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**ACCOUNTABILITY AND TRANSPARENCY AS
LEARNING PROCESSES IN PRIVATE, PUBLIC
AND GLOBAL GOVERNANCE**

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ACCOUNTABILITY AND TRANSPARENCY AS LEARNING PROCESSES
IN PRIVATE, PUBLIC AND GLOBAL GOVERNANCE

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ABSTRACT

This paper argues that accountability in organizations should not be constrained to responsibilities alone, but it must also comprise the previous commitments without which responsibilities remain meaningless. It also asserts that transparency should not be merely predicated upon the production of information but be focused instead on stakeholders who lay claim to their essential rights of being informed. Afterwards, it deals with a learning-process approach that brings to light the prime linkage between accountability and transparency in the building of private, public and global governance.

JEL codes: G34, G38, F65, H83

Key words: accountability, transparency, learning processes, governance, commitments, responsibilities.

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INTRODUCTION

In an academic contribution that has already become a classic of Social Sciences, W. B. Gallie (1956) introduced a methodological framework grounded on what he called “essentially contested concepts”, that is to say, those concepts that involve never-ending controversies about how to use them because they are so responsive to alternative contexts of explanation. He presented his ideas this way¹:

Further, I shall try to show that there are disputes, centered on the concepts which I have just mentioned, which are perfectly genuine: which, although not resolvable by argument of any kind, are nevertheless sustained by perfectly respectable arguments and evidence. This is what I mean by saying that there are concepts which are essentially contested, concepts the proper use of which inevitably involves endless disputes about their proper uses on the part of the users. (page 169)

When we look into some concepts that have been employed since the 1970s in the analysis of private, public, and global governance, we encounter conspicuous examples of essentially contested concepts; for instance, those of accountability and transparency.

This paper intends to make three contributions to the foundations of governance:

- a) It charts a description of the accountability process that stems from a compact of commitments and responsibilities, which allows for a much more pragmatic definition than the conventional one still in use.
- b) It puts forth a criterion that makes transparency the core concern for the stakeholders of any organization in the realms of private, public and global governance.

¹ Linguists and neuroscientists, George Lakoff (2009) for instance, have pointed out that the expression “contested categories” seems more embracing than “contested concepts”. This line of research has also been further clarified by Jason Patent (2010), whereas a critical appraisal of Gallie’s achievement can be found in Collier et al. (2006).

- c) It sets up a frame of analysis that uncovers why both accountability and transparency turn out to be learning processes.

In earlier publications of mine, (Apreda, 1999, 2003b, 2011b, 2011a, 2012a) I have stressed that accountability should not be regarded as merely consisting in responsibilities, since carrying on such narrow standpoint just removes the role of commitments in the forging of any accountability process. By the same token, and not surprisingly, there has been a longstanding neglect in the academic literature addressing transparency as if it had a life of its own, keeping it unrelated to accountability. (On this, see Apreda, 2007b, 2012b, 2014)

Before expanding upon our line of argument, it seems advisable to lay down what we understand by “governance”. It goes without saying that the notion of governance calls for a working prototype of definition² that could embody those expected functions that intuition and scholarship attach to the day-to-day running of private, public or global organizations³.

Definition 1 ***Governance***

*By **Governance** we are to understand a field of learning and practice whose main targets are*

- the search of principles, rules, procedures and good practices that allow organizations to be efficaciously run within the constraints of evolving institutions and changing regulations;*
- the design of a functional blueprint for the implementation and follow-up of mechanisms for participation, representation, opposition, voting, countervailing, monitoring;*

² Definitions, within the scope of this paper, stand for a semantic and methodological vehicle on behalf of any considered reader who may ask himself: which is the meaning the author attaches to such and such expression? Under no circumstances our definitions intend to be regarded as the best available, still less the only ones that can be adopted.

³ Definition 1 is drawn from Apreda (2003a, 2006)

- *the fostering of accountability and transparency, as well as the management of conflict of interests, incentives and standards of performance arising from the interaction of natural persons and corporate actors within each organization.*

Remarks

- i) To gain the intuition behind definition 1, **Governance** might also be considered as the art and techniques to care for the way a system may work, as a matter of course.
- ii) Governance is a concept that it focuses on the structure and running of organizations.

To attain the above mentioned purposes, I am going to keep the following sequence of stages. In section 1, we will review some noteworthy contributions to the conventional meaning of accountability, pointing to the advantages and disadvantages of such perspectives. Section 2 will provide our own comprehensive definition of accountability to handle the manifold interplay of commitments and responsibilities. It is for section 3 to shape the notion of transparency as an essential right to be claimed by stakeholders. Section 4 will bring to light a learning-process approach to accountability and transparency.

1.- THE CONVENTIONAL MEANING OF ACCOUNTABILITY

Let us start with the meaning conveyed in the authoritative Black's Law Dictionary (1999), which has only one entry under the label of "accountable" as the quality of "being responsible or answerable"; astonishingly, it has no entry for "accountability"; neither has one for "transparency". More encouraging seems the wide-ranging Concise Oxford English Dictionary (2009) that defines "accountable" as what seems "required or expected to justify actions or decisions" and also adds the meaning of "explicable or understandable".

