

## Talking About Transparency



This briefing is for those who want to understand more about financial information transparency in a business reporting context – why it is important, what it means, the pros and cons of being transparent. The briefing is less concerned with the technology of transparency than with the commitment to and consequences of delivering it. The briefing makes reference to financial information although transparency is relevant to all kinds of data.

## Introduction

In the wake of a string of financial scandals and a global recession, the potential value of financial information transparency has never been more compelling. Support for transparency comes from the highest authorities around the world. But why should we care about transparency and what does it really mean in a business reporting context?

## The Start Point

To begin uncovering the truth about transparency, we start with a statement to frame what we are being transparent about and why:

***Information about the way my business behaves and performs is an organizational asset. I can choose to use transparency as a way of positively leveraging that asset to make selected information available in appropriate ways to relevant stakeholders in the spirit of intentional openness.***

Starting from this point means that we need to be clear about the following:

- Why and how do I make information available today?
- Why and how should I make my information more transparent?
- What challenges and opportunities can I expect if I embrace greater transparency?

But first we need to be comfortable with exactly what transparency means within an organizational context.

## Organizational Transparency: A Definition

Organizational transparency is essentially about trust. Assuming the information that is transparently provided by an organization is accurate, true and non-selective, it's likely that you will trust a transparent organization over a non-transparent one.

In *The End of Secrecy* [2], Brookings Institution Fellow Ann Florini puts it this way:

*Put simply, transparency is the opposite of secrecy. Secrecy means deliberately hiding your actions; transparency means deliberately revealing them...Transparency is a choice, encouraged by changing attitudes about what constitutes appropriate behavior.*

Transparency subjects your organization to the searchlight of stakeholder scrutiny, so it's not without risks, but stakeholders are more likely to trust an organization that chooses transparency over secrecy. This trust does not necessarily mean that everyone will buy your products and services but does provide a powerful rationale for doing so. While aspects of organizational transparency are already regulated, for example to report so-called "corporate actions" (see A Business Case to Improve Corporate Actions Communications), truly transparent organizations choose to enact transparency because they believe it is responsible behavior - not because they have to.

It's unlikely that any organization can be completely transparent as most have some kind of "secret sauce" that would undermine their ability to compete if it was revealed. But transparency is really not about revealing your intellectual property (IP) or process ingenuity to the world.

Information about the way a business behaves and performs is an organizational asset. You have the choice to leverage that asset for the benefit of both internal and external stakeholders.

It is about being more open about what you do, how and when you are doing it, who you are doing it with, and what impact you think it will or could have.

### Organizational Transparency: Past and Present

Organizational transparency in practice is about disclosing and publishing information. Only a couple of decades ago, the disclosure and publishing of corporate information was limited to:

- Annual reports published once a year on paper
- Regulatory filings consisting of limited mandatory disclosures
- Press releases focused on product/service updates and other stories
- Product launches at trade shows and conferences

This kind of transparency could be characterized as printed and promotional.

With the arrival of the Internet and new ways to share and interact with information online, transparency is being improved by:

- Blogging (about and by organizations)
- Event stream publication (e.g. Twitter)
- Web service access to data published online via application programming interfaces (APIs)

The pervasive use of Internet search engines has also increased stakeholder expectations for getting information on-demand, as-it-happens and for free (or with minimal access constraints). This kind of transparency could be characterized as online, rich-context and available.

One consequence of this wealth of online available data is that traditional data aggregators and publishers, who inserted themselves between information consumers and the raw data are being more or less disintermediated or being forced to “up their game” to compete with free and highly available data on the Internet. This is nowhere more threatening to traditional data aggregator business models than in the financial services sector where the growing availability of financial data in eXtensible Business Reporting Language (XBRL) format is forcing a rethink of the data aggregator value proposition for players such as Bloomberg.

### Availability vs. Transparency

But the availability of data is not the same as transparency. Lots of data presented in the form of online PDFs does not make that data easy to verify or compare. You can't drilldown from summary to detail numbers to understand where the data comes from, and cutting/pasting data from PDFs into spreadsheets for analysis and comparison is fraught with error.

In any case you can't be certain that the data you are trying to verify and compare between organizations actually means the same thing. Without a data standard in place that reflects a shared and agreed-upon meaning for the “transparent” data, comparing peer group performance may be impossible. Transparency is all very well but if everyone is seeing different data, it becomes meaningless.

**Availability of data is not the same as transparency. Static information in PDFs is not as effective as interactive information based on the use of global data standards like XBRL.**

**Transparency needs to be delivered at point of contact and aim to encourage information consumers to investigate and ask questions of the data.**

Data availability is also about where and when the data is made accessible. If I am about to make a purchasing decision, it does not matter if product lifecycle data is transparently reported in some annual report somewhere. I want to access to this information at point of sale, preferably from the product label. This is the principle behind Timberland's *Green Index* label on its shoeboxes and the big flight emissions panel right next to the passenger door on FlyBe aircraft. This kind of deliberate transparency forces you to engage with the reality of what you are buying or doing.

## Levels of Transparency

What transparency does is help you to ask questions of the data, not to take the data at face value - questions like:

- Where did that number originate from?
- Why is that different from last quarter/year
- How did they do that?

Transparency depends on getting behind the data and this is why the concept of "drilling down" is so important to transparency in a business reporting context. Without the ability to drill down, through or around the data, information quality is reduced and opacity results.

