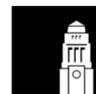

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Transparency Fallacy: Unintended Consequences of Stakeholder Claims on Responsibility in Supply Chains

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Abstract

Purpose The focus of the enquiry is on the research question of how stakeholder claims for transparency work as a means to support responsibility in the international supply chain.

Design/methodology/approach This theoretical study analyses the relationship between stakeholder claims for corporate transparency and responsible business in the global context, and develops a conceptual model for further theoretical and empirical work.

Findings The study finds that the call for corporate transparency is insufficient as a means to increase responsibility within international supply chains. The erroneous belief that stakeholder claims for transparency will lead to responsible behaviour, is identified as the 'transparency fallacy'. The fallacy emerges from the denial of opacity in organisations and the blindness to the conditions of international supply chains (including complexity, distance, and resistance) that work against attempts to increase transparency.

Research limitations/implications Acknowledging the limits of the transparency mechanism in both management theory and practice is necessary in order to advance responsible business in the international arena. Being conceptual in nature, the generic limitations of the type of research apply.

Practical implications While acknowledging opacity, corporate managers and stakeholders should focus on changing the supply chain conditions to support responsible behaviour. This includes reducing complexity, distance, and resistance in the supply network.

Originality/value This study contests the commonly assumed link between corporate transparency and responsibility, and sheds light on the limits and unintended consequences of stakeholder attempts to impose transparency on business organisations.

Keywords Transparency, corporate responsibility, supply chain, stakeholders, accountability, communication

Paper type Conceptual paper

1. Introduction

As an outcome of the expansion of the neoliberal political regime, multinational corporations have become the harbingers of global development. In this era of corporate influence, problems of social inequality (Piketty, 2014) and environmental degradation (IPCC, 2014) have been augmented, and continue to worry the citizens of the planet. The increased power of the corporation has not generally resulted in the desired upsurge of responsibility in business organisations. While the modern companies are hesitant to voluntarily accept duties beyond their economic interests, the market mechanism is also shown to have severe limitations in moving organisations and societies towards sustainability (DesJardins, 1998; Heikkurinen and Bonnedahl, 2013). Nevertheless, there are continuous reformist efforts to make the corporation a responsible societal actor and to hold it accountable for its actions.

One of these discourses that seek to align business practices with societal needs (Dahlsrud, 2008) and planetary boundaries (Rockström *et al.*, 2009) takes place under the label of transparency. In fact, transparency of business organisations has become a twenty-first century mantra spanning sectorial boundaries. A range of actors tackling issues of sustainable development in the private, public, and third sectors has called for more corporate transparency as a solution to the prevailing unsustainability. Stakeholders of these corporations—including customers, investors, politicians, and non-governmental organisations—increasingly demand more detailed and open disclosure on corporate actions and performance. A common response by corporations has been to publish various types of reports (e.g., Belal and Owen, 2015). Self-reporting, however, has tended to omit to mention negative incidents (Reimsbach and Hahn, 2015), generally lacked credibility, and clashed with external stakeholder accounts (Gallhofer et al., 2006; Boiral, 2013; Rodrigue, 2014). To address these problems, third-party assurance has been offered as a panacea but the robustness, reliability, and consistency of the assurance models have been impugned too (e.g., Ball *et al.*, 2000; Dando and Swift, 2003; Bepari and Mollik, 2016).

Despite these commonly acknowledged challenges, transparency is still considered to be a central tenet in ensuring responsible practice in companies (Dubbink *et al.*, 2008; Mena and Palazzo, 2012) and safeguarding responsibility along supply chains (Doorey, 2011; Egels-Zandén *et al.*, 2015). The rationale behind the call for transparency is that corporate disclosure on environmental, social, and economic performance will lead to more responsible business practices as corporations are exposed to public scrutiny, and can thus be held accountable for their actions. But are these really the outcomes of the transparency claims for responsibility? And can demands for more transparency actually create the needed change towards sustainable development?

In order to gain insights into the possibilities and limits of corporate transparency for sustainability, this paper examines transparency as a mechanism for responsible business behaviour in the global context. Thereby, our analysis zooms into the nature of the interrelation between the concepts of corporate transparency and responsibility in an international business environment. More specifically, the focus of the enquiry is on the research question of how stakeholder claims for corporate transparency work as a means to support responsibility in the international supply chain. The study challenges the often unduly optimistic notion of transparency as a central driver of

responsibility for sustainability in business organisations (e.g., Tapscott and Ticoll, 2003; Vaccaro and Patiño Echeverri, 2010; Palanski *et al.*, 2011) and supply chains (e.g., Pagell and Wu, 2009; Awaysheh and Klassen, 2010; Doorey, 2011). The study finds that the call for corporate transparency as a means to increase responsibility of international business organisations is inadequate. The paper argues that it would be a fallacy to assume that the stakeholder claims for corporate transparency lead to corporate responsibility in international supply chains. This so-called *transparency fallacy* is likely to emerge once stakeholders assert that a focal company knows—or even can know—and give a full account of what is going on in and around its supply chains. The degree of transparency achievable is severely hampered by the contemporary supply chain conditions that surround multinational corporations, including the complexity of supply chains, the geographical and cultural distance between the members of those supply chains, and the resistance to transparency measures by suppliers.

