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Rebuilding Stakeholder Trust in Business: An Examination of Principle-Centered Leadership and Organizational Transparency in Corporate Governance[1]

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> The leaders who work most effectively, it seems to me, never say "I." And that's not because they have trained themselves not to say "I." They don't think "I." They think "we"; they think "team." They understand their job to be to make the team function. They accept responsibility and don't sidestep it, but "we" gets the credit. . . . This is what creates trust, what enables you to get the task done.
>
> —Peter Drucker

As management guru Peter Drucker (1992) keenly observes, trust is an essential commodity at all levels of business operations and relationships. Shareholders must trust managers, employers must trust employees, buyers must trust sellers, and government must trust business. And this trust must be mutual and reciprocal. Trust among these and the many other

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stakeholders interacting in commerce is an absolutely indispensable facet of the free market.

But, at the same time, trust is not an absolute. It is one of several key components of human interaction that exists along a continuum, such that some minimal amount of trust is essential for one group or one individual even to be willing to interact with another (Garrison et al. 1981). Yet these minimal thresholds of trust are probably insufficient for achieving anything more than minimal levels of confidence or commitment by either party. Thus, when talking about stakeholders, it is important to ask how *much* trust exists between one stakeholder group and another, as well as how the level of trust can be increased when it falls dangerously close to or below acceptable levels, as we find too often today.

Unfortunately, trust is currently in short supply following the revelation of the many recent business scandals (e.g., Arthur Andersen, CSFB, Adelphia, Enron, ImClone, Tyco, WorldCom). This lack of trust in business is further diminished by a larger atmosphere of distrust within a society that has been exposed to numerous transgressions by politicians, clergy, athletes, and the media. The problem, while perhaps simple, is serious—a lack of trust in business. The solution, while perhaps simple as well, is substantial—rebuilding stakeholder trust in business. The method, however, is not at all simple, but is multifaceted and protracted—integrating principle-centered leadership and organizational transparency into corporate governance.

This article presents a model of corporate governance that is designed to help rebuild trust in business or, more accurately, to increase the level of trust in business. The model presents principle-centered leadership, transparency, ethical culture, and stakeholder voice as its four essential components, with the first two of these highlighted herein. The article examines how company leadership and transparency create effective corporate governance, and offers some helpful practices that include a method for measuring the level of company transparency. Lastly, the article investigates the critical relationship, dynamics, and interaction among corporate governance, principle-centered leadership, and transparency. The article concludes that it is the clear, coordinated, and comprehensive implementation of principle-centered leadership and transparency into all facets of corporate governance that will most effectively advance its individual, organizational, and societal benefits.

CORPORATE GOVERNANCE

Corporate governance (CG) refers to the variety of principles and practices that direct the core processes and relationships of a business. More specifically, CG reflects the formalized values and procedures implemented by the business's recognized authority (e.g., owners, directors, and managers) in its various operations and interactions with stakeholders. The scrutiny of CG in the United States most likely originated with the 1929 stock market crash and subsequent Great Depression, and was formalized with the SEC Acts of 1933 and 1934 (and its progeny). The seriousness of the current wave of business scandals, such as Enron and Tyco, has dramatically revived U.S. interest in and emphasis on effective CG.

A similar need for reliable CG practices has grown globally due to the convergence of similar scandals worldwide (e.g., Parmalat in Italy, ABB in Sweden, and Snow Brands Food in Japan), the Asian economic crisis, the transition to market economies by many countries, the evolution of the new global economy, the increase in institutional investors, and the growth of multinational companies (Newby 2001). In 1999 and then again in 2004, the Organisation for Economic Co-Operation and Development (OECD)[2] recognized and advanced this global trend by issuing the *OECD Principles of Corporate Governance* as "an international standard" (Newby 2001, 45).[3] The initial publication of the *OECD Principles* in 1999 was met with widespread international acceptance. As noted in the Foreword to the 2004 publication:

> They have advanced the corporate governance agenda and provided specific guidance for legislative and regulatory initiatives in both OECD and non-OECD countries. The Financial Stability Forum has designated the *Principles* as one of the 12 key standards for sound financial systems. The *Principles* also provided the basis for an extensive programme of co-operation between OECD and non-OECD countries and underpin the corporate governance component of World Bank/IFM Reports on the Observance of Standards and Codes (ROSC) (OECD 2004, 3).

The OECD initiated a review of these principles in light of developments related to CG in member countries. It noted that "of particular relevance is the relation between CG practices and the increasingly international character of investment" (OECD 2004, 13). Globalization itself, the clear need for an ongoing emphasis on CG in the international communities, and the global nature of investment practices, reinforce the need for clear principles and practices in CG.[4]

The *OECD Principles of Corporate Governance* (2004) is divided into six chapters, followed by annotations on each. These chapters, highlighting key components of CG, are:

1. Ensuring the basis for an effective corporate governance framework.
2. The rights of shareholders and key ownership functions.
3. The equitable treatment of shareholders.
4. The role of stakeholders in corporate governance.
5. Disclosure and transparency.
6. The responsibilities of the board.

Other models of CG and principles beyond the OECD exist, adapting to the social, political, and economic realities within which they operate.[5] For example, the Sarbanes-Oxley Act (2002) imposes regulations intended to promote accurate disclosure of financial information. Although these different models are further influenced by the capital market's recognition of good CG and the impact of governance rating systems,[6] certain common components of effective CG may be ascertained. Presented below is a critical but nonexhaustive list of essential CG elements. They include principles and practices that promote:

1) Principle-centered leadership
2) Transparency
3) Stakeholder voice
4) Ethical culture

Each of these elements contains its own respective attitudes and behaviors that bring the element and its goals to realization. For example, to promote stakeholder voice, the business might consider a wider array of stakeholder interests in its planning, policies, and practices (beyond just owners, employees and customers, to also include the local community, the environment, the media, suppliers, and more). This is especially true when one considers that so much of the current crisis of confidence was engendered by "the overemphasis American corporations have been forced to give in recent years to maximizing shareholder value without regard for the effects of its actions on other stakeholders" (Kochan 2003, 225).

