Transparency in the Networked Economy

Rise of the Transparency Network
TRANSPARENCY IN THE NETWORKED ECONOMY

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1. INTRODUCTION

Trust and the Brave New World of Transparency

When we launched the Leadership in the Networked Economy (LNE) research program in February 2002 we hypothesized that transparency would be a transformational force in the global economy. Events over the course of this past year have only confirmed and strengthened this conviction. The wave of scandals that rocked US corporations and reinforced the need for more effective corporate governance, better transparency and greater integrity in corporate management; the increasing attention to corporate governance and corporate social responsibility (CSR) issues by non-government organizations (NGOs), governments, academics, the media, and firms in a broad range of sectors; the Johannesburg Summit, which put issues of transparency and accountability front and center; and the growth of corporate “triple bottom line” reporting, including first-time reports from major companies like McDonald’s and Hewlett-Packard.

But such events are merely accents on a much deeper and intense set of forces that are making the world a more transparent place. To name only a few of these transparency drivers, consider:

- The speed, flexibility and reach of human communications driven by the accelerating power and pervasiveness of information and communication technologies;
- The growing power of employees, customers and civil society to find out information about company behavior, inform others, and organize;
- The insatiable public appetite for information and spectacle that provides the media with incentive to put companies under the spotlight;
- The creation of new regulatory regimes for transparency and a shift to global structures of governance that enhance accountability in the global economy;
- The discovery and adoption of new economic measures for social and natural capital that will transform the way we account for growth and value creation in the economy and capital markets;
- And, the central role of knowledge, trust and corporate reputation in driving business success in the networked economy.

Together, these forces lay the groundwork for a brave new world of transparency. With greater transparency will come a rebalancing of the relationship between the economy and society, and between corporations and their stakeholders. While not irreversible, the trend is powerful and unlikely to be quelled—even if terrorist attacks, economic downturns and reactionary forces occasionally result in minor setbacks. To be certain, transparency is already well on its way to establishing itself as a powerful norm in global politics and a transformative force within the firm and its stakeholder relationships.

Given the nature of contemporary global issues, it's not surprising that corporations find themselves at the epicenter of the transparency phenomenon. Capitalism's most visible symbols and institutions have come under an unprecedented level of scrutiny as citizens and civil society groups around the world mobilize behind public expectations for a more just and sustainable economy. For companies that have come under the spotlight, simply meeting the legal requirements to regularly report financial (and sometimes environmental) information to shareholders and regulators is no longer enough. Today, transparency issues affect every relationship firms depend on for success.

- Employees are demanding greater openness and accountability from their employers, while digital networks enable employees to access and share company information with each other and the outside world.
• Global networks of business partners and suppliers share commercial data to help them perform more like a single enterprise. Firms also disclose detailed volumes of environmental and social performance data, and often as a condition of entry into global supply chains.

• Consumers and NGOs use the Internet to pepper corporations with detailed inquiries, monitor private sector behavior, and swap insight and intelligence with one another.

• Investors buy and sell stock on the basis of the credibility of the information they receive through corporate financial reports and financial analysts, but also in chat rooms and bulletin boards where networked investors share the “real dirt.”

With demands for transparency originating from all sides and for all imaginable issues, it’s clear that a new, more systemic and integrated approach to corporate transparency is required. Corporate leaders need to start thinking about transparency as an essential component of competitive strategy and relationship-building. Most companies instinctively think of transparency strategy as risk management (e.g., the information we need to put out there to satisfy the various interest groups influencing the public agenda). At one level, this is reasonably pragmatic interpretation of the business case for transparency. But it largely misses the point, and more critically, the potential value of transparency. The strategic reason to provide greater transparency to stakeholders concerns an increasingly scarce, but critical resource: trust.

The catch is that trust is difficult to build, and even harder maintain, in a highly transparent environment. Companies can only build stakeholder relationships based on trust if the expectation that companies will abide by their commitments is continually reinforced in stakeholders’ observations of corporate behavior. To raise the stakes even further, transparency empowers stakeholders to readily verify whether or not there is consistency between the values companies profess and their behavior in the real world. This creates an imperative for firms to be proactive about transparency, or in other words, to anticipate and deliberately disclose the information stakeholders seek in order to provide reassurance that the firm living by its word. Over time, verification reinforces the notion that a company’s commitments are reliable and that its behavior is consistently aligned with the values and images it projects in the marketplace. Consistency and reliability, underpinned by a commitment to shared values, are the foundation of trust-based relationships.

Companies that understand this new reality are building a new breed of corporation. These companies will prosper by designing systems of corporate governance that draw wisdom and legitimacy from a broad range of stakeholder inputs; by developing products, services and business strategies guided by the core values and needs of communities; by creating feedback loops with a continuous process of stakeholder dialogue, innovation and reporting that embeds the optimal set of values and behaviors in the DNA of the firm; and by offering rewards and incentives to foster corporate cultures based on transparency.
accountability and participation. Tracing the evolution of transparency and the rise of an innovative, values-based approach to private enterprise is the chief purpose of this research paper.

**Key Research Questions**

A major focus of the Leadership in the Networked Economy research program has been to map out this brave new world of transparency and provide corporate accountability managers with a strategic lens on how to steer their companies through these uncharted waters. This research paper is the culmination of research that has been assembled by Digital 4Sight over the past eight months. It pulls together the major threads of our thinking on the impact of transparency of the future of global enterprises and applies rigorous case-based analysis to construct new management frameworks for creating and preserving value in a networked economy.

The investigation is rooted in several key questions:

- What is transparency and how is it intersecting with other global trends?
- What are the drivers and key forces of transparency?
- How is transparency changing the social, political and economic context in which companies operate?
- How does transparency affect firms’ relationships with key stakeholders?
- How should firms “manage” transparency and what changes are in store for the way firms communicate with stakeholders, develop strategy, and govern their organizations?
- How does transparency create value in the economy and society?
- And finally, what are the new management imperatives for corporate leaders in a networked world?

**Structure of the Report**

Transparency in the Networked Economy: Rise of the Transparency Network presents answers to our key research questions in two parts.

Part one of the paper—sections one through five—presents a theory of transparency, an account of the drivers of this phenomenon, and a detailed investigation of how transparency is impacting the firm and its relationships with key stakeholders. Close attention is paid to value—how it is created and how it is destroyed under increasing levels of scrutiny. Along the way, part one of the paper makes reference to a wide body of case studies that have informed this research as it has unfolded between June 2002 and February 2003.

Part two of the paper is a strategic guide to "managing" the transparency phenomenon. It begins in section 6 with an account of the rise of transparency networks—new internetworked collections of individuals and groups that scrutinize the activities of firms. Section 7 drills deep into the transparency network phenomenon with five case studies of how companies like Wal-Mart, De Beers and Unilever are dealing with the emerging threats and opportunities presented by these loosely-networked organizations. Section 8 builds on the case studies to impart new approaches for managing transparency. Our discussion includes 8 observations about practices for effective corporate communication and stakeholder engagement in a networked world, as well as management frameworks and strategic planning tools for building trust with a transparency strategy. Section 8 also addresses the risks and limits of corporate transparency. Part two concludes with a brief discussion of the key principles for redrawing corporate governance for a transparent world.

**Executive Summary of Our Findings**

In the course of research, Digital 4Sight has identified a number of insights and observations that we believe form the basis for a revolution in the nature of corporate governance—a revolution that will forever alter the internal management of the firm, and perhaps more significantly, the way companies interact with the broader world around them. This transformation of corporate governance will unfold in the context of other major developments in the way we govern the global economy. Throughout the paper, we make reference to some of these deep and profound changes in society, in the economy, in technology, and in our systems of government and governance. Our focus, however, is on how the firm's relationships with stakeholders are affected as stakeholders gain higher levels of visibility into the governance and operations of the firm.

The research for this paper points toward a new era of multi-stakeholder corporate governance based on principles of openness and participation. In fact, the case studies we
examined illustrate the urgency with which companies must grapple with and embrace a new paradigm in corporate communications and stakeholder management as part of a wider series of reforms in the way private and public enterprises are governed. We studied companies with what we consider to be traditional command-and-control orientations toward stakeholder management and corporate governance. These companies are uniformly experiencing an erosion of their power and effectiveness, as PR, spin and legal strategies become less potent tools in an increasingly networked and complex environment. On the other hand, we studied several companies that have embraced a more networked style of engagement, learning and negotiation with stakeholders, each of which are yielding positive results in areas such as their brand and reputation, in risk management, and in their access to social and economic resources.

In consideration of the evidence, we argue that companies that adopt transparency as a new operating principle will be rewarded with higher levels of stakeholder trust and lower transaction costs for their business. But most importantly, our research points to the emergence of powerful feedback loops that will foster a new type of enterprise, one driven by values and a constant commitment to innovation and growth defined in the broadest possible social, environmental and economic terms. Digital 4Sight calls this new approach to business the values-based approach to enterprise.

VBEs fuse wealth creation with social values to produce a powerful and sustainable value proposition for their customers and the societies in which they operate. VBEs will flourish in a transparent world; their social and environmental records will enhance competitive advantage and customer loyalty; and they will accumulate value by developing relationship capital with a broad range of local and global institutions. The VBE concept may seem aspirational, yet we see more and more evidence of companies exhibiting this behavior everyday.

A successful and broad-based transition to multi-stakeholder governance and values-based operating principles will not be easy or automatic. The business case, at present, is sometimes weak and often in conflict with other major forces that are transforming the economy. The behavior of consumers, the regulatory strategies of governments, the organized activities of civil society, the attitudes of corporate executives, and the ebb and flow of economies will all affect the running room available for companies to experiment and innovate with new forms of values-based behaviors. But, in an increasingly transparent world, good values will make good economic sense. When transparency is high, the rewards and consequences of values-based behavior are more balanced, if not tipped in favor of values. Indeed, the most strategic of firms will learn how to harness transparency and their values-based behaviors to create competitive advantages. For now, however, the choice of whether to pursue a values-based or bottom-line-focused strategy remains for each firm to make, depending on its unique circumstances and capabilities.

Key Takeaways

Transparency in the Networked Economy: Rise of the Transparency Network will elaborate on a number of themes and issues concerning the rise of transparency and its impact on the communications strategies, governance and operations of global firms. For the purpose of this summary, we have organized these various themes into a series of eight high-level takeaways.

1. **Transparency is on the rise**

Transparency is frequently equated with growing adoption of information technology, but the real story is actually more complex. We scoured the social, political, economic and technological landscapes to identify the root causes and future drivers of transparency. Social trends foretell the rise of ethical citizens and a growing transnational civil society, which will act in concert to mobilize broad social expectations for transparency and accountability from powerful political and economic institutions. Political trends suggest the world is becoming more open as a growing number of countries transition to democratic forms of government; as transparency becomes a more established norm in global governance; and as governments introduce a wide range of new rules and regimes for information disclosure. Technological trends point to a world with increasingly powerful and pervasive information technologies that will make it technically feasible for a large portion of humanity to gain immediate access to a wide range of incredibly granular information and disseminate it widely. Economic trends indicate a gradual shift toward a global economy that rewards markets and firms with sustainable business practices and transparent and accountable relationships with customers, investors, employees, partners and a broad range of public stakeholders. Collectively, these forces are creating an unstoppable march toward greater transparency in the future.
2. The five dimensions of transparency

As transparency increases, it fundamentally changes the firm's relationship with five sets of stakeholders. The five dimensions of transparency begin with the firm itself and cascade out into the firm's relationships with business web partners, customers, markets and society. At the firm level, transparency is about creating a culture of openness and accountability by sharing information openly among employees to foster commitment, empowerment, and responsible decision-making. In the business web, transparency creates an imperative to develop shared values and business practices with the firm's network of partners and suppliers. Transparency with customers will enable firms to maintain customer loyalty and build brand equity. Increasing disclosure and openness of financial data in the marketplace helps to create credibility with investors and provides an antidote to issues such as pricing collusion, corruption and bribery. In the public sphere, trust is earned by providing visibility into company operations and allowing scrutiny of social and environmental performance by external stakeholders.

3. Transparency networks are the new organizational form for corporate transparency

In a networked world, there is a high degree of fluidity and interchange between and among the five dimensions of transparency. Actions taken by the public sphere can influence the capital markets. Information disclosed about accidents or abuses in the business web can impact customer loyalty. Potential employees can be deterred by bad news in the media or company spoof sites posted on an NGO's website. We call these dynamic exchanges of information and viewpoints among people and organizations within each of the five classes of stakeholders, a transparency network. In the broadest terms, transparency networks are internetworked collections of individuals and organizations that exchange information about the policies and practices of particular firms, and sometimes, entire industries. In some cases, firms will be passive—perhaps even unknowing—players in a transparency network that is aggressively trading information and shaping perceptions about them. In other cases, firms will be actively involved in the debate, spreading information through company reports and dialogue with key stakeholder groups. We argue, however, that participating in transparency networks will not be a voluntary exercise. Firms must learn how to play an active role in them to meet stakeholders' expectations for open, responsive, and accountable corporate governance.

4. Transparency networks broaden the distribution of political and economic power

If all transparency did was to increase the supply of information in the world it would not, in itself, be very significant. It's when information can be utilized to inform perceptions, shape public discourses and ultimately alter the decisions and actions of individuals and groups that information becomes powerful. For those groups that are critical of “corporate power” and “corporate globalization,” their basic currency of power is knowledge. Their ability to shape perceptions and influence public discourses is fed by the increasing availability of information, which becomes a weapon to erode the power of traditional information monopolies. In this sense, transparency networks represent yet another wave in the historical shift toward greater dispersion of control over knowledge and the dispersion of economic and political power. With each successive generation of communications technologies, increasing levels of education, and the spread of democratic norms, we see an evolution in the distribution of knowledge driving a devolution from authoritarian governance and hierarchical forms of management and control to an increasingly flat society where power and authority are much more decentralized.

5. Transparency is driving a values-based approach to enterprise

Transparency heightens the importance of values in corporate management and drives a corresponding shift toward values-based behaviors. Corporations operating under the gaze of stakeholder scrutiny are more likely to comply with norms that govern the broader community. When information shared with the public reveals inconsistencies between the conduct of corporations and acceptable standards of behavior, network participants put new forms of accountability in motion. These feedback loops constrain, or help “correct”, unacceptable performance, while encouraging new values and behaviors that conform to the expectations set by the network. We maintain, however that there is no objective or static definition of what constitutes “good” or “responsible” corporate conduct. Values are a moving target, as new expectations can be instantly mobilized with the changing of public moods and priorities. Corporate managers should expect to “negotiate” standards of responsible behavior on an ongoing basis with their customers, employees, and a range of other influential stakeholder groups.
6. There's an ROI on transparency

Genuine transparency implies volition—a deliberate willingness to disclose information. Rather than someone revealing information to deter misbehavior, information is disclosed in order to signal good behavior, or in other words, to provide reassurance to stakeholders. Only this deliberate form of transparency creates value for companies. In fact, we argue that an effective transparency strategy creates two key types of value: trust and lower transaction costs. Trust helps build better relationships with stakeholders in each of the five dimensions of transparency. Higher levels of transparency and trust-based relationships help drive down the costs of doing business. The specific forms of business value produced in each dimension of transparency are quite diverse. Trust and transparency in the firm and business web can create enterprise-wide alignment on values, while lowering transaction costs to increase productivity. In the capital markets, trust and confidence in a firm's management builds investor loyalty and reduces the cost of capital. In the public sphere, trust can help create a social license to operate and lessen regulatory burdens. Capturing the value from transparency, however, requires a high level of commitment, extensive dialogue, and a continuously evolving innovation and reporting system that cycles good values and behaviors throughout the enterprise.

7. Transparency strategy is the new art of communications in a networked world

The trend toward openness is creating an environment in which companies will have less and less control over information, and consequently, less control over the perceptions of their firm. Companies need to design their communications strategies for a world in which PR and spin are becoming impotent tools. These traditional approaches are grounded in the assumptions of a broadcast world: that the media environment can be controlled and that corporate messages can be pushed out to consumers who will believe and internalize them. In a networked environment, these one-way conversations fail to build credibility. Perhaps more importantly, they fail to leverage any of the knowledge and insight that could be gleaned from thousands, if not millions, of conversations that could be initiated with a wide range of stakeholders in a more interactive model of corporate communications. Transparency Strategy—the new art of communications in a networked world—is a strategic approach to weaving these conversations into the fabric of corporate governance. It requires the adoption of a transparency strategy: a coherent, coordinated communications and engagement strategy, addressing questions of information disclosure; access; the context of that disclosure; governance (who decides what to disclose and how to disclose it); and infrastructure (what technologies and/or platforms are used to disclose). Digital 4Sight's new approach rests on the assumption that trust and credibility are earned by providing open access to information and demonstrating a willingness to be held accountable. For companies, it means adopting the logic of the network in which the modus operandi is negotiation, learning and active engagement. It does not mean, however, that firms should abandon all of their traditional management knowledge. Indeed, the most effective transparency strategies will be systematic and rigorous in their classifications of and communications with stakeholders; they will leverage new technologies to create enterprise systems for monitoring, measuring, reporting and dialoguing on key aspects of corporate activity and performance; and they will change more than perceptions—they will drive real changes in the governance, strategy, and operations of the firm.

8. Corporate governance is evolving toward a multi-stakeholder system of transparency-based governance

The inevitable conclusion drawn from our research is that current mechanisms of corporate governance are wholly unsuited to deal with the complexity of the management challenges companies face in an increasingly networked world. Today's systems of corporate governance, with some exceptions, are insular, secretive, elitist, and plagued by short-term thinking, financial tunnel vision, and patronage. Boards of directors often fail to tackle tough issues or draw in the right experience and perspectives to guide companies through new challenges as unforeseen social and environmental realities land on their doorstep. But, a new system of multi-stakeholder governance is challenging traditional mechanisms of corporate management and control. The promise is that more transparent and participatory forms of governance will enable corporations to become more integrated with the societies in which they operate, better attuned to social and environmental concerns, and more broadly accountable to stakeholders. Making the transition to multi-stakeholder governance will require firms to master three key areas of innovation: 1) fostering the right corporate culture to support transparency and a values-based approach to enterprise; 2) shifting to a networked governance and communications model that creates space for the inclusion of new issues and voices; and, 3) developing a highly responsive and adaptive organization that can sense and respond to changes in its external environment.
2. TRANSPARENCY IN A NETWORKED WORLD

To provide an adequate account of the rise and significance of transparency, it's important to think about transparency in the context of a wider set of forces that are transforming our world. Our argument in the following section is that the contemporary trend toward openness is rooted in the evolution toward an increasingly global, networked, and complex world. To help frame the discussion, we examine how transparency is intersecting with two other key trends in society and the economy. First, we look at globalization as it creates increasing levels of interdependence among people and regions in the world. We suggest that interdependence creates a strategic need for transparency to help bring stability to a world of time-space compression. Second, we look at the changing relationship between global firms and society as new expectations for transparency and accountability are mobilized. Contrary to the belief that corporations are all-powerful masters of the global economy, we argue that firms are more interdependent today than they ever have been in the past. Together, the discussion of these two developments—globalization and the changing roles of corporations—helps illuminate some of the key principles that underlie the growing prominence of the transparency phenomenon.

The Meaning of Transparency

While the transparency phenomenon has taken on great economic and political significance in the past few decades, the meaning of transparency is frequently unclear. The term is most often associated with the global trend toward openness driven by new information and communication technologies, the spread of democratic norms, and the growing influence of civil society. For some, transparency is a powerful new norm constraining the behavior of corporations and governments alike. For skeptics, transparency is merely a buzzword, or at best, a temporary fad. With so much debate, and so many applications, it's not surprising that a precise definition of transparency remains somewhat illusive.

Ann Florini, a preeminent scholar of transparency at the Brookings Institution, attributes the looseness of the term to the fact that transparency shows up in many issue areas and contexts ranging from government to military affairs to financial markets to drug control to corporate governance. In each application, transparency takes on different meanings and definitions. The Working Group on Transparency and Accountability in the International Monetary Fund highlights the importance of clarity and accessibility for their definition of fiscal transparency. The group defines transparency as “a process by which information about existing conditions, decisions and actions is made accessible, visible and understandable.” In government and politics, transparency is usually defined in the context of strengthening the legitimacy and credibility of democratic decision-making. The Consortium for Risk Evaluation and Stakeholder Participation at the University of Washington, for example, defines a transparent decision as “one that allows all people who are interested in a decision to understand what is being decided and why.” In national security circles, transparency takes on a comparatively narrow definition as “the systemic provision of information on specific aspects of military activities under informal or formal international arrangements.”

In drawing out the common threads in these, and other, various definitions, Florini notes that transparency is always closely connected with accountability — especially as citizens, markets and governments use transparency to hold others accountable for their policies and performance. She defines transparency as “the release of information that is relevant to evaluating those institutions.” While broad, Florini’s definition leaves room for flexibility in determining what type of information is being disclosed, how much of it, to whom, and for what reason. Such factors are ultimately influenced by the specific context in which transparency is applied and by the nature of the parties involved.

At Digital 4Sight, we couldn’t refrain from offering our own definition of transparency — one that is particularly appropriate in the context of our investigation of corporate transparency. Building on Florini’s work, we define corporate transparency as the release of information that is relevant to stakeholders in their evaluation of corporate policies and performance. We maintain, however, that issues of relevance, access, accuracy, accountability and timing will always be subject to individual stakeholder perceptions and points of view (e.g., information relevant to one stakeholder will not necessarily have pertinence to others). Inevitably, they are matters for negotiation between the firm and its stakeholders. Reaching an agreed definition of transparency — and more importantly, a shared standard of evaluation — is integral to successful stakeholder relationship management.
Globalization and Interdependence

The increasing demand for transparency can be largely attributed to forces and consequences of globalization. To be sure, globalization is not new. As prominent scholars point out, it has been a feature of human civilization for centuries, expanding and retracting, intensifying and declining, throughout history. Never before though, has globalization been so vast, so intense and all-encompassing. Global interdependence has become a defining feature of our time as people, money, technology and ideas relentlessly cross borders in a vast network of transactions and social exchanges.

As globalization creates massive transboundary flows that transcend the boundaries of geographically defined nation-states, it tightly binds together the fortunes and relations of people and institutions around the world. In fact, Anthony Giddens, director of the London School of Economics (LSE), defines globalization as “the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa.” In a tightly integrated economy, a financial meltdown in one region can immediately impact the economies on the other side of the world, while investment decisions made on Wall Street, can rapidly shift money, jobs and production from one community to another. The nuclear meltdown in Chernobyl shows that environmental disasters know no national boundaries, just as the flow of drugs, diseases and weapons moves readily from continent to continent. As the world shrinks, we become ever more aware of the multi-leveled ways our fortunes are overlapping. This phenomenon, often referred to as time-space compression, is intensified as the Internet and a global media system not only render the distant more proximate, but also reinforce our consciousness of this interconnectedness. 

Time-space compression not only reduces spacial barriers, it also brings into acute awareness the many ways our world is speeding up. Nowhere is the compression of time more evident than in our contemporary systems of production, exchange and consumption. Improved systems of communication coupled with rationalizations in the techniques of distribution (e.g., packaging, shipping and inventory control) made it possible to circulate commodities (legal and illegal) throughout the global market with greater speed. The advent of electronic banking increased the flow of money, while computerized trading systems makes, as the saying has it, “twenty-four hours a very long time” in the global stock markets.

The combined impact of collapsing spacial barriers and accelerating time is inflicting a deep sense that the world is slipping into disorder. As Manuel Castells, author of The Network Society, states, “The new social order, the network society, increasingly appears to most people as a meta-social disorder. Namely, as an automated, random sequence of events, derived from the uncontrollable logic of markets, technology, geopolitical order or biological determination.” It is within this context that random events and decisions can have rapid and potentially catastrophic impact on those who were never consulted, or perhaps were not even aware of the stakes in the first place. And it is this state of affairs that makes transparency increasingly salient in our attempts to bring order to the world.

Transparency is a response to time-space compression and the growing awareness of our overlapping collective fortunes. The more we become connected and interdependent as societies the more we want to know about the affairs of others. As Ann Florini says, “Many people are affected by, and thus want to have a say in, what used to be other people's business.” One country’s development of weapons of mass destruction, for example, becomes a concern for everyone within reach of their devastating capacity. Indeed, it’s not surprising that arms control has
become one of the predominant applications of transparency in global politics. Since the end of the Cold War, major world powers have agreed to engage in a highly intrusive regime of mutual scrutiny of one another's military forces. Similarly, environmental problems that cut across national borders have increased our awareness of our collective dependence on common ecological systems and spawned a wide range of efforts to monitor and report on the state of our environment. A new form of “regulation by revelation” has come into existence in which public websites operated by NGOs shame polluters by disclosing their toxic chemical releases in local communities. The unifying theme in these examples is that new interconnections and increasing levels of interdependence require a commensurate level of trust and transparency to ensure stability in the world.

