directors Understand Ethics in Terms of Their Personal Ethics and Rely on These Rather Than Codes of Ethics When Carrying Out Their Task

Another dominant and perhaps similar theme was that directors relied on their own personal ethics in their governance work or that they relied on the same values both in their governance roles and in other areas of their life. This reveals the potential influence of the personal ethics of directors on corporate governance which has important implications for the approach to reform. Moreover this consistency inside and outside of work reflects a key tenet of AVT.

Twenty eight directors said that they rely on their personal ethical values when carrying out their governance roles. The following four, best reflect this theme:

Yes you know it is the moral standard that you are brought up with; I don't think that ethics is taught at all in business. When I went through university degrees, never ever came across paper on ethics. I think the only place where ethics would be taught would be in philosophy possibly, which is a bit strange and you don't get much publicly, you don't get very many business leaders talking about ethics..... Yeah it is very hard, well to me honesty is hugely important; to be regarded as an honest person with ethical standards, and high standards of integrity, to me has always been important. And that I think was solely the result of the way I was brought up by my parents. And I

have witnessed a lot of unethical behaviour in my professional life and that saddens me. [Transcript Twenty-nine p4]

This director attributes his corporate governance ethics to the way he was brought up by his parents. This suggests his approach to ethics is deep-rooted and penetrates all aspects of his life.

That is a really good question, to me ethics are everywhere and that is a sort of personal, you know you,So I suppose coming back to your ethics question, if you, I mean you have your own personal code you live by, and that to me is a critical, so I would never do anything that breaches my own personal code of ethics. the personal code I think is something that you grow up with, it is the way you are brought up by your parents, those sorts of things..... My parents were religious, so maybe it came out of their religion. I am not religious. [Transcript Nine p2]

This director clearly associates his corporate governance ethics to the values passed on to him by his parents; and that he ‘lives’ by these indicating that they impact upon all the different dimensions of life.

Put it this way, everyone, in whatever they do, including being a director has a sense of value and ethics, and this shows in your background, and where you have been in your reference checks in actual fact..... You see you can't say I am in that box, it is actually who you are as a person right across, it is within your job, and outside the job. And you can still have a hell of a lot of fun having friends and doing what you want to do, but there are boundaries, and you don't just do it because you are going to be on a board, or you are going to be senior management. [Transcript Fifteen p8]

This quite explicit and emphatic assertion reveals an understanding that ethics by definition are personal, consistent and all-encompassing; ethics is dependent more on the person than the situation.

No it is in every aspect of life I think. Now our family ethos is a competitive one, you know the kids are all very good sportspeople and everything is a

competition. So it doesn't matter what it is there is going to be a winner. And the winner gets celebrated and the loser has to take the humble pie, but the game is played fairly whatever it might be, be it golf or mountain biking or whatever it is. So I think if you are into fairness you are into it in everything you do. You don't just turn it on and turn it off because you are going into a meeting..... All of your other interviews may say this is bullshit, but I actually think it is quite true. [Transcript Twenty-seven p8]

This director also understands ethics to be something personal and consistent and exercised in whatever you are doing; the same can be said of the following director:

I think it is an instinct in a way, it applies to everything you do, and for that particular role there is a need to think in a particular way about the ethics of what you are doing. But ethics should be an intrinsic part of your everyday life. I don't think that you can act in one way in one part of your life and at a higher level another, that's inconsistent with instinctively doing the right thing. [Transcript Twenty-six p4]

This theme provides a powerful support for those corporate governance scholars urging reformers to give more attention to the personal ethics of leaders (Gandossy & Sonnenfeld, 2005; Huehn, 2008; Kimber & Lipton, 2005; Schwartz et al., 2005). It can be seen that personal ethics *are* pivotal in guiding directors in their task of corporate governance.

Furthermore, this consistency of behaviour highlighted by directors is a fundamental aspect of AVT. It posits there must be an inherent unity of personal and professional life as they are linked through the character of the person living them (Bhuyan, 2007; Solomon, 1992a, 2004; Torres, 1997). Virtue ethicists speak of the prudent or practically wise person (the phronimos) who exhibits their wisdom in all aspects of their life (Klein, 1998b). As Aristotle stated:

“The prudent individual consistently makes the right decisions to further every facet of a good life for himself, making sure to maintain their health,

finances, social relationships and most importantly moral virtue” (Aristotle, Trans. 1976, p. 1140a).

Moreover directors revealed that these values came from their parents and their upbringing. Nineteen directors explicitly acknowledged that their own values originated from their parents and their upbringing with phrases such as: *Yeah I think maybe it starts when your hand gets smacked when you are three years old [Transcript Three-2 p3]; I think ethics you learn at your mother’s knee [Transcript Four p10]; They are driven from the day you are born I think. [Transcript Twenty-seven p2]*

And the following two are fairly typical:

Personally I got it from my parents. If I am to boil it all the way down and look at how they went about their lives, and if I ask other people in this organisation and I see their families and the impact that it has had, quite often it will come from their parents, or their environment. [Speaking about two previous CEOs] the way that they have gone about their careers emphasises that integrity is at the core because it is shown. They have never had a discussion about integrity with me. But as I reflect back that is the thing I admire the most about those two, is that they are still admired by us, after the event, because of the way they went about each of the decisions [Transcript Twenty-eight p5]

This director emphasises the impact that the lived example of role models such as parents and leaders/ mentors have had on the development of his personal ethics. The following participant spoke about how his ethical values came from his parents then he was asked why he has kept those values.

Well initially it’s because you know they tell you to, but of course I was a right rebel, in fact my sister in a book she wrote about the family, says I am a leader, but a leader of all the bad boys, which is right. In fact [if the parents ‘taught’ us by] telling us, it could have had the reverse effect, but no they lived by it, and seeing them live by it, you could say

no it is not because they told us to do so because that would have had the opposite effect, the fact that they lived by it themselves, we just adopted that as that is the way you do it. And then later on in life you work out well shit this is the best way to do it. Short-term you have disadvantages, and it is annoying when you see liars and cheats getting ahead, but in the long term you run them over. [Transcript Twenty-one p5-9]

The above director testifies to the powerful impact of the lived example of his parents. He also shares an insightful comment about how he consciously adopted the values of his parents. This reflects the Aristotelian explanation of how virtue is learnt; at some point the learner begins to practice the skill independently (Annas, 2008).

This acknowledgment by directors that their ethics originates from their parents resonates with AVT's suggestion that ethics develops over time by learning from the example of others (Annas, 2004; Bragues, 2008; Hartman, 2008). "We all start with some conventional grasp of virtue that we pick up as we grow up from parents, teachers and so on" (Annas, 2004, p. 70). It is noteworthy that so many of the participants held this view. When answering the question it was obvious that they had never really thought about it before and yet were quite sure that that was the source of their own ethical code.

For example I haven't really sat down and philosophically talked about this stuff with other people who are directors or who I'm involved in business with..... I can honestly say I have never talked about this stuff with anybody. [Transcript Two-2 p1-3]; and No, I mean your questions have been quite insightful because they have actually forced me to think about some of those personal judgements and your character, your values, your ethics, all of those areas. [Transcript Twenty four p13]

So we can conclude that in their task directors understand ethics to be their personal ethics that feature in every facet of life; which ultimately have been learnt from role models. As discussed in the previous section, utilitarianism and

Kantian ethics take a purely rational approach and do not consider or accommodate these very experiential actor-centred aspects of ethics. Both Kantian ethics and utilitarianism involve learning about an abstract rule which is then applied to a particular action (MacIntyre, 1984; Torres, 1997). It appears that role models are not relevant and ethical considerations arise sporadically rather than forming a part of the fabric of the practice. Directors' understanding of ethics reflects several features of AVT addressed neither by Kantian ethics nor utilitarianism.

6.4 Theme Three: 'Who Am I?'

When trying to articulate what ethics meant for them, several directors suggested it was a very intimate part of 'who' they are; and that a lack of integrity would affect their happiness in the deepest sense. They spoke of being able to 'sleep at night', or 'sleep straight in bed', 'being able to look at yourself in the mirror', 'being true to yourself', 'being able to live with oneself'. Others used words like 'innate', 'inherent', 'nature', and phrases like 'in your gut', 'coming from within', 'fundamental human characteristic' and 'it's just part of me'. Some insightful quotes follow:

I have to be able to look at myself, at the end of the day, for me there is no other measure. And I look at myself in the mirror and go that was the right thing to have done, and all the things that follow from that - people who got hurt by that decision, or how many people got hurt because I didn't make a decision or I made the wrong decision. It weighs heavily. Can I live with it? I don't know how else to explain it, that is pretty much it. [Transcript Thirtyone-2 p7]

Although this director relies on elements reflecting a deontological (the right action) or utilitarian (how many got hurt) approach, it seems the most important aspect for him is whether he can live with himself; being ethical somehow impacts on self worth.

Our own individual values I think, being fair is an incredibly powerful and it makes people feel, sleep well at night, it's when you look up in the mirror and you see yourself in the morning unshaven, looking pretty grotty, you can say: 'Have I done anything I am ashamed of?', and if you can say no, you feel bloody good about that. And I think that is what a team should do, give it their best on the field, what a board should do, did we give it our best. Have we got the performance right? Have we been fair? Now while there are no definitions of that, they might sound bullshit, I think it is actually what does drive people, and ultimately for me that equals ethical behaviour.

[Transcript Twenty-seven p7]

In the quote above the director seems to link acting with integrity and having inner peace - being able to sleep at night; he sees an intimate relationship between ethics and happiness.

Well you don't lecture do you, everything you do is by example, and everyone has got different drivers so you are not on a crusade. And you only have to answer to yourself in the end. You don't have to worry about what other people think, and this is where ethics comes in. If you are looking at yourself in the mirror and content with what you know what you are trying to do, then that is enough. [Transcript Twenty-six p5]

This director gives importance of passing the test of self-judgement; internal approval overrides all forms of external endorsement or punishment. AVT is distinguished from Kantian ethics and utilitarianism precisely because it emphasises intrinsic moral motivation.

Yeah I left an organisation because I was uncomfortable with an ethical dilemma. I felt that the shareholders weren't getting a fair deal; I felt my personal integrity was threatened by being part of it. I tried to change it; the parent company wasn't prepared to do that. So I said I would leave, it wasn't a threat, I left, and it was a job I loved, but I had sleepless nights. For me if you ask about tests it is whether I can sleep

at night. I have slept at night very well since I have been at XXX ltd. I have had some sleepless nights working in 'corporates'; it is just not worth it. Generally that is a test, if I can't sleep and I am still worried about it the next morning, it is probably the wrong decision and you should do something else. [Transcript Twenty-eight p8-9]

In the above quote the director seems to be saying that personal peace is only gained by acting with integrity; being ethical trumps having a job you love.

Well integrity is seen in your actions, it is what is right and what is wrong, and to be true to yourself, and be true to the business. Look there are many time when it would be so much easier to make short term decisions, short term profit by throwing the integrity away, and what does that make you, what do you become, I mean the lowest of the low, I mean this is about holding your head high, knowing that you made the right decisions for the business that you can sleep with at night, every individual in the business can sleep with, and that every shareholder can be comfortable with. [Transcript Eighteen p8]

This director links acting ethically with being able to hold your head high; he seems to base self worth on integrity. It is also interesting how he associates ethical behaviour with changing oneself for the better or worse-‘what do you become?’

The above quotes point to a very interesting phenomenon; that the directors associate their ethical choices with their self worth. One of the distinguishing features of virtue ethics is precisely that that there is some kind of connection between the ethical/unethical action and the happiness of the acting individual (Arjoon, 2005; Mele, 2005; Torres, 1997; Whetstone, 2001). One of appealing aspects of AVT is that it addresses the issue of moral motivation. “In fact what most distinguishes virtue theory from deontology and teleology is the actor is ultimately responsible to himself. It answers the question –why should I be ethical if I can be unethical and escape punishment or even prosper materially? Because I will be better, happier if I am and destroy myself from within if I’m not” (Torres,

1997, p. 24). AVT acknowledges that the actor is always the subject and object of the decision.

Utilitarians and Kantians place the foundation for morality in notions such as rights, duties and obligations whereas virtue ethicists focus on inner states of disposition, habits and a developed sense of personal integrity known as the character of the individual (Bhuyan, 2007). Utilitarianism and Kantian ethics fail to consider the impact of choice on the person making the choice. The right action is determined by the decision procedure in isolation from the inner moral world of the actor. In a sense the categorical imperative and the principle of utility dictate the choice removing responsibility for the action from the individual (Annas, 2004; Solomon, 1993; Torres, 1997). This lack of engagement with the anthropological dimension of the individual making the decision by Kantian ethics and utilitarianism is due to the modern turn in moral philosophy and its rejection of AVT; ultimately this was a by-product of the rejection of metaphysics by modern philosophy (Torres 1997, MacIntyre 1984).

This acknowledgement of the link between ethics and inner happiness by AVT makes space for moral motivation; that ethical behaviour can be driven or encouraged by something internal rather than fear of being caught or just doing one's duty (Arjoon, 2005; Pinckaers, 1995; Torres, 1997). According to AVT the motivation to act well comes from inside each person because they are seeking personal improvement or in Aristotelian terms attaining the 'good life' or happiness; in this context rules become a base line which is hardly questioned (Arjoon, 2005). This is reflected in the above quotes where directors understand personal integrity as a means to personal happiness or interior peace.

According to Aristotle, a life lived in accordance with virtue leads to a happy or flourishing life or 'eudaimonia'. Mele (2005) explains the connection between values, virtues and flourishing by distinguishing between moral values and values in general. Living according to *moral* values contributes to the good of the person (virtue) whereas making decisions based on other (non-moral) values does not affect our character or our goodness. We define a value (non-moral) as that which

is worth having, getting or doing. In this sense it is relational, that is, it is a value for some person (Bond, 2001). A *moral* value (or good), on the other hand, when one lives according to it, leads to virtue and contributes to the perfection or flourishing of the individual as a human being. They are those things worth possessing if you want to become more human (Guardini, 1999). In this way, moral values are objective. For example many people value success and fame but pursuit of these does not make one a better person in the Aristotelian sense. AVT unlike Kantian ethics and utilitarianism acknowledges a connection between the quality of the choice and the good of the person. The latter two theories link rightness to logic (Kant) or calculation (utilitarianism) respectively while AVT draws on anthropology.

Directors seem to acknowledge the existence of some objective benchmark which is internal and fundamental. They point to a moral compass which seems to be unrelenting; values embedded deep inside which have remained with all of the participants throughout their adult lives. The intensity and depth of the ethical values displayed in the above quotes makes one wonder if parents actually reinforce the seeds of ethics already present in the child. This phenomenon reflects a basic assumption of AVT. Aristotle asserted that the human being just like other living entities has a nature, which provides purpose and moral guidance; an action is good if it furthers my purpose. Human nature itself provides ethical goals (Annas, 1993). Are directors pointing to this? Further research is needed to explore this phenomenon.

Ultimately the overemphasis on duty by Kant obscures the *reasons for* the duty/rules; which is guidance towards the promotion of the good of the human being (MacDonald & Beck-Dudley, 1994). Directors seem to be motivated by very deep reasons, ideas which motivate and give a sense of meaning and peace, not mere rules or duties. Kantian theory boils down to: do as you would be done by, but leaves the question *how we should be done by*, unanswered. It does not explain how I should treat myself and therefore others; there is no notion of what is good for the actor. This is because Kant made a clear distinction between moral

law and moral anthropology and insisted that rational ethics should be kept free from empirical facts (Frierson, 2003).

Utilitarianism equates happiness with satisfied desires. Utilitarians are left to figure the rightness of actions by how generally pleasing they are. Of course, because what pleases and displeases varies so much from person to person, time to time, and place to place, utilitarian identifications of right and wrong sorts of actions are highly fluid (MacDonald & Beck-Dudley, 1994). It is interesting that a substantial number of directors placed great value on knowing they were living an ethical life. Such an aspiration is unlikely to be fulfilled through utilitarianism as something morally essential is lost in all forms of utilitarianism in that it could allow the end to justify the means (MacDonald & Beck-Dudley, 1994).

Directors do not refer to external rules or formulae when sharing their understanding of ethics but this is what utilitarianism and Kantian ethics amount to in practice. Could directors' understanding as exposed in the above quotes be the result of social conditioning, the result of unconsciously adhering to society's expectations? But some directors said they had critically thought about the values taught or exhibited by their parents. For example: *we just adopted that as that is the way you do it. And then later on in life you work out well shit this is the best way to do it. [Transcript Twenty-one p5]* On many occasions the researcher questioned participants whether their personal code differed much from that of their parents. The answer was always negative; it was something they returned to after their years of rebellion. *But there are not too many people, in my experience, that take a radically different ethical moral stance to their parents. [Transcript Ten p9]* *So I do think that [upbringing by parents] sets you a kind of platform and some people might shift dramatically from there, I don't think I have shifted dramatically [Transcript Seventeen p4].* Directors' personal ethics seem to point to a natural element not unlike Aristotle's goals of human nature. Many directors spoke about a similar phenomenon. It seems their values are not entirely learnt from parents but rather that parents develop and reinforce a natural sense of morality; values which can endure the test of time and rebellion.

The way directors spoke about their ethical code manifested deeply-held inner convictions worth ‘walking’ for. But could this be explained by acting out of self interest? Even though it was clear that reputation was an important asset to protect, the expression and bearing of participants, as well as the sentiments shared seemed to point to something nobler.

So as a result of the above discussion it is suggested that directors’ understand ethical behaviour as a means to achieving personal fulfilment in the deepest sense which is how AVT presents ethics. Furthermore these experiences seem to indicate that this aspiration is a fundamental part of the human being as does AVT and not just a social construction or the result of self interest. Kantian ethics and utilitarianism do not consider the relationship between ethics and the meaning of one’s life.

6.5 Theme Four: Ethics as a Learning Process

Another theme emerging from the data, which was also evidenced in many of the above quotes, is that ethics develops over time with the help of the example of others and through experience. AVT in contrast with Kantian ethics and utilitarianism characterises ethics as a capacity which develops; it presents ethics as an acquired skill; more akin to learning a practical skill than following a procedure or model (Annas, 2004). The following three quotes illustrate this theme:

I think a lot of it is what you actually grow up with, it is part of, literally in my case, how your family operates. Some of it you get this way, and some of the things you won’t necessarily be taught or experience until later; as an adult you make your own sort of affirmative decisions to perhaps act differently to the way you sort of intuitively experienced. Look a good example of that for me, this is, my family, in particular my Dad, lovely guy but not terribly confrontational and it is something that I have had to learn to be when I am meant to be, you know what I mean, so that things don’t just drop and drift away. And so I just gained that experience as I have gotten older, I have just got to put my hand up and

just do some things that just intuitively I feel entirely comfortable with. Yes I think that is where it comes from, I think a lot of, like anything I think ethics is almost a learned behaviour, it comes from what you see around you. [Transcript Twelve p5]

This director speaks about learning from parents and later learning from the behaviour of others and by experience; it seems the latter is an active process in which you are required to make a judgement *while* having the experience.