This imbalance is exacerbated by the often short term focus of shareholders against the usually longer-term expectations of other stakeholder groups, particularly employees who are ironically indispensable to shareholder value and successful CG (Child and Rodrigues 2004). Employee and other stakeholder participation in corporate control activities (via committees, consultation, and cooperation) is one means of improving stakeholder voice (Child and Rodrigues 2004). Some government regulations have gone beyond OECD recommendations by requiring certain minimum practices and guidelines. Additionally, some businesses have voluntarily adopted stronger safeguards in order to more precisely address the influence and interests of external stakeholders. Even a cottage industry for CG has arrived on the scene.

This emphasis on stakeholder voice should not be taken to suggest that the interests of *shareholders* are ignored. Shareholders remain primary stakeholders, and stakeholder voice includes the protection (and often prioritization) of shareholder rights and voice. For example, the element of shareholder rights might be facilitated (1) by the timely disclosure of relevant information, (2) by making it easier for shareholders to participate in scheduled meetings, and (3) by providing shareholders with the opportunity to voice concerns on matters and at times outside official meetings.

Corporate governance is also situated within the related constructs of corporate social responsibility, business ethics and organizational culture. Corporate social responsibility refers to the mutual understanding or social contract between business and society as to the role and responsibilities of business to advance the well-being of the broader community. Business ethics refers to the application of philosophical principles to business decisions in order to help determine which of its policies and behaviors are right or wrong. Organizational or corporate culture has been described as “the shared values, beliefs, assumptions, perceptions, norms, artifacts, and patterns of behavior” within an organization (Gibson et al. 2005, 62).

Corporate governance is an essential component and conduit of a business’s social responsibility, ethics, and culture. In effect, the recommended CG will nurture within the business a transparent, accountable, and stakeholder-responsive ethic and culture. Although different models of corporate culture, business ethics, and social responsibility exist, they all share the common categories of values, actions, and relationships—with each other and with CG. These similarities explain the significant influence that CG has, for better or worse, on society, ethics, and stakeholders. Accordingly, the above elements of transparency, leadership, ethics, and stakeholder voice are critical to the overall well-being of the business and its many constituents.

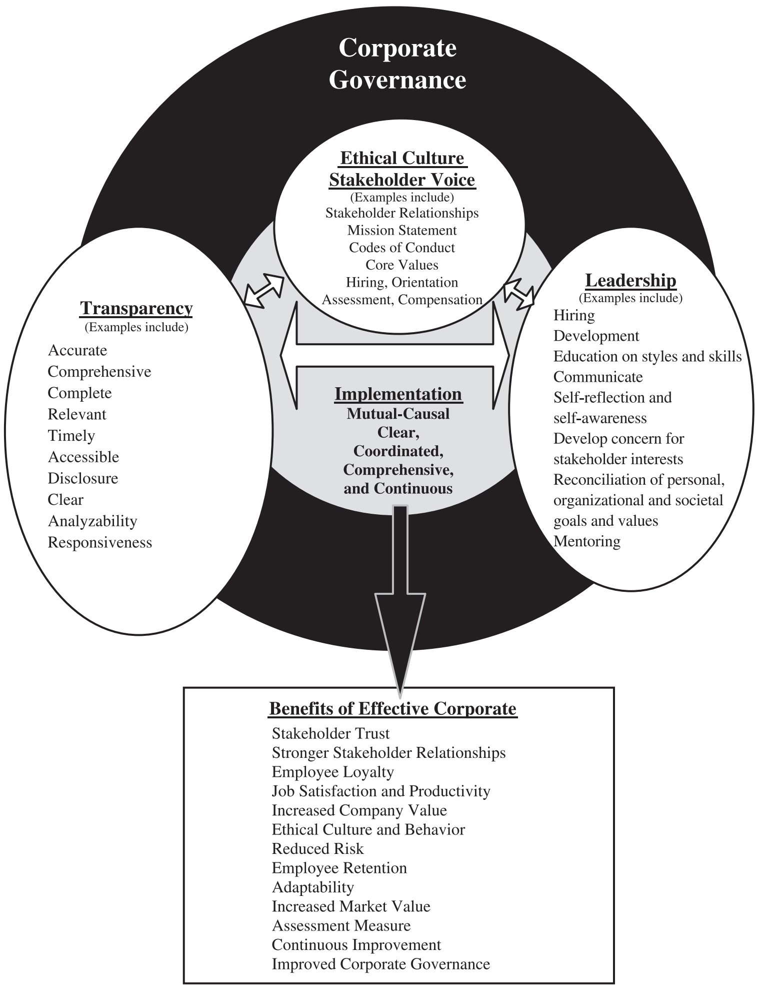
The establishment of an extensive ethics program would be expected to assist the element of an ethical culture. Commonly cited components of such programs include a clear and precise mission statement, an ethics code, department and officer, a stakeholder management plan, consideration of ethical issues when hiring, ethics training, ethics hotlines, corresponding rewards and punishments, ethics awards, volunteerism, ethics audits, and ethical review of suppliers and distributors. In order to effectively cultivate an ethical culture and positively influence CG, these dimensions of an ethics program should be clearly communicated, implemented, monitored, modeled, enforced, supported, and integrated into the overall organizational culture by the company's key leadership personnel.

No one single element is sufficient to meet all the goals or ensure all the benefits of effective CG. But when principle-centered leadership, transparency, stakeholder voice, and ethical culture are practiced simultaneously such that they reinforce one another and are integrated into the various policies and practices of CG, then a powerful synergy is created that has the potential to maximize the benefits of CG. These benefits include the rebuilding of lost stakeholder trust in business (along with avoiding actions that create the risk of additional damage to that trust). Thus, it is the clear, coordinated, comprehensive, and continuous implementation of these elements into all aspects of CG that will not only recover, but also increase any lost trust, as well as advance the corresponding organizational and societal benefits (see Figure 1). This mutual-causal dynamic will be elaborated more fully later in the article. That being said, the next focus is on the elements of principle-centered leadership and transparency, and the profound role they play in creating and cultivating effective CG.