Transparency and the Interdependent Corporation

If globalization helps to explain the macro context for the rise of transparency, then shifting perceptions about the role of corporations in society help explain how global firms have come to occupy the very epicenter of the transparency phenomenon. This shift is due to an increasingly pervasive sentiment that corporations have too much power and influence in the emerging global order. The high level of mobility that global firms and markets have gained in recent waves of deregulation and liberalization has created the perception that firms are rootless, amorphous institutions that float freely around the globe. This mobility of capital has, in fact, reinforced the notion that firms can divorce themselves from social concerns by liberating themselves from the constraints of national regulatory systems. In a boundless global economy, say globalization critics, corporations are free to follow the ruthless economic imperative of markets to maximize profits for shareholders. This groundswell of concern about “corporate power” has drawn a great deal of attention to the activities of global firms, making them an even more intense target for scrutiny than governments.

While rooted in some political and economic realities and reproduced by the actions of a handful of “bad” firms, these perceptions contribute to what we call the myth of the all-powerful corporation (i.e., the idea that powerful private interests behind the scenes are secretly pulling the levers of the world). Yes, it's a fact that the three largest companies in the world (Wal-Mart, Exxon-Mobil, and General Motors) have combined annual revenues of $588 billion and employ more than 1.8 million people. A study released by the Institute for Policy Studies in 2000 claims that 51 of the largest 100 economies in the world are those of multinational corporations. However, the notion that corporations are larger and more powerful than they once were is open to question.

If you look at the situation from a historical perspective, private forms of power are, in fact, on the decline. Consider, for example, the massive, truly all-powerful colonial-era trading companies that were created to advance the process of resource exploitation in colonial territories. As Niall Ferguson of NYU's Stern School of Business argues, the East India Company exercised so much power that it essentially reached the status of a state when it ruled over most of the Indian subcontinent, while paying for one of the largest armies in the world by relentlessly annexing new territories and taxing their inhabitants. No company comes close to wielding that extent of power today.

"You're not going to have a global information economy without a global civil society."
— Richard Higgot
Centre for Research on Globalization and Regionalization

Instead, today's multinational enterprises are a microcosm of the global phenomenon of interdependence described above. Corporations are enmeshed in an interdependent...
network of relationships with stakeholders and other institutions in society. This group of stakeholders typically extends well beyond the conventional economic definition of stakeholders as shareholders, customers, and employees. Increasingly, the list now includes community members, government agencies, and civil society groups representing a wide array of issues and interests. What's new is the fact that stakeholders increasingly have global reach and the power to seek out and disseminate information widely. And with the growing recognition that global capitalism can sometimes come at the expense of other values and public goods that enable societies to flourish has come the inevitable rise and proliferation of organized groups to defend them. As Richard Higgot of the Centre for Research on Globalization and Regionalization explains, “You're not going to have a global information economy without a global civil society.”

In the end, modern corporations are no more in control of things than governments are, and their actions are not without consequences or accountability—especially in today's increasingly transparent and multi-centric world. Like all institutions, their behavior is constrained by forces beyond their direct control, whether norms, rules, or the collective action of stakeholder groups. Indeed, the notion that companies are accountable only to invested shareholders may be legally accurate, but in our increasingly interdependent world, it is, at best, anachronistic and, at worst, a perilous delusion that will erode social, environmental, and economic value.

Digital 4Sight's view is that the fortunes of companies are inescapably tied to their ability to put themselves ahead of the curve by learning how to play a role in mediating between the demands of different stakeholders. It is not the job of corporations to solve all of the world's problems—that is a job properly left to public institutions. On the other hand, it is the job of corporations to play a role in ensuring their activities do not exacerbate them either. Harvard social scientist Daniel Bell points out that, “Societies have tended to function reasonably well when there is a congruence of scale among economic activities, social organization, and political and administrative control units. But, increasingly, what is happening is a mismatch of scale.” Part of the task of managing scale and bringing order to an interdependent world is to recalibrate the relationship between our economy, polity and society.

The argument of this paper is that this means engaging with an ever-expanding web of stakeholders to create the governance mechanisms that will guide us to a sustainable path for private enterprise. But, this is no easy task. The larger the corporation, the greater its potential footprint, and the more extensive its network of stakeholders, the more complex the task of maintaining a stable set of relationships becomes. Opacity is not really a viable option under these circumstances. Secrecy breeds suspicion and low-trust relationships, which in turn generates friction, antagonism and unpredictability in a company's network of stakeholders. Transparency, and a willingness to engage in genuine relationships with a broader set of stakeholders, is the only sure route to building sustainable enterprises and sustainable societies.

**Thinking Like a Network**

Looking at globalization and examining the changing relationship of corporations to society, we see an underlying principle for the rise and significance of transparency. As we said in the beginning, transparency is a manifestation of an increasingly global, networked and complex environment. But more particularly, transparency becomes truly important in highly interdependent environments.

Environment of interdependence include situations in which people or organizations are dependent on one another for access to certain resources. For example, firms are dependent on their employees to work productively; on customers to buy their products; on investors to buy and hold their stock; and on government to provide human,
legal and physical infrastructures for economic development, while each of the aforementioned stakeholders is co-dependent on the firm for particular goods, services, or resources. Environments of interdependence also include situations in which people are collectively on common resources like the natural environment, or where the behavior of one will affect the fortunes of many others. When people or organizations are interdependent they have a greater stake in ensuring the benevolent behavior of others. The phenomenon of time-space compression serves to reinforce our consciousness of our state of interdependence, enhances the feeling of vulnerability to uncontrollable events, and therefore intensifies the demand for transparency.

In interdependent environments, transparency is a tool of evaluation; it helps provide reassurance that others are doing what they are supposed to. Investors can be reassured of the quality of their investments, the international community can be certain that no individual nation is polluting beyond its CO2 emission quotas under Kyoto, while NGOs can be satisfied that the companies they scrutinize are meeting their commitments to ethical conduct. In fact, the underlying condition of an environment of interdependence provides part of the explanation for the rise of triple bottom line reporting, product certification and other forms of corporate transparency.

Simultaneously high levels of interdependence and complexity will intensify the demand for transparency—particularly in high-stakes issues and decisions. Imbalances, like the scarcity of information or the propensity of powerful players to hoard information, erode trust and stability in interdependent networks and lead to poor decision-making and even poorer outcomes for those affected. Indeed, this is the contemporary situation in which many corporations find themselves: operating in a highly interdependent world, with low levels of trust and stability and growing expectations to increase the level of transparency and accountability around the issues for which people feel most vulnerable.

We argue that to operate in a networked world effectively is to adopt the logic of the network itself. Nodes in a network act symbiotically with other nodes in a shared network environment. When balanced, their interdependence is their strength. When transparent, their interoperability enables information to flow seamlessly to provide reassurance and inform effective decision-making. As we will argue in the concluding sections, adopting such a wide-reaching change in approach will require substantial changes in culture, structures, and processes of the firm (see section 8 and 9). But inevitably, companies that want to thrive in coming decades will learn to think and act like a network.
3. The Evolution of Transparency

In the previous sections we talked about the rise of transparency in the context of other major developments that are transforming our world: namely, the rapid expansion of political and economic interdependence created by globalization, and the pervasive change of thinking about the relationship of corporations to society. The subsequent section attempts to dig deeper into the key drivers and enablers of transparency, that is, the specific forces that create the social organization, regulatory regimes, technological platforms and economic rationale for greater transparency in the future. In doing so, we provide an analytical framework for understanding the current state and likely trajectory of transparency.

For analytical purposes, we have broken down our concept of the networked world into four key elements: society, polity, economy, and technology. Within these four spheres we see evidence of profound transformations taking place that will continue to amplify the transparency of the business environment. These social, political, economic and technological forces are described briefly below to lay the foundation for an extensive discussion about the implications of the transparency phenomenon for stakeholder relationship management, corporate communications, and corporate values.

Social Drivers: An Emerging Global Civil Society

In the social realm we identified two critical drivers of corporate transparency and accountability. On one hand is the perceptible change in public opinion on matters of corporate accountability and social responsibility across advanced industrial nations and, increasingly, in key segments of the population in many developing countries. In general, pro-corporate attitudes in the 1980s have given way to a more skeptical public posture and heightened demands for more transparency and accountability, especially from highly visible and recognizable multinational firms. On the other hand is the increasing reach, legitimacy and influence of a transnational civil society consisting of legions of NGOs, community organizations, church groups, advocacy networks and other non-profit associations. Transnational civil society feeds, and feeds off, the shift in public opinion and has demonstrated a remarkable ability to increase corporate transparency in a long series of high-profile campaigns against firms like Nestle, Nike, Shell, Exxon, Wal-Mart, Home Depot, Monsanto and Citigroup, to name only a few.

Changing social expectations

A preponderance of evidence suggests that a growing portion of the public around the world want greater transparency and accountability from global corporations. This fact has been observed time again in research conducted by polling companies such as Environics International, by public relations firms like Edelman, by media organizations such as the Financial Times, by financial institutions like the Cooperative Bank, by social
investment funds like the Social Investment Forum, and the list goes on. This shift in expectations has implications for corporate transparency on several levels.

Social expectations can drive consumer behavior as individuals show more willingness to enact their values in their purchasing decisions. Polls show that there is a significant proclivity to seek out ethical products and services, but in reality, only a small percentage translates into actual behavior. However, pent-up demand for ethical products will heighten public pressure for transparency into the social and environmental impact incurred throughout product lifecycles (i.e., from resource extraction and manufacturing to distribution, consumption and disposal). Our hypothesis is that a combination of popular demand for greater product transparency (e.g., food labeling and product certification) and technological means (e.g., wireless PDAs that tap into an online ethical product rating index) will increase the information available to consumers at the point of purchase and eliminate much of the friction and transaction costs that makes it too costly for consumers to buy according to their values.

We have also witnessed the explosion of a socially responsible investment industry driven by investors’ demand for investment products that apply ethical criteria (social expectations) to investment decisions. Typical socially responsible investment funds steer clear of companies that are polluters, make nuclear weapons, or offer alcohol and tobacco as products. They also tend to keep a closer eye on board independence, options expensing, executive pay and independent auditing. By actively screening and evaluating their investment decisions against such criteria, ethical investors—both individual and institutional—give rise to more transparent corporate behavior. Indeed, disclosure of social and environmental performance is often a requirement for inclusion in ethical indexes or investment portfolios. Ethical investment also crosses over into shareholder activism in which minority shareholders bring socially or environmentally motivated resolutions to corporate AGMs. Companies such as Exxon-Mobil and Occidental Petroleum have endured many such events in which sensitive company issues rarely fail to attract media attention or get dragged out into public debate.

Social expectations set the bar on acceptable behavior for companies trying to earn or maintain a social license to operate. A social license to operate is earned when a company has the permission and support of a community of stakeholders to conduct its business, usually because there is an implicit or explicit agreement that the company will operate by the rules and norms that stakeholders and the company find acceptable. Increasingly, a license to operate will only be earned when various mechanisms of transparency such as corporate reporting and stakeholder consultations enable the public to evaluate company performance against those norms and expectations.

Finally, social expectations help shape the regulatory agenda for transparency. The strength of public opinion on corporate transparency will influence decisions on critical factors in the nature of emerging transparency regimes, including whether these regimes are mandatory or voluntary, what metrics and standards will be used to guide corporate disclosure, and how that information will be reported to the public. This point is elaborated in the following section on the political drivers of transparency.

Transnational civil society

In recent decades, momentous changes in the nature of civic associations have kick-started a significant evolution in the roles and powers of civil society. The civic institutions and organizations that were constructed around the social contract among government, the market and citizens are less and less able to relate to people’s lives and values in most societies. Increased disillusionment with traditional political and civic institutions however, is occurring at the same moment that many Western nations are experiencing a momentous transition from membership to advocacy in civil society. Citizens are now more likely to drop in and out of
organizations and issues than they are to make a long-term commitment to membership in apolitical associations. Indeed, there has been dramatic growth in NGOs that are active around an increasingly wide range of issues and projects at local, national, and international levels.

The emerging character of civil society is now defined by the rise of prominent NGO “super brands” like Greenpeace and Amnesty International (each with multimillion-dollar budgets and plenty of influence in international decision-making) on one hand, and less formal transnational advocacy networks like the ones that descended on Seattle, Prague, and Genoa (which also show demonstrable capacity to shape public discourses and agendas) on the other. Together, NGOs and transnational advocacy networks have become a potent force for transparency as they leverage their credibility on social and environmental issues and ability to influence public opinion to compel companies to be more transparent.

We attribute this growth in power and influence over corporations to several factors:

1. The sheer size and numbers of organizations on the international stage. In the 1990s alone, the number of registered transnational NGOs quadrupled from 6,000 to 26,000. This does not include the tens-of-thousands of groups operating in countries around the world, or the informal transnational coalitions and linkages.

2. The capacity to network and disseminate information rapidly using the Internet, making NGOs much less dependent on location and creating new possibilities for advocacy in the international arena.

3. Increasing professionalism among many civil society organizations, illustrated by their ability to raise funds, attract top talent, and manage the media effectively.

4. Resonance with growing public skepticism of corporate power and the public perception that NGOs are working for the broader public interest.

5. The diminishing capacity of governments to regulate global corporations or play a leadership role in resolving major global issues, opening up a space for NGOs to play a greater role.

Most of these developments can be traced to the late 1980s and early 1990s, when a growing number of NGOs began attracting public attention and wielding influence over corporate decision-makers in a way once reserved for only the most powerful public institutions. Observers link the newfound authority of NGOs to their ability to fill the leadership void in the global economy. While public expectations for greater business responsibility are rising, the capacity of governments to regulate and enforce corporate behavior is diminishing. In the absence of effective government initiatives to address social and environmental impacts of global economic activity, NGOs are bypassing government and setting their sights on increasing the transparency and accountability of global corporations.

This type of market campaigning has steadily increased in popularity and impact since the South African boycotts were effective in hastening the end of apartheid. While the South African boycotts took decades to take effect, today’s networked environment spawns social action of a whole new magnitude. With the Internet, activists gained a powerful vehicle for communicating, organizing, and mobilizing public opinion. Corporate critics use the Internet to organize far-flung networks, catalogue corporate
misdeeds, and create protest sites that manipulate and attack corporate identities. Any company with a reputation and brand to protect is now vulnerable to these information-age tactics.

Today, few industries have been left untouched as NGOs across a broad spectrum of issues imposed a range of transparency and accountability mechanisms on industries that would have been thought impossible just a decade ago. Major players in the apparel and retail industry now subscribe to codes of conduct that include requirements for third-party plant inspections and regular public reporting on workplace health, safety, and environment issues. The forestry industry has adopted more sustainable forestry practices while their downstream retail partners work with a third-party certification body, the Forest Stewardship Council, to certify that their retail goods are “old-growth” lumber free. Oil and gas companies were some of the earliest adopters of triple bottom line reporting. The biotechnology industry has bowed to demands for greater transparency and dialogue around new products and technologies. These, and many other examples, illustrate just how influential the emerging transnational civil society is likely to be in shaping the future of corporate transparency and accountability.29

While somewhat out of scope for this discussion, it is interesting to note that the rise of powerful NGO networks does not come without some serious concerns. Many civic organizations need to establish a more profound understanding of the importance of representation and accountability in their work. Although many civic activists may feel they speak for the public good, the public interest is a highly contested domain. As many companies could attest, single-issue NGOs are often myopically focused on their own agendas—they are not always interested in balancing different visions of the public good, especially when operating in countries that are not their own, or dealing with corporations whose very existence they reject.30

Political Drivers: A Rising Global Civil Foundation

While social expectations and civil society tend to provide “soft” drivers for corporate transparency, the political and regulatory environment will bring a “harder” definition and structure to the emerging era of transparency-based governance. We take as a starting point the notion that our current systems of governance are in a period of rapid transformation in the wake of globalization. It is widely acknowledged that there are acute problems in our democratic systems and that the existing framework of national regulations is faltering. In many domains ranging from the regulation of financial markets to the governance of global environmental issues, there is no clear or workable system set to take its place. Yet, we do not agree with the perspective that globalization means the death of politics or the demise of the nation-state. On the contrary, we expect that in a post-neo-liberal world there will be a rejuvenation of governance, albeit in a much different form than today, that will lift the global civil foundation around the world.31

With this context in mind, we looked at three political forces that will shape the future of corporate transparency. These include the spread of democratization as it gives rise to new political structures, the rule of law, and general increases in the transparency of the business environment in countries around the world; the proliferation of new regulatory regimes for corporate transparency; and a gradual shift to networked forms of global governance that will impose a new brand of political control and accountability on the global economy.

Democratization

The fall of communism has been a boon for democracy, transparency and accountability. Liberal democracy is now the most common form of social and political organization in modern nation-states, with 61% of countries across the globe practicing some form of democratic government.32 In the 1990's alone the number of democracies doubled, reaching 120 countries with the help of concerted efforts by organizations such as the United Nations.33 The number of countries that ratified the six major human rights conventions grew from 10% to 50% of all countries between 1990 and 2001.34 These statistics point to a more democratic future—a prospect that seems largely assured with advanced industrialized countries like the US making the promotion of democracy a core tenet of foreign policy, and institutions such as the World Bank and the National Endowment for Democracy devoting enormous resources to the cause.

With the spread of democracy comes the emergence of freedoms and institutions that dramatically increase the transparency of the business environment in countries that transition to democratic rule. Such freedoms and institutions include the expansion of civil and political rights,
cultivation of deliberation and public discourse, the construction of new legal and political structures and processes, the development of a civil society and political parties, the creation and enforcement of rules and laws, the introduction of new communications technologies, the entrenchment of a free press, and the general liberation of information from the clutches of authoritarian rulers.

These elements of democratization constitute what is often called “good governance.” More specifically, they provide the institutional structure for the effective, honest, transparent and accountable exercise of power by various levels of government. Countries with good governance in place are more likely to implement and enforce environmental and human rights laws, to insist on good corporate governance, to have policies and mechanisms for information disclosure, and comprise an active citizenry and civil society that plays a role in monitoring both government and private sector activities. Clearly, corruption and crony capitalism continue to undermine good governance in many fledgling (and advanced) democracies. However, the long-term trend is toward the development of democratic institutions and the deepening of democratic values in societies. With the trend toward democratization will come the strengthening of institutions that enhance the transparent, accountable and effective performance of the market.

**New rules for information disclosure**

Throughout the 1990s, there has been relentless growth in rules or regimes for information disclosure. This trend is closely linked to a broader trend toward liberalization, deregulation and privatization of national economies. As one legal expert noted, “Almost all of these reforms are market-oriented; that is, they either substitute markets or the private sector for regulatory regimes or have public agencies use market approaches, structures, and incentives to achieve their regulatory goals.” The EU, for instance, now delegates much regional standards-setting to the private sector, and the US government has also reduced or eliminated government action in some areas in favor of the market. It is against this backdrop that transparency-based governance has emerged as a major force in governing global economic activity.

Transparency has become an integral mechanism of governance in many areas, including, the environment, banking and financial markets, international security, corporate accounting and auditing, labor practices, multilateral development assistance and anti-corruption and public sector governance. Examples of transparency-based governance mechanisms aimed specifically at global corporations are numerous. They include corporate codes of conduct, third-party monitoring agreements, product certification arrangements and corporate reporting; advocacy campaigns that expose their corporate behavior to public scrutiny; and websites that aggregate and disseminate information contained in public databases in an accessible and understandable form. They range from formal institutions to informal arrangements, from voluntary agreements to mandatory compliance, from state-led initiatives to initiatives led by the private sector or NGOs.

The expanding rule system for corporate transparency operates at multiple levels. At the international level, global and regional institutions have developed a range of initiatives that attempt to make corporate transparency part of the basic requirement for participating in the international community. These include the UN Global Compact, the OECD Guidelines for Multinational Enterprises, and the European Union Green Paper on Corporate Social Responsibility, to name a few. The UN Global Compact is an initiative between the UN and the business community aimed at upholding and promulgating a set of core values in the areas of human rights, labor standards, and environmental practices. Five hundred companies worldwide participate in the compact's values-based platform, which utilizes the power of transparency and dialogue to identify and disseminate good practices based on universal principles. In a similar vein, the OECD Guidelines for Multinational Enterprises is the only comprehensive code of corporate conduct agreed to by multiple nations. The recommendations provide guidance on appropriate business conduct across the full range of corporate activities, including transparency. The EU Green Paper on CSR articulates a strong policy position on corporate transparency and responsibility, but contains only voluntary prescriptions for corporations.

At the national level, governments around the world are imposing laws that expand the requirements for disclosure across a broad spectrum of issues. In the environmental arena, one of the first disclosure laws of its kind was The Emergency Planning and Community Right-to-Know Act, drafted by the US government in 1985, contained a provision called Toxic Release Inventory (TRI) that empowered the EPA to collect emissions levels on 328 deadly chemicals in use in commerce. Since then, countries such as Denmark, Norway, the Netherlands, France and
South Africa recently made even broader systems of Corporate Environmental Reporting mandatory for domestically registered businesses, while countries like Japan have put voluntary guidelines in place and the UK has publicly requested that companies be more transparent.

Finally, there are the multiple “self-regulatory” transparency initiatives advanced by non-state actors. These include NGO-led initiatives from groups such as CERES, the Rainforest Action Network, the Workers' Rights Consortium, and the World Wildlife Fund and those led by the private sector, including industry associations like the International Chamber of Commerce, the World Business Council for Sustainable Development, and sector-specific groups like the Chemical Manufacturer's Association.

NGOs, in particular, have been very aggressive in pursuing a whole range of codes of conduct that have swept companies and entire industries in sectors as diverse as retail, manufacturing, forestry, mining, and pharmaceuticals. Examples of such codes include the chemical industry's Responsible Care program, the Marine Stewardship Council created by Unilever and WWF, and the Fair Labor Association, which was formed through a partnership of manufacturers, NGOs, unions and government representatives. One of the standards requirements of these codes is to report publicly on the performance goals laid out in the agreements. Third-party verification of such reporting is increasingly common.

The most outstanding and significant of the many transparency-based governance mechanisms that have emerged from the NGO community is the Global Reporting Initiative (GRI), which was established in 1997 to “lead a worldwide, multi-stakeholder effort to establish standards for how corporations report their economic, environmental and social performance.” Since the launch, over 150 companies have used the GRI guidelines to drive their social and environmental reporting. In April 2002, the GRI became a permanent, independent, international body with a multi-stakeholder governance structure. The GRI now seems well-positioned to play a dominant role in devising the rules and standards that will shape corporate reporting in the future.

The explosion of new rules sets and regimes represents an attempt to codify and institutionalize many of the informal and patchy approaches to transparency, which have dominated the landscape until recently. While the currently messy system, with many competing standards and approaches to regulating transparency, will persist for some time to come, a few trends seem clear: Corporate disclosure is irreversibly broadening beyond financial dimensions to regularly include social and environmental performance measurements; NGOs are leading the agenda on the introduction of new rules and standards for corporate disclosure; and significantly, voluntary regimes are poised to become mandatory in many jurisdictions around the world, thus enshrining a triple bottom line approach to reporting in the legal books of governments.

An evolution in global governance

A historic change is underway in the way we govern the global economy—a change with far-reaching effects on corporate transparency and accountability. The genesis of this shift lies in the contemporary phase of globalization. As noted earlier, we live in an era in which many of the dominant processes and functions of society are configured in global networks that span across regions and continents. So-called “boundary problems” are challenging the capacity of the nation-state to regulate in many areas. The globalization of economic processes, for example, has dramatically outstripped the capacity of social and political organizations and control units to keep up. Daniel Bell of Harvard University warns that such an imbalance has potentially dangerous implications. He notes that the “older structures [of the political order] are cracking because political scales of sovereignty and authority do not match economic scales.”

