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THE RISE OF CORPORATE GOVERNANCE BROKERS

AND HOW THEY TRADE IN ASYMMETRIC INFORMATION

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Abstract

This paper sets forth that governance brokerage can be regarded as a natural outgrowth of the actual practice of Corporate Governance. To lay the foundations of our subject, firstly we delve into the dual nature of any transaction. Then we move on to define what the expression "governance broker" means, underlining five professional arrangements from which governance intermediation can be achieved. Next, it is shown how trade splits up economic agents' information sets, giving rise to the brokerage of asymmetric information. Afterwards, we account for the ways a governance broker meets his goals in dyadic and polyadic relationships, bringing forward distinctive courses of action: clinical assistance, consultancy to foster growth and value, governance engineering, tutoring on global standards of governance, mediation in conflicts of interests, even international intermediation.

JEL: G30, G34, G20

Key words: governance broker, information sets, dyadic and polyadic relationships, brokerage of asymmetric information, corporate governance.

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INTRODUCTION

Whenever any intermediary fulfills his professional tasks, he also carries out the role of a **broker of asymmetric information**[1]. In this paper, we argue that governance practice in everyday life gives rise to governance brokers[2]. To accomplish our objectives, we are going to develop the following topics:

Section 1 deals with information sets, moving on next to the dual nature of any transaction. In section 2, it will be introduced what a governance broker stands for, pointing to some real players in such brokerage field.

It is for section 3 firstly to show how the governance brokerage actually does split up information sets and, secondly, to point up distinctive environments in which economic agents and brokers trade upon asymmetric information.

Last of all, section 4 addresses the role of a governance broker focusing on dyadic and tryadic relationships through which he binds himself with other economic agents who ask for his professional assistance.

1. INFORMATION SETS

Either by trading straight with another party, or by means of a third agent who acts on his behalf as an intermediary, any political or economic actor[3] makes up his mind on the basis of available information[4], which springs from his own stock or, still further, from the one supplied by his counterpart or intermediary. In this context, trading refers to a wide range of events or processes which comprises the buying and selling either of merchandises or services, intermediating, contracting, keeping long or short future positions in the commodities, financial or labor markets,

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[1] Apreda (2001) is an introduction to this issue, and the place where it was coined the expression "the brokerage of asymmetric information".

[2] This paper contributes to the research line on the field of governance into which I have been engaged the last eight years. I presented a prior draft with the underlying mathematical foundations, at the Eastern Finance Association 2006 Annual Meeting, held in Philadelphia. A stronger rendering of our research work has been our recently published book "Differential Rates, Residual Information Sets, and Transactional Algebras", Nova Publishers, New York, 2006a.

[3] It goes without saying that "economic or political actor (or agent)" stands for both individuals and organizations.

[4] As from now, although most of what can be predicated upon information sets is attached either to political or economic actors, we restrain ourselves to the latter in the remainder of this paper.

consulting, negotiating a peace agreement, even discussing in Parliament for a Bill to be passed.

Nevertheless, and narrowing down the examples to meet this paper's objectives, we are particularly concerned with those exchanges in which organizations become involved when reshaping their governance structures. It does not seem farfetched to regard most of what takes place in those environments as stemming from the economic units' underlying information sets.

Definition 1 Information Sets

*By an **Information Set** of certain economic actor " **e** " at date " **t** " is meant all the available information he gets access up to that date.*

We denote such a set as

$$\Omega(t\,;e)$$

and the fact that past information up to that date is also stored in the current information set can be translated by the nesting condition:

$$\Omega(t-j\,;e) \subseteq \Omega(t\,;e) \quad ; \quad j: 1, 2, 3, ...$$

While this is a widely known definition, some qualifications are worth noticing for the sake not only of semantics but rigor, as well.

a) We said that the agent stores only attainable information to him. In other words, he reaches his decision, in most cases, with only a fraction of the whole information to which he could get access otherwise.

b) Whereas information sets can be regarded as plausible databanks for any agent, they also convey the idea of toolkits for decision-making. In fact, they include mathematical models and heuristic procedures, points of view and beliefs, market trends, biases, error analysis and learning skills. Also past experiences, technological resources, and professional credentials, just to give some particular examples of what is a highly pervasive notion.

c) Although in this paper we are going to handle them as synonyms, some fields of research treat information sets and **knowledge sets** like being different. The latter usually comprises not only current contents of information sets, but also any learning each economic agent had been mastering with such information in the

span of time leading to that date. To avoid ambiguity, some scholars have started to substitute **knowledge spaces** for the expression knowledge sets[5].

Turning now to the prominent actors who swap information among them, we have to be aware that trading in markets involves at least four parties[6]:

- buyers, who demand goods and services;
- sellers, who supply goods and services;
- intermediaries, who are experts at handling transactional networks to provide buyers and sellers with pricing and contractual linkages, cost reduction, conveniences, and innovative delivery services;
- regulators, who set up conditions and procedures upon which intermediaries, buyers and sellers can ultimately round off their transactions.

What does it foster the role of intermediaries? The answer lies on the different endowments of imperfect information which economic agents gain access to. Nevertheless, intermediaries also perform manifold related tasks:

i. they take advantage of their investment in technology as well as human capital to enhance their line of business and own information sets;

ii. they willingly bring about opportunities for making buyers and sellers reveal some of their private information;

iii. they supply their own private information as a worthy convenience devised for both buyers and sellers' markets at the same time.

Whenever any intermediary fulfils these professional services, he becomes a **broker of asymmetric information**.