We suggest that stakeholder claims for more transparency may even turn out to be counterproductive for enhancing supply chain-wide responsibility, as the demands tend to push firms towards narcissistically praising or defensively palliating and camouflaging their activities by means of empty responsibility narratives. Furthermore, and importantly, the call for transparency may create and uphold myths around multinational corporations being capable of achieving transparency and thus of responsible business conduct. That being so, the requirement of transparency imposed on corporations may also become counterproductive in terms of both stakeholders' and managers' time and resources. This paper proposes that developing responsible business behaviour requires both stakeholder and corporate efforts be directed towards changing the supply chain conditions that characterise the contemporary global business context.

We draw on the stakeholder approach (Freeman, 1984; Freeman *et al.*, 2010), as well as on streams of accounting and accountability research that problematize various forms of dissonances of corporate action and rhetoric (e.g., Boiral, 2013; Rodrigue, 2014; Moerman and van der Laan, 2015) and explore the thus far relatively uncharted limits and boundaries of corporate transparency and responsibility (e.g., Roberts, 2009; Dingwerth and Eichinger, 2010; Macdonald, 2011). Although a few recent studies have already cast doubts on the assumption that transparency leads unequivocally to more sustainable business conduct (Unerman and Bennett, 2004) and sustainable supply chains (Egels-Zandén *et al.*, 2015; Mol, 2015), so far no direct attempt has been made to conceptualise stakeholder claims as a possible hindrance to responsibility in business. The main contribution of the paper is hence to shed light on the limits and unintended consequences of stakeholder attempts to impose transparency on companies and supply chains. Thus, the theoretical contribution of the paper is two-fold. Firstly, the paper adds to the accounting and accountability literature that emphasizes the limits of transparency and accountability (e.g., Roberts, 2009; Messner, 2009; Joannides, 2012; McKernan, 2012). Secondly, the paper connects to the sustainable supply chain management literature that far too simplistically sees transparency as the magic bullet, and often advocates external stakeholder pressure as an instrument for pushing supply chains towards greater accountability and sustainability of business practice (New, 2010).

The remainder of the paper is structured as follows. The following section reviews and defines the core concepts of transparency, accountability, and responsibility in the corporate setting, and presents the assumed link between the three. The paper then addresses the various challenges companies face when requested by stakeholders to establish transparency, and the unwanted side effects. The paper concludes that acknowledging the limits of the transparency mechanism is necessary for advancing corporate responsibility in the international business arena.

2. The Relevance of Transparency in Business

In the contemporary global marketplace, the extraordinary power of corporations is widely acknowledged (e.g., Anderson and Cavanagh, 2000; Vitali *et al.*, 2011). The large and successful multinational companies (MNCs), in particular, hold power over their suppliers and possibly even buyers due to their economic volumes (Robinson and Rainbird, 2013). Even decades ago, Galbraith (1973) noted that many business organisations have transformed from ‘price takers’ to ‘price makers’, a transformation affecting not only the sovereignty of consumers but also the economic system as a whole. These MNCs are found to have both far-reaching opportunities to influence their constellation of network partners (Vitali *et al.*, 2011), and the ability to choose the locations in which they invest and operate (Fuchs and Clapp, 2009). Given their power to also mould lifestyles (Michaelis, 2003) and influence the political and societal arena (Scherer and Palazzo, 2011), they can be seen to be responsible for their business conduct, having both negative duties such as inflicting no harm on their environment and positive duties such as investing organisational resources in shaping a social and institutional setting favourable to sustainability (Macdonald, 2011).

In the network of companies, those that ‘usually (1) rule or govern the supply chain, (2) provide the direct contact to the customer, and (3) design the product or service offered’ are called focal (Seuring and Müller, 2008, p. 1699). Despite their central role in the supply chain, focal companies are not entirely free to do whatever they wish, as active stakeholders (usually customers, state representatives and non-governmental organisations) act as watchdogs when their stakes are at issue (Freeman *et al.*, 2010; Heikkurinen and Ketola, 2012). But for the watchdog mechanism to work, a degree of transparency is needed. For this reason, focal companies are asked, and sometimes required, to disclose not only their intra-organisational practices but also activities in their supply chains (Islam and McPhail, 2011; Okongwu *et al.*, 2013; Fernandez-Feijoo *et al.*, 2014). Without this disclosure, the stakeholders are unable to assess whether the company’s actions are jeopardising their stakes and if the company is meeting the stakeholders’ expectations in terms of sustainable development, for instance.

In broad terms, transparency refers to openness and the communication of information in such a way that makes it easy for others to see what actions are being performed and which are not. Schnackenberg and Tomlinson (2016, p. 1788) define transparency as ‘the perceived quality of intentionally shared information from a sender’. In the context of business management, Bushman *et al.* (2004) define transparency as the availability of firm-specific information to external stakeholders. Recently, there has also been some debate about the rationale for granting stakeholders access to internal business information, including voices that see such

access as a human right if it is the precondition of meaningful political participation (Hazelton, 2013). Condensing these definitions, corporate transparency would mean *acting* in a way that enables others, both internal and external stakeholders, to perceive and understand what the company does, as well as the quality disclosure of the information needed for this; that is, transparency is not merely about sharing information but also about acting transparently.

Nonetheless, corporate disclosure through various forms of reporting is at the centre of the transparency debate (Hess, 2007). According to the framework of the Global Reporting Initiative, as sustainability reporting becomes more and more mainstream for stock-listed companies or companies exceeding a certain size, the issue of lack of credibility moves to the forefront, for example as conceptualised through the reporting-performance portrayal gap (Adams, 2004). And consequently, assurance statements by third parties play an increasingly important role in enhancing credibility (Edgley *et al*., 2010) despite assurance initiatives at times being criticised for their limited scope, insufficient independence, arbitrary content, and opaque assurance processes (O'Dwyer and Owen, 2005; Gürtürk and Hahn, 2016; Talbot and Boiral, 2015a). In particular, assurance is said to miss the chance of creating further-reaching stakeholder-company dialogue on social and environmental issues (Jones and Salomon, 2010). In any case, mere assurance may be considered inadequate to establish the credibility of corporate communications, especially given that the degree of trust between companies and stakeholders is often low (Adams and Evans, 2004).

