

Stop the Rot – Reframing Governance for Directors and Politicians

by *Bob Garratt*

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Corporate governance (CG) has become crucial, considering it corresponds to the highest level of leading a corporation and deciding from a distal position the general orientation that should be undertaken. Previous literature reviews on CG and firm performance have shown contradictory results and non-conclusive relationships can be established ([Michelberger, 2016](#); [Pintea and Fulop, 2015](#)). However, Bob Garratt analyses CG differently, first focusing on underlying values of business and CG, and second on CG's importance for society, and the health of business in general. The emphasis is on creating a CG learning system.

In this book, the author goes through the underlying values of governance practice and presents a critical view of the subject. He states in the initial acknowledgements section that the book is his contribution to providing a comprehensive (more comprehensive) and provocative map of the “governance” concept. Throughout the book, we see that the author focuses the concept and how it is put into practice. That approach fits well with the profile of Bob Garratt, who is at the same time an academic and a practitioner—a *pracademic*. Although the author's experience comes mainly from the UK and South Africa, most of the reflections presented apply to corporations in general. That is understandable considering his vast experience in more than 40 countries.

The book is structured in two sections and six chapters. Each chapter is an essay focused on CG and the author tries to minimize content overlapping, although some points are slightly repeated. In the introduction, the problem of values in CG is addressed and the main organizing idea of the book is presented. The author reminds the reader that the fundamental business values are accountability, probity and transparency. He believes these three values are crucial to allow “honest trading” among people. Personal values and CG values have to be consonant with the three business values, otherwise distrust and clashes occur. Garratt highlights further the importance of professionalism in CG. The introduction section provides an overview of those main subjects, which are dealt with in greater depth throughout the book.

The first section is focused on “setting the future context for effective governance” and includes two chapters. The first is focused on the value of values in CG and Garratt returns to the discussion on the three levels of values (personal, CG and business values) showing the importance of alignment for a new social contract. The distinction between a rules-based



approach and a principles-based approach to CG is presented and that subject will be taken up again in the following chapters. Finally, the importance of considering learning as crucial to CG and effective organizations is pointed out. That learning should be focused more on human behavior sciences than on codes and laws, he underlines.

The second chapter is devoted to human values-based governance which is opposed to executive-led capitalism. Garratt contrasts entrepreneurial wealth creators with overpaid CEOs. That distinction is crucial to configure inclusive capitalism. The importance and role of the middle class are discussed and highlighted. There is analysis of the past, mainly concerning the recent financial crisis, and configuration of the future. The United Nations Global Compact is considered in his analysis and the importance of conceptualizing and designing new organizational metrics. Again, the crucial role of learning to establish effective CG is emphasized.

The second section of the book includes four chapters. The “rot” is a core idea throughout the book and the third chapter is devoted to the director’s role in stopping the rot. Garratt begins by showing the confusion around the term “director” and the confusing words to describe them. He highlights the importance of rethinking the current induction that most directors are subject to when assuming their position as director. One crucial organizing idea of the book that is approached in the third chapter is the perspective that effective CG has to be treated as a learning system in a continuous improvement process. Three case studies are presented and the four “unlimiteds” of corporations are criticized (unlimited life, unlimited license, unlimited size and unlimited power) demonstrating the critical importance of regular public review of the license for a corporation to operate taking into account its economic and social benefit. In this chapter, it becomes evident that effective CG must integrate a comprehensive view of the business beyond the organizational border, to include the social system as a whole, the wide context that has to be taken into account to guarantee sustainability.

The fourth chapter is an essay on owners and their responsibilities. First, Garratt proposes that emotional and legal ownership should be blended for effective CG. He highlights how acceptable individual human needs can become greed, selfishness and lust contributing to the rot he identifies currently in the business realm. The lack of a duty of care is mentioned as an issue and the map of private ownership rights and duties is sketched. Flash trading (instead of “patient investment”) is described as a huge problem to overcome for a new mindset for future ownership. Moreover, Garratt underlines the African Ubuntu principle (“I am because we are”) grounded on the interdependence among people, among organizations and among societies. The ten principles of the United Nations Global Compact, together with the six principles for Responsible Investment, are presented by Garratt as helpful in designing stakeholder-oriented and more democratic organizations for the twenty-first century.

The fifth chapter is focused on reframing governance for regulators. Appropriately, Garratt analyses and discusses again the differences between a rules-based approach and a principles-based approach (comply or explain) to CG. The first fights against creative avoidance strategies by corporations, while the second requires no delay in justice processes, otherwise justice as an institution is destroyed and the rot begins. Garratt considers CG a national asset which requires permanent learning: action learning and professionalism of directors are crucial for them to deliver effective CG. In redesigning CG to reach effectiveness, and considering the huge interdependence, the importance of replacing the dominant executive-led capitalism with inclusive capitalism is strongly recommended by the author.

The sixth and last chapter is focused on government and governance. In this chapter, the author asks “does government know what ‘governance’ means?” as a consequence of the analyses presented in the five previous chapters. Then, Garratt configures the two main proposals of the book: first, the steps for immediate political agreement and enforcement, and second, the national framework for continuous learning and development of CG as a national asset. The learning system includes several fora (legislator’s forum, director’s forum, owner’s forum, regulators’ forum and the public oversight).

The book finishes with the footnotes, the bio information about the author and the index of subjects.

Considering the theoretical contribution of the book, it is important to underline that some reflection is required to formalize conceptual propositions that are presented in its first draft. However, at least two main fields of organizational behavior are greatly shaken by the reflections and proposals made by Garratt in this book, even without him framing the book within them. The first is leadership studies, especially virtuous leadership models. The second is business ethics. While it is possible to argue that virtuous leadership and business ethics should be a main concern of all social players, Garratt demonstrates how those concerns are crucial for the social system to survive and progress.

Overall, the book is an exciting, interdisciplinary approach to CG, mixed with the great and rich experience of the author that brings to the field accurate analyses and insightful proposals. It is strongly recommended. Although cultural differences exist concerning the way business values, corporate values and individual values are put into practice, whatever the cultural background of readers, they will find very interesting analyses in the book that help in reflecting and learning to redesign CG and its wider framework.

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