[5] Doignon and Falmagne (1999) offer an appealing treatment of knowledge spaces.
[6] This has been a long-standing feature in commodities exchanges and capital markets for centuries. The latter, at least with their nowadays properties, were already established by 1850, in spite of wide gaps with our current information technology, financial engineering and regulatory frameworks. However, they are much older institutions and Meier Kohn (1999) gives a surprising account of capital markets prior to 1600.

Therefore, as we approach real world transactions, either transient or permanent ones, information sets not only keep records about things to be traded, but also about how trade is to be performed, inclusive of the agents' needs and those expectations closely connected with the whole process. It is from this viewpoint that the notion of **duality** deserves to be introduced.

Definition 2 The dual nature of transactions

While exchanging goods and services among them, buyers, sellers, and intermediaries jointly engage in a twofold process we are going to call the ***dual nature of a transaction****:*

- *on the one hand, there is an actual trade that involves merchandises, services, securities, or derivatives contracts grounded on other goods or securities;*

- *on the other, there is a virtual bargaining of smaller information subsets included in the actors' information sets so that they go through a learning course of action that bind them within the boundaries of their common knowledge.*

Three remarks must be noticed in connection with our definition:

a) Although it is usually said that in a frictionless market any agent gets access to all available information at no cost and no delay whatsoever, such statement has come to be regarded in the field of Financial Economics a rather misplaced and preposterous one, to say the least. In fact, transaction costs (inclusive of taxes, financial and information costs, market microstructure costs, trading costs), credit risk, reputation, financial distress, bankruptcy and corruption, agency problems and information asymmetries are utterly ruled out in perfect markets.

b) Even worse, such an ideal world does not take intermediaries into account. On the whole, neoclassical Economics cast aside the whole issue of information sets and intermediation like a given notion in the dark, oblivious of any costly and non-shared information[7].

[7] More background on this subject in Apreda (2006a). Spulber (1999) gives an updated rendering on the role of intermediaries from a market microstructure viewpoint, while Miller (2003) provides a nurturing discussion of asymmetric information and agency downsides in modern organizations.

c) In contradistinction, the environment assumed in this paper is, overwhelmingly, one of imperfect and asymmetric markets[8], embedded in institutional systems of constraints, where intermediaries become key players, and opportunistic behavior is a fact of life.

2. GOVERNANCE BROKERS

Let us start this section with a definition[9].

Definition 3 Governance Broker

An organization performs as a ***Governance Broker***

GB

if it supplies other organizations with

- *technical advice, guidelines and expertise on governance issues;*
- *clinical support and mediation on conflicts of interests;*
- *design of transitional or new governance structures.*

A governance broker, who will be henceforth referred to as **GB,** could be a single individual (an expert in the field, for instance), or an organization that runs through a scale of increasing complexity (from a well-established law firm to global institutions like the United Nations.)

Briefly stated, a governance broker performs as a consultant, mediator and intermediary of information in the field of governance, to the extent of providing even a clinical approach to help its customers[10]. Sometimes it will accomplish the role of a service seller, while in other settings, it will mediate between buyers and sellers of governance structures[11].

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[8] On this regard, Scitovsky's paper (1990) becomes an essential reading.

[9] The wide-ranging semantics appertaining to the expression "governance" is studied in Apreda (2003, 2006b).

[10] An insightful approach to the clinical viewpoint for organizations can be found in Pranger (1965).

[11] In the former environment, we will see the governance broker selling governance structures, and their design, to one or more buyers. In the latter, we can think the governance broker is a regulator, while the customers are the companies that must follow some guidelines about their own governance, as when the Securities and Exchange Commission prescribes what is the meaning to be attached to the expression "independent director".

The specifics of governance intermediation may be achieved by a wide variety of likely arrangements among which we are going to underline some conspicuous examples only (**Exhibit 1** intends to be helpful for the ensuing development).