Be that as it may, when we wish to know more about accountability in organizations, it will be worth looking for some considered judgments that have been shaped so far in the study of governance.

a) Accountability in Private Governance

If we asked ourselves for the beginning of a systematic attempt to deal with accountability and transparency, we should look back into the first half of the XVth century, when Venetians standardized the double-entry bookkeeping and it was published the path-breaking work of Luca Pacioli in 1494. Whereas accountancy was an essential contribution at the dawn of capitalism, together with the adoption of Hindu numerals and the printing press, its development went far away from the intended outcomes of giving a reliable account for the financial state of the firm, and very often it helped to hide or misrepresent the equity of entrepreneurs and corporations. An encompassing review of this wide-ranging technique has been carried out by the Australian economist and accountant Jane Gleeson-White (2012). Speaking about the failures of accountancy and auditing in the last financial crunch, she pointed out:

On 26 February 2009 the largest company in the world by asset size, the Royal Bank of Scotland, gave a preliminary announcement of its annual results. It had lost £24 billion, the greatest loss in British corporate history. By June 2009, British taxpayers had spent £45.5 billion to bail out the RBS and another £50 billion for a toxic assets protection scheme – and, on top of that, a ludicrous £16 million payout to its disgraced former chief executive officer Sir Fred Goodwin. [...] There is something wrong with a system in which company accounts, required by law to give a true picture of a corporation's financial position for investors, are inscrutable. (pp. 197-198)

Nevertheless, the formal and systematic research in the governance of corporations as well as other types of private organizations can be traced back to the beginning of the 1970s, when the mainstream notions evolved out of work done in the fields of Law and Economics, Finance, and Organization Theory. [A thorough analysis can be found, for instance, in Kostyuk et al. (2007), while the semantics of governance is elaborated in Apreda (2006, 2003a)]

Whereas several among the current definitions of accountability may be regarded as contestable according to their academic standpoint, the conventional wisdom on this matter agrees that it should be predicated upon the tasks and duties of the Board of Directors. In a book edited by Kostyuk, Braendle and Apreda (2007), the editors gathered contributions from 52 scholars in corporate governance around the world and a glossary was attached at the end of the book portraying the consensus reached by those experts about the usage of some words and expressions. Although accountability was defined in the conventional fashion by hanging upon the functions of the Board, it also left room for social capital⁴ and stakeholders:

Accountability: A board's sense of responsibility, building of trust and credibility with the public and constituents. (page 361)

In general, the traditional perspective gives prominence to certain features in the operations of any organization, namely the allotment of responsibilities, the delegation of authority, the handling of control and auditing. Moreover, acknowledgment of both specialization and division of labor brings about the need of an intermediary vehicle whose mission consists in keeping the management accountable and equity-holders safe, albeit it receives alternative names depending on the ownership structure of the organization: family councils in small companies, fiscal and administrative committees in cooperatives and foundations, boards of directors in corporations. Not surprisingly, and strongly related with this issue, the role of such vehicles overlaps with what I called elsewhere “the brokerage of asymmetric information” (Apreda, 2005, 2007c).

⁴ Halpern's book (2005) is a seemly treatment of this topic. He introduces the meaning of social capital by saying the following: *Societies are not composed of atomized individuals. People are connected with one another through intermediate social structures – webs of association and shared understandings of how behave. This social fabric greatly affects with whom, and how, we interact and co-operate. It is this everyday fabric of connection and tacit cooperation that the concept of social capital is intended to capture. (page 3)*

Unfortunately, the prevailing opinion has not been able so far to explain and prevent Boards' misbehavior nurturing blame avoidance procedures and the passing of the buck to the senior Management or other carefully chosen scapegoats, as so many striking examples since the turning of this century have caused affront to courts, lawmakers, and the public mind. It is well-known that unless directors work like executives in the company, the remaining ones should be listed as part-timers; even worse, several scandals have uncovered that many directors are prone to increase their membership into several boards in other companies, bidding for prestige, high fees, and a host of perks, which appears to be a herd behavior that has fostered a clubby culture devoid of strong commitments and responsibilities, to say the least.

After the wave of corporate scandals that followed the shameful demise of Enron⁵ and World Com, a new common consensus was reached around the essential role for independent directors ought to play when accountability is at risk. On this regard, a cautious note has recently been raised by The Economist (2014):

Everyone thinks independent directors make better board members but there is no academic evidence to prove it. When Lehman Brothers went bankrupt, eight of its ten directors were independent. (page 56)

To all intents and purposes, there has been a biased attitude in highlighting that accountability can be achieved if we merely try to comply with regulations. Although this has become a windfall gain for law and auditing firms, it turns out to be self-defeating because of two developments:

- i) It seems unlikely that any organization could refuse to comply with the law and regulations, otherwise they would face material consequences. However, and since the eighties in last century, there has been an increasing shift of investments, operations, branching and logistics towards offshore locations,

⁵ A carefully exploration on Enron's demise can be found in Aprea (2002).

which provide with secrecy and opaque governance, turning a mockery out of accountability and transparency⁶.

