

# THE WRONG KIND OF TRANSPARENCY?

Transparency Task Force – The Case for Radical CG Reform

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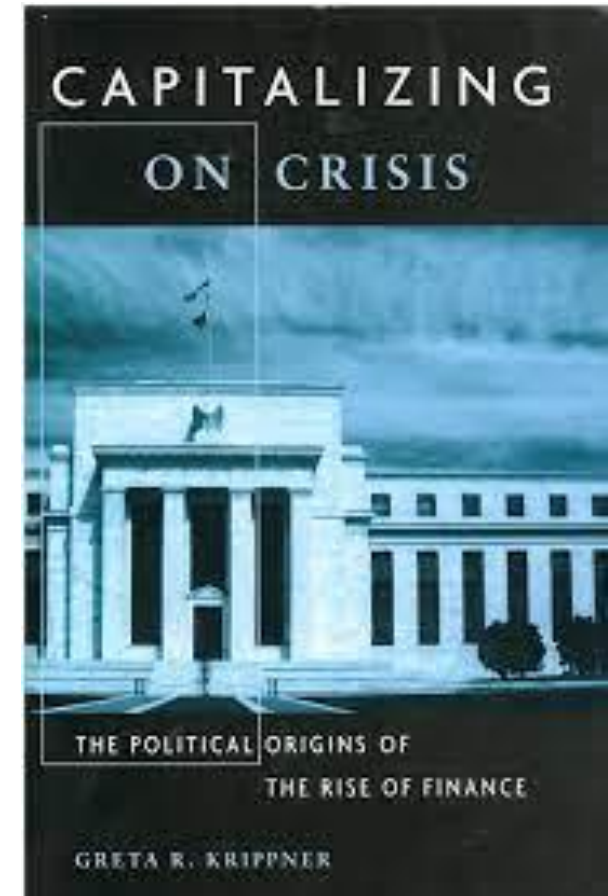
## LESSONS FROM RECENT CORPORATE GOVERNANCE RESEARCH

1. 'Financialisation' and its link with transparency
2. Does law matter for corporate governance?
3. Implications for CG reform

# I. FINANCIALISATION

## The Financialisation of (non-financial) corporations






- Increasing percentage of profits stem from **financial market activities** (interest income) rather than productive activity (Greta Krippner)
- **Increasing pay-out ratios** : From ‘retain and reinvest’ to ‘downsize and distribute’ (Bill Lazonick & Mary O’Sullivan )
- Former trend has disappeared in the post-GFC low interest rate environment; the latter persists



# WHAT'S TRANSPARENCY GOT TO DO WITH IT?

- General idea: ***Sunlight is the best disinfectant*** – any kind of transparency is better than none
- Yet, more transparency often associated with more aggressive accounting standards (mark-to-market)
- Push towards maximal pay-outs for shareholders at the expense of other stakeholders?

## Legal Perception and Finance: The Case of IPO Firm Value

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## Twenty years of 'Law and Finance': time to take law seriously

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## 2. LAW & CORPORATE GOVERNANCE

- Corporate governance reform often through regulatory or legal reform (cf. millions spent on legal reform units at World Bank, IMF, OECD, EBRD etc)
- Assumption: straightforward link between legal reform, behaviours, and economic outcomes
- Yet, recent research suggest more complex relationships between law and outcomes
- E.g. The *perception* of law matters more than its actual content

# IMPLICATIONS FOR GOVERNANCE REFORM

- Lesson from financialisation research: What kind of transparency do we want?
- Lesson from law & finance research: Legal reforms on their own won't do the trick
- Do we need radical CG reform? (e.g. Bill Lazonick: ban share buybacks)
- How do we change social norms/corporate cultures?

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GOVERNANCE **INSIGHTS**

### Improve executive behaviour with better board education



by GERHARD SCHNYDER

Everyone wants executive behaviour to improve. But the solution cannot just be to increase regulation—the answer lies in better managerial education and audacious corporate governance reform.