Well I mean I think it is something that you develop over your whole life, I don't believe it is something you learn (from a book), sure you can read things in books and stuff like that, but I think it has a lot to do with how you are brought up, what you personally value, the things you have done in your own life. I think we are all products of our own background, and those people who influenced us be they our families, or people we first went to work with. I think it all starts way back then. You can't be taught ethics (in a classroom), I don't think so anyway. [Transcript Twenty-five p4]

This director is very emphatic about how he has learnt ethics; it has developed over time beginning with family influences, and then later perhaps enriched by the behaviour of professional colleagues all the while sifted through one's personal values. It seems to have an experiential and reflective component.

I think that they come from the family I grew up in, and you know, your values set you get taught. I grew up in a family where a sense of right and wrong was very important, honesty and all that stuff. I guess as it is in most families really. So I think it is kind of something you, well for me it came out of way I grew up. It doesn't mean to say I didn't kind of charge off and sow my wild oats, but that is not so much about values as you about discovering yourself, because I think even through that period of my life my fundamental values always pretty much the same..... Oh no because I think your values can change over time and you know I think you have internal conflict as you grow and mature and you

know grow older, as you experience more of life and think about things, and say you have always had that position on something, but maybe not. [Transcript Seventeen p4]

This director also refers to the combination of experience and reflection that contributed to the development of his ethical code; it is a dynamic process.

Oh I think [ethics] evolve, and I think for a long time you don't actually recognise them as values, they are part of your life, and you reflect and you get questions like this and you think well they are actually part of my values, and I put them on my CV, you know they are sorts of things I hold true to or believe I hold true to.....Yes it is, I think ethics are really important, I think the challenge is to understand them, and to know your own, the ethics that a company requires, and for people to be able to understand their own ethics.... People, as you would expect, grow throughout their professional lives, and their personal lives, and your judgement, your ability to make judgements, now based on the experience, I mean what I know now if I had known 20 years ago, when I set up my own business I would have been totally different, you know I just didn't know those things then. [Transcript Twenty four p4 & 11]

In the above quote this director understands that your ethical capability develops over time with experience; and reflection is an important aspect of that process.

The following three directors highlight the power of example.

Oh I don't think they are born like that, I don't think anybody is born unethical. But what they get from home, what they see others do, what their friends do, all influence. [Transcript Sixteen p5]

The key thing for me is good directors; good managing directors would make good decisions, small, medium sized and large decisions. You know it really resonated with me that all decisions have to be good.

And sometimes the small decisions have as much impact in terms of consistency and integrity. So yeah, those guys plus my family have probably had the biggest impact. [Transcript Twenty-eight p5]

Oh [my ethics] is not from me it is from my family, from my grandmother and my mother who were hard working housemaids, who served people and I guess that's part of what I am because I grew up with role models, and it becomes part of you too. [Transcript Twenty-six p4]

Eighteen directors acknowledge that their ethical code is the result of a learning and/or a role modelling process. They don't refer to decision making models, or a standard procedure for determining the right action. Their ethical competency is developed over time beginning with role models, consolidated by their own experience and the example of others and their own reflection.

The process manifested above has similarities with AVT's account of learning. We all start with some conventional grasp of virtue that we pick up from parents, teachers and so on. The moral beliefs we have taken over from others are just the beginning point. It is up to us to put in the work needed to develop into someone who has more understanding (Annas, 2004). Many directors indicated the basis of their personal ethics originated from how their parents brought them up; some recalled being impressed by their example rather than their words.

Aristotle explains the development of virtue as being similar to acquiring a practical skill such as building:

Virtues we get by first exercising them. For the things we have to learn before we can do them, we learn by doing them e.g. men become builders by building and lyre-players by playing the lyre; so too we become just by doing just acts, brave by doing brave acts; by doing the acts that we do in our transactions with other men we become just or unjust and by doing the acts that we do in the presence of danger.....we become brave or cowardly (Aristotle, Trans. 1976, p. 1103a).

This process is based on experience; the particular skill can only be acquired by going through the relevant experience. Directors above referred to learning through their different governance experiences - by observing others and/or reflecting on what they did or should have done.

Annas elaborates upon Aristotle's analogy. The beginner builder has to learn by picking a role model and to copy what she does and gradually she learns to 'build' better and in a way which is less dependent on the example of others and expresses more understanding of her own. The point is that AVT acknowledges that we 'take over' the moral beliefs of others at the beginning, we *start* as learners, depend on role models and progress to develop our own understanding (Annas, 2004). The above quotes mention this process of critically evaluating the received values and moving into a phase where the values become more personal. For example: *I think you have internal conflict as you grow and mature and you know grow older, as you experience more of life and think about things [Participant Seventeen]; as an adult you make your own sort of affirmative decisions to perhaps act differently [Participant Twelve]; Well it is the experience of life, but I think you learn off others, seeing what people do and saying I'll make sure I never do that [Participant Fifteen].*

According to AVT, role models and experience contribute to the development of good habits or virtues and the cultivation of wisdom or phronesis. Although directors do not explicitly refer to virtue and phronesis, they speak of accumulating 'something', some sort of 'know-how'; their ethical competency is not continually in a state of flux but is growing in one direction. Phrases such as '*you put it in your ethics warehouse and you continue*', '*later on in life you work out well shit this is the best way to do it!*', '*I think it is something that you develop*', '*as an adult you make your own sort of affirmative decisions to perhaps act differently*', indicate that learning and examples help to create an habitual way of acting or a quality of judging. AVT declares that morally good habits, arise from repeated experiences that are good, and these experiences help to develop the moral perceptiveness and sensitivity found in phronesis (Klein, 1998b). It is suggested the ethical capability referred to by directors is comparable to

Aristotelian virtues and phronesis or practical wisdom but further research is needed to explore this.

As Arjoon (2008b) explains:

Philosophers have long realised the gap between knowledge (to know the good) and action (to do the good). It is precisely the virtues, in particular phronesis, that establish the link between knowing and doing; virtues regulate the dynamic interplay between knowledge and behaviour in concrete situations. Practical judgement entails having the right moral beliefs and the requisite knowledge to reach a decision in a concrete situation and to act on this disposition to do the right thing (p. 235).

The other two theories have nothing to say about learning or developing an ethical capacity or character. Kupperman (1988) maintains that deontology and teleology are incomplete without Aristotelian phronesis. He argues that the way Kantian maxims are perceived is dependent upon the type of character nurtured in a moral tradition. In utilitarianism the consequences that we do consider relate to our moral perceptions of what is relevant. These theories provide in simple terms a decision procedure totally detached from the life of the actor (Annas, 2004). Kantian ethics and utilitarianism are praised for being egalitarian - available to anyone who takes the trouble to master the decision procedure. However in practice we do not seek the advice of people because they are clever without regard to their character (Hursthouse, 1999).

This section has explored participants' reflections on the origin of their ethical frameworks or values and has suggested that AVT is able to better account for this learning process than the other two theories. Directors spoke of acquiring a '*know-how*' which seemed to resemble Aristotle's acquired wisdom or phronesis, rather than the knowledge acquired by study. But further research is needed to explore this phenomena to clarify to what extent it reflects this specific aspect of AVT.

6.6 Theme Five: Codes and Character

Another theme revealed by directors' experiences is how the effectiveness of codes of ethics depends on the basic good character of the individual actors. AVT places great importance on the role of practical wisdom (phronesis) in applying rules. It posits that if a moral actor neglects Aristotelian phronesis (which includes excellences of character or moral virtue), he or she cannot mediate adequately between moral rules and principles and moral problems (Klein, 1998b).

At least twelve directors shared this attitude, three quotes from whom are found below:

Yeah well for a lot of people, I have to be careful about this, I think they (codes of ethics) can be helpful..... I can remember working as a contractor within a certain organisation where the CEO or the managing director said we are going to introduce a value system and a code of ethics, and he was able to say to his board look what I have done, you know we have done this. And it was bloody bedlam, I was thinking, it dawned on me that there are things that you can read about and you can teach, but if you are not open to learning or you haven't learnt them along the way then I think they are a waste of time. So I think codes of ethics are, I think they are only useful if people's personal values systems align with them, otherwise you get disinterest. [Transcript Thirty-three p4]

The above director believes the effectiveness of codes depends on the dispositions of the people in the organisation.

I mean you can legislate for ethics, you can put all the rules you like around people, but they either have that internally or they haven't; That internal compass or those internal standards. You can say well here are the rules, you know we have got rules about speeding, and you either choose to speed or you don't; you know what I mean? The rules are there and you know when you are breaking the rules, I am

only going 105 I am just pushing it a bit, you make a choice. I am not sure that is the best analogy. [Transcript Thirty-one p6-7]

Again the effectiveness of codes is conditioned by the quality of the internal compass of the subjects.

I would have read the code, certainly when you work for an American company, which I have done most of my life, well a lot of my life, you know they make you read the code and sign the code in blood. But if you have got to read and learn the code and you don't get it, well you don't get it.... you either get it or you don't get it, I don't think reading the code is going to help you particularly. I think it is much more sort of fundamental principles really of what feels right. You know they can train directors on what it says in the code, but I mean it is deeper than that. It is like legislating after Enron and stuff like that; I mean you can't legislate against people who don't want to do the right thing, because they aren't going to do it anyway, if they didn't do it before they aren't going to do it now. [Transcript Twenty-five p8 & p4]

This director also believes that codes will be ineffective if the people do not have good moral dispositions.

Research to date on the effectiveness of codes of ethics is ambivalent as both conceptual and empirical studies have produced conflicting results (Kaptein & Schwartz, 2008); 35% of the studies to date have found that codes are effective, 16% have found that the relationship is weak, 33% have found that there is no significant relationship, and 14% have presented mixed results. But the fact is the adoption of a code of ethics has become an accepted part of business (Cowton & Thompson, 2000; Keeper, 2012). This represents a deontological approach where one's moral duties are enshrined in a code (Whetstone, 2001). Some scholars argue that moral character is necessary for the implementation of or compliance with codes (Arjoon, 2005; Bragues, 2008; Gandossy & Sonnenfeld, 2005; Rossouw, 2008a; Solomon, 1992a; Termes, 1995; Torres, 1997). These authors believe it is the cultivation of character which supplies the know-how of action.

Ethical thinking is not like using a computer manual; looking up a rule and applying it (Hursthouse, 1999). AVT links the ethical maturity of the actor to the ability to know how to act well in a particular situation.

Directors did acknowledge that codes are very important and necessary but at the end of the day personal ethics and character are what count; the effectiveness of codes depends on the character of the individuals. Interestingly corporate governance codes in Anglo-American jurisdictions rely predominantly on codes of ethics to guide ethical conduct (Wieland, 2005). This is a cause for concern in light of these findings. This highlights a specific area where AVT can contribute to the effectiveness of a Kantian approach to ethics.

6.7 Theme Six: Ethics Described More in Terms of Character and Virtue Rather Than Duty or Outcomes

This next theme relates to directors' approach to ethics. When directors were asked to elaborate on their ethics more specifically, most employed terms such as honesty, integrity and respect for others; some stressed the need for being informed and rigorous, courageous, consistent and independent in thought. And five of these directors explicitly referred to their approach as intuitive or instinctive. The literature acknowledges that virtue leads to and constitutes the kind of intuition or perception needed for judgement and action with two interrelated notions-moral virtue and practical wisdom ((Bragues, 2006; Kane & Patapan, 2006; Klein, 1998a, 1998b; Mele, 2005; Solomon, 1992a). The prudent person does not make moral decisions by applying moral rules or principles; his or her excellences of character (moral virtues) are necessary conditions for phronesis and serve as implicit principles for guiding conduct.

The following three quotes represent how directors on the whole tried to explain their ethics. In doing this they give examples of how they dealt with ethically challenging situations. They use terms found in AVT such as honesty and they imply they have made a judgement; they just *know* it was right/wrong. They don't mention using a rule or a procedure.

Well I just think honesty, fundamental honesty is important; respecting people; what I would call integrity which is sort of a truth and honesty. And showing compassion, and not in a soft way, but because you know I still believe you have got to have a steel up your backbone when you show compassion, I think telling people, New Zealanders aren't good at this, they sort of dance around an issue, what they think, so you learn to more and more as you know, in business longer and longer, so being very, very, blunt is not the word but being unambiguous in what you are saying is important..... I guess it just, you don't really need to think about it, I you're your values set is just, it is just fundamental..... Sometimes you will pull over and say is this really consistent with doing things right or whatever your value is, but mostly I think it is instinct.

[Transcript Seventeen p9]

The second part of this above quote above is very revealing as it was a response to how he puts his values into practice. He describes his approach as instinctive. The following director linked ethics to respect for people. Solomon (1992a) believes this characterises AVT but Kant also built one of his rules around respect for people. However this director goes on to say that 'deep down we knew' which suggests something more fundamental than following a Kantian rule.

Like the way you treat people for instance. Or if you look at our employment regulations in this country for instance, and in fact I think that is probably the only time my mind has been challenged around an ethical issue, where there has been a discussion going along the lines of well how do we do x, y, and z to eliminate a certain person from a job, and I find myself saying well actually there is legislation in place around that..... there are things that we, we, the royal we, people would have done in their past which are against the law now. It is very interesting that isn't it? I mean I was involved in a company where 12,000 people were made redundant one day, and there wasn't any consultation or anything, it was just you are out the door by the end of the day, even then when the law was quite different, you sort of knew that wasn't right, just knew that wasn't

quite right. And now thankfully nobody believes that is right anymore. So things have changed over the years, but I think deep down we knew that wasn't really right. [Transcript Twenty-five p5]

The following director gives great importance to honesty and integrity, terms commonly found in AVT. Maybe these were factors taken into account in the process of deciding to buy the business but he does not elaborate on why he should seek to be honest - this seems unquestioned almost instinctive.

Well let me tell you a little story. We bought this business in a city in Europe last year. And we said to the owner of the business, why are you in this particular city and not in the capital? He said it is very simple, there are three lanes; there is a white lane, a grey lane and a black lane. And the moment you cross to the dark side you never come back. So we are there to make sure we stay in the white lane. Now therein lies one of the reasons we bought the business, because the culture of that business was about staying in the white lane, staying honest, staying true, and not being corrupted. And you know for us that was important. He probably thought he was telling a funny story or something that didn't really matter to us, but it mattered a lot because it said to us that there was a thread of truth and integrity in the business that we will not have to convert. [Transcript Eighteen p9]

The phronimos (the person who possesses practical wisdom) can be said to have knowledge of the virtues as general principles, but they are not applied directly to actions or situations in the way in which craftsmen apply the rules or principles of their *technai* to the materials with which they work (Klein, 1998b). The moral virtues provide the essential somatic markers which delimit effectively the area in which a proper alternative or alternatives can be determined; then, according to Aristotle, phronesis can make a wise choice among the alternatives in this delimited space (Klein, 1998b). As Mele (2005) has noted:

Ethical perception depends on certain human capacities, related with character. This capacity to perceive the ethical dimension of the reality is

no more than practical wisdom or prudence (in the moral sense), an intellectual virtue, which is the result of striving for moral virtue (p. 102).

Bragues (2006) has written about the importance of this to handle concrete situations in the business context. According to (Annas, 2004), it is not a theory which tells us what to do rather it guides us by improving the practical reasoning with which we act.

Most directors have described their approach in a way which resembles AVT more than the other two theories. Not only have some of them used words such as honesty and integrity but they have acknowledged that it is a knowledge of the moment, when the judgement needs to be made. Kantian ethics could not be further from an instinctive and intuitive approach and utilitarianism requires an explicit consideration and balancing of outcomes.

Three directors were identified as reflecting approaches similar to Kant and utilitarianism. Their description is distinguished by reference to terms such as duty and outcomes and whether society as a whole condones it. Kant places great importance on the actor considering how the rest of society would reason when discerning one's duty. In fact the first part of the following quote closely resembles Kant's second formulation of the categorical imperative. It also could be interpreted as a Christian precept but it should be noted that this director is definitely not a Christian.

Well simplistically, the person at the end of the transaction will be treated in a way that I would expect to be treated is a pretty good guiding principle..... If ethical behaviour is actually important then by definition a director will be someone who has a desire, inclination, belief to think about the other person in those transactions. We are not talking about how they deliver, because I think I am very hard, but we are talking about if they think about the other person..... I have a belief, I measure the consequences of my belief with the norms of society and find an outcome. [Transcript Eleven p2]

This particular director was *very* interested in the researcher's position and what she was hoping to achieve by the project. So she explained how she was interested in the respective relevance of three ethical theories, describing them briefly. As can be seen this director then used some of these terms (e.g. consequences) but explicitly stated he did not think character was important.

The following quote is from a second interview and the researcher had mentioned the three ethical theories at the end of the first interview but there were several months in between the two interviews. In fact at the end of the first interview he said he thought he was Aristotelian. From the following it can be seen he clearly gives importance to duty and consequences.

So I suppose you could say well the outcome over here is a very good outcome but to get to that outcome I am going to have to take certain steps on the way through which may not be ethically correct. I suppose then you say that is the temptation, I suppose you have to sit down and say well what is the priority, the outcome or the way to get there, the journey. Me I think the answer is well unfortunately the journey is what matters, you know you can't kill 30 people for the ultimate outcome,but it is just the recognition of your duty isn't it? If your duty is to act in the best interest of the company then by definition you can't act in your own interestI am sure there are many things I could have done which would have been to my interest and probably wouldn't have hurt anybody too much. But I said no I am not going to do that because it is not the right thing to do.
[Transcript One-2 p9]

In this next and last quote the director expresses his belief that his personal ethics come from society. This seems to be more a Social Contract understanding of ethics; standards which ensure the benefits of social living for everyone decided by society as a whole (Rachels & Rachels, 2007).

It is probably if I think society would work if everybody would do it, I think, not sure if what I regard as my ethical standards would be, is driven by

would society work if everybody behaved this way. So it is not just the publicity, the concern about publicity, it is, people develop a moral standard within themselves, personal moral standard, and my personal moral standard has always put me whether society would work if everybody behaved that way I think. [Transcript Twenty-nine 5]

It is quite remarkable that only three directors were found to take a more rules-based approach. Of these directors two are lawyers and one an accountant. All three have been very successful members of their respective fields; all are or have been partners in large firms. But some other participants are lawyers and accountants and partners of large firms so this background does not seem to be able to fully account for the difference. Maybe such factors as gender, personality, background or the size of the firm could be explored in more depth in a later project.

