Fear, Regret and Transparency: Corporate Governance Embracing Disclosure and Integrity

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Abstract

Lack of information and responsibility within risk management, among board members, top management and homeowners, has contributed to the recent global subprime mortgage crisis. Similarly, lack of appropriate governance and risk management when faced with the temptation to make short–term profits led to the Asian financial crisis of the late 1990s. Similarly, the desire for extraordinary growth and profitability resulted in the corporate ethical disasters of the Enron Corporation and WorldCom. Those apparently unrelated events led to regret and even fear. Moreover, they also resulted in stricter regulatory oversight. The main question is how can fear and regret be overcome amid recurring economic crises? This paper argues that converging global corporate governance principles and best governance practices may provide the first steps to institutionalize reform to contain global crises. Those practices embrace generic principles of institutional transparency, personal candor and attention to an attitude of integrity while best governance practices acknowledge the local context in which institutions and corporations function. Despite some costs incurred in increasing transparency, institutionalized disclosure and individual integrity can make a difference to guarantee appropriate corporate behavior that may strengthen the corporate decision-making process and could bring back confidence and trust in those corporate and financial institutions and their leadership.

Keywords: *corporate crises, governance principles, "best" practices, transparency, regulatory oversight, institutional disclosure*

1. Introduction

There does not seem to be any commonality between the recent financial global subprime mortgage crises and the Asian crisis of the late 1990s on one hand and anti-corruption corporate campaigns on the other. Or is there? Indeed, there is. We believe that there is an indication that something under the surface links the causes of those phenomena: a lack of institutional and/or individual responsibility. Transparency is a central pillar of good corporate governance. Increased disclosure and transparency are crucial for effective risk management as part of corporate governance. The notion of transparency that presents a "truth claim" reflects a new value in the information culture in general and more particularly in an increasingly global business environment. Transparency refers to an open society in which a thriving business requires valid information about markets, which implies risks and opportunities. Transparency can be seen first in the context of a new digital reality of more disclosed data turned into information and knowledge within and between organizations, and second in terms of personal responsibility, otherwise known as "integrity." Generic governance principles are translated into contextually sensitive practices of improved institutional disclosure and enhanced individual

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accountability. Those "best" governance practices could substantially reduce, though not eliminate, the likelihood of crises and/or corrupt behavior by corporations. However, a shift to more transparency is possible only with a moral culture shift that breaks certain taboos and the "silences" of the past.

In section 2, we emphasize the aspects of transparency as a fundamental underlying aspect of those converging good corporate governance principles. Transparency can be institutionalized through improved information disclosure requirements, either mandatory or voluntary, within a less opaque society. The Internet era has made transparent policies part of a growing global culture of information. The quest for more transparency is driven by the market, institutions, and politicians, but more than ever by information and communication technology.

In section 3, this quest for transparency is deciphered and empirically analyzed with the objective to understand the relevance of more disclosure for improving institutions and organizations. In addition, one should be guarded against overzealous or unwise quests for disclosure, since reducing asymmetric information has its costs, and thus finding a balance between complying with institutionalized transparency rules and guarding confidential information is necessary.

In section 4, we argue that improved individual integrity, accountability, personal candor and professionalism of top management should enable organizations to rise toward visionary and sustainable business strategies. Moreover, without transparent responsibility, business leaders will not be able to regain trust and confidence, which regrettably and fearfully have been lost in these recent crises.

2. Regret and Fear versus Transparent Responsibility?

Cutting corners or taking the easiest way while avoiding accountability may not seem unexpected in a competitive business environment. It may even be considered as normal behavior to satisfy the investors' expectations to continue to provide continuously growing or persistent quarterly earnings per share. Improving corporate responsibility on an institutional level and candor aligned with integrity on an individual level could counter some of the lost trust and confidence. Those at the centers of power and authority have corresponding duties and responsibilities to fulfill for which they can be held accountable through processes of transparency.

The world currently seems to be in the grip of fear and regret caused by the meltdown of securitized mortgage instruments that led to a systemic global financial crisis. Similarly, being caught in a corporate corruption scandal usually brings along with it the emotions of fear and regret. The implication of greed, neglect and ignorance can be far reaching and its consequences sometimes quite intrusive. However, fear is hardly ever a reliable guide and regret usually comes too late since the damage has been done and its consequences can be quite dramatic, either on an individual or on an organizational level. Our conviction is that a lack of transparent responsibility, which is translated into opaque governance rules and non-responsible and even outright greedy behavior, is partially responsible for the current global financial problems and corporate debacles.

2.1 Why Transparency?

Global competition and recent corporate disasters have brought to the forefront pressure for improved corporate governance and more particularly transparent leadership, both in the West and in the East. Being transparent indicates that light is allowed to pass through so that objects can be clearly seen; it also means "without guile or concealment, open, frank and candid." Hence, transparency in the current social and business context can be defined as the social value of open institutional and/or individual access to particular information held and disclosed by centers of authority that supposedly function as "stewards" and "guardians" of

information, on which corporate entities are based, for the sake of their respective owners and ultimately for the sake of the public at large. Moreover, corporate governance cannot be meaningfully analyzed in isolation, independent of the role of institutions and public governance that concerns transparency[1] fairness and the legal system of the market mechanism. The recent financial crises seem to have been caused by the antipode of transparency. A common factor determining the success of a corporate governance structure is the extent to which it is transparent to market or regulatory forces.

At one extreme of the pendulum of information one finds secrecy, which corresponds to traditional loyalties and hierarchies, whereas at the other extreme transparency oozes a fundamental respect for individual autonomy while acknowledging growing interdependencies of the global participants. The ideal of transparency assumes that more information about the functioning of a publicly listed corporation reduces the likelihood of corporate misbehavior and increases the chances that it will perform better. However, only if a firm is fully investigated by a regulator or institutional authority is it truly possible to verify the information it provides. In short, a company can be fully transparent and still be fraudulent. Enron and Parmalat are two by now infamous cases that prove this point. Both disclosed massive amounts of data as required under their respective capital market regulators, and in both cases, they were able to deceive the public. Despite being allegedly transparent about their internal financial data and codes of conduct, they did not tell the truth. Moreover, one can easily imagine corporations that are stellar performers without being fully transparent.

After these public scandals of corporate appropriations, the quest for business legitimacy has become a top priority, the aim of which is to indicate that corporations could account for their actions and subsequent consequences. Institutional transparency (section 3), either mandatory (as for financial information relevant to investors) or voluntary (as found in ecological and ethical information relevant to stakeholders), is a necessary but not sufficient condition to guarantee responsible and "accountable" behavior. Visionary leadership (section 4) is needed to fill that gap which obviously is much harder to assume in a competitive global economy.

2.2 Why not Transparency?

Two caveats should be mentioned though. Sometimes, less transparency could lead to better performance or even greater efficiency in the short term. The analogy is between an open society, such as India, that may be slightly less competitive or efficient compared with a closed society, such as China. The latter has grown more quickly and raised more people out of poverty more rapidly than democratic India. The second danger lingers that – along with an overzealous discourse about human rights and democracy – transparency has become another buzzword that presumably tries to demonstrate the supposed moral superiority of Western governance principles over the rest (Mahbubani, 2008). "It is hard not to wonder how much of that discomfort of a lack of transparency [of Asian and Arabian investment whose inner workings are indeed opaque] and how much is about the shifting power balance in global finance" (Karabell, 2008, p. 41).

Adhering to certain "transparency" principles would help to reach such goals. Indeed,

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[1] The notion of transparency is one of the seven criteria that are often used to determine the level of corporate governance in countries. Asia–Pacific Markets, CLSA for example, has developed those 7 criteria to apply to Southeast Asia: (1) Discipline concerns management's commitment to emphasize shareholder value and financial discipline; (2) Transparency is the ability of outsiders to access the true position of a company; (3) Independence refers to the board of directors' independence in controlling shareholders and senior management; (4) Accountability equals the account of management to the board of directors; (5) Responsibility is the effectiveness of the board of directors in taking necessary measures in case of mismanagement; (6) Fairness is the treatment of minority shareholders reviewed from majority shareholders and management; and (7) Social awareness concerns the company's emphasis on ethically and socially responsible behavior.

it can be argued that some socio-philosophical framework of global governance principles should be suggested while respecting and emphasizing the cultural historical context of its local practices to take on the enormous global challenges.

