Managerial Wisdom in Corporate Governance: The (ir)relevance of Accountability and Responsibility at Corporate Boards

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Our capitalist market system nowadays has been characterised by the sins of arrogance, greed, untrustworthiness and callousness. Is it possible that wise decisions – i.e. making "right" judgments that lead to good actions and beneficial results - may be able to help in addressing the daunting challenges of our corporations within the prevailing market mechanisms?

Currently, *pecuniary reward incentives* within governance *rules and regulations* are the main business motivators. Good corporate governance – the apex of power of any organisation - is being interpreted as compliance with specific rules and regulations, and to install useful pecuniary incentive systems that aim to align top management's decisions with those of shareholders.

I briefly elaborate on the generic principles and characteristics of corporate governance in part one, and in part two, I seek to explicate how wise decision-making might be incorporated within a model of corporate governance. Finally, in the third part, I analyse the notions of accountability and responsibility in corporate governance, and how to embed them within the notion of managerial wisdom.

Corporate Governance Practices: "Comply or Explain"!

The legitimacy of the corporate board that represents the owners comes from the fact that law, customs and norms confer upon those board members both the *power* (the formal and informal authority), and the *obligation* (the "formal" accountability and "informal" responsibility) to manage the business and the affairs of the corporation. Corporate governance establishes the identity of the [legal] power within the organisation and how it can be used. Corporate governance is the system by which business corporations are directed and controlled[1]. Executives make decisions on a daily basis that are supposed to create value for the organisation. However, quite often those decisions may better serve top management

at the expense of other parties related to the firm: those costs are known as *agency costs* which find its roots in the separation of ownership and top management. Corporate governance principles are justifiably considered as a needed check and balance system of top management of the firm who run the firm on behalf of the owners but who may have to necessarily maximise shareholder value, causing an *agency problem* (Huse, 2007; Wallace and Zinkin, 2005; Dimma, 2002).

The traditional agency theory of corporate governance sees the firm as a nexus of contracts between free and rational individuals optimising their own interests (Friedman, 1970; Fama and Jensen, 1983; Jensen and Meckling, 1976; Jensen, 1986; Lorsch and Clark, 2004). The incorporation of a firm leads to a nexus of *contractual relationships* in which a set of *promises* is made to investors, workers, suppliers, customers, local communities, and other stakeholders. It may be argued that corporate governance is about how such promises are institutionalised or materialised, whether by legal forms or more informal arrangements[2] (Macey, 2008). In essence, corporate governance is about building trust or keeping trust, whereby the governance rules and regulations should strengthen shareholders' contracting power within the firm and control possible corporate deviance or violation from the contracts between the different participants, both investors as well as non-shareholder constituencies. Governance will therefore not prevent misconduct or misdeeds, but it can actually improve the way an organisation is managed to deploy assets and resources in the most efficient and effective way, and possibly prevent some excessive threatening risks on the downside through the application of *"best" [international] corporate governance principles* (Clarke, 2007; Charan, 2005 and 2009; Chew and Gillan, 2009; Carver, 2010; Agrawal and Chadha, 2005).

From a shareholder perspective (Fama and Jensen, 1983; Jensen, 1986 and 2002; Bebchuk and Fried, 2004), effective governance should aim to increase the equity value by better aligning incentives between management and equity holders and between minority and majority shareholders. From a stakeholder perspective (Freeman, Dunham and McVea, 2010), resource-based theory (Pfeffer, 1972) or network perspective (Peng and Zhou, 2005), effective governance should provide policies that produce stable and safe employment, provide an acceptable standard of living to workers, mitigate risks for debt holders, provide reliable products and services to customers, improve the community and acknowledge the importance of ethical and ecological objectives or constraints. Although those different perspectives may not completely overlap, and although they hardly can be "maximized" at once (Jensen, 2002), it may be argued that there is no fundamental contradiction between

such views in the longer term; they can be assumed to be complementary (Freeman *et al*, 2007; Donaldson and Preston, 1995; Verhezen, Hardjapamekas and Notowidigdo, 2012).