More generally, according to Roberts (2009) transparency is intimately connected to accountability in the sense that transparency would be achieved if we could give a full account of ourselves. Accordingly, Harmon (1995, p. 25) states that 'accountability refers to an authoritative relationship in which one person is formally entitled to demand that another answer for—that is provide an account of—his or her actions'. Hence, the call for transparency establishes a hierarchical relationship between corporations and their stakeholders with the latter in an authoritative watchdog role. In this respect, Roberts (2009) referring to Althusser (1971) explains the essence of accountability through the metaphor of a street scene where an individual—in our case the company—is hailed by some authoritative force—in our case the stakeholders—'Hey you there!'. By answering this call, the company generates narratives that creates its identity and through which it gains recognition, that is, the social licence to operate (Melé and Armengou, 2016); simultaneously, however, these narratives are subjected to the judgement of the stakeholders. Thus transparency reveals its ambivalent character as it prompts defensive and self-assertive justification as well as corporate narcissism (Boiral, 2013). Or, as Roberts (2009, p. 958) puts it, 'transparency works to advertise an ideal against which we will always fail so that it plays with my fears of being exposed and humiliated whilst at the same time encouraging me to take pride in what is disclosed'.

3. Corporate Responsibility and Stakeholders

The contemporary debate on corporate responsibility has attracted a considerable amount of attention among business pundits and academics. It seems that the transformation to sustainable societies is largely dependent on how economic actors, particularly corporations, can be changed towards acknowledging and fostering social

and societal value as well as respecting natural capital (Welford, 1997). One could therefore expect companies to consider their operations' impact on social and ecological systems in order to extend their accountability, from investors and shareholders towards a wide range of stakeholders (Adams and McNicholas, 2007). However, there is a conflict inherent in the relationship between responsibility and accountability in a sense that accountability relies on responsibility but the processes of rendering accountability undermine responsibility at the same time; "the processes of accountability draw us [...] into explaining and justifying to the community, and thereby it threatens to undo the singularity that is crucial to moral responsibility" (McKernan, 2012, p. 259). Furthermore, the reliable identification of responsible business behaviour on the part of companies remains elusive. For example, if we take the case of Royal Dutch Shell and its oil spills in Nigeria (Pegg and Zabbey, 2013), responsibility remains a vague concept. Is it meaningful to talk about responsible business when an oil company agrees to settle with the local affected community for oil spills and promises to mitigate future risk, but at the same time continues its business activities that deplete fossil fuel reserves and warm the climate at the expense of future generations and the environment? On the other hand, any attempt to offset the harm caused is surely better than nothing but can be considered inadequate to establish responsible conduct. Another more recent case that highlights the problem of the responsible business discourse is Volkswagen's emission scandal. This German car manufacturing giant was found to cheat with the emissions tests to downplay the real impacts of their vehicles on the environment. Yet, the corporation claims on its website that 'social responsibility has long been at the heart of our corporate culture' (VW, 2015). However, while there are several examples that shed light on malpractice (e.g. Banerjee and Bonnefous (2011) on the French nuclear industry and Owen (2005) on Enron), there are also MNCs that are praised for their excellence, for instance Patagonia (McSpirit, 1999) with its calls for reduced consumption. Whether or not Patagonia has succeeded in actually reducing the overall consumption is another question. The expansion of their manufacturing units has problematically led to increases in both the use of natural resources and the production of climate emissions.

Be that as it may, it is apparent that corporate responsibility, as well as the lack of it, is an empirical phenomenon (Heikkurinen, 2013). Several studies and reports posit that companies take care of the environment and are considerate in sociocultural matters beyond the legal and regulatory requirements (Dahlsrud, 2008). Suggested reasons for these responsibility discourses and practices span mere profit-making (McWilliams and Siegel, 2001), risk management (Bebbington *et al.*, 2008), political ideology (Chin *et al.*, 2013), the new political role of businesses in the globalising world (Scherer and Palazzo, 2011) and the oppression of others (Banerjee, 2007) to the moral high ground (Ketola, 2014) and spirituality (Pruzan, 2008). Owing to the breadth of viewpoints, a precise and all-inclusive definition of corporate responsibility is difficult to establish (for a review see Heikkurinen and Mäkinen, 2016). This paper adopts a definition of corporate responsibility—which comprises corporate environmental responsibility, corporate sociocultural responsibility and corporate economic responsibility—as 'consideration for others, both the salient and fringe stakeholders, including the natural environment and other non-human actors, that is manifested in corporate discourses and/or actions beyond the contextual legal compliance' (Heikkurinen, 2013, p. 33). In this respect, stakeholders are crucial for constituting corporate responsibility; they are the entities to which companies are

supposed to respond to and indeed represent the authorities that demand transparency and accountability from corporations and their supply chains (Roberts, 2009). At the same time, stakeholders are supposed to create cognitive dissonance among managers and spur change towards greater accountability of corporate action (Adams and Whelan, 2009).

