Transparency in corporations and the Sarbanes-Oxley Act: a qualitative study of leaders' perceptions

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Thank you,

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Abstract

Transparency is known to be an important factor when fighting corruption in governments, companies and organizations. When the scandals in the USA came true in the beginning of 2000, there was a need for more transparency and regulation. Phoenix did not arise, but instead the Sarbanes-Oxley Act and more transparency from the corporations. This led me to the need to find out more what leaders think about transparency and SOX. My research question became:

- How do leaders perceive transparency and do they believe SOX to be an important support in achieving more transparent corporations?

To answer this question, I conducted this thesis in the USA, gathering both theory and empirical data there.

This thesis is based on a qualitative method, making interviews to gather empirical data. I created a number of questions that I used as a guide during the interviews. I interviewed four leaders from big corporations in the USA and the interviews took place at their office. The theory I gathered before the interviews are within the area of transparency, different forms of transparency and transparency laws and regulations.

I looked to answer my question about how leaders perceive transparency and what they think about transparency and SOX. The results of this thesis are that the leaders’ perception of transparency is similar to each other even though they differ in some ways. They also believe that SOX has helped in many ways, but that there are certain aspects of it that are undesirable. It has also come to my knowledge that “doing good” for example for the community, is something that the respondents seem to value. This is also beneficial for the corporations according to them. The conclusion is that there has been more done in terms of transparency, but the companies try to make transparency their thing and in some way sugar-coat it to their own benefit. Being very open in one area does not mean that you don’t have to be open in other areas. I believe that the companies try to be more open, but not about everything. They are open about things that they consider harmless even though some of the respondents seem more open to a fuller transparency in more areas. I guess, in the end, it’s not up to one person to change, but it’s a good start.
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1 Introduction

This thesis is about transparency and how leaders perceive and think about transparency.

1.1 Problem background

Transparency is known to be an important factor when fighting corruption in governments, companies and organizations. A problem that exists is that the transparency is not always sufficient and even though there has been a lot done, there are still issues to be resolved. Transparency can be a problem to both individuals that want to know more and to companies that are not sure of how much transparency to use. It comes down to companies only using the amount of transparency they see fit. Mainly within management and among leaders (people in high positions of authority and experience) of companies and organizations questions need to be asked and problems need to be solved. Not only is transparency important when fighting corruption but is also important to the society and stakeholders to have a common trust. There are obstacles to transparency, such as secrecy, not having the will to be open, unclear regulations etc. There is also a risk that leaders perceive transparency differently and act accordingly and it would be interesting to see if that is the case. This is interesting because of the impact it may have on a corporation’s transparency. But there has been things done to increase the openness, and to increase the transparency, such as the Sarbanes-Oxley Act (SOX). SOX contain regulations of financial practice and corporate governance that all public corporations have to follow (soxlaw.com, 2008).

After the Enron (enronfraudinfocenter.com, 2008) scandal in 2001 and other company scandals during the early 2000s: WorldCom (worldcomfraudinfocenter.com, 2008), Arthur Andersen (corporatenarc.com, 2008), Xerox (corporatenarc.com, 2008), and J. P. Morgan etc (citizenworks.org, 2008), it has been increasingly more important that there is openness and transparency in companies and organizations. There are different levels of transparency and different definitions, ranging from a little transparency to a lot which is called radical transparency. There are also different forms of transparency, for example, targeted or forced transparency. Questions about when transparency is beneficial and when it can be a risk will also be discussed more in later chapters. One way that transparency can be defined is: “a principle that allows those affected by administrative decisions, business transactions or charitable work to know not only the basic facts and figures but also the mechanisms and
processes. It is the duty of civil servants, managers and trustees to act visibly, predictably and understandably” (transparency.org, 2008)

There are laws and regulations for companies to follow when it comes to transparency, for example SOX which came as a response to the scandals in the early 2000s, and I will discuss this more thoroughly in chapter 3. Auditing is one area of controlling companies and governments and there has been a lot done already (gao.gov, 2008), for example, guidelines have been created to help countries be more open to fight corruption (nku.cz, 2008). “Each country intends to nationally adopt and use what is considered an internationally accepted best practice; this would allow the Supreme Audit Institutions (SAIs) to audit the use of state finances and to do the reporting in accordance with INTOSAI standards and with due transparency ensured”.(eurosai.org, 2008) “The SAI must be an example of efficiency, transparency and responsibility in the handling of resources from international credit, particularly in the modernization projects many of them handle”.( eurosai.org, 2008)

1.2 Problem
How do leaders perceive transparency and do they believe SOX to be an important support in achieving more transparent corporations?

1.3 Purpose
The purpose of this thesis is to increase the understanding of how transparency and SOX in US corporations is perceived. To reach this goal, I will do in-depth interviews with corporate leaders.

1.4 Disposition
In this part I will describe how the thesis is built.

Chapter 2, Method
The purpose with this chapter is to give the reader a picture of my starting points and also how I have been approaching the subject described in the thesis. I present my choice of subject, preconceptions, cognitive approach and way of approach. This chapter also includes a description of sources and critics. I have also included information about how I gathered the empirical data and the chapter ends with reliability, inter-subjectivity and transferability.
Chapter 3, Theory
The purpose with this chapter is to describe the theoretical base that this thesis is based upon. I will explain the various theories in the field and talk about the background of transparency, what it means, how it’s used and by whom. There will also be insights in the various laws and regulations concerning transparency.

Chapter 4, Empirical data
The purpose with this chapter is to show the empirical data that was collected from four interviews conducted during the writing of this thesis.

Chapter 5, Analysis
The purpose of this chapter is to analyze the material I have gathered.

Chapter 6, Conclusion, discussion and further research
The purpose of this chapter is to give a conclusion with regards to everything said in this thesis, to share some thoughts and ideas in a discussion and also give examples of further research.

1.5 Delimitations
This thesis, including all the interviews, was carried out in the USA and the empirical data is limited to American companies and organizations.

1.6 Definitions
This part will explain the various abbreviations and other complicated terminology used in this thesis.

SAI = Supreme Audit Institution
INTOSAI = International Organization of Supreme Audit Institutions
EUROSAI = European Organization of Supreme Audit Institutions
SNAO = Swedish National Audit Office (“Riksrevisionen”)
OECD = Organisation for Economic Co-operation and Development
SOX = Sarbanes-Oxley Act of 2002
CEO = Chief Executive Officer
CFO = Chief Financial Officer
FOIA = Freedom of Information Act
NPO = Non-Profit Organization
SEC = Securities and Exchange Commission
PCAOB = Public Company Accounting Oversight Board
PR = Public Relations
AIG = American International Group
“Close to the vest” = keep something secret, to hold something close so no one else can see it (urbandictionary.com, 2008)
“Value added” = the enhancement a company gives its product or service before offering the product to customers (answers.com, 2008)
Stakeholders = Person, group, or organization that has direct or indirect stake in an organization because it can affect or be affected by the organization's actions, objectives, and policies (businessdictionary.com, 2009)
Shareholders = One who owns shares of stock in a corporation or mutual fund. For corporations, along with the ownership comes a right to declared dividends and the right to vote on certain company matters, including the board of directors, also called stockholder (investorwords.com, 2009)
2 Method

In this chapter I will present my choice of subject and why I have chosen this subject. I will also describe my preconception and the view on knowledge I have and how this has affected my thesis. Further on I’ll explain how I have chosen to attack the problem and argue for the method I’ve chosen for the thesis. In large you could say that this is a description of how the knowledge process has been forming before and during the thesis.

2.1 Choice of subject

During my time at the Umea School of Business in Umea, management, leadership and organization have been the subjects within business administration that has interested me the most. Therefore it felt natural to choose a subject related to my interest when I started my thesis. Before I started this thesis, I had been working at the Swedish National Audit Office (SNAO) and it was there I had more contact with transparency and it raised an interest to do this thesis about transparency. The reason I did my thesis in the USA is because I believe that there is a need for a closer look at how corporations and leaders perceive and think about transparency, especially after the scandals in the beginning of 2000. I also live in the USA which makes the gathering of data a lot easier because I’m actually close to the respondents and the corporations.

2.2 Preconception

Preconception is the view a person has about a phenomenon and it can be built on his/her own experiences, childhood and education. (Holme & Solvang, 1997, P.95) The concept can be divided into first-hand preconception and second-hand preconception, where the first can be related to personal experiences while the other can be related to theories and experiences gathered from books and lectures. (Lindfors Johansson, 1993, P. 76)

My understanding concerning business administration and transparency have been affected by the literature I have read and the work I have performed at SNAO. At SNAO I worked mainly with state-owned enterprises and foundations and I am familiar with transparency work, in Sweden and Europe mainly concerning auditing standards from participating in various projects. But I have limited experience with the role of transparency in companies. I therefore regard myself to have some first-hand preconception of the matter and also a lot more second-
hand preconception from books, literature and government papers read during my time in Umeå, but mostly during my time at SNAO. This has, of course, affected my way of viewing the matter of transparency and, therefore, there might be a discrepancy in the way that I view the topic compared to what the respondents have said in this thesis. This can possibly affect the understanding between the scientist and respondents negatively. To avoid this I have tried to have an open mind and made every effort to collect and present the information without judging. By letting the respondents speak freely and not give my views on issues I have been able to get a clearer picture of what the respondents think.

2.3 Cognitive approach
The cognitive approach is about the reality- and knowledge understanding that a scientist has. This includes the reality that is going to be studied and the way to study this reality. (Lindfors Johansson, 1993, P. 10) Usually there are two ways to look at the problem and it’s either through positivistic or hermeneutic views. (Lindfors Johansson, 1993, P. 23) The positivistic view shows the scientist’s objective and scientific way to approach reality, while the hermeneutic view shows the importance of the individuals’ understanding and interpretation of reality. Usually, a positivistic scientist chooses a quantitative approach in his research, while a hermeneutic scientist chooses a qualitative approach. (Lindfors Johansson, 1993, P. 37-44)

The positivistic person is very critical to his/her observations and examines them and tries to see if they are reasonable. (Lindfors Johansson, 1993, P. 76-81) This is because the positivist wants to end up with a law-like generalization as his/her result. They also want to be independent and not affected by the subject nor affect the subject of which they do research. (Saunders, Lewis & Thornhill, 2000, P. 85) Hermeneutics are, according to Burrell and Morgan, “concerned with interpreting and understanding the products of the human mind which characterize the social and cultural world”. (Burrell and Morgan, 1979, P. 235-236) Hermeneutic means the study of interpretation and understanding is a central concept. The ability to understand and put yourself in different situations is an important source of knowledge. (Lindfors Johansson, 1993, P. 76-81)

My approach is closer to the hermeneutic way because I want to reach a deeper understanding of what is being done and why, and to get closer to the respondents’ thoughts. This is in
accordance with the problem and purpose I have for this thesis, for example, how do leaders perceive transparency? I also want to be able to understand their behavior and add questions to their answers to get a better understanding of their thoughts and perception of transparency.

2.4 Scientific Approach
There are two main paths to choose from when closing in on the empirical reality, either through a so called inductive approach or through a deductive approach. (Lindfors Johansson, 1993, P. 54-55)

In the inductive approach conclusions are drawn from information gathered empirically. During the inductive phase, the scientist goes from empirical data to theory. This means that the scientist is trying to put the theory in the background so that he can be open to the empirical data and to be critical to all that he thought he knew. The biggest job with this approach is during the gathering of the data. Hermeneutics often uses this path as the central approach. (Lindfors Johansson, 1993, P. 57-59) Clover and Balsley explains the inductive method as “studying many individual instances or cases in order to formulate a generalized conclusion.” (Clover & Balsley, 1984, P. 19)

The deductive approach draws its conclusions from logical information. (Lindfors Johansson, 1993, P. 55) This means that a general rule already has been accepted and that the case is being tested according to that rule or principle. (Clover & Balsley, 1984, P. 21-22) During the deductive phase the scientist goes from theory to empirical data and then the theory is tested to see if it holds. This, compared to the inductive approach, means that most of the work is before the actual data gathering. Positivists often use this path as the central approach. (Lindfors Johansson, 1993, P. 55)

There is also a middle way called ”the golden middle road” which means a certain kind of co-operation between theory and empirical data. This “middle road” is often used when you can’t exactly conclude if you have either an inductive or deductive approach. For example, can a person with a positivistic approach have a middle road that means going from empirical data to theory and back to the empirical data? For a hermeneutic it’s the opposite, going from theory to empirical data and back to theory again. (Lindfors Johansson, 1993, P. 59-60)

The way I have chosen cannot be classified into inductive or deductive but instead is more consistent with the middle way. From my purpose and problem questions I want to see what
theories there are about transparency and how leaders perceive transparency. This road takes me from theory to empirical data. I also want to see if the leaders perceive and think about transparency similar to what theory says. This will bring me back to theory again from my empirical data.

2.5 Choice of method
Before a scientist can begin his/her data gathering a choice has to be done concerning what method to use. The choice of method should be in line with the problem questions that are going to be answered. There are two main methods when writing a thesis: qualitative and quantitative. (Holme & Solvang, 1997, P. 76) These two methods have both strengths and weaknesses and the scientist should evaluate the problem when choosing the theoretical method. (Holme & Solvang, 1997, P. 14)

In a qualitative approach the numbers of investigations are fewer than in the quantitative approach, but it’s the depth and understanding of the subject that is important. In a quantitative approach which usually involves questionnaires you attempt to gather information from a large pool of data, while a qualitative approach focuses on a smaller number of interviews. A thesis that comes from a qualitative study is more descriptive and explanatory than the ones coming from a quantitative study because you can have an open discussion with the person you interview, while the questionnaire only gives you one answer of a certain set of already prepared answers. This method is less formal and the goal is to gain more understanding of the topic. (Lindfors Johansson, 1993, P. 72-73)

You could say that the quantitative method is a deductive approach with broad studies and quantitative analytical methods. The qualitative method is more an inductive approach based on case studies and data collections. Examples of quantitative methods are questionnaires or poll studies. Examples of qualitative methods are interviews and closeness to the source of information. (Lindfors Johansson, 1993, P. 72-73)

My approach will be the qualitative approach. I’m going to do a certain amount of interviews to reach a deeper understanding of how the respondents perceive transparency. This was mentioned earlier in chapter 2.3. The reason I do a qualitative study instead of a survey or any other quantitative study is that I want to be able to have a discussion with the respondents and be able to add questions to their answers to get a better understanding of their individual
thoughts and perception of transparency. This is something I can’t do by using a quantitative method.

2.6 Secondary sources
Starting out to find material about my subject of choice, I discovered that there was plenty of information, mostly within the government but still enough from the corporate aspect. I began by searching the Internet and then moving on to the main library at Georgetown University in Washington DC. There I searched among the large plethora of books, journals and articles. I wanted to find as much theory as I could in order to get a good base to stand on before starting the empirical study. This was also important because I did not want to find myself stuck in the analysis chapter because of a lack of enough theory sources or theories that could be used to analyze the empirical data. While searching for material, online and using the library I searched for words like: transparency, corporate scandals, corporate transparency, corruption, disclosure, accountability, OECD, INTOSAI, transparency policy etc.