Despite the developed forms of corporate governance and regulation prevalent in the West, excessive debt financing and the subsequent financial crisis and associated scandals were not averted (Roubini, 2011; Rajan, 2011; Shiller, 2012). Is it possible that in recent decades, the virtues of self-discipline, prudence and stewardship have been in decline the corporate scene? Indeed, the senior management of financial institutions has been publicly accused of evading any form of formal accountability or ignored any kind of ethical responsibility. Instead of contributing to societal needs spawned by passionate commitment to timeless values, corporate boards are viewed by wider society as aiming for short-term profitability driven by pecuniary incentives, in some instances not even complying with the letter of the law, let alone following the spirit of the law. Nonetheless, pecuniary incentives are mere hygiene motivators, whereas a higher purpose uplifts people and management in a company. Rules and regulations installed by a board can hardly compete with such higher purposes; nor can pecuniary incentives really match the power of those inspirational values. However, too much emphasis on control and on complying with formalistic governance rules and regulations, and focusing on financial results and incentives, can 'crowd out' and undermine the effect of a values-driven strategy (Verhezen, 2010; Gentile, 2010). Empathetic and wise boards find a dynamic balance of *yin* and *yang*, of accountability and autonomy, being inspired by an *enlightening* organisational purpose and vision that lifts the spirit of employees and managers alike. Such visions usually go beyond the traditional trade-offs of either/or. Firms like Whole Foods, Timberland, Unilever, Google, or Disney among other visionary companies seem to indicate that the *stakes* of shareholders and other relevant constituencies (customers, employees, communities e.g.) are not traded off against each other, but integrated and aligned as much as possible (Kanter, 2010). A number of these well performing firms explicitly endorse and pursue the triple objectives of "people, planet and profit", making them accountable *and* responsible for their business activities (Elkington, 1997; Kanter, 2011).

The current adage within mainstream corporate governance that as long as one follows and complies with best practices – and if not, one needs to give a valid explanation why not, – one will have an effective system to direct the firm to achieve its goals, may be a gross understatement. "Comply or explain" is a good start, but will not guarantee that firms are well *governed*, i.e. properly *controlled* and effectively *directed*.

The effect of failing boards is a low-trust workplace where individuals lack the autonomy to make smart and real-time decisions between competing priorities. In a fast changing environment, and in the absence of a higher and compelling corporate purpose, only actual pain and distress will disrupt organisations and make them react to the rapidly accelerating pace of change (Kanter, 2010; Bainbridge, 2008). Crises often result in more heavy-handed control which is usually counter-productive.

Does Managerial Wisdom compel to a "higher" common purpose?

The corporate ethical debacles at Enron, Parmalat, and Ahold – the result of faulty financial reporting and outright fraud - have emphasised the importance of corporate values and corporate oversight in decision-making. The more recent mortgage crisis, and Euro crisis show that a system of purely pecuniary reward incentives is not functioning for the "common good". Moreover, erroneous assumptions - often leading to excessive risk taking or driven by greed, hubris or plain ignorance – have aggravated the impact of the crisis. Nor would any rule or regulation be able to rectify such imbalances as Shiller (2012) has pointed out. When the leader of an organisation lacks plain "wisdom", the system can be compromised and result in diminished performance or outright failure. My argument in this chapter is that corporate governance mechanisms require wise decision-making at the Board and subsequently executive level. Management needs to make practical choices and "wise" informed decisions but what is the meaning of wisdom in a management context?

Wisdom may be understood as a way of being that is fundamentally practical in a complex and uncertain world: the praxis to act rightly, depending on our ability to perceive the situation accurately, to have the appropriate intuition about such a situation or trend, to discern and reflect about what is appropriate in this particular situational context, and to act upon it (Schwartz, 2011; Hays, 2003). To a great extent, managerial wisdom is dependent on, and influenced by, experience and the moral acuity to appropriately act in particular situations (Malan and Kriger, 1998).