PRINCIPLE-CENTERED LEADERSHIP

Leadership at all levels, but especially at the top, plays a prominent role in the effective implementation of CG and the recovery of lost

FIGURE 1 Mutual-Causal Dynamics among Corporate Governance, Leadership and Transparency.



stakeholder trust. Unfortunately, according to some sources, "business leaders are among the least trusted groups in society" (Child and Rodrigues 2004, 145). Kochan (2003, 224) adds that:

> Implicit in this view is that the cause of the problems of American corporations is one of poor, greedy and/or unethical leadership on the part of CEO's and other top business

> executives and that therefore remedies should focus on changing the values, leadership behaviors, and legal accountability of those at the top of American corporations.

Such distrust is perhaps not surprising when members of society so frequently read about the ethical misconduct and criminal acts of so many of today's top business leaders. In the Enron trial, for example, characterized as "one of the biggest corporate scandals in US history" (MSNBC News Services 2006), former Enron founder and chairman Kenneth Lay, along with Enron chief executive Jeffrey Skilling, were convicted on 29 criminal counts that included fraud, conspiracy, and insider trading. According to lead prosecutor Sean Berkowitz, "The jury sent an unmistakable message: You can't lie to shareholders. No matter how rich and powerful, you must play by the rules" (MSNBC News Services 2006). Sadly, the collapse of Enron ". . . wiped out more than $60 billion in market value, almost $2.1 billion in retirement savings and 5,600 jobs" (MSNBC News Services 2006). And, if this was not bad enough, the story was the same only a few months earlier for senior executives at WorldCom and Adelphia Communications.

This pervasive climate of distrust represents a challenge for today's top leaders, which is to clearly and fully communicate, institutionalize, and embody the company's values, practices, and status—or, in other words, to be both principled and transparent (Kochan 2003). Management can fulfill this mandate through honest verbal and nonverbal communications, through open formal and informal actions, and through transparent relationships with stakeholders (Fry 2003). The obvious influence that leadership has on an organization's culture underscores the tremendous responsibility that accompanies that leadership to cultivate the highest possible levels of transparency and trust in CG.

Leadership expert and former President of the University of Cincinnati, Warren Bennis (1989), identified four key leadership competencies: (1) having a vision, (2) communicating that vision, (3) managing trust, and (4) managing self. Several respected writers on leadership, such as Burt Nanus (1992) and Gareth Morgan (1997), also talk about the importance of having and articulating a vision, Bennis's first and second competencies; and still other respected writers, such as Max DePree (1989) and Chris Lowney (2003), talk about the importance of knowing oneself, Bennis's fourth competency.

But Bennis is one of the very few to talk explicitly about the importance of managing trust. Bennis (1989, 21–22) writes, "Trust is essential to all organizations. The main determinant of trust is reliability, what I call *constancy* . . . I cannot emphasize enough the significance of constancy and focus . . . It gives pace and energy to the work and empowers the work force. Empowerment is the collective effect of leadership." Clearly, then, the leader's actions, and the transparency thereof, are critical to reestablishing trust in an organization.

The Business Roundtable echoes these sentiments, also emphasizing the key role of principle-centered or ethical leadership in effective CG. In its 2005 white paper entitled *Principles of Corporate Governance*, the importance of leadership is stated clearly regarding the selection of the CEO. It states that the selection of a "well-qualified and ethical CEO is the single most important function of the board" (Business Roundtable 2005, 7). Principled and ethical leadership does more than manage governance regulations. According to the Roundtable, the CEO and senior management are responsible for setting the ethical tone and direction of the organization as a whole.

Also, as noted long ago by Peter Drucker (1993, 221):

> The proof of the sincerity and seriousness of a management is uncompromising emphasis on integrity of character. This, above all, has to be symbolized in management's "people" decisions. For it is character through which leadership is exercised; it is character that sets the example and is imitated. Character is not something one can fool people about. The people with whom a person works, and especially subordinates, know in a few weeks whether he or she has integrity or not. They may forgive a person for a great deal: incompetence, ignorance, insecurity, or bad manners. But they will not forgive a lack of integrity in that person. Nor will they forgive higher management for choosing him . . . No one should ever be appointed to a senior position unless top management is willing to have his or her character serve as the model for subordinates.

In short, it is incumbent on today's senior managers and corporate executives to conduct themselves in a highly ethical and responsible manner since they ultimately are held responsible for the trust that stakeholders place in the corporation. When senior executives put individual, personal interests above those of the corporation or its shareholders they compromise more than their own integrity; they compromise the integrity of the business and, indeed, of business itself.

The Business Roundtable (2005, 12) believes that corporations should have:

- A CEO of integrity. The CEO should be a person of integrity who takes responsibility for the corporation adhering to the highest ethical standards.
- A strong, ethical "tone at the top." The CEO and senior management should set the "tone at the top" that establishes a culture of legal compliance and integrity communicated to personnel at all levels of the organization.
- An effective compliance program. Senior management should take responsibility for implementing and managing an effective compliance program relating to legal and ethical conduct. As part of its compliance program, a corporation should have a code of conduct with effective reporting and enforcement mechanisms. Employees should have a means of seeking guidance and alerting management and the board about potential or actual misconduct without fear of retribution, and violations of the code should be addressed promptly and effectively.