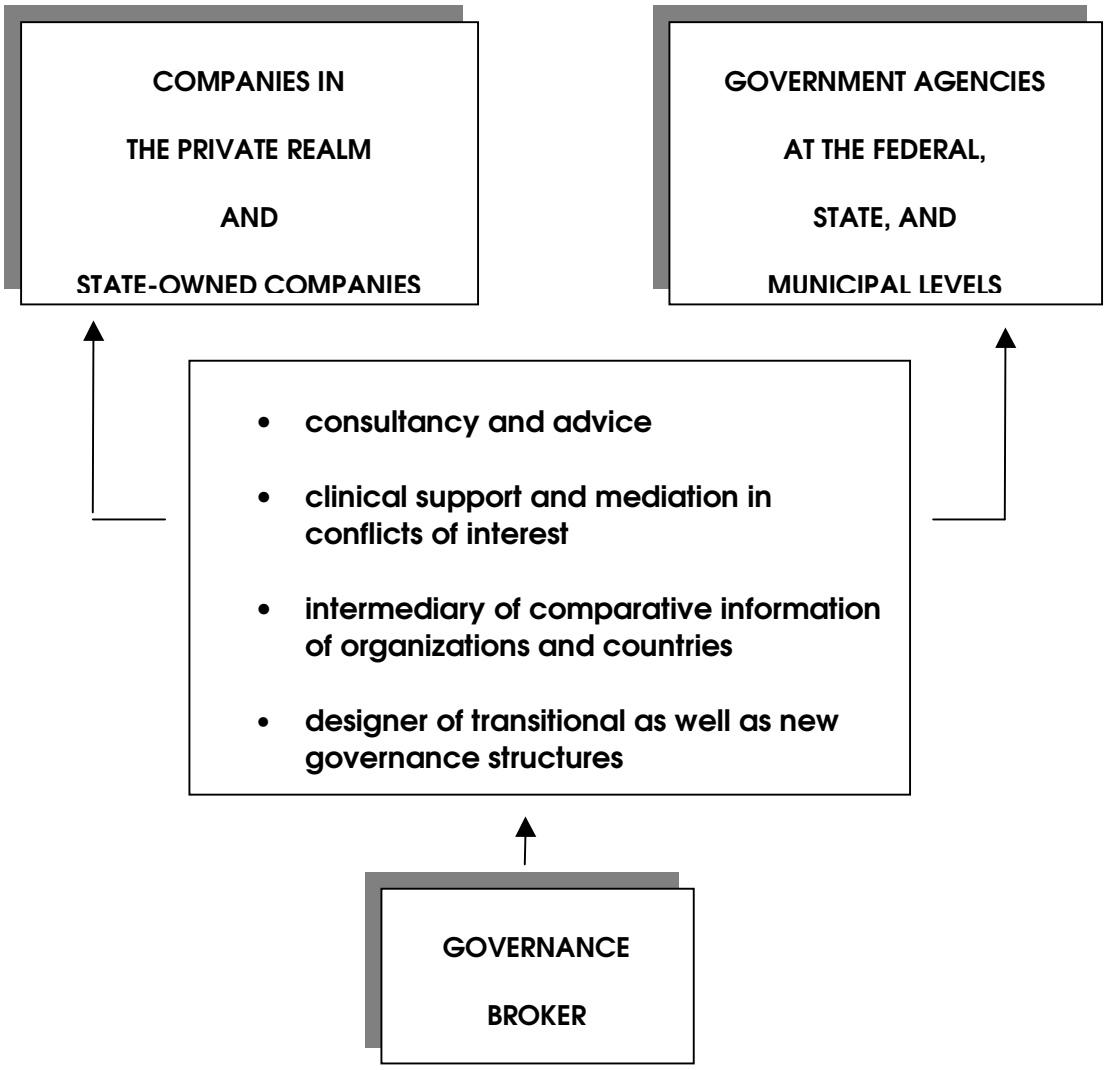

Exhibit 1 The manifold roles of a governance broker

a) The GB as a consultant

For the sake of illustration, let us point to a single private organization, frequently small or medium-sized and locally based, either any law firm or audit firm that provides their customers with guidelines to be adopted in

compliance with regulations about Corporate Governance. Enforceable provisions in the Sarbanes-Oxley Act stand as a case in point.

Two late developments also seem worth noticing:

- professional enterprises that have started to recruit and train prospective independent Directors to be appointed in corporate Boards;

- experts in the design of compensation and incentives packages for corporate senior executives and Directors.

b) Big national organizations

Let us give heed now to those institutions that help their members with guidelines and advisory services, attempting to draw up new governance environments in compliance with mainstream standards. Such is the case of the American Bar Association, as well as Institutes of Corporate Executives or Business Chambers spread over the world. It goes without saying that we should include Stock Exchanges when they produce referential frames for listed companies so as to sharpen up their governance and good practices.

On the side of regulators, we can choose Securities Exchange Commissions and central banks, which enforce and interpret laws, setting up precepts on transparency, good practices, accountability, auditing practices, money laundering, transfer prices, even transactions with related parties.

c) GBs in global financial markets

Since the 70s, institutional investors (for instance, insurance companies, pension funds, mutual funds, fiduciary investment funds) have been thriving in the financial markets to the extent of becoming big players and powerful stakeholders. As such, they attempt to change established governance styles, as well as to set up new rules of the game[12].

Furthermore, and for the last decade, governance styles around the world have come under criticism and scrutiny not only on the grounds of global demands for higher standards of information disclosure and streamlined valuation procedures, but also in the aftermath of corporate scandals.

[12] Background on governance styles and political constraints are provided by Mark Roe (2003).

It should not come as a surprise, therefore, that institutional investors have started to embed manifold covenants in issuance contracts of bonds, shares, or financial hybrids. Indeed, covenants constrain companies from abusing power, while holding them accountable for any breach of contract.

d) International Institutions as GBs

The most conspicuous intermediaries as regards governance on a global setting are international institutions.

- On a regional basis, there are institutions (as well agencies that manage international regimes) that have been helping nations improve their governance either in the public or in the private domain. The Inter-American Development Bank (IDB) stands as a good example, offering expertise and resources to set up structural reforms in the governance of Latin American countries through direct assistance to their Central Banks, ministries of Economy or Security Exchange Commissions.

- For the last three decades, the United Nations, the OECD, the World Bank, the International Monetary Fund, all of them have been involved with governance affairs. They meet their goals by academic production from their governance centers of study, also through seminars and roundtables usually held in different countries. They seek to establish global standards to be followed by countries and corporations alike among which we can point up the building of governance indexes to measure performance and good practices.

- Within a narrower professional field, although one of lasting relevance, we must highlight the work undergone through the Basle headquarters of the Bank for International Settlements (BIS). With praiseworthy pace and proficiency, the BIS has been bringing forth arrangements to be followed by central banks around the world. These institutions, in turn, behave like conveyor belts to the banks under their control. Among the issues that the BIS have been addressing for the last decade we point to those related with transparency, compliance risk, and procedures to enhance banks' governance[13].

[13] We refer the reader to BIS' papers (2001, 2002, 2003, 2005).

e) Governance Gatekeepers

Last, but not least, we must include **GB**s of another cast, which were kept apart from the lot listed above. We refer to academic or technical alternatives provided by universities, research centers, groups of interest and non-governmental associations, learned journals, and analysts in the business, economic and political markets. Collectively, they all belong to what we know as **gatekeepers**. They streamline common knowledge, spreading out innovations and criticisms, disclosing public findings and theoretical outcomes, even bringing forth misdeeds and deviant behavior.