Both the Asian crisis in the East and the sub–prime crisis in the West suggest that governance on a global level will need to be taken seriously because those crises demonstrate that an occurrence in the East has impacts on the West and vice versa. Business is embedded in institutional settings and socio-economic and political contexts of both a material nature, in terms of money and tangible physical assets, and a non-material nature, meaning intangible assets, such as credibility, goodwill, trust, social capital and reputation, which influence governance systems. Identifying common trends will become more and more related to the growing convergence of some institutional settings by the globalization process. Despite the benefits of effective governance practices and the pressure from globalization forces, changing governance models is not an easy process because they are embedded in a national institutional environment (Zattonni, 2008). Although economies with sound disclosure levels in the banking system, which in turn is related to the notion of transparency in public decision–making, suffer lower levels of corruption, whereas the ratings of Thailand and Indonesia in Transparency International, for example, have seemingly not improved since the 1997 crisis (Randhawa, 2005) and transparency is still a far cry off, keeping away a number of potential foreign investors. Modifying governance practices often requires amending laws and therefore agreement between the political and corporate elite on the governance model to adopt.

Despite the fact that the convergence of governance principles[2] seems to be oriented toward the Anglo-Saxon model, significant differences still exist between countries and regions when it comes to disclosures of various board sub-committees. The current global financial crisis seems to be hastening the ongoing trend of convergence of universally accepted accounting principles. The United States Generally Accepted Accounting Principles (GAAP) seems to be destined to look more and more aligned with the European International Accounting Standards (IAS). Indeed, in spite of the global nature of today's competition, the political, and economic and socio-cultural effects of local market institutions can have both positive and negative influences on the capabilities and competitive advantages of firms (Millar, Eldomiaty, Choi & Hilton, 2005; Kogut, 1991). It is difficult to envisage a complete convergence of corporate governance practices in non-Western legislation because of significant differences in culture, legal translation, history, and path dependence (Ho et al., 2005). However, a growing demand for global financing logically induces those firms to adopt governance mechanisms and processes that are accepted on a global basis. It is not too difficult to see that most of the "best" governance principles are focused on assuring that managers of companies are fully accountable to shareholders. A common platform in corporate governance principles is becoming a necessity to guarantee and sustain international financing from institutional investors or even to gain a competitive edge through a superb corporate reputation. Moreover, increased disclosures are associated with market liquidity, reduced cost of capital, and greater overall transparent responsibility. Adhering to those transparency principles allows greater access to

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[2] The OECD principles are as follows: (1) rights of shareholders refer to the basic rights of ownership and information; (2) equitable treatment of shareholders implies equality per shareholding of minority and foreign shareholders; (3) the role of stakeholders recognizes their rights and encourages cooperation and information-sharing; (4) disclosure and transparency rules provide timely, accurate and cost-efficient information on all matters regarding the corporation, including financial and operating results, change of ownership, voting rights, key executives/board members and their remuneration, governance structures, and policies and issues regarding employees; and (5) responsibilities of the board detail their accountability to the company and shareholders and their role in ensuring compliance with laws and regulations and the integrity of the financial reporting process.

global competitive financing and global skilled talent. However, it is doubtful that medium–sized and smaller companies in Europe and Asia, including Japan, in general are adapting those strict formal Anglo-Saxon disclosure principles, despite an obvious convergence among the big multinational corporations.

2.3 Global Governance Principles, Best Practices and Transparency in an Open Society

Many countries in Southeast Asia and China with insider-dominated systems have focused on improving the legal protection of minority shareholders, concentrating on improving corporate accountability by forcing companies to produce consolidated accounts and to encourage greater dispersion of equity ownership.[3] Cultivating a broader shareholder base will likely result in greater shareholder democracy (Solomon & Solomon, 2004) and increased shareholder activism. There is definitely pressure toward global corporate governance compromises. Such a trend would imply that reforms in systems of corporate governance implying a relatively high level of transparency both in the West and in the East will focus on "long-termism" and accountability.[4]

In the governance and financial literature, transparency is related to the continuous dissemination through accessibility to media, consistent communication with stakeholders and periodic disclosure of firm-specific information on a voluntary or mandatory basis (Bushman, Piotroski, & Smith, 2004; Yadong, 2005; Patel, 2002; Pope, 2003). Such disclosure and dissemination can have a positive efficiency effect on obtaining capital (Uren, 2003) or enhance the firm's reputation (Bennis, Goleman, & O'Toole, 2008; Fombrun, 1990, 1996, 2000). In some cases, firms in countries with weak investor protection and disclosure standards may choose to cross-list in countries with stronger standards and requirements, with the aim to attract and protect additional (minority) shareholders (Reese & Weisbach, 2002).

Transparency is linked to the value of respect for individual autonomy that often leads to a form of generalized trust in an open society. Moreover, such an attitude of transparency logically requires access to needed information, based on the assumption of reasonable assessment of truth claims by the public at large. Obviously, any change in values as expressed in the demand for more transparency arouses resistance. This is in contrast with the notion of secrecy that limits individual autonomy and is linked to hierarchies, obedience and discretion, resulting in some form of particularistic trust[5] in a closed circle only. Secrecy – hiding information intentionally – should be distinguished from opacity – absence of information, sometimes manipulated. Opacity is the lack of transparency, and is easier measured

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[3] See Green (2005) and Neoh (2003). The current state of the Chinese capital markets is the result of "short-termism" in managerial attitudes that has lead to short–term speculative investment horizons, which in fact is contradictory to the Confucian values of harmonious continuity in family-owned businesses. Nevertheless, most listed companies in China are still state-owned, which implies that political rather than economic objectives play an important role. The Code of Corporate Governance for Listed Companies in China (2002), which was implemented by the China Securities Regulatory Commission, is a good step in the right direction that seeks to make listed companies in China more attractive to investors. Appropriate good governance mechanisms would be highly recommendable to improve the financial performance of those listed Chinese companies.

[4] See Cornelius (2003) and California Public Employees Retirement System criteria, among others. From different sources, we can summarize that most global investors believe that good corporate governance standards imply that there are (1) a significant percentage of outside or independent directors on the board; (2) these independent directors are truly independent of the management; (3) the board members and directors have significant shareholdings when representing fund managers and institutional investors; (4) a material proportion of the directors' compensation is related to these stockholders; (5) there are mechanisms for formal evaluation of directors and board members; and (6) the board is very responsive to investors' questions on governance issues.

[5] See Uslaner (2002) and Brenkert (1998). Generalized trusters presume that most people they meet share their values, whereas particularistic trusters view the outside world as a threatening place over which they have little control.

than the nations of transparency itself. Kurtzman's (2004 and 2007) opacity index[6] gauges the economic costs to countries which lack transparency. Opacity and secrecy have long been ancient tools of authority in most, if not all, societies. Obviously, both secrecy and opacity are still powerfully entrenched and even increasing in some domains, especially in response to security threats or for the protection of illicit gains and privileges of special interests (Holzner & Holzner, 2006). Calling for more transparency can be easily perceived as an onslaught against tradition, identity and security, as well as against the established authority and power of the governing elite. It can also be seen as a fight against corruption, inequity and authoritarianism, and for freedom, openness, civil rights and personal autonomy (Holzner & Holzner, 2006). The key to any good investment is clarity while the lack of transparency and candor erodes trust and discourages collaboration.

Transparency is a current condition as well as an emerging norm, presupposing the idea that betrayal should be avoided. The demand for more transparency expresses an ideal of accountability. From that perspective, lies should be distinguished from secrecy. Under the modern global conditions in a complex political and economic environment, lies have become much more devastating than in traditional societies. Lies can question the very foundations of our life and should therefore be more severely penalized in modern societies in comparison with lies told in simpler traditional communities. However, keeping secrets is necessary in antagonistic relationships, but doing so also may be chosen as an instrument of strategy in interactions among partners to time a particular revelation or strategy announcement to prevent premature public debate about incomplete project plans, or to make surprises possible, among others.

Changing values of information cultures are often linked to changes in identity and morality in a prevailing context. That the last 20 years of fast developing information and communication technology has created enormous new opportunities, unheard of two decades ago, as well as threats such as loss of privacy and increased surveillance, cannot be ignored either. Nevertheless, transparency is not about eliminating privacy but it is about holding powerful people accountable in case of violations. As is the case with markets, governments hardly function well in the darkness of secrecy. Scandals have played a special role in stimulating the demand for more transparency. It is indisputable that practices such as capitalizing lease payments – as in the case at WorldCom – or hiding investments in partnership – as over-exercised in the Enron case – are wrong. The adoption of new accounting practices, auditing oversight, and rules for managerial liability make sense given the abuses of those corporations (Cornelius, 2003). Transparency is effective to the extent that centers of authority, citizens, customers and clients construct valid information and achieve a common understanding about it. Hence, an open society almost becomes a prerequisite to allow transparent responsibility to assess information and understand it.