The Roundtable sees CG as a process of compliance that monitors the ethics and integrity of an organization's business practices. But in a larger sense, the Roundtable is taking a stand in favor of an attitude and commitment to principle-centered leadership itself. As we all know, and as we have seen repeatedly in the various corporate scandals cited above and elsewhere, even the most all-encompassing rules and regulations can be circumvented by unethical people. Effective CG requires a fundamental and unwavering commitment to ethical and principled leadership as a starting point, thereby setting the example and tone for the entire enterprise. Transparency represents one of the key guiding characteristics of such principle-centered leaders, since they provide honest information to shareholders, investors, and relevant stakeholders. There is a mutually reinforcing and mutual-causal dynamic between leadership and transparency in advancing effective CG.

Finally, as Thomas Jefferson long ago observed, "When the people are well-informed, they can be trusted with their own government"

(Lewis 2006). Jefferson's observation appears to apply equally well today with regard to transparency in CG.

TRANSPARENCY

Webster's Dictionary defines *transparent* as being (1) free from pretense or deceit; frank; (2) easily detected or seen through: obvious; (3) readily understood" (*Merriam-Webster Online Dictionary* 2007). The first definition of transparency comes closest to the kind of attitude and value typically associated with principle-centered leadership. Research shows that such leaders are genuine, open, honest, candid, and ethical in their interactions with others (Covey 1992).[7] However, it is one thing to *be* "free from pretense or deceit" and another for others, particularly employees and other stakeholder groups, to also *see* it, which underscores the importance of true transparency for individuals in leadership positions. These two ingredients—transparency and principle-centered leadership—appear to be logically consistent and inherently connected.

Transparency is an essential element and responsibility of CG. The *OECD Principles* (2004, 22) state:

> The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

The Business Roundtable (2005, 32–33) adds that communications with shareholders and investors should consider the following:

- Candor. Directors and management should never mislead or misinform shareholders about the corporation's operations or financial conditions.
- Need for timely disclosure. In an age of instant communication, corporations are increasingly disclosing significant information closer to the time when it arises and becomes available. Business Roundtable supports prompt disclosure of significant developments.
- Ultimate goal of shareholder communication. Whatever the substance of the communication, the corporation's ultimate goal should be to furnish information that is honest, intelligible,

> meaningful, timely, and broadly disseminated and that gives investors a realistic picture of the corporation's condition and results of operations through the eyes of management.

Reflecting on the Enron experience, the white paper from the Economist Intelligence Unit, entitled *Corporate Governance: The New Strategic Imperative* (2005, 3) also highlighted the central role of transparency in effective CG:

> Transparency about a company's governance policies is critical. As long as investors and shareholders are given clear and accessible information about these policies, the market can be allowed to do the rest, assigning an appropriate risk premium to companies that have too few independent directors or an overly aggressive compensation policy, or cutting the costs of capital for companies that adhere to conservative accounting policies. Too few companies are genuinely transparent, however, and this is an area where most organizations can and should do much more.

Transparency, for the purposes of CG, is determined by the accuracy and accessibility of the information businesses provide to their stakeholders. Transparency can be active (affirmatively disclosed) or passive (available, but usually revealed only upon request), as well as unilateral (from the business to the stakeholders) or reciprocal (responding to the expectations of the stakeholders). At its core, information must be both accurate and accessible.

Accurate information reliably represents the company's situation through comprehensive and relevant data. Comprehensive data provide complete information about ownership, performance, and management. Relevant data provide stakeholders with information they desire and will likely use to make decisions about their relationship with the company. Relevancy also implies timeliness, affording stakeholders the opportunity to utilize desired information.

Accessible information is actually available and easy for an assortment of stakeholders to obtain. Furthermore, the average stakeholder should be able to understand the information and comprehend its importance. The information, then, needs to be clear. Various technologies can be a tremendous help in this direction. For instance, the "internet-based platform called Extensible Business Reporting Language—XBRL, . . . will also improve investor [and stakeholder] access and analysis to information" (DiPiazza and Eccles 2002).

True transparency also allows stakeholders to both view and respond to the information with comments, criticism, or actions. An example of this sub-element of responsiveness can be found among companies like Progressive Insurance that set up interactive web pages to solicit customer recommendations about the quality of their service (Tapscott 2005). Progressive responded to their customers' advice by upgrading their web abilities to provide quotes, process applications, and speed up transactions (Tapscott 2005).

In short, business is primarily a function of relationships with key stakeholders. Disclosing accurate and accessible information to those stakeholders, therefore, makes perfect sense for businesses that are integrating transparency and principle-centered leadership more fully into their CG.

It is reasonable to expect principle-centered leadership and transparency to positively influence each of the other elements of CG. Disclosing information to an array of stakeholders can provide the essential accountability inherent to principle-centered leadership, since more stakeholders are able to examine and react to the information. Similarly, such disclosure and transparency can represent a step in protecting shareholder rights, facilitating stakeholder voice, and in cultivating a more ethical culture since it is precisely when company leadership conscientiously considers the variety of stakeholder interests in its planning, policies, and practices that its behavior and culture become more ethical. Accordingly, principle-centered leadership and transparency represent the overriding and operative principles and practice for effective CG designed to rebuild stakeholder trust.

MUTUAL-CAUSAL DYNAMICS AMONG CORPORATE GOVERNANCE, LEADERSHIP, AND TRANSPARENCY

It is the position of this article that the dynamic relationship between the company's leadership, governance programs, and transparent communication to other stakeholders should be seen as much more than a management process—that is, as a catalyst for reinforcing the ethical commitment of the leadership, strengthening the governance process, and driving greater transparency into the communication of both. The factors function in a mutual-causal manner, encouraging and facilitating deeper levels of each as they interact. We propose that transparency is the key bridge between the leader and ethical governance, serving as the primary catalyzing force in the relationship. Transparency is so powerful in this dynamic because it is a public expression that builds trust and, when necessary, serves as a self-correcting mechanism to decisions that stakeholders might find questionable.

