

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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