Now in its third edition, *Principles of Contemporary Corporate Governance* offers comprehensive coverage of the key topics and emerging themes in corporate governance in the private sector. It explains both the principles of corporate governance systems and their real-world application in an authoritative and engaging manner.

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*Principles of Contemporary Corporate Governance* is an indispensable resource for academic researchers, practitioners wanting a deeper understanding of the underlying principles of corporate governance and students of business and law studying corporate governance.

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PRINCIPLES OF CONTEMPORARY CORPORATE GOVERNANCE

Third edition

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PREFACE

Corporate governance has increased in prominence over the past 35 years or so. It has long been an area of rapid development and, in some instances, following dramatic corporate collapses, drastic measures have been required to ensure adherence to good practice in corporate governance. Since the appearance of the 1st edition of *Principles of Contemporary Corporate Governance* in 2005, developments have not only gained velocity, but the volume of materials on corporate governance has grown exponentially. This made the appearance of a 2nd edition in 2011 inevitable. The global financial crisis that emerged in 2007 and global financial uncertainties in the European Union (since 2008) made us predict in 2011 that the discipline of corporate governance would retain its prominence in future. That has indeed been the case, and was a major motivation for us to bring out this 3rd edition of *Principles of Contemporary Corporate Governance*.

We looked at the book in its entirety and asked how we could keep it relevant and contemporary. We decided not to simply add more materials to the book and make it a monstrous work. Rather, we decided to stick to our original approach of focusing on the fundamental and contemporary principles of corporate governance. However, we also wanted to include more of the corporate governance themes and issues that had become particularly prominent in recent years. This meant that we had to delete some of the dated discussions to make place for new contemporary corporate governance themes and pressing issues.

In Chapters 1 and 2 we now deal in greater detail with broader reporting expectations, including social and environmental reporting. The trend of sustainability, integrated or corporate responsibility reporting, which is wider than just corporate social responsibility (CSR), is discussed more extensively. We also emphasise the importance of responsible behaviour by corporations and creating long-term, sustainable growth. In addition, we contrast some prominent corporate governance theories, like the shareholder primacy theory, the enlightened shareholder value theory, the stakeholder theory and the director primacy theory more explicitly. In Chapter 3 we still contrast the unitary and two-tier board systems and point out the respective virtues of both. In that chapter we draw attention to the fundamentally important difference between the managerial role of management and the supervisory or governance role of the board of directors. In Chapter 4 we have expanded the discussion on directors’ and executives’ remuneration and added a new part on board diversity, with a focus on gender diversity.

We had to sacrifice something at this point and decided not to include Chapter 5 (Corporate governance in Australia – background and business initiatives) on the basis that developments since then were largely refinements of existing initiatives. However, this chapter will be made available for downloading on the CUP webpage at www.cambridge.edu.au/academic/principles. Chapters 5–10 in this third edition
have been updated with the latest developments in Australia, including the 3rd edition (2014) of the ASX Corporate Governance Council Corporate Governance Principles and Recommendations and some of the most significant new Australian cases on directors’ duties and liability. Part Three of the book (Corporate governance in international and global contexts) still offers a concise and updated discussion of the US, UK, Canadian, German, Japanese and Chinese corporate governance models. However, we have added new parts on the European Union (EU), Indonesia and South Africa. In Chapter 12 we still discuss the OECD Principles of Corporate Governance. Part Four of the book was renamed ‘Business ethics and future direction’. The chapter on shareholder activism (Chapter 13) is new and gives an overview of the role of shareholder activism as one of the checks or balances in ensuring that companies adhere to good corporate governance practices. Chapter 15 (Reflections on contemporary corporate governance and its future) of the 2nd edition was deleted. Space was an important consideration, but as we deal with the latest and most relevant contemporary corporate governance principles and reflect on them throughout the book, a separate reflection chapter became difficult to justify.

