ASYMMETRY BARRIERS TO CORPORATE GOVERNANCE EFFECTIVENESS

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Accepted for publication: 15 April 2009

ABSTRACT

Ali, S.M.R., Anwar, G.M.J. 200. *Asymmetry barriers to Corporate Governance Effectiveness.* J.Innov. Dev.Strategy. 3(2): 35-46

This study investigates various asymmetries that surround the board of directors, managers and shareholders and inhibit corporate governance effectiveness. It suggests to overcome a fundamental misconception that information asymmetry is the only form of asymmetry affecting corporate governance success. It also suggests that managers should undertake a perceptual view towards governance success through grasping the interrelatedness of various sources and aspects of asymmetry generated by lack of people skills geared by various cognitive, affective, and behavioural biases that affect both managers at all levels of the organization, including the corporate board.

Keywords: Corporate Governance, Moral Hazard, Accountability Asymmetry.

INTRODUCTION

The issue of corporate governance is gaining impetus in accounting, finance and management literature regarding its role toward addressing information asymmetry in the corporation-market interface as well as its link with corporate performance. Corporate governance has been widely investigated and acknowledged by practitioners and academicians in part due to its efficacy in addressing information asymmetry problems. We need to ask and resolve whether or not there are other sources and aspects of asymmetry over and above information asymmetry. We also need to understand the extent to which these can affect firm performance.

The study was to identify some important sources and aspects of asymmetry faced by the corporate board and managers that may affect corporate governance choices of accountability, oversight, transparency, integrity of management. In doing so, over and above the much researched 'information' aspect of asymmetry, this study takes a look on other aspects of asymmetry. They include power, expertise, interest, work design, conception, perception, role, and accountability, among others. s The study was also attempts to find their linkage with corporate governance effectiveness and firm performance.

METHODOLOGY

The study was investigated the effect of various asymmetries – not just the information asymmetry. Besides, it was assessed its effect on managerial decision making performance. In order to do this assessment, various literatures and secondary data were reviewed. For our purpose, a crucial focus is shed towards various constituents of asymmetry that could jeopardize corporate board and management successes. It was facilitated to identifying two things in particular: (1) the extent to which various types of asymmetries have impact on corporate governance choices; and (2) the extent to which the relationship between corporate governance and firm performance could become less than perfect due to such asymmetries.

So far, most of the literature has focused on information asymmetry between managers and shareholders towards the effect on firm performance. Managerial skills and resources have been empirically evidenced to be not enough to deal with firm's performance-related issues. The study draws on evidences from prior researches to suggest that management, board and other corporate insider compliance with corporate governance is a necessary condition but managerial behaviour, efficacy and market forces can significantly alter corporate governance effectiveness.

We divide our discussion into the following ways. Section I and Section II conceptualize the context of asymmetry and corporate governance. Section III illustrates forecasting asymmetry. Section IV illuminates the knowledge asymmetry issues. Section V and section VI describe power asymmetry and perceptual asymmetry issues. Section VII analyzes expertise asymmetry and its implications for board independence. Section VIII describes business ethics issues related to asymmetry. Section IX deals with implications of conformity pressure and reference group towards governance success. Section XI concludes.

I. Asymmetry: A Conceptual Foundation

In general, asymmetry refers to a condition that leads to and/or that are tantamount to situations like disproportionateness, irregularity, lopsidedness, and unevenness, etc. It also refers to the context that one variable is less than perfectly related to the other. For example, information asymmetry is an asymmetric information context in which one party in a transaction has more or superior information compared to other or others. In this respect, the asymmetry in management refers to frequently generated situations characterizing differences or disproportionateness in power, status, knowledge, expertise, experience, expectations, concept, attitude, perception, roles, responsibilities, work design, work settings, accountabilities, etc. Such asymmetric situations critically affect decision continuum which deals with people and other limited resources wherein the complexities and conflict arise to worsen managerial control, monitoring and discipline, and finally, the organizational performance outcomes.