For example, some recent research has studied transparency as a manifestation of a trust-filled organization. Cynthia Clark Williams (2005), in her article, "Trust diffusion: The effect of interpersonal trust on structure, function, and organizational transparency," notes the need for research to examine the assumption that transparency is of value in creating and diffusing trust throughout the organization and beyond. Williams states, "Looking beyond openness . . . leads to relatively little research into the predictive or consequential abilities of transparency and even less research into the effect of organizational structure and function on trust formation in a broader social context" (Williams 2005, 358). In this article, she aimed to address that gap, examining transparency and trust diffusion within the relationship between investor relations and public relations department managers. These positions are central in the organization due to the liaison role they play in "communicating the reality and perception of trustworthiness to the organization's stakeholders" (Williams 2005, 358).

Williams (2005, 359) further aimed to understand how "to transfer trust within the social context of an organization, for the benefit of the organization and its stakeholders." This transfer is likened to a relay race, in which key relationships within an organization establish trust between themselves initially (the focal dyad), and then extend that trust beyond the original organizational dyad to third parties who further "pass on trust-confirming information about the [organizational] dyad" (Williams 2005, 359). She continued that "Transparency, then, is a contributing factor to organizational responsiveness and efficacy" (Williams 2005, 359).

She conducted 10 in-depth interviews with investor relations (IR) and public relations (PR) department managers, followed by a separate interview with 66 midlevel managers from five organizations with different geographical locations throughout the country.

Her findings reinforce the mutual-causal relationship among leadership, transparency, and effective CG. She concludes:

> In the survey portion of the research, restoring trust in public companies was highly correlated to investors' perceptions about managements' integrity and willingness to be open (both elements of the definition of *transparency*)[8] and to being treated fairly along with improving corporate governance and enacting more laws in accounting and analyst industries. However, the presence of ethics codes did not show a high correlation to restoring trust in general. (Williams 2005, 366)

Principle-centered leaders foster a trustful environment that facilitates transparency, both internal and external to the firm. Transparency engenders trust, reinforcing the ethical governance of the organization. The mutual-causal relationship is created as transparency and principled leadership are mutually reinforcing.

Another important facet of the mutual-causal relationship is seen in the information-transparency cycle. In her American University publication entitled *Corporate Governance & Transparency*, Fiametta Borgia (2005) presents this cycle within the context of a new understanding of transparency. The traditional understanding of transparency is to let the truth be available for those who seek it. This, essentially, is a passive understanding of transparency, seeing the initiative in the one seeking the information. This is now changing to a new active understanding, "more active in calling attention to deeds, both intentional and unintentional. In other words, the new concept of transparency includes action or motion, putting new responsibilities on the corporation" (Borgia 2005, 21), especially its leadership.

The corporation will be required, by public expectation, to be actively transparent, in order to avoid being, and being seen as, an opaque organization. "Opacity, the opposite of transparency, is defined as the state of being hard to understand. Or clear or lucid. When information is not clear, it is not trusted. When information is hidden, it is natural to believe there's truly something to hide" (Borgia 2005, 22). Both types of organizations create their own self-fulfilling prophecy. The organization that hides information works to maintain secrecy. Conversely, the organization that is transparent is pulled into a cycle of ever-increasing demands for greater transparency, which Borgia calls the Information-Transparency Cycle.

> The I-T Cycle can be used to describe the situation caused from true and efficient disclosure of information. In fact, the need of information multiplies itself when it is started.
>
> The information transparency cycle is simultaneously an industry, an economy and a way of life. The I-T Cycle, in its endless gathering, manipulating, storing, disseminating, archiving, retrieving of information has created the new transparency imperative. The public's right to know is steadily and inexorably eroding the secret, opaque lives of corporations.
>
> The transparency imperative unleashes a perverse mechanism: the more we know, the more we demand to know, the more there seems to be to disclose. The cycle seems endless. (Borgia 2005, 23)

Transparency is seen, once again, as a catalyst. It not only reinforces trust, but it also reinforces the demand for greater openness and disclosure.[9] It is not a program or a process, but a dynamic imperative that moves transparency beyond financial disclosure into the larger arena of stakeholder communication and the interaction between corporate management and constituencies beyond the shareholder and prospective investor. Borgia (2005, 24) elaborates that:

> Transparent communication with stakeholders involves focusing on more than just the traditional numbers, such as financial data, customer statistics, and operational metrics.
>
> It requires venturing into accurate and understandable discussions of the stakeholder value drivers, the things that mean the difference between success and failure for the corporation. Frequent communication to stakeholders is essential. Feedback from stakeholders (employees, customers, constituents, shareholders, and community leaders) tells the corporation what it is doing right and what is needs to work on.

This final point demonstrates the full circle of the mutual-causal relationship between CG, transparency, and principle-centered leadership. Ethical leaders create trust that is expressed, by necessity, in transparency. Transparency creates its own imperative that requires increased disclosure and growing communication between the corporation and stakeholders, which reinforce the ethics of the organization and its leaders, providing corrective input when the ethics of a corporation are being questioned. Companies that adhere to the "new transparency" both invite and respond to stakeholder voice. This reciprocal communication between the organization and its stakeholders is measured in part under the categories of "stakeholder voice" and "responsiveness" within the transparency measurement tool (TMT) presented below.

In short, truly effective CG requires principle-centered leadership. Ethical leaders, in turn, create transparency. And transparency demands the ongoing demonstration of ethics and integrity. This mutual-causal relationship suggests that any study of CG must include an emphasis on transparency, ethical culture, stakeholder voice, and the role of principle-centered leadership in effective CG. The ensuing TMT, with its focus on these different dimensions, can help an organization increase the positive synergistic influence of the mutual-causal relationship upon the organization.

TRANSPARENCY MEASUREMENT TOOL

Numerous organizations—such as Standard & Poor's, Euromoney, Transparency International, and Institutional Shareholder Service—provide ratings or rankings for overall CG and its sub-elements, including transparency (Newby 2001). The International Association of Business Communicators designed and validated an organizational trust model that identifies competency, openness, concern for stakeholders, shared goals, reliability, frequency of interactions, rewards, and sanctions as significant influences upon trust (Gillis 2003). DiPiazza and Eccles (2002) proposed a "Three-Tier Model of Corporate Transparency (that includes Global GAAP, industry standards, company-specific guidelines, and performance measures) for measuring and reporting information." Tailored in part on the above models, the TMT is an evaluative instrument designed to more systematically assess the level of transparency in a business organization, which ultimately allows the company to decide how to better incorporate transparency into the different dimensions of CG.