3. HOW GOVERNANCE BROKERAGE SPLITS UP INFORMATION SETS

Let us assume two organizations **k** and **s,** and a governance broker **GB.** We intend to delve into the trade and to the extent that asymmetric information pervades their relationship and brings about a full partition of their information sets (see **Exhibit 2**)[14].

For instance, **Ω(t ; k)** can be explained by four components:

$$\Omega(t;k) = (\Omega(t;k) \cap \Omega^{c}(t;s) \cap \Omega^{c}(t;GB)) \cup (\Omega(t;k) \cap \Omega(t;s) \cap \Omega^{c}(t;GB)) \cup$$

$$\cup (\Omega(t;k) \cap \Omega^{c}(t;s) \cap \Omega(t;GB)) \cup (\Omega(t;k) \cap \Omega(t;s) \cap \Omega(t;GB))$$

which are labeled, namely, by numbers 6, 2, 3, 1, in the above referred exhibit.

As for **Ω(t ; k)**, it's worth noticing that is a dated set relentlessly in progress.

Furthermore, the overlapping of the three information sets becomes the cornerstone of their partition into seven mutually exclusive and exhaustive subsets [15]. We are going to characterize some environments in which the three players intend to reach variegated, albeit distinctive, transactions.

Environment 1
Pooling Information Sets

[14] This method takes advantage of what could be denoted as the geometric topology of information sets, an approach broadly developed in Apreda (2000, 2004 and 2006a).
[15] We had laid down the foundations of this statement elsewhere (Apreda, 2005).

When two organizations **k** and **s** trade with the **GB**, both of them may wish to buy (or sell) him germane governance information or structures[16].

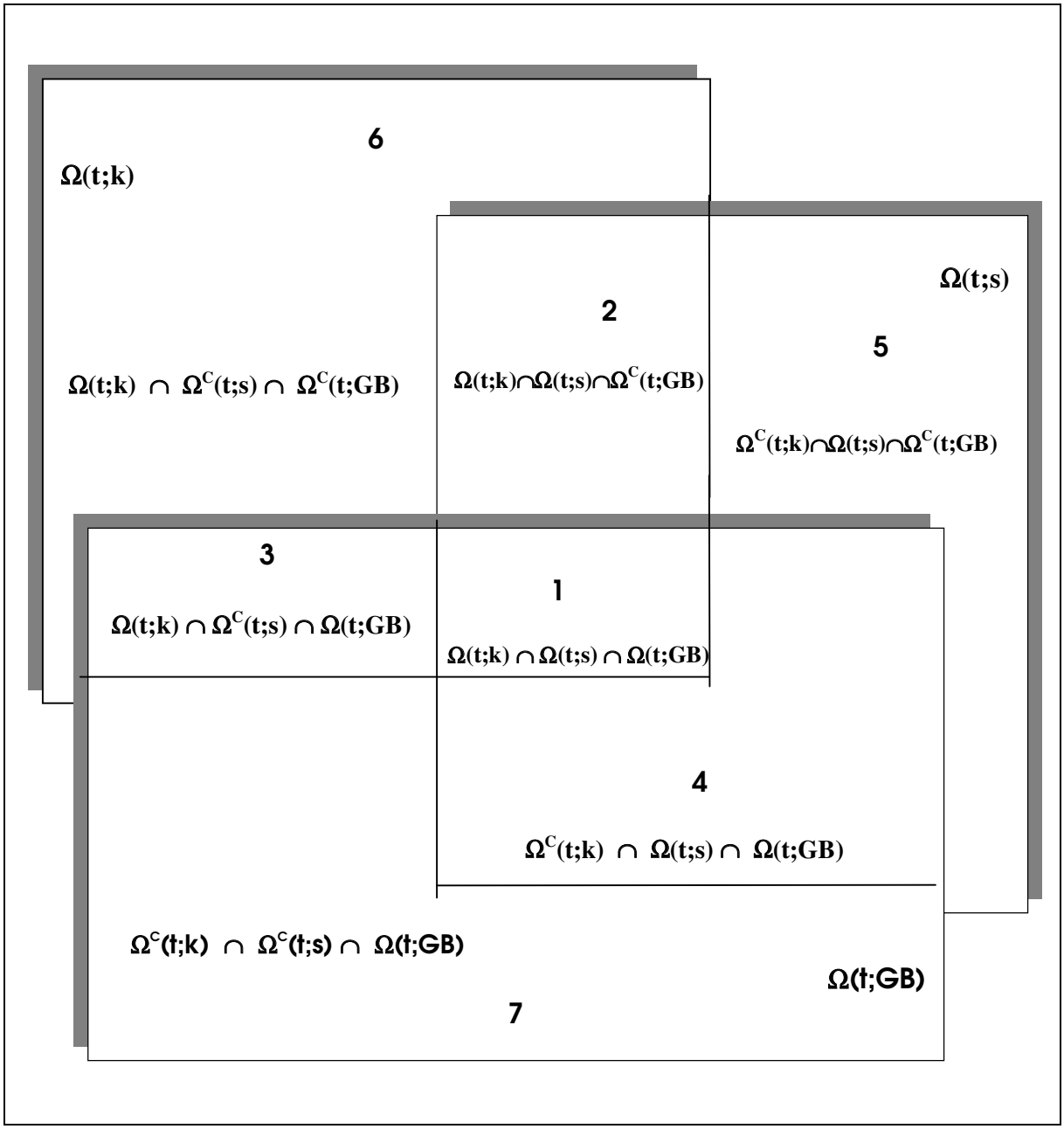

Exhibit 2 *Partitioning information sets, or how governance brokers bargain for asymmetric information*

[16] An example in which the governance broker purchases a service from a seller would take place when the former contracts with the latter (for instance, a research center in governance, at certain University) the supply of technical information, data collection, or performance indexes.