Figure 7. Global Reporting Initiative
It is our contention, however, that rather than leading to the end of the state, globalization is stimulating a range of new government and governance strategies, and in some fundamental respects, a more activist state. Indeed, as David Held, professor of government at the London School of Economics, notes, public and private bodies operating at national, regional and global levels are already deeply enmeshed in decision-making and regulatory activities in domains such as trade and weapons of mass destruction.43

Recent trends suggest that the emerging system will not, however, entail a simple re-tooling of the state in its current form. The forthcoming era of governance will not be geographically determined. The nation-state itself will no longer be the only legitimate source of power and authority in the world. Prominent scholars of globalization and governance identify at least three distinct trends to support these claims:44

1. The territorial boundaries of systems of accountability are being recast so that many issues that escape the control of the nation-state can be brought under democratic governance. The ability of individuals to use the court systems of foreign powers, namely the US, to sue companies for negligent behavior is one of the most recent and controversial examples.45

2. The role of regional and global regulatory and functional bodies is being rethought so that they can provide a sharp focal point for international public affairs. The future shape and role of the UN in global governance is an example of one of the most active international political debates today.46

3. The agencies, associations and organizations of the economy and civil society are adopting structures of rules and principles that make them more compatible with democratic governance. For example, NGOs are beginning to consider how to deal with issues of representation and accountability within their organizations, while corporations are adopting processes for stakeholder engagement and opening up some decision-making processes.47

The rising world order will be defined by a multi-layered form of governance in which the basic building blocks will be groups, associations and government agencies that coalesce in multiple and overlapping networks of power. The exact form and limits of a global system of governance are a matter of intense political debate and speculation. At Digital 4Sight we believe that two primary models suggest themselves:

- New international constituent assemblies that form around specific issues and draw representatives from geographically defined communities as well as interest-based associations of market and civic actors that meet criteria for intra-organizational democracy and representation.48

- New inter-governmental structures that unite political jurisdictions to resolve common issues such as the European Union and other subcontinental alliances of nation-states, as well as groupings of subnational jurisdictions or even local confederations that cross existing boundaries to form regionally based governance bodies.

In either scenario, the implications of a shift to global governance for corporate transparency and accountability are many-fold. The primary effect will be to strengthen and extend some of the trends discussed previously: Namely, the trend toward democracy, the creation of new rules for disclosure and the rise of NGOs as a powerful force in governance.

First, most proposals for new systems of global governance place an emphasis on the necessity of reframing markets to counter the social and environmental costs they sometimes generate.49 There is a great deal of variance in what this means specifically. Some advocate incorporating social and environmental responsibilities into the articles of association for economic entities. Others opt for centralizing and coordinating economic policy-making and governance in a global body that would amalgamate the function of institutions like the IMF, the World Bank, the OECD, the WTO, and the G8. It is debatable whether such measures will come to pass. In the more immediate term, most observers do agree that many of the emerging self-regulatory systems for corporate transparency will be consolidated in a global regime (or set of global regimes...
organized around issue areas) that vastly increases the scope and effectiveness of transparency-based governance of business conduct. Advocates of such an approach suggest that regulating multinational corporations may be done more efficiently by promoting full disclosure of their activities, rather than relying on multiple bureaucracies in multiple countries that provide multiple opportunities for corruption.

Second, global governance will speed and reinforce the democratization and accountability trend on two levels. At the national level, global governance will overlay regional and global regulatory regimes for governing global economic activity. Such measures will help raise regulatory standards in developing countries, thus lifting the civil foundation around the world. They will also increase the level of political surveillance of corporate activities at the local level in regions or countries where effective systems of monitoring or control never existed before. At the international level, global governance will help forge new democratic structures that extend representative institutions and concepts of franchise and constituency beyond geographic definitions. This key advance in reshaping accountability could establish a series of checks and balances that flow through multiple political arenas and cover existing institutional gaps.

Third, global governance will further legitimize and strengthen the role of NGOs in monitoring the social and environmental performance of corporations. Indeed, NGOs are seen by many as one of the key vehicles enhancing political accountability and openness in international decision-making. Proponents claim that civic groups are better positioned than any other institution to take the lead in capturing the frustration of a disaffected citizenry and transforming it into increased interest and participation in building new international civic institutions. The increasing prominence of NGOs in global governance will strengthen their institutional mandates, raise their profile with citizens and the media, and enhance their supply of funding. The key implication for corporations is the presence of a formidable “third force” in global governance. Corporate leaders will have to contend with civil society in the same way they have poured significant resources into maintaining relationships with governments, except the process of normalizing relationships with civil society will be inherently more difficult and unpredictable (see section 8 in particular).

Economic Drivers: An Evolving Capitalist Economy

The capitalist economy is undergoing a fundamental restructuring that is driving new forms of transparency in the marketplace. In our analysis of this restructuring, we bring together three distinct trends. To begin, we take a brief look at how several key characteristics of economic globalization create new economic incentives for transparency. In particular, we examine global trade and the liberalization of international markets, the integration of global financial markets, the shift to a network model of the corporation, the heightened competition for foreign direct investment (FDI), and the rise of global economic institutions. Next, we look at the increasing value of intangible assets like reputation, knowledge and relationships in a progressively more knowledge-based economy, paying special attention to the fact that protecting such intangible assets creates a requirement for greater corporate transparency. Finally, we discuss the potential for new economic measures of social and environmental value to increase the transparency—and hence our knowledge—of the true impact of economic activity on social and environmental systems.

In some ways, these three processes will clash with one another as the capitalist economy continues to evolve. On one hand, a recalibration of the economy’s relationship to society and the natural world is taking place as better indicators of sustainability enter the economic lexicon and the nature of “value” broadens beyond an orthodox monetary definition. On the other hand, the economic imperatives set by the twin processes of globalization and liberalization can undermine sustainability because of the propensity of globalization to lock firms in a globally competitive battle to reduce costs and increase profits. We don’t suggest that sustainability and globalization are irreconcilable. In a later discussion, we consider the impact of this tension on the prospects for the Values-Based Enterprise, and suggest that the rules of the game can be changed. For now, we limit the discussion to describing three key economic forces that are driving higher levels of transparency in the economy: economic globalization, the increasing centrality of knowledge and intangibles in value creation, and a gradual shift to new forms of sustainability accounting.
Globalization and liberalization

The forces of economic globalization have created a historically unprecedented level of integration and interdependence in the world economy. The sharp increase in the volume of international trade and capital flows now link the relations and fortunes of people and organizations around the world. The expansion of corporations across the globe has created structures of global production and competition between firms. It is now possible to speak of a single global economy composed of major regional blocks that compete for economic advantage. In our analysis, the globalization of the economy consists of three interlinked processes—global production, global trade and global finance—each with their own rationale for transparency. Collectively, these forces stimulate a demand for transparency that weaves its way through the multiple processes (e.g., production, trade, finance, policy-making) and institutions (e.g., corporations, trade associations, financiers, regulatory institutions) that comprise the global economy.

- **Global production.** Multinational corporations are reorganizing economic activity on a global scale by forging new interconnected sets of geographically dispersed enterprises, teams, and individuals that come together to create value for customers. Networked enterprises come in three primary forms: producer-driven supply chains in which production is controlled by large, integrated industrial enterprises; buyer-driven supply chains in which large retailers and merchandisers set up decentralized production networks in exporting countries; and virtual supply chains or marketplaces in which producers and consumers self-organize to exchange good and services. (For a lengthier discussion of business webs, see section 5.) Orchestrating these sometimes highly structured, sometimes highly amorphous global networks requires a high level of transparency to enable a coherent “single-enterprise system” with the ability to compete on the basis of efficiency, profitability and time to market (see also our discussion of transaction costs in section 4). More recently, companies have also been deploying integrated information systems to manage social and environmental performance across the entire supply chain.

- **Global trade.** International trade agreements facilitate liberalization and stimulate the global movement of capital, goods, and services throughout the economy. While stimulating economic growth, global trade imposes limits on state autonomy and induces shifts in domestic policy as nation-states become participants in regional and international trade regimes such as NAFTA, APEC and the WTO. As Sylvia Ostry of the University of Toronto explains, the intrusiveness of contemporary international trade agreements like the WTO is due to a shift from the GATT model of negative regulation—what governments must not do—to positive regulation—or what governments must do. This growing public awareness of trade policy issues and their implications for national sovereignty has helped fuel criticism that most trade liberalization agreements have been negotiated far from the public gaze. The “Battle of Seattle” and other subsequent events reinforce the notion that the days when international decision-makers in financial institutions can sit behind closed doors are waning. Ostry and many others cite the need for the WTO to shed its secretive culture and communicate better with the general public to build a broader popular constituency for trade liberalization. Economic organizations—including corporations, financial institutions and the regulatory agencies that govern their activities—are currently outliers in the rejection of transparency and participation compared with other institutions operating in rapidly evolving policy environments. The broader lesson of the WTO is that market institutions will not be able to resist the advance of new players or the scrutiny and participation of the public for long.

- **Global finance.** The explosive growth of global financial activity has created a new imperative for fiscal transparency. As global financial flows increase, so too does the complexity and interdependence of the internal financial markets and national economies. Speculative flows can have rapid and dramatic domestic economic consequences. Financial difficulties faced by a single institution or firm in one country can destabilize the rest of the sector in other countries. Given the volatile nature of financial markets, and the instant diffusion of information between the world's financial centers, the risks generated by local financial crises for the entire global financial system create strong incentives to increase market transparency. As the Group of 22 argues in a recent working group report “Better information on the economic and financial affairs of governments, banks and corporations will strengthen market discipline (encourage lenders to ration credit to borrowers who fail to take the steps needed to maintain their financial stability) and help policy-makers to identify the need for corrective action.” Thus, the trend toward deregulating financial markets has, in some ways, been tempered as financial markets are re-regulated, except this time with higher levels of transparency rather than government intervention.
Finally, the globalization and liberalization of the economy drives two secondary phenomena that are increasing the transparency of the market. First, there is a global competition for foreign direct investment (FDI) that is driving intense efforts of national governments to tackle issues of corruption and increase the transparency of their markets to make them more attractive to risk-adverse investors. Enhanced global transparency allows investors to assess the quality and risks of their investments in a broad range of countries. Second, these national efforts are backed by institutions such as the OECD, the World Bank and the IMF, which have dedicated extensive resources and introduced new regulatory strategies to fight corruption and increase transparency, particularly in the wake of the Asian financial crisis of 1997. For example, the IMF created a Special Data Dissemination Standard that specifies what economic and policy information countries should disclose when seeking access to international capital. These transparency-enhancing initiatives are part of the broader mandate of these global organizations to stabilize markets, boost economic productivity and steer economic development.

**Intangibles and the knowledge economy**

The rise of intangibles as a primary driver of value creation plays an important role in the growth of corporate transparency. Intangibles are factors that affect business and economic outcomes but are not easily recognizable, measurable, or quantifiable in economic terms. They include knowledge, relationships, goodwill, experience, social capital, and brand recognition. It is easy for companies to focus on tangible factors to the exclusion of such intangibles. Indeed, corporate managers focus on questions regarding tangibles primarily (e.g., Is revenue going up or down? Have we sold more or fewer products and services? What are our costs per unit? Is productivity improving or declining?). The focus on tangibles, albeit important, can overshadow the intangible dimensions of how value is created in the economy. Recently, however, business literature has begun to broaden our notion of how intangibles affect the performance of business enterprises in the marketplace. This shift in thinking has given rise to new management processes that help cultivate and leverage intangibles, as well as accounting practices that attempt to add them to the balance sheet.60

The centrality of intangibles is linked to the changing economics of the information-based economy. In an information economy, companies no longer compete solely on the price, quality or availability of their products—although these fundamentals are still important. Firms must provide much higher value at much lower costs to capture and retain the scarce attention of customers. This means they need to compete more on the basis of their ability to create knowledge, sustain relationships and build a reputation as a great company. Increasingly, the ability to compete on these assets is tied to whether the vision, values, ethical stance, and leadership of the company are in alignment with the expectations of a broad set of stakeholders. Until recently, however, the importance of transparency in managing intangible assets has been overlooked.

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Sustainable economics

"The massive inefficiencies of industrialism are not more apparent because they are masked by a financial system that gives improper information."
— Paul Hawken
Author of Natural Capitalism: Creating the Next Industrial Revolution

There is one other critical macroeconomic driver of transparency looming. Ever since the 1992 Earth Summit and the release of the Bruntland Report: Our Common Future laid out the roadmap for sustainable development there has been an intensification of efforts to transform the way we measure growth and development. A growing number of economists claim that inefficiency in the economy is masked because growth and progress are measured in money, and money does not give us information about ecological or social systems, it only gives information about financial systems. As Paul Hawken, author of Natural Capitalism: Creating the Next Industrial Revolution, puts it, “the massive inefficiencies of industrialism are not more apparent because they are masked by a financial system that gives improper information.”

Take, for example, the infamous Exxon Valdez oil spill off the coast of Alaska. The environmental consequences of the disaster cannot be measured or recognized in economic terms, but the massive clean-up bill can. Indeed, the jobs created to remedy the mess gave a boost to the local Alaskan economy and the Gross Domestic Product (GDP) of the US. The economic valuation of common ecological resources provides illustrative examples as well. The economic value of trees, for instance, is only accounted for when they are converted from raw materials into lumber, paper, or furniture. The services that forests provide in creating oxygen or removing carbon dioxide from the atmosphere are not accounted for at all. Similarly, marshes and swamps are valued as real estate, not for their well-documented ability to filter and absorb massive quantities of air and water pollutants. Why are these services undervalued in economic terms? Primarily, because nobody owns or pays to use them—they are part of global commons. Thus, when these essentially “free” services or common ecological goods are destroyed, or converted into “productive capital,” we don’t register a deficit on our national balance sheets.

A system of full-cost accounting or sustainable economics that more accurately measures the value or services provided by ecosystems is now emerging as an alternative to standard measures of growth like the GDP. The rationale for such a system is that ecological systems and the natural capital stocks contribute to human welfare, both directly and indirectly, and therefore represent part of the economic value of the planet. Economists like Robert Costanza and Herman Daly at the University of Maryland point out that most of this value (either the creation or destruction of it) is unrecognized by our current accounting systems. Costanza claims that “ecological systems and the natural capital stocks contribute an average of US$33 trillion per year to the economic value of the planet—most of which is outside the market.” The Genuine Progress Indicator (GPI), proposed by Costanza and Daly as an alternative measure of sustainable growth, is now under serious consideration by organizations like the OECD and the UNCTAD and countries such as Sweden, Denmark and Israel. Their studies show that while GDP has shown a steady upward trend since 1950, the GPI climbed more modestly until about 1975, and has gradually drifted down since. In other words, according a sustainable measure of growth, we have been in recession for the past 27 years.

The potential adoption of accounting systems based on the principles of sustainability is important for our analysis of the drivers of transparency (factors that cannot be understood or measured cannot be transparent). In a sense, the rise of sustainable economics represents an extension of the previous discussion of intangibles in a knowledge-based economy. Like knowledge, brand, reputation and relationship capital, social and environmental intangibles form part of the invisible fabric of value creation (or destruction) that is currently hidden in, indeed excluded from, our economic assumptions and measurements. The addition of social and environmental intangibles into our accounting and economic thinking helps to fill an information vacuum in our understanding of the relationships between markets, society and the environment. By providing a broader set of metrics by which to measure growth and progress, it allows us to get a better picture of the tradeoffs we make when we put economic capital ahead of the state of our social and natural capital. It can expose the massive waste of resources or help us pinpoint particularly unsustainable industries that need to be restructured with new incentives and penalties. This ultimately leads to a more efficient and transparent economy. Indeed, embedding such indicators in the accounting systems of individual companies could lead to a
better alignment of profits with genuine social progress and an acute awareness of the true costs of economic activity. From there, it is possible to imagine the economy could quickly recalibrate itself to maintain balance and synergy between economic, social, and environmental goals.

**Technological Drivers: The Emerging Hypernet**

As the Internet evolves, it edges closer to fulfilling the dream of its originators to become the universal communications substrate linking all humankind and its artifacts in a seamless global network. Digital 4Sight has named the next instantiation of the Internet, particularly as it embraces wireless connection of an overwhelming diversity of edge devices, the “Hypernet.” We define the Hypernet as a global network of people, objects, agents, devices and organizations interacting in an open, intelligent environment. The reason for coining a different name is that we believe the Hypernet is qualitatively different in several substantial ways from the “old” homogeneous PC-and-browser-based Internet, and dwelling on these differences and their implications is a critical component of understanding the impact of information technologies on the transparency phenomenon.

The Hypernet is what the Internet will become over the next few years, say, between now and 2005. Over this time period several successive waves of innovation will break over the Internet. In approximate order of appearance (because it is foolhardy to make specific predictions) these are the advent of mobile Internet-connected devices (e.g., mobile phones and PDAs), the proliferation of broadband connection, and the steady penetration of Internet-connected computer power into the objects of everyday life, from cars to light switches, creating an invisible infrastructure that pervades every facet of our lives. It is at the intersection or convergence of these new technologies with the continuing growth of the traditional Internet that the full potential of the Hypernet is realized.

As we explored the key properties of the Hypernet, we pinpointed four trends that will coalesce to create a more robust communications platform for transparency than has ever existed before. These trends include: the growing accessibility of information and communication technologies; the increasing granularity of information about the world; the immediate access to information provided by an “always on” environment; and the collaboration and self-organization enabled by online applications for networking people and organizations.

**Accessibility**

The information revolution has made the ability to produce and consume information more accessible than anytime in history. Yet, the digital divide is still a pervasive problem. Three core factors, however, suggest that the scale of the Hypernet will dwarf today’s Internet. First, the economics of cheap devices, mobile connectivity and inexpensive network technologies will help extend access to new demographic groups and under-served regions in both the developed and developing world. Second, the network effects stimulated by self-organizing peer-to-peer applications that enable rich interpersonal communications and interactivity will attract more users and drive higher volumes of Internet traffic. Finally, the development of new portable computing devices and Internet-ready mobile phones and the proliferation of smart or “informated” objects that can interoperate and interact with each other will lead to unprecedented levels of access to information networks. Indeed, we are quickly moving into an era in which access to even the most powerful surveillance technologies—including high-resolution satellite imagery—will extend from a handful of government agencies to a much broader audience.

New devices like the Simputer provide a good example of the promise of information technologies to lessen the gap between information haves and have. Developed in India, the Simputer is a relatively low-cost computer with a natural user interface that even an illiterate user can operate. While the cost of the device is still about US$183, the Simputer has been designed for shared, community-based usage by embedding a smart card feature that allows for personal information management at the individual level for an unlimited number of users.

"The telephone shares the capacity of other telecommunication technologies—to reveal what was once hidden, to repeat what was meant to be secret, and to pass on messages that were not meant for those outside of a particular circle."

— Vincente Rafael
Professor
University of California

Another telling example is the crucial importance of the mobile phone in the rapid mobilization of citizen protesters who overthrew the former president of the Philippines, Joseph Estrada. In the Philippines, the economics of mobile phones make this form of wireless communication more
accessible, reliable and affordable than land-line telephones or computers. While President Estrada’s impeachment hearings proceeded, mobile phones were effective in spreading rumors, jokes, and information that steadily eroded the legitimacy of his administration. By bypassing the mainstream TV or radio, mobile phone users became broadcasters, receiving and transmitting both news and gossip. Commenting on the event, Professor Vincente Rafael of the University of California, San Diego imparts a powerful lesson about the impact of cheap and accessible communications technologies for corporate transparency, “The telephone shares the capacity of other telecommunication technologies—to reveal what was once hidden, to repeat what was meant to be secret, and to pass on messages that were not meant for those outside of a particular circle.”

As the ability to easily and cheaply produce and consume information finally becomes a reality for billions of people around the world, companies can expect to see a much greater number of users in the global network and a sharp increase in the demand curve for transparency. Expanding access to information technology will vastly increase the flow of information and the opportunities for many more people to retrieve and share this information. Companies will also have totally new demographics, cultural traditions, languages and worldviews to address in their communications with an increasingly diverse web of stakeholders.

Granularity

Our knowledge of the world is limited by the quality of the information we gather about events around us. When the devices we use to capture and process such data are sparsely distributed and intermittently connected, we get an incomplete, and often outdated, snapshot of the real world. As information technologies become more ubiquitous in our environment we have the opportunity to access a much more granular picture of—or transparent view into—the state of our world. Take, for example, technologies like remote satellite imaging, which allows us to monitor the environment from afar, or the development of tiny micro-sensors and video cameras, which, when scattered around our environment, can report back to us on local conditions. The World Resource Institute’s Global Forest Watch, for instance, uses satellite imagery to catalogue the rate of forest depletion around the world and could be used to pinpoint illegal logging operations.

![Global Forest Watch](image)

The Hypernet allows us to cull staggering quantities of data from a plethora of connected intelligent sensors and devices throughout natural and built environments. Research and pilots in university and private labs around the world are demonstrating the feasibility of embedding—in all kinds of objects and environments—low-power intelligent wireless sensors that measure everything from temperature to movement to chemical composition and report the results in real-time. The California Institute of Telecommunications and Information Technology (Cal-IT2), for example, is developing the technology to produce—for the first time—a continuously updated data set about environmental quality from any location in which the sensors are placed. According to Cal-IT2, everyone from local environment ministries to global organizations will soon possess the tools and information to “detect and forecast climate variability, manage natural resources, preserve and restore ecosystems, and carry out crisis management in a cost-effective and increasingly accurate manner.”

These technological breakthroughs will increase transparency and enhance our capacity to produce a much richer virtual model of the world. Understanding of the ecological effects of global climate change, for example, will improve as remote sensors placed in sensitive natural environments give us instant access to current indicators and such data are fed into real-time modeling programs. The granularity and timeliness of information culled from our environment will help establish greater certainty about the current and future impact of economic activity on society and the environment and inform appropriate policy responses. Similarly, more comprehensive data about the...
social and environmental dimensions of products and services could provide consumers and investors with richer feedback on how to improve or target spending and investments. These are just a few of the ways increasing granularity of information will drive transparency.

**Immediacy**

At the same time the Hypernet provides us with increasingly granular information to construct a richer model of the world, it enables us to gain more immediate access to such information. Immediacy is the direct consequence of two properties of the Hypernet: pervasiveness, the notion that more and more physical objects are connected to the Hypernet, and always-on connectivity, in which the ability to collect, send, and receive information more frequently is infinitely greater. Pervasiveness and always-on connectivity means that data about an object or an event can be captured immediately, reported instantaneously to some intended recipient, and immediately acted on. In other words, many more significant events can now be tracked and reported on in real-time (i.e., events that may not make breaking news headlines in the media). Immediacy is also inherent to synchronous communication, in which two players communicate with each other at the same time, whether through conventional voice conversation or instant messaging chat.72

While immediacy does not necessarily enlarge the boundaries of what is transparent, it certainly increases the speed at which information can travel to stakeholders groups. Indeed, it is the increasing speed of the flow of information that makes transparency so hard to manage. In a world where information is instantly available, bad news travels more quickly than ever before. The cycle time it takes for an accident in the supply chain (e.g., a toxic spill) to be reported to the public is drastically reduced in an always-on environment. A disgruntled employee can start a rapid-fire rumor that spreads through the organization, causing uncertainty, doubt, and anger, long before an “official” response can be mustered. The consequence of instant transparency will be the need to accelerate decision-making and response protocols to the point where they can keep pace with a rapidly changing environment.

Another key factor is the role that new aggregators of data are playing by taking granular data sets and converting them into a format that provides people with convenient and immediate access to usable information. Environmental groups, for example, have been empowered by the widespread deployment of geographic information system (GIS), Web-enabled databases, and computer simulations, to collect, manage and distribute large volumes of environmental data. Websites that aggregate such data are increasingly popular and powerful enablers of transparency that take environmental information that was previously inaccessible to the public and render it usable in everyday decision-making. The US-based Environmental Defense Fund, for example, runs Scorecard, an online service that combines 400 scientific and government databases to profile local environmental problems and the health effects of toxic chemicals.73 Visitors to the website type in their zip codes to get instant access to information about pollution sources in their regions. Scorecard also provides action recommendations and phone numbers of plant managers at local polluters, helping translate information into immediate action. While Scorecard is not yet at the level where people can get access to real-time information about toxic releases, it’s a significant leap forward from the days when individuals would have had to file a request for information from a government department to obtain such information.

**Collaboration and self-organization**

Finally, the Hypernet is giving rise to an exciting range of new collaborative mechanisms. Some examples include Bluetooth technology, which enables devices or computers to share tasks and even “talk” to one another; peer-to-peer technologies that groups of individuals can use to establish
ad-hoc wireless networks; enterprise application integration software and XML implementations that enable organizations to integrate their business processes, share data, and collaborate in real-time; and location-based services that facilitate users' finding someone in proximity with a common purpose or task to accomplish. Over time, collaborative mechanisms will extend throughout social and political systems, corporate supply-chains, workplaces, homes, and countless other environments.