The TMT, with its focus on accuracy and accessibility, is purposely similar to the above approaches. This ensures that the business is addressing the criteria published by CG ratings groups like Standard & Poor's and Institutional Shareholder Services. However, the TMT is intended to be a more nuanced internal management tool, allowing organizations to gauge and improve their level of transparency and overall governance over time. The TMT improves upon the aforementioned GC ratings and their progeny because it stresses company-specific information relevant to a variety of stakeholders, not just reported regulatory information most pertinent to shareholders (which is the primary method and focus of the other ratings). The TMT can also be used to compare the level of transparency of one business to that of another, by the company, by interested stakeholders, and even by independent agencies who might want to adopt all or part of the TMT. The TMT process itself may be conducted by internal personnel or by independent auditors.

In addition to meeting the generally accepted accounting standards and providing other traditional financial and regulatory information, a transparent company would disclose such things as risk management, compensation policies, company indicators, industrial benchmarks, board of directors composition, management structure and responsibilities, environmental impact, ownership structures and influence, commitment to social responsibility, codes of conduct, compliance system, company values and history, human rights protection, occupational health and safety issues, internal controls, investment criteria, pension policy, political affiliations, stakeholder rights and relations, related party transactions. In theory, a company can become as detailed as it desires in these categories. For example, Standard & Poor's Corporate Governance Scores (2002), from which some of the above items are derived, uses over 100 elements classified as components, sub-categories, criteria, and key analytical issues (Standard & Poor's 2002).[10]

The TMT, then, is a simplified evaluative instrument that focuses on transparency, a critical and central dimension impacting all aspects of CG. Even the elaborate Standard and Poor's (2202, 6–7) scorecard acknowledges that "poor transparency and disclosure may render a meaningful assessment of other governance factors impossible (or result in a very low overall governance score)." In the TMT, numerical scores are given to ten (10) company-specific categories, which include management structure, stakeholder voice, and environmental impact, among others (Figure 2). Each of the 10 categories is evaluated and scored according to six aspects of transparency on a scale from 1 (unacceptable) to 5 (outstanding). The scores are then totaled for an overall transparency score and corresponding rating, reflecting the individual category's and overall company's level of transparency (Figure 2).

FIGURE 2 Transparency Measurement Tool (TMT).

SCORING: **1** (UNACCEPTABLE) **2** (INADEQUATE) **3** (MINIMUM) **4** (GOOD) **5** (OUTSTANDING)	RISK MANAGEMENT	OSHA	STAKEHOLDER VOICE	FINANCIAL DATA	MANAGEMENT STRUCTURE	OWNERSHIP & BOD STRUCTURE	INDUSTRY STANDARDS	ENVIRONEMNTAL IMPACT	COMPANY VALUES	HUMAN RIGHTS
Accuracy										
Comprehensiveness										
Relevancy										
Timeliness										
Accessibility										
Clarity										
Responsiveness										
Total Points										

Each of data disclosure categories under corporate governance will be evaluated for transparency by giving scores for the six (6) dimensions of transparency: namely, accuracy, comprehensiveness, timeliness, accessibility, clarity, and responsiveness. Each category will receive a total score, as will the overall company (via average category score or number of categories within each rating).

These scores will be combined to provide a transparency rating of:
Opaque (10-24),
Translucent (25-39),
Transparent (40-50).

For example, the category "ownership and BOD structure" looks to see how well the company reveals the concentration and forms of ownership (including management holdings), the relative power of minority shareholders, external holdings of large stockholders, the size, composition and independence of the board of directors, board leadership and committees, CEO and chair arrangement, election and succession process, related party transactions, and compensation packages. Meanwhile, the Occupational Safety and Health category assesses the accuracy and accessibility of information about the company's workplace accidents, safety policies and procedures, lost workdays, worker's compensation expenses, and types and uses of hazardous and/or unsafe materials. An internal or independent committee performs the evaluation by reviewing documents, intervening managers, shareholders, and other interested external stakeholders. It is important to note that the TMT is designed to assess only the level of informational disclosure about a company's policies and practices and is not trying to evaluate the actual quality of said practices and policies. Standard & Poor's Corporate Governance Scores and other CG ratings embark on this more elaborate and challenging endeavor, while TMT simply wants to address the accuracy and accessibility of company information (i.e., transparency) and then allow the market and its members to utilize that information as they deem best. Because transparency is understood to be such a leading indicator and guiding principle of effective CG, the TMT provides a simplified yet very efficient method for measuring and improving overall CG.

The six elements of transparency within the TMT are accuracy, comprehensiveness, timeliness, accessibility, clarity, and responsiveness. As explained earlier, the six elements provide more accurate and thorough appraisal of company transparency in addressing its various nuances. For example, very accurate information about a company's environmental concern that is untimely, that is, not disclosed until the damage has become irreversible is not very helpful or transparent. The converse (timely, but inaccurate information) is also not very transparent. Even timely and accurate information needs to be accessible, meaning directly disclosed or easily available to the stakeholders, or it too loses a significant degree of its transparent qualities. Scores on these elements range from 1 to 5, such that: 1 = unacceptable, 2 = inadequate, 3 = minimum, 4 = good, and 5 = outstanding. These scores are combined initially to provide a transparency rating of opaque (6–12), translucent (13–23), and transparent (24–30) for each company-specific item (e.g., environmental care). Then the company may determine an overall company score and rating in one of two ways: (1) add the total points for each separate category to get a cumulative score and divide it by the number of categories to arrive at a company average within the above ratings (e.g., if the 10 categories have a combined score of 241, then the company's overall CG transparency rating is transparent), or (2) base it on the overall number of transparent, translucent, and opaque categories within the company (e.g., a transparent company would most likely have no opaque elements and at least half of their other areas would be transparent).[11]

