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

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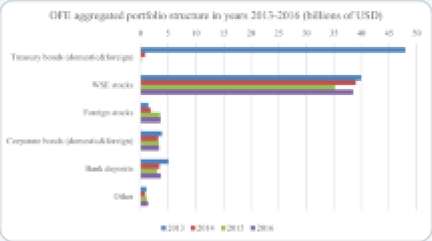
Abstract

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.



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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.

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