Anyway, for the trade to be effective, all participants carry on their purposes by starting from the common ground information set that it will be named subset 1 in **Exhibit 2** and comes defined as

$$\Omega(t;k) \cap \Omega(t;s) \cap \Omega(t;GB)$$

By the same token, when a single economic actor (or organization) **k** trades with an intermediary **GB**, they fractionally pool their information sets, to the extent of sharing information so as to round off the exchange. That is to say, they will deal with their common knowledge set:

$$\Omega(t;k) \cap \Omega(t;GB)$$

which follows from adding sets 3 and 1.

If we catch a glimpse to **Exhibit 2**, we will realize that pooling doesn't necessarily mean relinquishing all the private information endowment each economic actor is entitled to. Quite the opposite, since private information becomes the subject matter on which main actors bargain for.

Environment 2
Private knowledge on the side of both agents

Next, let us now suppose that both agents share some sort of information that is not easily accessible to an intermediary like the United Nations or the World Bank. This could be the case when two countries or corporations are conversant about certain constraints or paths of action to which the **GB** is not able to handle for the time being. Furthermore, let us imagine that both traders (perhaps two crony-capitalist countries or corporations) are willing to cheat the dealer and bring him into a loss of reputation.

Where is such information to be located? It is embedded in subset 2:

$$\Omega(t;k) \cap \Omega(t;s) \cap \Omega^{c}(t;GB)$$

More precisely, we should write[17]

[17] For a mathematically trained reader, all information sets, at a certain date **t**, must be thought included in the set of all the potential information to which any agent could get access to, albeit they reach only a fraction of it on regard of constraints, costs, or bounded rationality. Such enveloping information set is the usually called Universe in mathematical treatments, which we are going to call the Maximal Information Set

$$\Omega(t;maximal)$$

$$\Omega(t;k) \cap \Omega(t;s) \cap \Omega^{c}(t;GB) =$$

$$= \{ x \in \Omega(t;s) \text{ and } x \in \Omega(t;k) \text{ and } x \notin \Omega(t;GB) \}$$

Environment 3
*Private knowledge on the side of the **GB***

By the same token, let us rephrase the former environment so as to make the **GB** owner of some private information that provide him with a cutting edge over those agents that come to him asking for professional assistance.

It is for information subset 7 to grant the **GB** with such an advantage point, and comes defined as

$$\Omega^{c}(t;k) \cap \Omega^{c}(t;s) \cap \Omega(t;GB)$$

If we looked for an example to illustrate this environment, it would be enough to think about the Securities Exchange Commission acting as **GB** and discussing with listed companies on impending changes in the regulatory framework pertaining governance issues.

Environment 4
Exclusive private information

This is the usual setting where most customary adverse selection problems arise. Let us assume that

$$\Omega(t;k)$$

is the information set of a state-owned corporation which moves towards a public offering in the capital market of bonds or shares about to be

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The following statements hold true (further details in Apreda (2001, 2006a)):

a) for every agent k, at date t,

$$\Omega(t;k) \subseteq \Omega(t;maximal)$$

b) $$\Omega(t;k) \cap \Omega(t;s) \cap \Omega^{c}(t;GB) =$$

$$= \{ x \in \Omega(t;maximal) : x \in \Omega(t;s) \text{ and } x \in \Omega(t;k) \text{ and } x \notin \Omega(t;GB) \}$$

issued[18]. A plausible **GB** could be either the Stock Exchange, or the Security Exchange Commission,

$$\Omega(t; GB)$$

while

$$\Omega(t; s)$$

stands for an investment bank (or any market-maker for that matter) acting on behalf of its portfolio of standing customers and ready to place purchasing orders on behalf of them. For the company, opportunistic behavior may be fostered from subset 6:

$$\Omega(t; k) \cap \Omega^c(t; s) \cap \Omega^c(t; GB)$$

The investment bank benefits from private information and financial secrecy when dealing on behalf of his customers, hence resorting to information subset 5:

$$\Omega^c(t; k) \cap \Omega(t; s) \cap \Omega^c(t; GB)$$

In actual practice, an investment bank fulfils fiduciary a fiduciary role on behalf of its customers. Basically, this comes down to duties of loyalty, care, and information[19]. When the bank handles numberless purchasing or selling orders for customers, it is expected that its behavior be guided by the business judgement rule[20].

Briefly stated, any information set holds a subset that is privy to each actor. In a sense, both agents **k and s** hoard some information under wraps, albeit a fraction of it may be bargained for with the governance broker.

It goes without saying that the intermediary also profits from his private knowledge, as we saw in environment 3 that led to subset 7.

Environment 5
*An agent shares information with the **GB** but not with the other agent*

[18] The process entails looking for investors in the private sector, which could involve deep changes required by the regulatory governance (for example, to comply with public offers requirements) and also in the governance of the issuer itself so as to improve the chances to be successful in the capital markets.
[19] Following the Court of Delaware tradition, some authors would rather highlight care, loyalty and good faith. A remarkable contribution to this debatable issue can be found in Bainbridge (2003).
[20] Easterbrook and Fischel (1996) is the standard reference on this subject matter.

This habitat comes to be an oft-repeated setting, as far as bilateral negotiations are in progress. The **GB** can improve his relationship with agent **k** because both of them would be willing to share information not accessible to agent **s** by means of

$$\Omega(t;k) \cap \Omega^{c}(t;s) \cap \Omega(t;GB)$$

which leads to subset 3 that could be regarded as information production on behalf of agent **k**, but which comes at a cost for agent **s**.

