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On the Complexity of Managing Transparency

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SUMMARY

Corporate transparency is an aspirational ideal that is very difficult to achieve because organizations can never be completely transparent. As a result, effective management of transparency requires managers to carefully balance transparency with the need for secrecy. This article describes the complex nature of transparency and demonstrates how attempts to balance transparency with secrecy result in three different kinds of transparency—rationalized, ceremonial, and decontextualized. Effective transparency management requires managers to avoid simply dumping information, use new technology strategically, engage their audiences creatively, avoid overpromising and underdelivering, and attend carefully to how transparency is measured.

KEYWORDS: transparency, authenticity, disclosure, corporate social responsibility

> Sunlight is said to be the best of disinfectants; electric light the most efficient policeman.
>
> —Louis D. Brandeis

Brandeis's famous quote, which first appeared in an article titled "What Publicity Can Do" in *Harpers Weekly* in 1913, is often identified as the impetus for an emerging era of transparency in modern society. Brandeis' words, however, did not have an immediate impact on public discourse. As Figure 1 shows, the term "secrecy" remained dominant for most of the past 200 years; only in the past couple of decades has our collective conversation shifted to embrace transparency. Although it was a long time coming, Brandeis's optimism for transparency as a tool of social regulation appears to have finally taken hold.

The new era of transparency—or hyper-transparency[1]—has arrived with heightened societal expectations of what transparency might achieve in

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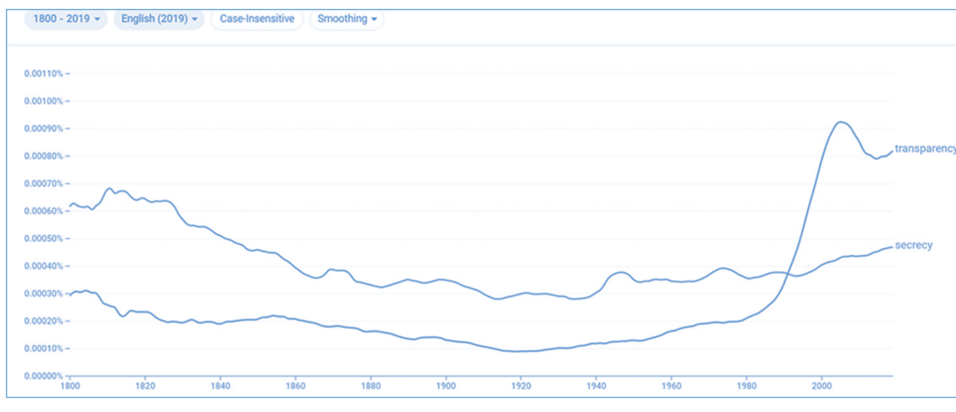
FIGURE 1. N-gram of secrecy and transparency.



both public and private organizations. The enthusiasm for transparency is also changing the roles and actions of public officers and corporate managers. According to one survey, 86% of respondents believe that the need for corporate transparency is more acute than ever, and 73% of respondents express their willingness to pay more for what they perceive to be transparent products.[2] In *The Naked Corporation*, authors Don Tapscott and David Ticoll remark,

> Transparency is revolutionizing every aspect of our economy and its industries and forcing firms to rethink their fundamental values. We are in an extraordinary age where businesses must make themselves clearly visible to shareholders, customers, employees, partners, and society.[3]

Transparency expectations now permeate nearly all decisions made by business organizations in both financial and nonfinancial realms. In the former category, a number of regulatory edicts—for example, the 2021 Corporate Transparency Act in the United States, the 2022 Economic Crime (Transparency and Enforcement) Act in the United Kingdom, and the 2019 Open Data Directive in the European Union—have recently been added to strengthen regulatory frameworks for financial transparency and to curb crimes such as tax evasion, terror financing, corruption, and money laundering. In the non-financial realm, the transparency landscape is more layered and includes myriad regulatory, voluntary, and hybrid frameworks, all aiming to ensure that the corporation behaves in socially and environmentally responsible ways.[4]