Information Asymmetry – An Atypical Outlook: Laissez fairé economy has long been endorsed by market mechanism that expects 'perfect competition' business activities with least regulatory interference. A fundamental component in the perfect competition framework of free market economy is the 'information symmetry', which indicates that all information pertinent to the interest of the economic units (household, business firms, government, and foreign enterprises) engaged in economic activities are freely, instantly, and uniformly available to them. And any deviation from this defined 'symmetry' may lead to information asymmetry.

Information asymmetry in the financial market is existent even in the major markets like the US, UK, Germany, and Japan. Governance of business firms becomes responsible for removal of information asymmetry. Various laws and regulations concerning company formation, stock exchange listing and issuance and sale of securities, disclosure requirements and accounting standards, shareholder rights and proxy voting, contests for corporate control, mergers and acquisitions, fiduciary duties of directors, officers and controlling shareholders, contract enforcement, bankruptcy and creditors rights, labor relations, financial sector practices, tax and pension policy and the like are in fashion to amend the corporate governance towards generation of better firm performance and investor confidence.

The objective of management decision making is to maximize the value of the firm, which arguably reflects through continually updated share prices of the underlying firm. Fulfillment of this objective requires that all material information related to the corporate governance and prospects instantly and fully reflects on share prices. But information asymmetry suggests that firm's insiders, e.g., managers, board members, corporate auditors, industry experts, financial press, large and close suppliers and distributors, investment bankers and other network associates gain and manipulate corporate information to their advantages, thereby causing abnormal returns form share prices. Thus the manager is in part responsible for generation of information asymmetry and abnormal gains thereof. Though the manager is responsible for forecasting such changes and fluctuations in the market, the management mistakes are not less than common.

Information asymmetry is mostly studied in the context of principal-agent problems. Information Asymmetry can lead to two main problems, viz., adverse selection and moral hazard. Adverse selection is a suboptimal behavior that makes the decision maker to enter into wrong and/or risky choice. The choice may be affected by various asymmetric scenarios, such as, information asymmetry, power asymmetry, and so on. More specifically, adverse selection is a decision bias. Moral Hazard, on the other hand, is an immoral behavior that takes advantage of asymmetries after a transaction, such as power asymmetry, knowledge asymmetry, information asymmetry, expertise asymmetry and perceptual symmetry. For example, if someone has fire insurance they may be more likely to commit arson to reap the benefits of the insurance.

II. Corporate Governance: A New Paradigm

Corporate governance is the set of laws, policies, procedures, and institutions that affect the way a corporation is directed, administered and controlled. This definition directs the interrelationship of the stakeholders, i.e., shareholders, management, and the board of directors, employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large. This definition lets us demarcate the micro form of corporate governance from the macro model. The micro model delineate a view of self control (or self-regulation) of the corporate administration and incorporates corporate policies and procedures that affects internal micro players such as employees, directors, and managers as well as external micro players such as suppliers and distributors in the supply chain, other traders and providers of support services like the banks and investment companies (Anwar, 2007). This definition demands managers and board (Board of Directors) members to undertake a total governance-managerial perspective towards adopting policies that address the need for greater accountability, transparency, oversight, and integrity of their functions for the sake of effective management.

By far, the extant literature has focused only on ‘information asymmetry’ that underlies knowledge asymmetry between managers and shareholders towards its effect on firm performance. Evidences from prior researches suggest that management, board and other corporate insider compliance with corporate governance is a necessary condition. Corporate governance reform initiatives across countries are increasingly focusing on the non-executive outside directors so that they could be a party towards ensuring greater transparency, accountability and efficiency in corporate governance itself (Aguilera, 2005). Even if board independence is sought to make up the agency problem and one solution to the corporate governance problem, those ‘independents’ are not employed to their main job on the board. After all, they have other jobs outside the firm. The expected payoff from their independence could be diluted by the inherent subordination of the non-executive directorship to the already burdened complexities of their otherwise occupation(s). Moreover, about a hundred studies have devoted to solve the question whether board independence contribute towards better firm performance; with conflicting and inconsistent findings. Most of them suggest either value- neutral or a very poor correlation (less than 0.50) between existence of independent, outside directors and firm performance. Studies of Fama (1980), Fama & Jensen (1983), Gibbs (1993), Bhagat and Black (1998) suggest that outside directors promote the interest of shareholders through properly monitoring management actions. Shleifer and Vishny, (1997), Westphal (2002), and Daily et al., (2003) find, inter alia, that board independence is not evident to create impact on firm performance. Agency theory suggests that board independence is one of the most important prerequisites of board effectiveness (Dalton et al., 1998).

