Introduction

Transparency: Engine of Greatness

The first publication of *The Naked Corporation* in October 2003 generated unexpected controversy. *The Economist* suggested it was the first management book in years to present an important "big idea." Yet *BusinessWeek*, while saying, "This is a fresh and compelling thesis, backed up by some persuasive evidence," went on to argue that the book's core hypothesis is flawed.

We believe the experience of the last year has confirmed our fundamental conclusions. That is, an old force with new power is rising in business, one that has far-reaching implications for most everyone. Nascent for half a century, this force has quietly gained momentum through the last decade; it is now triggering profound changes across the corporate world. Firms that embrace this force and harness its power will thrive and can become great corporations Those which ignore or oppose it will suffer.

The force is transparency. This is far more than the obligation to disclose basic financial information. People and institutions that interact with firms are gaining unprecedented access to all sorts of information about corporate behavior, operations, and performance. Armed with new tools to find information about matters that affect their interests, stakeholders now scrutinize the firm as never before, inform others, and organize collective responses. The corporation is becoming naked.

Customers can evaluate the worth of products and services at levels not possible before. Employees share formerly secret information about corporate strategy, management, and challenges. To collaborate effectively, companies and their business partners have no choice but to share intimate knowledge with one another. Powerful institutional investors today own or manage most wealth, and they are developing x-ray vision. Finally, in a world of instant communications, whistleblowers, inquisitive media, and Googling, citizens and communities routinely put firms under the microscope.

Corporations have no choice but to rethink their values and behaviors—for the better. If you're going to be naked, you'd better be buff!

This conclusion may seem at odds with current thinking about corporate values and behavior. Today the corporate world is still weathering a crisis of trust on a scale unseen since the Wall Street crash of 1929. Many say this proves that companies are worse than ever, and irredeemably so. For these critics, the corporate corpus isn't buff, it's obese. As *BusinessWeek* argued in reviewing the book: "No one should expect the tight-lipped titans of Corporate America to bare all anytime soon."

We believe the opposite is true. To build trusting relationships and succeed in a transparent economy, growing numbers of firms in all parts of the globe now behave more openly and responsibly than ever. Disgraced firms represent the old model—a dying breed. Business integrity is on the rise, not just for legal or purely ethical reasons but because it makes economic sense. Firms that exhibit ethical values, openness, and candor have discovered that they can better compete and profit. Some figured this out recently, while others have understood it for generations. Today's winners increasingly undress for success.

One company we described in this book is Progressive Corporation, the third largest auto insurer in the United States. Progressive practices transparency as a business strategy. To make the point, it had photos of a naked man throughout its last annual report to shareholders. It publishes its financial performance every month rather than quarterly (the norm for nearly all other public companies). On its clear, easy to use Web site, Progressive offers its customers competitive quotes from other insurers. In fact, Progressive initiated this practice, originally over the phone, in 1994. Its claims handling processes are also transparent: it sends adjustors to accident scenes, where they can cut checks on the spot. Or, customers can bring their damaged cars to Progressive's own "concierge" claims centers, where adjustors inspect the vehicle and provide clients with loaner rental cars.

Since we told this story in the first edition of this book a year ago, the company has gone from strength to strength. Progressive's share price continued its climb, from under $20 in from 2000 to over $90 in 2004. And in April 2004, the company came out number 1 in the *BusinessWeek* 50, an annual rating of overall operating and market performers based on growth in revenues, profits, and return to shareholders over one and three year periods. Transparency is an engine of greatness.

There are countless new examples. Retailer Best Buy has adopted an explicit policy of transparency towards its customers, employees and other stakeholders. The reason? Transparency builds trust, improves performance and helps companies grow. The Gap, a company that was once under siege because of its labor policies in the developing world, adopted a policy of extreme candor. In a May 2004 report it revealed that working conditions were not acceptable at many of the 3,000 supplier factories around the world that made its clothing. It aims to harness the power of transparency to drive suppliers and governments to improve the situation. Maple Leaf Foods CEO Michael McCain began his 2004 address to the annual shareholders citing the book. He explained how transparency and accountability in the food industry from farm gate to customer plate – was central to the company's strategy. One of the companies 6 core values is "Dare to be transparent." In one initiative company launched a huge initiative in DNA tracking to achieve leadership through supply chain transparency. And during an election year, companies like Cisco Systems and BellSouth have chosen to reveal their political perspectives and attempts to influence politicians – stuff of secrecy for most companies and their public affairs departments.

