The Decline in Organizational Transparency and the Loss of its Partner, Trust: A Restorative Agenda

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Abstract

In recent decades, businesses, private and public corporations, and financial organizations have undergone scrutiny of their integrity and financial dealings with their clients, leading to severe declines in their reputations and skepticism about their morality. This has led to calls for greater transparency in organizations. Transparency alone will not make an organization ethical but practicing transparency is necessary if institutions and organizations are to regain the trust of their clients. A typology is presented which shows the choices available in creating transparent behavior in organizations. This paper views trust as the key to building transparent organizations supported by leaders and an organizational culture that supports transparency. Leaders and the cultures they create are the building blocks to trust and engaging others to do business with one another. More organizations could benefit by adopting more transparency practices.

JEL Classifications: Z1, Z130

Keywords: ethical behavior; organizational culture; transparency; transparency behavior; trust in organizations

1. Introduction

Transparency is a part of the nature of organizational life. Transparency is a broad, complex concept that describes how organizations work to accomplish their goals. Transparency exists along a continuum...
ranging from full transparency to little or no transparency. Every organization, even those that are closed, engages in some transparency behaviors. Transparency is not a fixed phenomenon; it is sensitive to pressure for change. Therefore, transparency practices can vary as organizational and societal needs change.  

Transparency can be viewed as the “face” of an organization. Simply stated, the face of an organization is how it wants to be seen by members and non-members. How members present themselves to the public helps to either build or undo trust and affects the eventual success and reputation of the organization. Organizational leaders and Boards of Directors are usually held responsible for the control and management of transparency. New organizational leadership usually involves some tweaking to modify an organization’s transparency and ethical climate (Dickson, Smith, Grojean, & Ehrhart, 2001). Leadership support is critical, but not sufficient in itself to create and maintain a transparent organization.

2. Trust

One of the barometers of transparency is trust. Observers both inside and outside of organizations have noticed a loss in trust over the past several decades and attributed the many causes to include the decline in transparency, specifically openness, communication, and accountability (Hill, Brandeau, Truelove, & Lineback, 2014; Balkin, 1999). Another cause in the decline of trust has been the involvement of some CEOs in financial abuse, deception, and organizational dishonesty (Ferrell & Ferrell, 2011; Christensen, 2002). While transparency is not an ethical principle in itself, it is a condition for enabling other ethical principles and practices (Turilli & Floridi, 2009; Wakefield & Walton, 2010; Cialdini, Petrova, & Goldstein, 2004).

3. Definitions

Webster defines transparency as “admitting light so objects beyond can be seen; free from what obscures or dims.” Christensen (2002) discusses two aspects of transparency: transparency as a condition and transparency as a strategy. Transparency as a condition refers to the degree the organization shares information about its future goals and invites the participation of the organization’s members to build trust among stakeholders, engages in informed decision-making, and encourages greater participation in the organization.

Obscure organizations (also known as opaque or closed) are defined by Webster as “shrouded in or hidden by darkness; not clearly seen or easily distinguished; impenetrable by light, neither transparent nor translucent; dense.” Obscure and closed organizations are the opposite of full transparency. In some cases such as prisons, convents, military units, and arms manufacturers there is a limited need for full transparency. Indeed, a closed organization can be successful in its mission with few transparencies. Too much or too little transparency can precipitate member unrest and dissatisfaction (Lord, 2006).

Transparency is a core value which is part of an organization’s culture. Transparency is about organization-wide access to information, processes, and strategies that allow employees to act creatively and independently on behalf of the organization (Schierer, 2015). Transparency is activated and modeled by leaders. Transparency is not a key element in every organization’s culture; it depends on the organization’s purpose and goals. However, leaders and culture can change and so can transparency.

In the United States there have been efforts to encourage organizations and social institutions to become more transparent. This effort to acknowledge diversity and inclusion has acknowledged the “right to know” and the “right to participate” – to make organizations more “open” and enable the parties (citizens) to experience autonomy, justice, and fairness - the full benefits of a democratic society. It is in this spirit that transparency in business is making hidden benefits within the sight of everyone.

