

What's Needed Next:

# A Culture *of* Candor

We won't be able to rebuild trust in institutions until leaders learn how to communicate honestly – and create organizations where that's the norm.

*by James O'Toole and Warren Bennis*

**U**NTIL RECENTLY, the yardstick used to evaluate the performance of American corporate leaders was relatively simple: *the extent to which they created wealth for investors*. But that was then. Now the forces of globalization and technology have conspired to complicate the competitive arena, creating a need for leaders who can manage rapid innovation. Expectations about the corporation's role in social issues such as environmental degradation, domestic job creation, and even poverty in the developing world have risen sharply as well. And the expedient, short-term thinking that Wall Street rewarded only yesterday has fallen out of fashion in the wake of



the latest round of business busts and scandals.

It's clear we need a better way to evaluate business leaders. Moving forward, it appears that the new metric of corporate leadership will be closer to this: *the extent to which executives create organizations that are economically, ethically, and socially sustainable.*

How can leaders accomplish such an ambitious task? Their action plans will vary, of course, depending on the nature of their industries, the peculiarities of their companies, and the unique challenges they face. But whatever their strategies and tactics, we believe prudent leaders will see that increased transparency is a fundamental first step.

When we speak of “transparency,” we mean much more than the standard business definition of the term – full disclosure of financial information to investors. While such honesty is obviously necessary, that narrow interpretation produces an unhealthy focus on legal compliance to the exclusion of equally important ethical concerns, and on the needs of shareholders to the exclusion of the needs of other constituencies. Worse, it's predicated on the blinkered assumption that a company can be transparent to shareholders without first being transparent to the people who work inside it. Because no organization can be honest with the public if it's not honest with itself, we define transparency broadly, as the degree to which information flows freely within an organization, among managers and employees, and outward to stakeholders.

Companies can't innovate, respond to changing stakeholder needs, or function efficiently unless people have access to relevant, timely, and valid information. It's thus the leader's job to create systems and norms that lead to a culture of candor.

### How Candor Improves Performance

Admittedly, the relationship between organizational candor and performance is complex, but it's worth examining from a number of angles: whether people who need to communicate upward are able to do so honestly; whether teams are able to challenge their own assumptions openly; and whether boards of directors are able to communicate important messages to the company's leadership.

We'll tackle upward communication first. Consider the results of an intriguing, relatively obscure study from the 1980s, in which organizational theorists Robert Blake and Jane Mouton

### IDEA IN BRIEF

» No organization can be honest with the public if it's not honest with itself. But being honest inside an organization is more difficult than it sounds. People hoard information, engage in groupthink, tell their boss only what they think he wants to hear, and ignore facts that are staring them in the face.

» To counter these natural tendencies, leaders need to make a conscious decision to support transparency and create a culture of candor.

» Organizations that fail to achieve transparency will have it forced upon them. There's just no way to keep a lot of secrets in the age of the internet.

ton examined NASA's findings on the human factors involved in airline accidents. NASA researchers had placed existing cockpit crews – pilot, copilot, navigator – in flight simulators and tested them to see how they would respond during the crucial 30 to 45 seconds between the first sign of a potential accident and the moment it would occur. The stereotypical take-charge “flyboy” pilots, who acted immediately on their gut instincts, made the wrong decisions far more often than the more open, inclusive pilots who said to their crews, in effect, “We've got a problem. How do you read it?” before choosing a course of action.

At one level, the lesson of the NASA findings is simple: Leaders are far likelier to make mistakes when they act on too little information than when they wait to learn more. But Blake and Mouton went deeper, demonstrating that the pilots' habitual style of interacting with their crews determined whether

crew members would provide them with essential information during an in-air crisis. The pilots who'd made the right choices routinely had open exchanges with their crew members. The study also showed that crew members who had regularly worked with the “decisive” pilots were unwilling to intervene – even when they had information that might save the plane.

That kind of silence has a tremendous price. In his recent book *Outliers*, Malcolm Gladwell reviewed data from numerous airline accidents. “The kinds of errors that cause plane crashes are invariably errors of teamwork and communication,” he concluded. “One pilot knows something important and somehow doesn't tell the other pilot.” Hence, in an emergency pilots need to “communicate not just in the sense of issuing commands but also in the sense of...sharing information in the clearest and most transparent manner possible.”