Freeman (1984) introduced the stakeholder approach to managing a business organisation successfully, which has now become popular and broadly utilised in studies of corporate responsibility (Dahlsrud, 2008). According to this approach, a stakeholder is defined as 'any group or individual who can affect or is affected by the achievement of the organization's objectives' (Freeman, 1984, p. 46), and the consideration of the expectations of both primary (e.g., customers, communities, employees, financers or suppliers) and secondary stakeholders (e.g., government, competitors, consumer advocate groups, special interest groups or the media) is considered to be the key to economic success and survival of the company (Freeman *et al.*, 2007, 2010). Hart and Sharma (2004) underline that the groups at the fringe of a firm's operations (i.e. the poor, weak, isolated, non-legitimate and even non-human stakeholders) also matter, as they possess knowledge important to the organisation. A stakeholder analysis is presumed to contribute to maximising both shareholder value (Mitchell *et al.*, 1997) and 'competitive imagination' (Hart and Sharma, 2004), as well as to connect business to ethics (Freeman *et al.*, 2010). Nevertheless, from a viewpoint of inclusive, responsible business, a challenge inherent in the stakeholder approach is selecting those stakeholders whose concerns matter in business decisions, to weigh the concerns of stakeholders and the business in cases of conflicts of interest, as well as to distinguish real response to manifested stakeholder expectations from merely ostentatious activities that may be labelled as so-called impression management (Clatworthy and Jones, 2006; Merkl-Davies et al., 2011; Guillamon-Saorin et al., 2012).

The stakeholder approach prescribes that the main goal of corporate responsibility is to create value for key stakeholders and fulfil responsibilities to them (Freeman and Velamuri, 2008). These key stakeholders are often the most powerful, not the stakeholders at the 'fringe', such as local communities, animals, or the unborn. 'To achieve greater consensus […], all stakeholders (both economically powerful and economically weak) need to more readily engage in open, honest and cooperative discourse, being prepared to acknowledge and accept the force of the stronger argument and modify their views accordingly' (Unerman and Bennett, 2004, p. 703). Such a discourse could, for example, be led by dialogic accounting techniques that aims at breaking the predominance of shareholder interests and drives stakeholder accountability and ecological sustainability (Brown, 2009; Brown and Dillard, 2015; Brown *et al.*, 2015). But even if the stakeholder approach is as inclusive and democratic as theoretically possible, for example by harnessing the use of social media for engaging stakeholders in continuous exchange (Manetti and Bellucci, 2016), the non-human environment and the needs of future generations are likely to remain under-represented, as these stakeholders have no direct voice (Andersen *et al.*, 2012). Moreover, a firm managed in accordance with the stakeholder approach does not, and indeed cannot, acknowledge the intrinsic value of its stakeholders in its decision-making. Thus, the responsibility for an action becomes narrowly measured merely in terms of its utility. This illustrates that while the engagement of stakeholders is related to corporate responsibility it neither signifies nor equates to

corporate responsibility (Greenwood, 2007). As Greenwood (2007, p. 31) notes: 'Stakeholder engagement may or may not involve a moral dimension and, hence, is primarily a morally neutral practice'.

4. Transparency in International Supply Chains

As a growing part of the overall impact of a company stems from purchased materials and primary production, the need for transparency has increasingly been extended beyond the narrow confines of the company to embrace its direct suppliers, or even the whole supply and distribution chain (Egels-Zandén *et al*., 2015; Mol, 2015; Godar *et al*., 2016). Egels-Zandén *et al*. (2015, p. 95) define supply chain transparency as the 'disclosure of information about supplier names, sustainability conditions at suppliers, and buyers' purchasing practices'. The importance of transparency for stakeholders is repeatedly underlined in the scholarly debate (e.g., Doorey, 2011). Transparency is supposed to rebalance the power asymmetry between a company and its stakeholders in favour of the latter; hence, by demanding transparency stakeholders hold corporations accountable for their behaviour (Dingwerth and Eichinger, 2010). Ultimately, the goal is to globally uphold at least a minimum set of social and ecological standards (Chan and Ross, 2003).

However, transparency is not necessarily always beneficial for actors in civil society. Mol (2015), for instance, raises a concern that companies could abuse their powerful position within society for hijacking the notion of transparency in order to monitor the environmental impacts and resource use of consumers, hence reversing the direction of information disclosure and the hierarchical relationship and putting companies into the authoritative position of demanding transparency and hence accountability (cf. Roberts, 2009). For example, companies may use smart utility meters for creating detailed patterns of water and electricity consumption of citizen-consumers, price reduction card systems for monitoring individual shopping behaviour, or health and safety provisions for increasingly controlling workers in factories (Mol, 2015). Furthermore, reporting through the quasi-standard guidelines of the Global Reporting Initiative has failed to shift power in favour of civil society and the non-human world. According to Dingwerth and Eichinger (2010) transparency policies persist despite their failure to empower stakeholders by their function of 'coping'; the policies somehow manage the inert and difficult to change fundamental issue of irresponsible production and consumption patterns of modern societies without actually resolving it.