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Transparent organizations are thought to be healthy, positive, productive, and offer a competitive advantage (Raab, 2008).

Transparent behavior is observable and documentable, but not always measureable (Rawlins, 2008). Nonetheless, transparency has become a value sought after in leaders in public and private and profit and nonprofit organizations. Bolman and Deal (1997) have said that “transparency is the ‘essential nature’ or soul of an organization. Soul is who an organization is, what it is about, and what it believes in” (p. 340). A transparent organization bares its soul. The soul of an organization reflects its degree of transparency.

4. Transparency as a Condition

Transparency is largely perceptual and relational (Ala’i & Vaughn, 2014). Transparency can be thought of as an enabler, it helps to create trust and loyalty among stakeholders, encourages more informed decision-making, and supports greater participation in the lives of organizations (Brafman & Beckstrom, 2006). Transparency is not an all or none phenomenon, that is, organizations may range from being predominately transparent to being predominately non-transparent. Numerous factors influence the degree of transparency in organizations (Bernstein, 2012). For example, an organization may have a fully open recruitment policy but a closed salary and compensation policy. The degree of transparency can change as leaders, culture and competitor organizations change. Usually there is strong support for transparency when the leadership and culture adopt transparency as a value, reinforcing and sustaining it – indeed, transparency is a choice and successful leaders work to keep it number one (Baum & Kling, 2004; Bennis, Goleman, & O’Toole, 2008).

5. Transparency as a Strategy

Distrust inhibits or prevents transparency. Creating a culture of trust takes time; it is a process that builds upon itself with the guidance of leaders (Heskett, 2013). Transparency is not needed to the same degree in all organizations. Indeed, transparency might not be possible in some organizations depending on organizational characteristics including its history and competitive posture with other organizations. The solution to organizational problems does not necessarily involve building greater transparency. However, many transparency problems are due to managerial unawareness, reluctance, or control issues. Transparency is difficult, if not impossible, to maintain without periodically reframing an organization (Bolman & Deal, 1997). Transparency can change with the turnover of leaders and managers and the pressure of social change. There is an inverse relationship between control and trust; the more ways leaders find to be “open” and listen to others, the more they can build trust. Trust and leadership are key to greater organizational transparency (Tecker, Meyer, Crouch, & Wintz, 2010).

6. The Relationship between Transparency and Trust

Research suggests that people/clients are more likely to participate in organizations that are explicit and honest about their goals. Tecker and his colleagues (2010) found that transparency is a means to a trusting environment and helps to sustain it. They concluded that a culture of trust requires several prerequisites, some of which overlap with each other.3

1. Create a compelling reason for individuals to join an organization
2. Openness and the availability of common information, and multiple communication opportunities

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3 The essential factors in creating a transparent organization include this list of 8 factors. Undoubtedly there are additional factors that are unique to individual organizations.
3. Competence in an organization’s leadership, style, and creativity
4. Honest financial disclosure
5. Hire trustworthy people
6. Reputation for being helpful and collaborative with other organizations
7. Be able to cross boundaries within and between organizations in order to solve common problems
8. Truthfulness and authenticity prevail

It is not possible to construct an exhaustive list of factors that support transparency in organizations; Rawlins (2008) advocated that transparency should permeate more than one aspect of corporate communications. While it is not realistic to project an image of organizational perfection, it is important to convey to stakeholders and to the public an attempt to embrace openness through authentic ongoing communication (Schnackenberg & Tomlinson, 2016). Trust behavior usually follows.

7. Benefits and Risks to Organizational Transparency

There is much discussion about the limits of transparency (Wakefield & Walton, 2010), whether it should be limited to public institutions, whether we expect too much from transparency, and what is the right amount.

Heskitt (2013) would argue that need-to-know policies have limitations, not all organizations will accept or need new policies that change current workable transparency policies. While increased transparency presents many opportunities, it also creates challenges (Christensen, 2002). Meyer (2003) presents several risks. He notes that transparency does not guarantee that right decisions will be made, increasing transparency may require time and resources at all organizational levels, and transparency may slow the process of decision-making. See Table 1.