Transparency problems don't always involve a leader who won't listen to followers (or followers who won't speak up). They also arise when members of a team suffer from groupthink – they don't know how to disagree with one another. This second type of problem has been written about a lot, but we're sorry to report that from what we've observed, it's very much alive in the executive meeting rooms of large corporations. Shared values and assumptions play a positive and necessary role in holding any group together. But when a team of senior managers suffer from collective denial and

self-deception – when they can’t un-earthen and question their shared assumptions – they can’t innovate or make course corrections effectively. That often leads to business and ethical disasters.

We’ve argued for more transparency for a long time – but the truth is, we haven’t seen much progress. In the combined fourscore and 10 years we’ve been studying organizations, the most common metaphor we’ve heard managers use to describe their own cultures is “a mushroom farm” – as in, “People around here are kept in the dark and fed manure.” When we recently polled 154 executives, 63% of them described their own company culture as opaque. And the remaining 37% were more likely to choose clouds over bright sunshine to describe the communication practices at their firms.

Organizational transparency makes sense rationally and ethically, and it makes businesses run more efficiently and effectively. But leaders resist it even so, because it goes against the grain of group behavior and, in some ways, even against human nature. In all groups leaders try to hoard and control information because they believe it’s a source of power. Managers sometimes believe that access to information is a requisite of power, a benefit that separates their privileged caste from the unwashed hoi polloi. Such leaders apparently feel that they’re smarter than their followers, and thus only *they* need, or would know how to use, sensitive and complex information. Some even like opacity because it allows them to hide embarrassing mistakes.

A third type of transparency problem occurs when the board of directors abdicates its responsibility to provide genuine oversight. An alarming number of board members today seem to succumb to the “shimmer effect” – they let charismatic CEOs get away with murder (or outrageous greed, at any rate). Witness the behavior of Hollinger International’s former CEO Conrad Black, who spent some \$8 million of his shareholders’ funds to treat himself to a private collection of Franklin D. Roosevelt memorabilia. Worse, Black was found guilty of taking millions in illegal payments for agreeing not to compete with Hollinger’s own subsidiaries. The company’s board, which included Henry Kissinger, held Black in such

If you want to develop a culture of candor, start with your own behavior and then work outward – and keep these recommendations in mind.

» **Tell the truth.** We all have an impulse to tell people what they want to hear. Wise executives tell everyone the same unvarnished story. Once you develop a reputation for straight talk, people will return the favor.

» **Encourage people to speak truth to power.** It’s extraordinarily difficult for people lower in a hierarchy to tell higher-ups unpalatable truths – but that’s what the higher-ups need to know, because often their employees have access to information about problems that they don’t. Create the conditions for people to be courageous.

» **Reward contrarians.** Your company won’t innovate successfully if you don’t learn to recognize, then challenge, your own assumptions. Find colleagues who can help you do that. Promote the best of them. Thank all of them.

» **Practice having unpleasant conversations.** The best leaders learn how to deliver bad news kindly so that people don’t get unnecessarily hurt. That’s not easy – so find a safe place to practice.

» **Diversify your sources of information.** Everyone’s biased. Make sure you communicate regularly with different groups of employees, customers, and competitors, so that your own understanding is nuanced and multifaceted.

» **Admit your mistakes.** This gives everyone around you permission to do the same.

» **Build organizational support for transparency.** Start with protection for whistle-blowers, but don’t stop there. Hire people because they created a culture of candor elsewhere (not because they can outcompete their peers).

» **Set information free.** Most organizations default to keeping information confidential when it *might* be strategic or private. Default, instead, to sharing information – unless there’s a clear reason not to.

awe that it simply did not provide prudent oversight. What Black and his board failed to factor into their pact of silence is that truth has a way of ultimately surfacing.