Having said this, opacity is still alive and kicking; in some situations it remains desirable and necessary. Often transparency strategy has fallen under the direction of a firm's corporate counsel and lawyers typically default to opacity. Privacy – a human right – must be protected, as should trade secrets and personal data. Sometimes openness is expensive. But more often, opacity only masks deeper problems. Armies of corporate lawyers fight openness as part of a good day's work. Old cultures—the insular model of yesterday's firm—die hard. Transparency can have unintended consequences. For example, it is arguable that publishing CEO salaries has had the effect of causing them to skyrocket. Nevertheless, the technological, economic, and sociopolitical drivers of an open business world will prevail.

Since publication of this book our view has been reinforced that facing down opacity presents real dilemmas. The book features a major case study on Chiquita, whose remarkable transformation began in the late 1990s (see chapter 7 for the details). We learned much, and in great depth, from two of the company's executives, Jeffrey Zalla and Michael Mitchell. Yet little did we know that, as we were putting the finishing touches on their story, they were on the threshold of an agonizing transparency dilemma, one that speaks volumes about the challenges of managing in the global economy.

The transparency dilemma – and Chiquita's resolution of it – came out in May 2004. The company announced that it had informed the US Justice Department in April 2003 that its banana-producing subsidiary in Columbia had made protection payments to rebel groups that the US government (then-recently) had designated as foreign terrorist organizations. Not that such payments are unusual: just about every company that does business in Columbia reportedly makes such payments under threat of reprisal. The unusual part was Chiquita's two-part decision to be transparent: first, its disclosure to the US government, and, second, its public disclosure a year later.

The first disclosure to the Department of Justice, as well as the information it contained, was kept confidential, known only to board members and some senior company officers. However, as we understand it, if there was a dilemma about talking to the DoJ, it received short shrift. A very short time – weeks or a handful of months – after learning of the problem, the company told the authorities. Meanwhile, we can only speculate about whether other US firms are in the same position – and have not let on to the government.

Chiquita's real dilemma was about whether to take the information public. This was the subject of genuine internal debate among senior managers and the board. Says company spokesman Michael Mitchell, "Our dilemma was between two core values that were in conflict. One supports transparency and disclosure, open, honest and straightforward communication. The other is our responsibility to protect the safety of our employees, whose lives might have been at risk once we went public with the information. That was the crux of how we framed the disclosure dilemma for many months. We got to the point where we felt we had to disclose when we learned that the Department of Justice considered that employees of the company might have information that was relevant to the investigation. Our obligations of disclosure then became higher because of SEC rules. Also, our leaders determined that it was not possible to say with assurance that the investigation would be resolved without material negative impact for our company."

The management team decided to step back and conduct a structured exercise to sort out this crucial dilemma: how to balance the conflicting values that they faced. At the end of the day they made a decision to go public. Says Mitchell, “Reasonable people may disagree about what Chiquita did and how we went about it, but it’s fair to say that we attempted to make the decision using our core values to guide us.”

It so happens that the company was already in discussion with a potential buyer of its Columbia subsidiary, for straightforward business reasons. This deal has since gone through, and Chiquita acknowledges that the protection payments problem “contributed” to its swift finalization. Mitchell points out that the deal – which included purchase commitments at roughly existing volumes – also preserved jobs in a country where legitimate employment is hard to come by. Some people had advised the company to abandon Columbia altogether.

The result? Chiquita’s key stakeholders – shareholders, employees, customers, even NGOs and the media –rallied behind it, or, at least, generally refrained from criticism. When leaders choose transparency and integrity, trust and healthy relationships are bound to follow.

Another example was reported by Anne Bryant, Executive Director of the National School Boards Association. After a presentation on *The Naked Corporation*, as part of a panel discussion she described how the association embraced transparency. At the conclusion of a recent unsuccessful tradeshow, the association’s leadership decided to revert from the usual practice of “spinning” the information about attendance, show activity, customer responses and financial results. Instead, they provided full, frank and un-editorialized information regarding the event’s shortcomings. The strategy worked. Stakeholders got engaged, raised important insights and made new commitments. “It was a strange feeling to make ourselves so vulnerable, but in the end, openness and candor paid off,” she said.

These stories underline a central theme of the book – corporations and organizations that are open perform better. Transparency is a new form of power, which pays off when harnessed. Rather than to be feared, transparency is becoming central to business success. Rather than to be unwillingly stripped, smart firms are choosing to be open. Over time, what we call “open enterprises”—firms that operate with candor, integrity, and engagement—are most likely to survive and thrive.

This is good news for all of us—customers, employees, partners, shareholders, and citizens—no matter what stakeholder hats we wear, because corporations have become so central to our lives and communities.

Most of us are shareholders, whether directly or through pension and mutual funds. Our retirements hinge on corporate success.