In accounting, drilldown generally implies navigating from rollup numbers to transaction data – say from a revenue line on an income statement all the way down to sales orders. But delivering transparency does not always mean simply drilling from summary to detail numbers. It can mean navigating to linked content such as documents, images or video/audio clips. And a transparency drilldown doesn't always start from a financial statement. It could start from a map or a picture of a product.

In most cases, the more levels and greater variety of drilldown/around paths that are available, the more transparent the data is likely to be. But transparency is not just about drilldown within a single organization's dataset, it also benefits from the ability to drill across other organizational datasets to better contextualize the data through peer group comparison or country-to-country comparisons. This is an additional level of transparency that can deliver another important but different perspective on the data.

This is another reason why relying on annual printed reports is anathema to transparency – you can't drilldown from a printed page. Transparent business reporting, almost by definition, requires data to be published online so that drilling down and around datasets is possible.

## Organizational Transparency: Future

The future of transparency is about more than just online reports or blog posts or tweets or API calls. It's about delivering transparency into different areas of an organization's operations and choosing to deliver it in different ways.

In an increasingly environmentally sensitive world, more and more people are concerned with the provenance and lifecycle of products, the impact and footprint of businesses, and the ethics and sustainability of their supply chains. This is a whole new area of organizational transparency that few businesses choose to embrace today. Equally, few businesses are delivering transparency at point-of-contact. This is where technology such as augmented reality (AR) and tag recognition on mobile devices can help.

Using your mobile phone equipped with an AR application/tag reader you can point your phone camera at:

- A brand logo on a poster or product packaging to get the latest financial information about that company.
- A product label to get information about the energy efficiency, recycling, provenance or sustainable components of the product.
- An entrance sign to a corporate facility to get information about the carbon footprint or social impact of the facility.

This technology is available now and has the potential to transform both the scope and delivery of organizational transparency.

As mentioned above, the delivery of financial data in XBRL format is also changing the playing field in terms of financial reporting transparency. As more and more regulators around the world require companies to report to them in XBRL formats and are making this data easily available over the Internet, the possibilities for consuming and repurposing this data in various ways are increasing. Instead of error-prone cutting and pasting of data out of PDF reports, data can be accessed directly from RSS feeds that provide the data filed with the regulator directly to the cloud-crowd. This cloud-sourced data can then be commented on, evaluated and analyzed to surface opportunities and issues and quickly compared with peer group data to surface differences and similarities.

**Transparency democratizes data and shifts power towards information consumers. Intentional transparency ensures you can take advantage of this power shift.**

### Transparency: Challenges and Opportunities

While organizational transparency is usually framed as positive for empowering new opportunities; greater information transparency also creates challenges and risks:

- Increased access to information risks information being distorted to suit the needs of those consuming it and these distortions causing reputational damage very quickly when virally communicated via social networking.
- Increased visibility into organizational decision-making processes may slow the process or subject the process to time-consuming deviations that reflect the agenda of lobbyists or other kinds of advocates or social activists.
- Transparency exposes people, places and processes to the harsh light of scrutiny that may undermine the confidence of employees or create organizational vulnerabilities that expose the business to added risk.

You only have to consider the global impact of WikiLeaks to get some idea of the potential risks of extreme transparency. Inevitably, greater transparency has the effect of leveling or changing the playing field between organizations and their stakeholders. The more information that is available, the less an organization can command-and-control its markets, partners, customers etc. and the more likely that it will be subject to criticism – from all kinds of sources, not just regulators. Transparency facilitates a shift of power from the information owners to the information consumers and any alteration in this status-quo is bound to have unforeseen consequences.

However, from this perspective, transparency is not just about the nebulous benefit of openness. It is also a proactive way of driving organizational performance improvements by making

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more information available to more people. Those people who can potentially help organizations become more accountable internally and therefore drive positive change from within. A transparency leader in industry sector can compel others to follow their lead – acting as a force for positive change among a competitor peer group.

Transparency can also catalyze innovation. In *The Responsibility Revolution*, CEO Jeffrey Swartz of footwear company Timberland offers an interesting perspective:

*This knowledge that we accumulated, in an effort to be transparent around our impacts on the environment, revealed something that we could never have imagined. To be a more sustainable company, we need to innovate around the cows.*

### Transparency in a Connected World

Back in 2003, Tapscott and Ticoll's *Naked Corporation* [5] stated that businesses could view transparency as either an opportunity or a threat. Today, as even the biggest business emperors are gradually being disrobed by the demands of transparency, they would do well to heed Tapscott and Ticoll's advice: *If you have to be naked, you had better be buff.*

And that means moving up the “Three Value Levels of the Firm” from what Wheeler, Colbert and Freeman [6] call a compliance culture that does minimal harm to an open enterprise organization culture that does maximum good.

Transparency is not a state, but a process. A process that plays out in the context of a connected world. So we'll leave the final word to Dov Seidman, author of *How: Why How We Do Anything Means Everything in Business (and in Life)*, as reported in the New York Times [7]:

“In a connected world,” Seidman said to me, “countries, governments and companies also have character, and their character – how they do what they do, how they keep promises, how they make decisions, how things really happen inside, how they connect and collaborate, how they engender trust, how they relate to their customers, to the environment and to the communities in which they operate – is now their fate.”

Transparency is more than just a value. It is more intrinsic than that. Transparency is a reflection of corporate character.

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