Some may define wisdom following a Western tradition as the expertise in the conduct and meaning of life, or an expert knowledge system in fundamental life pragmatism (Baltes and Staudinger, 2000) and thus, by extension, the meaning of an organisation. Such practical intelligence – the [tacit] knowing *how* rather than the knowing *that* – requires continuous adaptation, shaping and selection in responding to make balanced judgments and decisions in different kinds of complex and ambiguous contexts (Sternberg, 1998; Kok, 2009). Others

may emphasise an Eastern approach to integrate the cognitive, reflective and affective elements of wisdom (Ardelt, 2003). Somehow, wisdom implies the integration of different perspectives. It encourages us to transcend self-interest into a broader integrated whole or "common good" issues by balancing intrapersonal (one's own), interpersonal (others) and extrapersonal (community or larger interests) through the mediation of values (Sternberg, 1998; Orwoll and Perlmutter, 1990; Kessler and Bailey, 2007). Wise leadership emphasises the "integrated whole" instead of the separated parts, and often is recognised in its exemplary moral nature. In an Aristotelian tradition, wisdom is concerned in ethical judgments that are noble and worthwhile (Aristotle, 1984; Kok, 2009). Wise leadership acknowledges the importance of a more holistic "common purpose" beyond mere short term profitability that takes into account the concerns of the organisation and society alike (Boyatzis and McKee, 2005; Kanter, 2009; Porter and Kramer, 2006; Nonaka and Takeuchi, 2012). A wise leader makes sound and balanced judgments, acts prudently, prioritises the organisational "common" purpose above self-interest, and communicates a farsighted understanding of the industry, so that the organisation is provided with a sense of what needs to be done.

Managerial wisdom is indeed about appropriate practical *decision-making* that should be virtuous and well communicated. Wise decision-making usually occurs *within a certain traditional context*, fueled by a continuous learning process that acts, re-acts and pro-acts in particular situations, guided by *integrity*, and based on the *experience* gained, the *knowledge*[3] acquired that is the result of *a logic rational process* and or *intuitive insights* to foresee and prepare events. Hence, McKenna, Rooney and Boal (2009) assert that [managerial] knowledge without integrity can be dangerous and dreadful, while integrity without [managerial] knowledge is rather weak and unfocused. Managerial wisdom is an ability that enables one to minimise the cognitive limitations of bounded rational capabilities by relying on (1) [cognitive and affective] knowledge, (2) long individual or organisational experience that functions as a tradition, (3) intellectual and moral virtues underpinning managerial decisions, and finally (4) an openness to continuously learn to improve (Aristotle, 1984; Kessler *et al*, 2007; Cranton *et al,* 2004; Fernando and Chowdhury, 2010; Schwartz, 2011).

===============Figure 1 about here=================

Wisdom embraces a certain kind of *truthfulness* that is sincere or trustworthy, and accurate or objective (Verhezen, 2009). Wise corporate leaders are able to grasp the 'truthful essence' of the organisation through excellent communication skills and convincing power that subsequently can spur management and employees to take action in teams. Such leaders are usually committed to *authentic* behaviour, guided by the leader's true self as reflected by core values, beliefs and feelings. Authentic leadership and authentic relations are characterised by transparency and a high level of *integrity* that creates trust on the one hand, and by guidance toward worthy objectives or a higher "common" purpose beyond a mere self on the other (Parameshwar, 2006). When people are giving their word, most people are sincere (well-meaning). Only within the praxis one will be able to express *sincerity* (or trustworthiness that requires a high level of authenticity) and some rational [factual] *objectivity*[4]. Organisational integrity, in the sense of stewardship, creates and cultivates standards that can provide the cultural cohesion for continued organisational life. It reflects a certain professional responsibility and competence, emphasising a right attitude to approach a dilemma, rather than specified moral characteristics. Such an *attitude of integrity* may lead to behaviour which complies with what one can expect of a virtuous and trustworthy administrator or executive who is able to communicate and demonstrate these ethical values superbly (Verhezen, 2008; Simons, 2002). Most multinational organisations combine a compliance and integrity based strategy to address the issue of (un)ethical behaviour (Rose, 2007). However, there seems to be a consensus that integrity-based, rather than compliance-oriented, strategies may provide superior results in tackling moral dilemmas (Paine, 1994; Trevino and Weaver, 1999; Trevinyo-Rodriguez, 2007). The force of integrity relates to the fact that individual employees feel empowered and involved in integrity-based strategies whereas they may feel as though they are being watched in the case of compliance strategies.