This last section has shown how the ethical approach taken by most directors reflects elements of AVT rather than utilitarianism or Kantian ethics.

6.8 Conclusion

This chapter has explored directors' understanding and practise of ethics in relation to Kantian ethics, utilitarianism and AVT. Themes were found which resonated with key aspects of AVT. Directors associated ethics with character and they understood ethics to be more like a know-how learnt over time initially from parents and later through other role models, experience and reflection. Ethics was understood to be part of the fabric of life and it was clearly demonstrated that directors relied on their personal ethics, indistinguishable from ethics called on outside of work. Codes of ethics were considered to be important but their effectiveness derived from subjects of good character. Perhaps most interestingly, some directors understood ethics to be partly innate and intimately connected to one's inner peace. Lastly the ethical approach taken by most directors was found to be more intuitive than rules-based. It was shown how a likeness of each of these elements could be found in AVT but not in Kantian ethics and utilitarianism.

This supports the argument that AVT can potentially contribute to improved corporate governance practice as it can compensate for the deficiencies of Kantian ethics and utilitarianism; it also provides evidence for a tripartite approach to ethics. Moreover it has been shown that moral philosophy may help demystify the 'should' found in the 'what' of the lived experience of ethics. Chapter Seven further explores the experiences of directors in light of AVT. Quotes which most closely resemble key aspects of AVT are presented and discussed to further highlight the potential of AVT to contribute to corporate governance practice.

Chapter Seven - The Contribution of AVT to Corporate Governance Practice

7.0 Introduction

Chapter Six argued that the various aspects of directors' understanding and practise of ethics are comparable to the key elements of AVT; aspects not addressed by Kantian and utilitarian theories. In particular it was demonstrated that directors' personal ethics are very influential in their governance activity. Chapter Five presented how directors' understood ethics to be an integral part of corporate governance and that personal ethics play an important role. Such an understanding was shown to reflect certain aspects of an Aristotelian approach to ethics. Both these chapters then already provide evidence that AVT is relevant to corporate governance practice as it can account for some aspects of ethics in practice not dealt with by Kantian ethics and utilitarianism. This chapter further explores the relevance of AVT for corporate governance practice. The following traces the themes which emerged from second interviews which supply more pondered reflections of the lived experience of ethics in corporate governance. This lived experience is analysed in light of the arguments advanced by Annas (2008) about the phenomena of virtue. It is suggested that due to similarities found between AVT and how directors understand ethics in corporate governance, this theory has the potential to inform directors about how to reinforce good practices, recognise and address unhelpful practices and so contribute to improved practice.

As was explained in the previous chapter, Kantian ethics and utilitarianism are act-centred or right action theories, meaning the act itself is evaluated in light of an ethical principle or rule (Annas, 2004; Arjoon, 2000; Dobson, 2007; Duska, 1993; Koehn, 1995; Rossouw, 2008a; Solomon, 1992a, 1993; Torres, 1997; Whetstone, 2001). The primary question becomes: What is the right thing to do in a particular moral situation? To answer this question, a rule that fits the situation must be produced and applied, which is some version of Kant's fundamental moral principle or some version of the utilitarian principle. Virtue ethics is actor-

centred, in that the focus is on the development of a good character which becomes both the source and object of virtuous action (Annas, 2005; Bhuyan, 2007; Mele, 2005; Whetstone, 2001). It attempts to make the character of the actor basic to moral theory rather than just the intention of the actor (Kant) or just the consequences of the action (utilitarianism) (Annas, 2011; Bhuyan, 2007; MacDonald & Beck-Dudley, 1994; Rossouw, 2008a; Solomon, 1992a; Torres, 1997). This Chapter in particular presents the findings which reflect the lived experience of virtue guided by Annas' (2008) theory about the phenomena of virtue.

The next section presents selected excerpts of second interviews which seem to illustrate the following key features of AVT: character; practical wisdom; virtue; the good life; and role models.

7.1 Character

The experiences shared below, reinforce the understanding of most of the participants in this study, that the ethical approach employed by directors is very much linked to their character; which leads them to rely on the same values everywhere and to assume that actions reflect character and vice versa. Aristotle placed great importance of a good character for the achievement of good governance (Bragues 2008). He characterises bad character as habituated selfishness or habitually acting out of self-interest (Bragues 2008).

This first set of quotes show how directors measure the worth of another's advice by the person's character:

So you go and talk to people, your peers or whatever, people who have been around a long time, experienced in that position, that appear to you as ethical. and I guess if you don't know them personally you then have to make a judgement, make a character judgement. [Transcript One-2-p2]

The above director implies ethical advice comes from a good character.

I am also fortunate, as I have gone about maintaining nurturing relationships that provide me support. So a lot of my friends operate their own businesses who have a high level of personal integrity and skill that I can bounce an idea off, even if it is not specifically to do with them, or a situation that they understand particularly, but they understand the underlying principles of the decisions. [Transcript Thirty-one-2 p1]

The above quote is from a relatively new director who realises he needs to be guided. He also looks for the advice from those he knows to have a high level of integrity; the quality of the advice is linked to the calibre of the person. Moreover the behaviour portrayed in this quote resonates with Annas' (2008) assertion that those learning virtue seek to do what a virtuous person would do in that particular situation. We see this director is keen to conform their own behaviour with persons they perceive as having integrity.

The following director makes very clear that one's unethical actions are not isolated events but are used to gauge one's character - one's trustworthiness as a person and how they may act in the future:

My career is built on trust, I think everybody's is, it is trust, responsibility, the ability to make ethical decisions and seen to be doing so, so the smallest thing can cause it to unwind. Such as the other day in the paper, yesterday, AA who is the chairman of KKK, and the chairman of NNN, he backed his CEO and his staff at NNN when actually the recording shows the staff & CEO had stretched the truth. having heard the tape the chairman still backed his team, and said no I am not investigating, the thing is closed. But they had done something wrong, and so next minute AA is no longer the chairman of NNN. So he made an ethical judgement where he backed his staff, even though publicly, even though they had done something wrong. He should have said look it was a misjudgement, and we will be taking action internally, we apologise to all parties involved, we got it wrong this time and we will work to make we don't get it

wrong. That is what he should have said but he didn't...I have ten directorships and if I did one thing wrong in one of them, then I have basically lost my whole living. So it is very important, so it is very fine judgement, still it is an ethical decision. He made the wrong one. [Transcript Three-2 p7]

In the above quote the director seems to indicate that the general understanding in the business community is that actions speak volumes about the person; that actions reflect character. Although it should be noted that AVT acknowledges that good characters still need the support of structures and culture to help them act well. A person of good character is not bullet-proof (Solomon, 2003).

The next quote is from a first interview but the participant was interviewed a second time. He explains how he judges the ethics of fellow directors:

So those are the key things [a director needs to have]. Now when it comes to ethics, I have never had a set of criteria you know, you do tend to feel you know maybe it is me, let's have a look, how many times have they been married, how are the kids, are they reasonable, you know just some of those very, very simple things. I haven't got a criterion you know, I think I would be acting outside the law anyway you know. [Transcript Five p18]

The researcher explored this response in both the first and second interview. The director explained that such factors can point to fundamental problems in the person. Participant Five links directors' potentially ethical behaviour to their character.

The next group of quotes show how no distinction is made between ethics employed in the governance role and other areas of life and so are connected to the person rather than the environment or situation:

I hadn't thought about it either, butwhy should you be different, why should work be different from how you live your life..... No I don't

accept that because why should it be different from how you live. You know work is a huge proportion of your life, so why should you behave differently from your everyday life as you would in your business, I just don't see the point, I don't understand that. [Transcript Two-2 p2]

As is obvious this director could not comprehend how or why someone would compartmentalise their ethics. Work is just another aspect of your life and you should behave the same way everywhere. Interestingly he then commented that those who argue there is a difference are trying to justify 'stuff' they do at work that does not fit with their personal morality.

I think they are one in the same, I don't think you can compartmentalise your business making decisions, and your personal decision processes. I think that was the point I made in our first interview. That really concerned me, I was being forced in a previous life to actually separate the two out and one set of standards was for business decisions and another one for family. You can't take off your hat each night and make family decisions, put on the hat and then make business decisions with a totally different set of criteria..... It went further than that because I think it actually impacted on the family. How could I give my son a bike with the love and affection associated with it, when I had got it under such a hard one [treating someone really badly]. So the danger I had was if I was treating that woman like that, I could actually end up treating my family like that as well.....Same person you can't have the two hats, and you can't operate on two sets of values..... I think it is at the back of your mind, and as you get older you do realise that they do give you a lot of your values base. And that is really why I was concerned if I was going down a shallow company based corporate behaviour, type values base, and that could quite significantly impact on the family, and my relationship with my wife too. [Transcript Six-2 p2-4]

We can find elements of the three main ethical theories in the above quote. This director refers to being pained by the *consequences* of his actions and he mentions

following two different *standards*. But what scared him most was the fact that his way of behaving at work was *changing him* in a way he did not like; he was becoming a different person because of his approach at work. This reveals an understanding that ‘who you are’ (character) is at the same time impacted by, and impacts upon, your actions. This is not unlike the Aristotelian understanding of the mutual interconnection between actions and character.

Whether it is in business or in life you have to progress, you have to grow, and it would be nice to say that you are born and grow with a set of values that will see you through for the rest of your life, and that is possibly true as a fundamental. But there are a lot of situations that you come across in life that you are not prepared for. So you draw on that kind of inner reserve, or compass if you like on what is right and what is wrong, but around that goes some training and some skills, and if that wasn't the case then we wouldn't need universities, we'd get to the end of high school and know all we needed to know, and that is not how it is. [Transcript Thirtyone-2 p2]

The above director points to the combination of elements that make up his ethical capability - fundamental values, inner compass, skills and knowledge to handle new situations - which encompass *all* one's life; ‘*in business life or in life*’. He seems to indicate that it is the whole person who faces situations; there are not specific procedures or rules for particular facets of life or situations.

The following quote is in response to a hypothetical situation put to the participant:

I would be very concerned about him (a CEO), because if he was unfaithful to his wife, he could be unfaithful to the shareholders, the company and staff as well. It always depends on circumstances. So if his wife was being unfaithful at the same time, you might turn around and say okay there are reasons for that or some other circumstances. But if he was in a relationship where his wife didn't know that he was being unfaithful but he was out there, I would be very concerned. Its personal values and corporate values, and if he is exhibiting those on a personal front then

chances are he is not exhibiting the right values in the company. [Transcript Six-2 p12]

It is clear that this director understands that how one behaves outside of work will affect how they behave at work as, in his own words: *Same person you can't have the two hats, and you can't operate on two sets of values.* AVT also maintains that one's actions influence one's character and subsequent actions. The following quote mirrors the above reasoning.

You are not going to be reckless as a director and careful in your personal life, and vice versa, be reckless personally and be a great director. So probably, I suspect you would be the same in both Yeah I think it would be very hard to be an ethical director I suspect and be an unethical person in your personal life.....A thief would find it hard to be an upstanding director I'd imagine. And I suspect it would be a very hard to be an upstanding director and be a thief person. [Transcript One -2 p3-4]

The following director understands one's ethics to be part of one's identity.

Well I suppose what I really meant by that was something, not that you are born with, but something you develop from a very young age, and is part of what you are, like what I meant by you can't codify things like integrity and honesty, you know you look at the companies act and you say you have a duty to do this, and this and this and this, that is really what I meant. Whereas something about being ethical is much deeper than that, and much more about I suppose who you are, and how your personality has developed and what has influenced it right from day one. So that is probably the best I can explain that. [Transcript Two-2 p7]

The above director makes a direct link between acting honestly and 'how you are' as a person (character). Again the source of ethics is the 'actor' not a rule applied to an 'action'.

In this final quote below the director perceives developing one's character as a type of quest or journey. The person is actively seeking to find the best way of

acting and this involves having experiences which test you and at the same time help you discern which is the best way to act.

You have to make the fundamental decision at some point in time that you have a determination to control yourself. A strong character takes, you have to test yourself. I can sit here and say yes I am a very strong character, but if I have never tested that resolve or that determination has never been tested then it is just hot air. You need support, I think that is a hugely important thing, you need to understand, but it comes down to your own intent for yourself. No, probably not, you have to start with a set of fundamentals and learn as you go like anything. I said before about testing yourself in situations, I mean a relationship is a good one. We have all had crappy ones, and you go into them thinking this is going to be a good one. It is all hearts and flowers and then you start to find communication is not so good, and learn particular things about that person or behaviours that you don't like. If you have never had any of those situations happen to you, when you finally do meet the right person how do you know..... And that comes back to that determination of purpose, whether it is in relationships or learning or business, you have always got to have a goal. Does that kind of make sense? [Transcript Thirtyone-2 p11]

Aristotle explains the notion of character by distinguishing between the activity of making something or production (*poesis*) and the activity of doing something or action (*praxis*) (Sison, 2008, 2011). Good *poesis* is related to the quality of the product, while good *praxis* is related to the quality of the actor who acts. In production the aim is to improve technique while in action the aim is to grow in prudence or practical wisdom. Acting well or wisely or virtuously leads to a good character and a good character leads to wise action. This is why Aristotle places great emphasis on the education of mind and character (Sison, 2008). He believed leaders of good character ensured good governance (Bragues, 2008). For Aristotle excellences of character are far more important than the laws, principles or rules they may later lay down-not that they are not important but they are secondary to excellence of character.

The above excerpts reflect Aristotle's notion of character. Just as he links the quality of governance to the quality of the governor so do these directors. They understand that character is the source of action and so judge the type of character by the type of action and perceive that the quality of advice depends on the character of the advisor.

They also provide an example of the phenomena of virtue as described by Annas (2008). She argues that the notion of 'flow' expresses harmony between reasoning and feelings, the rest of one's character and structured system of goals. Virtue concerns the person's life overall and thus demands a global integration of goals and ideals. Both these directors are perplexed at the idea of such a compartmentalised life. They must to some extent experience 'flow' as described by Annas (2008).

AVT explains that one's character is a culmination of striving for virtue (Bhuyan, 2007; Bragues, 2006). The good life or a flourishing life is a life in which our human capabilities are put to their best use; this is a life lived *kat' areten*, that is, a life lived in accordance with virtue (Flynn, 2008). So the 'good life' of Aristotle has many facets not compartments. A virtue is a stable disposition so if possessed would influence one's behaviour in all and any situation (Alzola, 2008). The virtues of business are not isolated from the rest of our lives (Solomon, 1992a). Accordingly a person's character is reflected in all their actions. So it is clear from the above experiences shared by directors, that one's identity is the product of one's good/bad actions and is evident in all aspects of one's life; life cannot be easily compartmentalised.

7.2 Prudence or Practical Wisdom or Phronesis

One of the major themes from this group of directors is the fact that acting ethically is very much about judgement and intuition according to the circumstances and this ability to judge matures with experience. And that making a judgement call is quite complex. Instinct rather than universal principles or decision making procedures seems to be the best way to describe the experience.

Solomon explains how Aristotle placed great importance on cultivating a certain type of judgement which was necessary to deal with the particular circumstances.

‘Aristotle thought that it was ‘good judgment’ or phronesis that was of the greatest importance in ethics. Good judgement (which centred on perception rather than the abstract formulation and interpretation of general principles) was the product of a good upbringing, a proper education.....what is required in and every particular case is the ability to balance and weigh competing concerns and come to say a ‘fair’ conclusion. What’s say fair is not the outcome of one or several pre-ordained principles of justice, it is a judgement call’ (Solomon, 1992a, pp. 328-329).

Directors spoke of knowing what they should do in the moment and that this ability has developed with ethical experience but they found it difficult to explain more than that. This seems to reflect the above description by Solomon.

It is not a set of rules or principles, you couldn't write it down..... For me it isn't a decision making process, for me it is instinctive, and I don't know why but it is, and part of that is experience I suppose..... So I don't think my approach has changed over time, but I might be able to articulate it better, but I don't think my approach has really changed. I have always regarded myself as being absolutely straight forward and honest about everything that I do. [Transcript Two-2 p1]

It should be remembered that this director has had a chance to think about his approach as for the second interview the questions were sent beforehand. He began by saying he had not thought about this before receiving the second phase of questions and yet he is quite emphatic that his approach to ethics is instinctive.

The following director contrasts the various approaches to ethics which were presented in first the question of the second interview (Refer to Appendix 4). He shares his experience of the limitations of some of the approaches listed in the

question which is valuable in itself. He is also quite certain when he declares his reliance on intuition which has obviously been developed over many years of experience. Again this response is the result of reflection as the questions were sent beforehand.

Okay, well firstly I am not a good rule follower, I think that rules are often an excuse for making decisions because they mean that you don't have to think, you just follow the rules. So it can actually be a cop out. Secondly rules don't often apply to particular situations, and you find that they haven't been tailor made to set of circumstances. So I am not a great follower of the rule book approach, and I tend to have gone off formal decision making procedures. Earlier on I was taught decision making trees, analyse everything objectively and you weigh up, and sometimes you might put in a numerical weighing on some of the factors and you come up with a score that tells you which way to go. So you are examining two options. One option might end up with a score of 70, the other option might end up with a score of 60, you take the 70. I have gone off that approach too because I think that can be quite misleading, and not very accurate. And as I have got older I have come to rely more and more on intuition. It is that first gut feeling, the first kind of 10 seconds or 30 seconds or so. There have been times when I have rationalised a situation, gone against my first intuition and I have come to regret the decision. So more and more, and then of course the real trick with intuition is then actually communicating it to others. Because in a board situation you are only one of the number of decision makers around the board table, and you can't turn around to your other directors and say: 'hey fellas, intuition, gut feel tells me this is the right thing to do' and stop there; so then you have actually got to explain it.

[Transcript Six-2 p1]

The following quote is from a second interview but the director seems to be surprised by the question and grapples with articulating a response. This is because he did not get to read the questions prior to this second interview. It is clear he relies on his 'honed' instincts. He told me on another occasion that a

board meeting is like a rugby match and it all happens between the whistles. This perspective on the board meeting may explain his preference for relying on instinct.

R: Where do your ethics come from?