- ii) Even if organizations remained working onshore they would get access to a wide spate of mechanisms that prevent information from reaching their stakeholders, and furnish any company with powerful blame avoidance tools: for example by outsourcing expert advice from public relations agencies; business and marketing coaching; political counselors and the so-called spin doctors. On this point, we believe the books by Stauber and Rampton (1995), and Hood (2011) should be a must-read assignment in Business Schools.

b) Accountability in Public Governance

Public Governance became a distinctive branch of knowledge in the last half of the past century, albeit many of its problems and queries go back to the inception of Political Analysis in Ancient Greece, as we can ascertain from surveying any comprehensive history of political philosophy, like the one carefully edited by Leo Strauss and Joseph Cropsey (1987). I have contributed to this domain elsewhere (Apreda, 2008), and chiefly in my book *Public Governance: A Blueprint for Political Action and Better Government* (Apreda, 2007c). Nonetheless, and by way of illustration, some clarifying stances from well-known scholars have been excerpted next.

A helpful perspective has been advocated by Donald Kettl (2002), who reminds us about the fuzzy boundaries of discretion in public administration:

By World War II, traditional public administration had developed two standard but conflicting perspectives on accountability. One perspective, following Carl Friedrich, contended that accountability had to come from an administrator's own integrity and this was largely a product of

⁶ An example of wrongdoing was epitomized by the Northern Rock Bank in the last financial crisis that started in 2007; it has been researched by Shin (2009). The building of opaque governance is tracked down in Apreda (2012b). Further details on offshore locations in section 2.3.

professional training and experience. Herman Finer strongly disagreed and argued that accountability essentially had to flow from control by outside forces with legal oversight powers, such as Congress, the president, and the courts. This debate has never been, and indeed never can be, resolved. (page 96)

In his thought-provoking rendering of accountability in democracy, Robert Behn (2001) finds fault with deceptive ways of handling this notion. In his own words:

What do we mean by accountability? Whatever we mean today by the concept and process of accountability, it is, in practice, very linear, hierarchical, and unidirectional. The simple phrase we use – “hold people accountable” – dramatizes the character of the relationship. One person is holding another accountable. There are an accountability holder and an accountability holdee – an accountability punisher and an accountability punishee. It is a superior-subordinate relationship. The superior holds the subordinate accountable. The superior punishes the subordinate. The subordinate has no rights or leverage. The subordinate can only cringe in fear. (p. 196)

After a deep criticism of the conventional meaning of accountability, Behn develops what he called the “360-degree feedback for performance”, to hold people accountable to all their relevant stakeholders:

People are not merely evaluated by their hierarchical superior. They are also evaluated by their subordinates, their peers, and the people with whom they have worked on teams. They are evaluated by their internal and external customers as well as by their internal and external suppliers. (p. 198)

In the last three decades, scholars undertaking research into the cognitive and political sciences have been widening the accountability debate, among them George

Lakoff (2009) who states that such idea, being context-dependent, can't carry a fixed meaning:

To progressives, it means accountability to the public on the part of those in charge. To conservatives, it is completely different. Those in charge are moral authorities. They hold their underlings accountable to them! (pp. 185-186)

c) Accountability in Global Governance

Whereas private and public governance have achieved a much more mature state than global governance, the latter has been catching up with the former since the waning of the twentieth century, fostered not only by globalization but also by the widespread adoption of representative and democratic governments worldwide⁷.

It's worth quoting here what Barnett and Duvall (2005) felt as a neglected perspective in the scholarship of global governance issues.

This impressive attention to the concept and workings of global governance, however, has not included a sustained consideration of power. This is paradoxical because governance and power are inextricably linked. Governance involves the rules, structures, and institutions that guide, regulate, and control social life, features that are fundamental elements of power. To account for how global activities are guided and how world orders are produced, therefore, requires careful and explicit analysis of the workings of power. Moreover, the classical questions of governance, particularly in the liberal tradition, are centrally concerned with power.(page 2)

⁷ A viewpoint of global governance focused on fiduciary duties and the brokerage of asymmetric information was introduced by Aprea (2005).

On the other hand, it seems relevant to benefit from the fine distinction between the concept of “checks and balances” on the one hand, and “accountability” on the other, that Ruth Grant and Robert Keohane (2005) brought about when coping with the interface of public and global governance.