Many studies have analyzed the impact of board independence on corporate performance. However, results are generally inconclusive. Moreover, recent surveys have revealed no significant relationship (Hermalin and Weisbach, 1991; Mallette and Fowler, 1992; Daily and Johnson, 1997; Bhagat and Black, 1998, 1999; Dalton et al., 1998; Klein, 1998; Dulewicz and Herbert, 2004). Studies by Gillan, et al. (2003) find that an industry’s investment opportunity, product uniqueness, competitive environment, information environment, and leverage help explain its corporate governance.

III. Forecasting Asymmetry

Two managers with the same responsibility and same inputs could make divergent independent forecasts for the firm. Again, no manager could virtually match its actual revenue at par with budget for the forecasting period. This is obvious and true because a large number of contingencies occur about the firm. Let alone the internal micro environment, even if they could forecast the external macro environment with competence, sudden changes therein cause them to modify and update expectations. This is a clear case of forecasting error which fundamentally underlies every business entity. Besides, even if managers adopt the best decision now, its exact implication on the profitability or the financial statements is at least different from certain. As such we basically hold the notion that, depending on the ability to forecast, managers are ‘reasonably certain’ but disproportionate from the actual and divergent from one another in predicting the future outcome (revenues, profits, etc.) of their current or prospective actions. This phenomenon can again be attributed to manager’s ability to acquire and process information towards the best possible forecasts. A generalized concept is that asymmetric forecasts always run with managers.

Reaction Delay: Brown and Beekes (2006), and Brown, Beekes and Chin (2006) do not find any ostensible reason to believe that all private information becomes equally quickly discovered in the financial market for all firms. An extension of their study is proposed here. It is that, even for an individual firm, the price discovery process varies pertinent to pieces of strategic information. Strategic information is outcomes of those business decisions that are strategic and hence they should affect the share price according to their diverse merits. Besides, it is not unlikely that most of the strategic business unit or consolidated decisions will be adopted and reviewed before they comes of age in terms of actions. That time lag becomes big enough as well for insiders to count on the bearing of such information on the prospect of the firm before most others (outsiders) come to know, thereby enabling them abnormal gains. If this is the norm in the corporate strategic management, inside information could simply be termed as ‘private’ or nonpublic information. Whether or not corporate officers should be fully responsible for corporate governance effectiveness is thus a yet unresolved issue. So, delayed (market) reaction could well be a powerful component of asymmetry.

Market Inconsistency: The foregoing facts indicate what is commonly known as delayed reaction by the market to information. Information asymmetry may not have referred to this delayed reaction as a component. Even though prices react quickly to news, the initial reaction tends to be incomplete, according to a number of studies. Bounded rationality among investors such as momentum traders and news-watchers might give rise to under-reaction of prices to information for a short-while. Studies also suggest that there are in fact some trading activities taking place in the market that outperform the market averages (Lakonishok, Shleifer and Vishny, 1993; La Porta, Lakonishok, Shliefer, and Vishny, 1997).

Yet some other evidences suggest that prices do not fully reflect all the information that could be required from publicly available financial statements (Ou and Penman, 1989a, 1989b; Holthausen and Larcker, 1992; Sloan, 1996)). Fama (1998a, 1998b) argues that apparently both overreaction and under-reaction of stock prices to information are common. The sticky price and over-reaction hypotheses, proposed by subsequent authors, do not imply necessarily management and board flaws and insider responsibility with information asymmetry; rather they are matters pertaining market imperfection, seasonal and cyclical variations within the market and industry. If some corners of the market are ignorant about how to act on the basis of merit of the piece of information in order to buy or sell, this is market-related issue (and may not be market imperfection as defined), not the liability of the management.