What do these ratings mean? The opaque company does not provide sufficiently accurate and accessible information about its operations, finances, ownership, and management for a stakeholder to make a reasonably informed decision about most anything important. The translucent company provides a relatively sufficient amount of accurate and accessible information for making decisions, but making those decisions requires a certain number of assumptions and inferences due to the shortcomings in the information provided. For example, the information provided by companies on the lower end of the translucent scale will certainly be lacking in some aspects of accuracy and accessibility. More specifically, those companies may supply some accurate and reliable data, but perhaps in a format or context that is difficult to fully analyze or utilize. Or the information may be incomplete or untimely. Companies rated on the higher end of translucent are lacking in a few areas—probably not significantly, but lacking the necessary comfort and clarity that some stakeholders expect.

These ratings have a high degree of objectivity, even acknowledging the subjective quality of any evaluative scoring system. An assessment team or committee addresses very specific criteria within each category, evaluating the degree of disclosure under the six elements of transparency. The meaning of the scoring guidelines can be explained and discussed so as to be applied as uniformly and objectively as possible. Furthermore, the final report should provide the committee's explanation for each of the various ratings. This is one way in which the TMT moves from an assessment tool to a managerial guide.

But even with all the emphasis on transparency, it is should be remembered that this measurement approach is not meant to be absolute. Privacy expectations remain for employees and customers, as they do for trade secrets, business intelligence, intellectual property, and other forms of proprietary information. A simple rule one might follow is that "the corporate standard of transparency should not be applied to individuals" (Tapscott 2005, 17).

The transparent company provides information that is sufficiently accurate, accessible, and reliable from the stakeholder and decision maker's perspective; the information is high in comprehensiveness, relevance, completeness, timeliness, clarity, disclosure, analysis, and responsiveness. Theoretically, any concerns that the decision maker might have with such a company would not be based on the inadequacy of the information, but on the stakeholder's limitations or on events beyond the knowledge, foreseeability, and control of the company. The help to stakeholder decision making would be one of the expected benefits facilitated by transparency, principle-centered leadership, and effective CG.

BENEFITS OF ORGANIZATIONAL TRANSPARENCY AND PRINCIPLE-CENTERED LEADERSHIP IN CORPORATE GOVERNANCE

As we stated at the beginning, the primary benefit and purpose for cultivating principle-centered leadership and transparency in CG is to rebuild the trust that business stakeholders lost during the recent rash of deceptive practices and secretive scandals. Trust is an invaluable asset that impacts and sustains not only an individual business (e.g., formally recognized as "goodwill" in some financial statements), but arguably the entire free market system. Trust, rooted in ethical leaders and transparency, influences employee loyalty and job satisfaction, which in turn contribute to organizational adaptability and productivity (Gillis 2003). Repairing employee trust would be expected to reciprocally reinforce CG since employee cooperation with governance is crucial to its effective execution (Child and Rodrigues 2004). This reconstruction of stakeholder trust though CG should, and often does, benefit the bottom line (Picou and Rubach 2006). In fact, some research shows that "firms that announced the enactment of corporate governance guidelines experienced increased stock prices following the announcements" (Picou and Rubach 2006, 55). Furthermore,

> There was an *immediate* (days 1–4) reaction to firms that provided all or part of the *guidelines' substance*; [but a] *delayed* (days 8–10) reaction occurred for those firms that only referenced the guidelines' enactment. (Picou and Rubach 2006, 55)

Corporate governance, in particular transparency, has become an important aspect of risk management (Lee 2001). Thus, "creditors and investors consider good governance and transparency as a sign of company strength and poor governance as risky" [sic] (Lee 2001, 24). Since stakeholders require an increased level of confidence in the company's transparency and leadership to counteract their postscandal suspicions of business, transparency, principle-centered leadership and CG should improve business relationships with external stakeholders (such as customers, suppliers, creditors, and the local community, which are then helpful to the overall market and economy). The different dimensions of CG also provide a framework for systematic assessment that can lead to continuous improvement in all company activities.

We will now consider implications of this analysis for future research.

IMPLICATIONS FOR FUTURE RESEARCH

Research has for some time examined each of the components in our model, however research on the components' interactions is lacking or nonexistent. Additionally, further research is needed to determine the exact nature of the mutual-causal dynamic advanced in this article. In particular, the article suggests at least seven productive avenues for future research.

First, as advocated by our TMT, research is needed on the various "levels" or "degrees" or "stages" of transparency, along a continuum, rather than in absolutes. An organization that is not transparent does not simply flip a switch with, for example, a change toward principle-centered leadership, and then all of a sudden it is transparent. Rather, an organization becomes more or less transparent as it opens itself up to view from both within and from the outside. Thus, transparency, like most things, is likely to go through generalizable stages or levels. If so, can research identify those levels or stages? What would we call those stages and how would we characterize them?

Second, research is needed on the measurement of transparency. For example, what happens in companies with good intentions about high levels of transparency, but with poor monitoring systems? Such companies may not receive sufficient accurate feedback on flaws in their transparency levels, making them appear to be more or less transparent than they really are. Research should examine what this tells us about accurate and effective monitoring systems.

Third, we state the case for accurate and accessible information, but what happens when a company provides one of these but not the other? Or, more correctly, when the levels on one variable are greater than the levels on the other? For example, what happens when (most) information is accurate but inaccessible? The best case scenario may be when inaccurate (or relatively inaccurate) information is easily accessible, because then the company is aware of the inaccuracies and can take appropriate action to correct the problem. But what happens when some information is accurate, other information is inaccurate, but it's the accurate information that's accessible and the inaccurate information that's not accessible. Future research may be able to sort out these inconsistencies and determine best/worst case scenarios using these two dimensions of accuracy and accessibility.