Globalization, deregulation and privatization are assumed to change competitive dynamics dramatically. The more intense is the competition, the more transparent are the markets, and the lower are the switching barriers for customers, the more important it is to persuade customers of the value of a product or service (Bailom et al., 2006); hence, the focus on customer value. The need for a global convergence in corporate governance derives from the existence of forces leading to international harmonization in financial markets (Solomon & Solomon, 2004). We observe a certain trend toward international harmonization if not imminent convergence in the areas of accounting and financial reporting, with the "principles based" International Accounting Standards Board (IASB) driving toward a comprehensive set of internationally acceptable

[6] See Kurtzman (2004, 2007). The opacity index analyzes five areas of concern: corruption in business and government; ineffectiveness of its legal system; negative aspects of its economic policy; inadequacy of its accounting and governance practices; and detrimental aspects of its regulatory structures.

standards for accounting aimed at a global standardization with the "rules–based" GAAP. An obvious example is the fact that stock options granted to top management as a performance–dependent form of remuneration are off balance and thus not considered as a real expense until materialized at the maturity date, according to the GAAP, whereas the so–called IAS 39 Financial Instruments Recognition and Measurement clearly stipulate such security as a real cost that needs to be immediately cushioned against its fair value through capital for possible future risk (Couglan, 2004). Although compensation through stock options is rarely practiced in East Asia, including China – unless with explicit professional partnerships – we believe that, with the growing internationalization of companies and the increasing pressure to find or to retain talented management expertise, these Western ingrained practices may gain some prominence in Asia in the not too distant future as long as appropriate capital reserves are recommended and foreseen as a cushion for the risks taken.

Political, institutional and market pressure seem to be the main drivers of the convergence of corporate governance principles and to a certain extent even its practices. Empirically, one could argue that the globalization of reasonably free capital flows and the increasing relevance of globally active institutional investors who take an active share-owning role have been instrumental in moving toward a more coherent and internationally accepted governance model that emphasizes improved disclosure through transparency and accountability.

It should be noted that governance will not completely prevent misconduct or misdeeds, but it can actually improve the way a corporation is run. Ultimately, a company with good governance structures in place will attract talent, skilled management,[7] and investors who are willing to pay a premium for stockholding in a well-managed and transparent corporation. A McKinsey survey (2001) has proven that foreign investors are willing to pay considerable premiums (between 20 and 30 per cent above the market stock value depending on the country of origin of the investment) for companies in emerging countries which implement internationally recognized "minimum" governance standards. Higher transparency and better disclosure reduce the information asymmetry between a firm's management and financial stakeholders, i.e. equity and bond holders, mitigating the agency problem in corporate governance. Other research suggests that firms with higher transparency and disclosure practices are valued more highly than comparable firms with lower transparency and disclosure practices (Crist, 2003); that research shows that the Asian emerging markets exhibited greater transparency and disclosure following the 1997 crisis (Patel, Beli, & Bwakira, 2002). In other words, markets place a premium on companies with lower asymmetric information problems. The financial crisis has prompted countries in the Association of Southeast Asian Nations (ASEAN) to undertake drastic measures to improve the transparency that undergirds their corporate governance. Especially the ASEAN banking sector, severely affected by the financial crisis of 1997, which is increasingly interlinked with the global financial markets, has started a consolidation process and has reacted to the market by improving its corporate governance mechanisms. The intention to implement the Basel II Accord and liberalize their banking sector, as stipulated by the World Trade Organization Accord on financial services, will continue to consolidate and improve the quality of governance in the financial system (Randhawa, 2005).

[7] In these times of knowledge-based organizations, one should recognize that the critical success factor has become the human "asset," the knowledgeable workers. The organization is at risk if its culture deviates too much from the values of its people. In other words, greater priority needs to be given to good corporate citizenship in all senses of the word, which makes the organization attractive to enlightened knowledge workers and other stakeholders, especially if the organization is responsive to pressing humanitarian and environmental issues.

Engaged businesses usually go beyond mere quarterly shareholder profitability expectations and aim at a longer-term sustainable value of an organization. The definition of longer-term is itself conjectural since "future" is a fickle concept that usually turns out differently than expected or forecasted. The devil lies in defining the details of what is understood by the "long–term value"[8] of an organization. Despite the growing importance of corporate governance practices, information is still scarce in the areas of corporate ownership, structures, composition, board practices, and compensation (Mobius, 2003; Green, 2005). Furthermore, attempting to take a longer-term perspective is more often than not hindered by the financial community's adamant and sometimes irrational overemphasis on the next quarterly financial results. Moreover, the lack of transparency and accountability not just in emerging markets but even up to Wall Street institutions, as indicated above, has become a major issue of public debate.

What shareholders is the board of directors representing? Does the board need to jump to the fancies of short-term investors (i.e. hedge funds) or does it represent the interests of long-term investors? In contrast to strategic investors, institutional money managers with mainly short-term perspectives increasingly control vast financial assets and start to determine the (short) time horizon of the corporate boardroom (Wellum, 2007). What about long-term wealth creation or efficient use of capital or responsible stewardship? What is sure though is that vision, moral competence and strongly accountable and responsibly engaged leadership embracing transparent global governance principles comprise a key characteristic in building a foundation on which businesses and governments may have a chance to withstand the tensions of an uncertain and often enduring future.

The fiduciary duty of the board and its top management should analyze to what extent the organization dwells in or links to a wider socio-economic environment which can and will need to be translated into fiduciary care (Hart, 2007; Frances, 2008; Elkington & Hartigan, 2008). Such care of loyalty will likely result in (a) some sort of corporate citizenship with the objectives of optimizing resources, which may lead to valuable products and services, wanted and needed by the "society" (Wallace & Zinkin, 2005), and (b) profitability. In a competitive global environment, where it takes substantial time to gain a good reputation, that reputation can be shattered by the click of a computer's mouse. Hence, there is an enormous need for transparency, responsibility and accountability, underpinned by a sense of fairness by the leaders designing and implementing strategies.

Obviously, internal secretiveness should be distinguished from competitive advantages and innovative research which are closely guarded by the firm. Lack of transparency erodes trust and discourages collaboration. Despite legitimate moral and legal limits on disclosure, leaders should aspire to a policy of "no secrets" (Bennis, Goleman, & O'Toole, 2008). However, the emergence of innovative Internet and communication technology has led to profound changes in our global culture wherein the ever-present "Internet-eye" scrutinizes any possible shady (corporate) behavior that will be immediately blared in the openness of YouTube or FaceBook and the blogosphere alike. More than ever, trust and transparency are correlated into present corporate and public life. Transparency is no longer simply desirable; technologies and changed expectations have made it unavoidable. Google is not merely a search engine; it has become

[8] Should long-term value include externalized costs, such as corporate polluting practices, for example? Changing the organizational culture of a firm to one that adheres to a broader definition of value and is committed to transparency is not an easy task, but some firms – on a multinational as well as a national level – are increasingly taking up the challenge and achieving partial success. However, the continuing global ecological degradation, increasing income inequality and poverty gap, and the insensible and often greedy and materialistic trend of irrational consumerism promoted and advertised by global corporations must be watched for. Nonetheless, it is within a regulatory and legal institutional framework that governments have a vital role to play in the creation of strong vibrant markets that embrace economic and social values.

an instrument that crushes or elevates one's reputation. Genuine leaders of global corporations, such as Johnson & Johnson or General Electric among a few other global firms,[9] encourage honest sharing of information, endorsing good corporate governance which creates a reputation of candor underpinned by trust and respect. Moreover, such transparent policies supported by appropriate risk management may enable corporations to be better prepared to face a risky future, sometimes more fierce and unexpected than could be imagined.

3. The Quest for Improved Transparent Accountability

Globalization is creating a political, economic, social and ecological environment that needs to be governed in a responsible manner where political choices and corporate actions need to be taken in order to address global challenges, especially by those in power. Accountability of those in power relies on the value of trustworthiness that could inspire a culture of transparency, candor and individual responsibility, providing the "glue" for a new phase of a global fairer world. A "trust and verify" attitude can be enabled only through greater transparency and measures of accountability.