From the side of the **GB,** he can improve his connection with agent **s** because both of them may share information not easily accessible for agent **k**, as depicted in subset 4:

$$\Omega^{c}(t;k) \cap \Omega(t;s) \cap \Omega(t;GB)$$

4. HOW GOVERNANCE BROKERS CARRY OUT THEIR BROKERAGE OF ASYMMETRIC INFORMATION

It was for section 3 to lay the groundwork that will allow us to expand on how the governance broker ultimately engages in the trading of asymmetric information by means of negotiations, good will and agreements.

In point of fact, asymmetric information (portrayed in **Exhibit 2**) does not prevent agent **k,** for instance**,** from reaching an agreement by trading upon his information set

$$\Omega(t;k)$$

with his counterparts, supplying (or selling) them a fraction of his private information that he was keeping hidden up to that date in area 6:

$$\Omega(t;k) \cap \Omega^{c}(t;s) \cap \Omega^{c}(t;GB)$$

For the sake of illustration, let us move on to a sequence consisting of two different and plausible environments:

- In the first one, the **GB** deals with a distinctive economic actor only (a dyadic relationship);

- whereas, in the second, the **GB** trades with at least two economic actors (a polyadic relationship).

From each environment we are going to elicit two distinguishing features:

i. Situations in which the **GB** performs its role professionally.

ii. The ongoing correlation between tasks and information sets.

4.1 A DYADIC RELATIONSHIP

In this kind of setting, we have two players: the **GB** and a business organization that will be denoted as

$$\mathbf{O}_{k}$$

Why should this dyadic relationship take place eventually? There are professional reasons for the broker to take upon himself at least four tasks, namely clinical assistance, consultancy to foster growth and value, governance engineering, and tutoring global standards of governance (see **Exhibit 3** to follow the text).

a) Clinical assistance

Here we frame a picture in which organization $\mathbf{O}_{k}$ faces an impending crisis and it approaches the **GB** so as to overhaul, enhance or, directly, to change its governance so as to overcome the crisis.

A widespread example is provided when certain corporation, after a takeover, starts to suffer drainage of customers, suppliers and investors alike. This is the setting in which the company contracts with a **GB** for fixing its ailing structure, request a diagnosis and buy a treatment to sharpen up its governance. In other words, the company bids for clinical assistance.

b) Consultancy to foster growth and value

In this case, albeit organization $\mathbf{O}_{k}$ is not going through any crisis, it is a thriving organization with growth opportunities, while hindered by a failing governance. For instance, let us think in a regional family company that attempts to play on the national market. Here, the **GB** will perform as a consultant whose role consists in triggering off the conditions under which growth and value may become sustainable.

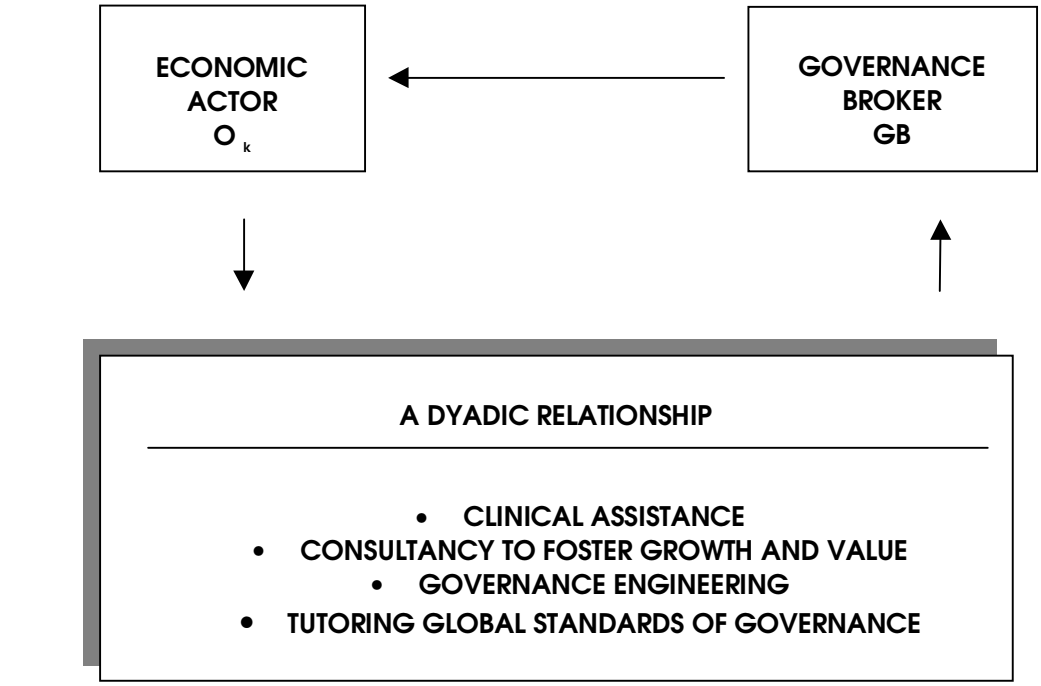

Exhibit 3 *Professional tasks for the governance broker in a dyadic relationship*

c) Governance engineering

Let us imagine that $\mathbf{O_k}$ is a new state-owned enterprise, an interstate agency, or a partnership that links the government with the private sector to undertake some new venture. In this setting, which actually pertains to Public Governance, the **GB acts on as an engineer** who provides the whole architecture, and designs a construct of covenants to prevent deviant behavior in the new enterprise[21].

d) Tutoring global standards of governance

Now let us envision listed domestic companies in the stock exchange of a developing country calling for help and tutorial from an international institution (like the World Bank or the United Nations), so that the latter could design new governance structures, and foster their capital markets.

