

# The Role of Communication Ethics in Corporate Governance

by Millicent Danker

One of the frequently-cited quotations in Corporate Governance literature is that attributed to the past president of the World Bank, James E. Wolfensohn: "The proper governance of companies will become as crucial to the world economy as the proper governing of countries."

Wolfensohn would have recognised that good governance practices dictate how companies must be managed and regulated. Being as powerful as they are, they can encroach upon, if not threaten, the well-being of stakeholders across the world.

But what is corporate governance? In the words of the 'father of modern corporate governance', Sir Adrian Cadbury, it is "the system by which companies are directed and controlled". But no common understanding of the term can be reached without turning the attention to the debate between the school of *shareholder* theorists and that of *stakeholder* theorists. The first holds the view that "the business of business is business" and that companies exist purely to serve the interests of their shareholders to whom they are solely accountable. The second believes that the purpose of the firm is to serve and coordinate the interests of its stakeholders.

As a public relations practitioner, I tend to lean on the side of the stakeholder school. Corporate governance, we would suggest, refers to a 'web of relationships' between a company, its owners and other stakeholders (see chart).

In the global corporate governance debate, there appears to be insufficient consensus on what it all means and, equally, uncertainty about how far companies should go to promote best practices. But one thing is sure. Good governance is sexy – to governments, regulators, investors, shareholders and even academics.

Having gained the international spotlight following the Cadbury Report (1992), corporate governance attracted even more interest after Enron. In Asia, the impetus came from the financial crisis of 1997/98. Governments have since recognised that to build credible capital markets they had to play by the rules of international best practice.

More than 60 corporate governance codes have been issued by stock exchanges and regulatory bodies worldwide (Malaysia rolled out its own in March 2000), prescribing better-quality boards, risk-management practices and new benchmarks in financial reporting. Underpinning these reforms is the expectation, which appears to be quite universal, that companies will aspire to be much more transparent and ethical in their behaviour.

What does PR have to do with corporate governance? The answer is in its lexicon. The literature pertaining to corporate governance is awash with words like transparency, timeliness, trust, truth, openness, disclosure, accuracy, honesty, ethics, integrity, responsibility, fairness, accountability.

My own favourites are the first 4 Ts, key value propositions that determine, dictate and shape communications behaviour.

The Malaysian literature bears this out. The Securities Commission says, "Disclosure and transparency are vital for a strong corporate governance framework". The view of Bursa Malaysia as a key regulator is that good governance is "essential for investor confidence and enhancement of shareholder value (so that) a secure and vibrant market can be cultivated, one which is premised on the principles of fairness, integrity, transparency and accountability."

The Bursa has also noted that "Timely disclosure of material information is critical towards building and maintaining corporate credibility".

Transparency International defines 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." But transparency is also about being open, forthcoming with information, careful not to mislead,

presenting the facts as they are, having concern for clarity and honesty and avoiding opacity. Cadbury argues that transparency and openness are necessary to build goodwill towards the company which can be drawn on in moments of difficulty. "The more information that is openly available about a company, the less chance there is of anyone gaining a financial advantage through privileged knowledge".

Transparency is widely believed to be of marketable value and even central to business success. How companies can actively begin the task of being transparent is a key challenge for boards going forward. It is not limited to disclosure of financial matters alone but suggests a new manner of corporate behaviour, a holistic approach to good governance.



There are several practical dilemmas under the banner of transparency related to clarity of its applications and its limitations in business, for example:

- Transparency vs confidentiality
- Real time vs retrospective transparency
- Full vs selective disclosure
- Who gains and who loses from increased transparency?
- 'Soft' vs 'insider' information
- Formal vs Informal channels
- Public vs Private platforms
- Privileged vs Equal access
- Price-sensitivity, materiality and language of reporting

Transparency is a word pregnant with communication responsibilities. Trust, too, can only be nurtured through meaningful and mutually-rewarding stakeholder relationships and two-way dialogue, while Truth calls for absolute personal and professional communication integrity. More and more, companies will need formal operating principles or protocols within which to communicate ethically in a spirit of transparency, timeliness and truthfulness. Without communication ethics, corporate governors will be hard put to embrace a culture of good governance.

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