Both professional and non-professional investors face some dilemmas and shortcomings. For example, they may not be able to forecast uncertainties involved with investment decisions to the required extent. Besides, they face natural urge of being overoptimistic or under-optimistic about their investment choices and recommendations. Moreover, they usually tend to focus on the upside potential in an investment outcome. As uncertainty and task complexity increases with number of investment choices, the overconfidence increases (Dittrich, Güth and Maciejovsky, 2005). These have potential implications for deviations from market efficiencies.

There could be yet another form of market inconsistency proposed here. Markets are increasingly being driven by short-run speculative motives (Keynes', 1936) and thus have very short-term planning horizons (Crotty, 1990).

So, there is evidence in the literature, after EMH was proposed that reaction delay and inconsistent reaction (over- and under-reaction) imply a deviation from EMH. They also suggest behaviours such as investor psychology, bandwagon effect and so on, -- similar to that we find in foreign exchange market and commodities market.

IV. Knowledge Asymmetry

A fundamental difference could well be drawn between two categories of investor – the informed and the uninformed, that informed investors, aided by recommendations of investment analysts, could analyze and interpret both available and ensuing information with much higher skills than a gross number of uninformed or less efficient investors, who, in most case, have to act like free riders. Besides corporate fundamentals, leading economic indicators like stock price indexes, money supply, consumer expectations, exchange rates, price changes of sensitive products and coincident indicators like contemporary trends in production, sales, various indexes and the like are within good tracks of expert investors and active investment managers who might influence the share price and/or skim profit from the startup changes in share prices. And large number of largely uninformed investors and brokers try to follow suit of them. D'Mello and Ferris (2000) study reveals evidence suggesting that information role of security analysts, who are not insiders, influences firms' long-term performance as well as partially explains negative stock returns surrounding announcement of new equity. There is no reason to believe either that all private information is discovered equally quickly or that price discovery is equally speedy for all firms. Financial analysts generate valuable new information through earnings forecasts and stock recommendations that has considerable impact on investor transaction decisions (Healy & Palepu, 1988, 2001). There are also systematic biases in their outputs based on conflicting incentives they face as the authors suggest.

Studies by Merton (1987) and Brennan, Jegadeesh, & Swaminathan (1993) suggest that speed of price adjustment is related to firm size (market capitalization) and number of investment analysts following it, thereby suggesting that this is market. For big cap firms, the speed of price adjustment is much faster. Thus prior studies suggest that information asymmetry is fully controllable by the corporate insiders and invite need for more regulatory arrangements in order to ensure better corporate governance. If researchers claim that insider holdings of ownership and institutional holdings to have positive correlation with information asymmetry (Finnerty, 1976; Chiang and Venkatesh, 1988), the remedial measures to this extent should then be taken by the regulation, more than the corporate officers.

The discussion above reveals as well as suggests greater focus of regulation on information intermediaries based on the evidences that dealing with information asymmetry also goes beyond the management scope. Disclosure regulation requires security issuers to make public a large amount of financial information to existing and potential investors on the basis of fundamental assumption that management possesses more information about the context and prospect of the issuing firm. As such the management is usually held responsible for information asymmetry resulting market failure.

Studies by Straser (2002) and Chiyachantana & Taechapiroontong (2004) find that regulation has a significant positive role towards reduction of information asymmetry and smoothing trading on shares. For example, Regulation Fair Disclosure provision has been effective in improving liquidity, decreasing the level of information asymmetry, and involving large number of retail traders into trading (Chiyachantana & Taechapiroontong, 2004). If high number of trading, facilitated by participation of large number of traders, does take place, there is also evidence of lower spreads and higher liquidity in the market (Stoll, 1978; Meynah & Paudyal, 1996; Stoll, 2000; Wu, 2004). Thus regulation has a large potential to bring order in the market and contribute to lowering information asymmetry. Straser (2002) found from study into the effect of SEC's institution of October, 2000 regulation fair disclosure requirement that after the implementation there was a significant increase in both proxies of information asymmetry and the probability of new information events that contain private information while the proportion of informed traders decreased. His analysis of the volume of disclosures showed that the regulation was initially successful in increasing the quantity of available public information but of lower quality. This also suggests that it is not the information asymmetry problem per se. Rather it is the regulatory framework has the potency improve the market towards perfection. Information asymmetry problem could arise also because of the loopholes in the regulation in controlling asymmetric gains.