“Checks and balances” are mechanisms designed to prevent action that oversteps legitimate boundaries by requiring the cooperation of actors with different institutional interests to produce an authoritative decision. Accountability mechanisms, on the other hand, always operate after the fact: exposing actions to view, judging and sanctioning them. The executive veto power in the U.S. Constitution is part of a system of checks and balances. The impeachment power is an accountability mechanism. Of course, though they always operate ex post, accountability mechanisms can exert effects ex ante, since the anticipation of sanctions may deter the powerful from abusing their positions in the first place. (page 30)

The evidence seems overwhelming that, more often than not, international institutions (either political or economic) become powerful actors, albeit the consequences of their policies have been called in question from many quarters. Outstanding among their critics, Joseph Stiglitz copes with the linkage between globalization and its discontents. Let us quote his topical opinion:

Underlying the problems of the IMF and the other international economic institutions is the problem of governance: who decides what they do. The institutions are dominated not just by the wealthiest industrial countries but by commercial and financial interests in those countries, and the policies of the institutions naturally reflect this. [...] Unfortunately, we have no world government, accountable to the people of every country, to oversee the globalization process in a fashion comparable to the way national governments guided the nationalization process. Instead, we have a system that might be called “global governance without global government”. (pp. 18-20)

As a last sample of contesting views attached to the meaning of accountability, we are going to retrieve the opinion of Francis Fukuyama (2013) on the shortcomings of certain economic approaches to the subject, which he cleared up in a paper devoted to public and global governance⁸:

The bias against thinking about state capacity is particularly strong among rational choice institutionalists. Most in this school begin with Mancur Olson's assumption that states are predatory, and that the chief aim of political development is the creation of institutions like rule of law and accountability that limit the state's discretion. This school assumes that all states have the power to be predatory, and seldom raise the question of where state capacity comes from in the first place, or how it increases or decreases over time. Frankly, it would be very hard to develop a rational choice theory of state capacity since capacity in any organization is so heavily influenced by norms, organization culture, leadership, and other factors that don't easily fit into a model based on economic incentives. (page 2)

2.- A BROADER VIEWPOINT OF ACCOUNTABILITY

We have put forth elsewhere (Apreda, 2003a, 2006, 2007b, 2011a, 2012a) that only commitments lend meaning to responsibilities. Otherwise, on what grounds should anybody be held accountable if we took commitments out of the picture? Being responsible for failures, non-compliance, even successes, becomes abstract if we do not attempt to make a distinction between what one actor has promised to deliver and how well or badly he has actually achieved at the end of the day. Therefore, we wonder how we could link together commitments with responsibilities, which are the long-lasting staples of accountability. Let us expand on this further.

⁸ Green and Shapiro (1994) provide with a painstaking diagnostic of the main tenets and shortcomings conveyed in rational choice theory when it is applied to political analysis, whereas a perspicacious critique of orthodox economics has been developed by Professor Harold Lydall (1998).

First, by “commitments” we mean a kind of voluntary behavior that binds counterparts to keeping limits on their activities and discretion. Second, accountability looks like an interactive structure of behavior with subjects, predicates, and their reciprocal linkages. Third, we are going to work out such structure by disclosing two concurring characteristics: multiple accountability and mutuality of interests.

a) Multiple accountability

We have to bear in mind that commitments do not pertain only to one actor (the one who promises to comply). In point of fact, there is a give-and-take linkage between the party who demands the commitment (the holder) and the counterparty that agrees to be held responsible for carrying out the commitment (the holdee). Although this relationship singles out the two main actors, in many cases the whole process requires a double-tiered frame of analysis: the one based in the holder-holdee direction, which could be predominant along certain stage of the review, whereas the other tier leaves room for a reversal of roles, by which the holdee also behaves as a holder towards his counterpart. This sort of development will be called “multiple accountability”. Going to practical matters, depositors of any bank can be regarded as holders, but the bank itself –their holdee– must hold them accountable for their compliance with regulations (overdrafts charges, or taxes to be withheld), and it has also to inquire about the origin of their funds (money laundering risks, and tax compliance)

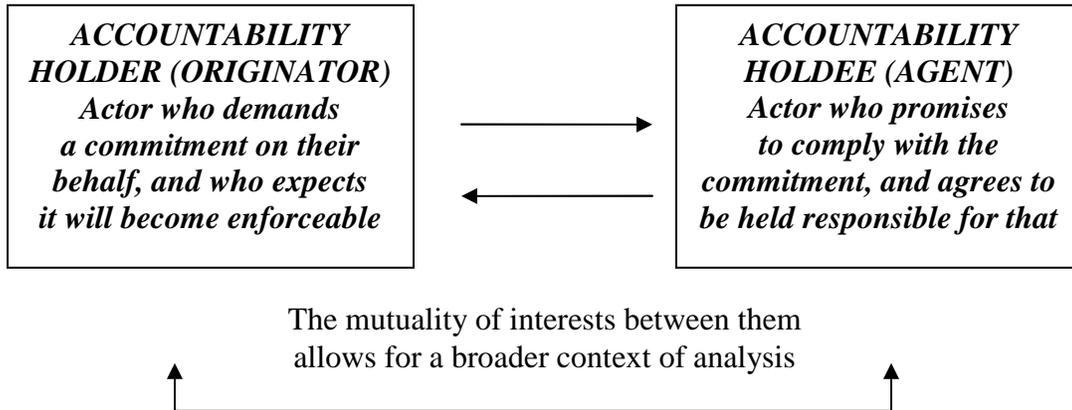
b) Mutuality of interests

We assert that holders and holdees enter upon their relationship by taking advantage of their “mutuality of interests” that comes defined by three features:

- Although the binding between holders and holdees is ruled by a covenant, contract, or specific law, their relationship derives from reciprocal interests.
- Furthermore, holders and holdees often come to realize that their association allows them the fulfillment of other kind of interests, not directly tied up with the primary purpose of their relationship.