I should ask you that, I don't have a bloody clue!.....That is too deep for me, I mean I don't think like that, I can tell you the situations, why I felt like that,all the peers around the board felt like thatAnd I would probably say instincts.....Instincts and maybe experience, but I think your experience drives your instinctsI think they (ethics) are changed, magnified, reinforced because of your life experiences. You know I just gave you an example of a life experience, and reliving it again wasn't easy, but in my heart I know the right thing was done thereI think it (experience) actually helps hone your instincts, you know I have learnt to really trust my instincts, you know I really trust my instincts. [Transcript Five 2-p2]

This director in the quote below seems to be sharing how he learns from his experience; a reflective process which contributes to improving one's ethical capacity for next time.

And I think deep down we would all say I didn't do that so well yesterday or I could have done that better, and that is all about your own learning isn't it? [Transcript Twenty-seven-2 p3]

This next director understands that the complexity of ethics is overcome by having a well developed ethical capacity which will supply the appropriate guidance in the moment; somehow that person will know what they should do but another person may be very confused.

And I guess it (TV reality programme on ethics) illustrated the complexity of it, how ethics depends on circumstances. I think if I remember rightly, (only saw one or two [those TV] programs), it also demonstrated that if you have got a strong ethical base it is actually easier to navigate through that

complexity and to sort out which are the correct versions for you as opposed to the ones that aren't. [Transcript Six-2 p13]

The following director makes a similar observation.

I think that your, I think your position changes with experience. I think the more experience you have, and the more you have seen, and the more you have to grapple with things, the more comfortable or able you are to make decisions. And the more able you are to see issues when they come up, because some things are very complex. [Transcript One-2 p3]

Bragues (2006) has written about the importance of phronesis (practical wisdom) in the business context. He explains how practical wisdom has the task of guiding action through the mazes of particularity. He reminds us that human behaviour is messy and unpredictable and to act well one needs a certain sensitivity to the particular good of the people involved and to the contingency of the circumstances. Directors have revealed they rely on their own wisdom not rules in this messiness. One director tried to use the following analogy (which was mentioned above) to explain how important good judgment is in the corporate governance context and why he did not really know why he made the calls he did:

The boardroom is like a rugby match, you know and the board meeting is in a set time period. You can train as much as you want but it actually happens like in a rugby test match, you know you either win between the whistles or you can think about it afterwards when it's too late. [Transcript Five p21]

Phronesis guides us when we start thinking about how to act (*praxis*). It's the capacity to make wise decisions regarding which virtues are called for in particular situations and the best way to enact those virtues (Fagothey, 2000). It makes sense that directors find it difficult to articulate why they 'just know' in the moment as phronesis is an internal type of wisdom grasped only by that person in those circumstances.

As Aristotle stated, “The prudent individual consistently makes the right decisions to further every facet of a good life for himself, making sure to maintain their health, finances, social relationships and *most importantly moral virtue*” ((Aristotle, Trans. 1976, p. 1140a). Having the habit of prudence may appear like an instinct to directors. This instinctiveness or intuitiveness is not unlike Annas’ (2008) description of the experience of virtuousness-responses to situations unmediated by thoughts that represent oneself as somebody trying to do the virtuous thing.

Other quotes in this section speak of an ease or facility of knowing how to act in the moment which resonates with Annas’ (2008) explanation of practising virtue- an activity is experienced as effortless and unhindered and captured by the metaphor of ‘flow’. One director explains how practise and experience make one more comfortable or able to make decisions. Another director comments that their strong ethical base makes it easier to navigate through the complexity of an ethical dilemma. Moreover both of these quotes use words such as ‘grapple’ and ‘navigate’ to describe their experience. This reflects Annas’ (2008) explanation that ‘flow’ is not a mindless letting go but an activity which involves responding to feedback, paying attention to what is happening, coming up with new solutions to unprecedented difficulties. In a similar vein Annas (2008) emphasises the active role played by the intelligence in virtuous activity. She states that the virtuous person is sensitive to what is salient in a given situation. One director comments how their ethical approach increases their ability to see the issues when they come up.

Further research is needed to go deeper into this aspect of directors’ experience.

7.3 Virtue

As explained in previous chapters virtues are dispositions which enable a person to pursue moral excellence (Bragues 2006). It is difficult to find out directors’ understanding of virtue as it is very subjective and intimate to the person in the moment the virtue is being exercised. Annas in exploring the phenomenology of virtue speaks about the notion of ‘flow; that a virtuous person is not even aware of

their own virtuousness and that they operate in a virtuous way without actually turning their mind to deciding to act virtuously (Annas, 2008). When the researcher came across this statement she wondered about the feasibility of her project. However some directors seem to reflect this experience.

What's at stake if you compromise your standards? Yeah I don't know the answer to that, because I have no comprehension at all of compromising in what I do, that might sound arrogant, but that is the way I feel about it. It is not something that I would even think about.....Yeah I, if that is what you mean; you have situations where you had to make decisions, but if you believe in what I believe in you just make those decisions as a matter of course and won't think anything of it. And if people think that then they won't even worry about it, they might not even realise what they have done.
[Transcript Two 2 p7-9]

The researcher was at first a bit disappointed with this response as she was hoping for a profound explanation. However upon re-reading the article of Annas (2008) it seems there is some similarity between Annas' conclusion and this director's experience.

The following also seems to reflect the Annas' (2008) description of the 'experience' of virtue. He emphasises that he just does not think about some ethical behaviour; it is just part his way of behaving.

Yeah I think, I mean there are some ethical situations that have huge ramifications and you make a decision; then there are the ones that are so clear that you make them automatically. So I treat you with respect today, I mean that is part of my ethical make-up, I just do it sub-consciously, I don't sit down and think will I treat her ethically or not, that is just part of who I am, so yeah there is the big and small in there. [Transcript Six-2 p10]

In fact Annas (2008) suggests that the experience of virtue is unselfconscious, in that it excludes a self-conscious working out of what virtue requires. The above quote reflects this: 'I don't sit down and think will I treat her ethically or not, that

is just who I am'. And in the previous quote: 'It is not something that I would even think about'. Annas (2008) argues that a virtuous person is not even tempted to give in to what would motivate a vicious person even though they are not unaware of the shortcuts and self-indulgences foregone.

The next director when asked to list his ethical values included hard work and efficiency which may mean that for him there is a connection between ethics and excellence which resonates very much with Aristotle's understanding of virtue (Solomon, 1993).

Integrity, enterprise which is also hard work, you have to earn it, fairness, want to be fair and reasonable in all situations; transparency so everything I do has to pass the smell test, or the mum test. If I did this and it got out in the media how would it be perceived, or if I did this and my mum found out would she be proud of me? She might not understand it, but if she could see that I did it in an ethical, reasonable and fair way, would she be proud of that decision? And the last one is efficiency, am I doing my best in this situation. And it is not just my own efficiency, but is my action creating efficiency for other people, or allowing other people to do their jobs (p2)..... So what hasn't been spoken about is courage, you have got to have a lot of courage. Sometimes doing the right thing has a huge cost, and that is really scary. [Transcript Thirty-one-2 p9]

The above director even uses the phrase 'doing my best'. Few ethical theories consider working well as an ethical issue whereas for AVT it is just one more area in which to pursue moral excellence. As has been discussed above, from an Aristotelian perspective, carrying out an activity or role well amounts to virtue and therefore is ethical (Moore, 2005; Solomon, 2004).

7.4 The Good life

Aristotle's notion of the good life is an all-inclusive, holistic concept; it includes personal and professional life but it is ultimately one's character that determines

happiness, not the bottom line (Solomon, 2004). This is reflected in the following quote. The director seems to equate moral excellence with a happy life.

R: how would you describe a worthwhile life?

Yeah I have pondered that one for quite a long time. My own personal feeling is that if you aren't true to yourself which is another synonymous term with ethics,if you are not true to yourself on a fundamental level, I think you will always be slightly dissatisfied with your life..... I have a friend who is a CFO for a big YYY company, his base salary is US\$1million a year plus stock options. He owns a very large house in XXX for the two times a year that he comes over, he has a Mercedes parked in the garage, his company car is a five series BMW, or three series BMW, but he doesn't think it is good enough so he uses the three that the company gives him to buy the groceries, he drives the five for his own personal enjoyment. He makes a lot of decisions in business that I know grate on him, but it's for the greater good of the corporate structure; probably one of the most unhappy people I have met. And I don't think, and he can look back on a huge number of corporate achievements,but is he fundamentally satisfied? I don't believe he is. And he is constantly, questioning himself, he is caught up in the corporate machine, he is used to a lifestyle with that level of remuneration and that level of activity that offers him, but fundamentallyhe is unhappy. And he has told me a number of times, oh man you seem so much happier than me how do I get that? Well at all times I have been true to myself.I never really thought about it in those terms. I don't cringe when I get up in the morning, I can live with myself, I can look at myself in the mirror and go I did the best I couldso somewhere along the way he lost his way a bit. For me, if at my eulogy they say hey he did the best he could, he was as fair and reasonable as he could be, he was good to his kids, kind to his wife and was nice to animals. I am okay with that, you know what I mean? I don't necessarily want to be remembered as a captain of industry or that kind of

stuff, but I do want to be remembered as somebody who operated with integrity. [Transcript Thirtyone-2 p12]

Throughout this narration he refers to doing his best in all aspects of his life which is the source of his happiness. Moral excellence is not found in a vacuum but forms part of and contributes to a life 'well-lived' in general. The above director reveals aspirations of aiming for the best in everything but most importantly moral excellence. Striving for moral excellence, which is the essence of the good life, (honesty, loyalty, fairness courage) is like a two-edged sword; doing good and well are two sides of the same coin and lead to inner fulfilment. "for Aristotle, a fulfilled, happy or successful life consists finally in living entirely virtuously, together with moderate good fortune, throughout an entire lifetime" (Hutchinson, p. 203).

Annas (2008) notes how the Stoics described the life of virtue as a happy life and as a good flow of life and how Plato understood virtue as a harmony of the soul's diverse parts. In the above quote the director places great value on integrity-that his life is unified by his effort to do his best in all aspects of his life. He even makes the link between happiness and this integrity of life.

This next director reinforces this point about the link between moral excellence and happiness. Failure to seek moral excellence brings unhappiness.

R: what is at stake if you compromise your own standards?

Look, again my response to that is I think my feeling of self-worth and my own self esteem is at stake. I think if you were really compromising your values and you went along with it, then what does it say about you, what you really believe in, I think it is saying one thing and doing another. So I think it is a real fundamental issue. [Transcript Twentyseven-2 p5]

It can be seen that the pondered reflection of these directors reveals an intimate link between ethics and personal fulfilment.

7.5 Role models

In a previous section on character it was noted how Aristotle gave a lot of importance to education in character; and that this education involved discipleship and mentoring (Sison 2008). Annas explores in more depth the Aristotelian notion of acquiring virtue and the importance of role models for that process. “We all start with some conventional grasp of virtue that we pick up as we grow up from parents and teachers” (Annas, 2004, p. 70).

The next two quotes seem to confirm the vital role played by parents for having the virtues we call upon as adults:

Where does an ethical trait come from? I think it is your upbringing; it's your parents, education, your learning. I don't know that my code has changed, I am sure it has evolved though, I am sure you get more experience, you see different things, you refine your code. But I don't think your code fundamentally changes. [Transcript One-2 p5]

In speaking about the importance of ‘the tone at the top’ and role models in the family the following director explains:

I also have a brother, who is a cop, and he says there are, what they call inter-generational criminals, you know kids who as babies are used to covertly hiding stuff that they steal from supermarkets. So if you grow up in that environment your goal posts are in a completely different place to everyone else's. And while you can, or society puts some rules around certain sorts of behaviours, if you start from that base line you have a hell of a long way to come up. And that is really difficult and I don't know what the answer is to that, and I am glad that is not my area of speciality. So a lack of role models contributes to the problem. So how do you develop an ethical framework coming from that environment you know, very, very difficult, and I have deep respect to those who do. [Transcript Thirtyone-2 p9]

This director makes the point that the example given to a young child is very influential; this may explain why so many directors still remembered what their parents taught them.

Elsewhere Annas (2008) elaborates upon how the learner actively adopts and personalises what initially has been received:

We don't become virtuous over night or without effort..... It is a process which requires time, experience and practice. It requires learning and thus requires teachers-parents, school teachers and other role models of various kinds. One learns what the teacher does as the teacher does it, but at some point the learner comes to practice the skill herself, in a way not dependent on simply doing what the teacher does (p. 23).

Many directors spontaneously pointed to the example set by their parents to explain their own ethical code. Some even made the connection to their own experience as parents and grandparents. But all said they had embellished and fine-tuned what they had received with the experience of life and reflection.

I think it is mainly a function of nurture yeah, I think that the environment that you grew up in your formative years primarily set the platform that you operate on, but I think as you get older and you get a bit more mature, and you make up your own mind about what's right and what's wrong, we will move away from our parents view. But there are not too many people, in my experience, who take a radically different ethical moral stance to their parents. [Transcript Ten p9]

In the next quote the director emphasises that you have to put in effort to develop your ethical framework; to reflect on your experiences, otherwise there is no learning or development.

Yeah I like to think that if you are examining yourself and you have a set of values, then those mature. But if you don't have a sense of values then you have nothing to mature and you might just stay on that plane. So you get criminals getting locked up at 65 who have been career

criminals all their lives and they are not changing as they get older. You get business people who are just rough and tough and bastards as, in their 60s as they were in their 30s. And you get other people who do dramatically change as they get older. [Transcript Six-2 p9]

Developing an ethical capability over time based on role models is unique to AVT and directors are adamant that this characterises the basis of their ethical framework.

7.6 Multiple Facets

The following two quotes reflect more than one aspect of AVT and how these different aspects are connected. They are long but it was thought to be more important to represent this quite robust reflection of virtue theory rather than to have shorter quotes. This highlights how AVT accommodates the fact that ethics occurs in the context of life and it is quite artificial to separate the different elements as they are so interconnected and embedded in life experience.

7.6.1 Character / Virtue / Prudence / Role Models

This director repeatedly said he had never really thought or spoken about this sort of thing to anyone. It was refreshing to witness this sharing of his experiences.

There are no rules or guidelines but it is instinctive and intuitive ... and it is something that is inherent in the way that you do things, and that might not be the same for anyone else. But for me the ethical part of it is about morality, and the same sort of morality that you may have for whatever you do in life applies to a business context, and it is all based on honesty and integrity but, and I don't know if everyone else thinks like that, but for me it's something that, I suspect it's a learning thing from a very young age, I don't know, how do people grow up to have a strong moral code or ethical code, they learn about it from their parents don't they? Well I think, well obviously, well for me they are fundamental and inherent, and obviously rooted in how I was brought up as a child and what my parents

are like and what my schooling was like and all those sorts of things, and I assume that is the same thing for others but I don't know. I can honestly say I have never talked about this stuff with anybody Well they (my parents) are just normal ordinary sort of people.... But I don't know, there is nothing you would say is outstanding about them, they were just ordinary good people really. And they, for them family and education, and the sort of ethical and moral stuff that I am talking about were pretty important, and that was obvious to all of us. They made a lot of sacrifices to make sure that we had what we wanted and we went to school, and we went to church and we did all the things that we did. They were just good people. [Transcript Two-2-p1]

This director was asked to describe his approach to ethically challenging situations. He clearly characterises the approach as learned but based on an inherent instinct or intuition rather than applying a specific rule; and he asserts that this is how he operates in and outside of work. He seems to understand his approach as a disposition to be honest and have integrity in whatever he does and that he has learnt it primarily from the example of his parents, who he describes as 'good people'. We can identify several elements of AVT which have been outlined in previous chapters. A learned disposition seems to be the key tool used by the director to judge and act with integrity and honesty; and seems to resemble phronesis or practical wisdom. Practical wisdom is the ability to know which virtue is called for in particular situation and how best to enact it (Fagothey 2000). Several authors describe practical wisdom as of the greatest importance in ethics, as acting ethically is basically a judgement call (Arjoon, 2008b; Klein, 1998a; Mele, 2005; Solomon, 1992a). The director is certain he has learnt much of his ethical approach from the example of his parents as he was growing up. This seems to support Aristotle's insistence on the need for good role models for the proper education of character (Annas, 2004; Bragues, 2008). At the end of the quote he emphasises that his parents were good people perhaps revealing an understanding that their example was just a result of their character. This notion is central AVT; the development of good character is the result and cause of virtuous action (Annas, 2005; Bhuyan, 2007; Mele, 2005). This is also reflected in

the fact that he describes this disposition to act honestly and with integrity as innate and inherent in him; part of who he is, part of his character. Finally he seems to indicate that he seeks to act with integrity and honesty, habitually or dispositionally. This resembles a typical definition of virtue: a disposition engendered in us through practice or habituation (Crisp, 2000) .

7.6.2 Role Models / Prudence / Experience

In the second interview participant Three was much more forthcoming providing a variety of examples where he had had to make judgement calls in situations which were not clear cut. The questions had been sent prior to the interview so he had had time to reflect on his approach. The interview had started late due to traffic problems of both parties and he had a board meeting straight after so the time pressure I think assisted the spontaneity and succinctness. In the following he is trying to describe his ethical approach.

It's a judgement thing and there is a gut feel and there is what's honest and you know what would my grandpa do, that sort of stuff, that is what you have to rely on. That is my definition of integrity and should be complemented with advice, so generally you would take your lawyer's advice, legal advice whatever, and you would consider all that, but at the end of the day you would have to make a decision. And legal advice is not necessarily the advice you take because this is grey. If the legal advice says it is very, very clear, the law says you have to do this, then you do it obviously. But when it's on the one hand, or the other hand, it is an internal intuition type thing on what you think is right Yeah I think you go through, maybe it starts when your hand gets smacked when you are three years old, you probably say from experience, in ethics you say well that is ethically correct, that is where my judgement sits, and then you carry on with that until something happens, you know a point where there is judgement or something. And as you are proceeding through business you are learning through people and you watch others and you see decisions made, and you say I wouldn't have made it that way. Or you say oh crikey

he is right, I would have done something which now I think is wrong you know I would have thought to do X was OK but now that I think about it, it's not according to integrity and high standards, so you capture that and put it in your ethics warehouse and you continue, so you are not born with a, probably you could be one end of the scale and back off a bit, or you will continue to learn. I don't know, I think I have always had a strong view, but it is refined and examples have come along and I have been able to learn from those. [Transcript Three-2 p2]

The researcher asked this director to think about a specific ethically challenging situation and to describe how he approached its resolution. The researcher was impressed at his effort to reflect on his approach; many directors found this quite challenging. He revealed how he relies on a combination of role models. He sources his basic values from his upbringing and also describes how he adds to his 'warehouse' by observing and reflecting on the behaviour of colleagues. This is not unlike Annas' (2003) explanation of how one learns to be virtuous. She explains how we start as learners and eventually master the skill with time and effort. This director even mentions reflecting about what one of his role models would do.