The collaboration enabled by Hypernet technologies is enabling the creation of new forms of organizations that lean toward self-organization rather than hierarchy. These new patterns of organization are self-organizing because they arise spontaneously out of the system's own resources and are not the result of an external or hierarchical imposition. In social systems, self-organization is emerging because the advantages (some would say requirements) of hierarchical coordination are muted in a world that is characterized by increasingly dense, extended, and rapidly changing patterns of reciprocal interdependence. But more importantly, cheap and effective ways of collaborating online are enabling people to coordinate complex activities in the absence of established institutions and hierarchically managed processes.

Examples of self-organizing systems are abundant. Collective action, for example, is becoming less labor-intensive as people use technology to identify and link-up with others around the world, or perhaps more importantly, with people nearby. People that share similar goals, values or interests can readily form just-in-time organizations with no identifiable center or locus of control. Bring this capacity for self-organization together with low barriers to Internet publishing and you have a potent recipe for transparency and a means to empower small players to have a significant impact on public discourse. The most striking examples of this phenomenon are the new decentralized, self-organizing publishing sites that provide alternatives to traditional news outlets. This point became evident at the WTO meeting in Seattle, when an independent, self-organizing website called the Indy Media Center gave CNN a run for its money when it began broadcasting real-time coverage from the streets of Seattle to a worldwide audience. Referring to the WTO negotiations in a recent post-mortem panel, Sylvia Ostry, former chair of the Economic Council of Canada, pointed out that because of the Internet “the whole process has become infinitely contestable. What used to be a monopoly of governments and the private sector is now available to everyone 24 hours a day.”

Figure 12. Independent Media Center

**It's a Transparent World — Get Used To It**

To briefly recap, transparency is an increasingly pervasive and powerful phenomenon driven by social, political, technological and economic forces. Social trends foretell the rise of ethical citizens and a growing transnational civil society, which will act in concert to mobilize broad social expectations for transparency and accountability from powerful political and economic institutions. Political trends suggest the world is becoming more open as a growing number of countries transition to democratic forms of government; as transparency becomes a more established norm in global governance; and as governments introduce a wide range of new rules and regimes for information disclosure. Technological trends point to a world with increasingly powerful and pervasive information technologies that will make it technically feasible for a
large portion of humanity to gain immediate access to a wide range of incredibly granular information and disseminate it widely. Economic trends indicate a gradual shift toward a global economy that rewards markets and firms with sustainable business practices and transparent and accountable relationships with customers, investors, employees, partners and a broad range of public stakeholders. These combined forces are creating an unstoppable march toward greater transparency in the future.

**Transparency drivers: timescales and intensity**

Not all of the transparency drivers are working on equivalent timescales. Nor are they exerting equal levels of influence or intensity. Some, like social expectations, are quite immediate and intense (and potentially short-lived). The rise of civil society is also immediate, but we have reason to believe that civil society is merely at the beginning of a very significant evolution of its roles and powers in governance. The emergence of the Hypernet is operating on an intermediate time scale (five years or more), while the shifts to global forms of governance and the adoption of sustainable economic accounting models are unfolding and intensifying over a longer period of time (10 years or more). We put together a chart of the transparency drivers and mapped them against these various timescales and levels of intensity. The implication of this chart is that we expect to see a very uneven development of transparency across the four dimensions of the networked economy, with each dimension generating successive waves of transparency that will wash over society and the economy with increasing regularity.

Given the strength of the transparency phenomenon, it's hard to see the long historical trend toward enhanced levels of openness in the economy and society being reversed. Indeed, taking a historical view, transparency has already made great leaps forward. The contrast between the levels of transparency several decades ago and those today is astounding across all issue areas. Ann Florini points out that “fifty years ago, few countries routinely released information about their economies—indeed, many treated such information as state secrets. Now scores of countries post the details on the IMF’s website... A half-century ago, no country had laws specifically requiring government officials to provide information to their citizens. Now there are scores of them. Until as recently as the 1980s, environmental regulation consisted largely of governments telling corporations what production processes to use. Now regulation is increasingly about telling them they simply have to report what they're polluting, and make that information public.” The trend is not irreversible, but it is powerful.

As we explore in the next couple of sections, transparency is already well on its way to establishing itself as a powerful norm in corporate governance and a transformative force within the firm and its stakeholder relationships. First, we present a high-level discussion of the business value of transparency as a force for building trust and lowering transaction costs, in order to set the stage for a more specific account of how companies are deploying transparency to create value with five different classes of stakeholders.
5. Five Dimensions of Transparency

While all organizations—corporations, governments, even civil society groups—are subject to demands for transparency, the winds of change have been most fast and furious for today’s global corporations. Corporations have come under an unprecedented level of scrutiny as the world becomes increasingly open and information flows more freely. As Susanne Stormer of Novo Nordisk puts it, “In the long term, not being transparent is really not an option. You can say truth, like pregnancy, cannot be hidden for long. And even now, your stakeholders will find out one way or another, and you can no longer control the communication that’s coming in and out of your organization.” Companies, like Novo Nordisk, that have already found themselves operating under the microscope, increasingly realize that transparency is redefining the way companies relate to wide range of stakeholder groups, ranging from employees, shareholders and trading partners, to communities, NGOs, and government agencies.

Digital 4Sight has developed a transparency framework that illustrates the multiple layers of transparency managers must pay attention to if they want to build and maintain relationships of integrity with all of the firm’s key constituents. The five dimensions of transparency begin with the firm itself and cascade out to the firm’s relationships with business web partners, customers, markets and society.

- **Firm transparency.** Creating a culture of openness and accountability in the firm by sharing information openly among employees to foster commitment, empowerment, and responsible decision-making.
- **Business web transparency.** Arriving at shared values and business practices with the firm’s network of partners and suppliers by distributing information through single enterprise systems designed to drive consistency and high performance.
- **Customer transparency.** Maintaining customer loyalty and building brand equity by being open and fair with customers and responsive to a wide array of customer concerns.
- **Market transparency.** Increasing disclosure and openness of financial data and market transactions to create credibility with investors and providing an antidote to issues such as pricing collusion, corruption and bribery.
- **Public transparency.** Improving public trust by providing visibility into company operations and allowing scrutiny of social and environmental performance by external stakeholders.

These five dimensions of transparency are considered in greater length below. In particular, we sketch out the key participants and issues in each layer of transparency and provide some recommendations on how firms can build and leverage value in each of these critical relationships.

**Firm Transparency**

Transparency quite appropriately begins within the firm. We argue that creating a culture of openness and accountability in the firm is a precondition for all other forms of transparency. Without transparency and trust among employees and managers, transparency can hardly be created with outside stakeholders. Companies create firm transparency by sharing the right kinds of information openly among employees to foster commitment, empowerment, and responsible decision-making.

Management strategies for attracting, retaining and managing employees are hardly new. But they take on new dimensions in a transparent world. We take two perspectives on the nature of this change. The first perspective presents a cautionary tale about what happens to employee loyalty in an opaque environment, especially given their access to new information technologies and their dense linkages with other stakeholders in society. We also...
argue that transparency is a critical enabler of employee retention and attraction, and integral to the process of embedding corporate values in the DNA of the firm.

The first significant change is the power of networked technologies to give employees more access to information and a mechanism by which to create transparency in the firm where none existed before. In the industrial age, corporations functioned as independent silos controlling information flowing in and out of the organization. Management possessed the authority and structure to control how information was shared, with whom and at what time. Today, employees are armed with ubiquitous communication technologies and have the power to acquire information and engage in peer-to-peer dialogue with threatening speed. As a result, the ability of management to control information in the firm has dramatically diminished.

Perhaps more threatening, however, is that firms compete with a network of other stakeholders that can more readily influence employee behavior and perceptions.

When firms misjudge what employees need or want to know they risk alienating their workforce. Gaps emerge between the information employees have and the information they feel entitled to know. In these circumstances, employees are more likely to seek alternate sources of information and support. This is precisely what happened when Wal-Mart employees began to perceive that their employer was straying from its core values.

When Sam Walton founded Wal-Mart, he insisted the company would honor two core values: respect for employees and respect for customers. In a recent series of cost-cutting moves, however, Wal-Mart rolled back a number of employee benefits and entitlements and fired employees suspected of wanting to form a union. No rationale for these actions was forthcoming from the management. Upset employees didn't feel they knew all they needed to know. There were no channels for gaining more information and no dispute resolution mechanisms for working out the problems. Even former managers spoke out against Wal-Mart's concerted union-busting tactics. In the absence of transparency and dialogue, Wal-Mart employees have formed continent-wide networks and are making common cause with groups operating websites like walmartsucks.org, walmartwatch.com, wallmartyrs.com and retailworker.com. These alternate online channels allow employees to network, discuss problems online, disseminate sensitive Wal-Mart information and make their grievances known to the public.

The consequences of this misalignment are quite tangible. The reputational hit aside, Wal-Mart recently settled (one of many) class action suits for $50 million with employees that sued the company for forcing them to work off the clock. While Wal-Mart actually has a policy against such behavior, the company's structures and incentives effectively reward managers for contravening the stated values of the company. This brings us to the second perspective on firm transparency.

The other significant change is the growing importance of corporate social responsibility. As demographic trends and the changing character of the workforce create a “war for talent,” companies are coming under increasing pressure to be responsive to employee values. A growing number of people are making corporate transparency and responsibility a condition for taking employment. Attracting, motivating and retaining these employees requires a commitment by firms to satisfy not just their demands for input and information, but also for meaningful work that links their efforts to the company and society as a whole.

"If companies are going to react quickly to changes in the marketplace, they have to put more authority, accountability, and information into the hands of the people who are closest to the product and the customers.”

— Robert Haas
CEO
Levi-Strauss

A related challenge concerns the need to create alignment between corporate values, individual employee actions and business practices across the enterprise. This has always been important, but institutionalizing corporate values takes
on new relevance in a transparent and quickly changing marketplace. Robert Haas, CEO of Levi-Strauss recently said, “If companies are going to react quickly to changes in the marketplace, they have to put more authority, accountability, and information into the hands of the people who are closest to the product and the customers.” As organizational structures become more decentralized and lower-level employees make decisions of great consequence for the firm, it's important that corporate values are broadly socialized and respected to minimize the risk of misconduct. Further, as Haas suggests, “Values provide a common language for aligning a company's leadership and its people.”

Both the war for talent and the need for enterprise-wide consistency on values suggest a fresh model for embedding new values and competencies into corporate cultures is needed. One company that has attempted to pioneer a new approach is Whole Foods, the largest US retailer of natural and organic foods with fiscal year 2000 sales of $1.8 billion. Through its “declaration of interdependence,” Whole Foods tries to instill a clear sense of interdependence among various stakeholders, but especially employees. In particular, Whole Foods has built structures and processes that reward and empower employees to perform in accordance with corporate values. Consider the following examples:

• The company practices an open book management philosophy, which provides complete financial transparency with all employees at all levels of the company. Even employees in the bakery see the balance sheet and are fully empowered to make decisions about labor spending, ordering, and pricing to enhance the profitability of their unit.

• All employees are hired by a referendum that existing employees participate in. The store leaders initiate the process by screening candidates and recommending them for a job on a specific team. A two-thirds vote of the team, after a 30-day trial period, enables a candidate to become a full-time employee.

• The company administers a moral survey at several points throughout the year to assess employee perceptions. It's described as a no-holds-barred exercise that attempts to probe employee attitudes pertaining to confidence in leadership and fears and frustrations about company deviations from its values.

Whole Foods provides a fairly unique example of how firm transparency aligned employees around the values and mission of the organization, while ensuring they are not only committed to the job, but empowered to create a high performance organization as well.

From the Wal-Mart and Whole Foods stories, we learn that developing a pervasive culture of transparency and ethical leadership within the firm drives the need for increased knowledge-sharing and greater opportunity for all levels of employees to participate in shaping and taking ownership of corporate values. Employees don't simply want values dictated from up high; they want a meaningful stake in influencing the values and behaviors of the companies they work for. Embedding values in the “DNA of the firm” is largely about finding a compromise between the top-down corporate socialization and bottom-up participation in creating corporate policy. But it also requires a high degree of firm transparency. If the entire workforce is capable of assessing information and making judgments based on the firm's core values, and furthermore, if the management is seen to be respecting those values in the way they run the business, then employees will be better equipped, and more motivated, to make responsible decisions that enhance and protect the economic position of the firm.

**Business Web Transparency**

The business web layer of the transparency model includes a firm's network of business partners and suppliers. Business web transparency creates or accentuates three primary issues or effects: the growing importance of ethical sourcing, the ethical dimensions of trading practices and partner relationships, and the possibility of enhanced business web efficiency. Since efficiency is dealt with in sections 4 (under transaction costs) and section 3 (under economic drivers of transparency), we focus on the former two issues.

In analyzing the impact of transparency on ethical sourcing and ethical trading practices in the business web, it's important to note that not all supply chains are the same. Some business webs are long, linear value chains that are hierarchically organized to manufacture and deliver a product from “soup to nuts.” Other business webs aggregate products and services. The supply chains of large retailers and merchandisers, for example, consist of decentralized production networks that draw from a vast array of suppliers and exporters. These business webs share a common feature in that they are usually dominated by one large firm that controls the supply chain (as well as the value proposition, brand, pricing and the flow of transactions). In a more transparent world, these
producer/buyer-driven business webs give rise to what are often called ethical sourcing issues—the procurement or production of goods and services in an ethical manner (this is open to interpretation of course, but it might include dimensions such as fair wages and safe working conditions for workers and minimizing environmental harm).

Until recently, ethical sourcing was not a very big issue. The production systems of multinational enterprises were largely invisible, and even irrelevant, to consumers and other groups in society. Consumers cared about the price and quality of a product, how it was produced was hardly of consequence. Labor unions cared whether their jobs at home were being protected. Today, global supply chains have become highly politicized as the level of outsourcing and overseas manufacturing has skyrocketed.

In an ironic twist of recent history, many of the costs that firms recently shed through outsourcing in the 1970s and 1980s have come full circle in today's transparent world as intense monitoring and scrutiny makes social and environmental consequences of these systems more transparent to consumers and other stakeholders. Multinational enterprises are now being held accountable for the social and environmental performance of the most distant sub-contracted suppliers. Not having ownership of the entire supply chain may protect the firm from some legal liabilities, but it doesn't protect their brand or reputation from consumers and other stakeholders that equate control (not just ownership) with accountability. The onus is now on lead firms to provide goods and services that are ethical sourced. Increasingly, this means working with the entire supply chain to create single enterprise systems designed to increase transparency and drive higher levels of performance on social and environmental issues.

The diamond supply chain controlled by De Beers provides a fairly typical example of the ethical sourcing dilemma. The diamond supply chain is extremely opaque. This opacity makes it difficult to track the true source of rough diamonds. The inability to track the source of diamonds is critically important because it contributes to the problem of what are known as “conflict diamonds” or “blood diamonds.” According to Global Witness, an NGO that has helped boost the awareness of the conflict diamond issue, “Diamonds that originate from areas under the control of forces that are in opposition to elected and internationally recognized governments, or are in any way connected to those groups should be considered as conflict diamonds.” The problem of conflict diamonds is not a small one. Conflict diamonds are estimated to account for as much as 3.7% of the world's multibillion-dollar rough diamond trade.

Two factors make it challenging for De Beers to keep conflict diamonds out of its supply chain. The first is the opacity of the supply chain itself. Diamonds move easily
from one country to another, making it difficult to pinpoint their true origin. De Beers' own aggregation, sorting, and reselling only compound the difficulties of tracking the source of these diamonds. Second, as a cartel, one of De Beers' primary business goals is to control supply of diamonds. In the past this meant mopping up diamond sources wherever they could be found. As a result, it's highly unlikely that De Beers hasn't come into contact with conflict diamonds through one channel or another. The provenances of diamonds found in Antwerp's markets are especially suspect. It's widely acknowledged that many of the diamonds from conflict areas can be found there, so it's not surprising that a large buyer like De Beers would be unable to avoid them.

Another issue for De Beers is the protection of the image it has so carefully crafted for diamonds. On one hand, De Beers markets diamonds as objects of love, targeting old and young couples alike in campaigns designed to assure diamonds are an essential part of romantic relationships. This image stands in stark contrast to the harsh realities of the diamond supply chain. The human rights violations that diamonds fund are completely at odds with the purity and clarity of the images sold to consumers. The risk that consumers will start to make an association between the two as transparency increases threatens the foundation of De Beers' marketing activities. This makes it essential for De Beers to deal with the conflict diamonds issue before the damage is done.

Over the last two years, the Kimberly process has been posed as a solution to the conflict diamond process. It's a solution that calls for a certification and tracking mechanism for diamonds, from the mines where they are unearthed to where they are cut and polished. The system is described as a “chain of warranties” that would create an audit trail for any given diamond, ensuring its origins are known.

After lengthy discussions, the Kimberly process finally reached a landmark agreement in Switzerland in November 2002. The agreement was between De Beers, several NGOs, and 45 countries. While there will clearly be many challenges in implementing such a drastic change, it marks the first step in the drive toward a more transparent diamond supply chain and better information about the origins of rough goods.
The agreement is a win-win for both De Beers and NGOs wishing to eliminate conflict diamonds. Its implementation would help remove conflict diamonds from the supply chain (or certainly make it more difficult for them to enter), yet it meets De Beers’ goals as well. De Beers not only is able to protect the image and brands which it has cultivated by certifying its diamonds as “conflict free”, but the conflict diamond label is a very effective one for controlling the supply of rough diamonds as well.

The De Beers situation is far from isolated. The link between first-world products and services and third-world horrors will only increase as consumers and other stakeholders gain the tools to see all the way down the global supply chain. Given this level of visibility, companies involved in such supply chains can do what De Beers did by proactively addressing the problem before it became a mainstream consumer issue. Or, they can join the ranks of Nike, as in 1992 when the sweatshop-labor issue emerged. We argue that proactively increasing the transparency of the supply chain to better illuminate the problem and put in place incentives to change the behavior of supply chain partners, can be less costly than fighting protracted public relations and legal battles. This means that supply chain leaders (both producer- and buyer-driven) will need to create alignment around values and business practices that filters throughout a vast web of business partners. Some of the leading practices for managing ethical sourcing issues include implementing new market-based governance mechanisms and codes of conduct for global supply chains; applying ethical procurement policies and product certification instruments for retailers; creating new decision criteria for choosing business partners and suppliers; and identifying and integrating civil society partners that can help set benchmarks and monitor performance.

The ethical trading practices dimension of business web transparency is well illustrated by Microsoft's attempt to introduce a new system for identity management, nicknamed Hailstorm (later renamed MyServices). Under its system, Microsoft centralizes identity profiles and acts as a gatekeeper for identity information. It is designed to allow users to control their personal information profiles, determining which companies can have access to particular pieces of information and which ones can't.

However, contrary to Microsoft's high expectations for the service, Hailstorm was met with a lot of resistance in the marketplace. The resistance came not only from privacy advocates who worried about the centralization of so much information under the control of one company, but also from prospective corporate customers and individual users wary of sharing their customer information with Microsoft. The situation has been aggravated by Microsoft's reputation for poor trading practices with its business partners. Especially in the shadow of anti-trust concerns, all of these factors have made it difficult for Microsoft to lead this new information supply chain.

All of the scrutiny by customers, privacy advocates, and anti-trust watchers, has placed Microsoft in a highly transparent environment. Every action and decision Microsoft has taken has rapidly resonated throughout this community. The result is that Microsoft has been held to a high ethical standard and is under substantial pressure to meet the concerns of its stakeholder groups. One can only speculate whether Hailstorm would have faced similar hazards had it been launched a less scrutinized competitor.

In April 2002, Microsoft abandoned the launch of Hailstorm, citing “incredible customer resistance.” In contrast, a competing identity system, the Liberty Alliance, was extremely successful at getting major companies to agree to use it. These companies were seeking an identity system that offered them greater control over customer data. The Liberty Alliance espoused that individual companies (not individuals or Microsoft) were ultimately in control of customer data, and that a distributed (not centralized) system was needed to share that information. This distributed management philosophy has been critical to the momentum and success of the Liberty Alliance, despite the fact that its technology and specifications were behind those of Microsoft.

In the end, high transparency forced Microsoft to make trade-offs that better reflected the interests of its business partners. Microsoft launched a new product called TrustBridge, which provides a “federated”, or less centralized, identity system. In exchange for giving up some of their control over their identity management system, Microsoft hopes TrustBridge will find the market acceptance that Hailstorm could not. It's an important illustration of the impact that partnership relationships can have, and the subtleties involved in attempting to build new information supply chains in a highly transparent environment.

Having made the distinction, it is important to note that ethical sourcing issues are not unique to vertically integrated supply chains, just as concerns about ethical trading practices are not limited to networked business
webs. Indeed, the issues can and do easily cross over. For example, the use of genetic information by insurance companies that want to improve their risk profiles raises issues of ethical sourcing in an information-based supply chain. Wal-Mart’s practice of squeezing suppliers to lower their prices introduces some doubt about whether its relationships with suppliers are ethical. Both ethical trading practices and ethical sourcing raise very tough issues for firms.

The toughest issue of all is balancing accountability and control in transparent environments. Too much control without accountability can lead to self-interested behavior that may not meet the needs of the larger system. Accountability without control leaves companies vulnerable to, and often responsible for, issues beyond their power to change. Business webs that share information and control are more likely to also share accountability with their network of partners and suppliers. Aligning accountability and control is critical for effective decision-making and business web performance. This issue is picked up again in section 4 of the transparency management guide, where we offer frameworks for managing accountability and control in networked enterprises.

Customer Transparency

Customer transparency is about giving customers the information they want and need to know to provide them with the best possible customer experience. The challenges of providing that special experience are heightened by increasing levels of transparency and the changing nature of consumer behavior in a networked economy. Our discussion of customer transparency brings together three converging trends that will reshape the way companies build relationship capital with customers in a transparent world. These include the increasing demand for a larger role in value creation, the growing consumer adoption of tools for self-organization, and the diversification/fragmentation of customer needs, in particular, the rise of ethical consumers.

Customers have more power than ever before. Most of this power stems from the unprecedented information and knowledge customers have about companies and their products and services. As Tapscott, Ticoll and Lowy observe in Digital Capital: Harnessing the Power of Business Webs, “Customers have the power of choice because the move to a new supplier is only a click away. They have the power of customization, as new technologies increase their expectations that vendor offerings will match their unique needs and tastes. They have the power coming from near perfect information … and customers have collective power.” With knowledge comes power, and with power comes more control over both the context and the content of a customer’s experience.

- The context refers to the overall circumstances in which customers are enabled to conduct transactions. This includes when and where they are and what they’re doing at the time. As mobile technologies permit time and space independent transactions, the potential to access a world of suppliers becomes possible on an anytime, anywhere basis.
- The content refers to the features or attributes of the products and services that people consume. Increasingly, customers want a greater role in “managing” the value-creation process. They want specific qualities that reflect their lifestyle, persona and value system embedded or reflected in the products they buy.

In an economy where customers have more power over the context and content of their consumption habits, businesses must be more responsive to customer demands. Companies need to “open up” the value-creation process for greater customer participation, which is in itself a force for greater transparency into the production process. Of course, customers are not homogenous and their needs are often more complex than companies sometimes give them credit for. Global corporations increasingly sell to a global marketplace of consumers with a wide range of expectations, needs, preferences, values and income levels. Figuring out how to co-develop and market products to such a diverse and fickle group has never been tougher.

“Smart mobs are a serious realignment of human affairs in which leaders may determine an overall goal, but the actual execution is created on the fly by participants at the lowest possible level who are constantly innovating.”

— Howard Reinhold
Author of Smart Mobs: The Next Social Revolution

Take, for example, the record industry’s problems in figuring out an appropriate business model for selling music to the upcoming generation of teenagers brought up with MP3 and Internet technologies. Viscerally appealing to the ‘Net generation demographic, MP3 attained critical mass in 1998. Millions of technology-literate kids and teenagers
now use the Internet to freely create and share MP3 software tools and music content. Open formats like MP3 leverage network effects to achieve ubiquity quickly, and help build critical mass. They maximize choice and flexibility for customers and put users in control of their music experience. Open formats also engender a sense of communal ownership by encouraging industry participants—including customers—to be stakeholders in advancing the format. More than anything, MP3 illustrates that customer value, not control, is the answer in the networked economy. These novel dynamics, however, have turned the record industry on its head. Rather than embrace MP3, the industry has adopted a defensive posture. Obsession with control, piracy, and proprietary standards on the part of large industry players has only served to further alienate and anger music listeners.

