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### 360-Degree Transparency and the Sustainable Economy

By Verna Allee

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The emerging issue of transparency provides an important opportunity to promote more sustainable business practices. Transparency refers to the increasing accessibility of information to stakeholders of organizations and institutions regarding matters that affect their interest. Every organization has an extended web of stakeholders. For private enterprise, this network expands beyond immediate customers and suppliers; for government agencies it surpasses constituencies and vendors. People who are affected by organizational practices are applying increasing pressure on business leaders to reveal more about how they manage their business. In addition to customers, partners, suppliers, and consumers, such stakeholders might include regulatory agencies, investment communities, advocacy groups, labor organizations, cities, and regions.

Transparency is a progressively more powerful force in corporate governance. Governance refers to the decision-making processes that guide business practices or policy making. The two issues go hand in hand because transparency forces businesses to reveal more about their decision-making processes and disclose their real impact on society. Amidst a wave of scandals,

corruption, questionable ethics, and deliberately deceptive accounting practices, people are insisting that business leaders be held more accountable for their actions.

The trend is unmistakable and is being driven by a number of factors. Several of these are identified by Don Tapscott and David Ticoll in their latest book [\*The Naked Corporation\*](#)<sup>1</sup>:

### **Harmful effects of cronyism, corruption, and false reporting**

The high cost of opaqueness plays out in severe instabilities in entire economies, such as Asia in the late 1990s, and the collapse of powerful global corporations including Enron, Arthur Andersen, and Parmalat in Italy.

### **Rise of knowledge, work and business webs**

Productivity and collaborative partner relationships depend on openness, candor, trust, integrity, and values-based leadership.

### **Spread of communications technology**

As the Internet becomes ever more pervasive, granular, immediate, and impossible to control – it is becoming the quintessential medium of transparency.

### **Demographics and the rise of the Net Generation**

The Internet is part of the daily life of a whole new generation that may have a stronger sense of civil values and that is less likely to take corporate or government announcements at face value.

### **Rising global civil foundation**

As networks of advocacy groups interlink, they are exerting a powerful influence on corporations and policy makers. They are a growing force in the set of relationships and policies that shape global governance.

## **Transparency is not optional**

Transparency can be voluntary or it can be forced. When companies find they have a more positive brand image by being more forthcoming about their practices, transparency becomes more attractive. The trend toward transparency is shifting the locus of power to customers, employees, shareholders, citizens, and other stakeholders. Companies find their image as a good citizen affects their ability to effectively compete for customers, employees, partners, investors, and the hearts and minds of regulators. Such companies are proactive. By contrast, when a company uses the word “compliance,” it is reacting to the increasing weight of regulations and government interventions that require an increasing burden of reports on a growing range of management practices.

## **360-degree Transparency**

Transparency, however, is not one way. While corporate practices are becoming more transparent, so are the practices and concerns of government agencies, advocacy groups, cities,

regions, and nation-states. The dark future envisioned by novelist George Orwell is a world where Big Brother is watching – where technology has become invasive of our privacy with a controlling government knowing our every move and transaction. What was not envisioned was a world where not only is Big Brother watching – we are all watching each other – but also where we are watching Big Brother!

In 2003, one of the [Roadmap projects for the European Commission](http://europa.eu.int/comm/internal_market/en/finances/mobil/transparency.htm) ([http://europa.eu.int/comm/internal\\_market/en/finances/mobil/transparency.htm](http://europa.eu.int/comm/internal_market/en/finances/mobil/transparency.htm)) tackled this larger question of transparency by addressing the question as, “What would the economic feedback system look like for a truly sustainable economy?”<sup>2</sup> The [NESKEY](http://www.neskey.com/) (New Partnerships for Sustainable Development in the Knowledge Economy) (<http://www.neskey.com/>) project included experts in intangibles reporting, sustainability reporting, sustainable cities, knowledge economy, and social transformation. [Marc Luyckx](#), World Business Academy Fellow, and I helped shape the roadmap for the project and articulate a vision for the future.<sup>3</sup>

The NESKEY roadmap predicts the emergence of 360-degree accountability, transparency, and participation across networks of cities and regions, companies, government agencies, and civil society – all moving toward a society of socially responsible organizations. All of the previous focus on reporting has been centered on the corporation. Corporations are but one participant in a vast economic feedback system that is undergoing a fundamental shift. Cities are responsible for more pollution than business and industry. They cannot avoid the calls for a more sustainable economy. They, too, are developing reporting practices and indicator systems to provide feedback.

The feedback system for a sustainable and socially responsible world would include financial, environmental, and social indicators developed by key organizations in every sector. Government agencies have data to contribute – and data that they need to assess the success of programs and the health of society. Advocacy groups such as environmental and social organizations often track specific kinds of data that would be part of that feedback system. The investment community, cities, and regions are all active participants in this emerging economic feedback system, and are all developing various indicator systems for sustainably responsible businesses and communities.