- As long as the holder-holdee partnership unfolds, both direct and indirect interests are pursued relentlessly, ending up eventually in success, blame, failure or recognition.

Next diagram provides the intuition behind our argument.



Remarks

- i) We use the expression “actor” here as a meaningful collective that comprises, among other participants, individuals, corporate departments, government offices, regulatory bodies, church communities, the bank where you have taken a loan, professional codes of practice, gatekeepers, and the media.
- ii) Whereas such relationship usually conveys payments on behalf of the holdee, we find several settings in which this is not the case: membership in the board of directors of foundations related to scientific research, charities, clubs, youth organizations (boy-scouts), school (also colleges and universities) boards of trustees, museums and performing arts centers, churches, public libraries, juries in courts of law, professional bodies, parents and teachers associations. In all these examples, holdees do not receive cash payments at all.

2.1 THE COMPACT OF COMMITMENTS AND RESPONSIBILITIES

It follows hence that commitments and responsibilities are components of a well-defined arrangement that brings to light their reciprocal nature, which we are going to call *the compact of commitments and responsibilities*, as from now denoted **C(date)**, to

stress the fact that both its contents and their connections are time-dependent. The common thread running through **C(date)** entails the following structure:

- a) Basically, it consists of feasible and attainable rules of behavior tying up the counterparts, as well as goals, strategies, expected outcomes and relevant information for holders and holdees. In most cases, there is a discernible constituent in the compact that comes under the guise of a contract, covenant, treaty, convention, or law.
- b) Furthermore, it furnishes with mechanisms to work out disputes, conflicts of interests, rewards and penalties, as well as arbitration procedures.
- c) On the other hand, **C(date)** includes a considered choice of performance measures to follow up the compliance of the counterparty as time passes by.
- d) Moreover, **C(date)** is dynamic, it evolves and changes along an agreed period of analysis, whereby both counterparties nurture and get access to new information which is stored in the compact.
- e) Lastly, **C(date)** also conveys the description or, at least, some deducible clues for understanding the mutuality of interests that makes the relationship meaningful.

2.2 EXAMPLES OF THE COMPACT **C(date)**

Let us expand on some examples that shed light on the nature of the compact **C(date)**.

Private governance: Lenders and borrowers

- *The compact* In private governance, it's worth highlighting the relationship between borrowers and banks. In this setting, **C(date)** includes a contract, whereby the lender performs as a holder and the borrower becomes a holdee of the former. The contract comprises rights, obligations, terms to maturity, financial costs, collaterals, and provisions to cope with insolvency, refinancing, default, or the early call of debts. There is also a stream of payments to be disbursed by borrowers rewarding banks for their financial assistance to the former.

- *Measures of performance* Persistently, creditors screen the company's operations and its market achievements, as well its financial statements. By the same token, borrowers keep an eye at the bank's competitors and market conditions.
- *Mutuality of interests* Any company seeks for success and sustainability; hence it must show lenders its determination to fulfill the terms of the contract. As a side effect, investors, suppliers and customers get rewarded when the company attains good credit ratings. Banks are also interested in keeping themselves in the gatekeepers' good books (the Central Bank, the Securities Exchange Commission, credit-rating agencies, other banks).
- *The compact is dynamic* During the life of the loan, events may spring up that allow lenders and borrowers their adjustment to a changing environment. For instance, the borrowing company may wish to pay the debt before maturity, or ask for the refinancing the credit because it faces difficulties.

Public governance: the Internal Revenue Service and taxpayers

- *The Compact* In all countries we find regulatory procedures that lay down how, when, and why their inhabitants (either individuals or organizations acting as holdees) must pay taxes to the Internal Revenue Service (their holder). In one way or another, taxes are a fact of life and have to be paid, although there will be a never-ending discussion about this thorny issue from the opposite sides of progressives and conservatives, the perceptions of social-democracies or the rhetoric of populist governments. Taxes and their nature stand for a clear example of an essentially contestable concept.
- *Responsibilities* Tax payers will be held responsible for their compliance with fiscal regulations, although many of them will try to dodge their duties, taking advantage of mechanisms by which he can avoid or evade taxes with the help of accountants, financial advisers, and lawyers. In some countries such behavior could be regarded as contempt of law, embracing penalties or ultimately bringing the offender to court. But this will depend on the quality of the institutions that rule the country as well as the strength of law enforcement. In other countries, there might be connivance between

evaders and governments so as to flout regulations as it happens in the so-called offshore locations, as we will see in the next sub-section.

- *Multiple commitments and performance measures* Although the relationship described above apparently develops on a one-way direction only, we must point out that involves, by necessity, a multiple-commitment structure. Firstly, the Internal Revenue Service is accountable to the government, which is held ultimately accountable to Parliament and citizens. Secondly, holdees expect to know about how the government allocates the revenue from taxes on behalf of the whole community. Thirdly, this multiple-tiered structure conveys performance measures that will affect macroeconomic variables, as well the welfare of companies and the purchasing power of consumers. On the side of the tax collector, their performance will be reviewed and criticized by the Press, the political parties and, ultimately, by the citizenship at the time of elections.

