

UNLIMITED POTENTIAL

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Newsletter

What's Needed Next: Transparency & Trust

We need a better way to evaluate our business leaders, assert James O'Toole and Warren Bennis in a recent *Harvard Business Review* article ("A Culture of Candor," June 2009). It's no longer prudent to judge American corporate leaders' performance solely on *the extent to which they create wealth for investors*.

Moving forward, a new metric is proposed: *the extent to which executives create organizations that are economically, ethically and socially sustainable*.

The short-term thinking that Wall Street typically rewards no longer seems wise. Are these new ideals too much to strive for? Will they be forgotten once profits return?

Expectations about the corporation's role in social issues, such as environmental degradation, domestic job creation and even poverty in the developing world, have risen sharply.

Unless corporations extend their thinking and strategies beyond short-term profits, they will miss crucial opportunities and find themselves unable to survive a rapidly changing environment.

Wise leaders should recognize that increased transparency is a fundamental first step to accomplishing the tasks required for economic, ethical and social sustainability, Bennis and O'Toole conclude.

The standard business definition of transparency usually means full disclosure of financial information to investors. But such a narrow interpretation produces an unhealthy focus on legal compliance, which means over concern with "the letter of the law" to the exclusion of others' needs.

Inside and Out

Broadly defined, transparency should mean the degree to which information flows freely within an organization, among managers and employees, and outward to stakeholders.



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A company cannot be transparent to its shareholders without first being transparent to its workforce.

A January 2009 *Harvard Business Review* survey revealed that, over the last year, readers reported having 76% less trust in U.S. companies' senior management and 51% less trust in non-U.S. companies. (Of the 1,000+ respondents, 60% were based outside the United States.)

That's a significant drop in confidence levels.

Roughly half of all managers don't trust their leaders. Exact figures and study results vary, but no data compiled over the last seven years have shown more than 50% trust for company leaders.

When people experience such distrust, they describe their working environment as:

- Threatening
- Divisive
- Unproductive
- Tense

In contrast, when working in a trusting environment, people report the experience as:

- Fun
- Supportive
- Motivating
- Creative
- Comfortable
- Productive

Companies that foster a culture of transparency and trust clearly have a competitive advantage for sustainable success.

Companies cannot innovate or rapidly respond to new challenges unless all employees have access to relevant, timely and valid information.

Easier Said Than Done

The obvious question remains: Why wouldn't companies promote openness and a free flow of information?

Several issues seem to arise:

- Can people communicate upward and do so honestly?
- Are teams capable of challenging their own assumptions?
- Can boards of directors communicate important messages to company leadership?

Transparency issues can involve a leader who won't listen to followers, as well as followers who won't speak up.

They also occur when team members are ensconced in "groupthink," usually without awareness. People on the same team don't challenge each other. Sometimes, they like each other too much. Other times, they simply don't know how to disagree with one another.

Shared values and assumptions play a positive role in groups that work well together. But when a team of senior managers suffers from collective denial and self-deception, its members cannot unearth and challenge their shared assumptions. Such blinkered thinking leads to disasters, in both a business and ethical sense.

Knowledge Is Power

The idea of open communications and a free flow of information isn't new, but little progress has been made over the last decade.

In all groups, leaders try to hoard and control information because they use it as a source of power. But their ability to keep information secret is now vanishing, in part due to the Internet, as well as the facility of rapid communications.

A culture of candor and transparency rarely develops on its own. A concerted effort to overcome secrecy is usually required – something most organizations have failed to initiate.

How can you replace the hoarding tendency with a transparency culture? It starts at the top. Leaders must become role models who demonstrate specific ways to become more transparent. Here's how to start:

- Share more information
- Look for counterarguments
- Admit your own errors
- Behave as you want others to behave

7 Steps to Transparency

Bennis and O'Toole offer seven steps for developing a culture of transparency in your organization:

1. Tell the Truth

While this is the most obvious step, it's also riddled with nuances. Each of us has the impulse to tell others what they want to hear. Instead, keep it simple, and be honest. Leaders who are candid and predictable tell everyone the same thing, and they have no need to revise their stories.

Consistency and truthfulness signal that the rules of the game are the same for everyone and that decisions won't be made arbitrarily. When people are reassured of this, they're more willing to stick their

necks out, make an extra effort and help leaders to achieve goals.