Although there is some reason behind transparency neither effectively empowering stakeholders nor guiding companies towards assuming greater responsibility, focal companies have much at stake when stakeholders push them towards assuming responsibility for their supply chains: brand reputation, further investment, and the likelihood of governmental action, to name just a few. In fact, there is often a clear business case for focal companies to take instances of non-compliance on the part of their suppliers seriously, especially in cases when there is a risk of provoking campaigns by critical stakeholders (e.g., environmental activist groups) that can be further fuelled by the media (Deegan and Islam, 2014). There are abundant examples of corporations being blamed for their suppliers' operations and business practices with adverse impacts. For example, Nestlé was blamed for rainforest deforestation,

Nike for child labour, Apple for sweatshop work conditions and Mattel for the use of toxic materials (Wolf, 2014). However, even if transparency and visibility is assumed to be one of the key aspects of supply chain management (e.g., Carter et al., 2015) and sustainable supply chain management (e.g., Pagell and Wu, 2009; Busse *et al*., 2017), it is obviously exceptionally difficult for companies to deliver transparency throughout their supply chains.

One main reason for this is that in the contemporary economic system, international supply chains are extremely complex and constantly changing: 'Companies operate in an increasingly complex world: Business environments are more diverse, dynamic, and interconnected than ever—and far less predictable' (Reeves *et al*., 2016, p. 46). While spatial and temporal dynamism is an unavoidable state of affairs (made famous by Heraclitus' of Ephesus notion that 'You could not step twice into the same river'), complexity mainly derives from multiple supplier tiers (Hartmann and Moeller, 2014) and second- and third-tier suppliers that are often beyond the comprehension and the control of the focal company (Wilhelm *et al*., 2016). Extending supply chains towards the notion of supply networks points to the multitude of suppliers on each supplier level and how the arrays of suppliers are intertwined. Some of the largest companies in the world have tens of thousands of organisations in their production and distribution networks making the transactions and other activities very hard to manage, or even count. Indeed, in these cases it is almost impossible for focal companies to develop adequate control mechanisms and to build up the trusting relationships that safeguard supplier and distributor cooperation, which is necessary to encourage responsible business behaviour throughout the supply chain (Das and Teng, 1998). Nevertheless, Chen and Paulraj (2004) see supply chains as 'the challenge of designing and managing a network of interdependent relationships developed and fostered through strategic collaboration' (Chen and Paulraj, 2004, p. 119). While the collaborative approach emphasises the value added through an inter-organisational combination of resources eventually leading to inter-organisational competitive advantage (Gold *et al*., 2010), it scarcely reflects the phenomenon of extensive value capture by the downstream actors (often in the northern hemisphere) to the detriment of the upstream actors (often in the southern hemisphere) (Gold *et al*., 2016). The complexity of international supply chains is thus not limited to the amount of transactions and subcontracting, but also extends to cover the multifaceted nature of power dynamics (Schleper *et al*., 2015). This unequal power distribution along the chain is particularly evident for example in the cases of international food (Johannessen and Wilhite, 2010) and textile (Perry and Tower, 2013) supply chains.

Moreover, while research on international supply chains has traditionally tended to focus on the vertical (mostly buyer-seller dyads), recent studies have also explored the horizontal dimension of supply chains (e.g., Neilson and Pritchard, 2010; De Neve, 2014; Silvestre, 2015). The horizontal dimension embraces the formal and informal institutional contexts (cultural, legal, political etc.) that shape production processes and labour conditions along international supply chains. While the local values and norms may collide with the values and norms of focal companies (and standard-setting international bodies such as the United Nations) or of other organisations in the vertical dimension, the collision of cultural preferences and the related complexities often remain hidden (see Lund-Thomsen, 2008). It is apparent how the specific local embeddedness of production (and servicing) processes along international supply chains has been neglected since the development of swift and

cheap transport abetted the illusion of homogeneous production in the global marketplace. Be that as it may, it is clear how local political, linguistic, social and cultural differences add to the complexity of international supply chain management that firms face while aiming to establish responsible supply along their chains (Pedersen and Andersen, 2006).

5. Identifying the Transparency Fallacy

When external stakeholders, including consumers, insist on corporate transparency as an expression of corporate responsibility, they are likely to be taken in by the transparency fallacy. This fallacy is an erroneous belief that stakeholder claims for corporate transparency will lead to increased corporate responsibility in international supply chains. This misbelief is founded on an assumption that a business organisation operating with international supply chains is, or could become, transparent in its operations. In other words, there is a denial of opacity in organisations. And certainly, the more complex and multifarious the business organisation is, the greater the degree of opacity. Owing to the dynamic complexity of international and multicultural supply chains—encompassing the sourcing, primary production, manufacturing, distribution, retailing and consumption of goods and services—as well as the geographical and cultural distances between the members of those supply chains, focal companies could be regarded as systematically unaware of what they are 'orchestrating'. This is reflected in a more general argument of opacity that is part of every individual—and hence also every organisation—and which cannot be accounted for: 'Therefore, I cannot explain everything I have done, and I cannot tell a coherent story of who I am and what I have experienced because my experience and conduct have not been motivated exclusively by my conscious efforts and deliberations and because the minutiae and complexity of what happens will often exceed my recognition and memory' (Messner, 2009, p. 925). This opacity in organisations implies that focal companies are not able to give a full account of the practices within their supply chains, even if they hold an extraordinarily powerful position therein, since they even cannot give full account of their own organisational practices. By stating that companies do not, and even *cannot*, have full information about production conditions in their supply chains, we by no means wish to imply that companies are always eager to know about those issues, or would always act differently even if they knew how things really are. Rather, we intend to show how the stakeholder claims for transparency influence business activities and, in particular, the implications for corporate responsibility.