2.7 Critic of secondary sources
According to Lundahl, the purpose of critically viewing sources is to be able to judge if the sources are trustworthy and real, but perhaps even more so, judge if they are relevant. (Lundahl, 1999, P. 162) Different kinds of sources, gives us different messages, both of good and less good quality and character. (Lundahl, 1999, P. 162) Holme and Solvang say in their book that it’s important that the author has knowledge around what limitations might exist in the material. (Holme & Solvang, 1997, P. 126)

When reading my material I have tried to go back to the sources the authors has used as often as I could; due to the enormous amount of references some authors have, this has not always been possible. I did this to get a validation that my sources are well grounded. When going back to earlier sources, it gave me information that showed that the same books and authors have been used by several other sources.

I have seen a great deal of good books and articles during my study of which all has had a value to me. I have been using mostly books, journals and scientific articles, and they all contained a lot of important material and it was in many cases the same authors for the books as for the articles. I have also used most of these from the same library, the one at
Georgetown University, but because of the mere size of the library and amount of material, this should not affect the thesis. Another reason why I used this library was because I live close by and it was easier and faster to access that library which also happens to have a huge database. I have not used many newspaper articles because of the possible bias they might have and that could have had an affect on the accuracy of the thesis. Almost all the information I have gathered has been in English, which is not my native language, but my language skill is at such a level that this has not been an issue.

2.8 Choice of respondents for the study and access to respondents
My choice of respondents for this thesis is based on the focus I have with this thesis, namely transparency. I wanted my choice to be corporations close to or similar to the accounting corporations that was affected by the scandals in the beginning of 2000 to get an understanding of transparency in that kind of business. I focused my efforts to those companies that were similar and large in size, preferably on the fortune 100 list, which are the 100 largest companies or the 100 most profitable companies in the USA. When choosing respondents I looked for persons that were in a leading position of the corporations, such as partners, higher managers, CEO’s, CFO’s etc., and which had been in the company or in the business for a long time. This was because I wanted to view transparency from a view of a person who has been in the business for a while, both before and after SOX and the scandals in the beginning of 2000. I contacted several companies by walking there directly, by phone, by mail and by contacts from friends. After talking to individuals that I was interested in interviewing, I presented myself and what my thesis was about. It is important to create and keep a trust with the respondents because that is important when it comes to getting access to the information you want. (Lindfors Johansson, 1993, P. 135-137)

2.9 Interview situation and primary sources
Some things that should be considered during interviews are that the questions should be kept simple and clear. This is out of ease for the respondents and also to have a smooth conversation. They should not include any negation and they should not be leading the respondent to the answer. This is mainly to avoid answer to a question with a yes or no. I wanted to have a discussion and I wanted the respondents to be open about the information. One question should only be one question and not include multiple questions, though the possibility to add questions during the answers is still there. With this I mean that the starting
question should not include several questions. The respondent should also be informed about the study, the purpose and who is doing it. (Lindfors Johansson, 1993, P. 111-114)

Before I contacted the respondents about the interview, I wrote a paper with questions that would help me during the interviews. I did a semi-structured interview where I followed the questions during the interviews but not in a sequential order, the questions acted more like a guide to encompass major points. The interviews were conducted in such a way that there was both broad and less broad questions that could be answered by the respondents in such a way that they could develop and explore the answers, I gave them free hands to talk about the things they thought to be important when it comes to transparency, but I used the questions to guide them back to our main topic if he/she began sidetracking too much. I wanted to get a rich interview with each of the respondents and the possibility to ask follow-up questions.

The interviews took place at their offices in the USA and they were conducted in the same way each time. The interviews took between 40 to 80 minutes to conduct. Three of the respondents held a leading position while one held a middle rank position in their respective companies. I used a tape recorder of different reasons, since English is not my first language, because I did this thesis by myself and therefore had no one to help take notes or scribe during the interviews and also to be able to get all information and not forget anything later when working with the information. I also wanted to be able to write out the interviews exactly to be able to use citations. It is easy to miss information when writing notes and not use tape recorder. The respondents’ wished to be anonymous and I agreed to that. When the interviews were done I wrote out my findings before the end of that day while the information was still fresh. Later I e-mailed my respondents and gave them a chance to add more information or remove anything that was wrong and/or considered sensitive.

2.10 Critique of primary sources
A critique that can be brought up is that the respondents wanted themselves and their company to be anonymous and therefore I could not mention everything I heard during the interviews in this thesis. And even though they were anonymous, I still can’t be sure that they said everything they felt about this topic. They could very well be keeping a lot of information out of the conversation. My feeling is that there were things kept out of the interview but not necessarily things that would have been interesting for this thesis, such as
private matters regarding the individual’s experiences. The issue with them wanting the company to remain anonymous is negative since I cannot talk about a specific company, but in the end I think this is not a downfall for the actual thesis, instead more of a methodological detail that just adds decoration. Due to the difficulty concerning privacy and security in the USA it is very different from Sweden to get information about the questions and areas I discuss in this thesis. To be able to even get interviews from the respondents they requested to remain anonymous both personal and company wise. Since they hold a high level position it might be easy to link information to them if the company name were to be released.

2.11 Reliability
It is important to have gathered a lot of data in a study to have good reliability so additional data would not add that much more to the study. It is also important that different sources have been used to gather the theories so the possibility to find something new increases. (Lindfors Johansson, 1993, P. 165) I think the reliability of my study is high since I have gathered a lot of different data and theoretical material from many different sources. Many of the books and articles also refer to each other which show at some level a form of saturation. This has helped me understand the respondents better. I believe that my study has good reliability because of my choice of respondents which all had valid and important information useful for my study. They all had numerous years of experience in the field and with several different companies among the biggest in the USA. With my questions, and the discussion with the respondents, I have obtained a lot of important information and also formed a greater understanding of the field I’m studying. There is, of course, a possibility that the reliability could have been greater if I had been able to interview many more people at their level with these insights, this was not possible because of the mere amount of interviews I would have had to do and the difficulty to convince leaders to do the interviews.

2.12 Inter-subjectivity
There has to be an acceptance by the respondents/companies and those who read the thesis to have inter-subjectivity. (Lindfors Johansson, 1993, P. 166) To get a better inter-subjectivity one can let fellow students, colleagues and professors read the work. You can also let the respondents read the material and I did this, I let the respondents read the material after I finished writing it so they could have their view on it to make sure I have not missed any important information or misunderstood anything. I also let a post-doc and a professor at
Georgetown University read through my material and they appreciated the views and information gathered in this thesis.

2.13 Transferability
A theory is practically useful when other people and organizations can use it to be able to understand the substance more. (Lindfors Johansson, 1993, P. 169-170) I believe that this study can be useful for anyone who wants to know more about transparency and about regulations and corporations in the USA. It has a large amount of transparency and regulation theories and important empirical data concerning the same and also corporations. It can also be used for scientific purposes and for those who want to continue researching the field of transparency. Because of the explanatory theory and the insights of leaders perception of transparency there is a good base for further studies. This is also a reason why there is transferability to corporations who want to know more about transparency and SOX in the USA. It could be interesting and even important for other leaders and interested companies to read about what others have experienced.
3 Theory
In this chapter I will go through the different theories of transparency and also the different definitions of transparency. This chapter will begin with the explanation of transparency and from there I will move on to a deeper view of different theories within the area of transparency.

3.1 What is transparency?
I would like to start this chapter by discussing the different meanings and definitions of transparency. Transparency can mean several things and there can also be different levels of transparency, ranging from a little transparency to a lot which is called radical transparency (can also be called full transparency). A little transparency means that only certain things or a small portion of the whole picture is transparent, while radical transparency (nationmaster.com, 2008) means that nearly all decision making is carried out publicly. There are different theories on the advantages and disadvantages of transparency and the amount of transparency; this will be discussed later in this chapter.

At Transparency International’s homepage they have defined transparency as “a principle that allows those affected by administrative decisions, business transactions or charitable work to know not only the basic facts and figures but also the mechanisms and processes. It is the duty of civil servants, managers and trustees to act visibly, predictably and understandably”. (transparency.org, 2008) The Working Group on Transparency and Accountability of the Group of 22 defined it as “a process by which information about existing conditions, decisions and actions is made accessible, visible, and understandable”. (worldbank.org, 2008)

An interesting view of transparency can be vied in an article by Carolyn Ball where she says that transparency is a metaphor or a symbol of ideas. The word indicates that there is a problem existing which is corruption, but it also offers a solution in the form of information to the public, open decision making and accountability. She also says that “if transparency occurs, it conveys honesty and integrity”. (Ball, 2009, P. 296-297)

Another way that transparency can be defined is: “letting the truth be available for others to see if they so choose, or perhaps think to look, or have the time, means, and skills to look”.
This definition is a little weak since it does not go the full length of supplying transparency as for example Transparency International above. Here you have to find the information if you can, you do not get much help from anyone. There are, however, more definitions and I would like to continue with the basic meaning of the word “transparency”. According to the Compact Oxford English Dictionary, transparency means “the condition of being transparent” (askoxford.com, 2008) This in itself does not explain much, but when looking at the word “transparent” we’ll get the meaning “allowing light to pass through so that objects behind can be distinctly seen” and also “obvious or evident”. (askoxford.com, 2008) Therefore, transparency can also be interpreted as something shown without hindrance or obstacle.

Henriques says in his book that “Transparency means conveying the truth”. (Henriques, 2007, P. 30) He also says that the word transparency is often used as a synonym for the absence of corruption. (Henriques, 2007, P. 137) Tapscott and Ticoll define transparency as “the accessibility of information to stakeholders of institutions, regarding matters that affect their interests”. (Tapscott & Ticoll, 2003, P. 22) It is also mentioned in this book that “transparency is information about an organization that is available to people or other organizations”. (Tapscott & Ticoll, 2003, P. 22)

In another book by Finkelstein it says that “Transparency is a characteristic of those policies that are easily understood, where information about the policy is available, where accountability is clear, and where citizens know what role they play in policy implementation”. (Finkelstein, 2000, P. 6) Florini defines transparency as “the degree to which information is available to outsiders that enables them to have informed voice in decisions and/or to assess the decisions made by insiders”. (Florini, 2007, P. 5) Finel and Lord say that “Transparency is the opposite of secrecy. Secrecy means deliberately hiding your actions; transparency means deliberately revealing them”. (Finel & Lord, 2000, P. 13) All of these are different ways of defining transparency and some mean more transparency while some mean less.

### 3.2 Transparency laws, regulations and organizations

There are laws and regulations for companies to follow and there are organizations that are monitoring companies to see if they follow the laws and regulations. In this part I’ll point out
some of the most important parts of ensuring transparency in companies. First I would like to show an example of the importance of the truth and transparency by citing Churchill. I interpret this as that you can’t hide the truth, it will always show it self.

- The truth is incontrovertible. Malice may attack it, ignorance may deride it, but in the end, there it is. – WINSTON CHURCHILL (quotedb.com, 2008)

After the Enron collapse in 2001, there has been a focus on strengthening the disclosure requirements in the accounting sector. One way has been the Sarbanes-Oxley legislation (SOX) in the United States. (Florini, 2007, P. 219)

The Sarbanes-Oxley Act of 2002 is a major act which all organizations must follow. It was created by Senator Paul Sarbanes and Representative Michael Oxley and it contains regulations of financial practice and corporate governance. (soxlaw.com, 2008) It contains 11 titles describing mandates and requirements, each title contain several sections of which sections 302, 401, 404, 409, 802 and 906 are considered to be the most important according to the guide to SOX. (soxlaw.com, 2008) For example, section 302 requires that the CEO or CFO has certified each annual or quarterly report filed. Another example is section 802, which contains criminal penalties for altering documents. A third example is section 404 which requires the companies to report on their internal control over financial reporting. (sarbanes-oxley.com, 2008) Some of these sections are also brought up by Linsley and Linsley in the Managerial Auditing Journal when talking about senior management. SOX is an active part of business life today and thus can not be ignored by business leaders as it requires an active CEO or CFO to deal with (for example section 302 above). (Linsley & Linsley, 2008, P. 321)

Some of the above can also be seen in Henriques’ book where he talks about further developments after the Enron scandal. He mentions SOX and gives the following requirements from SOX:

- Senior management must personally certify and be accountable for their company’s financial records and accounting;
- Auditors must certify the underlying controls and processes that are used to compile the financial results of a company; and
• Disclosures be made of any events that may affect a firm’s stock price or financial performance within a 48 hour period. (Henriques, 2007, P. 74)

The SOX Act has great affect on business in the USA and therefore it is an important aspect that needs a little extra attention. Linsley and Linsley call SOX to be “one of the most significant pieces of audit and corporate governance legislation”. (Linsley & Linsley, 2008, P. 314) The law was signed on July 30, 2002 by President George W. Bush. (Hamilton & Trautmann, 2002, P. 3) The intention of the law was to address systematic and structural weaknesses that affected capital markets, such as Enron. The Act includes a comprehensive framework to modernize and reform the oversight of public company auditing and to strengthen the independence of auditors. (Hamilton & Trautmann, 2002, P. 13) The principal reforms are:

• The creation of an independent accounting oversight board
• Auditor independence provisions that restrict the non-audit services that accounts may provide to their audit clients
• A range of corporate governance and responsibility measures
• Expanded disclosure requirements, including accelerated Section 16(a) reporting by insiders
• Mandatory disclosure by analysts of potential conflicts of interest
• A range of tough new penalties for fraud and other violations

Some other parts of the Act give the Securities and Exchange Commission (SEC) more funding and enforcement powers. (Hamilton & Trautmann, 2002, P. 13-14) It is also important to notice that this bill only applies to the auditing of public companies; other state-regulatory authorities make determinations of standards for other companies then public ones. (Hamilton & Trautmann, 2002, P. 159) The meaning of state-regulatory authorities is “the state agency or other authority responsible for the licensure or other regulation of the practice of accounting in the state or states having jurisdiction over a registered public accounting firm or associated person thereof, with respect to the matter in question”. (Hamilton & Trautmann, 2002, P. 90) It’s also important to mention that it does not only have an effect on public companies but also on private enterprises and according to those, over 75 % have been
affected by SOX because of the large area that SOX covers. An example can be the section 302 mentioned above (Daugherty & Tervo, 2008, P. 932)

The Act has not passed without a price and according to an article in the Economist; they say that “firms just below the threshold began disbursing unusual amounts of cash to shareholders and making fewer investments. The act has also been accused of stifling risk-taking and increasing directors' pay”. The threshold spoken of is the $75 million stock value of small companies. These companies, with a value of less then $75 million, were exempt in SOX. (Economist, 2009) Another example of the cost with SOX was that companies with a revenue of less then $1 billion had an increase of 223 % of their costs from 2001 to 2004 ($1.059 million to $3.421 million) and companies over $1 billion had a 45 % increase between 2003 and 2004 ($9.839 million to $14.246 million). (Linsley & Linsley, 2008, P. 325)

One of the reforms in the Act was to create a public company accounting oversight board (PCAOB). This board sets the quality control, auditing and ethics standards. They also inspect accounting firms, conduct investigations and take disciplinary action when necessary. With this much power, their decisions are looked upon and reviewed by the SEC. The PCAOB is independent with the authority to regulate auditors of public companies. It is also unbiased because it receives its fees from all public companies (a mandatory fee). Before this change they would receive their fees from the companies they investigated, which could open up for biased acts of conduct. (Hamilton & Trautmann, 2002, P. 14)

According to an article in the Journal of Management History the authors draw parallels between the Enron scandal and the insurance scandal in 1905. They argue that three trends were present in both meltdowns: free marketism, speedy new technologies and epic CEO’s. They also say that greed was the motivator for the meltdowns and that SOX will probably be with us for a long time. It is important that today’s leaders and managers keep an eye on these trends as they might be a way to foresee future scandals. (Govekar, 2008, P. 291)

As mentioned in the first chapter, INTOSAI and EUROSAI are organizations that have guidelines and standards for ensuring transparency. These are important guidelines that are used by organizations and corporations to gain information about dealing with transparency. INTOSAI (intosai.org, 2008) is an international umbrella organization, while the EUROSAI (eurosai.org, 2008) is a regional group under INTOSAI. INTOSAI was founded in 1953
INTOSAI is a non-political, independent and autonomous organization and it has 188 full members at the moment. Its mission is to “provide mutual support; foster the exchange of ideas, knowledge, and experiences; act as a recognized voice of supreme audit institutions (SAIs) within the international community; and promote continuous improvement among diverse member SAIs”. As mentioned earlier in the first chapter, INTOSAI has guidelines and standards that SAIs follow, “Each country intends to nationally adopt and use what is considered an internationally accepted best practice; this would allow the SAIs to audit the use of state finances, and to do the reporting in accordance with INTOSAI standards and with due transparency ensured”.

