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The Ethical Board: Reconceptualising Corporate Governance as a Moral Practice

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Abstract: Scholarly studies of corporate governance have for four decades been dominated by the agency theory paradigm, viewing the board of directors in corporations as a monitoring device whose purpose is to ensure that managers' actions will correspond to shareholders' interests. In this paper, we argue that the agency paradigm, although analytically rich and productive, is normatively bankrupt insofar as it treats governance as a principal-agent control problem, casts directors as agents of capital rather than moral agents in their own right, and fails to address the crucial ethical aspects of board decisions that matter most for the integrity of the corporate institution in the long run. To respond to this limitation, we propose the Moral Practice Framework for Corporate Governance (MPF), which reconceptualizes the board of directors as a moral community, comprising moral agents whose fiduciary, ethical, and civic responsibilities extend beyond the maximization of shareholder value. The MPF makes use of the social practices approach of MacIntyre, Rawlsian political theory, and recent literature on board diversity and stakeholder governance to construct a multidimensional concept of board moral agency consisting of four main dimensions: stewardship, deliberation, accountability, and ethical imagination each of which creates certain design needs for board composition, processes, and culture that differ significantly from agency-theoretical prescriptions. Finally, the paper provides an overview of conditions when the transition from agency-based governance to moral practice governance becomes both possible and necessary.

Keywords: Corporate Governance, Board Ethics, Moral Agency, Agency Theory, Stewardship, Stakeholder Governance, Fiduciary Duty, Board Diversity

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1. Introduction

This paradox lies at the root of the modern public corporation. For it is a powerful socio-economic entity which can affect the employment, environment, and communities and the lives of millions of people, while its main governance paradigm, agency theory, portrays it first and foremost as an instrument for serving the financial interests of a particular stakeholder group: shareholders. The board of directors under agency theory is supposed to address a technical issue the conflict of interests between principals and agents not a moral one related to the role and behavior of the organization it is supposed to be governing. The directors themselves are supposed to be controllers, not moral agents; that is why their job is to control management in order to serve capital.

In my view, the predominance of the agency approach in the research and practice of corporate governance theory carries with it an enormous moral price. In treating governance as a control issue, it has led to the creation of boards that are designed for the control purposes of shareholders to the neglect of the ethical expertise that is needed to govern effectively an important institution. It has created a conception of the board member as an expert with financial know-how whose most salient characteristic is independence from management without ever addressing the ethics-related attributes of the board member. Finally, it has sanctioned the existence of a culture of corporate governance in which the ethics of the board decision-making process, the morality of what the company should do rather than what will produce maximum return, have been downplayed or dismissed as not being the concern of the board.

In light of this conceptual backdrop, the Moral Practice Framework for Corporate Governance (MPF) is developed, wherein the board of directors is seen as a moral community with responsibilities that cannot simply be subsumed under the goal of maximizing shareholders' wealth. MPF combines three different strands of theory. First, the social practice theory of MacIntyre (1981), which gives us the possibility of understanding how institutions can have internal standards of excellence regardless of their performance indicators. Second, the political theory of Rawls, which offers the necessary normative foundations to understand the responsibilities of the board towards a large number of stakeholders. And third, the nascent field of diversity and stakeholder governance of the board, which empirically confirms that diverse and deliberative boards of directors are superior decision-makers from an ethical and from a financial point of view. Based on this theoretical background, we formulate a four-dimensional theory of moral agency of the board of directors, such as stewardship, deliberation, accountability, and ethical imagination.

The structure of the paper is as follows. The second section is about the critical evaluation of the theory of agency paradigm. The third section is about the theoretical basis of the MPF. The fourth section explains the four dimensions of the board’s moral agency. The fifth section is about the implications for the board’s design. The sixth section focuses on the conditions for the transition from agency to moral governance.