According to the logic of the stakeholder approach (Freeman, 1984; Freeman *et al.*, 2010), when pressured by external stakeholders who threaten to substantially tarnish their brand reputation, to facilitate adverse government intervention or to deter investors, focal companies have to take their stakeholders' concerns very seriously. When their stakeholders lobby for transparency in a firm's supply chain which that firm cannot easily (and certainly not fully) provide, such companies tend to take transparency claims literally and generate narratives to avoid blame (Hood, 2007). Such narratives may be abundant in length but usually do not capture the essence of the circumstances and activities in the upstream production. In this sense, companies are prone to generate an illusion of transparency; by trying to make the invisible visible companies might just create 'more information, less understanding, and in

particular more information, less trust' (Strathern, 2000, p. 313). Aiming to satisfy the manifested stakeholder expectations, corporate management might feel forced to engage in the so-called impression management. At a minimum, the stakeholder claims for transparency encourage managers to develop narratives about corporate performance that over-emphasise good news and downplay bad news, in other words, managers engage in impression management by means of enhancement (Clatworthy and Jones, 2006; Merkl-Davies *et al*., 2011; Guillamon-Saorin *et al*., 2012). This image-enhancement strategy also refers to the discourse on corporate transparency itself, meaning that corporations present themselves as transparent or on a route to transparency. Previous research also showed that these narratives can become even more extensive and cognitively more complex if companies face negative organisational outcomes or allegations which cause them to take refuge in retrospective sense-making (Merkl-Davies and Brennan, 2011). Moreover, Boiral (2016) found that when companies face stakeholder claims regarding socially sensitive issues, they may legitimize their impacts through the use of various rhetoric techniques of neutralization (Talbot and Boiral, 2015b). This is in particular the case if the issue at hand may be seen as non-measurable and potentially unaccountable, such as the specific impacts of mining companies on biodiversity (cf. Jones and Solomon, 2013; Tregida, 2013). Such techniques of neutralization involve various forms of justification and various degrees of recognition of negative corporate impacts. Mining companies may simply deny significant negative impacts on biodiversity; distance themselves from self-reported negative impacts by contextualizing and relativizing them, and by highlighting uncertainties as well as the legality of corporate operations; claim an overall positive or at least neutral impact; or dilute own responsibilities by pointing to other actors or adverse circumstances (Boiral, 2016).

These impression management techniques—of which the aforementioned ones of image-enhancement, retrospective sense-making and neutralization are only examples—increase the amount of corporate narratives without contributing to genuine transparency of business conduct. In fact, the aim of corporate transparency clashes with the empirical phenomenon that business operations have been and are still becoming more global: with greater reach, the complexity of supply chains keeps increasing and the possibility of transparency continues to decrease. From the value creation perspective of the stakeholder approach, such strategically optimised, somewhat hollow narratives may not be problematic, as they can contribute to maximising shareholder value and even meeting the expectations of the most salient stakeholders. False transparency narratives, however, may be neither a satisfactory means nor an end to connect business and ethics for the goal of sustainable change. They cement the status quo and represent indeed a step backwards in the quest for new forms of accounting, reporting, and accountability that a sustainable world would require (Atkins *et al*., 2015).

This mechanism of stakeholders lobbying for transparency from a position of authority and corporations responding through narratives of responsibility that prove rather elusive then perpetuates itself. On the one hand, accountable corporations—corporations that accept accountability or on which accountability is imposed—can no longer escape the logic of accountability; 'once I account, I have entered the logic of accountability, implicitly agreeing that there is a legitimate need to give an account' (Messner, 2009, p. 927). The accountable company is condemned to fail in

the eyes of the critical stakeholders, no matter whether it narcissistically praises or defensively camouflages and palliates its (supply chain's) business conduct; in this respect Roberts (2009, p. 958) reveals the terrifying nature of transparency as an 'ideal against which we [multinational corporations] will always fail'. On the other hand, stakeholders are largely unaware that it is indeed their relentless demands for transparency that increasingly push companies towards creating narratives which lay a smokescreen for corporate irresponsibility. These demands persuade companies to enhance, repair and defend their narcissistic self-image and thereby prevent corporate self-reflection, and block a company acquiring insights into its own incoherent narratives and imperfections and a beneficial attitude of learning (Roberts, 2009), which would bring corporations back on track to genuinely assuming greater responsibility towards society and the natural environment (Atkins *et al*., 2015).

6. Discussion

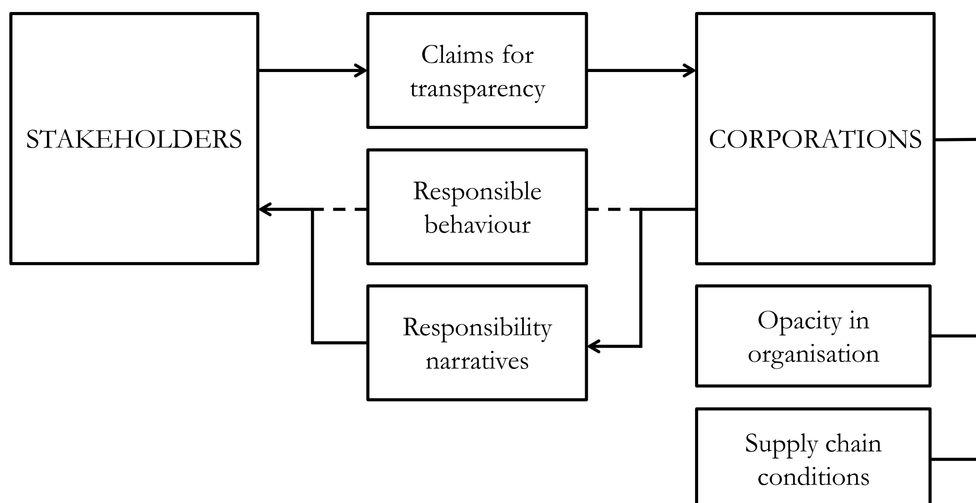
The stakeholder approach to business and society relationships implies that consumers, NGOs and other stakeholders adopt a watchdog role to contain corporate irresponsibility that puts their interests at risk (Heikkurinen and Ketola, 2012). In order to fulfil this role and to serve as a counterweight to corporate power, stakeholders urge corporations and their associated supply chains to be transparent (e.g., Dingwerth and Eichinger, 2010; Fernandez-Feijoo *et al*., 2014; Garcia-Sanchez *et al*., 2014). This lobbying for corporate transparency suggests that stakeholders are taken in by the transparency fallacy, the erroneous belief that large companies, and their supply chains, *can* become sufficiently transparent and that this transparency will lead to corporate responsibility. In trying to impose comprehensive accountability on internationally operating focal firms, consumers and other stakeholders tend to neglect that many corporate managers lack knowledge of and control over their suppliers' transactions (beyond the first tier, certainly) owing to supply chain complexity (Hartmann and Moeller, 2014), resistance from suppliers and the diversity in terms of sociocultural embeddedness of supplier behaviour (Schleper *et al*., 2015).