Another important development for transparency is the different freedom of information and freedom of press laws that have arisen. This has first and foremost to do with governments; but as governments ensure more transparency, there will be a need for corporations to follow. In a book by Piotrowski, she says that “Trust in government is fundamentally linked to transparency”. In that same book it also says that “the United States was a pioneer in adopting comprehensive modern legislation that promoted administrative transparency with the passage of the Freedom of Information Act (FOIA) in the 1960s”. Press freedom is important to transparency, because in countries that have press freedom, most political and social activities are open to scrutiny from both within the countries and outside.

The FOIA in the United States was adopted in 1966, but it was not the first of its kind. Already in 1766, Sweden adopted its freedom of press act which allowed access to official documents. Some other countries established similar laws: for example Finland in 1951, Norway in 1970 and Canada in 1983. And these laws continue to spread; today around 70 countries have freedom of information laws. Still, however, most countries in the world lack these kinds of laws. During the last 15 years, 53 laws have been adopted in transitional democracies, of which 28 have been passed since the year 2000. This access to information has become a sort of benchmark of democratic development. There are also some exemptions to transparency incorporated in the FOIAs, namely secrecy. Other organizations that work with transparency that can be mentioned are the United Nations, the European
Union, and OECD etc, (Holzner & Holzner, 2006, P. 330) and these organizations have set a priority to fight corruption. (Andersson, 2009, P. 746)

Though, democracy is not the same as transparency, Holzner says in his book that “democracy is a form of government by the people and for the people. It is not to be equated with transparency, which is an information value, a set of norms and practices that serves the right to know”. (Holzner & Holzner, 2006, P. 40)

Today democracies release a huge amount of information about their dealings. About two-thirds of all countries are democracies today. Lord argues that there are five reasons why we have a huge increase of global transparency today, one of the reasons, as can be hinted from above, is the spread of democratic governments, the others are:

- the rise of the global media
- the spread of non-governmental organizations
- the proliferation of international regimes requiring governments to disclose information
- and the widespread availability of information technologies

The above is very much the same for corporations and Lord also says that transparency is a “condition in which information about priorities, intentions, capabilities, and behavior of powerful organizations is widely available to the global public”. Further on she says that “transparency is not synonymous with truth. It may reveal actual or perceived facts, actual or perceived falsehoods, behavior, intentions, ideas, values, and opinions. It may reveal neutral, empirically verifiable information or propaganda specifically designed to advance a particular cause or view”. (Lord, 2006, P. 5) In a journal, Tapscott also draws the similarity between companies and countries. The crises shown in companies can also be shown in countries. Things such as corruption and false reporting have occurred in both companies and countries. (Tapscott, 2004, P. 10)

The reason I have discussed democracies, governments and corporations concerning transparency is because they are connected to each other. As democracies, governments and NPO’s open up more, people will demand corporations to open up too. People want to know
what they are buying and from where it comes and if it was manufactured in a good way. One example of this is “blood-diamonds”, companies selling diamonds have to be more transparent with from where they get their diamonds or they would not be able to sell many. (worldchanging.com, 2008) Transparency is not just for politics, it is for everything, as Bennis says in his book “Transparency is a central issue whether the subject is global business, corporate governance, national and international politics, or how the media deal with the tidal wave of information that slams into us each day”. (Bennis, Goleman & O’Toole, 2008, P. vii)

Lastly I would like to point to the importance of transparency as of which a lot of regulations and laws has been created. In a journal article by Durnev, Errunza and Molchanov they say that “The importance of transparency has been widely recognized by both academics and market regulators, resulting in numerous rules and regulations being introduced over time to ensure timely and reliable disclosure of financial information, creating standards to which firms must adhere”. (Durnev, Errunza & Molchanov 2009, P. 1533)

### 3.3 Transparency in corporations

*An old force with new power is rising in business, the force is transparency.* (Tapscott & Ticoll, 2003, P. xi)

Today, it has become more and more important to be transparent. The future of the corporation can depend on it. West and Sanders say that “A modern world must be a transparent world”. (West and Sanders, 2003, P. 149) They also say that “This desire to unveil the hidden, to disclose the closed, to reveal the concealed – in short, to make transparent that which is out of sight – is as central to economic process as it is to political ones”. (West and Sanders, 2003, P. 149) In the paper Leadership Excellence, Warren Bennis says “Without candor and transparency, teams and organizations sicken and fail”. (Bennis, 2009, P. 3) Tapscott and Ticoll say that “Corporations that are open perform better. Transparency is a new form of power, which pays off when harnessed”. (Tapscott & Ticoll, 2003, P. xii) In an article by Tapscott about the company Progressive it says that “Being open pays off. It builds trust in management and contributes a brand of candor to the company’s considerable success in the marketplace and solid performance for the shareholders”. (Tapscott, 2004, P. 10)
Drucker and Gumpert say that “transparency has been adopted as a policy and potent management tool in public and private sectors”. (Drucker & Gumpert, 2007, P. 493) Even the small things can lead to an increased transparency, like simplifying and clarifying administrative processes. (OECD, 2005) The importance of transparency and openness concerning the health of the organization can be seen in research at the University of Denver. Bennis writes about this in his book, “openness is the primary predictor of success in work teams”. (Bennis et al, 2008, P. 60) In an article from the Journal of Management Development the authors say that organizations are making goals more and more transparent instead of keeping the goals undisclosed. They also say that “With greater transparency, individual performance and contributions to the organization become more evident”. (Berggren & Bernshteyn, 2007, P. 416)

As we have seen from the beginning of this chapter, there are laws, regulations and organizations that ensure some level of transparency, but for the company to really excel in the area it requires more from the company itself. It requires the company to want to be open and transparent. Tapscott and Ticoll calls it “the open enterprise” and they explain it as “Firms need to build trusting relationships to thrive, and transparency is changing trust. A new model of the firm is emerging: the open enterprise. Open enterprises are actively transparent, while carefully managing their critical competitive information and security. They understand that transparency is a corporate value that must be connected to principles of honesty, accountability, and consideration to sustain trust”. (Tapscott & Ticoll, 2003, P. 73) They have also come up with a list of ten characteristics found in an open and transparent enterprise, these are as follows:

1. *Leadership*. This begins with the CEO and board and is visible to all.
3. *Strategy and entrepreneurship*. The new integrity has unique implications for each industry, company, and business activity. In open enterprises, all plans address new integrity criteria clearly and specifically – both in the way planning is conducted (stakeholder inclusion) and in its content.
4. *Corporate character*. This is about embedding the new integrity into the DNA of the firm through such programs as internal communications, performance management, and training.
5. **Brand and reputation.** The new integrity is not spin, but it must be communicated. Infusing the brand with the firm’s lived values enhances its values for customers, shareholders, and others.

6. **Environmental engagement.** Critical to success in the stakeholder realm is a healthy, stable, and open operating environment: sustainable ecosystems, peace, order, and good public governance.

7. **Stakeholder engagement.** Open enterprises put resources and effort into reviewing, managing, recasting, and strengthening relationships with stakeholders, old and new.

8. **Products and services.** Sustainable innovation leads to long-term economic, social, and environmental performance.

9. **Operations.** Open enterprises lower risks and costs by applying new integrity thinking to everyday operations.

10. **Information technology.** Not just a driver of transparency, information technology is a powerful tool for enabling a firm’s transparency, stakeholder engagement, and sustainability strategies. (Tapscott & Ticoll, 2003, P. 260-261)

If transparency and openness are to happen, it has to start at the top and spill down through the corporation. The leaders of a company have to have the will and power to be transparent. “The best firms have clear leadership practices that others can adopt. They build transparency and integrity into their business strategy, products and services, brand and reputation, technology plans, and corporate character”. (Tapscott & Ticoll, 2003, P. xii) This is also demonstrated in Oliver’s book as one of the four principles for organizational transparency, namely leadership commitment. He says that an organization’s leaders are “committed to the principles and spirit of transparency”. (Oliver, 2004, P. 34) In an article by Vogelgesang and Lester they name certain aspects of importance for building trust in leaders, sharing information, being open to give and receive feedback and being forthright about motives and reasons for decisions. (Vogelgesang & Lester, 2009, P. 253) According to Rosengren transparency is not enough to reach openness, “Transparency can ameliorate problems but it cannot prevent them”. It can help the process but the acting of the companies has to change. (Rosengren, 1998, P. 2) To continue on from Rosengren’s theory there is, according to OECD, some management measures that are essential for creating a working environment that ensures transparency, and help the process to become a fully transparent organization, these measures are to set standards for timeliness, requesting reasons for decisions, providing
redress against decisions and requiring the identification of conflict of interests. (OECD, 2002)

It does not stop here; the rest of the company has to work for the same goals on all levels. To have a fully transparent corporation enhances the market value and it also positively affects the employees who gain more trust in their employer. Transparency can also lower transaction costs between firms which can be of great importance in business partnerships and other collaborative commercial settings. (Tapscott & Ticoll, 2003, P. xiv)

For transparency to come true and for an organization to be able to be fully transparent, Oliver argues that there are four elements required, a culture dedicated to openness and a commitment to transparency from an organization’s most senior leadership, programs and processes that encourage and ensure openness at every level, that reward transparency and mete out quick and decisive punishment for opacity, obfuscation, and fraud, well-trained workers, managers, and administrators at all levels of the organization with the wisdom, integrity, confidence, and security to do and say what is right and to recognize and act when the organization or individuals are not doing things that should be done and, an established means of proactive communication to the organization’s important stakeholders. (Oliver, 2004, P. 31) As we can see these are similar to the characteristics that Tapscott and Ticoll mentioned earlier which shows on similar pathways to the open corporation. The difference is that Tapscott and Ticoll is more broad and including about their open corporation. They also include for example environmental engagement.

3.4 Different forms of transparency

*We live in an age of transparency.* (Lord, 2006, P. 5)

Earlier in the first chapter it was mentioned that there are different forms of transparency, such as targeted and forced transparency. Targeted transparency often evolves after some sort of accident or medical reports about dangers. For example: in 1990 the congress told the food companies to inform the public about the levels of fat, sugar and nutrients in food and drinks. This was done after scientific reports about unhealthy eating showed that it contributed to millions of deaths every year, mostly from heart disease and cancer. This targeted transparency is a phenomenon that has been going on since the 1980s. (Fung, Graham &
Weil, 2007, P. 5) This kind of targeting is also being done to improve quality and fairness of services. (Fung et al, 2007, P. 5)

Another example, are the well known accounting scandals (such as Enron and WorldCom) in the years 2001 and 2002. After these events, congress demanded public companies to improve their financial disclosure. (Fung et al, 2007, P. 5) According to Fung, government actions are needed for three reasons, only the government can compel the disclosure of information from private and public entities, only the government can legislate permanence in transparency and, only the government can create transparency backed by the legitimacy of a democratic process. (Fung et al, 2007, P. 6)

Fung also talks about special characteristics that targeted transparency policies include and those are, mandated public disclosure, disclosure by corporations or other private or public organizations, disclosure of standardized, comparable, and disaggregated information, disclosure regarding specific products or practices and, disclosure to further a defined public purpose. (Fung et al, 2007, P. 6)

Further on he says that these policies have something that distinguishes them from other forms of regulation, namely five design features, a specific policy purpose, specified disclosure targets, a defined scope of information, a defined information structure and vehicle, and, an enforcement mechanism. (Fung et al, 2007, P. 39)

In a journal review of Fung’s book they say that targeted transparency should not be viewed as warnings but instead information that will change user behavior. The goal of targeted transparency is when it produces outcomes in the public interest. One outcome is reduced risk to health and safety, as can be seen below too. (Politics & Policy, 2008) A further explanation of targeted transparency can be found in an article by David Weil (one of the co-writers of Fung’s book). He says that targeted transparency is “the use of publicly required disclosure of specific information in a standardized format to achieve a clear public policy purpose. (Weil, 2009, P. 22) Another example of this can be seen in the article by Ball where she says that “A transparent policy is deemed effective when the public acts on the information the policy provides”. (Ball, 2009, P. 300) I believe this gives more understanding to how targeted transparency works, it all comes down to if and how much the public actually uses the information the government is giving them about certain enforced areas.
Some examples of transparency that have been enforced are:

- 1997 – Area affected: food labeling, nutritional labels. Disclosure by manufacturers of packaged foods
- 1999 – Area affected: financial disclosure, audit committee function. Disclosure by publicly traded companies
- 2001 – Area affected: financial disclosure, disclosure of mutual fund after-tax returns. Disclosure by mutual fund providers
- 2003 – Area affected: nutritional labeling, trans-fatty acids. Disclosure by food and supplement manufacturers

The above examples are good examples of when the government goes in and make companies open up in certain areas. Another aspect mentioned in the first chapter is active and forced transparency. Tapscott and Ticoll talk about active and forced transparency in their book. Active transparency takes place when companies decide to be transparent. Forced transparency takes place when it’s done by an outside source, like the media or by stakeholders, not to be confused with targeted transparency which is directly targeted at a certain area and not random transparency forced upon you. (Tapscott & Ticoll, 2003, P. 22-23)

Wikipedia has become a popular site for forced transparency. Information about many different companies and governments has been published on this website; mostly dealings done that either company or government are so happy reading about. In an article by two professors, DiStaso and Messner, they point to this phenomenon. Wikipedia has during the beginning of 2000 not been popular by scholars and journalists due to the lack of accuracy therein. According to studies refered to in the article Wikipedia has become much more accurate and is even more accurate then some encyclopedias. Perhaps this could be a wake-up call for some institutions to allow a broader base of material in studies. In the mean time it is a place where forced transparency keeps being written and read. (Public Relations Journal, 2010)
Forced transparency can create problems for the company. For one, what I just talked about above in the Wikipedia case, and another problem that can occur is that it creates an atmosphere of mistrust, which means that stakeholders won’t trust the company and they’ll go elsewhere to find answers. Another problem can be that rumors start going around because of misinterpreted facts from the company. When using active transparency the company can capitalize from it and benefit the business. (acm.org, 2008)