Table 1. Some Benefits and Challenges to Transparency

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Challenges</th>
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<tbody>
<tr>
<td>Transparency fosters trust and trust fosters transparency (environment is safe for being transparent and that information is not misused)</td>
<td>Transparency does not guarantee that the right decisions will be made</td>
</tr>
<tr>
<td>Autonomy (everyone has access to the same information)</td>
<td>Transparency may require more time and resources</td>
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<tr>
<td>Positive control (transparency fosters self-control and motivation)</td>
<td>Transparency may slow decision-making</td>
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<td>Low hierarchy (access to information easy)</td>
<td>Breadth of disclosure (greater fluidity in electronic communication)</td>
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<td>Feedback (Positive and negative) (improves people’s actions, is continuous and automatic)</td>
<td>Salary transparency</td>
</tr>
<tr>
<td>Credit and identity (people can see what peers and others are doing and their accomplishments)</td>
<td>Finding the right balance of limits to transparency</td>
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<td>Meetings are public</td>
<td>Reduce gossip, misinformation</td>
</tr>
<tr>
<td>Better understand the “whys” for decisions</td>
<td>Reduce barriers to communication</td>
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<tr>
<td>Promotes accountability (individual and group)</td>
<td>Documents behavioral outcomes</td>
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Source: Syrjänen (2013).
Cisco Systems, Inc. has won several awards for being one of the companies that have shared its expertise and experiences on transparency. Cisco has been a leader in incorporating transparency as part of its culture especially with respect to diversity and inclusion in the work environment (Williams, Carrillo, & Pracher, 2011). Along with describing programs on their website, Cisco has also published a series of white papers on various topics including inclusion and diversity. Cisco has been strategic about sharing information. A recent white paper (Williams et al., 2011) reported the results from a survey of 20 other companies regarding their efforts on diversity and inclusion. The 20 companies had often appeared on lists of top companies during 2009 and 2010. The method for determining transparency included interviewing and visiting websites of each company to determine what type of information was available.

Less than half of the companies sampled went into detail about their internal activities and programs or commented on how programs were executed. The least amount of information shared was on workforce demographics that ranged from a breakdown of women and people of color to the specification of demographic groups at different job levels. Organizations that are transparent tend to share diversity and inclusion data in a variety of forums including conferences, association meetings, surveys, annual reports, white papers, seminars and events.

While there are benefits to being transparent, there are also reasons why an organization could also view itself as a potential risk.

1. An organization puts itself at risk when it selectively discloses information without explaining the cultural context of the information. In other words, releasing information piecemeal regarding transparencies can be more hurtful than helpful. Data alone should not be the sole reason for communication efforts.

2. An organization puts itself at risk when its focus moves from meeting the needs of stakeholders to programs and activities that increase transparency. Organizations can move easily from being accountable by gathering and creating data and neglect efforts to become transparent. Williams et al. (2011) point out that the overall risk is high that an organization will open itself to criticism from new and less invested stakeholders as it becomes more transparent.

3. An organization puts itself at risk for criticism if it is transparent internally and not externally. Cisco found that the more they shared with peers the more Cisco received information from peers, enabling them to strengthen their own best practices (Williams et al., 2011).

4. What information should be shared and how much are key questions in beginning to build trusting relationships. Of particular importance is to share what programs and activities are working and which are not working as planned. Sharing failures is just as important as successes in the process of establishing transparency.

5. Building an internally transparent organization first puts the organization in a strong position from which to create transparencies with other organizations. Modeling what a transparent organization looks like is perhaps the best position to establish relationships with organizations that are in the early stages of establishing a transparent organization. Sharing between organizations helps to build trust. The more information that is shared the greater the likelihood other organizations will be more open and share their best practices of transparency.

8. A Typology of Organizational Transparency

To better understand the relationships between leadership, culture, trust and transparency, a typology is offered in Figure 1. Typologies provide a method of identifying common elements among “types” of behaviors or situations (Fritzsche, 2000).
The Figure shows a vertical axis (leadership support for transparency) transecting a horizontal axis (cultural support for transparency). The degree of support from the leader and the organizational culture determines the degree of trust and transparency that exists in an organization. The Figure is divided into four quadrants each showing different levels of support for transparency.