2. The Agency Theory Paradigm and Its Moral Costs

2.1. The Dominance of Agency Theory

Agency theory's application to corporate governance originates in Jensen and Meckling's (1976) foundational paper on the theory of the firm, which analysed the corporation as a nexus of contracts between principals and agents and identified the divergence of managerial interests from shareholder interests as the central governance problem. Fama and Jensen (1983) extended this analysis to develop a theory of board structure as a monitoring mechanism: the board's primary function was to ratify major decisions and monitor the performance of management on behalf of shareholders, with independence from management identified as the key structural property enabling effective monitoring. This framework became the dominant paradigm in both academic governance research and regulatory practice, shaping the composition requirements, committee structures, and independence standards that govern board design in most advanced economies.

The empirical fruitfulness and practical tractability of agency theory go a long way to explaining its hegemony. It makes predictions about the link between governance systems and corporate performance; it supplies a rationale for the legal demands made upon board independence, the structure of audit committees, and executive compensation disclosure; and it gives those who work in the domain a solid normative standard to judge board decisions against that of maximising shareholder value. This is where it adds real value. The issue here is not that agency theory is wrong, but that it is incomplete and that this has moral implications.

2.2. The Moral Costs of Agency Theory

One of the first moral problems with the agency approach is the shareholder primacy principle that underlies it. The way in which agency theory sees the board as an agent of shareholders implicitly approves the idea that the interests of the stockholders should be of central importance to the system of corporate governance. Indeed, the shareholder primacy principle has been widely criticized within the framework of stakeholder theory, political economy, and constitutional approaches (Freeman, 1984; Stout, 2012; Mayer, 2018), while the empirical data backing up the assumption that shareholder primacy governance yields superior results even for the shareholders themselves is not as robust as is usually believed (Lazonick and O'Sullivan, 2000; Bower and Paine, 2017).

Secondly, there is the issue of impoverishing the director function. The portrayal of the director as an independent monitor within agency theory produces a concept of board membership that places great emphasis on the attributes of finance and business experience and independence of structure but that barely considers the moral attributes necessary to govern powerfully constituted organizations, such as those virtues of integrity, practical judgment, citizenship, and moral courage. In this way, the recruitment and evaluation process for directors focuses on the technical and commercial attributes as well as their independence rather than their ethical character and ability to deliberate.

The third cost of such a system, and possibly the greatest, is the marginalization of ethics from the process of the board. In a board that was originally intended to be used to monitor managers according to certain financial benchmarks, ethical deliberation, which involves deliberation without an end in view and which involves taking account of multiple stakeholders as well as systemic risks, is something that the system is not equipped to handle. All the great corporate governance scandals of the last two decades including those from Enron and WorldCom up to the financial crisis of 2008 and today’s ESG problems had this element in common.

3. Theoretical Foundations of the Moral Practice Framework

3.1. MacIntyre's Social Practices

Social practices by Alasdair MacIntyre (1981) offers the first theoretical basis for MPF. Practice, as defined by MacIntyre, refers to a coherent cooperative social activity undertaken by people for realizing internal goods, which refer to goods that can only be realized through participating in the practice and whose realization entails excellences embodied in the practice. MacIntyre makes distinction between internal and external goods. External goods such as money, prestige and power can be realized in many ways and are not necessarily associated with the practice. However, internal goods can be realized only by performing the practice in an excellent manner.

When applied to corporate governance, MacIntyre’s model implies that board membership is, or ought to be, a practice with internal goods, such as those of good governance, integrity of institutions, and practical wisdom in governing power structures, which are not amenable to being expressed by external performance indicators, including the total shareholder return and compliance with governance codes. A board culture driven by the external goods of profit maximization is seen as a corrupt practice, whereby it has let external goods dominate internal standards of excellence, resulting in the efficiency of corporate governance in financial terms but poor moral and institutional character. The contemporary research applying MacIntyre’s theory to corporate governance and explicitly focusing on the mentioned tension identifies three strategies of undermining internal goods of morally educative practices: substitution, frustration, and injustice (Beadle and Sinnicks, 2025).

3.2. Rawlsian Foundations

The second theoretical basis is based on the idea of political philosophy of Rawls, which considers fairness of the terms of cooperation between individuals, who are free and equal but have different values and interests (Rawls, 1971; 1993). Although the model by Rawls is not directly relevant for corporate governance because it deals with the political sphere and not the private one, its main idea that institutional arrangements must be justified not only by the individuals who have the power in the institutions but by all individuals who are affected by them, is quite relevant for corporate governance.