3.5 Flaws or dangers with transparency

“If you can’t understand a company’s financial statement in two minutes it means that management doesn’t want you to and that they are probably hiding something” – WARREN BUFFET (Tapscott & Ticoll, 2003, P. 16)

In the first chapter it was mentioned that transparency can sometimes be a benefit but also, in some cases, a risk. This was mentioned because in some instances there is a benefit to have less transparency and more secrecy. These instances are usually incorporated into access to information laws. Some of the most common exemptions are national security, public order, the prevention and investigation of crimes and other violations of law, commercial secrets or fair trade, due process rights of parties to judicial proceedings, the confidentiality of deliberations within or between public authorities during the internal preparation of a matter. This exemption is limited to the time prior to taking the decision and also private life. These exemptions have been incorporated into many “freedom of information laws”. (Open Society Justice Initiative, 2006)

According to Florini, there is a debate about what transparency is good for and when secrecy may better serve the public interest. Some of the arguments for and against transparency mentioned are about issues of the nature of democracy, good governance and economic efficiency, etc. (Florini, 2007, P. 1) Florini also says in her book that sometimes secrecy is not only in the interest of the corporation but also in the interest of the public. Some areas of importance are according to her incentives for innovation, the functioning of the market, the integrity of the decision-making process and personal privacy. (Florini, 2007, P. 217)
But then, what are the real dangers of transparency? One thing is that information can be misused or misinterpreted, Finel says that “Transparency reveals behavior, but not intent”. (Finel & Lord, 2000, P. 24) So in the end, depending how transparency is used, it can either help to defuse or help to escalate conflicts. In other words, it may enhance the legitimacy of leadership or undermine authority. (Finel & Lord, 2000, P. 339)

Tapscott and Ticoll say that the internet is a double-edged sword. “It is a tool for information access, verification, and discovery. But it can also be used to deceive”. (Tapscott & Ticoll, 2003, P. 43) As the information continues to increase and the openness becomes greater, it can turn out to become more difficult to know which information is trustworthy and which is not. There will be more choices and it may become more difficult to choose for individuals. (Tapscott & Ticoll, 2003, P. 42)

In the end, to see the effects of transparency, it comes down to who benefits, how individuals interpret information and what is being revealed. Transparency can give positive trends, which can lead to happiness and peace, but also negative trends, which can lead to suspicion and fear. (Lord, 2006, P. 4) From a government’s point of view, there is nothing that says that transparency will reduce conflict in an area. Transparency can show either peaceful intentions or the strength sufficient to deter war. (Lord, 2006, P. 43)

“Transparency is a complex phenomenon with effects that are both good and bad”. (Lord, 2006, P. 131)

**Conclusions and reflections of the chapter**

This chapter starts of in describing different meanings of transparency and then moves on to describing different laws, regulations and organizations that affect or deals with transparency. These are the two big “umbrella” chapters that explain some background. I am using this to show different means to control and govern transparency, how you can describe transparency and also in some way why transparency is present. I believe it to be important to show these things as to get an overview of the word “transparency”, the meaning of transparency and how transparency can be controlled. After this it goes into transparency in corporations and what different kinds of transparency there are. The last part describes some of the flaws or dangers with transparency. Since the main question is about leaders’ perception and corporations’ transparency, it is natural to look into the theory of transparency in
corporations. Certain characteristics are important, according to the theory, to have an open corporation as well as the willingness and commitment of the leaders of the corporation to pursue openness. Furthermore I believe it is important to look at what kinds of transparency there are. This way it is easier to identify how a corporation is exposed to transparency and how they deal with it. Basically you break it down into groups of transparency, for example, targeted or forced transparency.

Lastly, but still important, is the discussion of dangers and flaws with transparency. Every coin has two sides and so does transparency. It is important to realize that there are not only good things that come with transparency and there are areas where you cannot have transparency of reasons explained in the text earlier in the chapter. I believe this is obvious to include in a theory chapter to get a full picture of the area discussed.

As we have seen there are great deals of interesting forms of transparency of which most seem to be guided by SOX. The theory is pointing towards the importance of openness but it also does a good job of explaining the dangers of too much transparency. From what I have read I think there is going to be a great deal more to read about forced transparency in future articles and scientific journals. With today’s technology and future ones it will be quite easy for people to use that technology for transparency. One example from above was about Wikipedia and the increased forced transparency that is happening there. I believe we have to be careful not to overreact to information that may have been put there for reasons other than transparency. There might be people or organizations that have an interest in seeing information about other people or organizations that could severely hurt them. This would of course be the backside of forced transparency.

Early in the chapter I used an article by Carolyn Ball and I would like to address another interesting part of this article. She has used many of the same authors as I have in my thesis which not only is interesting reading but it also gives more validation to this study. Some of the authors are Holzner & Holzner talking about Transparency International and corruption, Finel & Lord talking about trust and openness, Florini talking about international relations and public value of transparency, Piotrowski talking about public access to information and Fung talking about the dilemma with both openness and secrecy. Ball also speaks of several institutions and their importance, such as Transparency International, OECD and the World Bank.
4 Empirical data

In this chapter I will show the different empirical data that I have gathered for this thesis. This chapter will follow the five parts of the theory chapter to make it easier for the reader to follow the events of both chapters. These interviews took place with persons which have been working for the largest firms and companies in the USA and who have held the highest positions. Due to respect for the respondents’ wish to be anonymous, their name and current company will not be mentioned in this thesis.

4.1 Interview 1

What is transparency?
When we started talking about transparency and what it means, he said that transparency means understanding why decisions that require explicit or implicit acceptance by a group would be made. Not all decisions require transparency but if the process that you manage requires that people buy in, you pretty much have to be able to explain the process by which the decisions are going to be made so they feel that they are a part of those decisions - that they are not at the risk of fate, accidents and superstition or other management impulsive behavior. But, some decisions don’t require transparency. An example he mentioned was how the paper is bought for the Xerox-machine. He also mentioned that Jimmy Carter was known for picking all of the times when people could play tennis. That’s a level of involvement that probably is a waste of time, so you can see situations where people spend too much time trying to explain why they are doing what they are doing. He told me that when he was leading one of the groups in the corporation, he was trying to construct a model similar to a law firm model, in which the peers and partners would join him in making decisions. They found that process, in many cases, tedious and undesirable and did not want to be involved in it and preferred that he do whatever he wanted to do. On the other hand, there are matters which affect important life interests of the professional group such as: Who are the clients? Who are the young professionals who merit further investment? Who are they going to hire? Who are they going to promote? All of these matters have to be very transparent because they affected very important interests of the people who had to buy in. In another model from an accounting firm which he was in, it acted more like an information dispensing body. The financial auditors were not trying to deliver information so they did not have to make sure they had world class deliverers of information. Their service teams required buy in for the
major issues affecting audit teams: work load, fairness in promotion, etc. For the advisory function, however, they had to be very transparent for major issues affecting attracting and retaining clients, recruiting world-class advisers as lateral entrants and recruiting younger professionals with world-class potential. Minor issues such as, whom they complied with or in reporting obligations, they felt they did not need to be involved with.

**Transparency laws, regulations and organizations**

When talking about laws, regulations and organizations we started talking about the Sarbanes Oxley Act. He thinks in all likelihood a lot less is going to be done because it turned out that the SOX Act has had a number of undesirable side effects including the withdrawal of listing in the USA by many European companies. Those companies don’t want to go through the disclosure procedures in SOX and now the government is thinking about making all mid-sized companies exempt from it because it is too big of a burden; too much money is spent keeping track of information that nobody will use. He says it has been very good for the accounting firms - lots of work; it’s like a relief act for the accounting firms. But has it stopped the present problems? He is sure that there are parts of SOX legislation that are useful, good and desirable. He has noticed that it is sometimes held up in this recent discussion about what’s wrong in the government. Government gets involved in businesses to the extent that it is the product of a congressman who decides the outcome. Like in Joe the plumber, it will be the congressman who will decide the right way to go instead of what the legislation ought to say. Sarbanes used to be a Democratic Senator from Maryland who went to Harvard law school, while Oxley was a Republican congressman from Ohio. It’s hard for politicians to keep straight whether they are doing what they are doing because they think business motivations and effects on voters are bad or business has good motivations and effects. The confusion can get them in trouble because political decision makers reach “solutions” when they sometimes have not agreed on the problem that is the fundamental thing to be dealt with.

Regarding the reaction of the remaining big 4 accounting firms after the failure of Anderson in 2000, he thinks the reaction to that was really a concern that the federal government might conclude that, if the number of major firms was further reduced to 3, the public auditing function should be nationalized (similarly to the operation of other services to the private sector such as air traffic control). Nationalizing the function had been discussed previously in other times of financial upheaval. The largest 3 were desirous to shore up the remaining weaker link which was KPMG. KPMG is a fine firm but it was just the smallest of the big 4.
They managed to get themselves into a tax shelter problem with the government and there was a lot of concern that they would be attacked by the government using tools that had been used by the government against Anderson and which had led to the much-criticized destruction of Anderson. The tool included indicting Anderson on a charge of criminal conduct. Whether or not guilty, the mere fact of being charged in an indictment made them disqualified from performing audits. Even though the charge was eventually thrown out and the government’s conduct criticized by the Supreme Court, the damage had been done, and the remaining firms had some concern that a similarly uninformed approach could result in the accidental destruction of another Big 4 firm. He thinks the perception of Andersen and its actions that led to the government attack did have an effect on other firms with regards to enhanced training and other things, but that it had nothing to do with transparency in their approach to management, client relations or medial communications to the public. They just decided that quality control measures had to be improved because what Andersen did was inappropriate. It could have been avoided by good procedures to prevent inappropriate shredding of documents (as distinguished from routine discarding of old files when there is no reason to anticipate that they might be of interest in litigation). He remembers from another firm, they increased their internal training quite a bit, not the department he was in, but the audit side - due diligence procedures, etc. He does not believe that anybody saw the collapse of Enron as a product of lack of transparency, but rather that there was a negative perception of Enron on the part of certain critical stakeholders, particularly creditors. Enron went down because of a perceived lack of honesty at the level of senior management, which is a little like the current financial panic. It’s tempting to demonize a small group of people, but the entire wealth-building culture of Enron was what is kind of happening to the US now – “the sense that we are wealthier than we really are”. So, the employees are victimized - the secretary who thought she was a millionaire because her stock for 15 minutes was worth a million dollars. Enron lost 70 percent of its value because of a decline in price of natural gas and the last 30 percent was when the banks decided that the financial statements could not be trusted anymore. But, most of the value was lost because Enron happened to be in a business where they had ended up taking a wrong investment position on the future price of natural gas and it turned out they lost their shirt and they did not have enough capital left to cover some of the other things. The people involved were surely not attractive characters, but to be fair the respondent is not sure it’s because of that. He doesn’t believe that Enron came down because they were secretive, he just believes that even if they were a bunch of crooks, that factor only accounted for about a quarter of why they collapsed.
When we talked about responsibility he said that the kind of organizations he has been with
don’t really have a person responsible. Service businesses are different. They have a more
diffuse management. So, the management of the collective organization, however broadly
disseminated that is, has to agree to the appropriate level of transparency. The accounting firm
he was with, in the tax department, was the advisory function for advising on taxes which is a
really big part of the accounting firm. They had different levels of leadership, what they called
the “core leadership” and then they had the extended leadership. One example of a big
services company probably has 75,000 employees in the USA and the tax side of that are
probably 20,000. The core leadership might be 10-20 people and the extended leadership is
probably another 100. The extended leadership is often like congress. They are like delegates
who have a liaison function to bring issues back to larger circles. That’s the kind of
environment the respondent has always worked in. He has never worked in an industrial
company. He has a lot of clients that are industrial, he has worked for probably 10 of the
fortune 20 (very large companies) and also some smaller companies, but he doubts that he has
worked for more than de minimis amounts of time for a company that is not in the Fortune
500. In those groups it was never entirely clear to him how management got its information
out on purpose. But he has formed the impression that a professional services firm cannot
keep secrets, and that as a result the risk of misinformation is a tremendous incentive to get
the right information out. Real transparency is the true story. He remembers when he came
from the first firm he had worked in to the new firm it had been an article of faith that
everybody in the first firm had all the financial information of that firm. He used to be able to
tell how much an associate paid in overtime to his secretary, not just partners, but even junior
persons. There was obsessive amounts of transparency, what was he going to do with that
information? He then came to the next place he worked where compensation was supposed to
be a secret; you were not supposed to talk about how much money you made. In the group of
600 or 700 people that he was responsible for, of course he knew what everyone made
because he was in charge of the overseeing the group’s payroll, however, his impression was,
and even though he never said much about it because he was a rule-follower, each employee
had a pretty good sense of what their peers made. You talk about keeping this information
secret; but people just have a way of exchanging information.

**Transparency in corporations**
The need for transparency is not absolute. It has to be in the interest of the stakeholders with
regards to what is important to them rather than just responsive to idle curiosity.
When questioned about changing values due to transparency, the respondent says that he is sure he must have. He would expect so, but it is hard for him to give an example that is suitable for general discussion because much of what he did in those capacities involved very sensitive information. One of the big issues facing the accounting firms in the aftermath of Enron involves something called “tax shelters”. The accounting firm he was associated with had participated in tax shelter activities. They left that line of work and the process in which they did that was a function of discussion in a group of stakeholders, but not all stakeholders since there are thousands of partners whose affairs are affected by it. So, again, with regards to transparency in this scenario, you don’t have to put all details and components of each step in the decision-making process in everybody’s mailbox, but all stakeholders have to be comfortable that information is going to a wide enough group that all points of view will be taken into account. And, therefore, no irrational decisions made.

In generally, the respondent believes that most corporations exist to do “good”. There is something in our popular culture that thinks that we should all hate our productive sector and that our productive sector is predominantly carried out by corporations that are merely groupings of people and assets setting a number of tasks. Do they do “good”? “Well”, he says, “the food we eat, the light we are sitting under, the water we drink, almost everything about our life, that makes life different, is brought to us by corporate activity, because that activity is just our activity. They all tend to act in teams larger then one, and almost all of those teams are organized as corporations and very few corporations dedicated to “evil” survive.” Corporations only exist as long as they are useful. So, if “good” is useful they will survive. Las Vegas is an alternative view - they provide sinful opportunities which the respondent guess is good for some people, but that’s too metaphysical.

When talking about the purpose of not disclosing, the respondent discussed the risk you have if people will decline to open the process because they are going to prefer their own personal interest instead of the interest of the corporation - that’s a conflict of interest problem. Lack of transparency may be the result of a desire to get away with something. Another common reason for a lack of transparency is embarrassment. What has already begun is that too much is said about it, and then people will look foolish so they don’t want to talk about it. Sometimes, a lack of transparency results from a fear that competition would use the open information for the interest of a company other then the enterprise. This involves things like
disloyal employees who disseminate information to be used for purposes other than permitting the stakeholders to participate. Particularly in the modern fluid society, stakeholders are rarely permanently stakeholders in one corporation rather than another.