In a specific situation this director's starting point is the gut feel or judgement call which seems to be the result of all his learning from role models and experience. This looks like an accumulated wisdom not unlike phronesis. In fact Aristotle described phronesis or good judgement as the product of a good upbringing and proper education (Solomon, 1992a). This director even uses the term 'judgement call' which is used by Solomon in describing phronesis.

7.7 Governance as *Praxis*

The above analysis lends credence to the scholarship of both Smallman (2007) and Sison (2008, 2011) who have suggested that corporate governance should be viewed as '*praxis*' in the Aristotelian sense. Corporate governance is an instance of action rather than production; so good corporate governance is measured by how it impacts on the character of the governor (Sison, 2008). Sison (2008) is

critical of the current approach to governance which seems to forget that the outcome of good governance cannot be separated from the internal or personal dispositions of the actor. He claims that most approaches to governance treat governance as production - to produce codes, structures and processes - instead of focussing on the acts of governance and thus the governors themselves; what these acts reveal about the governor and how do they impact on the character of the governor. Sison's (2008) view supports the growing call by corporate governance reformers to focus attention of the personal ethics of governors; personal ethics influence the quality of governance because of the link between character, judgement and action as explained by AVT.

Smallman (2007) also complains that the focus of the recent reforms has been the tightening of requirements around board structure and procedure but these have little to do with governance as *praxis* and particularly *eupraxia* (good action). He argues that reformers need to find out more about the directors themselves; "their knowledge, experience and skills: we need more evidence from acts of governing rather than the output from such acts if we are to develop a deeper understanding of governance; we need to understand directors as well as the artefacts they produce" (Smallman, 2007, p. 243).

Treating corporate governance as *praxis* emphasises the two-way connection between the character of the actor and the resulting behaviour and thus an actor-centred approach to ethics. This is distinguished from the act-centred approaches to ethics such as utilitarianism and Kantian ethics which evaluate the action in isolation from the actor. Much of the experiences shared above place great importance on the development and quality of character for the excellent execution of corporate governance; which inevitably includes moral excellence. There is little talk of codes, rules, decision-making procedures, books or training and a lot of talk about upbringing, role models, learning, character, wisdom and being true to self.

7.8 Conclusion

This chapter has explored in more depth directors' experiences. The analysis has used second interviews where the questions were sent prior to the interview, which means directors had more time to ponder them. As can be seen, AVT can account for certain aspects discovered in directors' lived experiences of ethics unlike Kantian and utilitarian theories. Directors' understanding revealed an intimate interconnection between one's identity and the quality of one's actions which evokes the Aristotelian notion of character. Directors understand ethics in terms of a capacity to judge well amidst the messiness of the lived experience which is not unlike phronesis. Interestingly directors' experience of virtue seemed to resonate with Annas' (2008) conception of 'flow' in that their descriptions are characterised by harmonious effortless activity which is almost automatic and unconscious. Directors seemed to identify with Aristotle's idea of eudaimonia or the good life when equating happiness with 'doing one's best' in all aspects of life but particularly in seeking moral excellence. It was clear that directors attributed their ethical capacity to the nurturing of parents, and peers combined with their own effort to reflect and learn from experience; a process which is a key aspect of AVT. And finally it was suggested that the findings and discussion of the previous three chapters allow governance to be designated a *praxis* in the Aristotelian sense; that there is an intimate link between the character of the governor and the quality of governance. Such that the better the character the more excellent the governance which by definition includes moral excellence.

Chapter Eight - Conclusion

8.0 Introduction

This Chapter discusses the theoretical and practical implications of this study for the practice of corporate governance and business ethics. The aims of the study were fourfold. To explore: directors' understanding of the role of personal ethics in corporate governance practice; how directors' understand and practise ethics; how to better articulate the relationship between philosophical and descriptive ethics; and the potential for AVT to inform corporate governance practice. The Chapter is organised as follows. The first section outlines how directors' understand the role of personal ethics in their task and discusses this in relation to the corporate governance structures and the approach to reform in Anglo-American jurisdictions. The second section highlights how directors' understanding of ethics reflected features of AVT and explores the consequences of this for philosophical business ethics and corporate governance. The third section outlines in more detail how AVT can inform corporate governance practice. The fourth section discusses the implications of these conclusions. The final section suggests areas for future research and acknowledges the limitations of this thesis.

8.1 The Role of Personal Ethics

Directors' perceive ethics to be an intrinsic part of good corporate governance; and their understanding of ethics in corporate governance is clearly associated with their own personal code. Although initially directors spoke about corporate governance practice in terms of the typical text book features without mentioning ethics, further probing revealed that they understood ethics to be essential to their task. The central role of personal ethics was overwhelmingly confirmed by the findings in Chapter Six in particular. This is what they call upon when carrying out their task and codes of ethics, structures or systems are of secondary importance in this context. This study definitely confirms Jayne's (2007) findings that ethics is a significant feature of corporate governance practice and that the

effectiveness of laws and rules depends on the character of the directors themselves. Furthermore, in light of Keeper's (2012) study this finding confirms that directors' personal ethics are of vital importance for better governance practice. She concluded that NZ companies and regulators do not appear to place a high degree of importance on ethical practices because of the general apathy towards disclosure of codes of ethics.

This understanding that ethics is integral to corporate governance practice was also reflected in the way directors understood themselves as ethical role models. They acknowledged that they were always on show and that their everyday actions (as opposed to words) in particular influenced the ethical organisational culture. This finding makes it imperative to place more importance on fostering role models in organisations in light of research which demonstrates that ethical leadership and top management support are more important in developing an ethical culture than codes of conduct and ethics training (Jose & Thibodeaux, 1999; Paine, 1994). They understood ethics was embedded in the complexity of life and entailed bringing one's character and judgment to the task rather than following the code of ethics. This emphasis on judgement and the teaching power of role models resemble key aspects of AVT.

Many directors associated doing their job well with ethics which also indicates an understanding that ethics is essential for excellent governance; this reflects an Aristotelian understanding of ethics. It was shown how directors' perceptions of ideal corporate governance behaviours resemble to a certain extent virtuous activity from an Aristotelian perspective; that being ethical entails fulfilling one's purpose or role well by being properly informed, contributing to a healthy debate, avoiding both self-interest and an exclusive concern for maximising profit. These findings justify calls by some scholars for governance reformers to direct their attention to the personal ethics of directors in order to improve corporate governance practice. Directors' personal ethics do influence how they practise corporate governance and so improving personal ethics may help achieve best practice corporate governance.

So the findings confirm the view reflected in Principle One of the New Zealand Principles of Good Corporate Governance Practice and the accompanying commentary: Directors should *observe* and foster high standards of ethical conduct; unless directors and boards are committed to high ethical standards any governance structure in place will be ineffective. Individual commitment to ethics on the part of the director contributes to excellent corporate governance.

These disclosures by directors are at variance with how ethics is presented in Anglo-American corporate governance codes. As argued by Collier and Roberts (2001) and Bhimani (2008) these codes are captured by agency theory which accounts for the need to make explicit references to ethics (such as requiring a code) and the emphasis on restraining self-interest; these governance codes commonly recommend that the code of ethics set out explicit expectations in respect of conflicts of interest, bribery and insider trading, among other issues. However directors' understandings do not reflect this perception of ethics. As was discussed above directors associated excellence and ethics such that ethics was understood to be an intrinsic and positive dimension of governance; being informed, asking the appropriate question or ensuring one's competence were understood as ethical issues. Their understanding reflected ethics as a dimension of practice rather than an additional responsibility over and above developing and implementing appropriate structures and systems; governing well was not exclusively about effectiveness and efficiency but implied being ethical.

Implications of the above are outlined in a later section.

8.2 How Directors Understand and Practise Ethics

Directors' understanding of ethics revealed features which are similar to elements of AVT; features which Kantian ethics and utilitarianism do not attempt to explain. Directors relied on their personal ethical values in their governance activity and attributed these to their parents; learnt from their example rather than their words; AVT acknowledges that ethics are learned and particularly initially from role models such as parents. Directors found it difficult to share their ethical experiences and many attempts ended in concluding that it's about judgement and

experience in the moment. When elaborating on their approach they used words such as intuition, instinct and judgement. Some explained how this developed over time with experience, observing others and reflection. This phenomenon was shown not to be unlike phronesis. Directors' understanding of ethics also seems to be based on something similar to the Aristotelian notion of character. Most understood ethics to be part of their identity; they made a clear connection between ethical actions and a person's character and vice versa. Many did not mention the code of ethics or other rules and some explicitly said that the code is as good as the character of the people subject to it. They understood ethics to be in everything rather than in an isolated incident and that their approach and values were indistinguishable as between work and home; which points to an ethics based on the person rather than the situation. This finding reinforces Archie Dunham's (Conoco Phillips' CEO & Chairman) assertion that ethical leadership is founded on the character of the person; Dunham gives tremendous importance to the whole person and is adamant that senior management must be role models in and outside of work (Hill et al., 2005). Many directors pointed out that being ethical is necessary for inner happiness and their sense of self-worth; that ethics is to some extent innate or 'comes from within' so that maintaining their integrity is important for a worthwhile life. Aristotle claims a virtuous life ensures a happy life. Directors of good character will protect and preserve the central role of ethics in corporate governance practice.

The above findings also support the codes of ethics scholars who argue that good character contributes to code effectiveness. This is significant for Anglo-American jurisdictions where ethics is encouraged mainly by implementing codes of ethics.

The findings also support a tripartite approach to ethics. This approach holds that ethics is multifaceted and that combining the three main ethical theories better caters for this complexity. Rules, consequences, character and practical wisdom are all important in fostering ethical conduct. This study has shown how Kantian ethics and utilitarianism are inadequate in accounting for many aspects of directors' experience and AVT helps to complete the picture to make better sense

of this. Directors acknowledged the need for rules and to be cognisant of consequences but they placed more emphasis on character and a cultivated judgement. This also supports the argument that AVT should be treated as a supplement to Kantian ethics and utilitarianism in business ethics research and education.

Furthermore directors' experiences revealed that the 'what' or the actual experience of ethics contains the 'should' or the moral standard showing that descriptive and philosophical business ethics are both needed to fully capture the lived experience of ethics. This is progress and corroborates Byrne's (2002) admonition that business ethics must be grounded in philosophy if it is ever to achieve maturity as a discipline comparable say to biomedical ethics. Moral philosophy helps to demystify and understand the standards beneath the law that people actually seek to rely on in the business context. Business ethics researchers should acknowledge that moral philosophy is relevant to descriptive research; AVT presents a framework which accommodates both the contextual and the moral aspects of the business ethics experience unlike the more abstract moral theories of Kantian ethics and utilitarianism.

The implications of the above are developed later in this Chapter.

8.3 AVT and Corporate Governance Practice

The above conclusions were reinforced by the deeper analysis provided in Chapter Seven. On the whole more pondered reflections revealed an uncanny similarity between directors' approach to ethics and AVT. Directors undoubtedly associated actions and character and expected consistency between personal and professional life. This reveals an understanding that every action contributes to and reflects who you are; they understood that the quality of governance depended on the quality of the governor. This resonates with the Aristotelian notion of character and reinforces Sison's (2011) proposal that corporate governance be recognised as *praxis* in the Aristotelian sense. They spoke of acting on instinct, honed through experience and reflection which enabled them to make appropriate judgements in the moment - 'between the whistles'; many acknowledged that this

intuition was built on learning from parents and other role models but required personal examination to develop this ethical capacity. This seemed to look a lot like the Aristotelian notion of practical wisdom or prudence; a phenomenon unfamiliar for Kantian ethics and utilitarianism. But further research is needed to assess this appearance of similarity.

Some directors described this instinct or intuition as innate or inherent and many found it difficult to articulate the ultimate source of their ethical sense. This seemed to be some type of latent disposition which is actualised and developed through learning from role models. Aristotle and neo-Aristotelians situate the seeds of virtue in human nature. As discussed above, when pondering the appropriate approach for this study the researcher decided that the phenomena of directors' perceptions of ethics called for a qualitative approach situated within an interpretative paradigm; even though she intuited there may be the necessity to accommodate the possibility that individuals' understandings of ethics are not purely subjective; that they may be informed by an internal objectivity. It was noted that the only serious attempts to map the paradigm territory in business ethics uncritically assume there to be an objective-subjective dichotomy (Brand, 2008; Crane, 1999); this study suggests this paradigmatic dichotomy is inadequate to properly explore and analyse the data collected.

Neither the researcher nor the directors ever mentioned the term virtue but participants referred to a habit-like experience; an almost automatic instinct or a responding without realising which is not unlike Annas' (2008) description of the 'experience of virtue as 'flow' from the point of view of the subject. 'Flow' expresses harmony between the interior and exterior of the acting subject which includes a quasi-unconscious sensitivity and clarity as to what should be done. This is an expression of the whole person so there is no tendency to compartmentalisation. This was illustrated by some directors' consternation at the prospect of having differing standards as between their personal and professional life. Moreover 'flow' does not indicate a passive activity but makes space for an active element. When the subject needs to deal with a new situation or tricky circumstances they are able to face these with ease, quietly confident of what

needs to be done, unconsciously guided by ideals firmly integrated into who they are. Directors used words like ‘grapple’ and ‘navigate’ which reflect this proactive element.

It is important to note at this point that underlying the contribution of this thesis is the phenomenological approach. This methodological approach has led to the discovery of phenomena which other methodologies would not have captured. Ethics and virtue in particular is action which is manifested in the lived experience and which the phenomenological approach is best suited to capture. It is experience in which the subjective aspect is just as interesting and important as the external aspect. This is because the subjective disposition of the actor in the moment is pivotal in determining whether the act is virtuous or not. Only a phenomenological approach is able to capture this experience characterised by ‘flow’. The methodology facilitated the conclusion about the relevance of virtue ethics for the practise of corporate governance. It was crucial to be able to explore the experience to access the disposition and intention of the actor.

Two directors associated aiming to do one’s best with ethics which is how Aristotle explains virtue. And finally directors felt that compromising their ethics amounted to jeopardising their happiness and sense of self-worth. Again this finding points to the existence of a reality within the human being which seems deeper than a social construction. One of the main tenets of AVT is that the good life is not exclusively a subjective phenomenon; a happy or flourishing life is a virtuous life is to a certain extent based on something objective, a virtuous life. More research is needed to explore this parallel but again AVT goes further towards accounting for this link between ethics and personal happiness than Kantian ethics and utilitarianism. Corporate governance is *praxis* as the calibre of this particular activity is very much dependent on the excellent character of the governor.

AVT captures and explains many aspects of directors’ experience of ethics in corporate governance so it can be a source of knowledge to help develop and improve the practise of ethics in corporate governance. In the context of education

and training, directors will be able to relate more easily to AVT as compared other theories as to a certain extent it reflects how they already understand ethics in corporate governance.

8.4 Implications

It is useful to return to the clarion call made by Leblanc and Gillies (2003) for scholars and regulators to stop and re-group:

What the disconnects between what directors think, what researchers can prove, and what regulators regulate, probably mean that the proper type of research on corporate governance has not been done, or, it has been done badly. More significantly, it means that regulators, chief executive officers and directors, when they are searching for ways and means of improving corporate governance, are functioning in a knowledge vacuum; that is, they are making regulations and decisions without any real knowledge about what is going on in boards of directors or, at worst, on the basis of an incorrect understanding of the major factors impacting on corporate governance (p.7).

Currently, corporate governance reform scholars place little importance on the role of personal ethics in influencing governance practices and few have advocated the cultivation of good character to achieve good governance. This research has provided some clarification about one factor which influences how individual directors govern. The findings strongly support the assertion that a good character can better prepare directors to be able to observe and foster high ethical standards. Not only does it supply the moral motivation to act ethically, but contributes to the development of a capacity to judge and act wisely in the particular situation; qualities not provided by ethical decision making models, codes or rules-based ethical theories.

Directors' disclosures support the small body of corporate governance reform literature which advocates that governance should be understood as *praxis* linking the quality of governance to the quality of the person. At present good governance

is measured after the fact, by the quality of the output (profit) or before the fact, by the quality of structures and frameworks produced (complies with regulations) but makes no attempt to study or to place the spotlight on the acts of governance. These findings show that the type of person governing is more indicative of the potential for good governance. Although it was noted that AVT scholars acknowledge that a good character is not bullet proof and needs the support of legislation, codes, structures and culture (Solomon, 2003).

8.4.1 Corporate Governance Practice

AVT gives priority to the character of the governor when seeking to achieve good governance. Corporate governance regimes should place more importance on the character of directors. Reformers need to firstly attempt to reconstruct the social construct of 'director'. This notion needs to become synonymous with a person of excellence skills *and character*; the latter as understood in the context of AVT. Obviously reforms cannot force people to change but they can create and reinforce a certain expectation by modifying law and the recommendations contained in best practice codes of listing rules and any other corporate governance codes directed to both issuers and non-issuers. The aim of reform should be to instil a belief in business and society that a good character is the best preparation for directors to be able to observe and foster high ethical standards. The ultimate goal would be to disseminate throughout business community the notion that the highly competent director of good character is the only type of director worth having. Not only does good character supply the moral motivation to act ethically, but contributes to the development of a capacity to judge and act wisely in the particular situation; supplying the wherewithal to be ethical role models and ethics stewards of the organisation.

The New Zealand corporate governance regime for example makes no reference to the personal qualities of directors or potential directors. This regime consists of Listing Rules, various statutes and a corporate governance code established by the Securities Commission for both issuers and issuers. The Stock Exchange Listing Rules specify a minimum number of independent directors, the establishment of

an audit committee and set out technical definitions of independence. The Rules also include the Corporate Governance Best Practise Code in Appendix 16 against which issuers must report to what extent their processes materially differ. This Code recommends the separation of the CEO and Chairman, the formulation of a code of ethics, the establishment of nominations and remunerations committees and that directors undertake appropriate training. In the interpretation section of the Listing Rules, the definition of director simply means person to whom the Rules apply where the issuer is a Managed Fund. Section 126 of the Companies Act entitled 'Meaning of Director' explains a director is a person occupying the position of director; subsequent sections set out their duties. A similar definition is contained in the Securities Act 1978. Section 151 of the Companies Act sets out who is disqualified from being a director. The New Zealand Institute of Directors and the Companies Office adopt these sections.

The Code of Corporate Governance Practice established by the Securities Commission recommends nine principles of corporate governance. This is the only place in the New Zealand corporate governance regime where there is an explicit reference to directors' personal ethics. As mentioned above, Principle One states that directors must *observe* and foster high ethical standards throughout the organisation. In the first sentence of the commentary about the Principle is written: 'Unless directors and boards are committed to high ethical standards and behaviours, any governance structures they have put in place will not be effective' (p8).