Following the Rawlsian idea of ethics, one could argue that it is not only to the shareholders whose money is managed by the board that the directors owe duties but also to all those who are affected by the actions of the firm their life opportunities depend on it. The problem is that this is not just charity; this is the source of legitimacy of corporate power. Board which manages powerful entity without considering the interests of those who have to pay for the cost of its functioning cannot possess such legitimacy which is needed for continued social permission to exist and succeed in business.

3.3. Board Diversity and Deliberative Quality

The third theoretical underpinning builds on the existing empirical and normative literatures about board diversity and deliberative quality. Empirical work supporting the business case for board diversity the notion that decisions made by a diverse board of directors are better informed because they involve greater diversity of perspective and information sets when dealing with difficult issues is extensive and largely positive (though context-dependent) (Catalyst, 2020; Adams & Ferreira, 2009; Post & Byron, 2015). The ethical case for board diversity based on arguments related to ethics and morality of fairness and inclusiveness of decision-making processes is distinct from the business case and, in many ways, much more robust; it involves an assumption that organizations that exclude perspectives of the stakeholders they serve from their governance processes lack deliberative legitimacy needed for ethical governance (Phillips, 2016).

4. The Four Dimensions of Board Moral Agency

The MPF develops a four-dimensional account of board moral agency — stewardship, deliberation, accountability, and ethical imagination — that together constitute what we term the ethical board (see Table 1). This conception finds support in emerging scholarship that grounds the ethics of collaborative organisations in virtue theory, demonstrating how shared standards of professional excellence and virtuous practice sustain the moral legitimacy that effective governance requires (Bernacchio et al., 2024). Each dimension has a substantive content, a corresponding set of design requirements, and a distinctive contribution to the overall moral quality of corporate governance. The four dimensions are not independent; they are mutually reinforcing aspects of a coherent moral practice, each of which is weakened when the others are absent.

4.1. Stewardship

The first dimension is stewardship: the board's responsibility for the long-term integrity and sustainability of the institution it governs. Stewardship, as we conceptualise it, goes beyond the fiduciary duty of care in two respects. First, it is temporally extended: stewardship responsibility encompasses not only current performance but the long-term institutional health of the corporation — its capacity to sustain its mission, maintain the trust of its stakeholders, and contribute positively to the communities it affects over time horizons that extend well beyond any individual director's tenure. Second, it is constitutively ethical: the steward-director is responsible not merely for the financial health of the institution but for its moral character — for ensuring that the corporation conducts itself with integrity, honours its obligations to all affected parties, and maintains the kind of ethical culture that enables sustainable, socially legitimate operation.

The aspect of stewardship produces certain requirements in respect of board structure and culture. It demands directors who have the institutional perspective and knowledge to be able to make a decision based on its long-term implications for the institution and not only on its immediate financial payback. It demands that the board should develop such a culture where raising questions regarding the integrity of the institution is rewarded rather than being suppressed under the pretext of collegiality. And it demands a process of governance where the long-term aspects and stakeholder considerations complement the short-term financial considerations.

4.2. Deliberation

The second dimension is deliberation: the board's commitment to reasoned, inclusive, and genuinely open decision-making processes. Deliberation, in the normative sense we intend, is more than consultation or information-sharing; it is a mode of collective reasoning in which participants are genuinely open to revising their views in light of the arguments and evidence presented by others, in which all relevant perspectives are given a fair hearing, and in which the quality of reasons — not merely the preferences of the most powerful — is the ultimate arbiter of decisions (Habermas, 1990; Cohen, 1997).

The deliberation dimension challenges the dominant governance culture's treatment of board meetings as primarily information-presentation and decision-ratification events. Research on board dynamics consistently shows that most boards devote the overwhelming majority of their meeting time to receiving management presentations and ratifying management proposals, with genuinely open deliberation about strategic and ethical alternatives limited by time constraints, information asymmetries, and the social dynamics of groups in which dissent is implicitly discouraged (Lorsch and MacIver, 1989; Leblanc and Gillies, 2005). Governance designed around the deliberation dimension would prioritise the creation of conditions — adequate time, genuine information access, psychological safety for dissent, diversity of perspective — in which authentic moral deliberation about consequential decisions is possible.