To be a person or leader of integrity one has to honour one's word to oneself and to other people which means that one keeps one's word and when one cannot or will not, one deals with the impact and communicates the consequences and how to deal with them appropriately. This pragmatic re-interpretation of integrity allows corporate leaders to manoeuvre in an increasingly complex and ambiguous business context to honour their word, even if they cannot keep it to its fullest sense. Such an attitude will enhance the personal as well as organisational reputations.

Practical wisdom (*phronèsis*) remains an ongoing, finite and fallible process, reaching out to what can be aspired to. Effective leadership understands how to embrace managerial wisdom to make choices that are consistent with the fundamental but evolving goals and

objectives of the firm and to enhance the overall performance of the firm. Unless authentic leadership may shape the practices within and between organisations, and unless values constituting a higher organisational purpose are "incorporated" into "best" [informal] corporate governance practices, managerial wisdom will remain a distant corporate ideal at best, or be completely irrelevant to organisations thereby possibly wasting valuable resources and or harming external stakeholders. Relying on formalistic corporate governance rules and pecuniary corporate incentives only may 'crowd out' wise decision-making and its commitment to a higher common purpose.

Managerial wisdom creates and preserves corporate value beyond compliance

It is widely agreed that the board's fiduciary duty to optimise the shareholders' value aims to guarantee transparency, fairness, accountability, responsibility, and equal rights treatment. Mere compliance with such principles and characteristics will not have a real, substantial impact on the ruling and functioning of the organisation. It may only lead to an array of inhibiting, politically correct dictates; not necessarily ameliorating corporate governance and the performance of the firm (Sonnenfeld, 2004). Compliance with specific formal *rules and regulations* is frequently overstated by companies and can be even counter-productive, as being too focused on the *pecuniary reward system* which may endanger the long term viability of a firm.

Managerial wisdom by board members involves the direction, monitoring and controlling of top management in order to *create corporate value in a sustainable manner at the upside* and to *preserve corporate value at the downside* (cf Figure 2). Corporate value is most often expressed in a decent financial return on the capital invested. However, if we agree that management is the technology and art of human accomplishments within business, such value creation and preservation focuses on more than the bottom line. Well performing and wise executives acknowledge that great firms are often driven and motivated by a "higher" [common] purpose beyond complying to the financial dictate of shareholder maximisation as Ben & Jerry's (now part of Unilever), and Whole Foods (Mackey, 2011) for instance clearly reveal.

======================Figure 2 about here ======================

The *legitimacy* of the board usually arises from the demonstration of integrity and competence that provides a higher "common purpose". This means steering the organisation towards improved performance over extended periods of time: not just maximising quarterly profit but also emphasising sustainable corporate value that takes the protection of environment and prudent use of natural resources as well as social progress into account. Building board legitimacy requires wise, independent directors to guarantee the appropriate monitoring process of top management and to direct those executives to become more *accountable* and *responsible*.