Corporate insiders have access to non-public public information that they manipulate and exercise a good deal of corporate control (Chiang & Venkatesh, 1988). The dealers' perception is indicative of information asymmetry greatly because of the insider holdings as the authors suggest. On Japanese context, shareholdings by financial institutions appear to be an important institutional factor in Japan to alleviate information asymmetry, thereby serving as a substitute for the market-based monitoring (Ho, Jiang and Kim, 2001).

The need for regulation associating corporate disclosure basically focuses on the investor welfare and, in particular, the large number of generally unsophisticated investors. This argument implied in works of Watts & Zimmerman (1986), and Beaver (1989). Regulatory rules could have been designed to focus more on the firm valuation than investor welfare. This I suggest because investor welfare is a byproduct of a higher firm valuation.

Information asymmetry could well be thought of as the asymmetry of information on firm-related facts between managers and outside investors as well as the extent of collaboration between managers and the insiders who hold more than 10% of corporate ownership. Even if there may not be asymmetry of information, thereby affecting share price to the detriment of the outsiders, it could be the understanding (information symmetry) between insiders and gains thereof in share buy and sell strategy of insiders that could affect the firm performance. Collaborative buy-sell actions by large blocks holders may direct the market to some trading activity eventually generating profit making scopes for the insiders. Large blocks of shareholding creates an incentive for institutional shareholders to acquire asymmetric information and the incentive is not barred on the context that their large investment helps them spread information acquisition cost over the number of shares traded and that they typically pay lower commissions. Insider trading thus not necessarily should lead to or generate from asymmetric information at all. For example, if some insider sells large number of shares, get the profit and share it with some other insider who only buys the shares within the restrictive 6-months period, this will be a potential source of the mutual profit making. They do not have to wait for the six months to execute the counter trading activity so that they avoid returning the profit to the corporation.

V. Power Asymmetry

Corporate governance reform initiatives across countries are increasingly focusing on the non-executive outside directors so that they could be a party towards ensuring greater transparency, accountability and efficiency in corporate governance itself (Aguilera, 2005). Even if board independence is sought to make up the agency problem and one solution to the corporate governance problem, those 'independents' are not employed to their main job on the board. After all, they have other jobs outside the firm. About a hundred studies have devoted to solve the question whether board independence contribute towards better firm performance; with conflicting and inconsistent findings. Most of them suggest either value- neutral or a very poor correlation (less than 0.50) between existence of independent, outside directors and firm performance. While studies of Bhagat, Brickley, & Coles (1987), Fama (1980), Fama & Jensen (1983), and Gibbs (1993) suggest that outside directors promote the interest of shareholders through properly monitoring management actions, studies by Gillan, Hartzell & Starks (2003) find that an industry's investment opportunity, product uniqueness, competitive environment, information environment, and leverage help explain its corporate governance. Their findings indicate that corporate governance has also features of dependence on other factors like regulation, and market forces like competition, and micro forces like capital structure. Outside directors are likely to be aligned with management both because of significant top management control over the board and because of less than proportionate equity ownership compared to other directors (Mace, 1986; Patton & Baker, 1987; Jensen, 1993). In Australian context, the ASX guidelines requirement for a majority of independent directors on the board is viewed as one of the most controversial (Kitney 2003). Critics of the guideline view that independence is a highly overrated mechanism to serve the shareholders. Outside directors are more likely to be appointed to boards following poor records of stock performance and this corporate governance mechanism acts as a positive signal to investors as a whole that the prospect of the firm is getting better by means of better monitoring (Hermalin & Weisbach, 1988). This evidence rather suggests that share price increases through reduction of information whether or not the corporation really performing better thereupon. Power asymmetry is vitally associated with procedural justice in decision making and implementing decisions.