There are still five distinctive parts in this 3rd edition of Principles of Contemporary Corporate Governance, each with a consistent theme: Part One introduces the reader to basic concepts, different types of board structures and different types of company officers. Part Two focuses on corporate governance in Australia; Part Three adds international perspectives to corporate governance and includes discussions on the principles and jurisdictions mentioned earlier; and Part Four deals with shareholder activism and business ethics.

This edition will again broaden the perspectives and understanding of all people interested in corporate governance and corporate regulation and management, including company secretaries, compliance officers, judicial officers, lawyers, accountants, academics and students of law and business management.

We are confident that we have not only updated the second edition of the book comprehensively, but that we have invigorated it. First, we have a new co-author, Jason Harris. Second, we have four new contributors, Irene-marié Esser (South Africa), Miko Kamal (Indonesia), Souichirou Kozuka (Japan) and Jeanne Nel de Koker (Australia) – and our contributors from the previous edition, Vivienne Bath (corporate governance in China) and Luke Nottage (corporate governance in Japan) updated their parts extensively. Third, we have added new and exciting corporate governance themes and issues, of particular relevance in a globalised and internationalised world.

Jean Jacques du Plessis (Deakin University)
Anil Hargovan (University of New South Wales)
Mirko Bagaric (Deakin University)
Jason Harris (University of Technology Sydney)

May 2014
Corporate governance concerns the manner in which corporations are regulated and managed. Corporations control a significant portion of the world’s wealth and other resources. The dominance of the corporation as the central agent in the market economy is increasing. Corporate behaviour impacts on every individual – often in very profound and significant ways. A fundamental tension in the corporate governance debate is balancing the profit-making objective of corporations and company officers against broader social responsibilities owed to the wider community. This tension has not been adequately resolved. Thus, corporate governance is a very complex and controversial area of the law.

This book sets out to demystify corporate governance regulation. It explains the rules and principles that regulate corporate behaviour in Australia and a number of other jurisdictions, including the United States, the United Kingdom and Germany. As well as dealing with corporate governance regulation today, the book provides an extensive analysis of the wider moral and policy considerations underpinning corporate governance. It evaluates existing standards pertaining to corporate governance, makes proposals for change and suggests ways in which this area of law and practice can be made more coherent and principled. The book argues that corporate governance regulation and management is in need of fundamental reform and explains in detail the direction that these reforms should take.

The primary aim of Principles of Contemporary Corporate Governance is to extract and evaluate the core principles of this subject area. However, it also gives context to these principles by way of to-the-point discussions and explanations as well as through carefully selected diagrams, case studies and real-life examples of corporate governance practices.

The book is written for all people who have an interest in corporate regulation and management, including company officers, judicial officers, lawyers, accountants and students.

There are five distinct parts in Principles of Contemporary Corporate Governance, but they carry a consistent theme through the book. In Part One the reader is introduced to some of the most basic aspects regarding corporate governance, namely the meaning of the concept ‘corporate governance’; corporate stakeholders and participants; board structures (in particular the unitary and two-tier board structures); and types of company officers (executive and non-executive directors; alternate director; secretary, etc).

Part Two focuses on corporate governance in Australia, covering the ASX Corporate Governance Council’s Principles of Good Corporate Governance and Best
Practice Recommendations (applicable to listed companies), other corporate governance guidelines and recommendations, the main governance and accountability mechanisms under the Australian Corporations Act 2001 and the recent Corporate Law Economic Reform Program 9 (CLERP 9) reforms to the Act.

Part Three considers corporate governance in practice. Specific topics covered include board and committee structures and risk management policies; auditors and audits; and an overview of directors' duties and liabilities.

Part Four adds an international perspective to corporate governance. Basic corporate governance principles in selected jurisdictions such as the United States, the United Kingdom and Germany are dealt with; the OECD Principles of Corporate Governance are also covered in some detail.

Part Five deals with some policy issues, and likely future developments and possible corporate governance trends.

We trust that our readers will find as much satisfaction in reading Principles of Contemporary Corporate Governance as we did in writing it.

Jean Jacques du Plessis, James McConvill and Mirko Bagaric
May 2005
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