Because they own shares in the companies they work for, workers now think twice about going on strike. Societies have willingly made way for corporations and capitalists to innovate and create wealth around the world; yet we worry when firms become untamed global powerhouses, and we wonder why economic divides have worsened. We love brands and new products, but we are uneasy about the companies behind them. Firms mine vast amounts of information about us to build one-to-one relationships, but we fear the loss of our privacy. We seek out low prices, but despair when our jobs move offshore to low-cost geographies. We prize our communities and Main Street, yet flock to Wal--Mart.

Business has become the most controversial institution in society. Business leaders, who just yesterday were revered, are today mocked and reviled. There is widespread outrage regarding the eight- and nine-figure incomes of executives who preside over the destruction of shareholder wealth. The integrity of the accounting industry—the sector responsible for ensuring the financial honesty of corporations—has been undermined. For all demographic groups, public trust in CEOs is now only slightly higher than that of used car dealers. Young people are particularly uneasy about corporate behavior.[i]

Stakeholders have historically unprecedented opportunities to focus these anxieties and scrutinize the corporate world. They have new power to influence performance or even cripple companies almost overnight. What will they do with this new influence? And how should firms operate in the face of it?

We have been investigating the impacts of information technologies and new media on business and society since the early 1980s. Transparency is one key piece of this puzzle, yet there are virtually no books or articles about it. The few authors who have addressed transparency tend to treat it merely as the disclosure of financial information to shareholders or the prevention of bribery.

With this book we have attempted to develop a theory, body of knowledge, and set of leadership practices for transparency. We explain how and why transparency has moved to center stage, including its bumpy rise through the history of industrial capitalism. You will meet new concepts like forced transparency, active transparency, reverse transparency, stakeholder webs, transparency fatigue, values dissonance, the transparency divide, and what we call "the new business integrity." You will read how opaque firms that lacked integrity were devastated and, in some cases, reborn. You will also learn how open enterprises thrive and succeed through candor and ethical core values. Among our conclusions are:

- Transparency and corporate values enhance market value: there is a competitive business case for strategies that focus on stakeholders and sustainability. "Good" firms that optimize the needs of all stakeholders are more likely to be good for investors.
- Transparency has an organizational form which we call the "stakeholder web": a network of stakeholders who scrutinize a firm, whether it knows it or not. Oblivious to their stakeholder webs, some firms have been devastated or destroyed.
- Employees of an open enterprise have greater trust in one another and their employer—resulting in lower costs, improved quality, better innovation, and loyalty.

- Transparency also brings a power shift to employees who share more information than ever before.
- Transparency is critical to business partnerships—lowering transaction costs between firms and enabling collaborative commerce. The invisible hand of the market is changing the way firms orchestrate capabilities to create differentiated products and services.
- Another power shift—from corporations to customers—has emerged from price wars and "accountability" wars. Corporate values are now central to many brands.
- Corporations that align their values with those of the communities they touch, and behave accordingly, can develop sustainable business models.

The best firms have clear leadership practices that others can adopt. They understand that investments in good governance and transparency deliver significant payoffs: engaged relationships, better quality and cost management, more innovation, and improved overall business performance. They build transparency and integrity into their business strategy, products and services, brand and reputation, technology plans, and corporate character.

The Naked Corporaton has been adopted by some important market segments. The public relations industry, for example, has shown great interest in our ideas as evidenced by the *Holmes Report* which listed it as the number one PR book of the year. Hill & Knowlton has made it required reading for managers. At one event H&K hosted to discuss the book, a PR executive from a large US firm said the PR industry has acted like the cuttlefish, a creature that squirts clouds of ink to confuse or hide from its adversaries. In PR's case, he suggested, clouds of ink take the form of press releases. This old view of PR is dead. PR professionals must now be in the stakeholder engagement business.

Similarly many supply chain, information technology, corporate citizenship and corporate governance publications and organizations have adopted the book as their guide for succeeding in a new age.

We hope this is just the beginning and that this book will help many managers who are striving to build effective firms in the new business environment. We also hope the book helps employees, customers, partners, neighbors, and shareholders understand the changing role of the firm in society, how to hold corporations accountable for the benefit of everyone, and how to work and live while wearing many hats.

However, when it comes to harnessing the power of transparency and integrity for greatness there are still more questions than answers. For additional cases, information, readings, and discussion, please visit AgeofTransparency.com.

[i] More than a third of the public (35 percent) say they have no confidence in corporations to fulfill their responsibilities. Pew Charitable Trust CEO Rebecca Rimel in a speech to The Conference Board's 2003 Leadership Conference on Global Corporate Citizenship, New York, February 10, 2003.