VI. Perceptual Asymmetry

Not all the managers or BOD members have the same level of perceptual skills. Carlopio, et al (2001) identified four perceptual blocks in decision problems. They are (1) constancy, (2) misplaced commitment, (3) compression, and (4) complacency. In these four ways mangers and board members can be divergent from one-another because they do not equally practise rational problem solving. The conceptual blocks proposed by Carlopio, et al (2001) are modified with additional dimensions and are arranged in the table (Table 1-1) below:

Table 1-1: Perceptual Blocks that Inhibit Creative Problem Solving

Constancy	Vertical Thinking	Defining a problem in only one way overlooking alternatives
	Single Thinking Language	Using only one language to define a problem
	Lateral Thinking	Sequentially approaching to one task at a time
	Linear Thinking	Thinking about several tasks simultaneously
Misplaced Commitment	Stereotyping (based on past experience)	Present problems perceived as variations from the past ones
	Escalating Commitment	Committing more resources to a potentially unsuccessful project
	Ignoring Commonalities	Failing to perceive commonalities in apparently different elements
Compression	Distinguishing Figure from Ground	Not filtering out irrelevant information or not finding needed information
	Artificial Constraints	Narrowly defining boundaries of a problem
	Confirmation Bias	Using only the facts that support decision making
	Anchoring Bias	Fixating on early received information
	Availability Bias	Using the readily available information
Complacency	Hubris	Overconfidence about the prospect of a project undertaken
	Non-inquisitiveness	Not asking questions
	Non-thinking	A bias toward activity in place of a mental work
Attribution	Fundamental Attribution Error	Underestimating external factors and overestimating internal factors in judging others' behaviour
	Self-serving Bias	Attributing own success to internal factors and failures to external factors

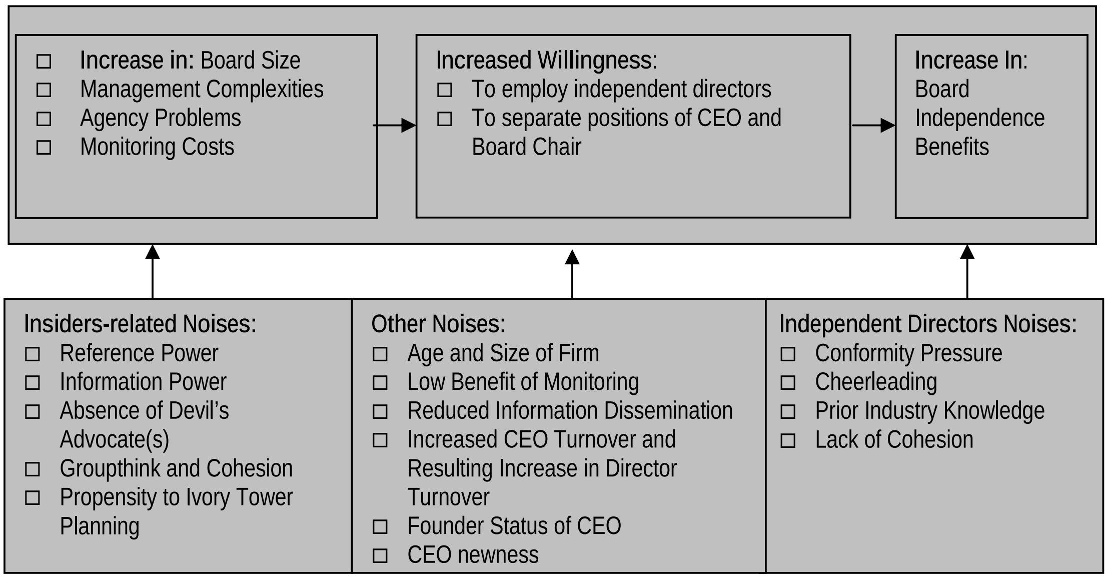
In most of the circumstances of group decision making, either the managers take too long to reach a simple conclusion or cannot arrive at some unified decision fundamentally due to their perceptual asymmetries.

In terms of managerial thinking, we find that there are four different types of thinkers in the group decision making: (1) vertical thinkers, (2) single thinkers, (3) lateral thinkers, and (4) linear thinkers. Their thinking differential creates different levels of commitment, compression, complacency and attribution.

