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The Economics Of Corporate Transparency

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Why Trust May Be the Most Valuable Asset That Never Appears on a Balance Sheet

A Note to the Reader

Trust is one of the few assets that cannot be acquired, borrowed, or reported on a balance sheet. It is built gradually through actions, decisions, and communication, yet it influences how investors, regulators, customers, employees, and markets respond to a company.

In an environment where information drives decision-making, transparency becomes more than a governance practice—it becomes a means of building and preserving trust. The pages that follow explore why that trust may have deeper economic significance than is often recognised.

A mid-sized listed infrastructure company in India faced a choice that most boards eventually face — though few are candid enough to admit it. An internal review had flagged a project delay that would likely compress margins over the next two quarters. The numbers were manageable. The question before the board was whether to say so promptly, or to wait and see how things played out.

When the numbers arrived six months later, the stock fell — not because of the margin compression itself, but because analysts felt blindsided. The company then spent the better part of the following year managing a credibility gap, not a margin gap. The financial hit was temporary. The reputational cost took considerably longer to reverse.

I have seen variations of that story play out across industries and geographies more times than I can count. The details change; the dynamic does not. Corporate transparency is not primarily a legal or governance question. It is an economic one. And companies that treat it as a compliance checkbox tend to pay dearly for that misunderstanding, usually at exactly the moment when they can least afford to.

Markets Reward Predictability

Investors do not allocate capital solely based on what is true. They allocate it based on what they can understand, verify, and forecast with reasonable confidence. The underlying problem — which economists call information asymmetry[1] — is structural, management always knows far more about a company than outside investors do. The wider that gap, the greater the uncertainty investors price in. They demand higher returns for bearing it. Banks increase lending costs. Analysts apply lower valuation multiples.

The practical consequence is that **opacity functions as a hidden tax on capital.** Companies pay it not in a single line item, but cumulatively, across every financing and valuation decision made over years. It rarely shows up in a quarterly presentation. But it is there.

Many management teams spend considerable energy trying to improve operating margins by a few basis points. Fewer recognise that reducing uncertainty can generate comparable value at a fraction of the cost. ***When investors trust what they are told, they accept lower returns for the same risk***. Over a decade, that effect is material — and it compounds. The companies that understand this treat investor communication as a strategic function, not a reporting obligation.

The Economics of Trust

Trust is discussed most often as a moral concept. It is equally an economic one — and in my view, the economic dimension deserves more attention than it typically receives in governance circles.

Ronald Coase, in his seminal 1937 paper "The Nature of the Firm[2]," argued that organisations exist because they can perform certain activities more efficiently than the open market, primarily by reducing transaction costs; the costs of searching, negotiating, contracting, monitoring, and enforcing agreements. Every business relationship carries these costs. Trust reduces them, at times dramatically.

When stakeholders trust a company, capital commits more readily. Regulatory interactions become less adversarial — and I speak from experience when I say that the difference in how SEBI or a stock exchange engages with a company known for good governance versus one with a chequered disclosure history is not subtle. Customers stay through difficult periods. Employees support strategies whose payoffs are years away. None of these effects show up cleanly on a balance sheet. All of them influence economic outcomes.

Transparency is the mechanism through which trust is built and sustained. It narrows the information gap, reduces the uncertainty premium that investors demand, and strengthens the confidence that underpins every stakeholder relationship. Treated as infrastructure rather than paperwork, it changes how an organisation functions — not just how it is perceived.

Trust functions like economic infrastructure. Like roads, ports, or digital networks, it lowers friction and enables transactions to occur more efficiently. It does not appear on a balance sheet, yet it influences almost every economic relationship surrounding a company. In many ways, trust is a form of economic capital that reduces friction, accelerates decision-making, and strengthens organisational resilience. [3]

Reputation as Economic Capital [4]

Warren Buffett's observation that it takes twenty years to build a reputation and five minutes to ruin it is widely quoted, often as a pithy reminder of ethical risk. What is less often said is the economic mechanism behind it.

Reputation is a form of capital. It attracts better investors at lower cost, secures more loyal customers, retains stronger talent, and generates more patient stakeholders during periods of difficulty. Like financial capital, it compounds when well-managed. Unlike financial capital, it cannot be reconstructed quickly once destroyed — and no amount of crisis communications spending changes that fundamental reality.

Markets have a consistent and, in my experience, entirely rational pattern, they forgive mistakes. What they are far less forgiving of is deception or concealment. Investors understand that business involves uncertainty, missed targets, and unforeseen setbacks. What they struggle to accept — and what tends to trigger the most severe and durable deratings — is the belief that management withheld material information or communicated dishonestly. An earnings disappointment affects valuation temporarily. A credibility disappointment can affect it for years.

This distinction matters most in times of stress. Companies that have consistently been transparent earn the benefit of the doubt when conditions worsen. Those that have not quickly learn how rapidly institutional confidence can disappear — and how costly and slow it is to rebuild.

