SPRINGER NATURE Link

Log in

# The Economic Inefficiency of Secrecy: Pension Fund Investors' Corporate Transparency Concerns

Published: February 2006

Volume 63, pages 385–405 (2006) Cite this article



Journal of Business Ethics

Tessa Hebb [1]

784 Accesses 60 Citations 3 Altmetric Explore all metrics →

## Abstract

In the wake of recent corporate scandals, this paper traces the growing power of pension funds to provide managerial oversight of the firms they hold in their investment portfolios. Increasingly pension funds are exercising their legitimate rights as owners to raise the corporate governance standards of the firms they invest in. Within corporate governance generally, pension funds are shifting their attention away from managerial accountability and toward measures that increase transparency in firm-level decision-making. Pension funds use transparency to ensure that shareholders are the primary interest being served by the firm. Transparency not only aligns managers and owners, it also raises issues of firm behaviour that allow other stakeholders to engage the corporation more broadly. I contend that secrecy is economically inefficient. When organizations are opaque and interests are secret, decision-making can and does distort efficiency. I examine recent pension fund corporate governance campaigns with particular reference to the California Public Employees Retirement System.

This is a preview of subscription content, log in via an institution to check access.

**Access this article**

Log in via an institution →

**Subscribe and save**

Springer+ from €37.37 /Month

- Starting from 10 chapters or articles per month
- Access and download chapters and articles from more than 300k books and 2,500 journals
- Cancel anytime

View plans →

**Buy Now**

Buy article PDF 39,95 €

Price includes VAT (Poland)

Instant access to the full article PDF.

Institutional subscriptions →

**Explore related subjects**

Discover the latest articles, books and news in related subjects, suggested using machine learning.

Microfinance | Privatisation | Public Finance | Public-Private Partnership | Business Ethics | Corporate Governance | Voluntary Disclosure Practices in Corporate Governance

# References

M. Anson T. White H. Ho (2003) 'The Shareholder Wealth Effects of CalPERS Focus List' *Journal of Applied Corporate Finance* **15** 102–112 10.1111/j.1745-

6622.2003.tb00464.x

Associated Press: 2002, January 29th. web site: htpp://www.recordsearchlight.com/newsarchive/20020129topstate024.shtml"

A. A. Berle G. C. Means (1933) The Modern Corporation and Private Property Harcourt, Brace and World, Inc. New York

Black, B.: 2001,'The Core Fiduciary Duties of Outside Directors', Asia Business Law Review 3, July 16.

L. D. Brandeis (1914) Reprint 1971. Other Peoples' Money – and How Bankers Use It A.M. Kelley New York

CalPERS: 2000, Speech of Charles P. Valdes on Principles of Corporate Governance

G. L. Clark (1998) 'Stylized Facts and Close Dialogue: Methodology in Economic Geography' *Annals of Association of American Geographers* **88** 73–87

G. L. Clark (2000) Pension Fund Capitalism Oxford University Press Oxford

G. L. Clark T. Hebb (2004) 'Pension Fund Corporate Engagement: The Fifth Stage of Capitalism' *Relations Industrrielles/Industrial Relations* **59** 1 171

G. L. Clark D. Wójcik (2003) 'An Economic Geography of Global Finance: Ownership Concentration and Stock Price Volatility in German Firms and Regions' *Annals of the Association of American Geographers* **93** 909–924 10.1111/j.1467-8306.2003.09304012.x

Clark, G. L. and D. Wójcik: 2004 forthcoming, 'Financial Valuation of the German (Regional) Model: the Negative Relationship between Ownership Concentration and Stock Market Returns', *Economic Geography*, forthcoming

R. Coase (1960) 'The Problem of Social Cost' *Journal of Law and Economics* **3** 1–44 10.1086/466560

J. Coffee (1997) 'The Folklore of Investor Capitalism' *Michigan Law Review* **95** 1970

E. F. Fama (1965) 'The Behaviour of Stock Market Prices' *Journal of Business* **38** 34–105

FT Financial Times: 2003, May 15th 1

M. Friedman (1962) Capitalism and Freedom University of Chicago Press Chicago

Friedman, M.: 1970, 'The Social Responsibility of Business is to Increase Its Profits', *New York Times Magazine*, September 13

J. K. Galbraith (1967) The New Industrial State Second, Revised ed Andre Deutsch Ltd. London

Gompers, P., J. L. Ishii, et al.: 2003, 'Corporate Governance and Equity Prices', *Quarterly Journal of Economics*, February

