

# CONTRIBUTION OF INFORMATION DISCLOSURE TO CORPORATE INTEGRITY

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## ABSTRACT

Information disclosure has a significant value in which a corporation demonstrates the consistency in its business behavior towards its commitment.

Integrity, an ethical value different from “seijitsu” in terms of the nature with independency and ego, should be eventually fulfilled by the consistency between the publicly disclosed commitment and the behavior including verbal representation made by a corporation.

Integrity is a known ethical value which presents moral consistency, honesty, commitment and courage to pursue one’s goal. To evidence the consistency between the commitment and the behavior, one can take advantage of information disclosure. The discrepancy between the fact and the presented data may unveil the dishonesty in a corporation and, the timing to disclose the facts or data relevant to the interests of a customer of corporation may tell the level of commitment to the corporate social responsibility for a corporation. In these senses, the quality of information disclosure by a corporation or, the decision if a corporation discloses negative information may be regarded as key component to prove itself a corporate entity with integrity.

Recent surveys regarding the evaluation of a corporation have shown how they have depended on the disclosure to prove its appropriateness as a corporation and get closer to a model corporation which is most concerned with corporate social responsibilities.

When consistency is regarded as an utmost ethical value in integrity, the disclosure of negative information may be worth publicly addressing as it is viewed the representation of integrity of a corporation.

Keywords: integrity, information disclosure, business ethics, seijitsu, honesty

## MEANING OF INFORMATION DISCLOSURE

Information disclosure has been given the value, “honesty” and “transparency” in business ethics. However, if it is based on the profit of corporation, it includes various issues such as reputational risk. While there are pieces of information a corporation must report such as product recalls and loss/leakage of personal data it depends on the decision of a corporation whether it discloses some of information if they are not required by law. Even though the disclosure is not required by law, if the consumer may find it inconvenient

In this study, I set ‘honesty’, ‘consistent’, and ‘wholeness’ as values embedded in ‘integrity’. Then, I discuss that it is necessary for a corporation to respect the value of ‘wholeness’ in terms of disclosing negative information.

Entering 21 centuries, in our country scandal of big business is successive. Not only scandal of corporation, with the growing concern over environmental and innovations of the life supplies, as for corporation it reached the point where the information disclosure which perhaps covers the field is required from society. Information disclosure global as for being seriously considered from viewpoint, the SOX where internal control of company is strictly converted in the United States being enacted,

## CONTRIBUTION OF INFORMATION DISCLOSURE TO CORPORATE INTEGRITY

International Organization for Standardization (ISO) on 2008 latter half, the standard (ISO26000) regarding social responsibility (SR) of company has been expressed to the fact that among other things it is the schedule which is published<sup>1</sup>. That it goes without saying, although it is requested socially corporation discloses information, consideration to the loss which thing and the information disclosure which none disclose information bring is required to enterprise.

For example, the accident which begins the leakage loss of the private information in the enterprise after the enforcing of the private information protective method is something which shakes the reliance of enterprise. In addition, in our country today, the end when it passes the accident of many enterprise products, enterprise as for doing information disclosure concerning accident and the inferior goods, product safe method for amendment consumption life it reached the point where it is required with<sup>2</sup>. On the other hand, as for social reputation of enterprise from the fact that it depends on information, information of reporting and Internet of mass media, includes the danger of the sale of enterprise and decrease etc of stock price...

The study discusses the negative information with the prerequisite that in the future more, the society would request a corporation to advance information disclosure and ethics of corporation. The types of information disclosure can be categorized as 'disclosure', which is financial information<sup>3</sup> and non-financial information. As for disclosure of financial information while being advanced, in the future, as for the contents which become topic in information disclosure of enterprise, you think that it is the information regarding the legal observance ethics which belongs to latter non financial information.

In this study, I define the stakeholder of corporation as customer, shareholder, employees, suppliers, community. In addition, I define negative information as information of accident and the scandals derived from corporate activity, and discuss the disclosure of non-financial information.

You can see the letter, "seijitsu" in idea of many corporation s. "Seijitsu" is said even integrity, however, integrity is the concept where how many thing value is compounded, as for both you think that it is not the same concept completely. "Seijitsu" contains truth, purity, and loyalty. However, the loyalty in seijitsu coincides with a situation not a purpose. Sagara pointed out that 'seiji tsu' is not to be pure characteristic of the feelings for norm, concern of pure characteristic itself of feelings" (Sagara 1980).

Ayn Rand, American theorist discussed integrity deeply, based upon her fundamental idea, 'egoism'<sup>4</sup>. Under Rand's philosophy, integrity would be faithful to the belief of oneself. In this study, I discuss integrity by abiding by Rand's integrity. Here, in sum, Loyalty in 'Seijitsu' looks at a situation and the one in 'integrity' looks at a purpose. The idea of a corporation which pursues 'seijitsu' may coincide with information disclosure. But in reality the areas of disclosure are limited. The reason is that 'seijitsu' contains the spirit of altruism which would not prioritize the pursuant of one's purpose. To overcome the negative effects of 'seijitsu', we need to discuss 'integrity' in depth to apply it to corporate ethics. In abiding by 'integrity', we will add a value of wholeness to 'seijitsu'.