Disclosure as Signal

Disclosure is not merely information. Every experienced analyst or fund manager will tell you that the quality of a company's disclosures tells them as much about management as the numbers do — sometimes more.

When a company explains its risks clearly and candidly — before events force it to — investors interpret that behaviour as evidence of confidence and competence. Management is demonstrating that it understands the business well enough to speak honestly about it. That impression, built over time, carries significant weight when a difficult quarter arrives.

The opposite signal is equally powerful, and equally durable. Boilerplate language, vague risk disclosures, and unexplained surprises raise a question that no investor can answer comfortably; what else is being withheld? I have sat in analyst calls where a single evasive answer to a reasonable question has done more damage to a company's investor relationships than a profit warning would have.

Markets are not simply evaluating current earnings. They are evaluating whether management can be trusted with future capital. The quality of disclosure is one of the few observable signals available for making that assessment — and sophisticated investors read it carefully.

Lessons from Satyam and IL&FS

Indian corporate history offers two instructive and very different examples of how information gaps compound into crisis — and why the mechanism matters as much as the outcome.

The Satyam scandal demonstrated how governance failures can remain concealed for extended periods when transparency erodes and board oversight becomes ineffective. What struck me, looking back, was not the scale of the fraud when it finally emerged — it was how long it had been accumulating quietly behind disclosures that satisfied form while obscuring substance. The annual reports looked fine. The audit committee met. The numbers reconciled. Until they did not.

IL&FS presented a structurally different problem. The group's complexity made it genuinely difficult for outside stakeholders — including sophisticated institutional investors — to assess its financial position and risk exposure on any consolidated basis. When confidence finally broke, the consequences spread well beyond a single organisation. The systemic damage was a direct function of the information vacuum that had been allowed to persist, across multiple entities, over multiple years. The contagion into the debt markets was not inevitable. It was the product of opacity.

More recently, regulatory scrutiny of a prominent listed group has demonstrated the same principle in real time. Whatever the eventual legal outcome of those proceedings, the market's response has been unambiguous- when investors cannot independently verify material information, they apply a discount — and they apply it fast, and without nuance.

Major corporate failures rarely begin with a dramatic event. They emerge from the gradual accumulation of information gaps, weakened oversight, and the quiet erosion of disclosure quality over time. Trust does not collapse overnight. It erodes incrementally, often imperceptibly, until a triggering event exposes how much had already been lost.

SEBI and the Evolution of Disclosure

India's regulatory framework has shifted considerably over the past several decades, and the direction of travel is worth understanding — not just for compliance purposes, but for what it reveals about the underlying objective.

Modern securities regulation is no longer primarily about preventing outright fraud. SEBI's regulatory architecture increasingly seeks to ensure that investors receive timely, meaningful, and decision-useful information — the kind that supports informed capital allocation, not merely the kind that fills a disclosure checklist. The distinction matters. Compliant disclosure and informative disclosure are not the same thing, and regulators are getting better at distinguishing between them.

This explains the growing emphasis on continuous disclosures, the tightening of related-party transaction reporting, the expansion of governance disclosures, the stricter insider trading framework, and the increasingly granular requirements around material event announcements. The underlying logic is straightforward- efficient markets require reliable information. Without it, price discovery breaks down, capital allocation becomes distorted, and investors make decisions based on rumour and speculation rather than disclosed facts.

Having worked with listed companies through multiple regulatory cycles, I think the trajectory is now quite clear- it will not reverse. Boards that treat disclosure as a compliance cost will find themselves perpetually managing the gap between what regulations require and what investors need. Boards that treat disclosure as a business practice will find that gap largely closes itself.

Promoter-Led Governance in India

India's economy has been built substantially on entrepreneurial promoter-led businesses, and that ownership structure carries genuine advantages that should not be underestimated. Long-term thinking. Strategic continuity. Stability of vision that professional management under short-term shareholder pressure sometimes cannot match. I have advised enough promoter families over the years to hold that view sincerely.

But promoter-led structures also create specific governance challenges — and transparency sits at the centre of most of them.

In promoter-controlled companies, which continue to dominate the Indian listed landscape, minority shareholders have limited influence over strategic decisions. They cannot easily replace boards that are underperforming. They cannot block related-party transactions that favour promoters. Information becomes their primary — and often their only — tool for assessing management performance and stewardship. When disclosure quality is weak, minority investors face a binary choice: accept opacity or exit. Neither outcome serves the company's long-term interests, and neither encourages the kind of institutional ownership that supports stable, long-term capital.

The most successful promoter-led businesses I have worked with understand this instinctively. Public capital carries public accountability. Strong disclosure practices demonstrate genuine respect for outside investors, materially reduce governance-related risk premia, and build the kind of institutional investor base that provides patient, stable support through business cycles.