Transparency and creating a culture of candor refer to the free flow of information within an organization and to a high extent between the organization and its many stakeholders. It often requires the leader's commitment enabled by a particular organizational culture that is governed according to certain principles. Where information travels globally throughout the Ethernet, transparency is no longer "nice to have." It has become a necessity in order to survive in this digital era. An institutionalized form of transparency clearly states that financial and to a lesser degree non-financial data need to be disclosed to shareholders and other relevant stakeholders. On the other hand, it is essential for companies to implement initiatives that prevent and manage employee misconduct. The latter requires an effective code of conduct or compliance program that must become a part of everyday corporate governance, whereas the former needs strict adherence to regulatory compliance. At the same time, one should acknowledge some legitimate limitations to transparency.

3.1 Compliance with Institutional Entrenched Transparency

Institutionalization is the process through which components of formal structures become widely accepted to legitimatize organizations, as

[9] See http://www.gmiratings.com; Green (2005); and Kurtzman, Yago, & Phumiwasana, (2004). Governance Metrics International (GMI) maintains ratings on the corporate governance practices of over 3,200 global companies, evaluating them based on (1) board accountability and independency of directors; (2) financial disclosures and internal control; (3) executive compensation; (4) shareholder rights and minority rights; (5) ownership base, ownership concentration and takeover provisions; and (6) corporate behavior and responsibility. It should be stressed that social corporate responsibility and its appropriate behavior is only one of the six variables used to analyze and evaluate those global multinational corporations. Such metrics are used not only by institutional investors, but also by credit rating agencies, lenders, and even regulators. In the period 2004-2005, GMI announced that 34 companies, 27 of which were based in the United States, received a perfect score of "10.0." A few of those well–governed companies are named in alphabetical order: 3M Company, BCE Inc, BP Plc (UK), Citi Group Inc, Colgate-Palmolive Company, Dow Chemical Company, Eastman Kodak Company, General Electric Company, General Motors Corporation, Johnson Controls, Lockheed Martin Corporation, Mattel Inc, Nexen (Canada), PepsiCo Inc, P&G, Vodafone Group (UK), and Westpac Banking Corp (Australia). However, such a high score in the yearly "beauty contest" does not guarantee against missteps or crises, such as Mattel recently experienced. Furthers, companies, not exactly known for their corporate social responsibility commitments, such as the Dow Chemical Company (which acquired Union Carbide), nevertheless made it to the top list. The ratings remain highly subjective but give an indication of the importance of corporate governance. If one compares such corporate governance ratings with the opacity index rating – developed by Kurtzman, Yago, & Phumiwasana – one finds some consistency between corporate and generic governance ratings. However, most small and medium-sized companies are, unfortunately, excluded from these contests and surveys because of a lack of information.

both appropriate and necessary (Tilbert, 1983, p. 25 cited in Zanotti, 2008). Telling is United States Supreme Court Justice Louis G. Brandeis' eloquent statement that sunshine is the best disinfectant (Khurana, 2008). The economic value of that sunshine is evident in the higher cost of capital in economies that lack it. Trust, moreover, underpins vibrant social and economic activities.

It is because of the asymmetry of information that there is market pressure to disclose relevant information through corporate governance principles and mechanisms to guarantee some market efficiency and fairness. A global corporate governance mechanism facilitates an efficient transfer of global capital that is constrained by a sound oversight framework and that promotes trust and efficiency in market transactions (Markarian, 2007).

The legal or judicial regime and the role of political structure in a country affect the degree of transparency. It is expected that legal protection of outside investors' rights and enforcement of those rights vary around the world. The demand of outside investors for transparency is expected to increase with stronger protection of property rights as is the case in countries under common law tradition (La Porta et al., 1999, 2000; Bushman, Piotroski, & Smith, 2004). The decentralized nature of English common law has the propensity to protect the property rights of individuals more than French civil law or even German or Scandinavian civic law traditions, which fall in between the common law and the French civic judicial system (La Porta et al., 1999, 2000). The propensity of policymakers to mandate and enforce transparent corporate reporting is expected to be much higher in countries where investor's rights are quite well protected. In the absence of a viable judicial system to enforce contracts, relationship-based arrangements and private social capital enforcement mechanisms are sought that consequently rely less on publically disclosed information (Dixit, 2003; Verhezen, 2008b). The lack of effective courts in a number of emerging countries with a civic law tradition in line with continental civic judicial history has an impact on the nature of contracts and business protection. Indeed, the stronger are grime's protections of individual rights, the more can corporate transparency through greater voluntary disclosure be expected (Bushman, Piotroski, & Smith, 2004).

Similarly, some distinct measures of the political economy, such as the concentration of political power, the extent of state ownership of enterprises, the cost of entry imposed on start-up firms, the extent of state ownership of banks, and the risk of expropriation by the state, all have a dramatic effect on corporate transparency. Concretely, it is argued that powerful, centralized, closed governments will likely constrain the financial development of disclosure in order to maintain power and capture wealth through politically connected interest groups. Such regimes may thwart financial development to maintain their economic advantage by suppressing competition. In other cases, economic institutions may not be sufficiently developed for private banks to play a crucial development role and therefore allow state ownership to take over that development role (Bushman, Piotroski, & Smith, 2004). Given the propensity for autocratic regimes to limit the freedom of the press, one could argue – but in our knowledge not empirically researched or proven yet – that corporate transparency could be suppressed under less open political regimes; hence, the quest for more open or less opaque regimes.

Obviously, when the state is directly involved in the economy, as is still the case in a number of emerging countries – and to an extent even in some developed countries – they may suppress firm-specific information in order to hide expropriation activities by politicians and their cronies. In some exceptional cases, benevolent regimes use state ownership to directly govern and manage firms, obviating the need for public information (Bushman, Piotroski, & Smith, 2004; Shleifer & Vishny, 1994). Moreover, politicians may exploit control over banks and regulatory policies through (a) preferential financing or (b) huge entry barriers or high entry costs for start-up

firms. Such behavior is aimed at favoring cronies in return for bribes, nepotism and political support. Restricting the flow of information to prevent public scrutiny of their business dealings with cronies is the logical manner to keep politicians protected from the light of transparency. In other words, politicians and governments can promulgate weak accounting and disclosure requirements or hardly enforce the existing disclosure requirements, or even use their influence over professional media to retard dissemination of firm-specific information in the economy (Bushman, Piotroski, & Smith, 2004). Richer autocratic countries seem to behave less nepotistically. A third factor used by politicians to exploit their power over firms is the potential threat of expropriation of the firms' assets and profits. When politicians exhibit a high propensity to expropriate wealth from firms – as is the case in a number of ASEAN member states – it creates incentives for highly profitable firms to limit the disclosure and dissemination of firm-specific financial information in order to hide the existence of their profits from perceived corrupt government officials, while relatively less profitable but highly visible firms may have incentives to voluntarily disclose more firm-specific information in order to keep the too eager tax officials at bay. Paradoxically, governments with a propensity to expropriate – but also those with more benevolent objectives – though tough tax rules may mandate higher corporate transparency to aid them in identifying "profitable" assets more easily. Since competing forces are at play, no clear conceptual hypothesis or empirical evidence for one or the other reason of governments pushing for more or less disclosure requirements could be found (Bushman, Piotroski, & Smith, 2004). It should be noted that business transparency may be dangerous in a regulatory environment with poor quality and enforcement. In such situations, firms which disclose profits can still be subject to arbitrary government audits and expropriation by corrupt public officials. These arbitrary actions force firms to internalize those risks associated with corruption by maintaining a much closed non-transparent bookkeeping system because accurate information is used by corrupt officials to apply increased levels of extortion (Root, 2001). Transparency policies are effective only when information becomes embedded in an action cycle of market participants, becoming an intrinsic part of the decision–making routines of information users and disclosures (Weil, Fung, Graham, & Fagotto, 2006).

Therefore, global corporate governance principles are also interrelated with the notion of transparency through the implementation of practices based on integrity, accountability and responsibility. It should be recognized that since the corporate fiascos of Enron and WorldCom in the United States, Parmalat in Italy, the recent Madoff case in the United States and the Raju Satyam case in India, among others, some efforts have been made to implement stricter codes by individual organizations, as indicated above, backed up by stricter legal oversight control on transparent disclosure and accountability required by the Sarbanes-Oxley Act (2002). Indeed, business analysts have claimed that murky accounting practices were partially to blame for a general loss of investor confidence, which is harmful to the economy (Anctil, Dickhaut, Kanodia, & Shapiro, 2004). It requires detailed reporting of off-balance sheet financing and special purpose entities and the Sarbanes–Oxley Act has increased penalties on executives for misreporting. However, the Act does not question the nature of corporate governance. As in traffic laws, the Act and other codes of corporate governance afford a certain minimum protection; they do not guarantee excellent governance.

