



## LEADERSHIP ACUMEN Issue 8

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### Transparency – Exactly what do you mean?

*Transparent (adj.): 1. Letting light pass without distortion. 2. Free from pretence or deceit.  
Synonyms: Apparent, Clear, Frank, Obvious. Antonym: Secret, Opaque.*

Transparency is a concept that has become quite a hot topic of concern lately, and is being applied to a number of situations in Business, Government, International Aid and more. It has traditional elements and new, fast-changing aspects. It has relevance in particular for Boards, for senior executives, and for sales people; and it has roots in one of our most common of western values – Trust.

Unfortunately, transparency is not universally accepted or interpreted the same way even across North America let alone around the world. In this issue of Leadership Acumen, we will explore:

- Recent History of Transparency
- Fundamental Concepts
- Application to Boards
- Application to Executive Leadership

#### Recent History:

The large scale movement toward Transparency took hold 20 some years ago in the area of international aid and politics. Organizations such as the International Monetary Fund (IMF) and the World Bank which were providing economic relief and loans to countries such as Philippines, Indonesia, Thailand, Brazil, Argentina and others, wanted to be sure that the money was being properly used and managed. Politically, these world bodies wanted to see democratic elections without bribery and cronyism, so that the political leadership would be more stable (with the support of their people). Financially, these same bodies wanted to see an open accounting of how the money flowed to different projects, and indeed to the people of the country themselves, again without being diverted to personal bank accounts or fraudulent activities/companies of those in power.

At the same time however, business in North America and Europe was noticeably non-transparent, and only somewhat willing to let the outside world see their financial conditions, management decision-making, and internal workings. Indeed our governments were the same, and the spy games were very much alive. There was however, an inherent trust at the time, by shareholders, employees and the citizenry, that their leaders were doing the right things, and it wasn't their place to ask for evidence of propriety – for competitive or privacy reasons.

Over the last 20 years conditions have changed remarkably:

- More of the common citizenry holds investments directly or indirectly (through mutual funds or pensions) in public companies
- A more educated and experienced citizenry has witnessed first-hand, untrustworthy senior leaders; and they are more confident that they can/should ask for evidence of respectability.
- The gulf in remuneration between senior leaders and average employees has noticeably widened, and disgruntled the larger workforce members
- The local, national and international media has contributed investigative journalism exposes about many untruthful businesses, political and even not-for-profit leadership situations.
- Aboriginal/Indigenous community bankruptcies have soared.
- The judging of Olympic Figure Skating has become observably 'rigged'

- Various political leaders in the very countries that the IMF and World Bank initially were concerned about, as well as our own G8, became embroiled in public scandals regarding kick-backs, fund diversion, and cronyism.
- Private sector investment scams and unfair insider trading situations have proliferated.

Indeed, it has become so public and so obvious recently, that many of the people who assured us that they could be trusted, appear to have been improperly using funds, accounting rules and loopholes, and making poorly considered decisions for the benefit of an elite few. Those citizens or employees in the ‘dark’ have been often lied to, taken advantage of, or had their taxes or funds used in a manner they did not agree to. The very bases of democracy, free capitalism, and level investment markets are currently threatened.

What started as an initiative of the senior leadership of the rich and elite in the western world towards those they were benevolently assisting; has now become a clarion call by the broader investment community and citizenry to leaders in all organizations, governments, and businesses. West, East; developed, developing; TRUST is no longer assumed – it must be proven. The privilege of leadership and the attendant follower-ship must now be earned through open and honest communication.

### **Transparency & Accountability – Two Sides of the Same Coin:**

Imagine that you are the owner of a small enterprise. You have put your hard earned savings together and now have the basis for a business. However, you can’t do all the work yourself, so you hire one or two other people to assist you. You are not always around to supervise them or assist them in making decisions, so you give them the responsibility to make decisions and commit some of your money in your absence.