Global governance: Offshore locations

- *Introduction* As we argued elsewhere⁹, the global economy comprises not only onshore locations, but offshore ones as well. In the background of corporate scandals, financial crises, outrageous misplacing of information, and the channeling of money out of criminal activities towards offshore conduits, academics and practitioners have started to gain understanding of what is happening down-to-earth, here and now.
- *The compact* I believe that the best way to understand the compact between an offshore location (holdee) and corporate actors or individuals (holders) consists in defining what the expression “offshore location” stands for.

By offshore centers (or locations) we mean sovereign places¹⁰ in the world that are able to frame and enforce their own laws with the

⁹ We are drawing here from our book on governance risks, Apreda (2012a, chapter 5, page 145).

¹⁰ From nation-states like Switzerland, to protectorates like Cayman Islands, also including city-states like Singapore, internal states like Nevada, Vermont and Delaware in the USA, or special chartered places like the City of London [Serious research on offshore locations can be found in Palan (2006), Shakson (2011) and Naylor (2004)].

purpose of providing economic actors from other nations with the following services:

- *decoupling real from legal locations;*
- *incorporating organizations or opening personal accounts on behalf of non-resident individuals and corporate actors with ease of procedures and very low costs;*
- *offering zero or near zero taxation levels;*
- *granting secrecy jurisdictions beyond the reach of other countries or regulators and, by the same token, strong protection from creditors;*
- *making stable and friendly political background available;*
- *giving access to virtual bookkeeping and lenient disclosure duties.*

- *Underlying commitments* Among the instruments and tailor-made organizations that offshore centers furnish their customers with, we can list the following: offshore banking licenses, captive insurance companies, offshore corporations, special-purpose vehicles, segregated account companies, use of tax havens for individuals, hedge funds for non-residents, preferential tax regimes, export processing zones, flags of convenience, e-commerce.
- *Mutuality of interests* Although some interested quarters could remind us about the legal foundations of these locations, they will likely fail to point out that those places eventually become purchasers and sellers of sovereignty, providing and granting secrecy, setting up shell companies and hedge funds in the shadows, catering for corporate actors and single investors that seek more flexible frameworks for their transactions, but also for big players in drug-dealing, terrorism, political corruption, tax evasion, gambling, and weaponry brokerage.
- *Responsibilities* Sidestepping central banks, security exchange commissions, internal revenue services, gatekeepers and shareholders, they promise hidden harbors and impunity, and they deliver both, with the connivance of financial advisers, law and auditing firms. By essence, offshore centers embrace thousands of companies, financial portfolios, and investment accounts, with contempt of transparency,

accountability and due diligence; in short, they carry out opaque and stealth practices of governance¹¹.

2.3 ANOTHER SEMANTICS FOR ACCOUNTABILITY

Availing ourselves of the preceding analysis, we can set forth a distinctive definition of accountability that stems from widespread patterns of behavior in human organizations.

Definition 2

By ***accountability*** is meant a structure of behavior that links a holder and a holdee to a process that entails the following features:

- a) *the relationship evolves through time through an agreed span of time;*
- b) *the holdee engages himself to a set of commitments on behalf of the holder;*
- c) *the holder claims upon a set of responsibilities arising from the commitments pledged by the holdee;*
- d) *the composite of commitments and responsibilities allows for in-built performance measures so as to track down whether commitments and responsibilities are brought into completion or not;*
- e) *there are mechanisms to settle disputes, redress grievances, grant rewards or penalties, deal with conflicts of interest, exchange material¹² information and calibrate mutual expectations arising out of the relationship.*

Remarks

- i) Within the context of each organization, holders and holdees stand for corporate actors who have some stake on the firm, that is to say, they turn to be internal or external stakeholders.

¹¹ Professor Palan's book is a must on this subject. Apreda (2012b, 2014) offers an inclusive study of opaque governance.

¹² Although "material" is a catchword, there is meaning that has proved to be useful for corporate governance analysis. In accordance with the Black's Law Dictionary, "material" is understood as *something of such nature that knowledge of the item would affect a person's decision-making process.*

ii) Any distinctive holder-holdee relationship comprises material information as stressed in point e) of the definition above. In other words, transparency is an enabling condition for accountability to take place eventually.

iii) Accountability must be regarded as a process, that is to say, activities which corporate actors (from mere individuals to companies and stakeholders) undertake in their decision-making endeavors.

3.- MAKING TRANSPARENCY MEANINGFUL

Transparency is not only an elusive but also a fuzzy concept, whereby we need to look for an operational framework of definition. So far, the most suitable description of transparency seems to be the one supplied by the Bank of International Settlements, which states that information becomes transparent when it is timely, relevant, reliable, checkable, and changeable (Basel Bank, 1998).

It is my belief that something is missing in this well-known test that checks out whether any kind of information could be reckoned as transparent or not. I argue that unless the duty of disclosing public information becomes embedded into the notion of transparency, we will not go beyond mere political rhetoric. Therefore, the following step along this line of research consists in naming the actors who would find relevant such “public information”. Clearly, the answer points out to the stakeholders, who stand for the prime linkage between accountability and transparency.