Compounding issues like those presented by phenomena like MP3, is the fact that customers are not only more engaged in value creation, they are also equipped with the tools for self-organization. The key to the power of customer self-organization is a vast array of new mobile technologies, including hybrids like two-way pagers, BlackBerry e-mailers, personal digital assistants merged with phones, wireless laptops, and phones merged with two-way radios. These technologies liberate people from their desktop telephones and computers, extending online activities out into the much larger portion of life that encompasses wherever and whenever humans roam. A good example of customer self-organization is the rise of what Howard Rheingold, the digital technology guru who coined the term “virtual community,” calls “smart mobs” or “swarming.” Smart mobs emerge when communication and computing technologies amplify human talents for cooperation.

Rheingold points to Manila where environmentalists are deploying smart mobs to combat air pollution. Known as Smokebelchers Watchdog, individuals using cell phones and mobile text messaging can report vehicles they see emitting excessive clouds of pollution to a central database. Amelia Judones, a college student, is among the volunteers. “I do it in the car, on my way to class,” she says. “It costs me nothing, and I feel I can contribute something to the fight against pollution.” Most complaints are against trucking and commercial vehicle companies. At the end of each week, the environmental group leading the effort compiles a list of vehicles with five or more complaints against them and sends it to the Land Transportation Office (LTO)—the arm of the Department of Transportation and Communications that issues licenses to such companies. The LTO then summons offending vehicle owners to their offices for an exhaust test. In the first two weeks of the campaign, which launched June 6, 2002, 123 vehicle owners were called in. “The volume was so great that we now receive the complaints not weekly, but every day,” says Roberto Lastimoso, chief assistant secretary of the LTO.

Smart mobs are a classic example of how once-isolated individuals are discovering a new way to organize order out of chaos, without guidance. “Smart mobs are a serious realignment of human affairs in which leaders may determine an overall goal, but the actual execution is created on the fly by participants at the lowest possible level who are constantly innovating,” Rheingold says.

Smart mobs respond to changing situations without requesting or needing permission. They also reverse the idea that geography, in an Internet age, has become irrelevant—the whole point is to bring people together in one location for face-to-face contact. The implication for corporate transparency is that customers can now be organized on the fly. More importantly, their decisions can be more readily influenced while they are out on the street, in their car, or in the shopping mall, where they are closest to the point of purchase.

Bring the increasing demand for a role in value creation and the power of self-organization together, and combine them with a rise in ethical consumers, and you have a very potent recipe for customer transparency. Yet, ethical consumers differ from all the rest in the sense that they care more than just about the end product, they care about the means by which it was produced and it's impact on society and the environment. The Internet provides these consumers with more information about company activities, while the tools of self-organization increase their capacity to create virtual networks, and reduce the transaction costs associated with boycotting “unethical” brands and finding alternative “ethical” suppliers. It is here that customer transparency, business web transparency, and public transparency most often overlap.

One response to this dilemma has been the rise of ethical brands. Products and services with ethical labels, or those designed with ethical consumers in mind, are becoming more common. A diverse range of industries now offer them, including the automobile industry, the apparel industry, the food and grocery industry, and the investment
and financial services industry. We use the example of Fair Trade coffee to illustrate how the landscape for ethical products is changing and to draw out the implications of this trend for customer transparency.

Today, the healthy premium paid for a latte at the local Starbucks masks a collapse in coffee prices that's happened behind the scenes. From highs of $2.50/lb reached in the mid-1990s, coffee prices have plunged to record lows. These days, as little as $0.50/lb makes its way into the pockets of third-world producers. This fall in prices has devastated the coffee supply chain. The small independent producers that account for most of the world's coffee production have been hit hardest by the price declines. Subsistence wages are displacing many from their land, causing them to migrate to the cities in search of employment. In the extreme cases, some farmers have even abandoned unpicked crops, the economics making harvesting too costly for such meager returns.

As important as these concerns are for individual coffee growers, the situation is rarely recognized further up the supply chain by coffee buyers. Part of the challenge is that the price of coffee makes up such a small fraction of the cost of a latte. This is compounded by the fact that coffee is bought and sold as commodity; there is little awareness (or transparency) of what happens behind that marketplace. Most consumers are unaware of the problems faced by growers, and as a result, the issue gets little traction by large coffee buyers. In fact, it's quite the opposite; price declines benefit large buyers directly because of the cost savings.

The Fair Trade Federation is an organization that has attempted to solve some of these problems. In 1998, an organization called Transfair began to market a Fair Trade certified coffee in the US. In return for their “fair trade” certification, Transfair imposed strict restrictions on the coffee buyers. Fair Trade coffee buyers are required to offer producers the following:

- Floor prices of $1.26/lb (plus a $0.16 premium for organic coffee)
- Access to credit of up to 60% of contractual values
- Long term contracts (i.e., between one and 10 years)

While all of these measures increase costs for coffee buyers, the concept is that the products that originate from a fair trade-certified supply chain actually have greater value to consumers. So while product cost may increase, fair trade supporters argue that they are recovered though increased demand for the product. For a product like coffee, a small difference in the retail price can make an enormous difference for producers.

While some purchases are driven by customer demand, others are driven by pressure from NGOs and other interested groups. These organizations are working to build the awareness of issues within the coffee supply chain and the fair trade alternatives. In some cases, organized protests (or the threat of them) have been the key to securing contracts with large coffee chains. Starbucks is one of these companies. Anxious to avoid protests at its locations, Starbucks agreed to not only offer fair trade coffee for sale at its 2,300 locations (one million pounds annually), but they have also agreed to brew Fair Trade certified coffee on a regular rotating basis. Endorsement by such a major brand is an important win for Fair Trade coffee and the customers and NGOs that endorse it.

Fair Trade makes up a very small slice of the coffee supply chain, but it's an interesting example of using an “ethical brand” in an attempt to increase the demand for a product, passing more value to workers at the ends of the supply chain. Rather than creating a zero-sum scenario where coffee buyers are asked to simply pay more to producers, the creation of a sustainable brand coupled with an awareness campaign helps to create mutual interest in fair trade solutions.

Collectively, MP3, Fair Trade coffee, and Smokebelchers Watchdog point to the emergence of a more empowered and value-and-values-driven consumer/citizen than ever before. This new cadre of consumers is a significant and growing segment of the world population that regularly assert their demand for greater responsiveness to their individual values and preferences. Ethical consumers will increasingly use the Internet and other tools to pepper corporations with detailed inquiries, monitor private-sector behavior, and aggregate and swap insights and intelligence with one another. Companies must take critical look at the demographics and attitudes of ethical consumers, understand their unique needs and expectations, and develop products, communications, and marketing strategies geared toward winning their trust and loyalty. Building brand equity and creating customer loyalty also means being transparent about values and business practices. It's simply no longer enough to address customers' sensitivity to price, quality, and image in a transparent world.
Market Transparency

In the market layer of the transparency model we include key participants in the financial markets that lend money or provide capital to corporations. Our primary focus is with the firm's primary investors—its shareholders. But the importance of a wide array of other market players, including banks, institutional investors, market regulators, financial institutions and rating agencies, should not be overlooked. Market transparency means that companies engage in transparent relationships with all of these capital market stakeholders. It requires firms to abstain from engaging in practices that undermine the fair and efficient operation of the market. Above all, it underscores the need to reform corporate governance in order to maintain access to capital in globally competitive financial markets.

The Enron scandal and all that followed in the summer and fall of 2002 brought home the importance of market transparency. A recent Business Week report on corporate governance noted that “while Enron’s culture emphasized risk-taking and entrepreneurial thinking, it also valued personal ambition over teamwork, youth over wisdom, and earnings growth at any cost. What’s more, the very ideas Enron embraced were corrupted in their execution. Risk-taking without oversight resulted in failures. Youth without supervision resulted in chaos. And an almost unrelenting emphasis on earnings, without a system of checks and balances, resulted in ethical lapses that ultimately led to the company’s downfall. While Enron is the extreme case, many other companies show the same symptoms.”

More than anything, Enron, WorldCom and other companies caught up in the “summer of scandals” displayed a dismal failure of corporate governance to provide adequate levels of market transparency and accountability.

"If you communicate honestly and candidly, keeping investors focused on the vision, you will have investors who will support management over a longer period of time, tolerating stumbles and problems on the way to realizing a vision."

— Qorvis Communications

In the post-Enron environment, investors and regulators are now on high alert for fraudulent financial information and complex corporate structures that provide low visibility into the performance of separate business units. Investor confidence will be increasingly tied to their perception of a company’s credibility and trustworthiness. Now more than ever it is clear that honest disclosure of financial data is critical to establishing credibility in the marketplace. Those that push the boundaries of candid reporting put their companies’ credibility—and all of the value of their enterprise—at risk. Once that credibility is gone, it can rarely be regained.

We argue that consistent, accurate and timely reporting of financial information, not only protects credibility, it helps build relationship capital in the capital markets. As Qorvis Communications notes, however, credibility is not dependent on perfection. “If you communicate honestly and candidly, keeping investors focused on the vision, you will have investors who will support management over a longer period of time, tolerating stumbles and problems on the way to realizing a vision.”

A firm with a high degree of market transparency can establish loyalty with investors, protect its share price from wild fluctuations, and build long-term investor relationships that help ensure a steady flow of capital. It also needs to be noted that a growing number of ethical or socially responsible investors and investment funds will be applying social and environmental metrics to their investment decisions. Ethical investors will increase the broader capital market’s awareness of social and environmental ramifications of business behavior, thus adding a new and significant dimension to the way companies’ share prices and risk profiles are set by the market.

Market transparency also extends to keeping the firm clear of unethical practices like pricing collusion, corruption and bribery and other opaque practices that create inefficient or distorted markets. The issue of corruption, for example, has recently come under the spotlight. Global corporations, in particular, are under increasing pressure to manage the expectations for increased transparency with the realities that opacity and corruption are prevalent in many of the emerging markets where they operate and invest. Companies operating in these markets often find it necessary to pay bribes or make facilitation payments to expedite service. Such instances of bribery can occur on many different levels—not only in transactions with local governments but also within transactions between the corporation and its supply chain. Some firms believe that bribery is merely the cost of conducting business overseas. However, the risks and costs of being exposed are getting higher.
On the risks side of the equation, a growing number of civil society groups like Transparency International (TI) and financial institutions like the World Bank are on the prowl for incidents of corruption. TI, for example, not only has local chapters in over 80 countries, it produces the Corruptions Perceptions Index (CPI) and the Bribe Payers Index (BPI) on a regular basis. The CPI ranks countries by perceived levels of corruption among public officials, whereas the BPI addresses supply-side corruption by ranking the leading export countries according to their propensity to bribe. Media, governments, and businesses pay close attention to these indices and other TI publications and activities. On the costs side of the equation, an increasing number of governments are enacting legislation that criminalizes corruption and bribery. Evidence also suggests that bribery can translate into large business expenditures and constrain a firm's ability to control its direct and indirect costs.

As a result, a growing number of companies are choosing to adopt a consistent global approach to increasing transparency and eliminating corruption and bribe-paying from their organizations. Royal Dutch/Shell, for example, has maintained a strong position against bribery since the mid-1970s when its business principles were first codified to distinguish itself from many other multinationals that were embroiled in high-profile corruption scandals during that time. As a result, Shell has an extensive list of guidelines and governance mechanisms to monitor the Group's behavior and provides an example of a large global enterprise that has successfully implemented a consistent code of conduct throughout its operations. As Shell has found, however, creating a culture of transparency is about more than just rulemaking. It also requires providing positive incentives for employee compliance. Bottom-up alerting requires genuine whistle-blowing protection and proper training to ensure employee buy-in and commitment to anti-corruption strategies. In 2001, Shell reported 13 cases of bribery, and nine employee dismissals, while canceling 100 contracts with suppliers and removing eight contractors from supplier lists. While Shell states that it occasionally loses business from its zero-tolerance stance, it believes that it is a “net beneficiary” in the long term as its reputation makes it a “partner of choice.”

Creating market transparency brings the critical nature of effective corporate governance to the forefront. While the shareholder relationship is central in the market layer of transparency, the role of corporate boards is to provide the necessary leadership to ensure that a wide range of capital market relationships are managed with integrity. But, as the corruption issue illustrates, market transparency entails more than simply following the rules, because rules will always be broken. Boards must take the lead to create corporate cultures that encourage and reward integrity as much as creativity and entrepreneurship. Building integrity into the firm means reinforcing good corporate values with appropriate decision-making and enforcement structures, along with incentives for employees to take ownership of these values. Above all, market transparency is about protecting and enhancing the credibility of the firm in the marketplace. A firm that fails to be ethical and transparent in its business practices, let alone its social or environmental practices, is not a firm that will be in business for long.

**Public Transparency**

The public sphere is a diverse amalgamation of groups that exist outside of the firm, the firm's business web, and the marketplace. In many ways, this group is the most distant from the firm, yet they are no less influential. The public sphere includes private citizens, not-for-profit groups, and appendages of the state. By our definition, we break public stakeholders into four categories: civil society groups, communities where companies operate, government agencies with jurisdiction over company affairs and the media. The media is an odd category because much of the media these days is controlled by large enterprises with commercial interests as well as public interests. Each of these groups can be further delineated into smaller contingents—each with differing interests, attributes, and mandates or intentions. The following chart stratifies a few examples from each category of public stakeholders.
The public sphere is becoming much more important to companies in an increasingly transparent world. The transparency issues in the public sphere largely relate to the impact that companies have on public interest concerns like the environment and social cohesion. As noted in section 3, the public now has much higher expectations of business with respect to such issues. An overwhelming majority wants companies to work in the broader interests of society. These expectations help create norms or accepted standards of behavior that companies violate at their peril. In many cases, these expectations get encoded in laws and rules created by the state. In other cases, they simply form part of the value system that governs the conduct of various institutions of society. As the public gains greater visibility in the operations of firms, it becomes increasingly critical to maintain synchronicity between the values and expectations of society and the behavior and business practices of the firm. Indeed, the perception that many companies are trading off the public interest to reap rewards for other vested stakeholders like their shareholders has fueled a demand for even greater transparency of corporate activities.

The public sphere has also become more activist and more sophisticated in its means to organize and agitate for greater transparency and accountability. Today, companies face relentless demands from governments, communities, civil society groups and the media to disclose a broad array of information about their social and environmental policies and performance (which most companies didn't even have until recently). Communities want to know how much waste a company creates, how many resources it consumes, whether it pays fair wages, and how much it gives back to the community. NGOs are scrutinizing supply chains and setting up anti-sites that mock corporate brands. Governments are following the beat of public opinion and introducing an expanded set of rules for disclosure, not only for financial areas, but also for social and environmental performance dimensions as well. And, the spectacle of corporate battles with the public sphere is an increasingly popular media story, for as long as it attracts ratings.

To make things more complicated, these groups all interact and feed off one another to create very complex networks that are hard for companies to understand or penetrate. In the forthcoming section we introduce the notion of the transparency network. Suffice for now to provide a brief, but recent, example of public transparency. On December 3, 1984, a chemical plant owned by Union Carbide exploded in Bhopal, India, killing at least 2,500 people, injuring 200,000 and scaring the local community for decades after. The incident triggered several interlinked effects. One, it stimulated an international movement to give communities the right-to-know when dangerous chemicals are being produced in their neighborhoods. Two, this mobilized governments to introduce new disclosure rules for toxic chemicals, most notably the Toxic Release Inventory in the US. Three, disclosure rules gave NGOs the ammunition they needed to mobilize public concern and to compel the chemical industry to report regularly on how it is addressing environment, health and safety issues. Four, it gave the media a great story to report the whole time, which helped to tarnish the reputation of all chemical producers, not just Union Carbide. The Bhopal example clearly shows how communities, civil society groups, governments, and the media all interact to increase corporate transparency.

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Many companies rightly fear public transparency. Public stakeholders have agendas and motives that may be at odds with corporate interests. The culture, attitudes and antics of NGOs and advocacy networks seem dangerously foreign to business managers. Releasing sensitive information to public stakeholders is also risky. Too many companies have had their brand smeared on an anti-corporate website or full-page ads in The New York Times. Most of these negative instances of outside-in transparency occur, however, when companies attempt to cover up secrets or choose to take an adversarial approach to dealing with stakeholders in the public sphere.

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— Niall Fitzgerald
Chairman, Unilever
We argue for a much more proactive agenda of public sphere transparency and engagement. Stakeholder engagement is a regular system of dialogue and reporting that enables firms and stakeholders to co-evolve a relationship built on trust and relationship capital. Unilever, for example, is a leader in harnessing the insights of environmental NGOs to build a more sustainable enterprise. From Unilever’s perspective, sustainability is a hard-edged commercial imperative. The company’s chairman, Niall Fitzgerald, states that “[Unilever] will only be able to maximize shareholder value and prosper in the long-term if we operate in a much more sustainable way.”

More than two-thirds of the raw materials used in Unilever products come from agricultural crops and livestock, fisheries and other potentially renewable sources. Experts are concerned that deteriorating soil fertility, increasing soil erosion, loss of biodiversity and declining availability of clean water will undermine the ability of Unilever to source these resources at predictable prices and quantities. The company has been reaching out to stakeholders to help them achieve sustainability in agriculture, fish and water resources.

The potential rewards for companies with effective public transparency strategies are compelling. Companies that regularly communicate with public stakeholders to demonstrate that they are meeting—or working toward—their social and environmental performance goals can improve their reputation and earn a deeply-rooted license to operate; develop co-operative working relationships that enhance innovation and business opportunities; lessen the processing times on requests for permits, patents, reviews, and regulatory approvals; and anticipate and understand stakeholder concerns before they become problems (for more on the processes of stakeholder engagement see section 8). Most importantly, engagement with public stakeholders is not about appeasing anti-business activists, as is often claimed. It is about creating a broad foundation of public trust that undermines the legitimacy of such activists in the first place. But as Susanne Stormer from Novo Nordisk reminds us, this is no easy task. As she says, “Trust is earned by a willingness to deal with dilemmas.”

Information Demands and Transparency Value Drivers

The five dimensions of transparency each generate different demands for information from the firm. Employees demand (and need) different kinds of information than community members do. Supply chain partners may seek similar classes of information as investors and regulators do, but for different reasons and through separate channels. NGOs and the media often exchange information about firms (directly and indirectly), but regularly do so independent of the firm’s knowledge or control. These multiple flows of information underscore the importance of creating a comprehensive transparency architecture that maps classes of information to a taxonomy of stakeholders—a theme we return to in the transparency management guide. For now, we created a chart to list the most common classes of information that have come up in our research on the demand for transparency in each layer of the model.

At the same time, firms generate different forms of value by sharing these various classes of information with employees, partners, customers, investors and the public. In section 4 we argued that transparency creates two key types of value: trust and lower transaction costs. Trust helps build better relationships with stakeholders in each of the five dimensions. Higher levels of transparency and trust-based relationships help to drive down the costs of doing business.
Yet, the specific business value produced by trust and lower transaction costs in each dimension of transparency are quite diverse. As outlined above, trust and transparency in the workplace can create alignment on values, while lower transaction costs help to increase productivity. In the capital markets, trust and confidence in a company’s management builds investor loyalty and reduces the cost of capital. To delineate these forms of value, we have also listed the key transparency value drivers in each of the five dimensions.

### Transparency Networks Traverse the Layers

The final point to make about the five dimensions of transparency is that the separation between the layers of transparency is, in reality, artificial. The five categories of stakeholders do not exist in a vacuum. Nor do they operate independently. The analytical value of the five-dimensional transparency model is that it allows us to think about the particular dynamics of the relationships firms have with different institutions in society. In the real world, there is a high degree of fluidity and interchange between and among the layers. Actions taken by the public sphere can influence the capital markets. Information about accidents or abuses in the business web can impact customer loyalty. Potential employees can be deterred by bad news in the media or company spoof sites posted on an NGO website. We call these dynamic exchanges of information, and viewpoints that traverse the five dimensions, a transparency network.

![Figure 22. Transparency network](image)

Transparency networks represent a veritable new force that is changing the nature of corporate communications in a highly interconnected world. They illustrate the folly of trying to treat each set of stakeholders as separate entities that can be managed independently of all of the others (as most companies do by virtue of creating distinct departments like investor relations, public and regulatory affairs, human resources, corporate communications, and now, corporate social responsibility). In the forthcoming section, we explore the rise of transparency networks as the primary organizational model for transparency. We also examine five case studies in which companies are struggling to engage with their own transparency networks. Then we proceed to argue (in section 8) that transparency networks demand an entirely different approach managing communications with stakeholders, an approach we call transparency strategy.
In December 1996, labor leader Isidro Gil was shot dead at the gates of a Coca-Cola bottling plant in Carepa, Colombia, just steps from the Coca-Cola sign marking the compound. Such violence, however, is not really news in Colombia. Drug cartels, paramilitary violence, widespread crime, impoverishment, and low government control and authority are very much part of the landscape in a country where traditional rules of law and order don't always apply. In fact, the murder of unionists in Colombia, approximately 1,500 in the last decade, accounts for three out of every five trade unionist murders in the entire world. It's not surprising then that the Coca-Cola Company didn't make much of the event. Indeed, Coca-Cola has only arms-length relationships with its global network of independent bottlers, where naming, packaging, and pricing are customized to local markets. The issue, however, did not fade away as Coca-Cola might have hoped.

The news of paramilitary killings made its way through a network of trade unions, and eventually reached the powerful Pittsburgh-based United Steelworkers of America. In July 2001, United Steelworkers launched a lawsuit, not just against the independent bottler in Colombia, but against Coca-Cola headquarters in the US as well. The lawsuit has since catapulted the issue into the public consciousness. A full-fledged transparency network has emerged to monitor the issue. Cokewatch.org is the hub of the network, disseminating information and rallying consumer action. Other groups have also popped out of the woodwork. Student groups at universities such as Harvard and The University of Montana are organizing to remove Coke vendors from their campuses; a coalition of protest groups showed up at Coca-Cola's annual meeting in New York; media coverage of the issue has been extensive in both mainstream and alternative publications; one angry customer on a consumer alert website said “sure I love the taste of Coke, but the company bites.” As Edgar Paez, a worker in the Carepa bottling plant put it, “We're giving our own global answer to their global operations.”

Rodrigo Calderon, a Coca-Cola executive based in Mexico, said the lawsuits contained “outrageous allegations” designed to grab headlines and promote “a political agenda.” “The company or the bottlers had nothing to do with the attacks,” said the executive. Calderon may be right. But, for a strong brand like Coke, the question of responsibility relies on far more than issues of ownership; it embraces many other components, including intent, derivation of benefits, knowledge, brand perceptions, and degree of control. And increasingly, transparency networks are making these connections more visible than ever before.

Defining Characteristics of a Transparency Network

In the broadest terms, transparency networks are internetworked collections of individuals and organizations that share and consume information about the policies and practices of particular firms, and sometimes, entire industries. Our research suggests that every company, in fact, every organization, operates within a transparency network that traverses all of the layers of transparency and facilitates information flows between each stakeholder group. Not all networks are the same, of course. In fact, they are highly variable (see discussion of variability in the next section). Some company's transparency networks may be small and quite ineffective in the larger scheme. Other transparency networks are large and influential, crossing many issues areas and drawing in people and organizations from around the world. (Monsanto's transparency network is a good example.) We expect to see more and more of them in the future. But, most importantly, we predict, based on the evidence we accumulated on the drivers of transparency, that their power and influence will grow over time.

How would you know a transparency network if you saw one? And, what makes them new? To help answer those questions, we identified five essential characteristics of transparency networks.

1. Transparency networks are not traditional organizations

Unlike traditional organizations and bureaucracies, transparency networks rarely have an identifiable center of operations or a command structure. This does not mean they have no structure at all. Rather, they tend to adopt a multi-nodal, many-to-many configuration in which different nodes play complementary roles. One node may act as an information clearinghouse, another will act as a liaison to the company, while several other nodes work to rally and synchronize the local actions of other participants. Some participants in the network—especially those at the edges of the network—may not even be fully aware that they collectively operate as a coherent entity. Employees that
stumble across an anti-corporate website may participate passively—but given the right (or wrong) incentives from their employer, they may become full contributors, anonymously leaking company information to the website’s bulletin board.