Corporations are typically required by law to directly disclose information about their operations (e.g., mandatory Greenhouse Gas Reporting Program for large emitters in the United States; extended producer responsibility or Extended Producer Responsibility [EPR] laws in the U.S. states of Oregon and Maine). In some contexts, however, corporate disclosure is voluntary and can occur through third-party certifiers (e.g., eco-labels and green certifications on a wide range of

products). Some disclosures even arise through a hybrid arrangement (e.g., corporate reporting of emissions across value chains such as Scope 3 reporting). A vast majority of the world's largest corporations now disclose their social and environmental efforts through, among others, such frameworks as ESG (which reports an organization's performance on Environmental, Social, and Governance dimensions), GRI (or the Global Reporting Initiative), and the Science-Based Targets Initiative. Organizational transparency has become a yardstick for reputation and legitimacy.

The Transparency Labyrinth

Notwithstanding the emergence of transparency as an imperative for modern organizations, managers must also recognize that transparency has a significant "dark side" to it. In the public policy realm, Alexander Hamilton, the first treasury secretary of the United States, long ago stressed the importance of secrecy in policy making by cautioning against the possibility of manipulation by powerful lobbyists if they had access to all the information:

> Had the deliberations been open while going on, the clamors of faction would have prevented any satisfactory result.[5]

More recently, similar conclusions have been drawn about transparency in the context of private organizations too. A McKinsey article explains how overzealous efforts for transparency can undermine organizational effectiveness:

> Excessive sharing of information creates problems of information overload and can legitimize endless debate and second-guessing of senior executive decisions. High levels of visibility can reduce creativity as people fear the watchful eye of their superiors. And the open sharing of information on individual performance and pay levels, often invoked as a way of promoting trust and collective responsibility, can backfire.[6]

Some studies show that efforts for complete transparency can increase distrust, resistance, and cheating among employees and can also give rise to an overall blaming culture within organizations.[7] In fact, there is no empirical evidence to suggest that increased transparency leads to organizational success. Judicious managers therefore strive to delicately balance transparency and secrecy while making it clear to their audience that this balance is necessary to advance the collective interest of the organization and its stakeholders.

By carefully considering the dark side of transparency, a manager can avoid what is dubbed the "transparency trap,"[8] a phenomenon in which too much transparency in the workplace can suppress innovation and experimentation that emerges when employees are able to work in privacy. In order to escape this trap, organizations must be transparent about the extent of their transparency. That is, they must be open about what can be disclosed and what must be kept private or

secret. When managers overpromise but underdeliver transparency, stakeholder trust, both internal and external to the organization, becomes compromised. A senior executive of a *Fortune 500* company who we interviewed for this article remarked,

> I never overtly state that I am a transparent leader even though I think I generally am. When I am being transparent, my coworkers would see it [so] I do not need to declare. When I am not being transparent, which happens quite regularly, I expect my coworkers to understand why.

The transparency trap is demonstrated in a growing body of research that explores the role of secrecy in organizations.[9] A recent study reveals how secrecy helps in promoting strategic initiatives[10]; others show that excessive information sharing can hurt an organization and its stakeholders' interests.[11] Evidently, managers are, at times, expected to be secretive, and the good ones are. To then overstress the transparency narrative can erode managers' credibility.

The transparency trap is a natural consequence of the complex nature of transparency and its nuanced relationship with secrecy. Avoiding the transparency trap requires managers to recognize that transparency is a polysemous concept that may mean different things to different people at different times.[12] Transparency can refer simply to the ability of stakeholders to monitor an organization and hold it accountable to expected behavior. It can also signal an organization's virtue or character to interested audiences. Transparency can mean mere managerial oversight of the corporation's corporate social responsibility (CSR) and sustainability initiatives, limited disclosure to key regulators, or it can mean full and open disclosure of those initiatives to the public, broadly defined.[13] Managing transparency, thus, requires considerable thought about the scope, the audience, and the purpose of disclosure. It also requires that disclosure practices are monitorable, visible, and accessible, so they are perceived as credible, trustworthy, and authentic.