Of course, in return for this ‘freedom’, you will expect the other person(s) to account to you for any money spent and decisions made in your absence. If they spent \$100 on an item, you want to see the receipt for the item, and you want to see the item in use in the way you intended. If they were lucky enough to get it on sale, or a cheaper model for say \$80, you would expect to see the receipt for \$80, the \$20 change, and evidence that the item purchased was of expected quality to do the job, and again, being used the way you expected.

At the corporate or government level, traditional transparency as a concept is really not that much different.

To those whom we pay taxes, we expect this public accounting for the use of the money. Our Auditors General represent us in this regard. In publicly held companies, the audited financial statements presented at shareholder meetings and in annual reports are supposed to do the same.

Unfortunately, the complexity increases significantly as the size and scale of operations of the organization increases. There are many ways to hide improper actions, and there are many ways to tell partial truths or indeed interpret the true value of assets or impact of decisions. This gets further complicated when a ‘pinch’ of arrogance gets injected into the picture, and/or the time allowed for the full accounting of actions or financial transactions can not provide for a full accounting. As such, we rely on others to represent our interests in ensuring transparency such as auditors, Boards of Directors, and increasingly journalists.

Now to complicate things even further we add cultures! Values, conduct, meaning, traditions, gestures/body language, privacy, even accepted accounting principles differ across countries and sometimes industry sectors. The basis for trustful interactions and relationships can often vary from country to country, be confused by language, or belie interpretation of the ever more common English language.

If we go back to the earlier example of the \$100, some cultural norms might say that if the enterprising employee can find the same or similar item for \$80, then they should get to pocket the \$20 for themselves, and there is no need to tell the owner about it. This situation reveals a culturally-related accountability *assumption*. Accountability assumptions often differ due to cultural norms. Transparency principles however do not vary.

Transparent practices would expect both the \$80 receipt and an *explicit* conversation between the owner and the employee about what to do with the \$20 difference.

Taking our example further, the employee could work to intentionally deceive or be non-transparent by providing \$5 ‘gift’ to the supplier of the item in return for a \$100 receipt. Alternatively, the supplier could provide a \$15 ‘kick-back’ in return for making a full-priced purchase. This kind of gift giving had become an accepted part of major contract sales practices for many years. The call for Transparency seeks to eliminate these practices, and in fact many countries have signed a UN international agreement (Transparency International) to stop such practices.

### **Transparency and Competition:**

In another sense, transparency calls for the balancing between openness of processes, financial performance, and decision-making vs. the secrecy required for competitive advantage, to protect intellectual and invested capital, and strategic planning.

Most people are naturally protective of a new idea, product or initiative, concerned about the potential that someone else might steal their idea and beat them to market, or even improve on it before they can sell it to others and achieve some personal benefit.

In the corporate and government arenas, proprietary systems have evolved based around this competitive default position. The worry of scarcity of clients, ideas, resources, etc. has driven many organizations and their leaders to be secretive about their financials, profits, investments, new product development, and their innovation systems. The game of business has replaced the conquests of war and new territory exploitation of past centuries. As a result there are understandable, real negative reaction and protectionist responses to calls for more open exposure of internal processes.

However, in recent years, open systems and sharing networks have started to prove that Transparency in a broader sense can actually help companies, industries and clients – and can lead to enhanced profitability for many different organizations and community elements.

More and more, the investment community, and indeed the local geographic community in which organizations work, use resources, and impact on several different levels, is demanding more transparent communications regarding the inner workings and decision-making processes of the enterprise. This shifting social values set is catching more traditional leaders by surprise.

Issues of competitive advantage, national security, and the gamesmanship of keeping things ‘close to the vest’ are the traditional arguments for limiting transparency to a select few that control resources. Unfortunately some strong individuals that work their way into political leadership or senior management actually forget or perhaps ego-centrally disagree that the citizenry or shareholders are ‘above’ them, and that the rules of Accountability/ Transparency they expect of others should apply to them. This generally remains in the minority, despite the regular reporting of incidents in the media the past few years.