What distinguishes transparency networks from traditional organizations is their dispersed and decentralized nature, and their capacity for rapid self-organization, both of which confound the modern management apparatus of “command-and-control” organizations. Even the more institutionalized aspects of transparency networks (which we discuss in following sections) are usually embedded in vastly deeper and wider networks. It could appear illogical to think that such disparate and decentralized operations could have any meaningful effect at all. Yet, we believe that it is precisely these characteristics that make transparency networks so difficult to detect, so hard to control, and so surprisingly effective in accomplishing their goals.

Figure 23: Many-to-many network

Self-organizing systems are more adept at managing complexity and handling anomalies and exceptions because intelligence and decision-making power is distributed throughout the system. They are more scalable—self-organizing systems tend to grow exponentially rather than linearly. Moreover, like the Internet itself, they are robust to the extent that they are capable of resisting local failure: if one node in the network fails, the system itself will not collapse. After all, it is the aggregate effect of the combined actions and information exchanges of thousands of participants operating independently that leads us to believe that the transparency they impose on their targets can have a profound impact.

2. Transparency networks draw participants from all sectors of society

A transparency network can originate at any and all layers of the five dimensions of transparency. In other words, transparency networks are not just a fancy term for networks of NGOs (although NGOs do form a disproportionate number of transparency networks at this stage). Even at these early stages we have spotted transparency networks forming across a number of key stakeholder relationships. This includes the networks of employees that share information around the virtual water cooler. It includes the ever-present advocacy networks, as well as the more formal arrangements for monitoring supply chains, verifying corporate reports and certifying products. It includes the local community members that want a meeting with company management, and the self-organizing consumer and citizen actions spawned by websites that disseminate information provided by government disclosure laws. Even weary investors that swap information to help verify the accuracy of financial reports are forming transparency networks in the capital markets. The key point, however, is that no matter where they originate, or whom they incorporate into their activities, the pervasiveness of information enables transparency networks to affect relationships in all layers of the five dimensions of transparency.

The Nike sweatshop issue generated what we might call a quintessential transparency network. As the well-known story goes, the discovery of “sweatshops” in Nike’s supply chain set off a broad public debate about labor standards in the developing world and the degree of responsibility that companies should have for the quality of life of workers in outsourced production factories. While the network was triggered by NGO activity, the effects of their disclosure rippled throughout Nike’s multiple stakeholder relationships. Many customers (but not all) were affected by the stigma of wearing shoes made in sweatshops, employees were discouraged by bad press, supply chain partners were forced to raise standards and participate in new monitoring systems, and investors endured a temporary dip in the share price.120

3. Transparency networks generate fluid and reciprocal flows of information

In the industrial age, the technologies of mass communication were concentrated, monopolized and scarce, and thus more amenable to the central control of information. The central broadcaster had an exclusive
monopoly as provider or inhibitor of information. But the tables are turned in the information age, as networked communication technologies play a key role in disrupting hierarchies and undermining any attempt to establish or maintain a monopoly on information and communication. Digital age computer networks enhance both free association and the free flow of information and knowledge through unmediated and instantaneous channels—two powerful prerequisites for more autonomous and influential stakeholders.

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Figure 24. The dispersion of information

Transparency networks take advantage of this reduction in the cost and time-space barriers to effective communication and coordination. By actively generating, transmitting and receiving information in a network of global media, they form part of the backbone of popular culture and public opinion in the information age. There are different types of information flow, ranging from highly unmediated (e.g., online chat), to highly mediated (e.g., product certification). But, in general, transparency is a bit like osmosis: information flows freely from areas of high concentration to areas of low concentration, where it disseminates rapidly across space and time. In other words, opaque environments and information monopolies are only maintained by extreme degrees of control or coercion. As the cyber-libertarian mantra goes, “information wants to be free.”

4. Transparency networks are in a constant state of flux

Part of the nature of a transparency network is to change behavior rapidly and sometimes unpredictably. Transparency networks fluctuate between states of low and high intensity (the volume of interactions), low and high extensity (the size and scale of the network) and low and high velocity (the speed at which information travels through the network). If we examine a transparency network's behavior over time, we see different levels of activity along these three dimensions. We have identified two different states of activity in particular: the stable state and the vortex state.

The stable state is defined by fairly regular information flow, a small number of participants and a generally benign impact. In other words, stable states exhibit low intensity, low extensity and low velocity. We consider this to be the latent or dormant state of the transparency network. When a network is dormant, it's easy for companies to not realize they are there. But this is a big mistake, as many companies have learned. Networks are inherently unstable—they easily and rapidly tip into what we call the vortex state.

Vortexes are event-driven accelerations of activity and information flow. They are characterized by high levels of intensity, extensity and velocity as a greater number of participants exchange larger volumes of information at increasing speeds. Companies can get sucked into the vortex, as Nike did in 1992. And, it is in the vortex state that we see the potential for high impact as viral messages about the firm pervade the public consciousness. Even once the transparency network subsides, it can easily rear its head again, as Nike learned, nearly a decade later, when a mischievous customer requested to have his Nikes customized to say “sweatshop”, initiating a viral e-mail blitz and eventually landing him an interview on Good Morning America.
In fluctuating between stable and unstable states, transparency networks respond most aggressively to negatives. This is largely because some of the most strident and vocal participants in the network see themselves as guardians (or gatekeepers) of issues (e.g., human rights and the environment) and their role as one of monitoring and censure. These minutemen of the network swing into action at a moment's notice to defend their credo against “attack” by the corporation. Any attempt to quash the vortex usually makes things worse. Indeed, the vortex is amplified when the company attempts to cut off the feedback loops in the network. To the contrary, ensuring robust feedback paths is one of the primary ways to ensure stability in the transparency network.

5. Transparency networks cause shifts in values and behavior

Transparency networks are overtaking government as the leading forum for public debate and discourse in a networked world. In democratic societies, the main vehicle for legitimate debate on public policy issues has historically been the institutions of government. Today, the stagnation of politics, the lack of open and inclusive policy debates, the perceived irrelevance of government, and the one-way, broadcast orientation of the mainstream media have left few effective channels through which people can express their concerns or discontent. As a result, the location for public discourse and debate is shifting to transparency networks that operate outside the control of governments.

Ironically, by changing the context of democratic debate, transparency networks are making public discourse more open and accessible to everybody. Increasingly, this means that societies can't maintain consensus around decisions formed by small groups of elites or, for that matter, hide the activities of the powerful behind closed doors. This intense level of scrutiny and unmediated debate has a disciplining effect on the organizations that are drawn into the transparency network. Indeed, mere participation in the network exposes values, assumptions and behaviors of its participants. We argue that transparency networks encourage self-reflexivity. Firms caught up in them are subjected to continual critical examination in unmediated debates. Corporations operating under the gaze of stakeholder scrutiny are more likely to comply with norms that govern the broader community. When information disclosed to the public reveals inconsistencies between the conduct of corporations and acceptable standards of behavior, network participants put new forms of accountability in motion. These feedback loops constrain, or help “correct”, unacceptable behaviors, while encouraging new values and behaviors that conform to the expectations set by the network.

These feedback loops drive what we describe as values-based behaviors. These behaviors occur when firms decide to allow values to guide their behavior rather than the financial bottom line. In the past, a conflict has often (but not always) emerged between values-based behavior and the fiduciary responsibility of the owners of the firm. But in an increasingly transparent world, good values make good economic sense. When transparency is high, there is business logic in pursuing value-based behaviors because the rewards and consequences of values-based behavior are more balanced, if not tipped in favor of values. Ultimately, the choice of whether to pursue a values-based or bottom line-focused strategy remains for each firm to make, depending on its circumstances and capabilities (these choices, circumstances and capabilities are further discussed in Digital 4Sight's Business Case for the Values-Based Enterprise). But, as we discuss below, firms will not have a choice about participating in transparency networks.

Transparency Networks: Willing or Unwilling

One way or another, participation in transparency networks is not a voluntary exercise. Transparency networks often include firms as unknowing participants. But, ultimately, members of the transparency network will make themselves known and it will come down to a choice of what type of engagement will define a firm's relationship with its stakeholders. In some cases, firms will be passive—perhaps even unknowing—players in a transparency network that is aggressively trading information and shaping perceptions about the firm. In other cases, firms will be actively involved in the debate, spreading information through company reports and dialogue with key stakeholder groups. This largely depends on the network itself and the existing gap between the value systems of the firm and the network participants.

Values gaps can be bridged, but as leading firms like BP, BT, Hewlett Packard, Novo Nordisk, Royal Dutch/Shell, and Unilever (to name a few) have learned, it takes enormous effort at times to build the right relationships with stakeholders. We argue that these firms are successful because they have learned how to play an active role in them to meet stakeholder expectations for open, responsive,
and accountable forms of corporate governance. In doing so they have learned how to leverage value from these relationships. This is not a static or painless process. It requires a high level of transparency, extensive dialogue, and a continuously evolving innovation system that cycles good values and behaviors throughout the enterprise. In addition, a good reporting system drives information out to stakeholders and then collects feedback and funnels it back inside the firm where it drives more learning and innovation (see Digital 4Sight's report on Next Generation Reporting). The most strategic of firms will learn how to harness their values-based behaviors to create competitive advantages (again, see Digital 4Sight's business case).

In the discussion ahead, we take a more in-depth look at transparency networks and outline some top-level recommendations on how to engage with them. We begin, in section 7, with a look at six transparency networks that we have mapped out to explore their dimensions. Next, we look at six key dimensions of variability in transparency networks, digging out some of the key lessons from the case studies and identifying the salient trends in the evolution of their role in corporate transparency and governance. Then, in section 8, we lay out some of the key lessons we have learned about the nature of transparency networks and the strategic implications for corporate managers tasked with figuring them out.
7. CAUGHT IN THE WEB: TRANSPARENCY NETWORK CASE STUDIES

This paper draws on the insights gleaned from observing a total of 28 cases of companies that have encountered transparency networks in one shape or form. Of those 28 cases, we examined the transparency issues facing five companies in particular. They include De Beers, Home Depot, Monsanto, Unilever, and Wal-Mart. Each company has faced its transparency network in different ways and with varying degrees of success. The stories of most of these companies have already been presented in previous sections of the paper. In the following section, we look more closely at the companies' transparency networks. We begin the discussion by describing the nature of each network and follow up with some observations about the trends and implications we see arising from the research. A more detailed discussion of the corporate strategies we recommend based on our case study learnings is presented in section 8, including a series of new transparency management frameworks.

Case Study Methodology

The case study research we conducted assesses the online, interlinking practices between corporations and transparency network participants to appraise the status of online debates about “corporate responsibility” issues with respect to each case. Using third-party network mapping software that crawls the Internet to identify links associated with specific issue areas, we have created visual maps of the transparency networks, which had been a theoretical construction until this point. The network maps enable us to identify the key participants that cluster around specific issues and companies, who they are networking with, and the relative weight of their influence in the overall network. The approach is limited because it only captures the online environment, and therefore, misses the dynamics of traditional media sources like print, radio, and television. A more comprehensive analysis would have to take these additional sources into account. However, there are some benefits to our approach.

Unlike actively observing an issue via news reporting, for example, online transparency network analysis gets to the “ugly” bits of what is not reported by traditional media sources—it exposes the underbelly of these transparency networks. Furthermore, the debates that unfold in the online environment are growing to be much more influential as the Internet becomes an increasingly pervasive and popular medium for media consumption. Indeed, it is already common for such online events to be picked up by the mainstream media. And, as we argue in section 8, it would be a mistake to underestimate the importance of tracking this element of the transparency network. After all, it is often at the “edge of the network” where powerful vortex states can emerge to rapidly spin out of control before a company knows what hit it. In the end, we believe online transparency network analysis is a fairly dynamic method of identifying important players in transparency networks and the key venues for online debate about issues in which today’s leading companies are deeply enmeshed. While not yet comprehensive, transparency network analysis provides a starting point for designing a transparency strategy.

The goal in each case examined here was to identify the predominant storyline of each network map by describing the stories told by its interlinking patterns. This approach does not fully assess how effectively each company is plugged into the issue network (much engagement may occur off-line, for instance) but it does identify the major issues surrounding different players in any given debate. And, from what we know about the issues from our “off-line” research, we find that these maps tell a very similar story to what we understand to be the reality of the situation facing each of the case study companies.

De Beers

For a long time, diamonds have been associated with all things pure. Diamond suppliers like De Beers operated quietly in the background, attracting little public attention. This all changed, however, as a well-organized transparency network has emerged to call attention to what has become known as the problem of conflict diamonds, or diamonds that are implicated in the brutal civil wars that plague diamond-producing countries in Africa. By threatening to taint the image of diamonds, this issue has compelled the diamond industry to adopt an unprecedented level of transparency through the multi-lateral Kimberley process established in November 2002 (for more background on the conflict diamonds issue and the Kimberley process, see the business web transparency discussion in section 5).

The De Beers transparency network reflects the diverse group of organizations that intersect with the conflict diamonds issue. The key node in this network is an influential left-leaning weekly newsmagazine The Nation.
The Nation has run several stories on the conflict diamonds issue and has strong links to NGOs that are active in the debate about the diamond supply chain, including The Coalition to Stop the Use of Child Soldiers (child-soldiers.org), Partnership Africa Canada (partnershipafricacanada.org), Global Witness (globalwitness.org), and Africa Action (africapolicy.org). Another key node in the network is AllAfrica.com, the largest electronic distributor of African news and information. AllAfrica.com has also published extensively on the activities of De Beers and problems of associated with diamond mining in countries such as Sierra Leone, Angola and Liberia. AllAfrica.com links to other prominent players in the issue including the UN, the World Bank, and Human Rights Watch. The density of exchanges among these groups suggests the network is still in a mild vortex state, which is not surprising considering the multi-lateral negotiations that established the Kimberley process were just winding down at the time of this research.

The make-up of the network suggests that the public debate about conflict diamonds is happening largely outside the sphere of influence of De Beers or the wider diamond industry. Organizations such as the UN, Partnership Africa Canada, and Global Witness have published extensive reports, case studies, and points of view on their websites, each of which are interlinked with other players in the transparency network. These websites describe the conflict diamonds issue in vivid terms. They refer to diamonds in the context of their association with issues like child slavery, war, poverty, and resource exploitation, which are juxtaposed against the indulgence of affluent Western consumers and the massive profits of companies like De Beers.

Global Witness, which claims to be first NGO to bring the issue of conflict diamonds to the attention of the diamond trade, world governments and the United Nations says, “Conflict diamonds used to be the diamond industry’s best-kept secret … The Conflict Diamond campaign exposes how the international diamond industry has operated for years with no rules or regulations and how this lack of corporate responsibility has wreaked havoc in some of Africa’s most prolific civil wars.”

Global Witness and others in the transparency network continue to advocate for legally binding regulations imposed by governments on the international diamond industry to ensure that diamonds no longer fund conflict in Africa.

Having come under pressure, the diamond industry is only now beginning to take steps to increase their profile as leaders in solving the conflict diamonds issues. This effort comes after negative news hit the mainstream media as a result of awareness-raising campaigns by NGOs. De Beers and the World Diamond Council (WDC), an industry association, for
example, recently posted position papers or statements on the Internet. While it would now be impossible for the industry to avoid taking some responsibility for the issue, statements from industry players indicate they are clearly in favor of a self-regulatory approach to managing the diamond supply chain. The WDC posted a press release on its website, saying “we fully accept the industry’s continuing responsibility to play an active role in assuring that the practices envisioned by the Kimberley process have real impact over the long term. Governmental action, while critical to the program’s success, is insufficient by itself. The self-regulation required of WDC constituents is vital as well …”125 Interestingly, the press release goes on to say that, “We are also sensitive to the sentiment of some allies who contend that the Kimberley process regimen does not go far enough. While we understand the basis for that viewpoint, we are persuaded that to attempt any changes now, on the brink of global implementation, would serve to delay implementation—perhaps indefinitely.”126 The Diamond High Council (HRD), the official representative of the Belgian diamond industry, has gone further than the WDC in fostering greater industry transparency about problems in the diamond supply chain. HRD has developed an entire website (conflictdiamonds.com) dedicated to tracking news on the issue. The site also hosts an extensive progress report on the measures the Belgian diamond industry is taking to solve the issues.127

Despite these recent attempts at transparency, the points of view of the diamond industry are not represented in the transparency network. While the diamond industry has done a better job of entering the debate, its messages do not appear to be penetrating the web of opinions that are being propagated by critics of the industry. While the Kimberley process has brought these disparate points of view together to forge an agreement for eliminating conflict diamonds from the supply chain, it’s not clear whether this will result in greater “integration” between the diamond industry and the transparency network that scrutinizes its behavior. Indeed, with many of the NGOs now playing the role of monitors of the diamond supply chain it’s pretty safe to say that they will want to keep their distance from De Beers and other industry entities. And fundamental differences over legally binding legislation versus self-regulation will continue to be a divisive issue, especially if the international trade in diamonds continues to fuel vicious civil wars on the African continent.

**Home Depot**

The Rainforest Action Network (RAN) is a relatively small US-based advocacy group with a mission to reduce the number of rainforest trees being cut down for the benefit of North American consumers. Yet, this well-organized network has been able to exert considerable pressure on the forestry industry. Part of RAN’s success can be attributed to its decision not to appeal to governments to intervene with import restrictions on “old growth” lumber when it wanted to eliminate rainforest destruction—it took its fight to the marketplace instead.

Facing an entire industry value chain extending from loggers to homebuilders, singled out Home Depot—the largest retailer of “old growth” lumber at the time. It was 1997 when RAN initially contacted Home Depot’s executives to request that they stop selling products...
containing rainforest lumber. Home Depot declined, claiming it was impossible to track the wood sources of its 50,000 products. Subsequently, RAN escalated the campaign.128

Two years of hard campaigning blended anti-Home Depot websites, full-page ads in The New York Times, and synchronized storefront picketing across North America. Home Depot faced a mounting pile of bad PR and growing local resistance to new store locations.129 In 1999, Home Depot signed a landmark agreement with the RAN, committing the company to phasing out old growth lumber from its product lines by 2002. Home Depot's suppliers are currently working with environmental and forestry groups in the Forest Stewardship Council (FSC) to certify that its wood products are not taken from endangered areas. Furthermore, Home Depot now boasts proudly on its website that it works diligently to educate itself and its suppliers about forestry issues.130

Taking a snapshot of Home Depot's transparency network almost four years after RAN and Home Depot came to an agreement reveals a transparency network in remission. We include Home Depot's transparency network because it illustrates dynamics typical of a network in its stable state. The number of participants is relatively small compared with those in a vortex state. The key node in the network is oneworld.net, a major Internet portal serving non-profit organizations and those interested in a vast array of social and environmental issues. Given the site's mandate, it is not unexpected that it would have extensive links into Home Depot's transparency network, including the FSC. RAN itself is the only other hub in the network that links to other participants. But, in general, there is a very low level of interlinking in the network. Furthermore, most of the websites we visited in the network did not feature Home Depot prominently. Information about the company or its environmental policies was often buried several links down. We attribute these stable state dynamics to the fact that, for Home Depot at least, the rainforest lumber issue has matured and public pressure subsided. With the company now engaged in a formal product certification process through the Forest Stewardship Council, the transparency network has become somewhat institutionalized. Home Depot, however, should be wary of becoming complacent. While RAN publicly recognizes the company's good behavior, the organization raised the bar recently by calling on Home Depot to "to use its power as the market leader to drive change within the forest products industry."131 As we discussed in section 6, transparency networks can be highly volatile and react quickly and powerfully to bad news. A low level of activity in the network today does not guarantee one tomorrow. One misstep is all it would take to reanimate the various groups and individuals who view themselves as guardians of the world's rainforest.

Monsanto

The Monsanto saga is well-known. The beleaguered life sciences company has endured a difficult public relations battle over biotechnology ever since groups like Greenpeace raised the specter of “frankenfoods” and widespread environmental contamination. Today, this battle is being fought on multiple fronts. Environmental groups, farmers, regulators, consumers, organic food enthusiasts, and anti-"bio-piracy" advocates have all raised unique concerns about the implications of Monsanto's core business. And despite trying to make some changes in its approach to engaging with critics, Monsanto continues to face an extensive and intense campaign that threatens to undermine its business in the near future.

As expected, Monsanto's transparency network is very extensive in scale and scope. The largest nodes in the network include the Organic Consumers Association (organicconsumers.org and purefood.org), a rallying point for organic food enthusiasts that see Monsanto as a threat to the safety and purity of the foods they eat; and notmilk.com, an “anti-milk” megasite containing vast amounts of information about the alleged dangers of milk, including Monsanto's Bovine Growth Hormone product. Both of these sites link to a number of sites associated with vegetarian or vegan lifestyles, and also to regulatory bodies like the FDA. Other prominent nodes include Greenpeace and Envirolink, which put forth an environmental critique of Monsanto's business; the Institute of Science in Society (i-sis.org), which has rallied the scientific community against the patenting of life forms; and the Third World Network (twnside.org.sg), which is primarily concerned with bio-piracy issues and the rights of peasant farmers. Tweaking the parameters of the network mapping software illuminates an even more expansive network of stakeholder sites, including a significant number of agricultural links to groups such as Farm Animal Reform Movement (farmusa.org) and Percey Schmeiser's personal website (see network map 2).132
But, Monsanto’s transparency network was not all that we anticipated. What was surprising about Monsanto’s network was the lack of apparent interlinking among these disparate groups. Unlike the De Beers case, the various constituencies that have rallied against Monsanto for their own particular interests do not seem to overlap in any significant way. The lack of interlinking suggests that a broad-based and unified movement against Monsanto has failed to materialize (online at least), even as individual communities continue on their separate paths of protest. Like the De Beers network, however, the overall tone and language of the network participants is overwhelmingly negative. Based on a scan of the websites in the network, the level of activity and information exchange within each community is similarly high, with significant coverage of Monsanto on their websites.

Monsanto, on the other hand, has been unable to inject its point of view into the network. Indeed, attempts to shift the biotechnology debate with the launch of the Biotech Knowledge Center website, have only invited further ridicule. Critics like to point out the inconsistencies in Monsanto’s approach to transparency. For example, a parody website (earthsummit.biz) that exposes what it calls Greenwash at the Earth Summit awarded Monsanto Runner-up for Lifetime Achievement in the Green Oscars, “for tireless promotion of transgenic crops that just happen to use Monsanto’s own Roundup herbicide as the solution to world hunger, and for publicly promoting open discussion of genetic engineering while lobbying against public information disclosure rules and labeling of genetically engineered foods.”

In a paper entitled, “In Biotech We Trust?,” the Pesticide Action Network (panna.igc.org) questions whether claims on the Biotech Knowledge Center website should be trusted.
The activists are not convinced; but are Monsanto's tactics influencing the broader public? Evidence suggests that Monsanto is losing here too, especially in Europe where the question of genetically modified organisms (GMOs) seems likely to kick-start a trade war with the US. A poll conducted by MORI in Britain concluded that only 18% of people thought the benefits of GM outweighed the risks. When it came to labeling of GM foods, 76% backed the EU's position that consumers should be told products contained GM ingredients and only 6% supported the US's position that labeling should not be compulsory, with 20% having no preference either way. Even Hendrik Verfaillie, the company's former chief executive, admitted in an interview with the Financial Times that such is the public resistance to GM crops that Monsanto is now assuming there will be no progress in Europe until 2005 at the earliest.

### Unilever

In our discussion of public transparency (see section 5) we reported that Unilever had successfully engaged a number of environmental NGOs, scientists, and community groups in an attempt to move the company toward sustainability. Unilever gets a fair amount of recognition for its...
accomplishments. The Dow Jones Sustainability Index ranks Unilever as the market leader in the food products industry, describing its performance as “excellent.”\textsuperscript{139} SustainAbility, a UK-based consultancy, lists Unilever among its top 50 best-practice sustainability reporters.\textsuperscript{140} Even many environmental groups concede that Unilever is a responsible company, or at least headed in the right direction. Indeed, Jonathon Porritt, a leading environmentalist in the UK and advisor to Unilever, said, “I've no doubt that Unilever could be somewhat fleeter of foot in meeting these challenges … but I still feel that Unilever's science-based, socially-responsible approach to developing more sustainable agricultural practices over time gives it a real edge over its competitors.”\textsuperscript{141}

Figure 30. Unilever network map

In part, Unilever's transparency network is a reflection of its good relationships and reputation with a number of key allies. For example, in April 2002, Unilever, in partnership with the World Conservation Union (IUCN) and Earthwatch Institute (Europe), held a workshop, “Biodiversity Plans for Business,” during the 16th Session of the Global Biodiversity Forum.\textsuperscript{142} A key node in Unilever's network turned out to be the IUCN (iucn.org). The IUCN links out to organizations such as the United Nations Development Program (undp.org), the World Bank (worldbank.org), the Food and Agriculture Organization (fao.org), and Farming Solutions (farming-solutions.org), each of which make small, but complimentary mentions of Unilever's sustainability activities. While Unilever's website is not included in the network map, it does link to the sites above, enabling visitors at either end to find out about Unilever's good work. Furthermore, these references and relationships establish a great deal of credibility in the claims that Unilever makes about its environmental policies and performance. There is, however, a dark side to Unilever's transparency network.