[21] Our forthcoming book on Public Governance will deal with all these issues: *Public Governance, a Blueprint for Political Action and Better Government*, by Rodolfo Apreda, Nova Publishers, New York, forthcoming in 2007.

Nowadays, and we would say relentlessly, global markets are requiring from companies to follow standards of governance and good practices, while credit-rating firms have started to factor governance risk into their ratings.

DEALING WITH ASYMMETRIC INFORMATION

How could we analyze this dyadic relationship when we mirror it from the underlying information sets?

Firstly, the **GB** enters the relationship with its counterpart $\mathbf{O_k}$ to profit from common information. This is depicted in the overlapping

$$\Omega(\, t;\, O_k\,) \cap \Omega(\, t;\, GB\,)$$

of both information sets.

Secondly, either the organization $\mathbf{O_k}$ or the **GB** are willing to partake private information. In **Exhibit 4** (dotted line), we can see that a consequential outcome of their relationship amounts to an enlargement of the starting common knowledge to areas 4 and 5. This asserts that the **GB** allows $\mathbf{O_k}$ to embody new information (area 5) to change its governance, but this was feasible only because the organization also provides the **GB** with key information that it was keeping under wraps in area 4.

4.2 A POLYADIC RELATIONSHIP

The discussion will be constrained to a tryadic relationship, although the extension towards more than three players comes after the same line of argument (see **Exhibit 5** to follow the text). Apart from the four tasks we displayed in the case of dyadic relationships, when we shift to tryadic relationships we should add two others brokerage endeavors, namely international intermediation, and mediation of conflicts of interests.

a) International intermediation

Let us assume that two big multinationals wish to bind each other, through a sort of partnership, so as to reap the benefits of huge a common market area. However, mistrust between them could arise, fostered by domestic groups of interest that would face losses if their arrangement were successfully achieved.

Against this background, the **GB** attempts to intermediate between both business groups, designing the governance for the common market area that could be responsive to most of the demands from stakeholders in each company, shaping covenants to safeguard the new arrangement. The United Nations, the World Bank, the IMF, a global investment bank, or even the OECD could take charge of these negotiations, eventually.

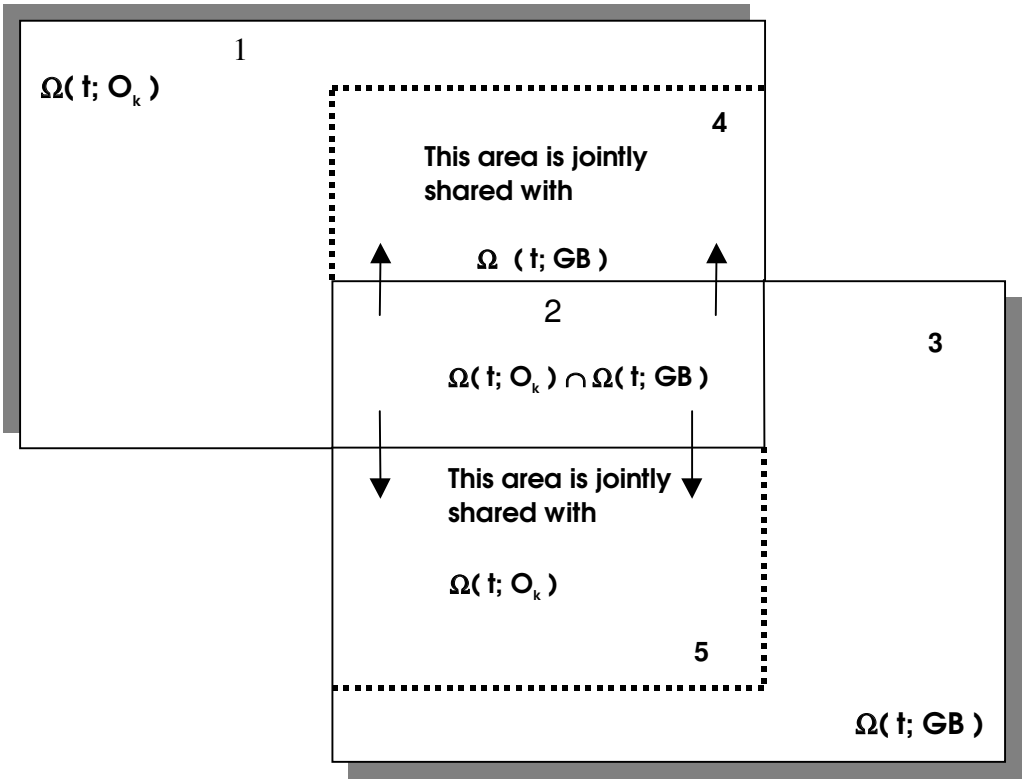

Exhibit 4 *The **GB** enlarges the common knowledge by lessening asymmetric information*

b) The GB as a mediator of conflicts of interests

Now, consider the case in which two economic actors

$$\mathbf{O}_k \text{ and } \mathbf{O}_m$$

are confronted with a serious conflict of interest[22]. This can refer to power struggles, within the same company, between two block-holders that contend for ultimate control.