The increasing "transnational" – across and beyond national borders – demand for more accountability and transparency unquestionably highlights the need for compromises between the Anglo-American outsider-dominated systems, which are composed of dispersed equity shareholder positions and compliance driven systems, and those of an Asian and to an extent European insider-dominated system, which are family or bank–controlled equity shareholder positions, respectively, even in the case of public

companies, emphasizing long–term vision and credibility within the community. In other words, a convergence regarding corporate governance would mean that a virtual merger would take place between the competitive market forces of the traditional Anglo-American systems of finance and control with the more long-term styles of management and investment prevalent in the traditional insider systems of corporate governance (Solomon & Solomon, 2004). The litmus test will be the practical and specific implementation of such governance principles in concrete contexts and subsidiaries, not just according to the letter, but also and especially to the spirit, of these principles.

Institutional transparency[10] is firmly entrenched with disclosure and dissemination of financial reporting, and should be distinguished from individual transparent leadership, which is closely related to the notion of accountability. Both are necessary to create a better and more effective market system that optimizes resource allocation. Nonetheless, in spite of the generic principles of disclosure and accountability, one will need to emphasize the local context in which institutions operate.

We should note that even a company such as Shell, known to be very compliance–oriented, seems to get off track once in a while by, for example, misjudging the impact of some misreporting or inaccurate disclosure and subsequent reclassification of the company's oil reserves. Shell has been fined a total of US$ 151 million for wrongly reporting 20 per cent of its oil and gas resources: hardly a deterrent for a company which booked a £ 2 billion net profit that same year (Mehra, 2005, p. 5). Empirical results indicate that the size and exchange effect of the company is positively associated with disclosure since public companies are more in the public eye, which tends to make them exhibit greater disclosure behavior than other smaller firms (Martinez, 2008). Although some industries require even more disclosure because their activities are of important interest for environmental reasons, for example, effective disclosure and transparency can be inadequate because they are incomplete. The real issue here is to find out the real intention and thus the perspective regarding the disclosure that is made. Moreover, increasing pressure from NGOs and governments that are concerned with environmental and ethical decision–making render large organizations more transparent by requesting them – not regulated yet in most countries – to publish so–called triple bottom line (people, planet, profits) reports. Transparency is particularly important not just to shareholders but also to stakeholders since disclosing accurate and complete information is seen as part of the process of recognition of responsibility on the part of the organization for the external effects of its actions and equally part of the process of transferring power to external stakeholders (Martinez, 2008). Cases such as that of Shell show however that increased disclosure, especially voluntary disclosure, does not guarantee that management is fully accountable to stakeholders, and it may even hide important evidence of a less benevolent nature. Trust and confidence in the availability of sensitive but often asymmetric information is at stake in a more global and interdependent economy in order to guarantee some form of economic stability.

A transparent company fosters a culture of openness and inclusion, and therefore is able to adapt to unexpected shifts in market conditions (Baum, 2004). In other words, transparency builds trust, fosters good dialogue and communication, and encourages honest reporting and open and ethical business practices. Communicating the core values of an organization plays a major role in promoting a transparent culture, and it is suggested that continuously

[10] See Millar, Eldomiaty, Choi, & Hilton, (2005, p. 166): "Institutional transparency is the extent to which there is publicly available clear, accurate information, formal and informal, covering accepted practices related to capital markets, including the legal and judicial system, the government's macroeconomic and fiscal policies, accounting norms and practices (including corporate governance and the release of information), ethics, corruption, and regulations, customs and habits compatible with the norms of society."

doing so will help the efficiency of relationship building. Transparency may reduce asymmetric information and hence lower the cost of trading or exchange while competitive costs may arise because disclosure provides potentially useful information to rivals. In other words, the main reason why corporations adhere to a high level of transparency is threefold: (a) improvements in information disclosure usually result in better recommendations by financial analysts and thus lessen risk (because of reduced information asymmetry); (b) improvements in stock liquidity also due to less information asymmetry; and (c) reduced capital costs because of lower information risk (Grűning, 2007; Verrecchia, 2001). Increased disclosure resulted in a higher share price, increased institutional ownership, a broader analysts' following and increased stock liquidity as measured by a narrower bid-ask spread (Uren, 2003). In line with these expectations, 81 per cent of executives and investors conclude that continuous disclosure regimes had added to the integrity of the market (Uren, 2003).

Although people and organizations may try to take advantage of this openness, that should not deter one from sticking to his or her principles of candor and honesty. However, a caveat to this kind of "openness" should be added since directors would ensure that nothing that is price-sensitive would be released to the public other than through the formal corporate channel. A disciplined policy of continuous disclosure will reduce but not necessarily eliminate some surprise factor in the market and thus reduce some element uncertainty.

Although prompt disclosure about news may generate greater volatility in the short term, it should produce a stronger market following and on average a higher share price over a longer period (Uren, 2003). Well–established markets do not like delayed bad news and therefore it is good to develop a reputation for being candid, forthcoming and open. Such a valuable and formidable asset may be difficult to measure, but it seems plausible to argue that companies with higher levels of disclosure achieve larger institutional shareholding and a lower cost of capital. Despite the positive effects of transparency that completeness of information in annual reports certainly appears to lower cost of capital, it also seems to suggest that higher levels of disclosure in more timely reporting results in more volatile share prices, certain competitive disadvantages, and bargaining disadvantages (Boesso, 2003). Moreover, the risk of litigation in the United States and other Anglo-Saxon governance regimes suggests that companies with bad news are more than twice as likely to provide advance disclosure as are companies with good news.

Intangible assets, such as confidence in the personal strength and strategy of the company leadership, partially constituting institutional and retail shareholders value, have proven to be equally, if not more, important than the most recent financial results and the level of dividend payout (Uren, 2003). We should indicate that superior market and individual outcomes are observed when information is withheld as compared with markets in which highly uncertain information is released. In recent years, the United States Federal Reserve, for example, has more liberally disclosed information concerning its future plans. However, in a highly uncertain environment, such as the one we face in the recent financial global crisis, better outcomes may actually result when some "tentative" information is withheld. Moreover, voluntary disclosure of managerial earnings forecasts could produce more uncertainty in asset markets (Ackert, Church, & Gilette, 2004). In other words, more transparency may sometimes cause more harm than good.

Two interesting trends should be mentioned. There seems to be a growing demand for more (voluntary) disclosure, related to stakeholders' interest, such as ecological and ethical issues on one hand, and a corporate desire to guard and keep sensitive information as "private" as possible on the other (the subject of the next paragraph).

3.2 Guarding Corporate Information

One should ask whether the notion of transparency implies that all management

decisions should be completely "disclosed," which may be contrary to the Asian intuition of keeping one's cards close to one's chest, or contrary to some Western management perceptions about revealing "sensitive" information. Nonetheless, it seems that transparency implies slightly different objectives. For private sector managers, core objectives of transparency often include improving profitability, market share and reputation, whereas for public officials, objectives of transparency may include gaining constituency support, legitimacy and trust (Weil, Fung, Graham, & Fagotto, 2006). Holding certain sensitive information close to one's corporate chest does not preclude the importance of candor that brings about a higher level of trust and most often increased productivity.