By pushing for transparency, stakeholders might also be disregarding the point that there will always be some opacity (Messner, 2009) within every organisation, and great degrees of opacity in the global production chains and networks. Hence there is a compelling argument that focal, multinational companies and their management cannot give a full or a sufficient account of their own actions. Yet stakeholder demands impose the logic of accountability on the focal firm according to which an organisation 'cannot *not* account' since even a 'denial to give an account may be interpreted as an account' (Messner, 2009, p. 927), despite all the actual limits to (supply chain) accountability and therefore transparency outlined above. In fact, the demand for transparency establishes an authoritative relationship (Roberts, 2009) between stakeholders and corporation that tends to encourage companies to justify and camouflage their activities defensively or present a flattering image of their conduct in order to acquire admiration and recognition (Boiral, 2013). In any case, stakeholder claims for transparency push corporate managers towards generating narratives that create a mere illusion of transparency (Strathern, 2000), guided by various forms of impression management (Clatworthy and Jones, 2006; Merkl-Davies *et al*., 2011; Guillamon-Saorin *et al*., 2012).

Owing to the limits of knowledge and control, as well as the concept of transparency, these narratives about responsibility—no matter whether inclined towards blame avoidance or self-praise, or both—are unlikely to satisfy critical stakeholders in their alleged authoritative position. It may be noted here that this more or less commanding position does not automatically grant access to the independent information crucial for verifying company accounts (O'Sullivan and O'Dwyer, 2009), such as counter-accounts and shadow accounts authored by third parties (Gallhofer *et al*., 2006; Cooper et al., 2011; Boiral, 2013). Uninformed and dissatisfied stakeholders will thus call for amendments to corporate accounts and companies will have to respond although it is quite unlikely that providing more or 'better' company disclosure could solve the problem at hand. It hence now becomes clear that these stakeholder demands for transparency—together with the intrinsic necessity for companies of not meeting them—are the starting point and the perpetuating mechanism of the transparency fallacy by which stakeholders are easily taken in (Figure 1).

Figure 1 illustrates the process of the so-called transparency fallacy (the dotted arrows in the model) that falsely assumes that stakeholder demands for corporate transparency lead to responsible *behaviour* on the part of corporations in the international supply chain. This paper has argued that stakeholder claims for transparency lead to responsibility *narratives*, rather than actual responsible behaviour owing to the general opacity in organisations and the prevailing supply chain conditions. Examples of such conditions are high levels of complexity (characterised by an extensive, dynamic supply network where parts interact with other parts in multiple ways), high levels of distance between actors (in geographical, linguistic, and cultural terms) and high levels of resistance within the supply chain (by suppliers and other stakeholders).

Figure 1. The Emergence of the Transparency Fallacy



The transparency fallacy that is blind to both opacity and the role of the supply chain conditions is detrimental to companies, as well as to society and the environment, as it wastes the resources of stakeholders and businesses. The time and energy used to provide all the supplier checks and assurance mechanisms appears—based on our

analysis—to be largely in vain if they do not substantially change contemporary supply chain conditions. The blind pursuit of transparency may even do a disservice to the cause of responsibility and hence sustainable development. For instance, organisations and their stakeholders being kept busy seeking better technical solutions and auditors' reliability checks may be distracting attention from the fundamental lack of responsibility of certain business practices themselves. For example, in the case of Royal Dutch Shell, the unsustainability of the whole fossil fuel industry is not the centre of attention, as it perhaps should be if we are really serious about reducing CO_2 emissions globally. Even if oil companies could be compelled to provide increased transparency of their corporate conduct, it would not change the fact that fossil fuel corporations belong to the past (as the label already suggests) if climate change is to be tackled. It is important to note here that a transparent act does not alone denote that it is ethically sound: it is just a more visible act.