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<sup>1</sup> <http://www.iso.org/iso/en/commcentre/pressreleases/2007/Ref1049.html> (ISO Homepage, accessed on May 25, 2007)

<sup>2</sup> [http://www.meti.go.jp/policy/consumer/seian/shouan/contents/kaisei-seirei2\\_r.pdf](http://www.meti.go.jp/policy/consumer/seian/shouan/contents/kaisei-seirei2_r.pdf) (accessed on May 25, 2007)

<sup>3</sup> For example, Tokyo Stock Exchange awarded companies which are proactive in disclosure. Refer to TSE Homepage.

<sup>4</sup> Rand's egoism is not unrestrained, self-interest but rather live on the respect of virtues to survive.

# CONTRIBUTION OF INFORMATION DISCLOSURE TO CORPORATE INTEGRITY

## CORPORATE INTEGRITY

In the study of business ethics “seijitsu” and “integrity” are not distinguished clearly and are argued in same context. The discussion on information disclosure would be meaningful if we addressed the distinction between these two concepts.

In today’s study in business ethics, corporate ‘seijitsu’ is generally addressed as ‘ethical behaviors beyond compliance’ (DeGeorge 1993; Solomon 1993; Paine 2004). What we need to discuss with the conventional theory of ‘integrity’ in principle is ethical judgment on a corporate practice of compliance. For instance, it has been a serious issue for a corporation how it sufficiently manages personal information to abide by the act of personal information protection enacted in 2005<sup>5</sup>. A survey conducted by an accounting firm demonstrates that the ratio that a company abides by compliance is 54% for listed companies and 58% for non-listed companies. It shows that pursuing compliance itself is not easy<sup>6</sup>.

In the previous study of business ethics, information disclosure has been regarded as ethical behavior (i.e. Taka 1999). One of the issues in corporate behaviors with integrity has been conflicts of interest derived from asymmetry of information (Bowie, 2004, p.60). Information disclosure is an act of transparency that symbolizes fairness and honesty. The adverse effect of information disclosure led by a corporation in promotional purpose might be hidden in the behavior as Bok discussed (Bok 1997, p.165).

The behavior of disclosing information is considered as a practice of CSR which is related to business ethics. The corporations have disclosed financial information in annual report and covered the non-financial information in CSR report for recent years (Ohkubo 2006, p.11). The information on CSR related activities have been disclosed on the website and introduced in CSR report<sup>7</sup>.

The unresolved issue on information disclosure in business ethics is what ‘seijitsu’ in corporation requires in the framework of ‘beyond compliance’. If a corporation strives for ‘seijitsu’, even if the negative information is not legally requested to disclose but its customer deserves it, the corporation must be willing to disclose it. The same goes for CSR (Corporate Social Responsibility) reports developed by corporations, in which they have not presented negative information which help readers review how a corporation solves issues related to society, consumers, and so on.

## NEGATIVE INFORMATION

Hypothesis: A corporation which would pursue integrity as corporate idea will advance information disclosure including negative information to it.

Corporations have become aware of the importance of information disclosure as part of CSR. However, as I addressed earlier, they have not disclosed much of negative information with corporate activities.

To study the above hypothesis, I review the analysis developed by think-tank and business groups regarding CSR reports issued by private corporations. The basis of integrity for the review would be the philosophies of Ishida Baigan and Ayn Rand.

The reason to use the analysis made by think-tank and business groups is to demonstrate how the trends of CSR reports are understood. The characteristics of the survey by

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<sup>5</sup> <http://www5.cao.go.jp/seikatsu/shingikai/kojin/20th/20070521kojin2.pdf>

(accessed May 25, 2007)

<sup>6</sup> Tomatsu Survey in 2007 (p.13)

<sup>7</sup> 60% of member companies have formed CSR system internally according to self-evaluation report by Japan Association of Corporate Executives(2006).

## CONTRIBUTION OF INFORMATION DISCLOSURE TO CORPORATE INTEGRITY

major business groups are that the number of samples is large in proportion to the population of member companies. The purpose to include the analysis by think-tank is that the position is totally different from the one by business group.

The reason to obtain the trend of information disclosed by corporation is as follows. Today, CSR-based activities in corporation have been advanced and they have been compiled in CSR reports. Many corporations have devoted their resources to the production of CSR report. Therefore, the reports are good media for a layperson to review ethical policies and activities within a corporation<sup>8</sup>.

There are some global guideline to which corporations can refer in developing CSR reports, such as Sustainability Reporting Guidelines released by GRI (Global Reporting Initiative's)<sup>9</sup> and AccountAbility(AA). In CSR reports in general, information disclosure is one of the subjects most highlighted<sup>10</sup>.