VII. Expertise Asymmetry and Board Independence Fallacy

Are boards really independent? There are factors that inhibit board independence (Anwar, 2008). They primarily generate from the constraints imposed by other parties like the CEO and the top-level managers. Even the outside director who is also variably known as the independent director has to comply with the newly set levels of constraints, coordination, and various other asymmetric contexts, as shown in Figure 1 below:

Exhibit 2: Factors Affecting Board Independence



Source: Adapted from Anwar (2008)

An influential report on corporate governance best practices, issued January 9, 2003, the Report of the Conference Board Commission on Public Trust and Private Enterprise (hence known as 'Report of the Conference Board'), recommends that the CEO and Chairman positions be separated, with the position of Chairman filled by an independent director. The Conference Board discusses two levels of independence with respect to the Chairman. The first level is a chairman who meets the technical requirements under the listed company's relevant stock exchange standard of independence. The second level is a chairman who does not have any relationships with the CEO or other members of management that compromises his or her ability to act free from the control of the CEO and management. The Conference Board defines their duties as follows:

The Non-CEO Independent Chairman: *preferably this person would be an independent director who would (1) preside at board meetings and at meetings of the non-management directors, (2) have ultimate approval over information sent to the board, (3) have ultimate approval over the board meeting agenda, (4) serve as the principal liaison to the independent directors, and (5) set meeting schedules to ensure that the independent directors have time for discussion of all agenda items.*

The Lead Independent Director: *(when the Chairman is a different person, different from the CEO, but not an independent director under stock exchange standards) This person would (1) chair the meetings of the non-management directors, (2) serve as the principal liaison to the independent directors, and (3) work with the non-CEO Chairman to finalize information flow to the board, meeting agendas, and meeting schedules.*

The Presiding Director: *(when Chairman and CEO are the same person) This person would (1) preside at executive sessions of the non-management directors, (2) serve as the principal liaison to the independent directors, (3) have ultimate approval over information sent to the board, (5) have ultimate approval over the board meeting agenda, and (6) set meeting schedules to assure that the directors have sufficient time for discussion of all agenda items (The Conference Board, 2003).*

Research by Mori in the run-up to the publication of the Higgs report in 2002 found that almost 60 per cent of the Neds (non-executive directors) recruited by listed UK firms were hired through personal recommendations. Just over 20 per cent were selected through a headhunter, but only 4 per cent were appointed through a formal interview process and a tiny 1 per cent was recruited through open advertising.

The foregoing discussion surrounding the board members reveals that their functions are rather of liaison, controlling, coordinating, and monitoring. A fundamental flaw of the corporate governance is rather more of ‘asymmetry of knowledge, interests and expertise’ than that of ‘information’, -- thereby creating complicating agency relationship between board members and management. While information asymmetry stems from the notion that information about the strategies and their impacts on the corporate prospect are not equitably shared, the asymmetry of expertise suggests that some members of the board are not attuned to the potential impacts of the strategies when they are undertaken, for example.

VIII. Corporate Business Ethics, Moral Hazard and Regulation

We find a grey area between corporate management and regulation. That area is symbolized by moral hazard problem. Corporate business practices like audit standards, accounting profession, prudential regulations, agency relationship, and legal settlements of various financial and non-financial issues, among others, are important issues of ethics in market microstructure. For example, empirical evidence is indicative of substantive lack of credibility of financial reports auditors generate (Healy & Palepu, 2001). The absence of regulatory rules generates the moral hazard problem, which underpins agency problem.

Effective corporate disclosure requires that corporate auditors should be financially independent of the corporate insiders. This requirement is partially fulfilled by US regulatory initiatives. On the other hand, to meet this requirement, the Australian government has ensured Financial Reporting Council to oversee auditing. Yet, the idea of auditor appointment and payment from outside the firm has so far been ignored in Australia (Harris, 2003; Robins, 2006). This evidence suggests that auditor independence is a largely violated phenomenon when Auditors fundamentally dependent on the firm and vice-versa.