It’s worth noticing that we have reached a consequential fact: the public consists of those stakeholders that have a say into the organization, either because they are internal, or external. To all intents and purposes, stakeholders appear to be the real characters in the narrative of accountability and transparency.

Keeping a broader perspective in the context of governance, the expression “public information” must be understood as that sort of information that entails material consequences for any of the stakeholders involved with a determined organization. It seems impossible to get away from the whole complex of issues concerning

accountability and transparency without bearing in mind legitimate claims and goals; expectations and covenants; performance, responsibilities, rewards or penalties; malfeasance, corruption and crime, as they spring up daily within organizations either in business enterprises, government agencies, or international institutions.

At this juncture, we can bring into view an alternative definition of transparency.

Definition 3

By ***transparency*** is meant the management¹³ of information that entails meeting the following conditions:

- a) the information must be reliable, timely, relevant, and the sources as well as the procedures put into use have to be disclosed;*
- b) there must be a corporate actor who is held responsible for the rendering of such information;*
- c) the information must be made public: that is to say, available to internal and external stakeholders to the organization;*
- d) it involves a process by which the counterparts agree, disagree, follow up, updates, and request changes upon the quantity or quality of the information, so as to grant compliance with the ongoing commitments the organization pledges towards its stakeholders.*

Remarks

- i) If relevant information were not available, what could stakeholders complaint about anyway? This is the perverse logic behind blame avoidance, for instance the one contained in the web-pages of so many corporations where it is not possible to find the names and contact addresses of their Directors or their compliance officer.
- ii) Transparency should not be viewed as production of information without further qualifications. In fact, an organization can provide stakeholders with lies or manipulative

¹³ Management of information, in the context of this paper, embraces purposive activities like research, production, sorting out, releasing, saving, and retrieving information.

information, like many Public Relations firms that grow so proud of writing and releasing lies, deceit, and make-believe on behalf of their clients. The reader is referred to the book by Stauber and Rampton (1995) which is a devastating indictment of this dark side of PRs companies.

4.- A LEARNING-PROCESS APPROACH TO ACCOUNTABILITY AND TRANSPARENCY

In actual practice, accountability is a pattern of behavior, that is to say, an interactive process that evolves out of commitments, purposive activities, decision-making instances, expectations about future actions and exchanges, even strategies to be achieved as time passes by. Therefore, our assessments at the beginning of the planning horizon ought to be measured against actual outcomes that will take place at the end of such horizon. A well-established method of comparison consists in setting and following up an assortment of performance measures, either conveying qualitative or quantitative features, some of which would derive from suitable guidelines for decision-making, whereas others will entail heuristic rules of thumb. More often than not, rational and crispy logical frames of mind are not achievable and hence we must often resort to subjective assumptions to look over oncoming contingencies. Trying to cope with these restraints, innovative viewpoints and techniques have arisen social sciences bringing about influential contributions from scholars and practitioners in the fields¹⁴ of Economic Sociology (Richard Swedberg, 2003), Behavioral Economics (Daniel Kahneman, 2011) and Cognitive Analysis (Iain McGilchrist, 2010).

Unfortunately, the current literature on accountability and transparency has been oblivious so far of what I regard the kernel of the matter: both activities amount to concurrent learning processes. This is an alternative approach which I intend to describe next by means of a sequence of stages.

¹⁴ We give only introductory books which come with appropriate references for further study.

a) Relating information and knowledge with learning

Firstly, we have to distinguish between information and knowledge. In a subtle appraisal of the social role of information, John Seely Brown and Paul Duguid (2000) framed their issue this way:

First, knowledge usually entails a knower. That is, where people treat information as independent and more-or-less self-sufficient, they seem more inclined to associate knowledge with someone. [...] Second, given this personal attachment, knowledge appears harder to detach than information. People treat information as a self-contained substance. [...] Third one reason knowledge may be so hard to give and receive is that knowledge seems to require more by way of assimilation. Knowledge is something we digest rather than merely hold. (pp. 119-120)

Secondly, what does “learning” mean? By learning we mean the acquisition of knowledge, that is to say, the cluster of activities we acquire through practicing, studying, availing ourselves not only of information but also skills, and the essential advantage we take of social capital¹⁵.

Therefore, accountability and transparency cannot be constrained to the compliance of regulations only. This would mean reactive governance which encourages mechanisms of blame avoidance and sludgy information. Instead, if we want to learn, then we must engage ourselves into a proactive style of governance, by which holders and holdees attempt to gain knowledge, skills, and experience so as to become more reliable on behalf of their mutuality of interests.