Quadrant 1 shows strong support from the leader and an organization’s culture resulting in a high degree of trust and transparency. On the opposite side, in Quadrant 4, there is little or no leadership support for a culture of transparency and trust.

Quadrants 2 and 3 show a mixed picture of support for transparency – either the leader is not supportive or the culture is non-supportive, resulting in little or no trust and transparency in these organizations. Value dissonance often exists in organizations that have inconsistent transparencies and trust (Bruhn, 2008, 2009).

9. Implementing the Typology
A typology provides a theoretical perspective of how transparency and trust work together in an organization. Referring to the upper half of Figure 1 it is first necessary to recruit a strong leader who
supports transparency for the organization he/she will lead. The leader must garner support for the organization’s values. Once there is agreement on the culture’s core values, the leader must market them to the public as well as to the employees of the organization. In other words, the first steps are to develop a firm foundation to assure that the organizational culture and leadership share the same core values. For example, Zappos provides a “Culture Book” for all members of the Zappos organization.\(^4\) Applicants must go through two interviews: one for their professional attitude and one for their personality. All new employees are required to attend a month-long customer loyalty training course. After training which also includes experience in the call center, employees are offered $2,000 to quit, which screens applicants who would jump ship and for those who remain to make a public statement of the commitment to Zappos. Most turn down the offer (Hsieh, 2010). Figure 1 shows that strong leadership and a strong culture go together in building a high degree of transparency and trust. Zappos’ use of a loyalty business model and relationship marketing have helped ensure repeat customers and word of mouth recommendations to build a high degree of transparency and trust.

The major point in Figure 1 is that leadership is important in building a culture of trust, but this may take a long time. Building trust depends on who is for it, how will it benefit members of the organization, and how will greater transparency lead to better decision-making in the organization. All organizations will not go about establishing greater transparency and trust. This is not because these are unimportant, but they take steps that all organizations may not need in order to carry out the goals of all members of the organization.

Leaders are sometimes misled in believing they can change transparencies and trust by declaration. If an organization seeks greater transparency it takes a great deal of effort by the leader to transform the culture to value transparency and to experience greater trust; value dissonance needs to be reconciled (Bruhn, 2008, 2009). Indeed when organizations radically transform themselves there is often a turnover in employees who choose to stay with the transformed organization (Kanter, 2011). Hamel and Prahalad (1994) state “restructuring and reengineering are not enough. To build leadership a company must be capable of reinventing itself to rebuild leadership, and capable of regenerating its core strategies – a company must “be” different, but first “think” differently” (p. 293).

10. The Ethics of Transparent Organizations

10.1. Adherence to Explicit Values

Transparent organizations have several characteristics that set them apart from traditional, hierarchical organizations. A transparent organization is characterized by explicit values and consistent adherence to them. Values show how a culture is unique, what it stands for, what its members believe in, and why it exists. The values that organizational leaders stand by and reward are communicated to organizational members continually. For example, if collaboration and teamwork are highly valued, the organization environment must be one that balances empowerment with collaboration. Members are encouraged to think for themselves, but work together. Team members are involved in maintaining loyalty to the team and their manager. When values are explicit everyone inside and outside the organization knows that the organization knows, what the organization stands for and how they relate to it. When there is a track

\(^4\) T. Hsieh, the founder of Zappos, recently announced that he was pursuing radical transparency as a goal for Zappos by 2014; traditional organizational structure is being replaced with a radical self-governing operating system where there are no job titles and no managers. This is called “Holacracy.” Holacracy means a whole is part of a greater whole. Instead of a top-down hierarchy there is a flatter holarchy that distributes power more evenly. The company will be made up of 400 circles and employees can have any number of roles within those circles. Zappos, which has 1,500 employees, will be the largest company to date to implant Holacracy. One of the core principles is people taking accountability for their work. Everybody is expected to lead and be an entrepreneur in their own roles; Holacracy enables them to do so (Jackson & Schmidt, 2011; Groth, 2013).
10.2. People-Centered Leadership

A trusting organization develops a leadership team that practices respect for persons and the values of the organization. Leaders make sure that there is even-handedness and fairness throughout the organization. The leader maintains balance in the organization. People need to feel valued for their talents and what they contribute to the organization. Organizational members at all levels practice personal recognition with rewards tied to performance. Trust, self-esteem and loyalty are the rewards for the organization.