The world is now evolving in the direction of 360-degree transparency. Corporate reporting has received a great deal of attention. Meanwhile, the larger question of the emerging economic feedback system has drawn comparatively little notice. The situation is reminiscent of the images used by Gestalt psychologists: some people see a vase; others see two faces in profile. The focus on corporate reporting has frequently obscured the larger vision of the emerging economic, social, and environmental feedback systems for a truly sustainable society. (At this point we must acknowledge the pioneering efforts of Academy Fellow Hazel Henderson to focus global attention on the larger system of indicators and feedback requisite for a sustainable society.)<sup>4</sup>

In many ways, traditional economic institutions and roles are becoming obsolete. If one of the key roles of an audit firm is to build trust in companies, the scandals and transgressions of faith of the last few years suggest that perhaps another approach is needed. Transparency will drive different financial institutions, different roles, and different kinds of relationships. We are only now starting to deal with this reality.

Technology enables this vision of 360-degree transparency at astonishing speed. The accounting profession is being shaken to its foundations as data integration practices such as XBRL (eXtensible Business Reporting Language) “tagging” and metadata facilitate data transport across different systems for inclusion in multi-purpose indicator systems.

NESKEY envisions that this emerging system gradually will evolve into a core set of measures, indices, and methods commonly used by business, cities and regions, civil society, and governing bodies. Global networks and closely linked practice communities will collaboratively improve measures and methods, while ICT capability increasingly supports data integration and analysis tools for a wide variety of users and contributors.

### **New behaviors in a more transparent world**

Success in this more open and participative business climate – where social and environmental values are becoming increasingly important – requires mastering three important dimensions:

The first dimension is understanding both the implications and methods of intangibles metrics and reporting. [Baruch Lev](http://pages.stern.nyu.edu/~blev/), (<http://pages.stern.nyu.edu/~blev/>) expert on intangibles, notes that, “*An intangible asset is a claim to future benefit that does not have a physical or financial embodiment. A patent, a brand, and a unique organizational structure (are examples).... I use the terms intangibles, knowledge assets, and intellectual capital interchangeably.*”<sup>5</sup> Companies are expanding their definition of success by developing new corporate and economic scorecards that include intangible assets and resources, such as reputation and brand image. Company directors, employees, and investors might care about financial performance – but some other stakeholders don’t! These stakeholders scrutinize intangibles such as desirability of the brand, quality of their experience, and sustainable business practices. Governments also need to grapple with intangible metrics and indicator systems for quality of life and the intellectual assets of the nation.

Second, supporting long-term, sustainable economic success means developing business models with a living systems’ perspective that includes people, planet, and profits. A living systems’ understanding also means emphasizing the linkages across diverse stakeholder groups – and fostering dialogue, knowledge exchanges, and transparency around knowledge sharing and decision making – both internally and externally. Living systems renew themselves through continual exchanges of matter, energy, and information. This perspective helps companies achieve operational success by knowing how to support true self-organization and negotiated self-interest between stakeholders. It also throws open assumptions around organizational boundaries and redefines corporate identity in relationship to larger business, economic, and social systems.<sup>6</sup>

The third dimension is supporting social innovations that foster knowledge sharing, collaboration, and innovation networks. The greatest challenge in a complex world is coherence – being able to make meaning together in an inclusive and participative way. Technology innovations and new business and economic models are not enough. Successful firms also develop the capacity to continuously expand and reconfigure their business models – by supporting knowledge-sharing networks and fostering multi-stakeholder alliances and dialogue to address a wide variety of business issues.

This requires new behaviors for leaders and managers. It means moving beyond teams to the next order of social complexity – that of knowledge networks and expert communities.<sup>7</sup> It means moving beyond mere negotiation to the powerful level of conscious conversation as advocated by systems change experts Meg Wheatley, Juanita Brown, and David Isaacs.<sup>8</sup>

### **What is needed for going forward**

1. Companies must be concerned with how they make decisions, what values drive those choices, and how transparent they are with their stakeholders.

Transparency means opening up corporate decision processes to active engagement with stakeholders. Further, companies must carefully attend to the quality and accuracy of the data and information they provide to their web of stakeholders and to the quality of information they receive.

2. Organizations must be willing to invest in support for behavior change and social innovation to support transparency, collaboration, knowledge sharing, and peer-to-peer negotiation.

In this environment, guiding companies means much more than increasing competence, improving operations, and managing customer and supplier relationships. Progressive management practices that include supporting expert communities lie at the heart of an organization's ability to respond accurately and ethically to the concerns of its expanding web of concerned citizens and stakeholders. The need for these changes must be clearly understood and supported, with leaders setting the standards for integrity, ethical behavior, and transparency.

3. Clearly, business leaders cannot bypass the importance of sustainability anymore in a transparent world.

Transparency in sustainable knowledge economies means that if companies are known as unsustainable or harmful for the environment, customers will progressively bypass them. They will prefer to do business with sustainable enterprises. More and more, sustainability is becoming one of the main intangible assets of the future.