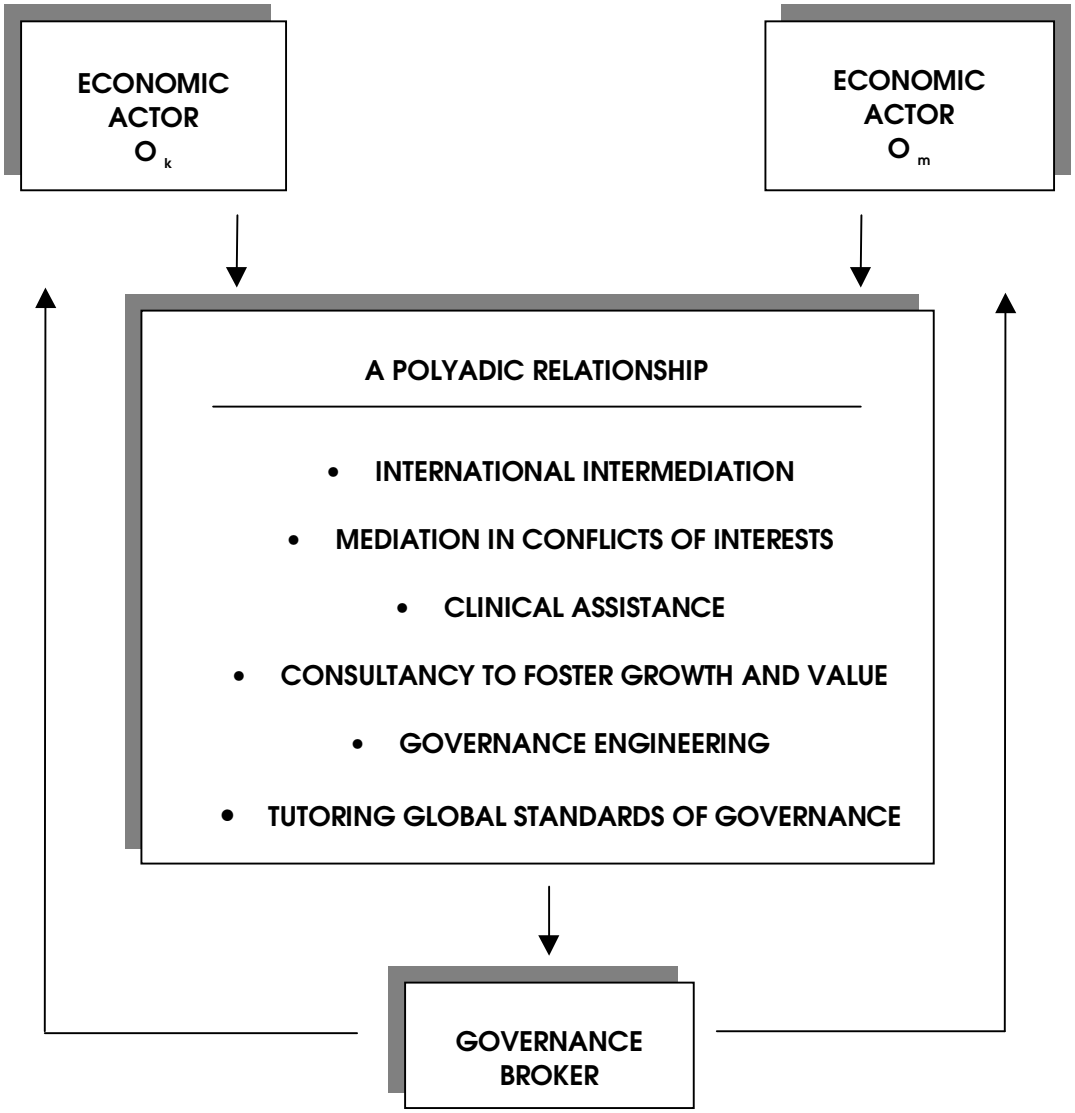

Exhibit 5 *Professional tasks for the governance broker in a tryadic relationship*

[22] The reader should bear in mind that these kind of conflicts in global settings really challenge the analyst, since the overlapping between Corporate and Public Governance blurs not only contents but also the scope of discussion. From a more general viewpoint, this feature was cleverly forecasted and analyzed by Hanna Arendt in her great book *The Human Condition* (1998).

Another example could arise from a clash of interests between stockholders and managers. Let us assume that the former owns an open corporation in which there is a wide dispersal of ownership rights. The latter, perhaps colluding and scheming with the Board of Directors, may call into question the leadership and legitimacy of the stockholders.

Pressures from global markets and institutional investors have become so decisive that, instead of pursuing the mediation through courts, in many circumstances the **GB** may be held in regard like a more functional and efficacious vehicle to settle the dispute.

DEALING WITH ASYMMETRIC INFORMATION

The interaction process among participants in any polyadic relationship turns out a similar outcome to the one arising within the dyadic process, albeit more complex than the latter. To focus on a tryadic process, shared information can be located in four places, as we can check out by taking a look to **Exhibit 2**, namely the areas 1, 2, 3, and 4. Therefore, these four regions are likely to be benefited from the governance brokerage. However, the success of the **GB** is not always a foregone conclusion, since any participant could be reluctant not only to furnish information but also to become a willing helper to counterparts, spoiling negotiations in the end.

For the brokerage to be efficacious, both the customers and the **GB** should be eager to shrink their areas of private information so as to stretch out their common knowledge. The ultimate outgrowth consists in improving accountability and transparency, as well as curbing of opportunistic behavior.

CONCLUSIONS

In practice, Corporate Governance brings into existence a new intermediary whose defining job consists in the brokerage of governance.

The paper brings to light the dual nature of any transaction by which the intermediary ultimately turns out to be a broker of asymmetric information.

In defining what governance brokers are, we have provided five illustrative settings through which they usually may perform their role.

Whenever one or more economic agents trade with a governance broker, their underlying information sets split up. Furthermore, competition, contest and asymmetric information must be factored into the rules of the game.

In the end, the governance broker stands ready to provide his customers with a compact of professional qualifications and credentials, among which we stressed clinical assistance, consultancy to foster growth and value, governance engineering, tutoring global standards of governance, international intermediation, and mediation in conflicts of interests.

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