The companies that resist this logic typically discover its costs eventually — usually when they need capital at a price they consider fair, and find the market disagrees.

The Role of Independent Directors

Transparency is ultimately a board responsibility. And independent directors are the members whose mandate most clearly includes accountability for it — which is why the quality of independent directorship matters as much as any other governance variable.

Independent directors are expected to provide objective judgement and to protect the interests of all shareholders, particularly minority investors who have no other means of oversight. Their role extends well beyond reviewing financial performance or approving related-party transactions. It includes evaluating whether disclosures are complete, balanced, and capable of conveying a genuinely fair picture of the company's opportunities, risks, and challenges — not just its strengths. It is remarkably easy for boards to slide into a pattern of disclosures that are technically accurate but selectively optimistic.

In practice, this means asking questions that are sometimes uncomfortable. Is this disclosure meaningful, or merely compliant? Does this language convey what a long-term investor genuinely needs to know? Is there something we are not saying that we should be? Are we explaining this risk because we are required to, or because the investor would want to understand it?

Over the years, I have noticed that the quality of a board's oversight is often most visible not in its major decisions, but in the quality of the information it chooses — and chooses not — to put before investors. That is where the real governance culture of a company tends to reveal itself.

The Long Game

Transparency accumulates over time. A company that discloses clearly and consistently — quarter after quarter, year after year, through good periods and difficult ones — builds a reservoir of credibility that it can draw on when circumstances become genuinely challenging. Each individual disclosure may seem unremarkable in isolation. Collectively, they create a track record that investors, regulators, analysts, and counterparties use to calibrate how much trust to extend, and under what conditions.

Opacity accumulates too, and in the same incremental way. Small disclosure gaps create uncertainty. Uncertainty invites suspicion. Suspicion attracts scrutiny. Over time, a triggering event — a missed target, a regulatory enquiry, a credible media report — exposes how much confidence had already quietly eroded. At that point, companies discover that rebuilding trust is a slow, expensive, and often humbling process.

The most respected companies are rarely those that disclose the most in volume terms. They are the organisations that disclose the most meaningful information — accurately, consistently, and in a way that stakeholders can independently verify and rely on. That distinction — between quantity and quality of disclosure — is one that sophisticated investors understand well, even when management does not.

Trust cannot be manufactured on the eve of an IPO or a fundraising round, however polished the investor presentation. It must be built during ordinary periods, long before it is needed. By the time you need the benefit of the doubt, it is too late to start building it.

Conclusion

Many boards still approach transparency as a compliance question- what are we required to disclose? It is an understandable starting point, but it is the wrong one. The more useful question is different- what would a rational, long-term investor genuinely want to know before entrusting us with capital?

The distance between those two questions is not merely a governance gap. It is the terrain where corporate value is created or permanently destroyed.

Trust is a form of capital. Like financial capital, it can be accumulated carefully and compounded over time — or squandered through poor decisions and evasive communication. Unlike financial capital, it does not appear on a balance sheet, which makes it easy to deprioritise, and easy to rationalise neglecting, until the cost of having done so becomes impossible to ignore.

The market value of any company is, at its core, a prediction about the future. Every prediction depends on trust. And trust, in the end, is built one disclosure at a time.

NOTES

[1] Information asymmetry refers to situations where one party possesses materially better information than another. As noted by Dr. Vikas Kumar Jaiswal in his study on information asymmetry in financial markets, such gaps can impair market efficiency, increase uncertainty, and influence investment decisions. (https://www.journalcra.com/sites/default/files/issue-pdf/45691_0.pdf)

[2] Ronald Coase's seminal 1937 paper argues that firms exist because using the open market to coordinate economic activity is not free — it carries costs. When it is cheaper to handle a function internally than to transact through the market, a firm forms. It continues to grow until the cost of managing things internally exceeds the cost of going back to the market. (https://onlinelibrary.wiley.com/doi/epdf/10.1111/j.1468-0335.1937.tb00002.x)

[3] Sabrina Dawn Palmer's 2026 paper "Trust as Resilience Capital: A Nash Equilibrium Framework for Organizational Stability Under Systemic Stress" (https://papers.ssrn.com/sol3/Delivery.cfm/6453441.pdf?abstractid=6453441&mirid=1)

[4] Warren Buffett on reputation and integrity, quoted in Carol J. Loomis, Tap Dancing to Work: Warren Buffett on Practically Everything, 1966–2012 (New York: Portfolio/Penguin, 2012).

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4 The discussion on reputation as an economic asset is inspired by Warren Buffett's observations on the importance of reputation, trust, and corporate integrity. See Warren E. Buffett, quoted in Carol J. Loomis, *Tap Dancing to Work: Warren Buffett on Practically Everything, 1966–2012* (New York: Portfolio/Penguin, 2012).