10.3. Consistent Accountability

A trusting organization exists when members believe they have a dual responsibility for themselves and their co-workers. Accountability is linked to boundaries and boundary management. Boundaries determine where responsibilities begin and end. Organizations with rigid boundaries discourage innovation and autonomy. Organizations with too fluid boundaries discourage taking responsibility and follow through. Accountability applies to everyone in the organization.

10.4. Citizenship and Win-Win Behavior

In a trusting organization everyone has rights and responsibilities. Rights are explicit and protected. Everyone at every level of the organization has equal rights even though their responsibilities differ. A win-win environment is created when members accept the consequences for success and failure. Blaming is replaced by learning how to correct and improve. There are explicit and tangible rewards for good citizenship.

10.5. Risking To Become Better

In a trusting organization members are encouraged and assisted in becoming better. Members are encouraged to think in new ways. A learning organization shapes itself as it evolves, recycles, and benefits from experience. Organizational learning enables members to take risks in a protected environment. A firm commitment to individual responsibility and accountability is needed. A learning organization’s leaders participate in the process also. Every transparent organization provides openness, sharing information, and engages its members in unique ways.

10.6. Collective Pride, Loyalty and Spirit

Maslow (1998) observed that one indicator of the degree of health (and trust) of an organization is the degree of grumbling among its members. No organization is free of grumblers, but grumbling that is extensive and of the type that indicates that members’ basic needs are not being met is significant. Organizations that are so stiff and formal that they can’t act human are unlikely to tolerate mistakes and missteps of members. It is also unlikely that people in grumbling, humorless organizations trust each other.

Pride, loyalty, and spirit (morale) are outcomes of a trusting organization. These feelings usually result in high productivity, low personnel turnover, low absenteeism, few grievances and conflicts, and an enthusiasm for the organization conveyed to people outside of it. Bolman and Deal (1997) point out that most leaders concentrate on the rational side of the organization neglecting its spirit. Leaders and managers look almost exclusively at “hard” measures to explain success or failure.

11. Discussion

It is not uncommon for organizations and leaders to attempt to restore trust using the resources of media to advertise how an organization has become more client-sensitive, or enhanced their product quality. Some
encourage feed-back from clients as they experience a new or renewed transparency in an organization. Trust needs to be experienced and organizations need second chances. A restorative agenda will need a prospective plan for trust to be restored in today’s organizations.

Organizations of all types are under greater scrutiny today than in previous years largely because of ethical pressures to enhance inclusiveness and openness and for greater employee participation in organizational choices (Tapscott & Ticoll, 2003). Leadership’s support is key because leaders must initiate these changes and support them. An organization’s culture may need to be changed to permit greater transparency. This not only takes time and patience by the members of organizations but the willingness of leaders to share some power with employees, admit to missteps and advocate transparency practices to improve the quest for high quality products and services.

As a society we are becoming more personally transparent as reflected in the growth of applications tied to the Internet. We point to the many advantages to being personally available and expediting information and other data. On the other hand, mistrust is focused around how data will be protected. We continue to work on the limits of accessibility and personal privacy concerns. “Gray” areas especially have made competitor organizations cautious about sharing information. Yet, the literature reflects an eagerness to take reasonable risks to create greater transparency. Transparency is paradoxical with many different types of ethical challenges and benefits. There are, so far, no uniform or singular approaches to solving existing dilemmas in transparency.

12. Summary and Conclusion

Many organizations and social institutions today are experiencing the effects of broken trust and the lack of transparency. Trust and transparency work together. The greater the lack of transparency, the lower the level of trust and vice versa. Trust and transparency are partners. Broken trust cannot be restored easily and rapidly, if at all – trust is the result of a process of believing in transparency. Once trust is lost it cannot be easily restored. Every organization has a history of experiences with trust and transparency which are embedded in their culture. To reestablish trust is a life-long process for the members of an organization and its leaders.

References