Transparency is not a defined property of an organization but, rather, it is a process, a social value judgment of trust and authenticity negotiated in an institutional context among a variety of interested actors. These social value judgments can result from either an independent assessment of an organization's practices and processes or in comparison with other organizations. They can be based on factual information or subjective heuristics.[14] Moreover, they can be based on current (or recent) actions of an organization, or they can emanate from the organization's past—even distant past—which leaves a manager with limited control to influence stakeholders' perceptions about organizational transparency.[15]

Transparency as Commensuration

Given the cryptic and complex nature of transparency, and also the need to balance transparency with secrecy, managers typically approach transparency as a manageable outcome rather than a normative philosophy guiding their

actions. This instrumentalist approach helps corporate leaders in controlling the uncertainty inherent in social evaluations of transparency by introducing standards and metrics that can be applied universally to force comparison of a broad range of different entities, even those with very different practices and characteristics. The conversion of different qualities into a common measure is a social valuation process known as *commensuration* and

> whether it takes the form of rankings, ratios, or elusive prices, whether it is used to inform consumers and judge competitors, assuage a guilty conscience, or represent disparate forms of value, commensuration is critical to how we categorize and make sense of the world.[16]

Commensuration practices are typically adopted to increase accountability and reduce inequality, although they often also generate consequences that tend to subvert the original purpose. In the final analysis, commensuration practices help shape the market,[17] and thus, over time, the original purpose underlying commensuration becomes secondary, whereas marketplace benefits emerge as the primary motivation.

The explosive growth in corporate disclosure frameworks has indeed created a marketplace in which the ESG and GRI frameworks are front leaders. Whether these frameworks help the society and the planet remains questionable, but they certainly seem to help the corporation[18] because corporations can steer stakeholders' thinking through these frameworks and generate positive perceptions of their transparency efforts. As commensuration has become the defining principle for managing transparency in modern organizations, we identify three different types of transparency, each with ingrained elements of secrecy.

Rationalized Transparency

Commensuration is a form of rationalization. It is a process of taking diverse information from our often-chaotic empirical experience of reality and condensing it into newly created categories that facilitate comparison. The process of converting messy empirical data into common categories, however, inevitably transforms the nature of the information, even when those engaged in the conversion process may seek to preserve the essence of the measures. Substantial empirical research has elaborated on the perverse consequences of commensuration work in efforts to compare performance across individuals or organizations.[19]

Perhaps the best example of this comes from the commensuration of carbon emissions reporting, which reduces complex and diverse organizational practices and emissions into a common metric, that is, tCO_2e or the tons of carbon dioxide equivalent measure. This sounds like a simple conversion but fails to create an objective and comparable measure of emissions, especially across industries due to disparities in industry standards and protocols to calculate emissions. Kolk and colleagues aptly summed it up as follows:

> Just as accounting regulations have not prevented firms from adopting practices to avoid taxes or move risks and liabilities to other entities, the politics of carbon commensuration provide a degree of flexibility in reporting and exempt entirely certain regions and sectors . . . . numerous firms compete to sell air travelers carbon offsets, and these offsets themselves are beset with accounting and verification difficulties (Bumpus and Liverman, 2008). Many of these offsets originate in projects in developing countries that reduce emissions from a somewhat arbitrary "business as usual" baseline, and frequently the projects generate net emissions increases.[20]

This disconnect between efforts to make carbon emissions (and offsets) transparent and the perverse outcomes of those efforts illustrate the unique connection between commensuration and capitalism. As noted before, when an activity or product that has societal value because of its use becomes subject to commensuration, we tend to lose sight of the product's social value and focus instead on its value in exchange. As a result, perhaps unsurprisingly, carbon markets have become increasingly valued, not as an instrument for reducing carbon emissions, but rather as a vehicle for efficiently capitalizing the ability to pollute, in fact, perversely, giving rise to what has been called cleanwashing[21]—that is, false claims of removing emitted carbon from the atmosphere. More critically, while the volume of information disclosed in carbon emission schemes such as the Carbon Disclosure Project (CDP) continues to grow, "neither the level of carbon disclosure that CDP promotes nor the more detailed carbon accounting provide information that is particularly valuable for investors, NGOs, or policymakers at this stage."[22] The same phenomenon is evident in the field of biodiversity offsets where a number of "exchange" mechanisms have sprung up in recent years. Biodiversity banking as a marketplace tool is flourishing; meanwhile, there is profound ambiguity about the terms of such exchanges.[23]

Thus, while commensuration provides a rationalized response and helps many organizations successfully manage societal expectations of transparency (at least) in the short term, its long-term consequences for society and the environment are often damaging. Unfortunately, it typically remains buried beneath the hype of rationalized transparency efforts. Efforts are widely publicized, but outcomes are wrapped in secrecy.