4. A win-win scenario is possible.

There is good news. Yes, going fully sustainable may possibly cost a company a lot of money. It is a real cost in "industrial" terms. However, in this new knowledge economy, this cost will be enormously compensated by the great increase in intangible assets: brand and reputation, the satisfaction of personnel, of stakeholders, of the local government and other stakeholders. The story of [Interface](http://www.interfaceinc.com/) (<http://www.interfaceinc.com/>) is here an excellent example.<sup>9</sup> Ray C. Anderson has spent a lot of money in completely restructuring his production methods for carpets, but today his company is enormously successful because Interface is the first non-polluting carpet company in the world!

So, it is possible to shift from a win-lose scenario (thinking I *have* to lose in financial terms in order to win in sustainability) towards this win-win scenario which is the following: the more I win in sustainability, the more I will win in financial terms because my losses will be highly compensated by the new "intangible" assets that my company will acquire. Those new intangible assets will be fully accepted and valued by the stock markets. Stock markets can become a new engine of this win-win scenario as socially responsible investment philosophies begin to dominate.

5. Transparency evokes the need for much greater respect of the written and unwritten rules of business ethics and the values of global society.

The context of the recent scandals surely reinforces this need for ethical transparency. Yet, even more importantly, as Marc Luyckx notes, "In the NESKEY roadmap project and in this new logic of the knowledge society, the discovery is that *transparency will be helping to shift society towards sustainability.*" Consumers and citizens everywhere are demanding ethical practices. This points to the emergence of a new sense of personal identity that is expanding beyond local communities and even beyond nation-states – to a larger sense of global society and interconnection.

### **Conclusion:**

Transparency means that institutions and organizations are shifting in fundamental ways as the new sustainable economic order and 360-degree feedback system continues to emerge. The landscape is changing quickly. Business leaders cannot ignore these fundamental societal shifts.<sup>10</sup> They must enter the conversation of social change as active partners to move toward a sustainable economy. While the trend is inevitable, the transition can be chaotic and reactive. Yet, it also can usher in a new era of 360-degree participation and accountability as people work together in more collaborative ways that hear every voice and concern.

The old ways of thinking still hold power in many quarters, but the house of cards is beginning to collapse as transparency reveals the weaknesses and unsustainability of the old economic order. Lasting success will belong to those companies and countries that take the emergence of a sustainable society seriously and pioneer the practices that will be required to support it.

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<sup>1</sup> Don Tapscott and David Ticoll, *The Naked Corporation*, Free Press 2003. <http://www.powells.com/cgi-bin/biblio?inkey=2-0743246500-0>

<sup>2</sup> The European Union decided in March 2000 to orient the whole of its knowledge technology development toward what it calls "*a sustainable and socially inclusive knowledge society.*" This means that the EU is aware that new technologies are introducing us into a new type of social organization, and a new society. And it has decided at the highest level to orient this society towards sustainability and social inclusion. Hence the importance of a roadmap towards sustainable economy. This foreign market is giving the U.S. an indication of a possible Global market orientation for the future.

<sup>3</sup> Final Report – New Partnerships for Sustainable Development in the Knowledge Economy, available from IST program of the European Commission, or download PDF from the Library at <http://www.vernaallee.com>, or at <http://www.neskey.com/>.

<sup>4</sup> Hazel Henderson, *Beyond Globalization: Shaping a Sustainable Global Economy*, Kumarian Press, 1999.

<sup>5</sup> Baruch Lev, “*Intangibles: Management, measurement, and reporting*,” Brooking Institution Press, Washington D.C. 2001. Pp. 150. Quote is from pages 6 – 7.

<sup>6</sup> For more on the perspective of organizations as living systems see Verna Allee, *The Future of Knowledge: Increasing Prosperity through Value Networks*, Butterworth-Heinemann, 2003, and Elisabet Sahtouris, *EarthDance*, Ingram, 2000. Websites: <http://www.vernaallee.com> and <http://www.ratical.org>.

<sup>7</sup> Etienne Wenger, Richard McDermott and Bill Snyder, *Cultivating Communities of Practice: A Guide to Managing Knowledge*, 2002. Hubert Saint-Onge and Debra Wallace, *Leveraging Communities of Practice for Strategic Advantage*, Butterworth-Heinemann, 2003

<sup>8</sup> See Margaret J. Wheatley, *Turning to One Another*, Berrett-Koehler 2002 and Juanita Brown, *The World Café: Living Knowledge through Conversations That Matter*. Ph.D. thesis available through <http://www.theworldcafe.com>.)

<sup>9</sup> See Ray C. Anderson, *Mid Course Correction: Towards a sustainable enterprise: the Interface model*. Chelsea Green Publishing Company, 1998. <http://www.chelseagreen.com/>

<sup>10</sup> As Willis Harman was accustomed to say, “*We are living through one of the most fundamental shifts in history: a change in the actual belief structure of Western society. No economics, political or military power can compare with the power of a change of mind. By deliberately changing their images of reality, people are changing the world.*”

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