It is suggested that the abovementioned view be explicitly incorporated in the NZX Listing Rules' Corporate Governance Code, in the code of ethics section. Both the Listing Rules and the Securities Commission's sections on codes of ethics could place an emphasis on character; directors should be made responsible for the cultivation and maintenance of their own good character and for ensuring other members of the organisation are supported in this regard. Or, corporate governance codes could stipulate that only persons of proven good character can be appointed as Chairman, CEO and head of the Audit, Nominations and Remuneration committees. Recommendations about training contained in the

codes of ethics should emphasise its necessity for improving character and the ability to fulfil their ethical duties as role models and ethics stewards. This is perfectly compatible with the existing corporate governance regime. In all jurisdictions, directors are burdened with the responsibility of overseeing the ethics of the organisation.

However the key to the above recommendations is incorporating a requirement about character into legislation. Section 151 of the Companies Act could require that the primary qualification of a director be that they are a person of proven good character. This is a difficult phenomenon to legislate but there are other statutes in New Zealand which make this a pre-requisite for gaining a position or rights. For example Section 122 of the Education Act 1989 states that the Teachers' Council can only register someone who among other requirements is a person of good character. Section 124B allows the Council to base their judgement on any matters considered relevant.

Under the Lawyers and Conveyancers Act 2006, solicitors must seek a certificate of character from the New Zealand Law Society to be admitted to the High Court; this is based on a *confidential* character reference from a person who qualifies as a 'proper person' under Law Society Rules. Under Section 8 of the Citizenship Act 1977, the Minister must be satisfied that among other requirements the person must be of good character. It is true that often this requirement is interpreted as not having a police record but it does not have to be interpreted in this way.

Interestingly since 1 January 2012, the Australian Securities Exchange Listing Rules have required entities seeking admission to the official list of ASX to satisfy ASX that each director or proposed director of the entity as at the date of listing is of 'good fame and character' (ASX Group, 2013). The ASX requires a specific list of documents clearly intended to expose any criminal history but the ASX is also permitted to rely on additional information. It may have regard to other sources of information and may require the entity to provide it with further

information, although it has not identified the circumstances in which additional information may be required.

Incorporating a requirement about good character into legislation would necessitate the provision of some type of evidence. Law graduates for example must select a person from a list of proper persons, to write and send who must send a confidential description of the graduate's character to the Law Society. Directors in New Zealand could be required to provide to the Companies Office something similar but it must be from a respected member of the director community, such as someone who has been a chairman for at least ten years. Participants in this study often commented that it is not difficult to gain knowledge of a person's character 'around the traps'. Alternatively the onus could be placed on the aspiring director to provide proof of their good character. A Directors' Council could be established to approve the evidence provided by directors and recommend their registration. Another requirement could be the holding of a directorship in a not-for-profit for a period of time. Several participants explained how these organisations face the same issues as profit driven companies and so provide a wealth of experience for new directors. This experience could also reinforce the nobler aspects of governance.

This type of reform could be said to legitimise and further entrench the 'old-boys network'; that directors recommend and appoint like-minded colleagues at the cost of hindering the development of a diverse board culture. The eradication of such a mentality depends on education about the meaning of good character which will be addressed in the next section.

The type of reform discussed in this section could reinforce the preference for character-based leadership by stipulating positive director qualifications rather than just the negative disqualifications. Such reform could contribute to greater emphasis being placed on good character in selection and appraisal processes and perhaps most importantly the expectations of shareholders and society in general.

Furthermore the nomenclature around ethics in corporate governance codes could also be improved. Rather than emphasising the difference between ethics and effective corporate governance (by placing ethics in a separate section), and so reinforcing the separation thesis, ethics should be embedded throughout the document. Ethics could be included in the various aims and goals of effective corporate governance. For example throughout the Securities Commission's corporate governance code we find a constant reminder of the importance of achieving 'effective' corporate governance. This could be replaced with 'effective and ethical' or 'excellent' including a note that 'excellent' means operating effectively and ethically.

8.4.2 Corporate Governance Education

AVT should be incorporated into governance education. By the time someone becomes a director their character is very much developed but the notion of virtue/vice in AVT is not a habit set in concrete. People can lose/acquire as easily as they have gained/lost virtues. There is nothing preventing a fifty year old from improving their character. This could be taken into account and emphasised by appraisal mechanisms. Moreover these days' younger people are being encouraged and are seeking to be directors. Some directors spoke about the need for director internships or apprenticeships but acknowledged that this would be a sacrifice for the organisation. If organisations did engage in such a practice, the director in training should be mentored by an appropriate role model.

Courses (MBA programmes, in-house seminars, Institute of Directors' workshops and courses) should be underpinned by the notion of excellence in the Aristotelian sense. The ethical content should consist of a tripartite (character, rules and consequences) framework built into all courses offered; whether it be a standalone course or a programme in which ethics is interspersed throughout. However many directors asserted that ethics could not be learnt through books or through courses. This is why it is important to ensure that courses contain a variety of components; theoretical knowledge about ethics; the appropriate knowledge, skills and reflective activities which enable character development; and forums or

opportunities to explore issues with role models/mentors. The Management degree offered by the University of South Australia offers a course which places great importance on the value of reflection for effectively teaching ethics. The International Management Ethics & Values (IMEV) course explicitly addresses behaviour development without compromising the conceptual base. Students' reflective capability is developed through narrative, role models, ethical reflection, journal-keeping and practice (Harris, 2008).

The New Zealand Institute of Directors offers a wide range of courses catering for directors according to their roles and experience but there are no courses which deal with character development (Institute of Directors New Zealand Inc, 2013). The courses seem to emphasise technical competency. The first level provides the essential skills to establish a base level of governance knowledge; the second level assumes a basic knowledge of governance and focuses on the application of directorship skills; the third level offers more experienced directors a forum to update their knowledge through discussion and debate with peers.

The Institute could offer a course on character development for directors. Excellence in all areas should be emphasised but above all the programme should encourage a *commitment* to personal development; getting to know oneself, reflection on their own values framework in relation to AVT and deciding to grow in particular virtues such as honesty, fairness, toughness and integrity. In this context directors should be encouraged to adapt this approach to their succession planning, mentoring and scouting activities; to distinguish between trustworthiness based on similar backgrounds and trustworthiness based on their possessing good character.

Such a course could be developed based on the content and approach to character education used by some of the more innovative international business schools such as IESE Business School to assess effectiveness (IESE Business School). IESE offers a Global Executive MBA that places a lot of importance on the development of character. It aims to inspire and support both the professional and *personal* growth of the participants. Courses specifically focus on personal

development such as “Managing Oneself” and “Leadership: Talent & Character”. The importance of providing such courses is supported by the literature on the nature of ethical leadership outlined in Chapter Two; leaders need to be able to walk the ethical talk. The main objective of “Managing Oneself” is to help participants develop self-knowledge and, as a consequence, overcome negative behavioural aspects and enhance positive traits (IESE Business School). However, these are not purely theoretical sessions as the approach to learning is more personalised. In small classes, concepts are combined with case studies and discussion, drawing from and linking back to the experience of the participants. A reflective component based on that of IMEV course could be incorporated into these courses.

The instructors would have to be carefully selected because of the knowledge, experience, and competence but above all because of their demonstrated good character. The directors chosen as guest lecturers need to be of top calibre and very convinced of the importance of good character. For example the Institute of Directors courses seem to emphasise the provision of experienced lecturers and interactive workshops. The biographies of these people *only* emphasise skills and experience. Perhaps their good character is thereby implied but it would be important that these persons are known for their good character by potential participants.

8.4.3 Approach to Business Ethics Research

The state of the corporate governance and business ethics literature made it patently obvious that more studies using a qualitative approach were needed to advance both fields. Apart from phenomenological approaches, case studies, ethnographies or a grounded theory study could also be used to capture rich data about the phenomena of ethics and / or corporate governance within its real-life context to build up a more informed and holistic understanding of the research field (Crane, 1999; Creswell, 1998). These studies could study directors as individuals or focus on a board as a whole. Or they could centre on the ethical approach taken by individuals at other levels of the organisation. It would be

useful to take a grounded theory approach to how boards operate, combining interviews and observation. An ethnographic approach could provide deep insights into directors' daily routines because it allows the researcher to share their life for a period of time; thus researchers can gather detailed evidence about directors' thoughts and actions. A case study approach could be used to document the particular family, social, professional etc background of a particular director and how their character or values develop throughout their career.

Phenomenological approaches could explore individuals' or directors' experiences who work in very different contexts: very large companies; listed companies; or companies in their times of prosperity and crisis. The knowledge captured would depend on the ontological assumptions made as discussed below. These approaches could pave the way for better theorising in both fields.

However in light of Annas' (2008) work on the phenomena of virtue it is clear that a phenomenological approach greatly facilitated the conclusions in this particular study. The exploration of the directors' lived experience of ethics provided the data needed to carry out a serious analysis in light of the relevant AVT literature. Ultimately this approach has enabled the researcher to draw valuable conclusions about corporate governance practice and AVT.

This particular study set out to explore the ethical understandings of directors placing it squarely in what has come to be known as the interpretive paradigm. From this perspective it is assumed the social world is entirely socially constructed and it can only be captured by accessing the actors' perceptions of their world. They consider that knowledge of reality comes through reason but that this knowledge is influenced by the particular conditions or context of the knower. Social phenomena exist not out there but in the minds of the people and their interpretations (Robson, 1993).

As the interviews progressed the researcher became more and more aware of the difficulty directors were having with the articulation of their ethical experiences. They would say such things 'you just know' or 'I can't explain it' or label their values as inherent. As has been mentioned this may have been in part due to the

limitations of the researcher. But could it indicate that their ethical perceptions are not entirely socially constructed? Do these phenomena reveal a limitation of the interpretative paradigm in business ethics research which assumes that subjective perceptions are entirely socially constructed? Why must business ethics scholars conform to this strict divide between the subjective and objective world? Could it be that by conforming to the boundaries of the interpretative paradigm, business ethics researchers have focussed so much on subjective consciousness that they have eliminated the conscious subject? Is the interpretative paradigm alone suitable to deal with the reality of the lived experience of ethics? It is worthwhile to re-read this quote by Gronbacher:

Subjectivity refers to the inner conscious life of the human person. Persons, while maintaining an inner life, remain open to the world around them..... Not only is consciousness directed outwardly to one's immediate environment, persons are also self-aware. Essentially, self-awareness means that persons experience themselves from within.....It is understood as something dynamic, as always changing in response to new circumstances and discoveries of need and value. But an enduring subject remains at the basis of this dynamic structure. There is a real, personal 'I' grounding every act. This 'I' is a conscious personal self. It is the person who really exists and really acts. Subjectivity is therefore the link between existing and acting (Gronbacher, 1998, p. 6).

This implies that subjectivity is a dynamic interplay between the objective world and the inner world of the subject; the objective world influences or moulds subjectivity. Moreover the subjectivity of the inner world contains an objectivity of its own- the enduring subject; they experience the reality of themselves from within. The interpretive paradigm does not seem to be able to accommodate this objective-subjective combination; that one's inner objectivity influences one's subjectivity. The interpretative paradigm ironically is not open to being surprised by the objective element that may underpin subjective ethical perceptions.

This study found that AVT best reflected directors' understanding of ethics in the governance context. But AVT assumes that to a certain extent the seeds of a person's ethical inklings reside in their nature; the objective human nature of the enduring subject. From the outset of this project the researcher anticipated a clash between the interpretative paradigm and the type of subject being studied. These findings seem to indicate that people have an innate sense of right and wrong which can be developed and specified with example and experience over time; that ethics is not totally socially constructed. It is suggested that the findings expose a limitation of the interpretative paradigm when investigating the lived experience of ethics.

Based on the above two points of discussion, does the study of the social world require a worldview which accommodates the reality of human nature? This study suggests ethical perceptions consist of socially constructed and objective elements, the latter deriving from the basic human condition, which can only be captured as an interconnected complex unity and calls on scholars to re-evaluate the assumptions of the constructionist and objectivist paradigm and whether the seemingly impenetrable divide is perhaps artificial. Crane (1999) has recommended a multi-paradigmatic approach to business ethics research but this still assumes a division between paradigms. Business ethics researchers could consider the journey of accounting research scholars who began to question the soundness of this subjective-objective dichotomy in the eighties (Boland, 1989; Modell, 2010). This path finds support in Rossouw's (2001) critique of the unquestioned acceptance of one-sided ontologies in business ethics research; that studies can only be located in the objectivist *or* constructionist zone. Most business ethics research to date has followed a quantitative approach rooted in the objectivist-positivist tradition. Recently scholars have been calling for studies using a qualitative approach which of course is very necessary but the overall attitude informing this debate is uncritical of this subtle but powerful underlying dichotomy. For example as mentioned above, a case study approach could be conducted on the assumption of ontological unity making space for the capturing of data indicating that the nature of the human condition may play a role in shaping ethical values.

This project reveals a need for scholars to be more critical of the existing paradigm choices available for the study of business ethics; to question whether scholars should consider the possibility of an underlying ontological unity rather than a dichotomy. An inclusive worldview is one which accepts the subjectivity of the knower, the enduring subject, whose perceptions are informed by the objective nature of the subject. Critical Realism seems to 'straddle' rather than unite these worldviews. Researchers may need to consider that facts and values are inseparable in reality which has epistemological and methodological consequences for business ethics research.

8.4.4 The Field of Business Ethics

This study provides evidence that philosophical ethics can be reconciled with descriptive ethics by means of AVT. The findings reveal how directors understand ethics and its place in their task. This understanding exposes deeply held values intermingled with business and governance realities. Directors spoke about how their values came from inside, were innate, some even ventured to say they were born with them. Others acknowledged receiving them from their parents but had not adopted them without a critical assessment on their part. Many revealed how ethical values were part and parcel of the person and how a lack of fidelity to these compromised one's happiness. It is suggested that this ethical dimension is so profound that directors were unable to separate it from 'the experience' and put into words. This belies a conception of a perfect unity between business and ethics and so contributes to the literature which refutes the separation thesis. Business ethics is not an oxymoron; business cannot be business without ethics. This reinforces the need to integrate ethics throughout corporate governance code documents and corporate governance lingo to promote a change of mindset amongst governors, shareholders and senior management.

As mentioned above this reinforces the literature on the importance of character for the effectiveness of codes of ethics but also highlights a dissonance between the great importance given to ethics by directors and the unethical behaviour which graces the pages of our newspapers and the courtrooms of our justice

system. Just in the New Zealand context corporate governance failure has been attributed to behaviour which shows a lack of character: failing to be diligent and informed; failing to challenge decisions and so turning a blind eye to excessive related party lending and inaccurate disclosure practices and poor investment decisions. In spite of the existence of laws, codes of best practice and codes of ethics, and the great importance placed on one's personal code, something seems to be missing. There seems to be a dysfunction within the human being when difficulties, temptations and tensions complicate the task and the decision that has to be made. The researcher does not doubt the genuineness of the responses by directors about ethics and its importance but the interviews did reveal blind spots. Whether through the responses of colleagues or via information from other sources the genuine responses of participants sometimes did not match their actions. This may be evidence of the lack of self-knowledge which comes with education and reflection. But it also may point to the fact that it is difficult to be consequent in the heat of the moment. What happens in those challenging moments when unethical behaviour is chosen?

Could it be that such persons have a weak or flawed character? Their innate good desires have not been reinforced and developed over the years to construct the upright character required to withstand the challenges of these difficult moments. Of course good character is not a silver bullet but with the support the type of education outlined in 8.4.2, the development of an ethical culture and well developed codes of ethics, it may be the missing piece of the puzzle.

As mentioned at the beginning of this section, directors' perceptions attest to reliance on a standard, acknowledging there is a role for philosophical ethics in this field. As mentioned above they pointed to internal standards. Descriptive ethics research at least needs to acknowledge its limitations in that it is not dealing with issues such as the nature, origin and legitimacy of standards. The social world does not make sense without standards and guidelines and the expectation that people conform. Only philosophical ethics dares to suggest and question the content of these standards. This conclusion contributes to the scholarly research calling for more dialogue between philosophical and descriptive ethics (Alzola,

2011; Harris & Freeman, 2008; Weaver & Trevino, 1994). It also lends support to scholars who argue for reconciliation rather than integration. Descriptive ethics seeks to describe what and why of behaviour or perceptions while philosophical ethics has the role of criticising and assessing these. Integration amounts to ignoring that these two branches have different objects and ways of accessing them. Reconciliation acknowledges this difference.

This particular study illustrates the fruitfulness of reconciliation. Directors' descriptions of their 'internal' perceptions and external behaviour have been evaluated in light of AVT revealing a remarkable synergy with AVT. Internally they perceive ethical standards (philosophical aspect) but find it difficult to explain how they translate that into external action (descriptive aspect); moral judgements emerge in context guided by a character matured by specific experiences of role models, reflection and tackling life's unpredictable challenges. This is why some scholars assert that AVT is the only philosophical theory which seems to facilitate the reconciliation of normative and descriptive ethics (Crockett, 2005; Hartman, 2011; Rossouw, 2008b). This is because AVT is a moral theory which is essentially contextual. Character facilitates the capacity to judge how to move from the internal value or standard to the concrete act. AVT cannot conceive of moral judgement as some magic mix of external abstract moral principles with an ethical dilemma. This study has shown how AVT is sympathetic to and so accommodates the messiness of the lived experience of ethics. Business ethics scholars now need to take up the challenge and evaluate the assertion that the Aristotelian approach to ethics makes the reconciliation of descriptive and philosophical ethics possible.

8.4.5 Business Ethics Education

The findings provide evidence to require the inclusion of AVT as a business ethics theory in education. They also reinforce the legitimacy of business ethics courses which already do this. Directors' understanding and approach to ethics was found to contain elements resembling aspects of AVT not addressed by utilitarianism and Kantian ethics. Today business ethics courses, if they are

standalone courses, cover a more or less interesting but competing smorgasbord of useful theories and topics but which leave the student none the wiser in their practise of ethics. These findings make it clear that business ethics courses would be more useful if they consisted of a combined framework of character, rules and consequences. Topics should build on each other to present an approach to ethics which is not so foreign from everyday life; it also provides students with a practical framework. Because AVT seems to resonate with the human condition it will be easier to learn and understand the technical explanations and explorations which accompany any philosophical theory.