The dissatisfaction with quarterly mandatory disclosure on one hand and the demand for increased stakeholder reporting on the other have led to many initiatives in the world, encouraging companies to improve stakeholder reporting. First, opponents of quarterly reporting question whether increasing the frequency of reporting will lead to an actual improvement in transparency, the pillar of good corporate governance. Such quarterly pressure rather misrepresents the financial position of the company and misleads investors, and it promotes "short–terminism" in investing (Low, 2005). Second, company emphasis on stakeholder engagement and the need for management of intangibles were significant drivers to voluntary disclosure in Italian companies (and by extension to other continental European corporations), while in the case of United States companies such a relationship was not noted (Bousso, 2003, 2005). It could be argued that observed voluntary disclosure focuses on stakeholder relations in a European context and is less driven by relevant internal processes, such as governance and intangibles in an Anglo–Saxon context. The findings of Bousso (2003, 2005) furnish evidence that the corporate governance system of companies in a European context are extending beyond their traditional focus on investors and the financial community in order to address diverse stakeholders. In other words, simply disclosing large volumes of information, it appears, is not sufficient. Rather, it is important to understand the perceived value of voluntary disclosure items in terms of the needs of individual stakeholders. Moreover, empirical evidence suggests that voluntary social reporting is not a result of increased pressure on firms to be accountable but is a result of its success as a risk management tool (Hess, 2007; Porris, 2007; Esty & Winston, 2008). Current social reporting practices appear to be used by firms as a legitimating tool and insurance policy that attempts to change perceptions about a firm without necessarily changing facts. Undoubtedly, there is a growing consensus on firms' voluntarily disclosing social and environmental information when they are faced with some type of crisis that threatens their legitimacy (Hess, 2007). Nonetheless, in spite of the good intentions, the apparent goal of this disclosure of non-financial data is mainly to build their reputation through impression and public relations management.

Mandatory reporting can be seen as compliance with the letter and the spirit of the law, while voluntary reporting could be interpreted as complying with the spirit of the law and intentions extend beyond the law. In order to make disclosure of non-financial information more effective and standardized, researchers have suggested turning voluntary reporting into mandatory reporting (Hess, 2007). However, it should not be forgotten that, according to executives, the most important reason for expanded disclosure of non-financial information is the opportunity to enhance the company's brand image and overall reputation, although meaningful stakeholder engagement would require comparable and thus standardized information. A fine line needs to be walked between mandatory reporting and allowing competitive forces, as in voluntary reporting, to play out.

Obviously, not all corporate information could or should be shared with all stakeholders, competitors or the public at large. Organizations

have a legitimate interest in withholding and guarding from competitors certain information about innovations, original processes, secret recipes, corporate strategies, or sensible information about human capital. However, being sensible and reasonable about keeping certain information from the outside world should not be used as an excuse for secrecy – the main characteristic to distinguish corruption from ethical corporate behavior (Ho, 2005; Verhezen, 2010).

An organization benefits from an open policy of "no secrets" where shared beliefs become the narratives and source of inspiration for those working there. Successful companies are able to get critical information to the right person at the right time and for the right reason (Bennis, Goleman, & O'Toole, 2008). The reputation of the organization and its leadership is at stake when information that should be shown within the organization is kept secret too long, indicating and creating mistrust. When genuine leaders succeed in creating organizations known for their reputation of candor and honesty, invariably they can draw on strong goodwill, which tends to weather scrutiny more easily in times of crisis.

Nevertheless, one could distinguish several motivations for secrecy within an organization (Uren, 2003): it could preserve the "golden goose" as in the recipe for making Coca–Cola; it also could hide a dark secret of corruption, price-fixing cartels, illicit payments or other illegal and immoral corporate behavior; it could be a strategic advantage that functions as a deterring factor for potential entrants or it keeps at bay entrants that are too eager; it could reveal some tactical move as in negotiation techniques where not all information is shared in order to obtain the best solution; or secrecy may be paradoxically used to avoid harassment, for example, that temporarily could preserve its reputation. In that sense, preserving some kind of confidential information remains an intrinsic component of corporate management.

Companies limit the circulation and disclosure of information in several ways. There exists a tendency in organizations to call on the public relations department to put a spin on unfavorable events. Most companies prefer to cover up their mistakes instead of learning from them. Often executive narcissism is the motive behind this form of sheer organizational hubris to conceal certain matters. In most organizations, hidden ground rules govern what can be said and what cannot (Bennis, Goleman, & O'Toole, 2008). Sometimes organizations have developed structures, procedures and images that expect certain behavior, often adhering to bureaucratic hierarchical conformity and less to real performance, often resulting in what McComish (2001) labels an "anti logic" of business. Failing to hear critical information may prevent an organization from understanding the real risk of certain activities. Herd effects or group-driven decisions – heralded as group cohesiveness and the pride in belonging – should be critically reviewed since it may not always result in optimal decision–making as the unfortunate negative consequences of the subprime mortgage bubble seem to indicate. One should not avoid constructive conflict which may function as a dialectic process toward a more effective decision-making process. One could even argue that transparency could be seen as the evidence of an organization's moral health.

Executive compensation is one of the most important aspects of transparency because it is the catalyst for so many other related issues in an organization. Compensation packages can cause chief executive officers (CEOs) to cut corners or to do the wrong thing. If a CEO is grossly overpaid compared with the company's performance, this situation can easily lead to pressure in other areas to manipulate financial reporting in order to make the company's numbers look better overall. Transparency by itself achieves little. Transparency needs to be matched by accountability on an institutional level and responsibility on an individual level. Some might argue that disclosure becomes effective only when managers are made accountable, which should apply to any disclosure regulation in general. The United Kingdom has legislated requiring listed

company boards, for example, to report a detailed breakdown of the remuneration of executive and non–executive directors for the information of shareholders for a vote at the annual general meeting (Uren, 2005).

Although the Sarbanes-Oxley Act (2002) in the United States requires that anyone involved in reporting a company's finances be held responsible if it can proven that he or she concealed the truth about the financial health of a publicly listed company, as will be argued in the next section, good character – along with good credentials – constitutes a transparent leader. However, a leader needs to be able to fall back on institutionalized structures, as found in governance principles. Have the recent regulations promulgated by the Sarbanes – Oxley Act and those of the Financial Accounting Standards Board adequately addressed the disclosure requirements of off–balance sheet and over-the-counter derivatives, particularly where accounting and disclosure requirements may not track or measure economic realities of those products? Research has indicated that the accounting of intangible assets, such as patents, unpatented results of research and development projects, proprietary software, ownership of non-utilized energy resources, brand names, reputation, the know–how and skills of key personnel, are at the heart of creating economic value but are not shown in reporting statements of the organization (Welch & Rotberg, 2006). Resource-based competitive advantage, next to the traditional agency theory, has become a top priority in management theory (Millar, Eldomiaty, Choi, & Hilton, 2005; Hu & Verhezen, 2009).

The board and its directors set the level of transparency or the amount and quality of disclosure. As indicated previously, higher disclosure provides both benefits and costs. In other words, better transparency is not free. Better transparency improves the board's ability to monitor the activities of the CEO and the top management, which also implies that the risk of being exposed has logically increased as well. It seems that a "profit–maximizing" level of transparency requires balancing these two factors. Hermalin and Weisbach (2007, p. 19), for example, argue that there is an optimal level of transparency beyond which profits tend to decrease because managers will have to be paid higher salaries to compensate them for the increased career risk they face, and because greater transparency increases managerial incentives to engage in costly and counterproductive efforts to distort information. Indeed, better information disclosure up to that optimal point increases the firm's value. The unintended consequences of going beyond a certain optimal level of transparency would reduce the value of the firm because CEOs may be engaged in a so–called exaggeration effect to increase particular signals, or they may try to obscure or deliberately direct certain information, or even conceal information. Moreover, it seems that, if there were an increase in the quality of available information either due to more stringent reporting or better analysis by institutional investors or media, one would expect that CEO salaries would increase and that the rate of CEO turnover would be much higher. The substantial increase of the 1990s is to a large extent attributable to the demand for more complex management, partially as a result of the higher level of press scrutiny and investor activism (Hermalin & Weisbach, 2007). In other words, rightfully pressing for more transparency is not without costs.

From a purely economic perspective, one should note that, although greater transparency of information may mitigate uncertainty and thus risk about economic fundamentals, strategic uncertainty could be exacerbated, which may result in inferior economic outcomes (Anctil, Dickhaut, Kanodia, & Shapiro, 2004). Bank runs, currency attacks, loan foreclosures, and other panic-driven phenomena, such as the current mortgage crisis, are examples of the power of uncertainty. It almost functions as a self-fulfilling prophecy where creditors, for example, may prematurely foreclose a loan if it is believed that other creditors would act similarly because, under conditions of increased uncertainty with the presence of multiple equilibrium participants converging on the least risky solution, this often results in an economically inefficient

"equilibrium." It seems that risk predominantly determines the selection of disclosure, rather than a "principle-minded" management, which may or may not ignore the strategic uncertainty side effect created by more disclosure. In other words, although increased transparency furnishes scope for significantly increasing wealth in the economy, this improvement is apparently neutralized and even wasted because strategic interdependence (a coordination problem) drives conformity to inferior strategies (Anctil, Dickhaut, Kanodia, & Shapiro, 2004). The conclusion here is that unless the publically disclosed information is sufficiently precise, it could create a risk that coordinated expectations may diverge from fundamentals, leading to suboptimal solutions or even "unreasonable" panic reactions as result of more "transparency."