“If you are revealing information, you reveal”. You have an incentive to reveal information to get people to buy into the activities. Corporations and businesses are basically voluntary associations and if people don’t like what they are doing, they quit. Perhaps not during the depths of depression, but for most part over any life expectancy of a corporation, they have a very strong incentive to keep the people there. “For example”, he says, “take what has happened on Wall Street - the lack of confidence now that people know what the assets are. This is leading to a massive meltdown of investments in the companies as much because they don’t know what the assets are as because they think they know what the assets are. It is the fear of the unknown which causes the stakeholders to leave.”

When we talked about the open corporation, the respondent says that he only knows the enterprises that he has worked with. He believes that for enterprises to be successful, they have to maintain a level of openness in order to keep its valuable people as assets in the game. He never was in the army, but in that situation you might be able to order people to do things without having to worry about their confidence in the decisions you are making. But even that, he imagines, is probably not true. The American army is supposed to be a very effective army because the soldiers generally support the management (their officers and the political establishment that sends them to war). Unlike the Russian army which is supposed to be very ineffective because all the people in the army hate being in the army. He does not believe that the Russians have less potential as a warrior than an American, but rather that apparently there is a higher level of “buy in” by the American soldiers in his military and that is probably achieved by some level of transparency which explains why they are being asked to do what they are being asked to do. His experience with the service organization (and he has been in it for many years) is that people like their own ideas best so the key in transparency is to get all the stakeholders to believe that they are the source of the good idea. That’s the real trick. That’s the hardest part, to get them to discover the idea and then say; “that’s a good idea, we ought to do that”.

Regarding transparency in the working environment, he says there are not measures that will ensure it but you can take a number of things that increase the chances. You have to figure out
what lines of communication you are planning to use. Bulletin boards are probably the least
effective form of information dissemination because the kind of information you’ll put on a
board is usually a comprehensive one. Because you assume it will find its way to the
newspaper the next morning, you remove any information that you don’t want to see in the
newspaper. On the other hand, it depends on the kind of information you want to disseminate.
The big law firms are currently going through a process where they are considering laying off
their associates. In order to meet with them, a number of bigger firms are meeting with less
than all of the associates so that they can be a small group enough that people can ask
questions. This kind of information has to be handled by smaller groups, not broadside
communication.

When we talked about accessibility to information in his company, the respondent said that
transparency is available but he knows things that his secretary doesn’t know and he knows
things that junior associates don’t know. There are people that know more about the company
then he knows. He thinks transparency is useful on a sensible need-to-know basis. Another
problem in a service business is that you have to keep everybody working under the firm
business and the problem is that service organizations have an insatiable demand to talk to
themselves about themselves rather then to do what they get paid to do. So, if you get all the
people who are supposed to render services to clients, talking to each other about the internal
management of the firm, then it becomes terrible. He says they used to call it “rearranging the
deckchairs of Titanic”.

**Different forms of transparency**
When we started talking about forced transparency the respondent talked about when he was
working in a law firm. It was, at the time, a large enough law firm that it was often under
media scrutiny, and, as a result, its actions were observed by the media more often than some
other firms. The firm had an incident interviewing a student from one of the prominent
universities - a minority candidate. One of the firm’s interviewers asked her a series of very
offensive questions. It was what the interviewer later characterized as a “stress interview.”
Regardless of the interviewer’s motives, the questions were inherently inappropriate. A
number of the stress questions were reported by the student to her university and, eventually,
to the national media. The kinds of questions can’t be justified under any circumstances, no
matter what his motive was, so following that, the firm was the object of a great deal of
negative attention in the media and on the campus in the major schools. In reaction to that, the
company engaged in very extensive series of measures to enhance their appeal to various categories of minorities as a good and decent place to work and as a place at which minorities could expect to advance on the merits with the help of professionals who would work to develop them as professionals. The company had to go through the higher level of disclosure of why the firm would decide to hire some candidates and not others. It’s difficult because that’s an environment in which the people receiving the information and people disclosing the information have little trust for each other and they are not exactly stakeholders in each other’s interests (until they have become members of the same firm). The responsive program was managed over a period of a years and the company provided a lot of information to law schools and to potential candidates that they would not have otherwise volunteered. When it was over, the programs that the company set up were characterized as among the most important advances in hiring minorities among the major law firms since the beginning of the civil rights era. Having to go through the forced transparency submitted them to a level of scrutiny that no other firm has been subjected to. Then, their negative audience applauded them for being open and he supposes in that the matter was ultimately in the best interests of the firm.

Flaws or dangers with transparency
As far as the disadvantage of transparency, he says that when you disclose information that is not useful to the stakeholders to get them to do what they need to do for the enterprise to be successful, but instead you disclose information that hurts the enterprise. For example, if Microsoft’s secret code was to be disclosed, that would not be a good idea at all for Microsoft, but it might be good for Microsoft’s competitors. You can release information that can let someone else hurt you. Other examples of this would be in intellectual property, a business plan, where you plan to go or where you plan to spend your money.

4.2 Interview 2

What is transparency?
We started this conversation with the meaning of transparency. The respondent said that in his profession it really has two meanings: one that takes place inside the firm and one with their clients. He thinks that within the post-Enron timeframe, transparency has become very important in the corporate world; especially in large companies that historically pre-Enron probably were not as transparent to their shareholders and the public as they should have been. He continues to say that one way that his company is involved in transparency is that
they spend an enormous amount of time on consulting and that they encourage their clients to be transparent with their stakeholders. And then, obviously within the firm they try to be as transparent as practical with their stakeholders which are in general their “people”. They have about 125,000 stakeholders around the world at different levels and they try within the various territories to be as transparent as possible - especially around the objectives of the firm and how they treat, value and compensate their people. Then he talks about what the critical issues are in terms of their long-term sustainability as a business. He says that if he looks at how transparent they are with the information they give their people today versus how it was when he started in this profession in 1980, it has come a long way. There was generally no transparency before when the attitude was “don’t worry about it, keep your head down, we tell you what you need to know”. He thinks that now they are very open and transparent in terms of where they are trying to take the firm and how the people in the workforce can help them to get there.

The respondent continues and says that he thinks that the most important thing is, externally and internally (especially in a financial business), to really understand the expectations of external stakeholders and try to deliver on that transparency and then internally, within reason because you can’t give away the company secrets, that the more transparent you are to your people the more chance you have of having them onboard doing what is necessary day in and day out for your company to succeed and building loyalty. The respondent also thinks that the executives that are close to the vest and calculate what they say before they say it, that it does not matter because people see through that and if you look at over-transparency, the risk of over-transparency on the inside with your people is limited. This is especially true if you are a public company and your CEO discloses everything from the compensation of officers or directors, to detailed financial information. All of these things are out there and he thinks that the only way the leadership team can help itself from going overboard is to, in a transparent way, try to create a dialogue around strategy and the things that are happening in the company, to get people onboard. Everybody likes information. Trade secrets you have to put aside.

**Transparency laws, regulations and organizations**

On the issue about who is responsible about ensuring transparency, he thinks that as it relates to *internal* transparency with their people, that everybody is responsible for it. When it relates to *external* transparency, he thinks that there has to be some element of strategy and control
about it; they can’t just have everybody out on the streets talking to the media. He thinks that when talking about external transparency, that they are trying to do it as an organization would in trying to accomplish their objectives in financial markets. What they say to the outside world is very deliberate and they have their own public relations people who ultimately communicate the tone set at the top. He gives an example, “here in a city where we have a well-read global newspaper, the Washington Post, I do not pick up the phone and answer a Washington Post reporter without having my PR-people with me”. There needs to be a consistent message; it needs to be the same thing as their CEO says on the Wall Street journal, so it’s a little more controlled externally. He thinks everybody has responsibility to try and be transparent with their internal people to make sure they know what’s going on.

At this time we started talking about the Sarbanes-Oxley Act and the respondent thinks that it was a step in the right direction. He thinks as it relates to not only what happened in the beginning of 2000 but also in today’s problems, “drastic times requires drastic measures”, he thinks that they will come up with some very draconian regulations to regulate investment banking today, given what’s going on in the sub-prime market. When drastic things happen, drastic regulations come out. He think Sarbanes-Oxley generally was a step in the right direction and he also thinks that most of the companies around the world would say that the 404 controls was a little bit of overkill and that the cost of implementing 404 controls and reviews has been a significant burden. Others might say that if the American International Group (AIG) had the right 404 controls and cleaned up their material weaknesses, like how they priced the credit swaps, they probably would not be asking the government for a couple of hundred billion dollars. It is kind of hard to say that 404 controls was overkill when, in fact the same situation has reoccurred. The respondent’s personal view is that every ten years they let the investment bank community take us right down a rat hole. For example: the dotcom bubble, they knew that those companies were not worth that kind of money, but yet they just let it go and plumb. About the financing and the special purpose entities that they were selling to Enron and WorldCom, everyone knew that there were problems in those financial statements, and now ten years later they’re packaging up debt that should not even have been loaned, and selling it with triple-A ratings (triple-A rating is a credit rating and considered to be the highest rating a company can get within corporate finance). He thinks that there will be significant regulations as a result of this. He thinks SOX was a significant step in the right direction but it needs to be modified a little bit. He doesn’t think that SOX will go away, but it will just be streamlined a little bit.
Transparency in corporations
On the question if he has changed behavior because of transparency he says, “no, not personally”. He has always been criticized as a leader in the firm because he is more transparent than he needs to be and that’s probably less of an issue now because they have become so transparent, but he was always giving people information. According to the old school thought maybe he was giving too much information, but the respondent says that he has always erred on the side of trying to get people to understand more of where the firm was going and therefore give them more information. As an organization he thinks that they clearly have become more transparent and changed their values around transparency as they try to make their people committed to the firm for long-term and have them want a long-term career with the firm. They had to become more transparent, had to change their values around people, and had to change the values around communication and really everything else too.

About doing “good”, the respondent says that he thinks the main reason, if you look at the young people today, is that they just don’t want to settle in a job, they are interested in a place where they can make a decent living and progress. This generation is just as interested about feeling good about the organization in terms of what they do for the community and the world at large, especially around sustainability, and things like global warming, carbon footprints and having a positive impact on those things. He also thinks that having good people and being successful as an organization is absolutely credible, if you can’t attract and keep the best people and have them be connected and committed in the organization, then it’s going to be very difficult to be successful as a company.

We continued to talk about reasons to not disclose information and the respondent goes back to what he said earlier about the two areas: clients and the firm. He thinks that it’s very rare today where things are not disclosed intentionally in the public company arena around the world, he thinks that the risks are too great and the penalties too significant. He says that if he looks at the most recent failure that the firms had in the sub-prime area, he thinks the lack of disclosure there was because there was a lack of understanding by the key management in terms of what risks they had even taken. The respondent thinks they may have known if they were in the sub-prime business but they probably did not know how they where packaging these sub-prime loans in different trenches of bonds, they probably did not understand the
credit to fall and the insurance situation that was out there. He continues to say that he thinks there was a huge lack of disclosure, but unintentionally, because he doesn’t think they knew what they were doing and the underwriters did not understand it, the investor relation people did not understand it, and then when it snowballed - it just snowballed. In the firm that he is in, because they are a private partnership, they are not a public company; there are things that they are not transparent about, for example, partner compensation. They are made up of 140 separate firms that are connected through global regulations, they stay separate firms by country because of liability issues, but they have firms where there is absolute open disclosure to all partners on partner compensation from the CEO down to brand new partners and there is other countries that don’t disclose that, and he thinks there is an argument to either side of that. The USA does not disclose and in fact he thinks they should, the respondent thinks that if you have 2,000 partners, they ought to know what the partners beside them are making, be able to have their own judgment of whether that is accurate or not. But, obviously the company needs to be very cautious about disclosing their litigation risk profile. There are a number of people and partners on the board that work with their general counsel to manage that, they don’t broadly distribute what their litigation posture is with any major company out there. He doesn’t think that any company does that broadly, beyond that there is not a lot that they don’t disclose - they disclose their long-term strategic planning, they disclose what their people strategy is, they are pretty transparent as an organization.

The purpose of revealing information is, according to the respondent, that “the more people that know about what the objectives of a company are and what the details are, the more vested they are with it and the more motivated they are to use their efforts to help you succeed, it’s just a clear case of the more information people have the more connected and vested they are”.

On the subject of the open corporation, he starts telling me about the tone at the top. He thinks you have to have a CEO and the people close to him who are open, honest, frank, and blunt to set the tone at the top that this is an organization that is going to embrace people and give them the information about the organization. He thinks that you also have to have an effective communication mechanism, especially in a larger organization. This is because you need to make sure that everybody is given the same message and one of the issues that they have, even in the tax-business, is even though they have a US strategy, the corporation has 700 US partners, 7000 US staff and 30 of those 700 partners are leaders, geographical leaders,
functional leaders and even though the tax-leader might say “this is our strategy” it’s heard by 30 different leaders and it’s implemented in 30 different ways. The respondent thinks that it is very important that the leaders not only are open, candid and communicative, but also very clear and able to spot where their people are implementing inconsistently and pull them back and get them in line, because that will otherwise send mixed messages to the people at large if you are not implementing consistently.

He thinks that good leadership is that the tone of the top is clear and that it has to permeate down to the second tier, the middle management etc.

**Different forms of transparency**

Then we started talking about targeted, forced and active transparency and he says that they have had all of them in one form or another. He started talking about the past and goes back to the Enron, WorldCom and the rest of the list of troubled companies. When you talk about forced transparency, the amount of media attention obviously, the Financial Times to the Wall Street Journal and the rest of the world, their whole profession, and the bigger accounting firms were all in a forced transparency mode when all that happened. There was forced transparency because the media was all over them, not just about the companies that were going down, but their audit methodologies, how they missed as a profession, how Andersen had screwed up, constant questions for probably two years. So, that was a forced transparency coupled with targeted transparency because what came out of all that was a whole new regime around reporting to the SEC on audit processes, methodologies, reviews by the Public Oversight Board and so forth. It changed the whole dynamic of their firm and their firm still goes through an annual review of the audit processes. He would say that is kind of a targeted transparency, and also coupled with that, every firm tried to actively be transparent around their initiatives to try to reinstate quality in the audit profession and started to publish books and writing articles, doing a whole lot of things to try to regain public trust, because there was no public trust in the profession after Andersen went down. The respondent thinks the whole set of events probably covered all three of those and then he thinks that they obviously had active transparency around a whole lot of things on a regular basis dealing with leadership and what they put together for the market.
Flaws or dangers with transparency
In this part of the interview we started talking about the negative impact and dangers that can occur with transparency. My comment on this began with the example of European companies not coming to USA because of certain regulations. He says that obviously that is a negative impact of transparency as it relates to 404, in terms of attracting foreign companies to become US registered. He thinks that anytime you over-regulate transparency you are going to have some negative impact and he thinks you have to weave that with the ultimate objective of the financial markets not being just to take care of the shareholders. Everybody has to take a risk, but at least you want to make sure that they are making decisions with accurate information. The respondent thinks they have fluctuated up and down over the past 20 years of instances where the right information was not out there, and then other times when probably more information then was needed was out there and it was burdensome to comply and he doesn’t think they ever found the right balance anywhere in the world and unfortunately he thinks they are heading for another over-regulated time-period that at least relates to banks and he thinks that will happen all over the world as governments continue to fork over hundreds of billions of dollars to bail out companies.