### **A Newer View of Transparency**

The downward flow of resources + authority, and the upward flow of accountability and transparency is fairly traditional and straightforward. However, a quickly evolving new aspect of Transparency is taking hold around the world.

With the increasing importance of knowledge, the scarcity of knowledge workers, and the increasing importance of networks of collaborators (between contract workers, partners, affiliates, community members, etc.); those who have been on the receiving end of the expectations of traditional upward flow of trust, loyalty and willingness to be led – or remain connected to a leader – are now demanding a non-traditional downward flow of transparency and accountability from leaders to their people.

This new sense of transparency of decision-making processes, involvement, open books, resource allocation, and personal value creation by leaders, is being demanded by a new generation of self-empowered knowledge and innovation workers.

As the ‘power’ dynamics balance out, those with the traditional resources still require the traditional transparency practices. Those with the non-traditional resources – creativity, innovation, knowledge, community – are requiring non-traditional transparency in return. Wider civic communities are requiring transparency from organizations and their leaders for the privilege of running their businesses in their communities. The broader investment community is demanding higher levels of transparent reporting in order for a company to be a member of their stock exchange or to be publicly registered/incorporated in their jurisdiction. The ‘bar’ is being raised for leaders once again.

Further, network-oriented communities that thrive and innovate together are realizing the importance of broader transparency, communication and accountability amongst the community members in order to stimulate/maintain creativity, or to build/share knowledge which increases the benefit to all. Many communities are being challenged to find the ingenuity to adapt socially and to collaborate technically to survive into the next generation - amid changing rules or environmental conditions never experienced before. And, they are realizing that Transparency in its most broad interpretation is something for which all community members must strive.

### **Transparency and Boards**

Fundamentally, Boards represent the owners of the organization or are the legal ownership entity themselves. In for-profit companies, the owners may be family members and/or representatives of holders of publicly traded shares. In not-for-profit organizations the ‘body corporate’ of the Board is owned by members or ‘community’. In democratic government, the council or cabinet represents the ownership citizenry.

In these situations, the Board itself must hold themselves and the whole organization transparent and accountable for its actions to these owners.

In order to do this, the Board must hold the CEO and the rest of the organization’s employees, contractors, suppliers and partners to practice these principles.

The Board provides transparent accounting to owners and community through such elements as:

- Official organizational tax returns
- Regulatory and legislated reporting
- Annual financial, product/service/program impact reports
- Strategic Plans
- Access to information and/or complaint mechanisms
- Asset Assessment reports (financial, human, structural, etc.)
- Investment plans

The Board also sets the parameters for their Transparency and that of the executive management, through the establishment of:

- Codes of Conduct, or Ethics
- Annual Board Calendar (schedule of reports & discussions with management)
- CEO Performance Plan/Assessment criteria
- Board/CEO job descriptions
- Board policies specific to such things as signing authorities, Board composition, Audit committee membership, Compensation committee membership, fundraising practices, public vs. private meetings

## **Executive Leadership Transparency**

In order for the CEO and executives to remain accountable to the Board for delegated responsibility and decision-making, and in order to assist the Board in being transparent to owners and community, then senior management must in turn establish a system of reporting throughout the organization.

Again, this is in the traditional sense explained earlier. This system is enhanced through such elements as:

- Employment contracts and Codes of Conduct
- Performance management plans and evaluations
- Development of Performance Indicators and Outcomes Measures
- Activity/Impact tracking
- Financial controls and signing authorities
- Supplier contracting and purchasing systems

In the evolving, non-traditional aspect for the enhancement of innovation and knowledge sharing, plus the motivation and leadership of the knowledge workers, networks, executives enhance transparency by:

- Building a community of shared values
- Facilitating dialogues and/or meetings that build mutual respect and trust amongst network members
- Ensuring fair ‘exchange’ occurs between members and the organization
- Supporting communications and common context for interpreting messages flowing in the network.