Making the notion of transparency a meaningful and more effective concept will require that the mechanism of the transparency fallacy be dismantled. On the one hand, this might be accomplished by proactively accepting the limitations of accountability and transparency, aiming for 'humility and acceptance in relation to the [imperfect] self and generosity in relation to similarly limited others' (Roberts, 2009, p. 967). Acknowledging the limits of accountability can indeed be liberating and beneficial for ethical business conduct since 'making people accountable may easily turn into a blame game that can effectively impede us from assuming our collective responsibility for problems that affect us all' (Messner, 2009, p. 936), such as various kinds of sustainability-related problems. In the context of international supply chains this would also mean releasing stakeholders from their watchdog function to some extent (Heikkurinen and Ketola, 2012), so that companies can once again internalise moral responsibility for their actions (Joannides, 2012) towards social and ecological systems. In this way, communication and interaction with stakeholders would no longer be any threat to companies, but would instead help develop the corporate capability for reflection, which stimulates organisational learning (Roberts, 2009).

On the other hand, the dismantling of the transparency fallacy necessitates more focus on the supply chain conditions that surround multinational business organisations. The prevailing supply chain conditions (e.g., complexity, distance, and resistance) are working against attempts to improve transparency. On the level of supply chain design, this signifies that transparency could be fostered by reducing the complexity and distance of the economic organisation to a comprehensible state, as well as forming chain constellations and business operations that provoke less resistance from the suppliers. In practice, this would mean bringing the locations of consumption and production closer to one another, in other words, shortening the supply chain. In this kind of simpler and more local business setting, stakeholders would then be better able (in relative terms) to perform their role of watchdogs, if such a role remains necessary. The suggestion of downscaling the economy's complexity by approximating the locations of consumption and production is a current trend in supply chain management termed 're-shoring' (e.g., Gray *et al.*, 2013). The notion of a more local economy has also received support from several economists, most notably from Schumacher (1973), Georgescu-Roegen (1975), Daly (1992), and Latouche (2007), as well as the local produce movement (Norberg-Hodge, 1999; Bauermeister, 2016).

The current research being purely conceptual in nature makes it subject to the generic limitations of such research, above all the missing empirical corroboration of the mechanism of the transparency fallacy proposed. Despite this limitation the paper makes various contributions to the knowledge base and will guide follow-up empirical research in the research streams of accounting and accountability as well as sustainable supply chain management. The paper contributes to explaining the widespread empirical phenomenon of a mismatch between corporate disclosure and action that has been repeatedly addressed in accounting and accountability research (see e.g., Boiral, 2013; Rodrigue, 2014; Moerman and van der Laan, 2015). It warns against over-emphasising the watchdog role of stakeholders intended to make companies behave more responsibly and sustainably, and instead calls for greater emphasis on the influence of the ethics of the organisation and the supply chain conditions that shape corporate behaviour. At the same time, the study questions a central tenet of sustainable supply chain management research, that is, the assumed causal link between supply chain transparency and the triple bottom line (i.e. social, environmental and economic) supply chain performance (e.g., Pagell and Wu, 2009; Awaysheh and Klassen, 2010; Doorey, 2011). Thereby, without advocating supply chain secrecy (Mol, 2015), we add to the few supply chain studies that cast doubts on whether transparency within supply chains is always achievable and whether the transparency discourse is always desirable or beneficial to the consumers and society at large (Egels-Zandén *et al*., 2015; Mol, 2015). Simultaneously, we extend the body of research that explores the limits of accountability and transparency (e.g., Roberts, 2009; Messner, 2009; Joannides, 2012; McKernan, 2012) into the specific context of international supply chains, and we provide an argument for the localisation of production and consumption practices.

7. Conclusion

This paper has critically examined corporate transparency as a mechanism for responsible business in the global context. The focus of the enquiry was on the research question of how stakeholder claims for transparency work as a means to support corporate responsibility in the international supply chain.

The short answer is ‘poorly’. The study suggests that, in the context of complex international supply chains, the call for corporate transparency may not be serving its purpose of holding companies accountable for their social and environmental impacts, and fostering responsibility behaviour. On the contrary, the study finds that the call for corporate transparency is an inadequate means to increase responsibility in business, and suggests that it is a fallacy to assume that stakeholder demands for corporate transparency lead to corporate responsibility in international supply chains. This process is hindered by general opacity in organisations as well as the contemporary supply chain conditions, such as complexity, distance, and resistance.

The analysis also points to the limitations of the corporate responsibility model, which is mainly driven and enforced by the external stakeholders of the corporation, and calls for a more critical research agenda that incorporates structural and ethical aspects in investigating transparency and responsibility in supply chains. That is, rather than uniformly and merely calling for more transparency, both scholars and public and private decision-makers, could draw careful attention to the limits of

transparency and accountability ideas, to the specific conditions that surround firms in the international business arena, and to the question of which structural factors (including complexity, distance, and resistance) may prevent attempts to increase transparency throughout supply chains. The effects of transparency on corporate social and environmental sustainability need to be further critically scrutinized by follow-up studies that complement conceptual reasoning with empirical research designs. As our paper suggests, the straight causal link may be deliberately questioned and replaced by more differentiated, contingent, and dynamic inter-relationships between transparency and responsibility as well as sustainability, also considering potential unwanted side effects of treating transparency as a panacea for irresponsible and unsustainable corporate business practice. Accounting and accountability research may further theorize about reasons and implications of a mismatch between corporate disclosure and action, for single companies and extended towards supply chains. At the same time, new accounting frames and techniques may be explored to support sound forms of corporate accountability and make companies internalise moral responsibility, by discouraging corporate behaviour that is largely symbolic and superficial and making companies actively engage beyond their own operations. Furthermore, while singling out companies and industries and demonstrating their irresponsibility can help draw attention to examples of concern, there is a dire need to critically evaluate the potentials and pitfalls of the economic system as a whole, as well as the institutions and ideologies that continue to produce and support the irresponsible corporate behaviour in question.

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