Agency problem is one clear example of moral hazard and a crucial topic of business ethics. Another apparent problem mentioned earlier is moral hazard that could be spurred by regulation fair disclosure requirement. It is the moral hazard problem that evidently augmented the quantity of available public information though of lower quality. Investors also indirectly help generate scopes for moral hazard in managers based on the fact that they implicate managerial performance with profitability. Managerial moral hazard turns into manipulation of accounting numbers in financial reports towards fabricated profits by making biased assumptions. Therefore, delegation of earnings management and financial reporting decisions to management poses to have costs besides benefits regarding which accounting and auditing rules are still considered inadequate. The absence of regulatory rules generates the moral hazard problem, which underpins agency problem.

Regulation has a limit in limiting moral hazard problem. For example, whereas rigid and uniform accounting standards attempts to increase credibility of financial statements and reduce managers ability to fabricate, flexibility in using superior business judgment worsens out of such rigidity. So, regulation has also to bear the consequence that it has a significant impact on the quality of accounting numbers managers report. It is arguably thus rational to conclude that regulation should nonetheless facilitate managerial flexibility and it should address only the behavioural component, namely, the moral hazard problem with priority.

IX. Conformity Pressure and Reference Group

To what extent the regulation could supplement the expertise imbalance is a question. The expertise advantage of management over the board members, particularly the ‘newcomer’ independent outside directors, can be a potential source of agency problem. This expertise advantage is an organizational behavioural issue in the board-management interface in various group meetings are dictated by conformity pressures from relatively ‘expert’ managers on these board members, - a fact that Kiesler and Kiesler (1969) study findings. Outside directors are likely to be aligned with management both because of significant top management control over the board and because of less than proportionate equity ownership compared to other directors (Mace, 1986; Patton & Baker, 1987; Jensen, 1993).

The impact that group pressures for conformity can have on judgment and attitude of an individual member had been investigated by Asch (1951, 1956) in his neo-classic studies. He studied a group of seven or eight people in a card comparison study where one card had one line while the other had three lines with one of them matching the length of the former. The group was asked to choose the line in the second card matching the line in the first card. He observed over many trials and experiments that 75 percent of the subjects gave at least one answer that conformed to other members but was knowingly wrong. He also found an average of 37 percent of conformity. Thus his study suggests that there are many norms in the groups that press us towards conformity. That is, said otherwise, group members desire to be aligned to the group and attempt to avoid being visibly different from the group itself.

Devil's Advocacy: There was at least required to evolve devil's advocacy at some stage of group decision continuum. But the outsiders, having apparently more pressure for conformity to the insiders (the reference group), a devil's advocate is lee likely to generate from the outside directors as such. His findings imply findings also imply that because the outsiders have less expertise as well as information advantage than the insiders, that the insiders are essentially the reference group which can exert conformity pressure on the 'outsiders'. the In order to be the Devil's advocate in strategic decision making situations and in order to materialize the expected 'heterogeneity' benefits from them, the outside directors are expected to maintain high performance relating productivity and decision making issues.

Devil's advocacy has been acknowledged as a strong tool for better corporate decision making at the board, -- since it helps the board undertake plans that could otherwise become short-sighted, lackluster, and inoperative. This also implies that the corporate management could enjoy positive groupshift and avoid groupthink so that reference group(s) cannot become powerhouse and reference people cannot generate conformity pressure.

X. Conclusion

The foregoing discussion and analyses generates a number of thought provocations. The management decision making is not just of the robotic decision making framework. It has to be of the people and it is to be made by the people with overcoming asymmetries of knowledge, perception, power, and expertise over and above information. The efforts to generate symmetry in these respects may alternatively be gauged as equity. The sense of equity creates a decision making greenhouse that is protected from greed, mistrust, conflict, disharmony, defiance, burnouts, copouts, and such other biases and errors that might impede monitoring, independence and autonomy in the corporate leadership group(s). They may also be hazardous to generation of effective agency relationship with the corporate owners.

In all, the removal of and/or efficacy in maintaining control of various sources of asymmetries are pivotal towards managerial and governance success in the corporate top management ivory tower.

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