4.3 Interview 3

What is transparency?
According to this respondent, he believes that transparency means to be open and forthcoming with those you are dealing with in terms of what they want. At the end of the day it’s about being open and honest with those you are dealing with, and to give them relevant information of the issues concerning them.

When talking about the positive things about transparency, the respondent says that being open and honest with your clients, customers, or the public, is something that you should be doing, not just in a company setting, but in life in general. As an individual, you want to have friends, be honest and be respectful of people. As a company, you are representing a certain aspect of what the public interest is and you want to be honest and respectful to them. If they ask for something that gives them the information that they need, that’s something that is very positive. The respondent believes that this should be encouraged and cultivated more. There is a balance between being open and respectful, and providing information that is useful to the client or the public, not just saying something because you have to or not. The respondent
continues by saying that being open with useless information is negative and that doesn’t really help anybody.

Another aspect of leadership and transparency is the younger generation coming out on the job market with different expectations because they are not aware of what has been going on. For example, the ability of the younger professionals (30 years old or younger) and what they expect from the leaders of the companies is probably more then what has happened in the past. The ability of the younger professionals to connect with the leader or the top management is different. There is not that sort of traditional hierarchy where you have to go through that whole process of “moving up the ladder”. The ladder is more horizontal these days, and you sort of see that as the leaders understand that, they are more transparent. You can go online and find CEOs with world blogs where the regular staff can come and see that he not only leads a company but he is one of the staff too and he wants to get their comments and suggestions. Of course some of this is for public relations, but people really like that. It’s easier to talk to anyone in the company and it’s being encouraged today in the company. The respondent doesn’t know how it was earlier in the company, but he imagines that it was quite different.

**Transparency laws, regulations and organizations**

When we started talking about the Sarbanes Oxley Act, which will also be discussed further in the next section too, the respondent says that the positive thing with SOX is that certain people had seen the negative aspects of what some companies really do and what their ultimate goal is as a firm. That resulted in trying to highlight some of the management issues, some of the corporate responsibility issues, and how they are trying to be more transparent by explaining more about what the views are in relation to the financial markets, etc. But the respondent thinks that it has gone over the top in the sense that there is a little bit too much required of them now and that’s, argued by some people, caused them to lose their competitive edge. Especially if you have foreign companies that want to invest in the domestic market, there has been studies done concerning this and the companies have shown that the main reason they don’t want to invest is because of certain SOX regulations.

On the question of ensuring transparency and who is responsible for it, the respondent says that it begins with the leadership. There are policies and regulations in place to make sure that what they need to comply with is indeed complied with, and being open about that. Though
leadership is responsible for transparency, it trickles down to you yourself, every professional, as a representative of the company, to be open and honest and abiding by what’s asked of you, and to be respectful.

**Transparency in corporations**

Regarding what transparency the company provides their shareholders, the respondent says that they provide information and an organization that works with the stakeholders on various projects. It depends on who the stakeholder is and what the project is. For example, the firm is involved in memberships with organizations that are dealing with issues that they are interested in, which helps move forward the policy agenda.

The respondent has never changed his own values because of transparency but he says that he has learned more about what it means. To try to go back to transparency as much as you can, you want to be open, you want to be as honest as you can, and you also want it to be useful information. It’s not necessarily that you are hiding something or that you are not being as transparent to someone, but perhaps the information is not useful, you have to balance the two sides of it. I asked about the company and a possible change of value for it and the respondent says that he doesn’t really know because he joined the company a little over a year ago. Similarly, he doesn’t know how things were before SOX, but he knows the general idea of internal management is based on the SOX Act and that it changed things in terms how they worked before and how they work now internally. The respondent says that what he has seen and his general impression is that the company has changed somewhat in the sense that there are new rules and regulations that they have to comply with, that they perhaps did not before. It’s still an ongoing issue, there are still obviously two sides with what the SOX Act may have changed and how they can be as transparent as possible without giving out too much information.

When we started talking about the purpose of not disclosing, the respondent said that the purpose of not disclosing goes back to the point made earlier of whether or not it is useful information that is disclosed. He thinks there is a point where you can get too much information and that is not to say that you should not disclose the information; you want to be open, you want to be transparent, you want to be honest, you want to be a trustworthy company that people can trust is going to give them the financial information that they want.
The customers want to know about certain companies, but some of that information might not be useful to meet their investor judgment.

The purpose of revealing information is that the good info, the right info in an open and transparent way gives the stakeholders what they want to know to be able to invest smartly.

The most important characteristics of an open corporation, according to the respondent, is to be honest, which also means taking responsibility for something that went wrong, or something that was not as honest. The respondent thinks it’s a matter of being honest, of being forthcoming but also recognizing your faults and to be able to come back and look at that again and say: “What went wrong here?” and “How can we change these mistakes?” He thinks it depends on the issue and whom you are dealing with.

According to the respondent, good leadership is first and foremost someone who is willing to listen first and speak second. That someone will take the time to listen to all different types of views, all different personalities, and all different types people, in various roles within the organization and life in general, before they make a decision. The respondent also says that respecting people is important; understanding and also recognizing when you have made a mistake and then taking responsibility for it.

When asking the respondent about what is needed to make an organization fully transparent, he says that it’s hard to measure. He doesn’t really have a number, there are differences in being transparent and he says it depends on who your management is and what your main issues are versus confidential client issue. The respondent says that he is thinking more like a company, and what a company would do. From his personal point of view, for an example, how much a secretary earns is not an issue, it’s not useful information and, personally, he doesn’t care if someone knows how much he earns. It’s more about what that does to their judgment; he knows that people have a very different opinion on that.

To be fully transparent you need the right leadership he says, “You also need a degree of trust from the public audience that they trust you are doing the right thing and understand that”. The respondent continues to say that it is important to be open and transparent and that it is not one single definition it depends on, the company depends on the issues but they, above all, trust what you are doing and they will stand by you.
The respondent says that transparency is accessible to everyone in his company.

**Different forms of transparency**
When I asked about forced and targeted transparency, the respondent says that he has never been involved with that. He would be surprised if there would ever be something like that, especially from the media. They are always looking for something. At least since he has been in the company, he has never come across any major forced issue that really made the company go crazy.

**Flaws or dangers with transparency**
We continued to talk about tools for transparency and the respondent says that issuing an annual report is one way. Within the report lies the basics of what the company is, what they work with, and also shows what your business is. He says it is important to be open and to have meetings with management to get a better sense of what the company is doing and to whom it’s being responsible to in the public eye. It’s also important that you can look to your leaders for guidance; you can pick up the phone and call them, but “not at all times”.

When we discussed dangers with transparency, the respondent said that the danger is that it’s interpreted differently from what it’s intended to be interpreted as; this goes back to the discussion about what’s useful and what’s not useful information. If you say something that is useful or if you do something that is useful, that might go back to something that is forced, active or targeted, something that you are supposed to do to comply with regulations. But if you really don’t think you are dealing with useful information because it can be interpreted in a different way, which can result in more problems and issues and defeats the purpose of being transparent in the first place. I continued asking a question about the Internet and what he thinks about that in the sense of transparency. The respondent says that there are some dangers with that, it goes back to the whole idea of freedom of speech, to speak your mind. This is what the Internet is for, and the Internet is a wonderful thing. But, with this ability to go online and write what you think, whether that has been official or unofficial, you have to go through it and determine whether what you think is real and not; what is the truth and not and how much exposure that gets. The respondent also says that when someone says something untruthfully on the Internet, people tend to sense that, and it’s the government’s job to set the untruthfully person/company straight.
4.4 Interview 4

What is transparency?
I asked the respondent what transparency means to him or how he would define it, and he said that he thinks, according to the context that he has been working in, which is mostly in the area of federal income tax, that transparency has two components. The first component is what the tax payer tells the government and that comes in to play in issues where the tax payer may be required to disclose to the government specifically how their transactions work and what tax theories that they may be using in order to achieve the results that they’re reporting on their tax returns. Secondly, transparency is what a company and their corporate tax payers tell its shareholders regarding what type of information is appropriate to be given to the shareholders and what would be useful to the shareholders in determining: first, what the tax expense component is and secondly, what potential liabilities may lie out there. The respondent thinks that is the intersection between publishing data publicly to your shareholders at the same time as not necessarily disclosing all of your data. This may ultimately be litigating decisions to the internal revenue service or providing what could be called a roadmap to the audit process. He says that beyond the professional world that he is dealing with there are much broader concepts of transparency, but in some way he thinks they are broader concepts of the same two elements: what you report to the government and what you report to your stakeholders. He says that there is politically a third element that has begun to emerge in income taxation where there are several pieces of legislation that have been introduced into congress that would require additional disclosures to the public at large with regard to tax positions that are taken by the companies and the various reasons why that kind of information might be appropriate to be shared. It is thought that this would facilitate the kind of policy discussion over what their tax laws really should be, but on the other hand there is a great tradition in the USA that tax payer information is confidential. An IRS agent that discloses tax payer data goes to jail, there is obviously a significant clash there between these ideas.

When we talked about “good” versus “bad” he said that it would be good to get as much transparency as you can afford because it is a good thing to have. Transparency is a good thing and he thinks their firm agrees with that, you need to understand you can’t afford all the good things you want to have.
**Transparency laws, regulations and organizations**

On the question of benefits with targeted transparency, he began by explaining the structure of the leadership in his firm. There is a CEO and there are partners who report directly to the CEO for each of the specific functions, and under each partner is a department that is involved with quality review. He thinks that the partners are ultimately the people responsible for ensuring transparency. For instance in the department of tax, they have an office for tax quality review that would have the final say on any form of disclosure that they as tax professionals would make. The respondent is responsible for filing his own lobbying report, they have a small group that deals with policy issues that affect the firm at large and they retain somebody to make sure that they get their lobbying reports correct. It ultimately comes to rest with people of who are significant players in the firm, people with leading decision-making authority.

When we talked about important tools for transparency, the respondent said that he thinks the idea of pushing highly engineered financial products became much less popular throughout the accounting industry, and a cynic might say that’s because there suddenly were not any buyers for that stuff anymore. He thinks that there was, in general, a dealing that some of the things that happened in those situations represented, a situation where people had to see that the balance between form and reality had gotten distorted and there needed to be less of an emphases on, “are you the smartest guy in the room and can you create this perfect form without regard to what the reality of your transaction is” It obviously was a very difficult time, but the respondent thinks it did bring the profession back to a more reasonable place of saying, “you need to exercise some judgment as to - is this really what you are describing is going on?” Keep in mind at least for financial accounting purposes, there are specific rules, ultimately what you report is supposed to accurately reflect the condition of who you are reporting to and he thinks that whole experience has brought the profession back more to an appreciation of that. It will be interesting to see how the coming merger of the accounting standards with the international accounting standards, which he understands frequently involve even more of a judgment opposed to a rule based procedure. There is an opportunity any time you allow judgment to be substituted for rules that you run the risk that the judgment will be flawed and the people will use that opportunity to get the results they want and defend it as well.
His involvement with the Sarbanes Oxley Act was really a limited involvement; he only got involved on the tax side. He thinks that in general, there is probably more that can be done; on the other hand he is not sure that a proper cost benefit analysis was really done for SOX. SOX required an awful lot of work and an awful lot of expenditure that may or may not really have contributed to transparency and to the extent that current difficulties may continue. The Congress or other legislative bodies mandates something that looks kind of like SOX in other contexts. He thinks it’s going to be important for a balance to be struck between how much additional transparency you are buying with these rules and what’s the price? I asked about the 404 rule and the respondent said that that is a bigger and bigger issue the further you push it down into the smaller companies. You don’t want to say, “if you are closely held or a small company then you can just blow all this stuff off, but on the same token you need to be, there are common of scale and IBM is a thousand times bigger than this company, their SOX compliance cost is probably not a thousand times bigger than ours, perhaps a hundred times, but not a thousand times”.

Transparency in corporations
Regarding the transparency his company provides the stakeholders, he said that the requirements that they have in the US are similar to the accounting standards that are used in Europe as well. Although he is not familiar specifically with the disclosure rules there, to the extent that there are items on prior tax returns that might be disputed by the IRS and could result in additional taxes. There is also interest on those additional taxes and potential penalties with respect to the way that the positions that were taken. There are also penalties that can apply to the US tax system, although they are not strictly a product of the amount of the deficiency par as determined by the interpretation of the code. The IRS might have another interpretation of the code and if you can’t come to an agreement, you have to go to court. If the judge says the IRS was right, and then you owe the tax, you owe interest on the tax and you may also be subject to penalty if the understatement of your tax liability exceeds a certain percentages. That’s the kind of exposure that is important for the stakeholders to understand to what extent that kind of exposure might exist and to provide some sort of numerical valuation of that exposure. At the same time, there is an element of the adversarial process between tax payers and the government, as collector. You have to hit the right sort of balance between, ”how much do I need to disclose so that my stakeholders can understand what the true definition of the company is” versus “how many guideposts do I give” and the respondent thinks that goes into a situation where it’s not so much about the disclosure of an
amount, because there can be lots of things in what we call the deferred tax liability account. It’s when you start breaking it out in sufficient detail that stakeholders can apply their own judgment, “is this something that concerns me?” “Is this something that does not concern me?” But the more information you give them to allow them to make that decision, and the better description that you give to the IRS, the better it is. It’s not just a matter of saying something that potentially is going to disagree with everyone. The respondent said that the IRS can come and examine, and they can find things that are not correct. Instead, if you tell the IRS, “I’m really worried about this problem”, or, “I’m not so worried about this one”, then you can save the company the exposure that would happen if you go to court. The decisions will be reported; there are certain procedures where they can close the information from the public, for example, a portion of the partition or the papers that you would submit to the court. There are not really any tax reasons for that, it would have to be something where instead of obtaining a patent you trying to preserve a trade secret, for example certain intellectual property. Instead of patenting your intellectual property you are trying to keep it a secret, and there are rules that can be applied to close the hearing from the public. This will give the possibility to discuss important matters without everyone being able to come in and listen. The respondent has seen that sort of process, there are a whole series of rules you can invoke, for example: national security, but he has never had a client who did because there is no tax reason for national security. He thinks there have been some government contractors who have argued that, “if you force me to pay my taxes then you have a national security problem because you are going to make me fail”, and the judges don’t like that argument. It would have to be something else, for example it might be a question of how a particular piece of property was valued and the piece of property is itself perhaps a piece of a high technology secret. If someone is involved in weapons research, there are certain aspects of intellectual property that is not going to be discussed in open court, but there is nothing about tax that would limit the ability to discussion. It would have to be in order to reach the conclusion for tax, and we need to discuss something that has another ramification and typically it’s an intellectual property situation.