Members of a community or network will not remain as members or remain transparent if they do not experience some benefit or personal ‘payback’ as a result of their contributions. As such, executive leaders must monitor their networks, mediate as required, and be the great “connectors” of various people in the network that could benefit from interacting with one another, even though they may not be aware of the benefits.

## **Transparency for Tomorrow**

As the expectations for Transparency grow, and the demand for public accountability from our senior leaders develops; we as senior leaders will need to create new systems and develop new practices in ourselves and our colleagues. Secrecy and competitive behaviour will regularly be challenged by new collaborations, and the expectation of openness will continue to demand more access to and information from our senior leadership cadre. Transparency also has the great potential of creating a “level playing field” for investors, customers, and employees, while enhancing knowledge sharing and creativity of members of knowledge networks.

Transparency is making life a little uncomfortable for a large majority of leaders, but those who embrace these principles and find ways of integrating them into the operational flow of their organizations should see great benefits returned to their organization, teams, and communities. And, who knows, we as leaders may even eventually regain the trust and respect of our communities!

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## **Exploring The Web!**

The connections below take you to sites dedicated to improved Transparency in business, government and society at large. Some allow you to explore specific organizational practices or philosophies. A couple will hopefully stimulate deeper thinking in this aspect of leadership.

<http://trendwatching.com/trends/transparencyt triumph/>

Transparency Triumph! 2010 and Beyond - Trendwatching.com

<http://www.cio.com/archive/061502/netgains.html>

‘Profit from Transparency’ – Article from CIO Magazine

[http://www.intelligententerprise.com/030301/604feat3\\_1.shtml](http://www.intelligententerprise.com/030301/604feat3_1.shtml)

'The Cost of Failure – Carefully Formulating Analytics and Business Practices... to Avoid Financial Catastrophe'

<http://www.pressrun.net/weblog/2009/11/singapore-3rd-least-corrupt-transparency-sheds-light.html>

Corruption Perception Index of Transparency International

<http://www.technicalcommunicationcenter.com/2009/12/23/transparency-and-clarity-hallmark-of-modern-technical-communication>

Major Corporate Malfunction? Exemplary Transparent Communication

[http://www.businessweek.com/technology/content/jun2008/tc20080616\\_244374.htm?campaign\\_id=yhoo](http://www.businessweek.com/technology/content/jun2008/tc20080616_244374.htm?campaign_id=yhoo)

Getting Found Out – Web 2.0 Style - BusinessWeek

<http://www.sap.info/resources/RFILE170893e2f1b76b21ec.pdf>

SAP's Transparency site

Transparency International

<http://www.transparency.org/>

[http://www.nexeninc.com/Governance/Integrity/Code\\_of\\_Ethics.asp](http://www.nexeninc.com/Governance/Integrity/Code_of_Ethics.asp)

The International Code of Ethics for Canadian Business

<http://www.schulich.yorku.ca/SSB->

[Extra/businessethics.nsf/Lookup/Codes\\_Compndium\\_Aug\\_2003/\\$file/Codes\\_Compndium\\_Aug\\_2003.pdf](http://www.schulich.yorku.ca/SSB-Extra/businessethics.nsf/Lookup/Codes_Compndium_Aug_2003/$file/Codes_Compndium_Aug_2003.pdf)

Compendium of Ethics Codes and Instruments of Corporate responsibility (pdf)

<http://www.imf.org/external/np/mae/mft/index.htm>

Code of Good Practices on Transparency in Monetary and Financial Policies – International Monetary Fund

<http://www.carnegieendowment.org/events/index.cfm?fa=eventDetail&id=49>

Transparency and Civil Society Project – Carnegie Endowment for International Peace

“Transnational Civil Society Networks” by Anne Florini

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