4.3. Accountability

Thirdly, there is accountability – the board's accountability to an extensive body of individuals who are affected by the actions of the company. As we define accountability, there are three elements that go into it. There is transparency accountability where one must ensure that there is a truthful and complete disclosure of the actions, performance, and decisions of the company to all parties that have an interest in it, going beyond the bare minimum that is required legally and embracing the true meaning of accountability. Then there is responsiveness accountability that involves a meaningful interaction with the concerns of the parties affected by the actions of the company and not just the consultation process outlined in the governance codes. Remedial accountability entails taking responsibility for the negative actions of the company.

However, the accountability issue brings challenges to the paradigm of agency theory when it comes to the relationship between the board and the shareholders. There is no need to give up the principle of shareholder accountability when considering a wider spectrum of people who should be accountable to the company. It is right and justifiable for the company to take into consideration the interests of the shareholders because they have certain rights concerning the corporate governance of companies which they own.

4.4. Ethical Imagination

The fourth dimension ''ethical imagination'' is the most unique contribution of the MPF. Ethical imagination pertains to the capability of the board to recognize the ethical implications of upcoming problems before they become governance issues: to be able to see, during the process of strategic decision-making, deployment of technology, or market development, the ethical aspects of the situation which may not be recognized using pure financial analysis.

The concept of ethical imagination can be defined as a practical skill composed of moral sensitivity (ability to recognize the ethically significant aspects of the situation), perspective-taking (ability to understand the ethical implications of a decision from the perspective of the people affected by such decision), and prospective moral reasoning (ability to foresee the ethical implications of a decision).

Ethical imagination calls into question the reactive nature of ethics management at the board level, where ethical issues arise only once they become crises, having already generated either investigations from regulators, damage to reputation, or liabilities in the courts. The board that possesses true ethical imagination will engage with the ethical questions inherent in such decisions prior to taking any actions. The questions will include such as whether the entry into a new market and/or the use of a new technology are financially feasible, legal, and ethical; in other words, whether they treat the people who are involved appropriately, whether they fairly distribute the risks, and whether they comply with the corporation's ethical principles.

Table 1: The Moral Practice Framework — Four Dimensions of Board Moral Agency

Dimension	Core Responsibility	Design Requirement	Agency Theory Gap
Stewardship	Long-term institutional integrity and sustainability	Temporal depth; ethical culture oversight	Focus on short-term shareholder returns
Deliberation	Inclusive, reason-governed board decision-making	Diversity; psychological safety; adequate time	Ratification model; management dominance
Accountability	Answerability to all materially affected parties	Stakeholder engagement; remedial mechanisms	Shareholder primacy; investor-only focus
Ethical Imagination	Proactive moral risk anticipation	Ethics integration in strategy; scenario planning	Reactive compliance; crisis-driven ethics

5. Design Implications for Board Composition, Process, and Culture

5.1. Composition

The MPF imposes composition criteria that markedly differ from the recommendations of agency theory. The agency approach puts an emphasis on financial expertise, managerial experience, and independence. What more, the MPF demands the presence of moral competence that is defined as the capability to function morally due to possessing ethical knowledge and ability to reason about ethics under circumstances that require governance. Moral competence cannot be guaranteed through qualifications and structural independence that makes this concept underestimated in codes of governance developed on the basis of agency theory. Nominating committees working within the framework of the MPF will evaluate candidates for nomination not only by their technical and business qualification but also by their reputation in terms of their moral performance.

The MPF has implications for board diversity, which should be taken to mean not simply diversity among the demographic characteristics (sex, race, age, nationality), but diversity in cognition, experience, and stakeholder constituency. Discussion of the deliberative virtue the MPF requires requires input from views that are really diverse, rather than simply varied; having a board of directors who have financial experience and are different demographically but have basically the same perspective and values will not create the epistemic and moral resources deliberative governance requires. Evidence around the world from reforms for board gender diversity indicates that the widening of board composition improves innovation and stakeholder sensitivity in firm decision-making, particularly in supportive regulatory environments (Wang et al., 2024; Morán-Muñoz and Godos-Díez, 2025). In particular, the MPF allows for the presence of directors with a deep knowledge and strong commitment to the interests of employees, communities, and other non-shareholders stakeholders. This is not because of political pressure, but because of the need for adequate deliberation.