Even good companies are never perfect. In August 2001, BBC News reported that Hindustan Lever, a Unilever subsidiary, was illegally dumping toxic mercury wastes behind its mercury thermometer factory in Kodaikanal, India.\textsuperscript{143} The incident sparked outrage in the community and beyond. The allegations initially provoked denials from Hindustan Lever. Unilever quickly stepped in, admitted wrongdoing, and has since agreed to permanently close the factory and clean up the mess—not before the damage was done, however. Two other key nodes in Unilever's transparency network include the Centre for Science and Environment in India (cseindia.org) and Greenpeace India. Both helped to expose the Hindustan mercury spill and have fought hard to ensure that Unilever's headquarters was held accountable for cleaning up the spill. Navroz Mody, Greenpeace's Toxics Campaigner in India argues in a Greenpeace campaign article that “Unilever's mission statement may read like
poetry; but their actions in Kodaikanal expose them as toxic traders who run polluting industries in developing countries to service the markets of the rich nations.144 Corporate Watch, another node in the network, has seized the mercury dumping as evidence that Unilever is violating certain principles of the United Nation's Global Compact, of which Unilever is a flagship member. Visitors to the Corporate Watch site can even see a list of several alleged inconsistencies between Unilever's statements on the issue and the recorded facts of the situation.145

This incident is a reminder that even seemingly distant issues, far removed from a firm's direct control, can easily seed a transparency network with harsh criticism and accusations of hypocrisy. Curious individuals will be able to find records of events archived online for some time to come. While nowhere near fatal for Unilever or its reputation, such incidents do chip away at the trust that the company has built with stakeholders like the IUCN. As the saying has it, sometimes the bad can chase away the good.

Wal-Mart

Wal-Mart is the world's biggest company by revenue. Indeed, the company is very successful by most measures, especially those valued by the capital markets. According to Fortune, the big-box retailer is among the “Most Admired Companies in America” and was one of the “100 Best Companies To Work For” in 2001.146 The Financial Times includes Wal-Mart on its list of the “Most Respected Companies in the World.”144 But, a growing network of employees tells a different tale. As we described in our discussion of the transparency in the firm (see section 5), some Wal-Mart employees believe their employer has strayed from its core values of respect for employees and customers. To get their message out, they have created a network of websites on which they discuss their problems, disseminate protest information, and chronicle instances of what they allege to be unfair labor practices and union-busting tactics. The issue just recently made it to the pages of Time.148 And, as Time reports, the employees now have big backing. Major union groups such as the AFL-CIO (aflcio.org) and the United Food and Commercial Workers (ufcw.org) have launched lawsuits and organized events against Wal-Mart, whose growing market share has raised some alarm among union leaders.

The transparency network map reveals that the Wal-Mart network is dominated by two kinds of sites. There are union sites, of which there are several, including the UFCW, The National Labor Committee (nlcnet.org) and the Union Network International (union-network.org), a key node in this network. Then, there are the do-it-yourself employee websites that have sprung up across the US. Walmartyrs.com, a site dedicated to “sharing the Wal-Mart experience worker to worker,” is the central node of the seven employee websites included in the network map.
Another important node in the employee network is the walmartdayofaction.com site, which provided an online logistical center for the unions and supporters. The other significant constituency represented in the network is the media, which have reported on Wal-Mart's labor troubles. Finally, the network map includes walmartstores.com, Wal-Mart's store locator site. It is the first time a website related to a company in question has appeared. It's interesting to note, however, that the the site is linked from the Wal-Mart workers' site in Las Vegas, which points to it to help supporters find stores to picket.

The prominence of employees makes Wal-Mart's transparency network unique compared with the others studied here. The networks monitoring De Beers, Monsanto, Unilever, and Home Depot were composed of multiple stakeholder groups (even if the majority were NGOs of one kind or another), but did not include any significant employee presence that we could detect. The network is also national rather than international in scale, as most of the others were. Yet, Wal-Mart's network map reveals the most active and interlinked transparency network we have observed. The collection of organizations is highly interwoven, with most websites connecting with each other directly. Wal-Mart is featured prominently on these sites and the news and information appears to be updated frequently. We speculate that the focused nature of the network and the timeliness of the network analysis (we crawled the network a week prior to the National Day of Action Against Wal-Mart on November 21, 2002) both contribute to the high states of intensity, velocity, and extensity.

The degree to which this transparency network will affect Wal-Mart's behavior remains to be seen. So far, the company has shown no sign of relenting, or apologizing for its preference for a non-union environment. Wal-Mart rejects all of the claims of the network participants. While John Sweeney, president of the AFL-CIO, claims “the company is dragging wages and benefit levels back to 19th century standards,” Wal-Mart counters by asking “If the jobs are so bad, why are so many people working for Wal-Mart?” Maintaining a good image, however, is important for Wal-Mart, because it will need to add some 800,000 employees in the US alone over the next five years. Wal-Mart may do well to be more conscious of the messages that are propagating in the transparency network, especially if it wants to maintain the same levels of employee productivity it has today. Indeed, Wal-Mart's labor troubles may already have had something to do with the fact that America's largest employer was recently dropped from Fortune's 2002 edition of the 100 Best Companies to Work For.

### Dimensions of Variability in Transparency Networks

The case studies presented above illustrate how transparency networks assume many different forms. They fluctuate in size and behavior in response to the actions and pronouncements of the firm or industry that has come under scrutiny. The political dynamics of the issues at hand significantly influence the disposition of the participants and vice versa. Some networks have become institutionalized, partly reflecting the maturity of the issue and the extent of alignment between the values and goals of participants. Most, however, are highly decentralized, amorphous, and confrontational in nature. Some networks focus on local, single-company issues, while others are transnational in scale and more ambitious in the scope of their agenda. In our study of six in-depth case studies, and by drawing on our broader scan of 20 additional transparency networks, we tracked several ways transparency networks differ from one another. In doing so, we project some of the key trends in transparency networks and shed light on their likely path of evolution. In the following discussion of these differences, we identify six dimensions or axes of variability.

![Figure 32. Six dimensions of variability](image-url)
**Network leadership and participants**

Transparency networks vary according to the nature of their participants, as well as the location and authority of their leadership (if any). Some networks are composed primarily of civil society groups that will attempt to draw other stakeholders like customers, investors, the media, and government into the network. As the Wal-Mart case suggests, employees of the firm can sometimes form the center of a transparency network. It is rare to see governments or firms leading a transparency network, as they tend to be counter-cultural to the inclinations of hierarchically organized institutions. But a growing number of networks will see intense involvement of firms and governments as power and authority is shared, bartered, and struggled over by diverse forces from the five layers of the transparency network.

**The institutionalization of transparency networks**

Transparency networks vary by the degree to which their structures and processes are institutionalized. Many of the networks we have identified have uncodified rules and tend to have less formal processes and more networked organizational forms. Networks like the vast alliance of groups that have rallied against Monsanto (and genetic engineering more broadly), do not share a common headquarters or institutional structure. Leadership may be provided by Greenpeace, Friends of the Earth, and other large nodes in the network, but Monsanto’s transparency network generally consists of dispersed, small groups that communicate, coordinate, and act in a fashion akin to the Internet—often without central leadership. While less predictable and even unstable, networks appeal to actors who prefer not give up their independence and autonomy. The degree to which there is any system of governance, it is usually by virtue of a shared set of norms, understandings, and values.

An increasing number of networks are developing codified rules, formal processes, and, to some extent, organizational bureaucracies that manage their affairs. The Marine Stewardship Council, the certification body created by Unilever and WWF is an example of the institutionalization of one aspect of a broader transparency network that monitors the state of the world’s fisheries. The Global Reporting initiative is an attempt to bring greater structure, consistency, and inclusive dialogue to the process of setting and governing standards for corporate reporting on triple bottom line issues. Institutionalization has many advantages. It establishes stability and predictability; it can often lead to greater consensus, efficiency, and productivity; it also infers legitimacy when a broad range of players agree to work collectively through a common institutional framework. Achieving a stable state of institutionalization—without bogging down into bureaucratic stagnation and irrelevance—is not easy to achieve, especially given the often contentious nature of the issues being debated in transparency networks. The extent to which transparency networks evolve into institutions depends largely on the amount of integration and goal congruence among the network participants, which we discuss below.

**Integration and congruence of goal and values**

Transparency networks differ considerably over the degree to which they gravitate toward collaborative, trust-based relationships between participants on one hand, and conflict and divisiveness on the other. Many factors come into play here. They include the degree to which the behavior and commitments of other participants can be relied on; the pre-existing alignment or misalignment of the various institutional goals or mandates; the degree to which one participant may have control (perceived or actual) over the final outcome; the degree to which there is shared knowledge among participants, particularly their level of awareness of each other’s interests and of the consequences of their behavior; and finally, the willingness of all participants to compromise their objectives in order to reach a common ground.

The Kimberley process represents an instance where most participants in De Beers’ transparency network could establish enough common ground to agree on a single process and institutional framework for increasing the transparency of the diamond supply chain to help eliminate conflict diamonds. The chocolate industry, NGOs and governments recently reached a similar agreement by establishing a monitoring process to help eliminate slavery from the coca supply chain (see below). In each case, a degree of shared knowledge and common values, and a sufficient overlapping of goals and objectives among network participants, helped to facilitate a mutual understanding of and commitment to the necessary course of action to resolve the issues.

In many situations, the goals of network participants and the object of the network (i.e., the firm or industry under scrutiny) are difficult to reconcile. In these situations, more
transparency and engagement is often not enough. Underlying the demands for transparency are more fundamental disagreements related to the nature of the business the company is in or the way it is run. Biotechnology, and Monsanto in particular, stands out above all others as an example. On one hand, a lack of transparency, especially in the early stages, limited the public's knowledge of biotechnology and left the public discourse open to the opponents of the technology. By failing to win public trust, they brought an entire sector close to disaster. But, the problem is deeper now. Monsanto operates within a transparency network that rejects outright the safety and legitimacy of its products. In the absence of any serious attempt to reconcile its business objectives and practices with the norms and values of societies, Monsanto will drive an even deeper wedge between itself and many key stakeholders. The degree of polarization has already made it quite difficult for Monsanto to negotiate with groups that would prefer to see the company go out of business, despite Monsanto's recent commitment to greater transparency and dialogue. Today, after decades of research and product development, the size of the industry is only a fraction of what most observers had anticipated it would be.152

Another notable example is the oil industry, although, in this case, not all players in the industry are being painted with the same brush. Exxon-Mobil has been picked on for its aggressive stance against Kyoto and its practice of information barricading. Exxon's very fractured and divisive network of stakeholder relationships, however, stands in contrast to other players in the oil industry such as BP, Nexen, Shell, and Suncor. These companies and others have all made much more substantial efforts than Exxon to improve their relationships with stakeholders by adapting their long-term strategic goals to reflect societies' changing interests and releasing much more information about their activities to their transparency networks.

**Compliance and accountability mechanisms**

Transparency networks vary in the nature of their compliance mechanisms. Compliance mechanisms generally range from voluntary and normative standards with weak enforcement to mandatory rules with legal backing. In most of the emerging transparency networks, including the institutionalized forms, participation (to some degree) and compliance is voluntary and normative. Rules set by the network tend to be enforced through the sanction of public opinion or the discipline of the market. An example includes the Fair Labor Association, which was formed through a partnership of apparel and footwear manufacturers, NGOs, unions, and government representatives, in which companies voluntarily submit their overseas factories to third-party inspection and verification. Voluntary, transparency-based governance mechanisms are expected to become much more common. As Charles Sabel of Columbia University argues, this is largely because the machinery to compel global companies to adopt consistent international standards for their sectors does not exist and will be quite hard to build.153 Transparency-based governance represents a more flexible, market-friendly alternative.

Transparency networks with mandatory and legally enforced compliance mechanisms are rare. A direct, or well-defined, line of accountability to democratic bodies or government agencies is even less common. A number of transparency networks do, however, build off rules established by governments. Scorecard.org, for example, harnesses the information disclosed by the US government's Toxic Release Inventory (TRI) to spawn a self-organizing network of citizens and environmental groups that use the website to target polluters (see discussion of immediacy in section 3). So while firms must comply with the TRI, it's completely within their discretion to decide whether or not to listen to the complaints of citizens and environmentalists. This is not to say, however, that governments will not decide to make some of the voluntary disclosure rules created by transparency networks legally binding in the future (see discussion of information disclosure rules in section 3). Indeed, a number of governments have already indicated some willingness to do so, but the outcome will largely depend on the level of compliance achieved by voluntary rules.

**The scale and reach of transparency networks**

Transparency networks differ according to the scale of their activities and their sphere of influence over corporate behavior. Transparency networks can be local, national, regional and international in scale. In fact, they often vacillate between low and high states of intensity—rising and falling in scale with the ebb and flow of the issues and companies they monitor. Wal-Mart's transparency network started with employee protests in a local Wal-Mart in Las Vegas. But even seemingly local issues can catch authorities off guard by taking on national and international dimensions. Thanks, in part, to the Internet, and also to powerful unions like the Teamsters and the United Food
and Commercial Workers, the protests have now spread to over 30 Wal-Mart locations in 16 states. Indeed, given the increasingly global scale of corporate operations, most networks have a propensity to extend the reach of their activities as far as possible. Some larger networks successfully link up local, national, and international bodies in a coordinated effort or meta-network. For example, the Association for Progressive Communication, a global federation of 24 non-profit Internet service providers, hosts websites and distributes information to over 50,000 NGOs in 133 countries.154 Some networks achieve scale by finding their institutional home in international bodies like the United Nations. As of December 2002, 628 companies from over 40 countries around the world subscribe to the nine principles of the UN's Global Compact.155

For companies, the implication of this trend toward international scale, and the explosive speed at which local issues can erupt into transnational networks, is the need to pay close attention to local disturbances that can easily fly under the corporate radar. Sometimes putting out local fires early can prevent larger issues from burning out of control. Inevitably, the growing scale of transparency networks also raises challenging issues for companies trying to understand and engage with networks that intersect with different political traditions, languages, and cultures around the world. While networks typically have much less trouble incorporating diversity into their structure and logic, most companies are ill-prepared for this reality. Many companies have a hard enough time communicating with American NGOs, let alone a peasant movement from the southern state of Karnataka, India, which recently burned a field planted with Monsanto's genetically modified Bt Cotton, launching the so-called “Operation Cremate Monsanto” as a popular movement among farmers in India.156

Scope and boundaries of transparency issues

Finally, transparency networks vary according to the way they define the scope of the issues they address. Some networks focus on specific issues such as toxic waste, human rights, and labor standards, while companies get caught in the crossfire of their larger political ambitions and activities. Other times, companies are the primary focus, like the transparency networks that coalesced around the infant formula-inspired boycotts of Nestle in the 1970s and 1980s. This difference is not as trivial as it may first appear. The issues are more clear-cut for companies, like Nestle, that get targeted because of their specific business practices. These issues are often more directly within the control of the firm. Nestle had a choice about what to do, if anything, about its practice of marketing infant formula to mothers in developing countries, and a fairly straightforward set of parameters by which to evaluate its decision.

On the other hand, companies that come under scrutiny for their role in broader issues that are beyond their individual control, like climate change, paramilitary violence, or modern-day slavery in Africa, can get stuck in a complex situation. For example, chocolate companies were recently accused of complicity in slavery, after a documentary aired on BBC revealed several cocoa plantations in the Ivory Coast using slave labor to produce the raw materials eventually sold to chocolate retailers like Nestle, Cadbury, and Hershey.157 Chocolate manufacturers, however, don't own the cocoa farms—they don't even have arm's length contracts with them. Rather, they buy raw materials on agricultural commodity exchanges. That lack of ownership or direct control of the situation forced chocolate manufacturers to negotiate with a wide range of cocoa growers, NGOs, international organizations, and government agencies to work out a long-term solution to the problem. Similarly, Coca-Cola's arms-length relationships with suppliers have raised questions about whether it is responsible for helping to stop the murders of union leaders in Colombia. In the eyes of its transparency network, Coca-Cola's control of the brand (and fair share of the profits), makes it responsible. But given Coca-Cola's lack of control over paramilitary violence in Colombia, the company is in a nearly impossible situation.

Transparency networks also exhibit a tendency for “scope creep.” Networks that start with one company can easily spill over into other companies, industries, and issues. For example, when the Rainforest Action Network became emboldened by its “victory” over Home Depot, it decided to move on some of Home Depot's competitors, effectively broadening its old growth-free campaign to the entire home improvement industry. In November 1999, HomeBase and Wickes Lumber—the sixth and tenth largest US home improvement retailers—both signed similar agreements with RAN. Lowe's Lumber, Mitsubishi, and Staples all agreed to phase out old growth products in 2002. RAN also claims to be at different stages of negotiation with several others large US home improvement chains.158
From our analysis of these six cases, we learn a lot about how the issues are being defined and debates structured within transparency networks. These case studies also tell us a great deal about the nature of transparency networks, their points of differentiation, and the likely trajectories for their development over time. Looking forward, our analysis suggests that while a plurality of transparency networks will always exist, a few trends are discernable among the six axes of variability discussed above. We do, however, acknowledge that it is still quite early in the life of transparency networks to make predictions with certainty.

- Most of the corporate transparency networks we studied are embedded in larger issue networks (e.g., labor, human rights, the environment) that are shaping political and corporate agendas, while influencing the broader environments in which these companies operate. Much of Monsanto's network is concerned not just with Monsanto, but with the broader social, environmental and health concerns that biotechnology raises. The movement has been a powerful catalyst for broad public and political discussion about biotechnology. While Wal-Mart's issue pertains to its own labor practices essentially, their current and former employees are reaching out to a broader network of people and organizations concerned about protecting the rights and entitlements of union members around the world.

- There is still a striking absence of any real company presence or participation in these networks. Many companies, including most of the ones we have studied, are engaged in some level of social and environmental reporting. Almost all have some formal policy statement on the Internet, many supply news and points of view on issues, and some actually publish their social and environmental performance metrics online. However, of the cases we studied in detail, only Unilever turned up any “allies” in its transparency network. And even then, neither Unilever nor any of its sustainability sub-sites, appears in the core transparency network. This was true for all of the network maps we have made to date. This suggests that companies are inadequately prepared, and in some cases unwilling, to engage in online debates about their social or environmental policies or performance, leaving themselves vulnerable to individuals and groups that have harnessed this form of communication to their advantage.

- Transparency networks will become more institutionalized over time. Home Depot and Unilever illustrate how new institutional processes for transparency can emerge out of transparency networks. But, as is common with many emerging issues, there will be a period of uncertainty, a certain degree of chaos, and the gradual introduction of new institutional structures as residual forms of command-and-control regulation fade away. This not to say, however, that rival networks and organizations will not rise up to contest institutionalized forms of transparency. There are many tough issues to be resolved in the 21st century, and many of them will clearly be divisive. In this context, it would be naïve to believe that there will always be an increasing amount of congruence among the goals and values of stakeholders that cluster around such issues. For firms, this will be especially true around controversial new (and old) products and services for which there is a significant public interest angle.

- The trend toward voluntary rules and participation will continue for some time but it seems increasingly likely that many of the current transparency-based regulatory
schemes will become part of the architecture of a new system of global governance in which governments will play a major part. (This trend will also bolster the leaning toward institutionalization). The Kimberley process, for example, provides a new international self-regulatory process for the trade in diamonds, while certification schemes like the MSC and FSC could potentially expand in scope and scale to provide new global mechanisms monitoring commercial activities in the world's fisheries and forests. Mandatory rules could still be imposed (to the extent possible), if self-regulatory or co-regulatory systems fail to meet public policy objectives.

• Our collection of 28 case studies show that transparency networks are real, they are measurable, and their effects on corporate behavior are considerable. We conclude that transparency networks will only increase their reach and broaden the scope of the issues they focus on over time. The forces of transparency, like the growth of public awareness and activism and the declining costs of communicating and networking, will ensure that those organizations and individuals that are critical of companies, for whatever reason, have an effective vehicle for finding out information, sharing it with others, and organizing.
9. **Transforming Corporate Governance: Conclusions and Key Lessons**

In the final analysis, transparency strategy is more than just interactive communications: it is a new form of engagement with a broad range of stakeholders in society that helps guide and inform corporate governance. In this sense, transparency strategy serves a dual purpose. On one hand, transparency strategy is externally facing: it creates a systemic and dynamic approach to engaging in public debates, shaping perceptions about the firm and building trust with key constituents. But, as we have argued, transparency strategy is not a one-way conversation. Many of the stakeholders firms engage with will feed back to them, and they will demand much more than superficial changes in corporate strategy and behavior in exchange for their loyalty. On the other hand, transparency strategy creates a necessary link between the messages firms hear from their stakeholders and an internal process of innovation and change management. Taken to its logical conclusion, transparency strategy is really about reshaping corporate cultures, structures and processes—even products and services—to prepare companies to meet new expectations for values-based behavior in an increasingly transparent world.

It is our conclusion that transparency strategy must be embedded in a broader system of organizational learning and corporate governance. It should drive a continuous and dynamic learning and innovation system that feeds the information and knowledge firms collect from their environment back to the managers and employees engaged in key business functions and processes across the firm. Yet, the inevitable conclusion drawn from our research is that current mechanisms of corporate governance are wholly unsuited to deal with the complexity of this challenge.

Today's systems of corporate governance, with some exceptions, are insular, secretive, elitist, and plagued by short-term thinking, financial tunnel vision, and patronage. Boards of directors often fail to recognize and tackle tough issues or draw in the right experience and perspectives to guide companies through new challenges as unforeseen social and environmental realities land on their doorstep. Given this reality, it is easy to see why corporate proclamations about the changes they are embracing often seem divorced from real action. The governance mechanisms and leadership to guide, embed, and enforce these changes are failing, and in some cases, they are non-existent.

This dearth of leadership has created a vacuum. While corporations are being asked to take on new roles and responsibilities in society, they have no effective systems of governance to help them manage these changes with integrity. This vacuum has, in effect, created more space for new entrants to play a role in governing the behavior of the firm. But these forces operate externally, and often in direct opposition to corporations. The antagonistic dynamics can force firms into defensive and reactive postures, which undermine their ability to address long-term trends in the economy and society with foresight and planning.

**A New System of Multi-Stakeholder Governance Emerges**

The eroding legitimacy of conventional approaches to corporate governance is rooted in the widening gap between corporate images and assurances and the realities of capitalism that stakeholders see in the world around them. Bridging this divide will require more than slicker communications strategies. Firms need to shed their often-skeptical view of the competence of other stakeholders to help corporations make substantial strides toward creating a more efficient, equitable, and sustainable economy. Indeed, we argue that corporations should embrace a more representative, multi-stakeholder approach to corporate governance as the heart of their efforts to reform the way they set long-term strategies and make policies to govern their behavior.

Making the transition to multi-stakeholder governance will require firms to master three key areas of organizational innovation:

1. **Culture**: fostering the right corporate culture to support transparency and a values-based approach to enterprise.
2. **Structure**: shifting to a networked governance and communications model that creates space for the inclusion of new issues and voices.
3. **Process**: developing a highly responsive and adaptive organization that can sense and respond to changes in its external environment.
Creating a culture of learning and engagement

A firm that isn’t open to change can’t embrace it. Creating a culture of learning and engagement is about building an inherent capacity to recognize change and adapt to it. A core challenge then, is to put vision, leadership, and integrity at the center of corporate governance. In today’s interdependent environment, this means fostering a culture of governance based on openness, collaboration, and knowledge-sharing.

Changing the culture of corporate governance begins with a commitment from the top to greater transparency, participation, and accountability in corporate governance. In the first instance, this requires firms to develop a stronger capacity to seek, share, and integrate new information. Executives and board members need to spend more time talking to non-traditional stakeholders, exchanging points of view, and understanding different perspectives. By sharing information with a large network of organizations, firms can put a little bit of knowledge and effort in, and draw out a large amount of knowledge and opportunities for building social capital. Hiring younger employees from more diverse backgrounds is another, arguably more proactive, way to infuse the firm with new thinking.