2. Encourage People to Speak Truth to Power

It's never easy for us to be honest with our bosses. It takes courage to speak up, as it entails risk. But encouraging people to share their honest opinions is crucial if leaders want to build trust and open communication.

Of course, this sometimes means executives will hear unpleasant information.

How you frame questions is paramount. If you fail to ask people crucial questions in a manner that encourages openness and frankness, you'll never uncover the truth.

How you respond – whether you can keep an open mind and a clear head – is vital. Trust is a symbiotic relationship. Leaders must first trust others before the favor is returned.

3. Reward Contrarians

How easy is it for people to challenge company and leaders' assumptions in your organization?

If you make it acceptable, are willing to listen to opposing points of view and promise to consider the merits of others' arguments, you pave the way for a culture of transparency.

Your company won't successfully innovate if you refuse to recognize and challenge your own assumptions. Find colleagues who tend to be oppositional, listen to them intently, and create conditions for thinking differently.

“Thinking outside the box” should have a pragmatic meaning, even if the slogan is frighteningly overused.

4. Practice Having Unpleasant Conversations

Few people excel at negative feedback during performance appraisals. Offering negative feedback upward, to one's boss, is even more challenging – and that's why it rarely occurs. There's no way to make negative feedback fun for either the bearer or the recipient.

The best leaders learn how to deliver bad news kindly so people don't get unnecessarily hurt. It's certainly not easy, unless practice opportunities are provided. Training and practice can help people learn to deliver constructive feedback.

5. Diversify Information Sources

Journalists and anthropologists know that if you want

to truly understand a culture, you must talk to a variety of sources who have distinct biases. Everyone's biased – no exceptions! – and everyone has an opinion.

Communicate regularly with different groups of colleagues, workers, customers and even competitors to gain a nuanced and multifaceted understanding of others' perceptions.

6. Admit Mistakes

Candor is contagious. When you admit your shortcomings or errors, it paves the way for others to do the same. Simple admissions can disarm critics and encourage others to be transparent, as well.

7. Build Support for Transparency

Protect whistle-blowers – but don't stop there. Other norms and sanctions should encourage truth-telling, including open-door policies, ethics training and internal blogs that give a voice to people lower down in the hierarchy.

Executives are more often selected for their success in competing against their peers than for their demonstrated teamwork. Thus, they're not commonly willing to listen to contrarians or to share information freely. This requires a different mindset.

Board Vigilance

Changing a system that encourages information-hoarding is the board of directors' responsibility. Truly independent boards should provide a much-needed check on executives' egos and truth-telling. If they fail to assess transparency at the uppermost levels, they're not functioning appropriately.

Sadly, boards often reward misbehavior by awarding bonuses, even in the face of poor performance.

“Boards are the last line of defense against ruinous self-deception and the suppression of vital truths,” write Bennis and O'Toole. “If they're not vigilant in the pursuit of honesty, the organizations they serve are unlikely to have a free internal or external flow of information.”

Unfortunately, it's still rare to find leaders who encourage and reward openness and dissent. Those who do are emotionally secure enough to understand that any discomfort they may experience in the moment is offset by the benefits of receiving information that ultimately helps them make better decisions.

Trust

Trust entails unavoidable risks. As a species, we are hardwired to trust others, especially those who appear similar to ourselves and who have similar interests. Trust is essential for both business and personal success, and it's the foundation of our relationships.

But as recent financial scandals reveal, we sometimes trust too easily and trust the wrong people. To trust wisely means starting with small acts that foster reciprocity. By communicating your willingness to trust, you give others the go-ahead to do the same.

There's no way to enforce transparency in an organization. Honesty at the top is only a first step – and for some, an excruciatingly difficult one. As with letting go of control and micro-managing, releasing information can be rewarding, but it requires ongoing effort, sustained attention and constant vigilance.

A transparent decision-making process leads to higher levels of organizational trust. Opaque decision-making processes appear to serve special-interest groups, regardless of whether they actually do, and they breed distrust.

Transparent Communications

Open and honest communications support the decision to trust. Lack of communication and transparency creates suspicion.

To increase transparency:

- Increase the frequency and candor of your communications.
- Build a relationship beyond the constraints of your official role.
- Use the word “we” more often than “I.”
- Emphasize common values and goals.
- Be clear whose goals and interests you are promoting.
- Be sure your actions support your words.
- Demonstrate a clear concern for others.
- Under-promise and over-deliver.
- Ask more questions.
- Really listen to the answers.

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