Ceremonial Transparency

When commensuration subverts the original intent of transparency, disclosure tends to become ceremonial or symbolic rather than purposive. This is the key observation of neo-institutional theorists who observe that programs designed to create common measures of performance across a range of organizations often fail to produce efficiency or quality but, instead, encourage managers to ceremonially adopt the practices. A longitudinal study[24] of five manufacturing organizations that adopted total quality management (TQM) performance measurement programs, for example, notes that managers only adopted the rhetoric

of TQM and then changed the performance measurement system to demonstrate compliance with the appearance of TQM rather than substantively changing practices in the organizations.

There are many examples of the ceremonial adoption of transparency in contemporary organizations. Corporations often, for example, engage in minimal compliance with sustainability disclosure practices while secretly lobbying the government for restrictions on transparency.[25] A study of CSR reports of 150 German, U.S., and U.K. corporations over an 18-year period finds that, while corporations have become more transparent about their lobbying activity over the time frame of the study, for most of them, commitment to transparency was largely ritualistic.[26] While they disclosed details of who was lobbied and when the lobbying took place, crucial details about the subject matter of lobbying were typically excluded.

A related study based on a sample of 112 U.K. companies over a three-year period assessed the quality of CSR disclosure in stand-alone reports issued by the corporations.[27] The researchers' assumption was that corporations who moved their CSR reports from a short section of the annual report to a stand-alone report would signal a clear engagement of those corporations with substantive issues of environmental and social responsibility as well as issues related to sustainability. After analyzing the information in the stand-alone reports on three dimensions—the content of the information disclosed (what and how much), the type of information disclosed, and the corporate approach to CSR, the authors determined that "on average, companies that use these practices do not provide a higher quality of information, which we interpret as evidence of a symbolic use of these practices." The authors point to processes of commensuration as the likely cause of the trend of ritualistic reporting of CSR. Ceremonial transparency, thus, is a conceptual correlate of greenwashing wherein an organization has little or no intent to walk its talk. It generates a disclosure, but one that hides much more than it reveals.

Decontextualized Transparency

A critical aspect of the process of transparency as commensuration involves the standardization of information. In order to compare CSR performance across a range of different types of organizations, each operating in different countries with different regulatory structures and different histories of CSR or sustainability compliance, transparency advocates must create a common set of measures that facilitate comparison. To accomplish this, the information must be distilled into rigorously standardized categories. In the process of standardizing information, it inevitably becomes stripped of its local context. When data are decontextualized, however, their meaning also inevitably changes. Sometimes, these changes in meaning are minor. But even minor shifts in meaning can grant advantages to some and disadvantages to others. More concerning is the possibility that decontextualized data can subvert the original intent of transparency by making the subject information transparent to some but secret to others.

Consider the recent announcement by the billionaire entrepreneur Elon Musk of his (later withdrawn) intent to acquire Twitter and, in the interests of transparency, make the source code publicly available. Critics note that access to the source code, in itself, will not reveal the underlying algorithms that sort and prioritize tweets. Sophisticated users, however, may be able to use the source code to discern those algorithms. Most of the public users of the social media platform, however, will see no benefit or advantage from this type of transparency.

This is one form of decontextualized data that critics term "fishbowl transparency," or the full disclosure of information without explanatory information or context that allows the affected stakeholder the ability to interpret or understand it. Critics of transparency in the pharmaceutical industry have noted the strategies of pseudo-transparency of Big Pharma and their tendency to put all clinical trial reports and all correspondence with regulators online without providing the public any means or opportunity to interpret the data.[28]

Another form of decontextualized data arises when, in the process of creating transparency, critical information is removed from data because it is emotional, subjective, or discursively inconsistent with the formality and objectivity expected in public discourse. A powerful example of this form of decontextualized transparency is described by French in her study of how the voices of indigenous victims of violence and suffering in Guatemala were "brutally silenced" in the subsequent public hearings as their testimony was shaped to fit into the institutional structure of government-sanctioned public hearings.[29] The victims were illiterate peasants, largely unable to express themselves in Spanish and highly unfamiliar with the process of giving testimonial evidence in a formal legal process. As a result, French concludes that "survivor testimonies are disciplined into particular institutionally supported forms that further erase ways of meaningful telling and knowing among structurally subordinated groups, further reinscribing their marginalization in an unintended way."[30]