The approach would also need to recognise that AVT is not about learning principles but about deciding to commit oneself to improve one's character and working out how to do that. A reflective component would be required to allow students to reflect on their own values in relation to virtues required in business and how they would implement these values in specific situations. The lecturer and any guest speakers would need to be role models and potential mentors for students.

8.5 Future Research

The current study could be modified and enriched by: also interviewing people who work with the interviewee to see how their view of the person's ethics compares with that interviewee's understanding; to conduct focus groups of directors to explore possible changes in education, regulation, training, recruitment and selection; to target directors who have been convicted of illegal governance practices; interview New Zealand directors operating in another culture to see if their ethics are influenced by society; interview directors of other cultures operating in their own country; investigate the ethics dynamic of the board –how the ethics of individual directors influences the overall approach of the board.

A similar study should be conducted among other types of professionals, or managers at differing levels of the organisation and other employees to discover if their understanding of ethics and its role differs in any way. Later research could

also investigate how to use the findings to improve business ethics practice in general. This would have implications for recruitment, selection, and promotion policies as well as training programmes.

Another important area would be to study how best to teach ethics in light of the findings - at all levels of education, including executive education. A tripartite framework could be developed. The findings suggest that it is difficult to learn ethics in the classroom; what are the innovative alternatives?

In the area of business ethics there needs to be further dialogue between normative and descriptive business ethics to contribute to their reconciliation (Byrne 2000); the behavioural constraints on normative theorising and normative constraints on empirical research could be explored (Alzola 2011). This could begin with exploring and clarifying the respective constraints as between AVT and the experience of actors. It has been suggested in this thesis that the Aristotelian notions of phronesis, character, flourishing and virtue were reflected in the directors' lived experience of ethics. But to what extent can notions such as character, virtue, phronesis and flourishing be accurately described or identified? Is it possible to measure an increase in phronesis or whether virtue leads to flourishing? Can these notions be put into practice?

Business ethics research could benefit from the development of an ontology which could take into account both the subjective and objective dimensions in this domain of study; that allows for a systematic understanding of the objective dimension underlying ethical behaviour while simultaneously allowing for the openness, subjectivity and unpredictability that is typical of human behaviour (Rossouw 2001). It could accommodate a wide range of research strategies and methodologies suitable for investigating both the objective and subjective dimensions of the business ethics experience. This thesis is an example of an attempt to capture both objective and subjective aspects of the ethical experience but as was discussed above the limited choice of paradigms compromised to some extent the ability to legitimately identify the objective aspect. Future research could explore the possibility of constructing a broader paradigm by adding

another layer of dimensions to existing frameworks; this paradigm would encompass both of the existing major paradigms of constructionism and objectivism.

8.6 Limitations

The researcher elected to use only semi-structured iterative interviews because her aim was to capture the lived experience of the director from their perspective (Dahlberg et al., 2008; Kvale, 1996). The method chosen was appropriate but perhaps could have been more fruitful if employed by a more experienced researcher who was perceived as a peer by the participants. In the first phase of interviews, directors were reluctant to speak of negative situations or incidents which challenged their ethical values. Also they found it difficult to re-live the experience in the perhaps perceived 'pedantic' detail required by a phenomenological approach. Someone who was a peer may have commanded the necessary respect and trust to gain the required depth. In the second interviews they were more forthcoming but an experienced prober could have perhaps helped them reflect more and therefore reached further.

Furthermore one of the reasons for using a qualitative approach was because morality is an area which defies a counting approach due to its complexity and requires understanding the actor from the inside (Crane, 1999). The problem described above also hindered to some extent the goal of understanding the participants from the inside. The researcher believes that with more experience on her part and a more trusting relationship with the participant this goal would be attainable.

8.7 Conclusion

This Chapter has presented the conclusions and their implications of this interpretative phenomenological study of New Zealand directors' lived experience of ethics. Directors understand ethics to be intrinsic to governance and their personal ethics play a central role. Corporate governance is *praxis* in the Aristotelian sense acknowledging an interconnection between the character of the

governor and quality of the governance; excellence and ethics are interrelated. So improving the personal ethics of directors can contribute to excellent corporate governance. Directors of good character are more likely to preserve the central role of ethics in corporate governance; a good character may make all the difference in a pressurised environment. Accordingly it is recommended that the regulatory regime be amended to re-define the meaning of 'director'. The meaning of director should be reconstructed to signify a person of good character; that a demonstration of positive attributes be a pre-requisite for qualifying as a director. Amendments are also needed to re-frame the place of ethics. Ethics must be embedded throughout the language of the various documents rather than being presented as an added extra. But these recommendations need to be supported by appropriate director selection and appraisal processes as well as suitable director training and development. The primacy of good character should be reflected in appraisal and selection methods. Ethics should be embedded throughout business ethics education course material and should be presented as a tripartite framework. Programmes should suggest participants make a personal commitment to character development and supply the appropriate knowledge, skills, forums and resources to do so. This is also recommended for undergraduate business ethics courses.

As mentioned above AVT was able to account for many aspects of directors' lived experience of ethics. In so doing it demonstrated that combining philosophical and descriptive business ethics is necessary for the development of the field. The lived experience of ethics can only be completely captured and explored by relying on both branches. Studying the how and why individuals make decisions is useful but is limited without employing philosophical ethics to assess and challenge the standards inevitably discovered in the particular context. Furthermore this study has revealed that the paradigmatic dichotomy currently available for business ethics researchers cannot adequately support the findings presented above. Business ethics scholars need to push the boundaries of this dichotomy. Areas for future research have also been outlined and limitations of the study acknowledged.

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APPENDIX 1 - pilot interview guide: first phase

Time Frame	Action	Description
	Send email	Following up phone call and include explanation of project (Information for Participants)
At the beginning of the interview		<p><i>I am undertaking doctoral research into Corporate Governance (CG). My main aim is to understand what CG means for you and how you practise CG. I would like to discuss with you your personal experience of CG. I want to understand CG from your perspective. I have very few assumptions about CG, but I expect understanding how you experience CG will provide a good starting point. In light of this, I hope this interview will be a good way to access the wealthy of experience you have on boards.</i></p> <p><i>With your permission I would appreciate being able to record this interview. As a PhD candidate at the University of Waikato, I am bound by very strict ethical guidelines. As such, the confidentiality of all participants in this study is completely protected. This recording will not be shared with any other person.</i></p> <p><i>I plan to transcribe all interviews. Once I have transcribed the interview, I will email the transcript to you for you to check its accuracy. I would appreciate being able to contact you again should I have follow up questions to our discussion. Do you have any questions?</i></p>

1. Questions to ask participants: first phase (Refined version)

Main Question		
1. Can you tell me a little bit about yourself?	Where you grew up, your family background, your education? Could you point to any characteristic (s) of yourself today which has been shaped/influenced by all of that?	
2. Can you tell me about your career?	Where it all started and how did you get to where you are today? What were the highlights/disappointments/challenges?	Why is that a highlight/ disappointment?
3. What does corporate governance mean to you?	How would you describe it to someone who knows nothing about it? What is the goal? Does it involve a variety of jobs/task?	
4. Tell me about your work as a board of director?	What is typical for a director in preparing for a Board meeting, in participating in actual meetings, between meetings? What sorts of things do you have to do? Which are the more challenging aspects? Which are the more interesting aspects? Which are the more tedious aspects? Do you have any personal goals or standards which you seek to live up to? Could you explain what they are?	Why are those particular standards important to you?
5. Regarding the Standards mentioned above-what are their implications in your role as a director?	Could you give an example or tell me about a situation which illustrates this? Is it sometimes difficult to practise these standards? Could you give an example? LIVED EXPERIENCE	

<p>6. Who would you consider an good/ideal board director?-Can you think of someone- don't tell me who it is</p>	<p>What is it about these directors that make them effective? What do they do, how do they conduct themselves, how would you describe them-qualities, characteristics etc</p>	<p>Why are these attributes important to you?</p>
<p>7. Would you agree that your role is a technical one?</p>	<p>What do you mean? Has your view changed over time? How? Can you give examples?</p>	<p>Why? Why has your view changed?</p>
<p>8. What skills and competencies do you think a director should have?</p>	<p>What do you mean by that? Could you give an example?</p>	<p>Why those? Why are they important?</p>
<p>9. Have you ever had any situations which challenged your ideals or standards? Or you felt there was pressure to compromise?</p>	<p>Could you tell me about it? Which standards? Don't need to know the outcome</p> <p>CONCEPTUAL</p> <p>What was guiding your response to that pressure?</p>	<p>Why is it so important to you to follow these standards?</p>
<p>10. Are there any other governance situations dilemmas which have tested your ability to handle it with integrity? EXPERIENCE</p>	<p>Could you describe the experience (s)?</p> <ol style="list-style-type: none"> 1. How did you feel (before, during, after)? 2. Can you describe your thoughts (before during and after)? 3. Can you describe what you did or did not do? 	

	<ol style="list-style-type: none">4. What influenced you in the way you dealt with it?5. What distinguishes this situation from the rest of your activities as a director?6. Are these experiences frequent? Every meeting for example?7. Do they occur in particular periods?8. Do they tend to occur in relation to particular matters/topics?	
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APPENDIX 2 - 'first contact' paragraph emailed to EA

Dear Ms _____

I am a PhD student at the University of Waikato. In my research I am exploring New Zealand directors' views about corporate governance & ethics. This has not been done before here in New Zealand. There is a lot written about what directors should do but no one has undertaken such a formal project to ask the directors themselves. I am hoping to conduct about 40 interviews before June 2012. I would like to include _____ in my study. Do you think there would be any possibility of arranging an interview with him? It should take about one hour. I would guarantee absolute confidentiality as is the case with all PhD projects. If you want more information about the project I can send it through.

Kind regards,

Patricia Grant

APPENDIX 3 - revised interview guide for first phase

Time Frame	Action	Description
	Send email	Following up phone call and include explanation of project (Information for Participants)
At the beginning of the interview		<p><i>I am undertaking doctoral research into Corporate Governance (CG). My main aim is to learn from your experience about CG. Specifically I would like to discuss with you your personal experience of CG as I want to understand what CG means for you and how you practise CG.</i></p> <p><i>I have very few assumptions about CG, but I expect understanding how you experience CG will provide a good starting point. In light of this, I hope this interview will be a good way to access the wealth of experience you have on boards.</i></p> <p><i>This interview will be 1 hour.</i></p> <p><i>As a PhD candidate at the University of Waikato, I am bound by very strict ethical guidelines. As such, the confidentiality of all participants in this study is completely protected. I am the only person who knows the identity of the participants and that will remain so forever. This recording will not be shared with any other person.</i></p> <p><i>Once the interview has been transcribed, I will email or post (whatever you prefer) the transcript to you for you to check its accuracy. I would appreciate being able to contact you again should I have follow up questions to our discussion. Do you have any questions?</i></p>

2. Questions to ask participants:

Main Question	C O N V E R G 2 no U	P egs
<p>1. Can you tell me a little bit about yourself as a person?</p>	<p>Where you grew up, your family, parents, background, <i>city or country boy, hobbies, interests</i>, your education, etc?</p> <p>Could you point to any characteristic (s) of yourself today which has been shaped/influenced by all of that?</p>	
<p>2. Can you tell me about <i>how you came to be a director and a bit about the type of experience you have had?</i></p>	<p>Why/How you became a director Where it all started for you and how did you get to where you are today?</p> <p>What were the <i>high/low points/challenges?</i></p> <p><i>Did you have any training when you first became a director?</i></p>	<p>Why is that a highlight/disappointment?</p>
<p>3. What does corporate governance mean to you?</p>	<p>How would you describe it to someone who knows nothing about it? What is the goal? Does it involve a variety of jobs/task?</p> <hr/> <p><i>What is the difference btw CG and Management? The role</i></p>	

	<i>of a director and a manager?</i>	
4. Tell me about your work as a board of director?	<p>What is typical for a director in preparing for a Board meeting, in participating in actual meetings, between meetings? What sorts of things do you have to do? Which are the more challenging aspects? Which are the more interesting aspects? Which are the more tedious aspects? Do you have any personal goals or standards which you seek to live up to? Could you explain what they are?</p>	<p>Why are those particular standards important to you?</p> <p>Goals/personal goals</p> <p>Contentious. Juicy, uncomfortable</p>
	<p><i>What do you mean by doing the right thing? How do you know what that is?</i></p>	
5. Regarding the Standards mentioned above-what are their implications in your role as a director?	<p>Could you give an example or tell me about a situation which illustrates this?</p> <p>Is it sometimes difficult to practise these standards? Could you give an example?</p> <p>LIVED EXPERIENCE</p>	

6. Who would you consider an good/ideal board director?-Can you think of someone-don't tell me who it is	What is it about these directors that make them effective? What do they do, how do they conduct themselves, how would you describe them-qualities, characteristics etc	Why are these attributes important to you? Soft skills?
	<i>What sorts of qualities make a good director? What qualities are essential for a director? Examples-what does integrity mean?</i>	
	<i>If mention technical skills Out of the 100% of time in your director role- What proportion of your time is spent doing what-financials or strategy or more value based ethical issues?</i>	
	<i>Isn't it just an old boys' network? A closed circle of people who are good at networking?</i>	
7. Would you agree that your role is a technical one?	What do you mean? Has your view changed over time? How? Can you give examples?	Why? Why has your view changed? Changed over time?
8. What skills and competencies do you think a director should have?	What do you mean by that? Could you give an example?	Why those? Why are they important?
9. Have you ever had any situations which	Could you tell me about it? Which standards? Don't need to know the	Why is it so important to you to follow these

<p>challenged your ideals or standards? Or you felt there was pressure to compromise? <i>What sort of Personal dilemma conflict tricky situations have come up for as a director?</i></p>	<p>outcome CONCEPTUAL What was guiding your response to that pressure?</p>	<p>standards?</p>
<p>10. Are there any other governance situations dilemmas which have tested your ability to handle it with integrity? EXPERIENCE RICH ISSUE/EG-nature of- Feelings/what you went through, interpretation at the time/later What think of others, how did it change your views, mentoring, could/should you have acted differently?</p>	<p>Could you describe the experience (s)? How did you feel (before, during, after)? Can you describe your thoughts (before during and after)? Can you describe what you did or did not do? What influenced you in the way you dealt with it? What distinguishes this situation from the rest of your activities as a director? Are these experiences frequent? Every meeting for example? Do they occur in particular</p>	<p>Freedom –to choose good and bad-was he always like that? Why did you act that way? Not act?</p>

	<p>periods?</p> <p>Do they tend to occur in relation to particular matters/ topics?</p> <p><i>Were there times you felt bad about decision you had to make?</i></p> <p><i>What principles guided your decision?</i></p>	
	<p>Note to Self: I think you are trying to get to know what sort of people they are</p> <p>– rather than any great insights into corporate governance. That is</p> <p>where you may have to keep personalising things and asking always for personal examples and illustrations. ‘How did you deal with tricky situations?’; ‘Were there times you felt bad about decisions you had to make?’; ‘What principles guided your decision?’</p> <p>My view is that it has to feel like a conversation, rather than an interview. Two people enjoying the experience of story-telling about one of them! And discovering who they are.</p>	

APPENDIX 4 - selection of interview guides for second phase

SAMPLE 1

This second interview aims to explore particular aspects of your ethical approach so the content may overlap with that of the first interview but I am aiming to go deeper.

1. How would you describe your approach to resolving tricky or delicate issues or situations* where your standards are challenged that arise in your work as a director? Applying a rule or rules, principles, following a decision making procedure, instinctive, intuitive, being true to selfor anything you else think is more accurate
2. Have you ever had to seek advice or rely on the opinion of others in resolving these situations*? Why these specific people? Could you describe the person and why are these characteristics important?
3. How does your approach to solving tricky issues or situations* in your work as a director compare with your approach to addressing such situations in your personal life?
4. In these situations* mentioned above would you include yourself as someone who could be impacted by these decisions?
5. Can you tell me more about the origin of what code, values or approach you rely on to resolve tricky issues*...In our first interview you mentioned you thought honesty and integrity were *inherent, that is fundamental human characteristic, you learn about it when you are a child, when you were developing as a human being...* Have your values changed over time? Why and what way? How would you explain unethical behaviour in others? Are people born crooked?
6. Has your approach changed over time? If so in what way and why? Was there a need to change?

7. In these situations* can you remember if you had a reason (or reasons) for acting? Do your emotions or feelings have a role?
8. Can you think of specific people who have influenced you in your ethical values/approach? Why them and in what way?
9. For you what is at stake if you were to compromise your standards?
10. Have you ever made a mistake in such situations or issues? Has this affected subsequent behaviour?

The next questions are based on specific things you mentioned in the previous interview:

You said you could codify things like integrity and honesty but you said being ethical is more than following a code. Can you elaborate on this? What do you mean?

You said some people don't actually lack integrity or honesty but they end up being manipulated or influenced by a stronger personality. In your opinion what can be done about people who can be easily manipulated? Can they be helped? Should they be removed from Boards? Does this amount to being unethical?

SAMPLE 2

This second interview aims to explore particular aspects of your ethical approach so the content may overlap with that of the first interview but I am aiming to go deeper.

1. How would you describe your approach to resolving tricky or delicate issues or situations* where your standards are challenged that arise in your work as a director? Applying / following a rule or rules, following a decision making procedure, instinctive, intuitive, being true to selfor anything you else think is more accurate

2. Have you ever had to seek advice or rely on the opinion of others in resolving these situations*? Why these specific people? Could you describe the person and why are these characteristics important?
3. How does your approach to solving tricky issues or situations* in your work as a director compare with your approach to addressing such situations in your personal life?
4. In these situations* mentioned above would you include *yourself* as someone who could be impacted by these decisions?
5. Can you tell me more about the origin of what code, values or approach you rely on to resolve tricky issues*...In our first interview you mentioned ...Could you elaborate further? Have your values changed over time? Why and what way? How would you explain unethical behaviour in others? Are people born crooked? If someone is brought up 'badly' can they still grow up to be an ethical person?
6. Has your approach changed over time? If so in what way and why? Was there a need to change?
7. In these situations* can you remember if you had a reason (or reasons) for acting? Do your emotions or feelings have a role?
8. Can you think of specific people who have influenced you in your ethical values/approach? Why them and in what way?
9. For you what is at stake if you were to compromise your standards?
10. Have you ever made a mistake in such situations or issues? Has this affected subsequent behaviour?

The next questions are based on specific things you mentioned in the previous interview:

You spoke a lot about how ethics is to do with behaviour and example...and it's a bad sign if you have to right them on the wall.....

Why do you think this is better or more effective than having values written on the wall or circulating a code of ethics?

You spoke about looking at how many times married and number of kids when assessing a director. Could you elaborate on how such things relate to their ability to be a good director?