On the question about values, he said that he doesn’t think that he has changed. As the rules of transparency have evolved, he thinks that everyone has followed those rules. When their financial accounting standards board adopted rules about five years ago, the FAS109, the specific accounting rule, they significantly increased the amount of disclosure and just for complying with those rules the respondent thinks they were all involved in the disclosure. He
continued and said that they themselves don’t disclose, but their clients disclose significantly more material than would have been the case before, but there has been a general increase in formal transparency and the formal rules mandating transparency. During the 30 years the respondent has practiced accounting, there are now more and more transactions which are very opaque in of themselves. He is still somewhat suspicious that some of the current financial issues reflect the fact that those transactions were not necessarily transparent to the people who designed them, much less to other interested parties. But he thinks there has been a significant increase in transparency over the years with regard to the amount of information that has been made public and certainly there has been a great increase in practical terms because it’s simply so much easier to access information now. When he started they had people who went down to SCC to flip pieces of paper.

Regarding the question if corporations can profit from doing good he said “yes” and that he thinks there are a number of examples. He thinks that most companies do actively seek to at least establish a reputation for doing that, and spending a lot of the general social spending. The respondent thinks that the idea of the good corporate citizen is the way they would describe it, and in the company in that aspect, there really is an tradition that goes back a long way; the idea that if your business was the leading business in the community then obviously you took responsibility for it being a successful and positive community. He also said that he thinks that if you are not doing that, then how can you claim to be a leading company in the community? It sort of reinforces each other. There are obviously also priorities. All expenditures have to be tested for priority but the respondent doesn’t see people or the companies they work with abandoning the expectations that they do positive things for the community or the society in general. He thinks that there is also the understanding that there is a lot of self-interest. If you look at issues like global warming, it’s in many ways big corporations that are the ones that stood up and said, “we need to be worried about this because we don’t really want to figure out how we profit in a world a hundred years from now if this is not addressed”, the respondent thinks that there is also a very general understanding that a better off community is a more profitable community to be a part of. He remembers in a previous position, where he represented a group of large retail companies, and virtually every one of the tax directors at those companies, when they would talk about if legislation is being considered, and would say, “We certainly want to be aware of things that would directly impact us negatively”. There was an accounting method, which they used, if they would take it away it would cost them a significant amount of money and they don’t like consumption
taxes because they are in the business of consumption. All this value added tax things, they don’t want to hear about that, and then beyond that they would say, “We want things that would be good for our consumers, because we are here to sell stuff to them”. The more things we sell, the better off they are. He thinks that there is an appreciation that applies all the way down the chain that the more successful the society is the better off the society is, and the better it is for business.

When we started talking about purposes with disclosing the respondent said that he thinks that in general the more disclosure the better. You don’t want to give away your secrets, you don’t want to give away your intellectual property, if you find yourself in a advisory position and you don’t want to tell your client what your strategy is, but on the other hand he thinks that the more you tell people, the better it is because it creates more confidence and the respondent thinks that has been one of the underpinnings of the idea that America is a successful market. You have faith in the quality of the numbers that are produced here, that they are the numbers that are reported. He knows that there has been a significant amount of controversy with regards to things like fair value accounting. Is fair value accounting for instance a situation where it would have been better not to report the market value of the assets on the theory that there was no intention to sell them? The market did not accurately price those assets and so by having required companies to write the assets down to fair market value you effectively understated the value of the companies and you created a panic. For example, Lehman Brothers fails and everything follows from that. Most of the stakeholders are smart people and the respondent thinks that if that really was the case they could factored that in, generally the right answer is to tell people what you know. Was there a place perhaps to include some explanatory information that says, “here is the valuation, we don’t anticipate selling at these prices, the following is a forward looking statement and cannot be relied on, but we really think the market is going to come back before we sell this stuff”. There needs to be a place for something like that and maybe you could argue that the market price on some of those securities were not at its fair value, The respondent can’t speak for the company in this regard but his own impression is that their firm would disclose what they know. You disclose what you know and you trust the stakeholders to use the information properly.

On the question about characteristics of an open enterprise the respondent said that he thinks it depends on what stakeholder you’re disclosing to. If you are disclosing to your shareholders and the most important thing is to let them understand what the operation is worth; what the
operation is earning, whether there are any financial threats to the operation and how likely the company is going to continue to earn what it has been earning or what differences might apply. He thinks those are the sort of the basic areas, when you get into broader societal stakeholders, questions can arise about if the company is doing anything good for the society. The respondent says, and he is not speaking for the firm because it’s not necessarily in the business of doing societal audit, that from his own impression he thinks it’s worthwhile to share with the public at large what your position is, what you are doing and some reason why you are doing it and also not to be shy about saying, “we are not doing certain things and here is the reason we are not doing them”. Because that really contributes to the overall policy discussion and he thinks it’s important information that business does share, probably does not share as frequently as it should. One of the issues that you always run into, when you talk about transparency is how much does that transparency cost? “How much do they have to pay me or pay my firm to help them put together these disclosures?” or if there is not a requirement that it be checked by an outside party, “how many people do you just have to hire in order to do this?” The respondent thinks this is one of the reasons that you typically see that sort of social disclosure primarily at the very largest companies because as the companies get smaller and smaller the ability to invest in that expense becomes harder and harder.

The respondent said that good leadership is when people lead by doing, and what people do, how they behave, how they treat other people particularly those who are involved with them, whether they are working with them or being other stakeholders, that demonstrates leadership.

On the question if more can be done, the respondent said that he thinks so. In the company, he is sure there are situations where things are posted on websites and nobody cares to tell anybody where it is and so nobody finds it, he thinks his company is extremely good about being very transparent about what’s going on.

**Different forms of transparency**

When talking about targeted and forced transparency he says that they certainly have been involved in that, depending on how broadly you are going to draw the targeted disclosure net. An awful lot of what they do is either their targeted disclosure or their clients’ targeted disclosure, and they are certainly in the business of helping their clients in dealing with targeted disclosure, that’s what they do. As far as forced disclosure, “involuntary outing of
dirty laundry”, as he puts it, the respondent has not been involved in anything he would consider as being that.

**Flaws or dangers with transparency**
We continued and started talking about costs, he said that there is a point where the cost of the transparency may exceed the benefit of the transparency, and you just need to be aware of that. Different people will have different judgments as to where that line should be drawn. There are valid concerns that information may be misused or if it’s not presented exactly the right way, it will be misunderstood. He thinks that’s part of the fair value debate, where the market valuations, required by fair value accounting, are really helpful to the extent that they value the assets that the company had no intention to dispose off. There are valid points where transparency in one area runs the risk of disclosing stuff that you really should not have to disclose and the more deeply we deal with intellectual property that is a concern, maybe we would just say that’s part of the cost benefit analysis, but as the economy becomes more and more intellectual property based, then you do want to allow people to protect their intellectual property.
5 Analysis
In this chapter I will analyze my material.

5.1 What is transparency?
From my interviews and the theory from various reference texts, I have gathered some interesting thoughts on what transparency is. As we will see further on in this chapter the respondents have their own views on what transparency is and in many ways it is similar to what the theory says about transparency. They are also similar to each other in some ways and different in other ways which I will highlight throughout my analysis. The second and fourth respondent come close to each other when talking about one inner and one outer aspect of transparency. They both agreed that information differs depending on who you give it to. One respondent talked about the firm and the clients while the other respondent talked about what you report to the government and what you report to your stakeholders. I think they both have the view of choosing transparency depending on how beneficial it is to the company and if it is required by law. The third respondent talked about being open and honest and being open is something that all the other respondents also argue for, but at different levels of openness. Certain things are considered to be useless information and therefore not disclosed, but I think that there is a big difference in who decides what useful or useless information is. On the whole, I think they are all seeing transparency as something good, as long as it does not involve sensitive material, and that they believe in the utility of more transparency.

The third respondent says that transparency is about being open and honest with those you are dealing with and this is also something that Tapscott and Ticoll (2003) mentions. It is also mentioned in the article by Ball (2009), where she says that transparency conveys honesty and integrity. A red thread that I can see from the respondents and from the theory on this matter is that openness towards the shareholders is viewed as a big part of transparency. There is also an aspect of whom you are to give information, and I believe that there can be a difference in transparency if you give information to; for example, the government versus to your shareholders, but there has to be a common rule or law for what to be transparent about. This is important because otherwise it would be too easy for the companies to set their own rules about how to deal with transparency. The government might get the information they need which does not necessarily mean the same information that the shareholders get. This is also something that the respondents talk about and the fourth respondent says that there are things
that the government need but not necessarily the same things as the stakeholders. This is especially important with tax issues since tax payer information is confidential.

As I said earlier I believe that it is important that there is a common rule or law that says what you have to be transparent about, otherwise it may be easy for the companies to decide what to be transparent about and thereby destroy the whole concept of transparency. The second respondent talk about the time they spent consulting clients on being transparent and about their efforts to be transparent to their stakeholders. The respondent says that they try to be as transparent as practical with their stakeholders, and also that the stakeholders are generally “their people”. In this case I think the respondent is talking about internal stakeholders. This to me is concerning and I hope that being practical about transparency does not mean being secretive. To me it sounds like the company chooses when to be transparent and to whom. Another thing that is interesting is how the respondent says that there is much more transparency in the profession he is in today than it was in 1980. This has to do with SOX as we could see in the empirical data earlier, which has led companies (perhaps forced companies) to strive to be more transparent. An interesting thought, which could be used for a future study, is if there was any transparency at all in 1980, or what kind of information was released under the circumstances during that time. I will get to this more in the final chapter.

Another interesting topic the respondents discuss is that some information is just unnecessary to be transparent about. You don’t have to tell everyone how much paper is bought for your copy machine. The third respondent also says that certain things are useless information and you don’t have to tell people about every little thing if it’s not interesting to know. Again, I believe it’s important to know by whom these things are considered to be important information or not. Who is supposed to say when transparency is important?

5.2 Transparency laws, regulations and organizations
The Sarbanes-Oxley Act of 2002 is a major act which all organizations must follow and as I have seen from the empirical data, the respondents have their different views on the benefits and flaws with SOX. I think that it has been a tremendous change for companies to adopt and move on after the fearsome scandals and decline during the beginning of 2000.
All the respondents agree that there have been a great many things done with SOX, many of them useful, but it also carries some undesirable side effects, such as the 404 regulation, which makes it unattractive for foreign companies to come to the USA because of the extra workload it generates. This has been hard on some companies, especially foreign companies. It is not entirely clear what the respondents want with SOX, some say that it is good but that more can be done, while others say that there will not be that much more done because of the side effects, such as the 404 regulation. Instead, some of the respondents argue about the cost of SOX and to think about how much additional transparency we would benefit from and for what price. The first respondent says that too much money is being spent on keeping track of information that nobody will use, which has been a burden for midsized companies. In my belief I think this is something interesting that has to be discussed in a larger setting with more people and also have a discussion on how much transparency you can opt for before the cost will be greater than the benefit. I think the respondents are saying a lot of the “correct” things, but in reality I believe that they think there has been a little bit too much work for them since SOX was implemented. It seems clear that they have changed since SOX was implemented, but that does not necessarily mean they have to like it. According to the respondents, there is a higher degree of transparency now, or at least a higher degree of trying to be transparent, then it was before SOX was implemented.

Not only did the respondents talk about the cost, the Economist (2009) also commented on the amount of money that SOX has cost companies for a couple of years and it is a considerable sum. I think, from what I have read and heard, that there will be a line drawn somewhere, at some point people will say “stop, we can’t afford this”.

It is mentioned in the theory that SOX was indeed a good thing that brought a lot of good regulations, even though it had some flaws (cost for example). According to the second respondent it was a step in the right direction even though it could be modified a little. I could not agree more with his statement that drastic times require drastic measures. As said in the theory and empirical data, I think it was important at the time to come up with a regulation that could be understood and implemented by the corporations. There has to be some form of punishment for the kind of misuse of trust and money that can occur in corporations. It was also important that the rules required the leaders to actually be responsible for their actions, as it has been said before in the theory by Linsley and Linsley (2008), rule 302 in SOX requires the leaders to be active and certify each annual or quarterly report filed. Some respondents
also argue this and talks about the importance of the leaders to “set the tone”. This will make it easier to hold one responsible in a court of law in case of corruption and misuse.

5.3 Transparency in corporations

According to the respondents, most companies benefit from “doing good”. One example that is mentioned, when they do “good” for the community, is to take responsibility for a successful and positive community by social spending. I would say that a company that is involved in the community can benefit in many ways because in today’s society people are more aware of global issues and they want to see actions that help. It is also mentioned by the second respondent that this can be a magnet for certain “good minded” employees to be attracted to the company. If a company is transparent and open about what they do and show the good things they do, I believe it will attract more people that want to work for them. It’s not clearly addressed in the theory that doing “good” is beneficial, but there are some things that point in that direction. For example when Bennis (2008) talks about the importance of candor or when Tapscott and Ticoll (2003) talk about reputation, environmental engagement and corporate character. I think that these show the importance and the different ways a company can do “good” and in the end benefit from it. One benefit of being good and open about it is as the second respondent said that it will attract good people and it will keep them motivated and committed to the success of the company.

When looking at disclosing or not disclosing (this will be mentioned more in 5.5), the second respondent says that today the risks and penalties are too great to try to hide something. You can be open without disclosing everything, there are things, like partner compensation, that you don’t have to disclose, if you are a non-public company. On the other hand, companies tend to be more open about their people strategy and strategic planning according to the respondent. The other respondents talked about similar things even though they tended to be more cautious about specifics. According to the information received from the respondents it seems that the openness, towards stakeholders, of their companies has increased since the scandals and SOX were introduced. They are saying that they are more aware and cautious about things today than before, even though they said they had a lot of transparency earlier too. I cannot fully agree with this for obvious reasons, there has been a lot of not so good things going on in companies during the 90’s and that became evident with the scandals. I think they tried to have some sort of selective transparency and today I believe they have
understood the consequences of not disclosing and are trying to disclose more. I think there is some logic to what the first respondent said about companies doing evil will not survive for long, but just because of that I don’t believe we can always trust everything a company does. They want to make money and there is always a risk for shortcuts.

One thing that the first respondent said is that the need for transparency is not absolute, it has to be in the interest of the stakeholders with regards to what is important to them rather than just responsive to idle curiosity. I find this a little curious; it seems to me that the company then will decide what is important to stakeholders, which stakeholders that are important and what is in their best interest. In the end the company will decide what transparency should be. There might also be another angle of this dilemma, the companies only does what the stakeholders believe being important. For example if the stakeholders have an interest in ecological thinking, then the company probably will go an extra step to please the stakeholders. I think transparency should be the same for everyone, especially the companies. The same rules should apply to everyone. With this I mean that a law is a law and it should be the same for everyone, all should be treated the same under the same rule.