It is widely assumed in the corporate governance literature that a majority of *independent board members* will counterbalance the power of top management entrenchment (Bown and Caylor, 2006; Gordon, 2007; Lev, 2012). Indeed, it is assumed that boards inevitably have close contact with top management and that this proximity to management makes it harder to remain "psychologically" distant and objective, leading to agency problems, an anchored bias or "an inside view" (Kahneman and Lovallo, 1993; Klein, 1998; Larcker and Tayan, 2011). Independent or outside board members – assumed to have a relatively high integrity securing their reputation – are less entrenched with top management and the CEO to safeguard the implementation of governance principles in the organisation, and guarantee fair, equitable and transparent treatment of *all* shareholders. Independent boards supposedly will guarantee the legal protection of dispersed equity ownership against the actual influence and power of CEOs and their top management or safeguard minority shareholder rights against controlling majority shareholders (family or state).

The presumption of the independence of board members in securing some formal [fiduciary] *accountability* to investors and shareholders is questionable in the light of recent experience. It is well-known that institutional investors and regulators call for boards of US and UK listed firms to have a required number, if not majority, of independent directors. Indeed, those independent directors are assumed to have the managerial wisdom to guarantee appropriate monitoring and directing of the top management activities. However, firms with more independent boards – proxied by the fraction of independent or outside directors minus the fraction of inside directors - have not necessarily achieved substantial and sustainable improved profitability, and in some instances they even underperform compared to other firms (Bhagat and Black, 2002; Bhagat and Bolton, 2008). Studies in Australia, Singapore and the United Kingdom reveal facts that counter the conventional wisdom of favouring

independent boards (Faccio *et al*, 1999; Lawrence *et al,* 1999; Mak *et al*, 2001 all quoted in Bhagat and Black, 2002).

Wise leadership – both on the regulatory, and on the corporate side, – emphasise independency as *a state of mind*, while acknowledging that some minimum legal requirements may be helpful. However, believing that legalising human board's behaviour through rules and incentives could achieve more *accountability* and *responsibility* may result in badly spent organisational resources, and can even harm the organisation and its environment. Creating and preserving long-term organisational value implies that a board and top management are accountable for financial performance to shareholders and investors, while they also need to take full responsibility to serve stakeholders where appropriate and viable. A corporation displays social responsibility when it engages itself in processes that appear to advance general or contextual social and or ecological agenda beyond mandatory legal requirements. Those CSR processes are predominantly of an intangible nature, aiming to generate reputational capital, improved corporate culture, legitimacy or loyalty within the business community.

The notion of independency and oversight as the main proxy for high quality corporate governance may be misguided and even unrealistic. Most "independent" boards can hardly resist being "captured" by top management influence in one way or another. Moreover, simultaneously serving a monitoring and a management coaching function in the same company is a tall expectation for anyone, even the most professional expert (Macey, 2008). The Enron board for instance, with 11 independent directors on its 14 member board, was not only a model of professionalism (of board and management), it was also a model of board capture by management. There are numerous anecdotes, and even studies, where a highly independent board has not prevented large-scale wealth destruction.

Some scholars argue that only real dissident outside directors, initiated and proposed by hedge funds or other institutional investors, can be perceived as genuine independent mavericks to change a board's functioning, and not liable in any way to the management they are supposed to monitor (Macey, 2008). Such an independent attitude may also be found among *wise* leaders at corporate boards who are not just motivated by pecuniary incentives but also by a compelling vision and a higher "common" purpose.

Indeed, boards that are genuinely guided by practical wisdom perceive *independence as a state of mind*, not as a legal compliance issue. The reliance on the integrity of all those board members – either insider or outsider directors – will most likely produce superior results than mere *tickbox* compliance to a legal status of independency. One cannot ignore the