Other types of de-contextualization are likely to occur in the transparency practices of nonfinancial disclosure in corporations. A local firm that may engage in a variety of CSR and philanthropic practices in their local community may abandon those efforts when their CSR performance becomes dependent upon their ability to conform to institutionally determined categories of transparency reporting. Thus, sponsoring community sports leagues, scholarships for high school students, and similar efforts at community engagement may be abandoned simply because they do not fit into a predetermined category of CSR engagement and, as a result, do not "count."

Information presented without context does not generate transparency. As Postman observes, such "information appears indiscriminately, directed at no one in particular, in enormous volumes and high speeds, disconnected from theory, meaning or purpose."[31] The internet and the era of Big Data make this form of commensuration much easier to perform. Raw data can be indiscriminately dumped onto the internet without any means for interpretation. Alternatively,

raw data can be massaged into institutionally determined categories that equally distort their meaning. Releasing more information is not necessarily an act of transparency, nor is the release of highly processed and standardized information. Decontextualized transparency simply creates new forms of secrecy under the guise of disclosure.

Transparency Is a Negotiation between an Organization and Its Key Stakeholder

A key insight from analyzing transparency through the lens of commensuration is that, like secrecy, transparency is rarely neutral. When viewed as a negotiated process, we can see that transparency cannot occur in the absence of an institutional framework that defines what transparency is, how it should be accomplished, and who are the primary actors that will be accountable for it. Most critically, the process of transparency must be reflective of, and create processes to prevent, the subversion of the intended purpose of transparency through the act of commensuration.

A second key insight from viewing transparency through the lens of commensuration is a growing awareness that transparency and secrecy are not binary alternatives. Rather, they act as a dynamic and generative continuum. This was the core insight of the German sociologist Georg Simmel who argued that secrecy could not be understood in the absence of analyzing its relationship to “publicity” (which, as in Brandeis’ time, was the preferred term to describe transparency). Simmel expressed his theories of secrecy in dynamic conversation with transparency, focusing attention not on secrecy or publicity as absolute properties in their own right, but rather as mutable elements of each other, best understood as proportions or ratios of secrecy to publicity. He observed, for example, that as the capacity to grant privacy to the individuals in society grows, the demands for less secrecy and more transparency from societal institutions grow.[32]

Our core proposition here is to reject the notion that transparency is an essentialist property of a particular form or a standardized template of disclosure. Rather, we advocate for an understanding of transparency as a social process, a form of social value judgment that is negotiated between an organization and its social environment with the objective of achieving a perception of authenticity and trust negotiated in an institutional context among a variety of interested actors. Viewed as a social value judgment, the path to achieving authentic transparency is best managed by first understanding the intimate connection between transparency and secrecy. Processes of commensuration, which are required to make information transparent, can sometimes have the opposite effect of making information secret. This subversion of the spirit of transparency can occur without the ill-intent of those managing the process of transparency. As a core message to practitioners, we stress that transparency must neither be conflated with authenticity nor secrecy with manipulation. Sometimes transparency can be manipulative, and at times, secrecy can invoke authenticity.

Managing Transparency

In an era of hyper-transparency, organizations will continue to face heightened societal expectations of transparency while trust in their transparency efforts will diminish. How should a manager navigate this puzzle and walk the fine line of managing transparency? In reviewing articles included in this special section of the *California Management Review*, as well as other available literature, we foresee the following ways in which managers can improve the effectiveness of their transparency initiatives:

Avoid information dump—We have already described how dumping excess information may provide the appearance of transparency but lack its spirit. Legal strategists have long known the value of oversharing information when their corporate clients are compelled to disclose. Too much information can permit an actor to secret information in plain sight.[33] Small organizations, individuals, and under-resourced stakeholders are often not able to sift through mountains of data to find the critical piece of information they actually need.