Guardian: 2003, May 20th 1

J. P. Hawley A. T. Williams (2000) The Rise of Fiduciary Capitalism University of

Pennsylvania Press Philadelphia

M. Jensen W. Meckling (1976) ‘Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure’ *Journal of Financial Economics* **3** 4 305–360

M. Jensen (1986) ‘Agency Costs of Free Cash Flow, Corporate Finance and Takeovers’ *American Economic Review* **76** 323–329

R. LaPorta F. Lopez-De-Silanes A. Schleifer R. W. Vishny (1998) ‘Law and Finance’ *Journal of Political Economy* **106** 1113–1155

R. LaPorta F. Lopez-Silanes A. Schleifer (1999) ‘Corporate Ownership Around the World’ *Journal of Finance* **54** 471–517

Memphis Business Journal (2000) Jan. 14th

R. A. G. Monks N. Minow (1995) Corporate Governance Blackwell Oxford

Monks, R.: 1994, Sears Case Study. http://www.1ens-library.com/info/sstan.html

Nesbitt, S. L.: 1994, ‘Long-Term Rewards From Shareholder Activism: A Study of the “CalPERS Effect”,’ *Journal of Applied Corporate Finance*, Winter

Nesbitt, S. L.: 1995, The “CalPERS Effect”: A Corporate Governance Update, July 19

W. M. O’Barr J. M. Conley (1992) Fortune and Folly, the Wealth and Power of Institutional Investing Business One Irwin

Pensions and Investments: 2002, *Annual Yearbook* December 31st

M. Roe (1994) Strong Managers, Weak Owners: The Political Roots of American Corporate Finance Princeton University Press Princeton

M. Roe (2000) 'Political Preconditions to Separating Ownership for Corporate Control' *Stanford Law Review* **53** 3 539–606

A. Shleifer R. W. Vishny (1997) 'A Survey of Corporate Governance' *Journal of Finance* **52** 737–783

M. P. Smith (1996) 'Shareholder Activism By Institutional Investors: Evidence from CALPERS' *Journal of Finance* **51** 227–252c

A. Strauss J. Corbin (1998) Basic Qualitative Research: Techniques for Developing Grounded Theory 2 Sage Thousand Oaks

Tagliabue, J.: 2000, 'The French are Resisting American Funds and Investors', *The New York Times*, January 9th

O. E. Williamson (1985) The Economic Institutions of Capitalism Free Press New York

# Author information

## Authors and Affiliations

**School of Geography and the Environment, Rothermere American Institute, University of Oxford, Mansfield Rd., Oxford, OX1 3TB, UK**
Tessa Hebb

## Corresponding author

Correspondence to Tessa Hebb.

## Additional information

Dr. Hebb is a senior research associate at the Labor and Worklife Program, Harvard University and the Oxford University Centre for the Environment. She is researching the role of US public sector pension funds and urban revitalization as lead investigator on a two-year Rockefeller and Ford Foundation grant. Her doctoral work at Oxford University examined the impact of pension fund corporate engagement on the corporate governance, social and environmental standards of firm behaviour. She was a Clarendon Scholar at Oxford University and was awarded the prestigious William E. Taylor Fellowship (2003) from the Social Sciences and Humanities Research Council, Government of Canada. Dr. Hebb is also a recipient of the York University Schulich School of Business National Research in Financial Services and Public Policy Scholarship (Canada). Dr. Hebb is also the Director of the Capital Strategies Program at the Carleton Centre for Community Innovation (3ci), Carleton University, Canada. Here her work focuses on the financial and non-financial impact of pension fund economically targeted investment in Canada as part of a three-year SSHRC Initiatives in the New Economy grant.

## Rights and permissions

Reprints and permissions

## About this article

### Cite this article

Hebb, T. The Economic Inefficiency of Secrecy: Pension Fund Investors' Corporate Transparency Concerns. *J Bus Ethics* **63**, 385–405 (2006). https://doi.org/10.1007/s10551-005-3968-9

Issue date

February 2006
DOI

https://doi.org/10.1007/s10551-005-3968-9

## Keywords

accountability | CalPERS | corporate governance | ethical codes | pension funds | transparency

## Search

### Search by keyword or author

## Navigation

### Find a journal

### Publish with us

### Track your research