Fourth, research is needed on the relationship between transparency and employee/stakeholder voice. Research might examine, for example, what happens when transparency legitimizes voice such that the nature of that voice is then more negative than it might otherwise have been if transparency had not been so open. That is, there may be a downside to greater levels of internal/external transparency that could lead to outcomes (such as a greater number of grievances filed or resolved) that are normally considered to be a problem. In the absence of such research we can only speculate on the exact nature of this relationship.

Fifth, research is needed on mixed signals on each of the variables within our model. For example, what do we do about difficult judgment calls when voice is mixed? It is one thing when voice is uniform (i.e., there is sufficient agreement); it is another when voice is mixed (i.e., agreement is lacking). Given that, researchers might ask, "Is a business more or less transparent when voice is greater but that voice says to be less transparent?" Or researchers might ask, "Can we say something about the health of a business when some voice is limited and other voice is encouraged, even in subtle ways?" Additional research questions should examine effective strategies when voice at the top differs with voice at the bottom or from outside the organization.

Sixth, the position of this article has been that, ". . . it is the clear, coordinated, and comprehensive implementation of transparency into all facets of CG, including among its leadership, that will most effectively advance its individual, organizational and societal benefits." Future research is needed to determine the extent to which that position is correct. It may be that such position is true only under certain circumstances or within certain types or kinds of organizations. It may be more or less correct in highly mechanized or bureaucratic organizations or perhaps in particular types of industries. Research is needed to determine both the gains and losses of the integration of these components, along with greater predictable certainty about the expected positive effects and unintended negative effects.

Finally, research is needed on the model itself. Perhaps a more integrated "framework" (the word "theory" is perhaps too strong) can be developed for connecting the various variables, at a minimum: (1) governance, (2) transparency, (3) principle-centered leadership and (4) stakeholder voice. For example, future research might simultaneously explore multiple levels of governance, multiple levels of transparency, multiple levels of leadership, and multiple levels of voice. If so, what would those various levels look like? What would we call them? Which level of governance would logically connect to which level of transparency, and so on? Does the "mutual causal" paradigm aid in such analysis or get in the way when talking about the nature of the relationship between these variables? Only through well-conceived and well-conducted research studies, both qualitative and quantitative, can these and other questions be answered.

CONCLUSION

Many people have lost trust in their leaders, both inside and outside corporate America. To not have lost such trust would be surprising, in light of the repeated scandals that we hear about and read about in our daily newspapers. Indeed, one could argue that stakeholder trust in business has been the primary casualty of the current rash of corporate corruption scandals. The corresponding negative impact on the reputation and goodwill of particular companies and business in general has led to economic instability and, in some cases, crises. Stockholders have lost money, employees have lost jobs, and the American public is outraged that our leaders are so highly paid yet so ethically challenged. The rebuilding of trust, as well as the enhancement of trust for those businesses that have managed to hold onto it, is essential for the economic recovery and well-being of corporate America. This is particularly true of the various industries and economies that have been adversely affected by the scandals, the transition to market economies, and the growth of multinational companies.

Principle-centered leadership and transparency in CG are the primary means to both recover and increase that trust. These along with ethical culture and stakeholder voice represent essential elements for effective CG. When these four components come together to reinforce one another and are integrated strategically into the key policies and practices of CG, then a powerful synergy is made possible. That synergy not only rebuilds trust, but also enhances the many other benefits of effective CG.

Finally, since we began this article with an insightful quote from the revered management thinker Peter F. Drucker (2004, 25), we will also end with one:

> To make what is good for the country good for the enterprise requires hard work, great management skill, high standards of responsibility, and broad vision. It is a counsel of perfection. To carry it out completely would require the philosopher's stone that can translate the basest element into pure gold. But, if management is to remain a leading group, it must make this rule the lodestar of its conduct, must consciously strive to live up to it, and must actually do so with a fair degree of success. For in a good, a moral, a lasting society, the public good must always rest on private virtue. Every leading group must be able to claim that the public good determines its own interest. This assertion is the only legitimate basis for leadership; to make it a reality is the first duty of the leaders.

NOTES

1. An earlier draft of this article was presented at the Ethics in Corporate Governance Conference, Seattle University, July 2006. We are indebted to Melanie Hawks of the University of Utah for helpful comments on an earlier draft.

2. The Organisation for Economic Co-Operation and Development was organized in 1960 to promote sound economic development, financial stability, and world trade. The original member countries were Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. The following countries joined subsequently: Japan, Finland, Australia, New Zealand, Mexico, the Czech Republic, Hungary, Poland, Korea, and the Slovak Republic.

3. See also, *OECD Principles of Corporate Governance: 2004*, OECD Publication Service, 2 Rue Andre-Pascal, 75775 Paris Cedex, 16, France.

4. The OECD uses this definition of CG: "Corporate governance involves a set of relationships between a company's management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring. The presence of an effective corporate governance system, within an individual company and across an economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy."

5. A simple example is the priority U.S. companies give (when compared with other systems) to majority shareholders over other stakeholders, such as employees, customers, and the local community.

6. Standard & Poor's, Euromoney and Institutional Shareholder Service are three organizations that provide ratings or rankings (Newby 2001).

7. See also Baum (2004) and Hatala and Hatala (2005).

8. Transparency was defined "as the extent to which the organization provides relevant, timely, and reliable information, in written and verbal form, to investors, regulators, and market intermediaries" (Williams, 2005, 361).

9. This raises the inevitable question of transparency creating a competitive disadvantage. For a discussion of the model of transparency in local government, see Michael and Gross.

10. Some but not all items are derived from Standard & Poor's Corporate Governance Scores (July, 2002) and DiPiazza and Eccles (2002). Standard & Poor's Governance Services (2002).

11. The 10 categories should apply to any organization since their focus is on the disclosure of practices or policies, not on their quality. Even if a category seems completely irrelevant to a business, disclosing that fact

and the explanation why would still give that business a high rating for transparency.

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