5.2. Process

The MPF's deliberation and ethical imagination dimensions have direct implications for board process design. Boards operating within the MPF would devote significantly more time to open strategic and ethical deliberation — genuine discussion of the moral dimensions of major decisions — and less to the passive reception of management presentations. They would institutionalise mechanisms for surfacing dissenting views and minority perspectives rather than allowing the social dynamics of cohesive groups to suppress them. They would integrate ethical impact assessment into the standard due diligence processes for major strategic decisions — acquisitions, market entries, technology deployments, workforce restructuring — treating moral risk as a category of strategic risk that requires systematic analysis alongside financial, legal, and reputational risk.

5.3. Culture

Perhaps the most fundamental implication of the MPF concerns board culture — the informal norms, expectations, and shared understandings that shape how directors actually behave in the boardroom, as distinct from the formal requirements of governance codes. Agency-theory governance culture tends to reward consensus, efficiency, and financial focus while implicitly discouraging the kinds of behaviour — persistent ethical questioning, challenge of management orthodoxy, advocacy for non-shareholder interests — that moral practice governance requires. The MPF calls for board cultures that explicitly value ethical courage, authentic deliberation, and long-term stewardship; that create psychological safety for the raising of moral concerns; and that model, in their own internal dynamics, the standards of fair and inclusive decision-making they are supposed to ensure throughout the corporation.

6. Conditions of Transition

The move from governance by the agency model to the governance by the moral practice will be far from an automatic and smooth process. A number of circumstances affect how likely it is to happen. Firstly, regulatory context: The countries whose corporate governance structures have advanced past the shareholder supremacy norm, for example, the Companies Act of 2006 in the UK, in which the directors should take into account the interests of workers, suppliers, customers, and communities, or the system of co-determination in Germany where there is worker representation on the board, create enabling environment for moral practice governance whereas purely shareholder supremacy structures lack such an environment. Secondly, pressure of institutional investors.

Thirdly, and perhaps most significantly, governance failure: the most significant factor leading to change from agency-based governance to moral practice governance has been the occurrence of an experience of governance failure that is catastrophic in nature that is, it is clear beyond doubt that although the board has succeeded in its function as shareholder monitors, it has failed in its more basic role of governance of the complex organization. This has happened with increasing regularity and severity in the past decades, and therefore indicates that conditions for transition have arrived.

7. Conclusion

This paper has argued for a fundamental reconceptualisation of corporate governance from the agency theory paradigm's monitoring-mechanism model to the Moral Practice Framework's account of the board as a moral community bearing stewardship, deliberative, accountability, and ethical imagination responsibilities that cannot be reduced to shareholder value maximisation. The MPF does not dismiss the genuine contributions of agency theory; it insists that they are insufficient, and that the moral costs of the agency paradigm's dominance have been too high and too long ignored.

These four dimensions of board moral agency identified in the model—stewardship, deliberation, accountability, and ethical imagination provide clear design specifications for the makeup, processes, and culture of the board, which sharply contrast with those of agency theory. These include a need for directors who are evaluated on both their technical and moral capacities; processes that permit real ethical deliberation not simply validation of management's decisions; an accountability structure that takes into account the interests of all relevant stakeholders; and a proactive approach to ethics in business decision-making.

Moral practice governance will call for alterations throughout the entire governance structure. There must be alterations at the level of the normative structures that determine the legal responsibilities of the directors; at the level of the expectations of institutional investors that influence director recruitment and performance appraisal; at the level of the boardroom culture that influences how directors use their power; and at the level of the overall idea of corporate purpose that determines the final normative orientation of governance. Such alterations are not modest. But the consequences of governing such powerful organizations thrugh such morally barren structures are even more serious.

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