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The Naked Corporation

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An old force with new power is triggering profound changes across the corporate world. Those who harness its power will thrive; those who ignore it risk paying a high price.

The force is transparency. This is far more than the obligation to disclose financial data. People and institutions that interact with firms are gaining unprecedented access to all sorts of information about corporate behavior, operations and performance. Armed with new tools (like the Internet) to find information about matters that affect their interests, stakeholders now scrutinize the firm as never before, inform others, and organize collective responses. The corporation is becoming naked.

Consider some recent headlines. Richard Grasso quits the New York Stock Exchange after revelations about his \$139.5 million pay package. Enron charges six banks with helping design secret deals "to manipulate and misstate Enron's financial condition." McDonald's and other fast food companies face lawsuits, consumer abandonment, and brand degradation for failing to clearly explain health risks, like obesity, in their advertising campaigns.

Transparency -- and its opposite, opacity -- is central to all these cases. NYSE directors should have made Mr. Grasso's pay packet public much earlier; and if they had done so, it no doubt would have been quite different. Enron's banks and managers would not have made their deals if they had realized that the new dynamics of capitalist markets would inevitably bring their actions to light. And though McDonald's has so far won in court, consumers now expect it to tell the truth about the effects of junk food.

Conclusion: Transparency must now be an explicit factor in nearly every management decision. Customers evaluate the worth of products and services at levels never before possible. Employees share formerly secret information about corporate strategy, management behavior, and challenges. In a real-time global supply chain, companies and their business partners by necessity share competitive and operational secrets. With the rise of institutional investors, especially pension funds, share owners now scrutinize management like never before. Thanks to instant communications, whistleblowers and inquisitive media, citizens and communities routinely put firms under the microscope. And the Internet is a central locus and organizing force for all these activities.

True, some opacity remains necessary, and transparency isn't always easy. Trade secrets and personal data, for example, should be confidential. Implementing government rules of disclosure can be expensive.

But too often, opacity masks situations -- like shoddy financial deals and inferior or unsafe products -- that are now doomed to fail sooner rather than later. When you're naked, fitness is not

an option. More than ever companies need to deliver product and service value, good governance, and consideration for employees, communities and the environment. They need to have integrity and abide by their commitments.

Our research shows that for firms with such characteristics, investments in transparency deliver hard dollar payoffs: engaged relationships, better quality and cost management, more innovation, improved risk management and higher financial performance. Leaders build transparency into their business strategies, products and services, brand and marketing activities, technology plans, and corporate character. Fit companies can undress for success.

Transparency is on the rise, not just for legal or purely ethical reasons but increasingly because it makes economic sense. Firms that exhibit openness and candor have discovered that they can better compete and profit. Some (Chiquita, for example) figured this out recently, while others (Johnson & Johnson) have understood it for generations.

Firms face a choice. They can fight or flee transparency, or they can actively embed it into corporate DNA and business strategy. The Web site of Progressive Insurance lets customers compare its prices with those of competitors. The company releases financials not quarterly, but monthly, its annual report celebrates transparency and its share price has more than tripled since 2000. Make transparency a company value, and you will create more value for your company.

Messrs. Tapscott and Ticoll are co-authors of "The Naked Corporation: How the Age of Transparency Will Revolutionize Business," out this month from Free Press.

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