Analyzing disclosure requirements leads us therefore to refine the notion of transparency. Financial transparency captures the intensity and timeliness of financial disclosures, whereas governance transparency is defined as capturing the intensity of governance disclosures used by outside investors to hold officers and directors accountable. Empirical research indicates that financial transparency is significantly related to the country's political economy and not to the country's legal/judicial regime. Governance transparency, in contrast, seems to be stronger in countries with strong common law and only positively related to the presence of state-owned banks (Buchman, Piotroski, & Smith, 2004). One thus can stipulate that corporate transparency varies across countries: governance transparency is primarily related to the legal/judicial regime, whereas financial transparency is primarily related to the political regime. Financial transparency is significantly higher where firms are larger, a situation that does not necessarily apply for governance transparency. High-quality financial reporting, the strong presence of financial analysts and institutional investors, as well as well–developed media channels contribute to financial transparency, with the exception of insider–trading activities which are less easily suppressed by the above–mentioned factors (Buchman, Piotroski, & Smith, 2004). A responsible and accountable board that functions as the link between operational executive management and the owners is more than an adviser; it functions as the supreme commander of the firm. A board that has a legal and moral obligation establishes the expectations of the company and demands evidence of achievement.

4. Responsible Leadership and Integrity beyond Compliance

The Sarbanes–Oxley Act (2002) and the expected new regulatory oversight (expected in 2010-2011) with respect to contain global financial systemic risk may help to make organizations more transparent through more strict corporate governance practices. However, internal or external legislation alone cannot make organizations more healthy or open. Only the virtuous character of those in power and all those making decisions that affect the production process of a good or service can make the ultimate difference between "playing the game," continuously finding loopholes in the system, and going beyond what is legally expected. Individual candor and institutionalized transparency become part of the organizational culture when corporate leaders agree that openness is valued and individual responsibility and institutionalized accountability are rewarded accordingly. Accountability is more than being "called to account," or merely being appropriate or acting justifiably. Responsibility and accountability also create conditions for dialogue through which often tacit assumptions can be challenged and re-defined.

4.1 An Attitude of Individual Integrity based on Candor

In our networked global world, trust is everything. However fragile, trust along deeply shared cultural assumptions is one of the strongest glues binding people together in groups and organizations (Bennis, Goleman, & O'Toole, 2008). Responsible behavior by individuals and corporate behavior across national boundaries may be more easily initiated by voluntary and

prerogative actions rather than coercion and mandatory or necessary laws. It is the non–executive skill in exercising independence of mind that is the key to effective board behavior. The openness of executives can become a source of confidence and trust for non-executives, and that in turn can encourage a mutually beneficial dialogue between management and board, improving the company's performance. Hence, trust in and distrust of executives is rather to be understood as a continuous process of accountability. Where agency theory assumes self-interested opportunism as a given of human nature, resulting in the presumed need for monitoring and control, a focus on accountability and integrity points to a more complex view of causality, in which top management motives are themselves conditioned by governance processes and relationship–building.

Leaders need to show their responsibility, with effective and (either political or corporate) independent oversight providing checks and balances to ensure that the process of providing its citizens or stakeholders, with sustainable value under the overall constraints of ethical values does not get off track for those organizations and institutions. Merely securing (minority shareholder) rights, verifying duties and performing authority checks and balances are necessary actions to steer corporations away from disasters, and may get them some corporate credibility or public relations kudos but are not sufficient steps to take in the face of the daunting global challenges we are facing (Verhezen & Morse, 2009). Captains of governance need to embrace scalable entrepreneurial solutions that align and integrate profitability motives with societal and ecological goals that encourage the transition to sustainable renewable resources and to stimulate investments in evolving and disseminating the necessary innovative technologies. It is not an exaggeration to say that the quality of management and leadership correlates with the quality of governance. Any business that attempts to pursue its corporate objectives at the expense of the society in which it operates will find its possible financial success to be "spiritually" illusory and most often very temporary. Hence, the overall importance of global governance principles that are translated into best global governance practices may transform the corporation into a genuine global corporate citizen. Nevertheless, this remains a fallible work in process.

It should be acknowledged that well-performing boards would seek broad counsel where needed (Peng, 2005; Charan, 2005). Because power does not infer infallibility, failing to hear critical information may undermine a firm's risk exposure. Some leaders may believe that vital lies preserve the surface harmony within the firm, but usually at a great cost, setting in motion a certain dynamic which often afflicts rather than defends the longer–term competitive position of the firm or public organization. It conforms to the conspiracy of moral silence. A vicious spiral of silence can easily undermine the morale and productivity of the workforce under the helm of secretive or bullying leaders (Verhezen, 2010). Only productive candor as found in "constructive conflict" results in organizations which are characterized by a high level of transparency, which indicates a level of moral health. In other words, transparent leadership helps to communicate successfully and clearly the firm's vision and objectives. Such open and candid communication has become an effective tool to exert real (often informal) power in order to achieve superior performance.

The law is rarely the best guide for appropriate ethically and ecologically sound corporate behavior: it is often too little and invariably too late for many of the victims of corporate scandals or disasters. Legislation alone cannot make corporations responsible, open and healthy. That, however, does not contradict the importance of regulating bodies that monitor and minimize negative economic externalities and steer toward public and common goods; hence, the importance of moral and visionary leadership at private and public levels. Harvard Business School ethicist Lynn Paine (1994) argued that an integrity strategy should be distinguished from

merely complying with the law. A compliance strategy is a necessary but not sufficient approach to impress and inspire the workforce and the firm's executives. The notion of transparency is applicable to both a strategy based on integrity – or legitimacy – as well as a compliance strategy – or legality – though the intention differs in both cases. Only when there is a strong bond of trust will a company be able to responsibly thrive over a longer period. When corporate governance focuses on justifying management decisions and aiming at some level of legitimacy or even legacy in society over a longer period, it will need to apply the same principles of authority to make responsible and sustainable decisions with accountability for those decisions

Legality – based on an Institutional Legal Framework - is "lower ranked" than seeking Legitimacy which refers to the Art of Leadership. From an integrity perspective, seeking Legacy usually goes beyond "Best Governance Principles" or a compliance oriented behavior that obeys to Legal & Regulatory Pressure. Ultimately, one seeks to become a good Corporate Citizen. At the lower side, risk can become a threat and when one fails to react or prevent such a risk, one often regrets such immoral and or illegal behavior, but then it is too late. At the other extreme, by adhering to corporate citizenship one creates opportunities that enhance the reputation of the company while taking into account that risks – and thus failure - remain.

Ultimately, trust in leadership and confidence in corporations depends on the (moral) character and attitude of those who run the corporations and influence the newly emerging world order.

4.2 Trustworthiness and Leadership Responsibility

The discursive power of the different players, namely private corporations, governments and the public at large, is very vulnerable and far from secure in a globally interdependent context. The question of legitimacy will continue to pop up and keep corporations and governments on their toes. Moreover, the political power of corporations has become contested in the context of the pros and cons of the globalization discourse (Fuchs, 2007; Stiglitz, 2007, 2008). Global surveys currently reveal high levels of suspicion or an aversion to corporations.

The objective of corporations in today's world should be to underwrite broader "fundamental" principles which may have some universal or global validity beyond cultures or ethno-centric perspectives that acknowledge and adhere to specific local practices. Ideally, such discourse may even result in some form of "spirited sustainability" (Frances, 2008). For instance, a good corporate citizen in China complying with and following international or global best governance principles and practices is unlikely to be perceived as evil in other business contexts.

Good governance is not characterized only by a set of rules and procedures. One reason that corporate challengers from emerging countries are particularly adept at creating and operating in such fluid organizations is their emphasis on trust, instead of mere procedures only. This functions as the glue holding together any business transaction. The right to know and the duty to disclose are grounded in trust. The transparency movement is a response to uncertainty and distrust.