Second, there must be a cultural disposition toward a more consensual and inclusive decision-making process for issues that merit it. This will require firms (and governments) to abandon their sense of monopoly over the governance process in favor of participatory models that invite input at all stages of development. Such processes will appear in stark contrast to the fast-paced, no-bullshit approach to corporate decision-making. But the added effort up front to arrive at reasonably consensual decisions can save a great deal of frustration and friction down the line.

Most importantly, the new culture of corporate governance must include a willingness to be held accountable when firms fail to meet commitments or live by their word. Sociologists point out that some system to monitor and sanction members’ actions is a common feature in any successful system or community. Monitoring and sanctioning is important not simply as a way of punishing rule-breakers, but also as a way of assuring people that others are doing their part to maintain the integrity of the community. Willfully submitting to a system of monitoring and sanctioning demonstrates a commitment to accountability.

At this stage, it is largely the fear of accountability holding many firms back from embracing a multi-stakeholder approach. Inevitably, this is a vicious cycle. A lack of perceived accountability undermines legitimacy, while eroding legitimacy destroys the willingness of stakeholders to view the firm as a trustworthy partner. At the very least, enabling stakeholders to scrutinize the governance process with greater ease and convenience is a first step toward building legitimacy through genuine transparency, participation, and accountability. Over time, these advances will enable firms to better navigate changes in society and the economy as new perspectives and knowledge are integrated into the development of corporate policy.

Building a networked organizational structure

If culture is about changing mindsets, building a networked organizational structure is about creating the necessary space to include new voices and organizations in the processes of governance. Forming broader and stronger networks with a broad range of institutions in society will not only enable companies to stay more attuned to emerging issues and social expectations, but also provide the complementary resources and competencies to address them. For instance, it would be naïve to think that firms are currently well-equipped to deal with the social and environmental challenges that await them. And it would be even more foolish to suggest that firms should build this internal capacity for themselves.

The most fruitful advances will come from networked structures that pool the competencies and resources of a broader more representative group of stakeholders in society. A few tactical options range from regular briefings on key governance issues, to seats on the board of directors, to stakeholder consultations with special sub-committees, to presentations and discussions at annual general meetings, to collaborative working projects or policy networks. Sharing risk and responsibility among stakeholders will create incentives to work collectively toward a shared vision and outcome. Failures will inevitably occur, but all participants can share the blame and consequences.

To perform effectively, emerging corporate governance networks will require both institutional and organizational frameworks to manage the relationships among firms and diverse stakeholder groups. An institutional framework will include a set of rules and responsibilities that governs the governance process (see discussion of transparency strategy governance in section 8). An effective institutional
framework will help broaden participation, manage group dynamics, create trust and commitment, and facilitate progress on issues and challenges. An organizational framework will determine issues of scale and scope. Determining the appropriate degree of centralization versus decentralization for handling different governance issues will be a core issue for corporations operating in a global environment.

There is no precise formula for setting ground rules for multi-stakeholder governance. But to be sure, firms’ ability to maintain a monopoly on determining the rules is waning. The opportunity in extending franchise in corporate governance is to orchestrate a collective process for establishing acceptable norms and procedures that result in better governance, greater legitimacy, and a broader and much deeper well of social and knowledge capital.

**Enabling a process of continuous policy innovation**

While there has never been a one-size-fits-all process for corporate governance, the current process could be characterized as:

- **Slow**: new policies and change initiatives often take years to develop and operationalize;
- **Static**: policies are designed to be comprehensive and unchanging
- **Linear**: policy is created in a sequence of steps that begins with problem definition and ends with implementation; and
- **Broadcast**: policy decisions are broadcast to the stakeholders after they are decided.

In a networked world, effective governance integrates policy development and implementations into a seamless and flexible process of continuous engagement, improvement, and innovation. Reaching out to new players to draw in the knowledge and resources needed to fuel and inspire change means going back to the iterative cycle of setting values that forms the heart of transparency strategy (discussed in section 8). Over time, this process transforms the nature of corporate governance itself.

A firm starts by measuring and codifying its performance. It communicates the results to provide external assurance to stakeholders and then listens to feedback it receives. It assimilates and synthesizes the learnings from this experience and then transfers them to the firm's business web. The business web develops the capacity to respond with new innovations and patterns of behavior. A continuous process of communicating, listening, learning, and responding creates the internal and external feedback loops that reinforce the values that underpin action. While transparency strategy does not wholly replace conventional structures of corporate governance, it fundamentally transforms them by distributing governance throughout the organization and beyond. Firms will still require strong executive leadership. However, by creating more inclusive and dynamic governance processes, responsibility and ownership will be shared among a much broader group.
Implications for Leaders

We are still in the very early days of a profound transformation. The promise is that more transparent and participatory forms of governance will enable corporations to become more integrated with the societies in which they operate, better attuned to social and environmental concerns, and more broadly accountable to stakeholders. The key question is whether the emerging reality of networked governance will strengthen or diminish firms' capacity to manage the ever-growing list of interconnected challenges and issues they face in this century.

The success of the new interactive models of multi-stakeholder engagement is not guaranteed. Admitting more participants, designing broader forms of accountability, creating new organizational forms, and sharing risk and responsibility: these will be challenging, and occasionally agonizing, advances. Yet, the inevitability of transparency networks forcing firms to adopt new systems of governance is unarguable. The issue for firms is their role in them: as active participants, or unwilling bystanders.

—Anthony Williams


ENDNOTES


17. Ibid, p. 471.

18. Later we discuss the point that the driving forces of transparency are not necessarily operating on similar timescales. Some of the forces described are having an immediate impact while others will take shape over the coming years and make their mark on transparency toward the end of this decade.


21. A new website, Responsible Shopper, provides a good example of the power of the Internet to enable ethical consumers to easily compare products and companies. The service, provided by Co-op America, investigates and evaluates hundreds of companies on their social and environmental performance and provides simple tools to help consumers make more informed choices about the products they buy. http://www.responsibleshopper.com

22. Evidence that ethical investment is on the rise is well documented. The Social Investment Forum, for example, reported that total assets under management in portfolios screened for socially concerned investors climbed from $1.49 trillion in 1999 to $2.03 trillion in 2001. The number of mutual funds in the US using social investment criteria increased to 230 in 2001, from 168 in 1999. Separate accounts (individual or institution investment portfolios) grew by 40% from 1999 to 2001. Of the $2.03 trillion in managed accounts, $601 billion is in portfolios controlled by investors involved in shareholder advocacy. SIF states that socially screened assets grew 1.5 times faster than all U.S. managed portfolio assets since 1999, and that one out of every eight dollars under professional management is involved in socially responsible investing (SRI). A recent survey of UK investment managers by Deloitte & Touche, found that in the previous 12 months, more than 50 percent of fund managers perceived an increase in interest in SRI from their pension fund and other institutional clients. They also present evidence that assets in professionally managed, socially-screened investment portfolios are growing faster than assets in non-screened funds. While socially screened portfolio growth by 36% between 1999 and 2001, the total universe of professionally managed assets in the US grew at 22%, from $16.3 trillion in 1999 to $19.9 trillion in 2001. For these stats and many others see: Social Investment Forum,
28. NGOs are becoming most active in spaces where the state is receding, or losing its capacity to intervene, but where an effective system of global governance is still absent. In the post-cold war world there has been a shift in focus from security matters, in which national allegiances are central, to so-called global issues, in which they are not. The emergence of environmental issues that defy the capacity of individual states to provide solutions, for example, has led civil society (particularly NGOs) to take the lead in trying to initiate collective action at the international level. See Peter Spiro, “New Global Communities: Nongovernmental Organizations in International Decision-Making Institutions” (Washington Quarterly, Winter 1995)

29. It is also important to note however, that a growing number of NGOs are savvy about business and bring a new attitude of openness toward working with corporate leaders. This new vanguard of advocacy groups articulates astute proposals for turning business ingenuity toward social and environmental concerns. They are skilful at finding allies and change agents inside firms around the world. They attract teams of scientists, economists, lawyers, and other professionals to work for them. Their representatives now sit shoulder to shoulder with senior government and corporate executives in international policy-making venues, and even share the stage at Davos with the titans of global enterprise.

30. Intense competition among NGOs in the relief sector, for example, has pushed the sector toward a form of oligopoly that threatens to crowd out smaller players, especially local NGOs in developing countries. Some NGOs, such as the Red Cross, have tried to address these concerns by drafting codes of conduct and “pledging to do no harm.”

31. We borrow this notion of the civil foundation from the work of Roger Martin in the Virtue Matrix. We define the civil foundation as the sum total of laws, rules, norms, social expectations, legal and political structures, etc., that define what is and isn’t acceptable behavior in society. See Roger Martin, “The Virtue Matrix: Calculating the Return on Corporate Responsibility,” Harvard Business Review.


38. Transparency-based governance refers to the efforts of state and non-state actors to promote disclosure of information and participatory decision-making as a means to compel actors (usually the powerful) to behave in accordance with rules or broadly held norms.


40. See www.unglobalcompact.org

41. See http://www.globalreporting.org/GRIGuidelines/Reporters.htm

42. Daniel Bell, ibid.


46. John Ruggie and Richard Falk have done some of the most extensive work in rethinking the UN system.


54. These forces include the deployment of new information technologies and an international policy agenda of deregulation and liberalization.


56. In 1999, the United Nations Conference on Trade and Development (UNCTAD) reported that there were 60,000 global corporations with 500,000 foreign subsidiaries, which had sales of US$11 trillion. A small number of these corporations dominate world markets for oil, minerals, food, and other agricultural products, while one hundred or so play a leading role in the globalization of manufacturing production and services. UNCTAD. 1999. World Investment Report 1999: Foreign Direct Investment and the Challenge of Development. New York: United Nations http://wwwunctadorg/en/pub/pubframehtm (February 24, 2000)


65. For more on this theme, see the economic research group Redefining Progress http://www.redefiningprogress.org

66. The current cost of high-resolution satellite images is approximately $1,000 to $4,000 for a single image with a resolution of 10 meters to 1 meter. Barring government intervention, this price can be expected to fall if the technology improves and the market for satellite imagery grows. See Yahya A. Dehqanzada and Ann Florini. Secrets for Sale: How Commercial Satellite Imagery Will Change the World. (Washington: Carnegie Endowment for International Peace, 2000).

67. See http://www.simputer.org

68. Filipinos send 52 million text messages every day - more than 10 daily for every mobile phone owner. See: Richard Lloyd Parry, “In revolutions they used to say ‘keep your powder dry.’ Now they say ‘keep your cell phone charged.’” The Independent, Jan 23, 2001.


70. See http://www.globalforestwatch.org and http://www.wri.org

71. See The California Institute of Telecommunications and Information Technology (Cal-IT2) website http://www.calit2.net/

72. Despite the potential for interference, it is clear that people value immediacy, not just because it makes life more efficient, but because there is psychic value to be gained from being plugged into the latest information, and exchanging information with others in real-time. For example, Digital 4Sight has tracked the impact of immediacy on consumer behavior. Swedish teenagers subscribe to services that send them SMS messages whenever their favorite football team scores a goal. Filipino shoppers coordinate their progress through mega-malls plugged into the latest information, and exchanging information with others in real-time. For example, Digital 4Sight has tracked the impact of immediacy on consumer behavior. Filipino shoppers coordinate their progress through mega-malls

73. See http://www.scorecard.org

74. See http://www.indymedia.org


94. See http://www.cecglobal.org/publications/speeches/kuttner.htm

95. Ibid.

96. Sensitive figures on store sales, team sales, profit margins, even salaries, are available to every person in every location. In fact, the company shares information so widely that the SEC has designated all employees “insiders” for stock-trading purposes.

97. Historically, DeBeers has operated as a cartel operating behind the scenes, controlling up to 80% of the world’s rough diamond trade. The company has done so through its own mining operations, marketing diamonds for third parties, and mopping up supply on the open market in places like Antwerp. These rough diamonds flow through the DeBeers supply chain, eventually landing in London where they are aggregated and sorted at DeBeers’ charterhouse street facility, which at any given time may hold up to $1 billion worth of rough diamonds. These diamonds are then divided and sold in multimillion dollar lots to special customers that DeBeers calls “sightholders.” Ironically, these sightholders do not actually see these diamonds beforehand. De Beers determines which diamonds go into which lots, and even sets the prices. Customers are buying “sight unseen” at fixed prices, a process DeBeers executives termed “feeding the ducks.”

98. These diamonds have funded prolonged conflicts in areas such as Sierra Leone and Angola. The result has been terrible human rights violations in those countries. Violence, mutilation, and even kidnapping (as a means of military recruitment) have contributed to the destruction of the social foundation and resulted in some of the poorest living conditions in the world.

99. Identity management is the set of technologies and services that enables identity information to persist across different electronic services. Until now, most identity information has remained scattered. Most websites for example, keep a unique individual profile of their customers. When customers form a relationship with another website, they have to create another profile from scratch. Different websites don’t tend to talk to one another or share customer information. Identity management services are an attempt to synch up all this stranded customer information. The vision is that information profiles will follow the customer from one website or electronic service to another.

100. Learning from its acquisition of Firefly in the mid 90’s (which later evolved into Microsoft Passport), Microsoft cleverly positioned Hailstorm as a privacy management system for consumers.


104. Most people look for evidence of a rise in ethical proclivities among consumers in public opinion polls and consumer research. Perhaps the most telling evidence that something is happening, however, is in the growing number of ethical brands coming out in the marketplace. Loblaw and other major supermarket chains have introduced successful organic food product lines. Toyota has launched a hybrid vehicle called Prius. The Body Shop has a long-standing line of ethical body products. For more evidence on the rise of ethical consumers see the social drivers of transparency in section 4.

105. The price declines highlight industry economics gone awry. While coffee production has surged by 3.6%, demand for coffee lags well behind at just 1.5%. New sources of production have outpaced demand causing a precipitous drop in prices. Even a cartel formed to solve the problem in 2000 was short-lived. It folded in 2002, overwhelmed by new sources of supply in SE Asian countries where growers are anxious to capture a share of global coffee markets.

106. The federation was created in the 1950’s as an international trade association. Over time, the federation began to endorse what is called “fair trade”, the sale of sustainable products that offer producers a “fair” percentage of the retail price. The object is to provide producers with sustainable living wages. Fair trade products range from commodities like coffee, to crafts and other handmade goods.

107. This is approximately 1% of Starbucks’ supply.


110. Facilitation payments refer to nominal amounts of money used to “grease the wheels” of bureaucracy.

111. In 1999, all 34 OECD members and five non-member countries signed the Convention on Combating Bribery of Foreign Public Officials, which sent a message to the global community that corruption in international business would not be tolerated. Specifically, the convention requires signatories to make bribery a crime. Similar anti-corruption initiatives have emerged from other international organizations, such as the Council of Europe, the Organization of American States, the European Union, and the United Nations.

112. For example, The Economist estimated that payments made to Indonesian bureaucrats totalled one-fifth of a company’s operating costs, while bribes in Uganda decreases the bottom line by approximately 8%. A Harvard economist calculated that increasing Singapore’s level of bribery to that of Mexico’s is the equivalent of imposing a tax on foreign investment of roughly 24%. See: “The worm that never dies,” The Economist, March 2, 2002; “A global war against bribery,” The Economist, January 14, 1999; and Shang-Jin Wei, “How Taxing is Corruption on International Investors?” Paper presented at International Anti-Corruption Conference (IACC), Prague, Czech Republic, October 7-11, 2001.

114. The exact numbers of dead and injured are debated. We have provided the lower end of the estimates.


117. See http://www.xanga.com/home.asp?user=mamaduck


120. At the peak of the sweatshop issue in 1993, Nike’s share price fell over 50% from a peak of $23 to $10. Since 1994, the share price has recovered.

121. Whether the town hall or a national assembly of representatives, government was understood to be the appropriate loci for democratic discourse and deliberation, while the free press offered a critical and independent medium for holding governments accountable.

122. This is not to say that governments do not play a role in cultivating democratic debate and discourse. We do suggest that governments have been somewhat displaced by the rise of civil society as a galvanizing force to discontent in society.

123. Our study included 28 different companies, of which we focused on five in depth. These 28 cases include: Balfour Beatty, British Airways, British Telecom, Cable & Wireless, the chocolate industry and slavery, Citigroup, Clarica, Cooperative Bank, Coca-Cola, De Beers/Conflict Diamonds, Exxon-Mobil, Fair Trade (coffee), Genetic information and the Association of British Insurers, Home Depot, Microsoft/Hailstorm, Monsanto, Nexen, Inc., Novo Nordisk, Pacifica Radio, Scorecard.org, Sony, Shell, Unilever, Union Carbide, Wal-Mart, Whole Foods Market, World Bank, and the World Trade Organization.


126. Ibid.


128. By RAN’s estimates they mobilized a network of 30,000 members and 150 grassroots Rainforest Action Groups (RAGS) across the world, including indigenous groups, human rights and environmental organizations, small businesses and local politicians, and high-profile celebrities that bolstered their cause.

129. Persistent pressure from local business/citizen coalitions helped RAN convince municipal councils in small cities such as Madison, WI, and Longmont, CO to delay approval for new store construction in their communities until Home Depot developed a response to the old growth-free campaign. On August 19, 1999, the Atlanta Journal Constitution, from Home Depot’s home state of Georgia, reported that “The Rainforest Action Network . . . took part of the credit for denying a new location for Cobb County-based Home Depot in Racine, WI. The network has been spotlighting the behemoth do-it-yourself home improvement retailer because of its wood products, many of which the network says come from old-growth forests in British Columbia and around the world.” See Steve Visser, “Wood controversy,” (Atlanta Journal Constitution, August 19, 1999).

130. See Home Depot's web page on environmental practices: http://www.homedepot.com/prel80/HUDS/EN_US/diy_main/leg_diy.asp?CNTTYPE=NAVIGATION&CNTKEY=compinfo%2fenvironment%2findex.jsp&BV_SessionID=SH293943589.1043301492@8@8@BV_EngrineID=ccd1ad998e11d1d2cf0df5c00.0


132. The extended view is produced by changing the software parameters for inclusion in the network map. A lower threshold allows us to see more of the groups that are linked into Monsanto’s transparency network, although by virtue of being further removed, these sites are likely to be less influential and less connected to others in the core network.

133. See http://www.earthsummit.biz/awards/lifetime.html


138. The company is most recognized for the Marine Stewardship Council, created in partnership with the World Wildlife Fund (see section 5).

139. See http://www.sustainability-index.com/dsaj_world/pdf/04/CBR_Unilever_NV_CVA_03.pdf


142. The IUCN is a broad, 980 member coalition of government agencies and NGOs that assist societies to become ecologically sustainable. See http://www.iucn.org/info_and_news/press/ibtfpr.pdf


149. Bill Saporito, ibid.


151. Under the plan, a protocol from the US government provides for the development of credible, global, industry-wide standards to identify and certify cocoa grown without child labour. Research by the ILO will help define the scope of the problem. NGOs like Free the Slaves and the Child Labor Coalition will lend their expertise to eliminating slavery on West African farms and help establish a system of independent monitoring and reporting. The chocolate industry will leverage the credibility and legitimacy conferred by non-industry partners to reassure the world that their products are not tainted by child slavery.


155. See http://www.unglobalcompact.com

156. See “Bt Cotton: Seeds of Discontent” CorpWatch India. http://www.corpwatchindia.org


158. See the old growth lumber campaign page on RAN’s web site: http://www.ran.org

159. This lecture was given at Digital 4Sight’s meeting of members of the Leadership in the Networked Economy research program in Palo Alto California on December 17, 2002.


162. Castells, ibid.


164. It should be noted that the network society exhibits contradictory trends. At the same time that power seems to be decentralizing to individuals and organizations that can now more effectively shape public discourse, power is also being further concentrated by the growing gap between rich and poor, between the employed and unemployed, between those with access to a clean and environment and those without access, etc. Meanwhile other forms of networks like financial markets and corporate conglomerations also yield considerable power by virtue of the amount of economic resources they control.

165. Harold Innis, ibid.


167. For an archive of such communiqués see http://www.ezx.org/documentos/

168. For a complete study on what RAND called the Zapatista social netwars, see David Ronfeldt, John Arguilla, Graham Fuller and Melissa Fuller. 1998. The Zapatista Social Netwar in Mexico. Santa Monica CA: RAND.

169. Locals and supporters also claim that carcinogens and other poisons continue to leach into underground drinking water, and the Bhopal death toll continues to mount. See “Dow shows its true colors: $22 billion corporation sues its penniless victims.” Bhopal.net, a news, information and action site for the Bhopal community and its network of supporters. http://www.bhopal.net/welcome2.htm

170. The Yes Men gained some notoriety years back by posting satirical sites about the World Trade Organization (WTO) and the General Agreement on Tariffs and Trade (GATT). See http://www.pyplot.com/wmr2001/FT3M3WW95VC.html

171. The press release can be found at http://www.dowethics.com/r/about/corp/bhop.html


177. Increasingly, the same could be said of NGOs and government agencies and officials. All participants, both the object of the transparency network and the network itself need to establish credibility and legitimacy to be able to engage effectively in public debates. The credibility of Greenpeace, for example, has been eroded by critics who have pointed out the organization's tendency to exaggerate or misuse scientific evidence in waging their campaigns.


180. The Group of 10 included groups such as Sierra Club, the National Audubon Society, the National Wildlife Confederation, World Wildlife Fund, Natural Resources Defense Council, and Environmental Defense.

181. The professionalization or institutionalization of environmentalism was a result of two trends: Growing concern about the environment among the general public—which provided a huge pool of funders and hence, a revenue base for established environmental organizations. An increasing willingness on the part of governments to become involved in environmental protection—which opened up a direct channel for influencing public policy. Its worth noting that despite the creation of established and “professional” environmental groups, grassroots and community-based environmental organizations continued to grow in number and play an important role in environmental politics, but they were less visible and influential at the national and international level.


185. Castells, ibid.


187. Hertz, ibid.

188. Digital 4Sight audio conference with Susanne Stormer, May 31, 2002.

189. For a more extensive case study on Novo Nordisk, see Digital 4Sight's report *Next Generation Reporting*.

190. The fluidity of values and the contingent nature of our notions of responsible behavior pose a challenge to efforts to codify and institutionalize transparency-based governance mechanisms. Can companies and their stakeholders achieve a reasonable level of stability and predictability in standards that govern behavior, while building enough flexibility and responsiveness into the systems that govern corporate behavior to account for the constant state of change in society? What types of governance mechanisms support this type of capacity? Are codes of conduct and certification schemes sufficiently flexible and responsive to social norms? These questions will only be answered over time as new institutional responses to transparency continue to evolve.


192. The FSC accepts no funding from industry and has developed a set of core principles guiding on-the-ground timber management and harvesting operations, including restrictions on pesticide use and requirements for biodiversity protection and erosion control. Firms seeking FSC approval must undergo an audit by one of a few accredited “certifiers.” Arguing that the FSC guidelines are onerous and unwieldy, the timber industries in the United States, Canada, and Europe have designed their own templates for appropriate forestry practices like the Sustainable Forestry Initiative (SFI) program, established by the industry's American Forest and Paper Association in 1994. For more details see, Gary Gereffi, Ronnie Garcia-Johnson, and Erika Sasser. 2001. “The NGO-Industrial Complex.” *Foreign Policy*, 125, pp. 56-66.


194. For an example, see the report on BP's consultation on its activities in China, [http://www.bp.com/location_rep/china/others_say/index.asp](http://www.bp.com/location_rep/china/others_say/index.asp).

195. Hubert St Onge, Clarica Insurance, Interview with Digital 4Sight, April 9, 2002

196. Mark Wade, Shell International, Interview with Digital 4Sight, May 22, 2002

197. For example, all Nexen Oil employees are required to participate in an integrity-training workshop, while those in high-risk areas attend a separate workshop focused on improper payments. In addition to internal communication channels and employee training, Shell distributes a management primer that provides guidance and case studies as part of its anti-corruption training program. Last year, Shell
reported thirteen cases of bribery, and nine employee dismissals, while canceling 100 contracts with suppliers and removing eight contractors from supplier lists.

198. The Fifty Years is Enough Campaign was formed by a coalition of environmental and developmental NGOs in 1994. It had the explicit purpose of challenging the Bank’s policies, secrecy, and lack of accountability. See http://www.50years.org

199. Steve Denning, former Program Manager for knowledge management at the World Bank, interview with Digital 4Sight, April 8, 2002.

200. Ibid