fact that a board remains a collegial decision-making body and that boards are often "captured" by the interests of top management, especially under a single-tier board structure as in an Anglo-Saxon context (Charam, 2009; Macey, 2007). Perhaps "independent" directors are not independent enough. The suggested driving force of re-interpreting independency of the board is not a legal rule, nor ignoring human organisational board behaviour, but emphasising the importance of a virtuous leadership behaviour which underpins managerial or practical wisdom. *Integrity of mind* here implies that board members are aiming to adhere to financial objectives that are aligned to non-financial goals, and to objectively monitor top management while walking a fine line in remaining collegial (i.e. being proximate) with other fellow board members and with management whom they advise and supervise. There is some evidence that a moderate number of insider non-executive directors of an average sized board tend to be more profitable than firms with hardly any insider on the board (Bhagat *et al*, 2002 and 2008). A collaborative board with a small but committed minority group of inside directors improves board decision-making due to their superior information. Although inside board members may lack legal independence, they have their human capital, and often most of their financial capital, committed to the firm, making them formidable contributors and committed advisors to the firm. Insiders may outperform outside directors in terms of strategic planning decisions because of their intimate expertise and specific knowledge of the firm. Affiliated and inside directors seem to have a positive effect on the return on investment and stock market performance (Klein, 1998; Bhagat *et al*, 2002; Lev, 2012).

With the rise to power of institutional investors – shifting corporate control back to owners from managers – and the demand for more accountability and responsibility of and within firms is growing. Maybe a too tall request or expectation?

Concluding

Pecuniary reward incentives within certain regulatory boundaries and formal governance rules have been the main motivators to incite innovative and efficient corporate behaviour that supposedly results in a fair return to the investment made by shareholders. However, managerial wisdom has hardly been perceived as a constitutive, and thus relevant, factor in creating and preserving corporate organizational value. A re-interpretation of the notions of accountability and responsibility may be needed, shifting away from verifying which formal governance features are in place at boards to evaluating the success of various functions of good corporate governance to steer the organisation to sustainable corporate

value. The independency of board members, for example, is not an exercise of mere legal compliance but rather a state of mind that implies that board members adhere to the notion of integrity required to honour their fiduciary duty to optimise sustainable corporate value.

The hypothesis here is that *being accountable* for its legal and fiduciary contract to the shareholders and *being responsive and responsible* to the demands of a broader constituency will need to be reinterpreted and inspired by the constituting characteristics and features of practical wisdom. Managerial wisdom or *phronèsis* has been defined as an amalgam of (1) integrity, values reflection and a compelling purpose; (2) cognitive and affective tacit knowledge; (3) professional experience, and, (4) fuelled by a continuous process of learning.

Authentic leaders are most often quite true to themselves and deploy high levels of integrity that is incorporated in its decision-making, acknowledging the importance of continuously learning how to address ethical and environmental challenges while preserving or enhancing the economic value of the firm. Nonetheless, wise and integrative leadership transcends the conventional trade-offs between an economic reality and the different increasing ethical and environmental demands.

Profitability does matter, but judging solely on outcomes is a serious deterrent to taking risks that may be necessary to make the wise judgment calls. Wise leaders are aware that the way decisions are evaluated affect the way decisions are made. Wise boards set clear ethical standards, and use rewards and punishments to ensure standards are followed. Indeed, corporate governance mechanisms and corporate leadership in charge of supervising strategic choices should integrate ethical and environmental values – or a higher "common" purpose - with commercial value, encouraging a *crowding-in* effect of integrity rather than emphasising the usual *crowding-out* effect of purely pecuniary rewards to top management for taking risks that allegedly pay off. An effective leader does not necessarily lead by control only, but rather by vision and conviction and a willingness to be accountable for his management decisions to the board while also taking full responsibility for the consequences of the firm's activities to relevant stakeholders. Unless wise leadership shapes the practices within and between organisations, and unless new re-interpreted notions of accountability and responsibility are incorporated into "best" corporate governance practices, managerial wisdom will remain a distant corporate ideal.

Is it not "true" that wise leaders look toward the past with gratitude, try to be of service for their organisation in the present, and consider the future with responsibility?

Practising such a state of mind may lead to organisations steered by wise boards that can be trusted again.