Make use of new technology—A key feature of emerging demands for transparency is that stakeholders expect organizations to report on activities across their value chains. This is a tedious task because tracing and monitoring complex supply networks, in many cases, is simply beyond the control of the focal organization,[34] making it difficult to authentically make claims of transparency. Searcy and colleagues, in their article in this issue titled “Transformational Transparency in Supply Chains: Leveraging Technology to Drive Radical Change,” show how emerging technologies can improve supply chain transparency in a variety of industries and thus enable organizations with complex and far-flung supply networks to effectively monitor and report on value-chain activities.[35]

Engage your audience—As we have previously stressed, transparency is not an essentialist property of a particular form or a standardized template of disclosure. Rather, it is the outcome of a social process that is built upon value judgment and is negotiated between an organization and its social environment with the objective of achieving a perception of authenticity and trust. Tang and Higgins, in their article “Do Not Forget the How Along With the What,” persuasively demonstrate how leading companies engage their audiences in communicating their sustainability initiatives through a number of innovative mechanisms that include data visualization, animation, and immersive multimedia content.[36] When an organization enlists the participation of its audience in co-creating transparency initiatives, as the authors show, trust in transparency is inbuilt. Trusted transparency initiatives can deliver desired results for the organization and incentivize the organization to be even more transparent, triggering a virtuous circle.

Avoid overpromising transparency—Transparency initiatives, which typically are products of commensuration practices, force comparison of different entities on criteria that may not befit all firms in all contexts. Garst and colleagues, in their article "Materiality Assessment is an Art, not a Science: Selecting ESG Topics for Sustainability Reports," make a compelling case that while organizations are almost obligated to use standard templates (e.g., the ESG framework), they can go beyond a box-checking exercise and instead use the template to gain insights into how various assessment criteria interfere or align with the idiosyncratic context of the organization.[37] Adopting a universal template, although its weaknesses are all too apparent, can thus be used as a learning tool to facilitate organizational development. Developing this learning orientation can be a significant first step toward organizational authenticity.

Different types of transparency will require new forms of financial valuation—In contrast to traditional forms of sustainability reporting, which encourage firms to adopt common performance measures, true transparency will require firms to adopt reporting measures that are adapted to the unique nature of the risk presented by the firm or the industry to society. As Mohr and Thissen point out in their article "Measuring and Disclosing Corporate Valuations of Impacts and Dependencies on Nature," firms whose activities present a serious risk to the natural environment will have to create a set of measures (i.e., natural capital valuations) that allow key stakeholders to objectively assess and compare the environmental threat and financial risk posed by a distinct class of corporations while avoiding the unanticipated consequences of overly broad measures that apply a common metric to different entities (i.e., commensuration).[38] In addition to balancing the need for transparency and secrecy, managers must also have the ability to identify performance measures of transparency that balance the need to disclose different societal or environmental risks of different types of corporations without making the categories of measures so broad that they become meaningless.

Conclusion

In closing, managing transparency is a difficult but critically important responsibility for managers. The complete transparency espoused by Brandeis is an aspirational ideal, but one that is nearly impossible to accomplish in practice for a variety of reasons. Yes, corporations need to be transparent in order to be accountable to society and key stakeholders. However, they are also competitors and being competitive means that some information must be kept secret. Similarly, the sheer complexity of information required for corporations to be accountable to regulators and to the public often requires a degree of technical expertise that may not be available to either the citizenry or the government. As Amatai Etzioni, a prominent American sociologist observed, the asymmetry of information and expertise between corporations and other stakeholders creates

profound limitations and creates the opportunity for the illusion of transparency without the spirit of full disclosure.[39] Managing transparency, thus, requires a high degree of professionalism in which managers understand the nuance of transparency, their unique ability to use transparency to the advantage of the corporation, but still embrace the spirit of accountability expressed by Brandeis and engage with regulators and stakeholders to construct models of disclosure that best serve societal needs and standards of responsible management. No matter how managers approach transparency, they will ultimately have to learn to make a delicate balance between the ideal and attainable forms of transparency. Even Brendeis would agree that "*endless sunshine – without some occasional shade – kills what it is meant to nourish*."[40] Intelligent managers will cultivate organizational cultures that openly value both transparency and secrecy. They will also avoid masquerading as fully transparent leaders for they cannot be.

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