You spoke about the boardroom being like a rugby match and that you either win or lose between the whistles (although you can train as much as you like), your values groom your instinct right...and later one...you let your instincts, your experiences and your own values drive your judgement calls...Are you able to illustrate this with an example? What do you mean by 'values grooming your instinct'?

You spoke about being hassled by a woman about an issue (that I has been in the papers) and that from experience you have learnt not to engage such people and you.... You also said that when you were younger you were more black and white about moral or ethical questions

Are you able to explain how your ethical approach/values have been influenced by experiences?

You said directors have to make judgement calls and this comes from experience Can you think of an example where your judgement around ethical issues had changed over time and how that has happened?

SAMPLE 3

This second interview aims to explore particular aspects of your ethical approach so the content may overlap with that of the first interview but I am aiming to go deeper.

1. How would you describe your approach to resolving tricky or delicate issues or situations* where your standards are challenged that arise in your work as a director? Applying / following a rule or rules, following a decision making procedure, instinctive, intuitive,

being true to selfor anything you else think is more accurate.

2. Have you ever had to seek advice or rely on the opinion of others in resolving these situations*? Why these specific people? Could you describe the person and why are these characteristics important?
3. How does your approach to solving tricky issues or situations* in your work as a director compare with your approach to addressing such situations in your personal life?
4. In these situations* mentioned above would you include *yourself* as someone who could be impacted by these decisions?
5. Can you tell me more about the origin of what code, values or approach you rely on to resolve tricky issues*...In our first interview you mentioned *a bit of nature and nurture .. You talked about growing up on a farm, small town community...*and then *how the corporate culture at Tasty turned you into a #@^#@* Could you elaborate further? Have your values changed over time? Why and what way? How would you explain unethical behaviour in others? Are people born crooked? If someone is brought up 'badly' can they still grow up to be an ethical person?
6. Has your approach changed over time? If so in what way and why? Was there a need to change?
7. In these situations* can you remember if you had a reason (or reasons) for acting? Do your emotions or feelings have a role?
8. Can you think of specific people who have influenced you in your ethical values/approach? Why them and in what way?
9. For you what is at stake if you were to compromise your standards?
10. Have you ever made a mistake in such situations or issues? Has this affected subsequent behaviour?

The next questions are based on specific things you mentioned in the previous interview:

You spoke about two important moments in your life which helped you to change your way of doing business. Why didn't you like how you were behaving? Or why did you think you needed to change?

You mentioned that there was a close link between family and corporate structure....the culture of the company will translate into family values and vice versa...Why do you think that is true? Or why does this happen?

You mention several times that certain things gave you a lot of personal satisfaction-the Niue Island experience and the Fiji projectEven though you did not make much money, why do you think this is so? Do you know anyone who would not appreciate such experiences? What could explain the difference?

Why do you truly believe that staff are your most important asset? It's obvious that you walk the talk about this.

You said corporate ethics has to be the same as personal ethics, And I say personal ethics, ethics of the chairman of the board, chief executive...Why do you think that?

You spoke a lot about the *grey areas* of ethics. And you mentioned *the gut feeling...*, *and mulling over things* –can you elaborate further on how you personally decide what to do in these situations? What helps you to know what to do?

You spoke about the benefits of *age and experience* when it comes to making ethical decisions. Do you think that “age and experience” per se are a guarantee to improving one's ability in this area?

You seem to believe that corporate culture is intimately linked with ethics. Why is that?

You mention how you *figured out the meaning of life* What do you think is the meaning of life? Is this linked to ethics?

You mentioned *that ethics is in the big and small things*...can you explain this further? Why do you think this?

You spoke about how *the idea of the Cathedral is needed to inspire men's souls*. Why do you think this is so? Does everybody need this?

APPENDIX 5 - initial matrix for director selection

Type	Listed	Unlisted	Co-op	SOE	Industry	M/F	Y/O	NZ/non NZ
Chairman/ woman	3 +2	2	2	3		6/ 4	5/ 5	5/5
					Finance			
					Consumer			
					Transport			
					Food			
					Ag & Fishing			
					Media & Comm.			
					Energy processing			
CEO	3 + 2	2	2	3		6/ 4	5/ 5	5/5
Independent	3 + 2	2	2	3		5/ 5	5/ 5	5/5
Executive	3 + 2	2	2	3		5/ 5	5/ 5	5/5

APPENDIX 6 - industry / entity / director matrix and analysis of matrix

KEY TO MATRIX			
Chair	C	New Zealand	NZ
Executive Director	ED	Overseas	OS
Non-executive Director	NE	Listed	L
CEO	CEO	Unlisted	U
Independent Director	I	Cooperative	CP
Male	M	District Health Board	DHB
Female	F	State-owned Enterprise	SOE
Very Experienced	VE	Not-for-profit	NP
Experienced	E		
Listed		Yellow	
Unlisted		Blue	
Cooperative		Orange	
SOE		Green	
DHB		Purple	
Not-for-Profit		Light Blue	

	C	E	N	I	M	F	V	E	N	O	L	U	C	D	S	N	Industry
	C	O	E	E	I	M	F	E	X	Z	S	L	U	P	H	O	P
1	x				x		x		x		x						Property
			x	x		x		x			x						Agriculture
2	x				x		x		x			x					Agriculture
	x				x		x		x			x					Transport
			x	x	x		x		x		x						Property
3	x				x		x		x					x			DHB
			x	x		x		x							x		Energy
	x						x		x			x					Manufacturing/retail
		x					x		x			x					Manufacturing/retail
			x	x		x		x				x					Storage
4			x		x		x		x						x		Energy
			x	x		x		x		x	x						Investment
			x	x		x		x		x		x					Finance & Other Services
																x	Not-for-Profit

5	x				x	x		x								Manufacturing/retail
6	x	x			x	x		x								Manufacturing/retail
7			x		x	x		x								Finance & Other Services
8	x				x	x		x								Agriculture/animal
9				x	x	x		x								Intermed & Durables
				x	x	x		x								Finance & Other Services
				x	x	x		x								Building
				x	x	x		x								Transport
		x			x	x		x								Retail
10				x	x	x		x								Transport
				x	x	x		x								Intermed & Durables
	x				x	x		x								Property
11	x				x	x		x								Energy
				x	x	x		x								Property
				x	x	x		x								Energy
12																Regulator
13				x		x	x	x							x	Energy
				x		x	x	x								Technology
				x		x	x	x								Not-for-Profit
				x		x	x	x								Finance & Other Services
14	x				x	x			x	x						Leisure & Tourism
				x		x			x							Electric power generation
				x		x			x	x						Media & Communication services
					x	x			x							Not-for-Profit
15	x				x	x		x								Media & Communication services
		x			x	x		x								Finance & Other Services
	x				x	x		x								DHB
16				x	x	x			x							Not-for-Profit
				x	x	x			x	x						Investment
17		x				x		x								Manufacturing/retail
		x			x	x		x								Manufacturing/retail
	x				x	x		x								Not-for-Profit

18		x			x	x	x		x						Transport
19	x				x	x	x				x				Agriculture/animal
20			x		x	x	x			x					Investments
				x	x	x	x			x					Investments
21	x	x			x	x	x			x					Agriculture/animal
22				x		x	x		x						Investment
															Regulator
				x		x	x							x	Energy
23				x		x	x							x	Energy
				x		x	x			x					Technology
24				x		x	x				x				Finance & Other Services
				x		x		x						x	Energy
25				x		x	x			x				x	Energy
				x		x		x						x	Not-for-Profit
26	x					x	x			x					Finance & Other Services
				x		x	x			x					Energy
	x					x	x			x					Agriculture
				x		x	x							x	Not-for-Profit
27				x		x	x							x	Transport
				x		x	x			x					Agriculture
						x	x							x	DHB
28		x				x	x				x				Retail
29				x		x	x			x					Manufacturing/retail
30				x		x	x							X	DHB
	x					x	x			x					Health services (birthcare)
31				x		x		x		x					Retail
32	x					x	x							x	Media & Communication services
		x				x	x			x					Retail
				x		x	x			x					Retail
				x		x	x			x					Finance & Other Services
	x					x	x							x	Not-for-Profit
				x		x	x			x					Media & Communication services
33				x		x	x							x	Transport
	x					x	x							x	Not-for-Profit
34			x			x	x			x					Transport

1. Organisation Type

Type	Number	Percentage
Listed	21	35
Unlisted	17	28
SOE	4	7
Cooperative	7	12
DHB	3	5
Not-for-Profit	8	13
	60	100

2. Industry

Industry	Number	Percentage
Manufacturing & Retail	11	18
Agriculture	7	12
Finance and other services	6	10
Transport	5	8
Energy	4	7
Health (DHBs & Birthcare)	4	7
Investment	4	7
Property	3	5
Media & Communications	3	5
Information Technology	2	3
Leisure & Tourism	1	2
Building	1	2

Intermedical & Durables	1	2
Not-for-Profits	8	13
	60	100

3. Gender

Gender	Number	Percentage
Male	24	73
Female	9	27
	33	100

4. Directorships

Type	Number	Percentage
Single	10	30
Multiple	23	70
	33	100

5. Nationality (Place of birth)

Nationality	Number	Percentage
New Zealand	29	88
Overseas	4	12
	33	100

Notes

1. I have excluded a female who only had been a director of the FMA (and expert in corporate governance from Simpson Grierson)

2. Interviewed two directors from the same company in a substantial number of cases
3. Interviewed a substantial number who had been at some stage directors of one SOE (most of them women)

**APPENDIX 7 - summary of themes and sub-themes
which emerged from the data analysis**

<i>SUPER-THEME ONE: Ethics in Corporate Governance (CG)</i>		<i>BLACK BOX</i>	
Raw Themes	Clustered		
Elements of good governance	<i>CG Intrinsically Ethical</i>	Increased Expectations of Directors Today	
Monitoring			
Strategy	<i>Regulatory Approach to Ethics Ineffective</i>	Increased Awareness by Directors Today	
Full Understanding		Board Diversity	
Healthy Discussion	<i>Excellent CG = Ethical CG</i>	The Role of the Chair	
Appointing the Right CEO		Leadership	
Not Just About Profit	<i>Rules Inadequate For Complexity</i>	Culture	
Beyond Self Interest		Independence	
Personal Ethics	<i>Tone at the Top</i>	Founders	
		Influential Shareholders	
		Cultural Relativism	
		Old Boys Network	
		Recent Court cases and judgements	

<i>SUPER-THEME TWO: Understandings of Ethics</i>		<i>SUPER-THEME THREE: Resemblance to AVT</i>	
Raw Themes	Clustered	Raw Themes	Clustered
Judgement	<i>Type of Person</i>	Learning by Doing & Experience	<i>Character</i>
Type of Person	<i>Governance Ethics = Personal Ethics</i>	Examples of Virtue	<i>Practical Wisdom</i>
Rules/Codes	<i>Who Am I?</i>	Good People	<i>Virtue</i>
Personal Ethics	<i>Ethics is a Learning Process</i>	Deeper than a Code	<i>The Good Life</i>
Development Over Time	<i>Codes & Character</i>	Excellence	<i>Role Models</i>
Inside You	<i>Approaches: Character/Rules/ Consequences</i>	Role Models	
Learning Through Example		Complexity	
		Worthwhile Life	

APPENDIX 8 - journal entries

in best interest of SHS in the Co. + its not the same thing. Some people have no qualms about conflict of interest. Informed by Philosophy Lectures. Sometimes we all have something inside - right/wrong - not sure where framework is from - confusion of Society, family - how you think
Chava - Util/Deon - All 3
Util no util character. Society influences how character
I need to ask S? → CG
context. Talked about about related party transactions.

After this interview went to a session on data analysis with Neil. He talked about importance of validity documentation etc. And gave me some good

ideas about how to get lived experience

He asked me to send me some books about anything as he loves reading. Mentioned it several times. He likes to step up to date with what is happening in Society.

He has put in me contact with another director who is quite well known + has alot of contacts.

Reflection

19 Dec 2011

Well I am actually quite surprised that I have as many confirmed interviews as I do. And some

of them are very busy & important people. Wow!
My 1st two interviews have boosted my confidence in interviewing people. The first one was better I think because I was able to probe - as I was really focused & it seemed more like a two-way dialogue.
In the second interview he was such a nice person but talked most of the time. I found it hard to ask my questions & so did not get to probe either. I was not so focused & missed opportunities to probe too. We got bogged down in explanations of system architectures etc.

I felt a bit frustrated about that. I kept trying to bring out the conversation to general experiences but the person responded in a more theoretical or 'what others do' way when I asked about guiding principles he kept using the phrase principles of good governance.
Maybe he was not able to articulate his principles. Maybe I was not asking the right question.

It was clear that he said he was comfortable but this did not come through a the reports. It reflected a skitzo-phrenic type of existence - any values

What I do at work? I need to learn how to probe better

He (2) emphasized our Director's legal responsibility is necessary but there always to what is going on is not this is not fair. Also he said you don't have an ideal director - all have their expertise to add & so should speak of an ideal board - which contains full complement of attributes needed. He said maybe we should have a NZ Arshadha approval - NZ is too light a regulation



He said the trava desirable was a special situation - many me - then parts relating themselves up to make a quick profit.

I don't know the answer of asked a leading question. He kept talking about frameworks & I asked him what he meant by that & suggested word view, philosophy & he agreed!

My bias. 20 Dec 2011
I believe that everyone

has within them a desire to do good, avoid evil & an understanding that virtue is good. I am expects people to say that deep down



They want to address
of virtues such as
integrity, honesty but
that circumstances make
this difficult.
Not everyone will have this
experience as they will have
gone up that approach from
the beginning of their success
& it will be necessary to one
what replaces it.

My Purpose

I have always been
interested in philosophy &
virtue. I find virtue
is potentially within every
one & if developed contributes
to success & happiness.
I secretly want to
show business is not
a desert for people
of integrity - that

paying money & virtue are
really compatible but
it needs help ~ good
leadership, structures, a clear
determination, training.
I think world of business
can be sanctified so
the human virtues can
& should be able to
flourish.

I hope to remember Ned's
advice - start specific
So what do you do as a
Dr.?

Complexity of lived experience -
how can it be captured
I think the integrated
framework is too limiting
in capturing this complexity.

I have decided to use an Interpretive view - as this was the best way to capture the lived experience. It allowed for inclusion of very individual & personal aspects of the phenomena to be acknowledged - will

The phenomena is partly personal & individual. But I wonder as I collect the data -> whether this method is adequate to capture what is there.

Reflecting on Methodology (20/12/11)

CR aims to prove a hypothesis. It tries to explain hypothesized structures & causal processes. However she held 9 Dec 11

ethics is a black box & so it is inappropriate to test theories when there is little as yet to base the development of theory on. Once this initial research has been done maybe a CR approach could be used to test theory that has been developed from data from this project.

~~1/11/11 views 3 Hamilton 31 Jan~~

~~Went to interview - not looking forward to it, nerves as usual. Tried to memorise questions to make it look like a~~

~~conversation. He came into room & I liked him a lot. He was very nice & friendly. We talked about a common Award & T~~

is good if can learn from
other's experience

~~I took off my scapular for
this one w/ I think was
a good idea.~~



Thoughts

8 Feb

I have now completed
4 real + 1 practice interview.
I am 1st of all worried
that anyone is saying the
same thing - ethics is
a heart. Can't draw people a
ethic even in almost sharp
that. How does this

relate to ethical theories..

Util, deont, VE ~ seems to

reflect VE but is this because

I am asking questions in

a certain way or because

that is how I see the world

If I was deontian would I

read that into responses?

Ethical choices are always



Personal. Involves the
Person making a judgment
A K, U, + VE all makes

judgments in the moment

they mention reasoning &
discussion

Emphasizes on Mission or
Purpose of the Co guiding
Judgment.

K+U ~ create principles

but ppl don't seem to

talk about rules but more

in heart principles was made

Should I change my questions

When I ask about principles

goals, standards

NOT good @ asking the

next question ~ what



20 Feb

Such an unassuming
- Man. Waited his turn
at reception. Gave me
some boxes of cereal
afterwards. hard to get
It was experience of ethics. Told
me about differences.
situations which were
challenging. Cared about
around people - that they
feel valued. same values
at work + home. One
influences the other.
hard to get lived experience

20 Feb

First time. I wondered what
am I doing this for -!
I can't change + just
push out their experience
what am I achieving with
this project. The



Participants have hopes of
helping society + my progress
" just exploring a topic?!!

Feb 21

Had not had any uncomfortable
situations we could explore
Gave me some good ideas about
role models + uniqueness
+ about link between home
+ work. Had to draw out
that ch was important for him

Feb 24

Very shy + a bit nervous
(he was) He did not answer
my questions about ethics
I can't get people to tell
me about uncomfortable
situations! - not live an
example
Ethics same as morality
formed by time you



are 10. Cans from
Mum + Dad. They were
very 'upright'.
* I shoves here asked
where they got it from
It's what you are
known for
Want not tell me
why someone was a
mole?
Hard!

Thought 25 Feb

Theme I got it from
M.D, how I was brought
up. ~ what is this?
is this supporting social
construction or objective
moral stes. I need to
ask them no
in same Bambi

have brought their kids
up badly or where did
Mum + Dad get it from?
why hasn't you rejected
it, developed your own?
Have you been brain
washed?

Are there social norms?

How can I justifyably
say this is showing that
ethics is more related
to UE & character.

27 Feb

~~Very nice man. Younger than
what I expected. Mentioned
first his personal code comes
from Mum + Dad
Interesting to ask about director
selection. Honesty + respect~~

2 Mar
This has been the most
frank interview by far.
He asked me what the
outcome will be -
the reaction diversity is
the answer as no one
breads out of group think
to lobby groups on issues
Main idea is to respect
others
He asked me to watch
out with ~~the group~~
I was lucky to get
~~the feedback~~ - use it well.
He asked me if ~~Rago~~ was
my principal. He said it was
such an old boys
network. net work



See p 182 above - Monica

July (26 July)
Feel really bad - feel like I behaved Harry's trust - felt like something ched. Did not understand his response re San Liu event. Also put him on spot about induction recent. Wanted re jobs - but an important contract

~~26 July 20
CFD Summit
15 March
Michael Frasing
Toof Pillars
July 12
10D also did a survey on~~



~~Key - mood of Board Room
Hubbard
Brand
Connections at Aug
Stussy → Fortex
→ Feltex
France no contact of ANZ
after onset collapse
ANZ - Feltex Plug in
Feltex
Feltex: boost up.
CEO - Chairman - falling out
P/M/Car Made dominated,
New Minded~~

~~Merry appointed by Stuart Bay~~