Figure 1: Good Corporate Governance correlated to Rules, Incentives and Practical Wisdom

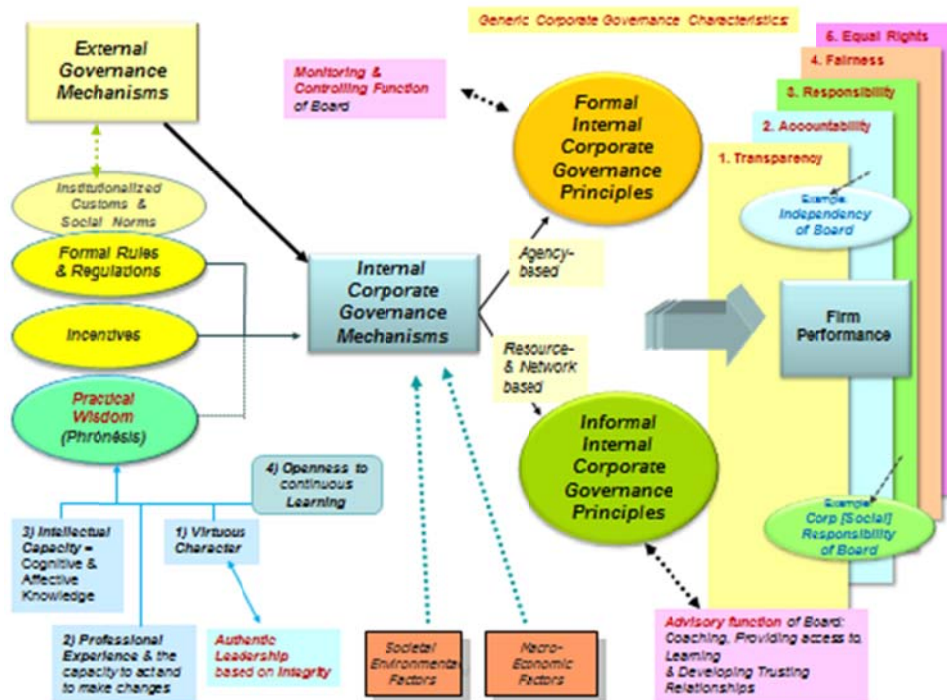
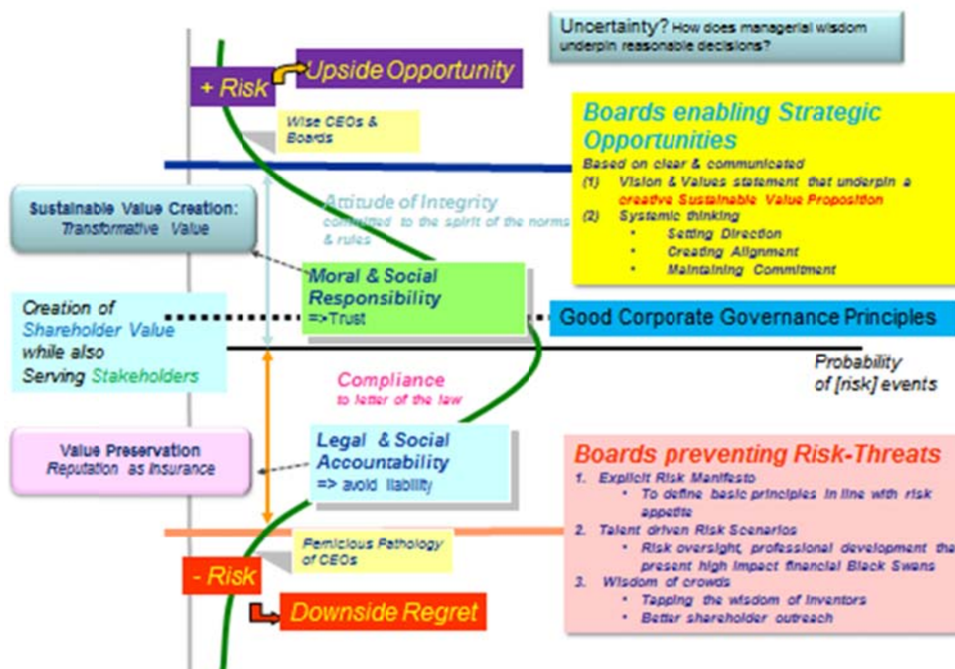