Somehow, it is an attitude that brings a sense of responsibility into the realm of the corporate and political world. The legendary investor Warren Buffett allegedly looks for managers who are "hard working, smart, and honest." Recent corporate scandals strongly indicate that the first two of these qualities without the third can be disastrous (Wellum, 2007). It is in the interest of corporations to gain trust and to be perceived as trustworthy, which confirms that only an integrity-based strategy based on accountability and openness will succeed in the long term (Verhezen, 2008a). Such an

integrity-based strategy could turn the symbolic capital of integrity and responsibility into real economic profit. The principle of responsibility and accountability will need to be contextualized, institutionalized and translated into "local" duties and rules. It is an attitude that is based on and inspired by the notion of integrity that encompasses accountability for one's actions, responsible behavior and a commitment to fair decisions in a transparent and thus open manner. Integrity displays virtuous behavior within a complex reality that serves to link or dissolve disparate goals, values, emotions, aspects of self and periods in an individual's life. It is a virtue of balance that enables management of self-conflicts in a normative manner while taking into account that the self is dynamic and interdependent. Because transparency claims some truth value, the virtues of trustworthiness or sincerity and accurate reporting underpin the notion of accountability.

A certain level of openness is required to create trust between employees and management, between investors and management, and between an organization and the public at large. Such openness, that is, transparency on an institutional level and candor on an individual level, turns out to be necessary for the long–term interest of all organizations. Trust and shared cultural or organizational assumptions constitute the strongest glue binding people together in organizations. When leaders and top management trust their employees with due respect and speak with candor, those employees will respond with trust. Such an attitude is possible only when leaders "walk their talk," when they are inspired and driven by integrity. Speaking truth to power implies providing equal access to information for all, refraining from punishing those who dare to speak out in organizations, refraining from rewarding mere loyalty, and empowering principled employees and management. Obviously, truthfulness occasionally clashes with the principle of loyalty. It is within the sphere of integrity that an appropriate balance between truthfulness and loyalty can be struck. Individual managers need to morally reflect upon the actions required, to be steadfast in keeping commitments in adversity, and to be unashamed about sticking to those principles (Carter, 1996).

Integrity justifiably integrates an intelligible and defensible moral vision of one's character within a certain context, enabling a wise person to know how and when to adapt his moral principles and commitments when understanding a different reality asks him to do so. The "how" one does is sometimes more important than "what" one does, emphasizing an empathetic or virtuous attitude of integrity. Aligning a firm's commitment to moral values with a competitive strategy is a calling and an art, not just an engineering problem (Eisenstat, 2008). Having a passionate purpose that aligns financial and non-financial objectives and unleashes energies will enable businesses to take sensible risks (Elkington & Hartigan, 2008; Frances, 2008). To build in best practices with regard to governance principles may have unexpected positive effects on our environments and even on our psyche. Visionary, purposeful and compassionate leaders function like alchemists who bring to the physical realm dreams and hopes that become attainable in a sensible business proposition.

The best way to guarantee fulfilling the expectations of customers and other important stakeholders alike is to build integrity within a corporate culture or to engrain integrity into the DNA of the company. Such a process may take painful years to achieve that objective, and one misstep can undermine all those efforts in a minute. Desiring to build a brand, an image, or the appearance of doing good is calculated and not genuine; that game could be revealed any day. The reaction from the customers and the public at large may be harsh. Today's consumers expect corporate responsibility in the companies from which they buy (Baum, 2004). Acting with integrity is doing the right thing regardless of the circumstances or consequences. A truly shared vision inspires an organization to hopefulness and success. Using vision and hope as the driving force is a more powerful force than a real or manufactured crisis. Leadership responsibility within organizations assumes a minimum form

of transparency that informs shareholders and stakeholders about the status of the organization without necessarily disclosing strategically sensitive information – unless it is legally required or socially strongly expected to do so. The other important factor is individual candor or "accountability" incorporated into an attitude of integrity that is underpinning the overall principle of openness and honesty.

A culture of truthfulness and candor is characterized by virtues of humility, service to others, and respect for people, exactly the opposite of sheer hubris, which can be seen as being at the root of the downfall of many leaders or managers falling into that trap. It is the board's responsibility to reward a culture of candor; hence, the importance of independent directors who are usually better placed than others to provide disinterested and objective truth telling (Bennis, Goleman, & O'Toole, 2008; Banks, 2004; Clarke, 2007). Both Aristotle and Confucius suggested that the overall good of the group (i.e. organization or state) takes moral precedence over the individual aspirations of persons in power.

5. Conclusion

Transparency invites accountability and drives dialogue between the corporation and the communities it serves. Transparency and candor are enabling corporate leaders and their organizations to respond to situations of crisis and to limit greed and ignorance in times of great uncertainty and increased levels of complexity. Indeed, in the face of a disappointing action, product or policy, those leaders are usually able to react responsibly in ways that maintain their clients' trust and respect. Nonetheless, the daunting challenges that current business leaders face – ranging from issues of globalization, of creating and maintaining trust, of balancing shareholder and stakeholder interests, of visioning and executing sustainable strategies, of acknowledging the need for broader vision and corporate leadership in society beyond a mere "license to operate," and of those arising on the Internet – should be recognized and should be given time to be addressed in an appropriate and realistic manner. Moreover, the celebrity status of CEOs should give place to a more spirited stewardship role and transparent responsibility whereby corporate boards and CEOs recognize their contribution and duty with regard to long–term organizational value while undertaking all institutional and personal endeavors to limit immoral greed and risky neglect, which made possible the roaring corporate appropriation and irrational escalation of CEOs compensation.

Moral hazard – widely recognized as one of the key causes of the current economic-financial crisis – should not be countered only by more and complex regulatory systems. The boundaries of the "game" through governance principles should be pronounced and enforced more clearly and effectively without over-regulating the market game. The new line of defence should be improving market competition through more transparency, not eliminating competition. It seems that there evolves a common understanding and agreement on some common ground of how good corporate governance principles should look. "Global governance principles" – in whatever way they are practically translated within their specific context – will help the overall performance of the organization, creating organizational value by taking societal and ethical values seriously. Those common ideals or global governance principles reflect an inward sense of vocation grounded in a commitment to peer sanctions and institutionalized monitoring. Failing to commit to those principles often results in mediocrity or worse, and may lead to illegitimate and non-compliant behavior. Such consensus-building around the governance principles of transparency and accountability is a dialectical process between firms and governments, offering a prospect of convergence for a better well-being and welfare of their respective citizens, based on common overlapping norms of governance. Since the start of the global financial crisis, it seems that the pendulum has swung back toward governments which currently are taking the lead to "govern" the markets toward more sustainable goals.

The notion of transparency aids corporations to gain legitimacy. Obviously, there are legitimate strategic and legal limits on disclosure, but ultimately, visionary leadership that emanates transparent responsibility will result in a legacy of which one can be proud. Good disclosure and higher levels of transparency place demands on governance, with the leadership being pressed to show the responsibility to deal honestly with the public, rather than concealing mistakes and difficulties. Transparent leaders who embrace institutionalized disclosure linked to improved risk management systems and individual candor based on integrity-based strategies will assess business strategies and make thoughtful and responsible choices amid an increasingly complex world. Transparency has afforded a vehicle for new and imaginative research methods to improve practice and inform the public. Moreover, wise leaders find ways to get information in its raw form, and to get unbiased information. Transparency – if well managed and well tuned – could be seen as a useful tool to improve the communication and relationship between management and other stakeholders on one hand, and to reduce reputation and financial risk on the other.

The building blocks of disclosure and integrity function as the pillars of transparent responsibility and thus of good corporate governance, possibly steering organizations away from future disasters. Institutionalized entrenched transparency and an attitude of individual integrity underpinning accountability by top management can be perceived as one of the main pillars constituting "best governance practices." The values of virtuous and accountable leadership that inspire and drive an organization are often expressed in institutionalized transparency and individual candor where everyone is empowered to speak the truth in a respectful manner. Within such a trust – enabling environment, companies rise to the occasion to embrace uncertainty and to take full advantage of particular business opportunities.

Actual effectiveness of a board committed to transparent leadership implies a culture of candor and openness, underpinned by a constructive dialogue in an environment of trust and mutual respect. Visionary and transparent leadership, encompassing efficient compliance and reporting requirements on one hand and compassionate integrity strategies on the other, functions like the sails that determine a favorable outcome. In other words, it is not greed, ignorance or neglect but institutionalized transparency and individual candor that are the compasses that guide boards and top management in steering the corporate ship away from murky waters. Fear is often a poor guide for business decisions, and regret usually comes too late. If one is aware that it is not the wind but the sails that determine the course, one will be able to avoid regret and to overcome fear.

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