According to the respondents, some argue that you will benefit from an open enterprise while some talk more about the importance of the leaders and the way they set the tone for the company through good communication. They also seem to agree on the honesty of the leaders. They are close to what the theory says about the matter namely to start at the top of the corporation and spill down through the corporation. The leaders of a company have to have the will and power to be transparent. One thing that keeps coming back is that the leader of the company is an important starting point. A lot of the theory is pointing to things like leadership, reasons for decisions, communication, reputation, IT, conflict awareness, etc. Leadership and trust is something brought up both in theory and by the respondents. In the theory earlier I showed some examples on behaviors that could lead to more trust and this is also something that the respondents talk about, namely about sharing information and being open. Based upon what I have read from references used and heard from respondents, I think that with an effective and open corporation structure you may also get goodwill towards other corporations and other possible future employees, not to mention the trust of stakeholders. The respondents also talk about the importance of the leaders being open, candid and communicative. The first respondent says that to be successful and to keep valuable people you have to maintain a level of openness. The second respondent says that it is also important
to be clear and able to spot when their people are implementing inconsistently, meaning that everyone should get the same message. The third respondent says that openness also require the ability to take responsibility for things that have gone wrong. The second respondent also talks about commitment to the organization and that you want to keep the best employees for a long time. For this to happen it requires certain values and transparency. This is also mentioned in the article by Berggren and Bernshteyn (2007) were they say that transparency leads to better performance and contributions from the employees.

After reading about transparency in corporations and hearing what the respondents have said, I find it clear to say that it is important for companies today to have transparency in some form as they will benefit from it as well as the stakeholders. The stakeholders will benefit through more information and possibly easier access to information and I think it is becoming more important for the stakeholders to have the right information so they can trust that companies do what they are supposed to do. Bennis (2008) makes this clear in his book where he says that without transparency, organizations will fail. He also says that openness is the primary predictor of success in work teams and organizations consist of a lot of teams. Berggren and Bernshteyn (2007) are also saying similar things about better performance when there is transparency on an individual level. As the first respondent argues, it will be easier to fight for a company as an employee if you have all the facts on the table, so they know why they are doing the things they do. Tapscott and Ticoll (2003) also say that open corporations perform better, but according to the respondents there are circumstances, for example confidential client issues, when you cannot be open.

Oliver (2004) talks about the fully transparent organization and says that every level of the organization has to be open, as one of the four elements he uses in his model. He argues this as an encouragement and that opacity, obfuscation and fraud has to be punished. It does however not seem like any of the respondents would agree to a fully transparent organization. You can be open to a certain extent but there will always be things that are not suitable for disclosure according to the respondents. One thing the respondents argue against full transparency is the confidentially towards clients and customers. It is also evident that some respondents consider a difference between being transparent internally compared to being transparent externally. A lot can be at stake when trying to be a fully transparent organization. Even trying to be fully transparent within the organization can be severely damaged by a leak to someone outside the company.
5.4 Different forms of transparency

The different forms of transparency are interesting because of the different ways they can affect the companies. Some examples of this is, as seen earlier in the theory, targeted transparency, which is usually done by law and can, for example, lead to better labeling from food companies, and forced transparency, which can be done by media or another outside source. I think that the respondents agree that these forms of transparency are interesting and can both be beneficial and not so beneficial for a company. For example, the first respondent said that a company he worked for had a good outcome from the forced transparency. Transparency can have several outcomes depending on the situation. The first respondent told me about a stress interview (in which an interviewer asks a series of very offensive questions) which led to an unfortunate amount of forced transparency from the media and others. The outcome from this was beneficial to the company in the end and it proves that not only transparency, but forced transparency can be a good thing because it makes people and companies think and adapt. Most of the respondents have been in a situation where they have experienced all or some of the different forms of transparency, only one respondent has not been in this situation.

As the first respondent talks about in the empirical data part above, you can turn something negative into something positive, with the help of a little active transparency. This is also something Tapscott and Ticoll (2003) is arguing when talking about how you can correct some misinterpretations caused by forced transparency with some active transparency. I believe this is a very good use of transparency and it might lead to more transparency, especially active transparency. I mean this in a sense of taking the opportunity to benefit from the wrongs you have done by doing some good and useful of it. When companies realize that they have done something wrong, hopefully they will learn and perhaps use more transparency in the future. I am not entirely sure that this will happen over night but I believe that active transparency can be used for good things. On the other side, one has to consider all aspects of it and the possibility that it may just be used to clean up a mess and not as a mean to be good and transparent.

The fourth respondent talked about helping their clients with targeted transparency issues, and I think this had to do with different forms of regulations that the client has to follow. Targeted
transparency has become a market for some companies trying to help others with their issues. Reporting to the SEC and following the audit process according to one respondent is targeted transparency and this is also evident in Fung’s (2007) writings where he mentions defined public purpose, mandated public disclosure and also enforcement mechanisms and policy purposes. I think that reporting to the SEC falls under some form of public purpose and disclosure.

5.5 Flaws or dangers with transparency
Most of the respondents seem to see flaws or dangers with transparency. Some argue that there is over-regulation (for example the 404 rule) and others argue that there are dangers of wrongful interpretation of information with large unfiltered media sources such as the Internet.

One of the things that came up during the interviews with the respondents was the danger of disclosing information that could hurt the company. Though it was not directly mentioned I think what they meant with this was the danger of hurting the company in a way that would make the company look bad or give an advantage to other companies. The third respondent said for example that sometimes if you don’t believe you are dealing with useful information it may be misinterpreted and that can lead to problems. There is also a danger with the Internet since it’s sometimes hard to know if the information is official or not. The danger of disclosing is also something that is incorporated in the freedom of information laws, as could be seen in the theory chapter. I think this is very important to be aware of and to think about. For the individual, perhaps your private life is the thing you first think about. The sanctuary of your home, to be able to have a private life without everyone knowing everything you do. For companies, the respondents argue that intellectual property and commercial secrets are things that need to be kept a secret and I can understand this. If I have a product that I have developed I want to be able to benefit from it without disclosing how to make it, otherwise others would make copies and sell them as their own. This is also, as Florini (2007) argues, an incentive for innovation, when you can actually create something and benefit from it.

Another area of discussion was the Internet and the possible danger it can have on transparency. On one hand you have the amazing freedom and possibility to find information and give information whenever you want as long as you have a computer and an Internet connection, and on the other hand you have the possibility to spread lies and false information
which can be believed by people and therefore be a big problem according to some of the respondents and the theory. The theory says that the Internet can be used for given the right information but also for deceiving. It speaks of the difficulty of knowing what information to trust. The third respondent said that sometimes you can’t know if information is official or not (this is also mentioned earlier in 5.5). You have to determine that yourself. This will also have a crucial effect depending on how much exposure the information gets. With this I mean, if a non-official statement is released and it gets a lot of exposure it might become the truth for many people and this can become really dangerous depending on what the information contained. For example if an article online says that this specific company is doing something less morally accepted or even illegal, there might be people that stop doing business with them or start different kind of attacks on the company before they realize that the article was fake and the company never did any of the things mentioned in the article. The damage is already made because of a rumor someone started online. This is just an example of how it can become dangerous. It is also a question about whether it benefits anyone, as Lord argues. A rumor can bring peace or it can bring fierce war. Of course there is a possibility that rumors also can ignite from lack of openness and lead to a similar danger of wrongful information. When you don’t have openness there might be an urge to create ideas and believes from nothing and in a similar way as the case above start rumors that can be harmful. An example of lack of openness could be the Chinese regime and the restrictions to the Internet. When people don’t have information they might create their own.

The respondents also talk about the danger with too much transparency and over-regulation. What they are talking about has to do with SOX and the difficulty to attract foreign companies to come to the USA and be registered there. This has to do with the 404 rule which makes it unattractive for them to come to the USA. I think this is serious and can definitely have an impact on the market and its function. This is something Florini (2007) talks about and I believe it is important to understand that transparency is facing risks with every regulation made. There is a link between transparency, regulation and protectionism. With this I mean that when you want more transparency you force it through regulation which can lead to a more protected market since the regulation is not convenient to companies outside the country. Those companies inside the country do not have much choice, it might be even more inconvenient for them to move abroad. This is also discussed by some of the respondents with regards to the difficult task to find a balance in the regulations. The second
respondent also said that he thinks we are headed for another over-regulated time-period, since that seems to come with new scandals. He is referring to the banking scandals of today.

As we have seen, and what I also believe, transparency is not only a good thing, it certainly has its dark sides if it is misused. I would like to cite again what Finel (2000) says, “Transparency reveals behavior, but not intent”, this is very true and I believe we must look harder to see the whole picture. Transparency will show everything in a certain way but we can never be sure to know the intention of what we see. What I mean is that you can notice a certain behavior from a company but you will most likely not know their intention behind their behavior. Is their intention a good or bad one? Is their intention to just follow SOX rules or is their intention something much more?

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Fig 1. Matrix summarizing main analytic findings on the five main categories.
6 Conclusion and future research

In this chapter I will answer the question from the first chapter and draw conclusions from what has been said in the analysis. I will also have a small discussion of some areas and give examples of further research.

6.1 Limitations

Certainly I am aware of some limitations of this thesis and I would like to discuss them. There could have been a larger group of respondents but for the size of this thesis and the information gained I feel it was a good number of respondents. There could also have been a deeper and fuller theoretical part concerning SOX, instead of focusing on the more important areas of SOX as examples. Though there have been limitations, I believe it gives us a good view of what transparency is, what SOX does, and how leaders perceive it.

6.2 Conclusion

This thesis aimed to answer the question that was raised in chapter one:

Problem:

- How do leaders perceive transparency and do they believe SOX to be an important support in achieving more transparent corporations?

Purpose:

- The purpose of this thesis is to increase the understanding of how transparency and SOX in US corporations is perceived. To reach this goal, I will do in-depth interviews with corporate leaders.

Looking back at the research and the empirical findings I can say that transparency is continuing to be important and that SOX has helped even though it has had some flaws. Though it’s not clear to what extent transparency was a viable method before SOX. It seems that the respondents perceive that transparency has grown in a similar way even though they have some different views on some parts of it.

The respondents think that most transparency is good and that most of SOX was necessary and a step in the right direction. They also think that it is important that the cost is in accordance with the benefits of it. There is talk about being honest and open and it seems that
has been an important tool as a reaction to the scandals that occurred during the beginning of 2000. There is a common thing in both theory and among respondents that trust and honesty are important things for companies. Companies are trying to be “good” and do things for their community and the leaders seem to understand that it has to start at the top of the chain to work its way throughout the company to be more open and transparent. It is important to know that “doing good” for the community might be more beneficial to the company, in terms of goodwill, than what level of transparency it may lead to. There might be a risk that the outreach to the community can dim the question about transparency and when people see pleasant things happening in the community they might not think about transparency as much. It is important to understand that “doing good” is a positive way for the company to give something back or gain trust from the community but it is not the same as being transparent.

The respondents’ perception of transparency is that it, in most cases, is a good thing. It’s important to be aware of side-effects and know about the costs of transparency. According to the respondents, there is a higher degree of transparency now, or at least a higher degree of trying to be transparent, then it was before SOX was implemented. I believe that they have found a way to work with transparency and to see its benefits even though they are still concerned about some, as the first respondent said, undesirable side effects.

The different forms of transparency is also something that has been experienced by most respondents and often led to something beneficial for them as well as their company. I believe it is important to actually see and experience the effects of transparency to be able to fully understand it.

My conclusions from this would be that the respondents perceive transparency in a similar way and most of the time as something good. I also believe that they view transparency better if they have some control over it. Another conclusion is that they believe SOX to be an important regulation even though not all aspects of SOX are favorable. I guess that they would like to do a few changes to it to accommodate the needs of companies more.

At the end of the day, I think that it is important to acknowledge the good things with transparency but also make sure it is used in a proper way. It cannot be at the company’s whim to use, there have to be some common rules to follow. Even though there are important
matters discussed within each company, such as intellectual property and national security, there have to be laws and regulations that dictates what is acceptable to disclose or not.

6.3 Further discussion and future research
In chapter 5.2 I talked about how SOX is a major act which all organizations must follow and from what I have seen in the empirical data and from the scandals that have happened it has sometimes been hard for companies to adopt and move on. I think this is something we can see happening again in the USA and the world today. I believe that new regulations will be the outcome of this current crisis, and that SOX is here to stay. It might be even harder for companies to adjust to whatever is coming.

Earlier in the analyze I talked about Bennis (2008) were he said that without transparency, organizations will fail and that he also said that openness is the primary predictor of success in work teams and that organizations consist of a lot of teams. I think this is true and that it is beneficial to be transparent in today’s world, because the world is becoming more open and I think that the demand for openness will continue to rise. There might also be more trust among employees when the company is open and transparent.

Another thing that is interesting to discuss is what Govekar (2008) argues for in the article about seeing the trends. The trends he spoke of were epic CEO’s, free marketism and speedy new technologies. A main factor was also greed. If we can stop or at least lessen the crisis before it happens and also let those with insight in these matters have a word. Here I’m referring to regulation bodies such as INTOSAI, EUROSAI, PCAOB, SEC, OECD etc. They have valuable guidelines and information that can be of good use both before, during and after a crisis. It is important that we can trust the governments and these regulation bodies to do what is right and also to consult each other. This is also something Piotrowski (2007) argues in her book, that trust in the government is linked to transparency. I think that if we are to have transparency in the corporations, it is good if the governments can show the way by having transparency and also enforcing the laws and regulations to make sure that transparency exists. It has to start somewhere and just as the respondents said that it has to be the tone at the top of the companies, the government is at the top of society, the regulation bodies are the governments’ right hand. I also believe that the more democratic countries become the more transparency we will see, because of the openness democracy brings. For this it is important with FOIA’s and other regulations that promote a democratic behavior.
One thing that is interesting for further research is how one respondent says that there is much more transparency in the profession he is in today than it was in 1980. This has to do with SOX as we could see in the empirical data earlier, which has led companies (perhaps forced companies) to strive to be more transparent. An interesting thought, which could be used for a future study, is if there was any transparency at all in 1980, or what kind of information was released under the circumstances during that time.

It would be interesting to study transparency over a period of time. As I said earlier in the analysis chapter, I wonder if there was any transparency at all in 1980, or what kind of information was released under the circumstances during that time. A study like that could involve different decades (70’s, 80’s and 90’s) and perhaps highlighting specific years of interest. Another interesting approach could be to broaden this study to include more respondents and more companies or perhaps do comparison studies between countries, for example USA and Great Britain or Sweden and the other Nordic countries. There has to be some similarities between the countries to make it easier to study and compare.
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Appendix
What does transparency mean to you?
How would you define transparency?
What kind of transparency does your corporation provide your stakeholders?
Have you ever changed your values or behavior because of transparency?
Do you believe that corporations can profit from doing “good”, and if so, how?
If and when there are things that are not disclosed, what would you say is the purpose of not disclosing?
What is the purpose of revealing information?
What would you say are the most important characteristics of an open corporation?
What is good leadership?
How much transparency would you say is a reasonable amount to expect from a company?
What kind of measures could management do to ensure transparency in a working environment?
What do you believe is needed to make an organization fully transparent?
Has your corporation ever been exposed to forced transparency, and in that case, how did you handle it?
Has your corporation ever been exposed to targeted transparency, and in that case, how did you handle it?
Can you give any examples of when a company benefits from targeted transparency?
Who is responsible for ensuring transparency?
What is the most important tool for transparency?
How did your company react in the wake of Enron and other companies’ failure?
Is the Sarbanes-Oxley Act of 2002 enough or can more be done?
Is the transparency in your company accessible to everyone?
Can you see any dangers with transparency?
What would you say are the positive things with transparency and what are the negative things?