The surveys conducted by business groups do not clearly address the definition of negative information for a corporation. Also, what we need to pay attention to the result of the survey is that it is the summary of aggregated inputs by member companies. The report compiled by Japan Association of Corporate Executives (2006) shows that 95% out of the number of the companies which issued sustainability report and 69% out of the number of the companies which issued environment report disclosed negative information. What the survey conducted by Japan Federation of Economic Organizations (2005)<sup>11</sup> regarding CSR mainly shows the status and internal system of CSR, therefore, it is difficult to find whether its member companies deal with negative information in regard to disclosure.

On the other hand, the survey conducted by think-tank shows the disclosure of non-financial information has not been advanced, especially, in most cases, negative information has not been included in the report. Transparency is the principle which embodies honesty in ethics. In terms of disclosing information, corporations pursue it by participating in it partly but not wholly<sup>12</sup>. If we regard CSR report as a major means to disclose corporate information, it seems serious that corporations have not proactively taken the principle just as presenting policies and internal system to deal with difficult situations.

Here, I review what subjects have been respected in the society when a corporation is viewed as a business entity with the nature of 'seijitsu'. KFi and Sankei Newspapers formed the award of a corporation with 'seijitsu'. The award has been granted to relevant parties based on the following four points. Those is, first, ethical commitment by top management, second, the development of communication system with compliance, third, feasibility of monitoring system of compliance, and lastly, review of result of monitoring. In 2007, Eizai won the award. In Eizai's CSR report, there is some indication by which we can faintly observe that something has been put in practice for compliance in the corporation<sup>13</sup>. Also, DNP, printing company was awarded but the third party suggests social performance needs to be developed further quantitatively<sup>14</sup>.

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<sup>8</sup>It has become known that CSR report is the means of accountability for a corporation. Refer to "How CSR has been reported?" written by shin-nihon kansahojin (2007)

<sup>9</sup>The latest guideline by GRI available in Japanese is 2002 version.

<sup>10</sup>Refer to survey done by Japan Federation of Economic Organizations (2005) and Japan Association of Corporate Executives(2006).

<sup>11</sup>Corporate governance, compliance, environment, safety, quality, labour, social contribution, consumer protection, information protection, information disclosure, communication.

<sup>12</sup>Kawamura (2006) pointed out that corporations have not disclosed the status of the activities and issues with CSR.

<sup>13</sup> Eizai's compliance access counter system has been introduced in the report.

<sup>14</sup> TOPPAN CSR Report 2006, p.82.

## CONTRIBUTION OF INFORMATION DISCLOSURE TO CORPORATE INTEGRITY

In relation to the untouched perspective of information disclosure, Hashimoto (2005, p.59) who reviewed 'apology advertisement' in the paper pointed out that corporations have just ended up disclosure with notification basis and not responded to the public attention to accountability. Eventually it may lead to a point that the issue of advancing disclosure of negative information is not only observed in CSR report.

In practice, is there any corporation which discloses negative information and raises 'integrity' as ethical principle? I will review Intel Corporation, global, chip-manufacturing giant, for a study. The characteristics of semiconductor industry are the competition is so sheer and difficult to be a survivor as the speed of technology development is rapid and the costs of investment in R&D and production facilities are enormously high. The ethics codes of corporations in semiconductor industry seem very strict as they recognize integrity counts ultimately to strive for a competition in that they deeply get involved with suppliers to develop high quality materials and devise. The gift and entertainment may lead them to ruin if they are naive.

Intel emphasizes integrity in its Code of Conduct<sup>15</sup>. Intel employs GRI Guideline for CSR report. According to the data in 2005, Intel has not address any comments in some of non-financial information column (noted as N/A). The third party who submitted the opinion abiding by AccountAbility standard on CSR report of 2006 was a MBA student<sup>16</sup>.

Scott Lynn, the student submitted the evaluation of Intel CSR report based on AccountAbility. Based on the three perspectives as Materiality, Completeness, and Responsiveness in AccountAbility, it was reported that the company has not sufficiently disclosed negative information and positively carried success stories. It will come to our attention that a company which respects integrity as ethical value may not easily be ready to disclose negative information. From integrity point of view, no company has been considered to accompany 'wholeness' in the behavior of disclosing information even though the available pieces of information are honest and consistent.

The opinion submitted by the third party in CSR report demonstrates fairness of the reported developed by a corporation. Different from ordinary selection of reviewer, Intel chose a graduate student to fill the third party opinion. Because it would aim to avoid conflicts of interest and obtain fair opinion.

Reviewing hypothesis, it is clearly defined that disclosing information that includes negative side of business is not easy for a corporation which is committed to integrity. The current issue is how a corporation would reinforce 'wholeness' to put integrity in practice.

## CONCLUSION

I discussed that the areas that corporations are involved in terms of information disclosure in CSR reports are policies and systems. Under 'integrity', egoism which leads one to survive for herself would be respected while under 'seijitsu' altruistic spirit is embedded. The conclusion of the study is that the ethical principle to advance information disclosure in negative aspect would be 'integrity' which contains values such as honesty, consistency, and wholeness.

The issue of reporting CSR related activities is to excel negative information in social and ethical perspectives. What is needed to resolve the issue is the loyalty to pursue the purpose.

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## CONTRIBUTION OF INFORMATION DISCLOSURE TO CORPORATE INTEGRITY

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