*b) The role of the compact **C(date)** in learning: adjustment and responsiveness*

Let us assume that we analyze, at a certain date, a compact of commitments and responsibilities **C(date)** within which a distinctive set of performance measures or yardsticks **P(date)** are drawn up to gauge how well or badly commitments agree with

¹⁵ On social capital, see footnote 4.

responsibilities. Furthermore, as time moves on, **C(date)** evolves¹⁶ so that holders and holdees exercise certain mechanisms of adjustment like the following ones:

- Is it advisable to change the course of the process? If so, which are the covenants at date **t** in **C(t)** that enable both stakeholders and actors to introduce changes?
- Do we need to alter the performance measures, taking advantage of new information gathered up to date “**t + Δt**”? What if we must add other kind of measures, or delete older ones?
- Can stakeholders realize that the organization may distort or misconstrue **C(date)**? May agents discover any opportunistic action on the side of the stakeholders? Who is to benefit from such deviant behavior?
- Are we able to uncover, at date “**t + Δt**”, any traceable and purposive action that may hinder or spoil the accountability process, namely blame avoidance techniques, opaqueness in the information, outright breach of commitments, rent-seeking behavior, tunneling, and soft-budget constraints¹⁷?
- To what extent do holdees provide holders with transparency? What about the other way round?

In conclusion, mechanisms of adjustment like the above mentioned make the compact **C(date)** upgradeable, and both holders and holdees more responsive to environmental changes.

c) Mutuality of interests and trust building

There is an often neglected difference between accountability and transparency:

- whereas accountability stresses the fact of a holdee and a holder that tie themselves by commitments and responsibilities,
- transparency sheds light on information requirements that are vital not only to holders and holdees, but also to all stakeholders that might play a role in the mutuality of interests affecting those of the counterparts.

¹⁶ The decision-making horizon or interval can be denoted by **H = [t; T]** whereas **t** stands for the starting date, **T** the maturity date, and any moment in-between will be denoted by **t + Δt**.

¹⁷ Courses of action leading to misgovernance are dealt with in Apreda (2012a, 2007a).

When referring to stakeholders, they are usually qualified as single actors, unconnected and self-sufficient. Contrariwise, they should be regarded as trust networks of interested actors. As Charles Tilly (2005) has succinctly stated:

Trust networks consist of ramified interpersonal connections, consisting mainly of strong ties, within which people set valued, consequential, long-term resources and enterprises at risk to the malfeasance, mistakes, or failures of others. (page 12)

Basically, the process that underlies the exercise of accountability not only improves compliance, but also builds up trust between holders and holdees, which strengthens the mutuality of their own interests. For instance, let us take customers, suppliers, and creditors who are deeply concerned with the sustainability and success of the company to which they are related. Through the agency of regulators, credit-rating institutions, activist ONGs that advocate for the rights of consumers and suppliers, research centers and universities, also serious journalism, it is for stakeholders to realize the extent to which their interests might be jeopardized by contrivances and misrepresentations derived by opportunistic corporate actors.

In a nutshell: instead of surveillance and punishment, the real issue that runs through the management of accountability and transparency points to taking advantage of the mutuality of counterparts' interests, and a relentless effort towards trust building by giving voice to stakeholders.

d) Broadening the scope of the compliance managerial function

The compliance function was introduced by the Basel Bank (2005) to handle the subject of compliance risk, that is to say, those risks which arise when financial institutions do not comply with regulations, practices, laws, and whereby they could face material losses (monetary penalties, reputational damage, market-share decline, or end up stripped from their operating license). The managerial function in charge of such job was called "compliance function". An extension to non-financial organizations has been presented by Aprea (2007a).

Narrowly understood, the compliance function plays a substantial role in the accountability process. In fact, it keeps the holder within the boundaries of good compliance with regulations, which is the least regulators would expect.

But it is only when we broaden the scope of the compliance function that we can take advantage of its manifold capabilities. On the one hand, internal stakeholders (Boards, senior Management, departments in the organization) have to interact among themselves which sets into motion adjustment processes that enable them to learn from each other, improving their reciprocal compliance standards. On the other hand, external stakeholders also profit from the compliance function of the organization and exert pressure in their bid for transparency. Ultimately, they will take heed of their own compliance functions. The sequence shows why the compliance function grows like a cooperative mechanism of learning in the pursuit of better governance.

Summing up this section, we could say that accountability and transparency can be regarded as learning processes on the following grounds:

- In their relationship, holders and holdees become learners.
- The compact **C(date)** allows for adjustments and responsiveness.
- Holders and holdees develop their relationship in the context of their mutuality of interests.
- Accountability and transparency are not processes only intended to surveillance and punishment. Instead, they build up trust between the counterparties.
- The exercise of the compliance function makes for responsive and cooperative patterns of behavior.

CONCLUSIONS

Firstly, it has been shown that accountability is a process whereby the performance of commitments must be matched with the holding of responsibilities.

Secondly, transparency is highly relevant because it links the essential rights of stakeholders to be kept informed, triggering off material consequences for organizations if they fail doing so.

Next, the approach introduced in this paper hinges upon a compact of commitments and responsibilities, **C(date)**, whose contents evolve as time passes by.

Afterwards, both accountability and transparency amount to learning processes that enable holders and holdees to adjust and improve the quality of **C(date)**.

Lastly, it has been highlighted the role of the compliance function in cooperative activities so as to avoid compliance risks and benefiting from the mutuality of interests of holders and holdees.

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