Chapter 6

Transparency in Financial Communication: Effect of Authentic Leadership

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ABSTRACT

Authentic leadership is considered a foundation of other positive leadership styles. In this leadership, the leader is known for his openness and clarity. Authentic leaders are not hesitant in sharing information, and they are accurate and clear in their communication manners. Moreover, they tend to give importance to others’ ideas, and when necessary, they do not avoid revealing their own values, emotions, and thoughts. They build integrity with their followers by creating an atmosphere congruent for open communication that results in a realistic relational climate nourished by followers’ increased level of personal and social identification. In this chapter, it is suggested that authenticity and transparency of authentic leadership will be important catalysts for financial communication transparency. In this context, financial communication refers to all kinds of financial messages conveyed from the organization to its stakeholders. And financial communication transparency refers to the extent financial communication of an organization is open, accurate, clear, satisfying, and relevant.

INTRODUCTION

Recent changes in the business world have created new necessities. Fierce competition among players, greater societal demands for ‘corporate citizenship’, political pressures and demands of stakeholders compel companies to be more open to communication (Cornelissen, 2008). In this demanding and challenging atmosphere, financial communication has become a kind of intangible asset for organizational development. Without doubt, achieving this development necessitates the revision of rules of conducting financial messages in compatible with proper financial principles of truthfulness, clarity, transparency. In contemporary business world, successful companies are the ones that can successfully integrate corporate governance and performance optimization (Salvioni, 2002). And globalized markets and short
term assessment processes in these markets make it more important for companies to communicate effectively with their external and internal environments. And in this ever-changing time period relationships among companies are affected mostly by the information flows among them (Salvioni, 2002). That is why, many firms requires to manage their stakeholders successfully in order to avoid problems that can be potentially damaging to the reputation of the companies (Cornelissen, 2008).

In this point understanding the term *stakeholder* is important. The most widely known definition of stakeholder is the one described by Freeman (1984). According to Freeman (1984) *a stakeholder is a specific group or person that can affect or be affected by the actions of a certain organization*. Any group that is affected by a company’s acts and decisions is regarded as its shareholder. For example; employees working for the company, shareholders having some part of the ownership, customers that the company serves or potential customers that the company tries to serve, etc. Stakeholder approach is the result of the novel perspective that was first came about in the 1980s and 1990s claiming that, each company is dependent upon various stake-holding groups rather than just a select group of financial investors or customers (Cornelissen, 2008). The stakeholder approach created a shift from *neo-classical economic theory* of the firm to a *socio-economic theory*, wherein the stakeholder approach is embedded (Cornelissen, 2008). According to neo-classical economic theory the purpose of firms is making profits with accountability to themselves and their shareholders. The notion of accountability is very important in this theory and give importance to outside shareholders for the sustainability of the firm and the welfare of society (Cornelissen, 2008). In this point of view, firms should contribute to wealth for itself and for the society as well. This model considers there are mutual dependencies between organizations and various *stake-holding* groups in these organizations (Cornelissen, 2008). This approach is different from the classic input–output model of strategic management. In this novel approach, a greater number of people and groups with legitimate interests are recognized and accounted for by the company with the aim of bolstering its financial performance. According to stakeholder approach legitimacy of an organization in the eyes of both ‘market’ and ‘non-market’ stake-holding groups, can be achieved only it is socially and financially accountable to these stakeholder groups (Cornelissen, 2008). In this point, legitimacy refers to the fact that organizations should relate to their their stakeholders not only for *instrumental* reasons, including increasing market shares, revenues or reducing risks but also for *normative* reasons such as complying with rules and behaving in congruent with obligations, behaving ethically, etc.

Recent economic, political, and technical developments increased the demands of these stakeholders regarding more transparent leaders, who are aware of their own values, and guide their organizations ethically, but at the same time contributing to more powerful positions regarding competitive advantage. New business climate needs leaders that creates values reflecting of all kinds of stakeholders and creating a long-term vision for the organization. Leadership researchers reacted to these needs by theorizing authentic leadership. Being affected by positive psychology and created an uncontested area in leadership studies, this leadership style has been identified as a root construct for all the other positive leadership styles such as servant leadership and spiritual leadership styles (Walumbwa et al., 2008). In fact, it is accepted as a “higher-order, multidimensional construct, encompassing the four main dimensions: self-awareness, balanced processing, relational transparency, and internalized moral/ethical approach (Walumbwa et al., 2008). Authentic leaders are mostly conceived as self aware, open and transparent leaders. They are careful about the various factors both inside and outside their organizations. They have a better understanding of organizational goals and challenges.