Figure 2: Accountable and Responsible Boards enabling opportunities and preventing threats



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[1] According to the Organisation for Economic Co-operation and Development (OECD), "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the company, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives and strategy are set, and the means of attaining these objectives and monitoring performance." The OECD set for GCG contains the following basic principles: (1) *Ensuring the Basis for an Effective Corporate Governance Framework* - the corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities; (2) *The Rights of Shareholders and Key Ownership Functions* - the corporate governance framework should protect and facilitate the exercise of shareholders' rights; (3) *The Equitable Treatment of Shareholders* - the corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights**;** (4) *The Role of Stakeholders in Corporate Governance* - the corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises; (5) *Disclosure and Transparency* - the corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company; and last (6) *The Responsibilities of the Board* - the corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.
It is quite obvious that this definition is quite consistent with the one presented by Adrian Cadbury which is quite influential among UK and increasingly other national corporations

and followed as a guideline by quite a number of their boards: http://ecgi.org/codes/documents/cadbury.pdf

[2] See Macey, 2008. Hermes Pensions Management Ltd, Dec: http://www.hermes.co.uk/corporate_governance/corporate_governance_and_performance_feature.htm#definingcorporategovernance. Corporate governance refers to corporate decision-making and control, particularly the structure of the board and its working procedures. However, the term corporate governance is sometimes used very widely, embracing a company's relations with a wide range of stakeholders or very narrowly referring to a company's compliance with the provisions of best practices codes.

[3] See Kessler and Bailey, 2007. Socrates' belief that wisdom is knowing what one does not know represents a fundamental characteristic of humility and prudence. Wisdom can therefore be perceived as an attitude that balances knowledge and human fallibility or ignorance. Wisdom involves arecognition of, and a response to, human limitations. To be a wise person lies not in what he knows but rather in the manner in which that knowledge is held and how that person puts the knowledge to use. The essence of wisdom is in knowing that one does not know, in the appreciation that knowledge is fallible, that wise persons can be fallible, in the balance between knowing and doubting.

[4] See Williams, 2002; Stout, 1993 and 2003; Grayling, 2007; Verhezen, P. 2009. Intentional sincerity or trustworthiness in fact refers to a more operational notion of integrity, honoring one's word; and professional accuracy refers to experience, expertise and specific knowledge in the organisation. The combination of integrity and professional experience unfolds to truthfulness. Truthfulness is the activity or process that possibly results in wisdom. The notion of *truthfulness* or *Wahrhaftigkeit* has an objective status – as well as a normative one. The criteria of ethical worth – such as integrity - remain fallible and dependent on (1) our *intentional* sincerity and (2) *professional* accuracy of using our moral vocabulary. Indeed, truthful moral reasoning requires the "virtues" of (1) *sincerity* ("what you say reveals what you believe") – or trustworthiness – and (2) *accuracy* ("you do your utmost best to acquire true beliefs") – or 'objectivity' acquiring abilities. While sincerity is no proof against error, it is just the disposition so say what you think is true without wanting to mislead, but intentionally looking towards the truth of the matter. Sincerity involves a certain kind of spontaneity when one tries to 'tell the truth'; it refers to a normative pragmatics or a matter of deontic attitude centered on the notions of commitment and entitlement. Being sincere implies a self-reflective attitude of authenticity. One is authentic when on is true to oneself. Authenticity requires having the will you want to have – identifying by what you care about with the 'desires' [of integrity] that guide your action. The notion of accuracy includes resistance to self-deception and wishful thinking, which implies the acknowledgment of traditions and (scientific) authority. Accuracy implicitly refers to [a semantics explaining] a conceptual content or relevant *semantic* adequacy.