### Why Transparency Is Inevitable Today

What executives are learning, often the hard way, is that their ability to keep secrets is vanishing – in large part because of the internet. This is true not just in open democracies but in authoritarian states as well. For example, in 2007 blogger Lian Yue warned residents of Xiamen, China, of plans to build a chemical plant in their beautiful coastal city. Even a decade earlier, the factory would have been built before local citizens were the wiser. But urged on by Lian, opposition spread quickly in Xiamen, via e-mail, blogs, and text messages. Protesters organized a march on the town’s city hall to demand the cancellation of the project. Although government censors promptly shut down their websites, the protesters took photos of the demonstration with their cell phones and sent them to journalists. A million messages opposing the plant reportedly

were circulated. The government ultimately agreed to do an environmental impact study, and the plant was moved 30 miles out of town.

If this can happen in China, it can happen anywhere. Today anyone with a cell phone and access to a computer could conceivably bring down a billion-dollar corporation. Trying to restrict the free flow of information doesn't work for corporate executives any more than it did for government officials in Xiamen. An instructive example is the decision of Guidant not to publicize a defect it discovered in some models of its defibrillators. The flaw caused a small number of the implanted heart regulators to short-circuit and malfunction, but according to reports in the *New York Times*, Guidant executives didn't tell doctors about it for three years. They remained silent until the spring of 2005, when one of the devices was implicated in the death of a college student, whose physicians contacted the *Times*. Though it was under

### Creating Transparency

A culture of candor doesn't just develop on its own – the hoarding of information is far too persistent in organizations of all kinds. That said, leaders can take steps to create and nurture transparency. The bottom line with each of these recommendations is that leaders need to be role models: They must share more information, look for counterarguments, admit their own errors, and behave as they want others to behave.

**Tell the truth.** When followers are asked to rank what they need from their leaders, trustworthiness almost always tops the list. Leaders who are candid and predictable – they tell everyone the same thing and don't continually revise their stories – signal to followers that the rules of the game aren't changing and that decisions won't be made arbitrarily. Given that assurance, followers become more willing to stick their necks out, make an extra effort, and put themselves on the line to help their leaders achieve goals.

## As one manager told us, “The only messenger I would ever shoot is one who arrived too late.”

fire, Guidant didn't recall the defibrillators for almost another month – and not until another death had been connected to its product. Eventually, the Guidant devices were implicated in at least five more deaths, and the result was a catastrophic trust problem with the company's primary customers: physicians. Guidant's share of the defibrillator market dropped from 35% to about 24% after the recall, apparently because of the disgust many doctors felt over the company's decision to conceal the truth.

In stark contrast to Guidant, some farsighted leaders institute a “no secrets” policy designed to build trust among all corporate stakeholders. Kent Thiry, CEO of DaVita, a dialysis-treatment operator, systematically collects data and solicits candid feedback from his employees, ex-employees, customers, and suppliers in order to avoid making mistakes. Thiry actively seeks out bad news and rewards employees who give it to him. To reinforce trust, he and his top managers act promptly to correct practices that employees have identified as problematic – issues that, if left unchecked, could come back to haunt the company. And historical examples of unusual displays of candor that created public trust are the stuff of legend at such diverse companies as Honeywell, Continental Airlines, Johnson & Johnson, Nordstrom, Whole Foods, and Xilinx.

**Encourage people to speak truth to power.** Building trust takes time and consistency, and the reward is an unimpeded flow of intelligence. Sometimes that includes news and information that executives don't want to hear. Clearheaded managers appreciate such openness. As one told us, “The only messenger I would ever shoot is one who arrived too late.” Many executives are not that enlightened, however. What they fail to understand is that trust is a symbiotic relationship: Leaders first must trust others before others will trust them.

It's never easy for employees to be honest with their bosses. After a string of box office flops, movie mogul Samuel Goldwyn was said to have told a meeting of his top staff, “I don't want any yes-men around me. I want everybody to tell me the truth even if it costs them their jobs.” The story illustrates that speaking truth to power requires both a willing listener and a courageous speaker. In all organizations – families, sports teams, schools, businesses, and government agencies – those lower down the pecking order may experience, from time to time, the terror involved in having to tell unpalatable truths to those above them. Daring to speak truth to power often entails considerable risk – whether at the hands of an irate parent, a neighborhood bully, or an incensed movie studio boss. Imagine the courage it would have taken for an Enron employee to confront Jeffrey Skilling with the facts of the

# Why Good People Do Bad Things

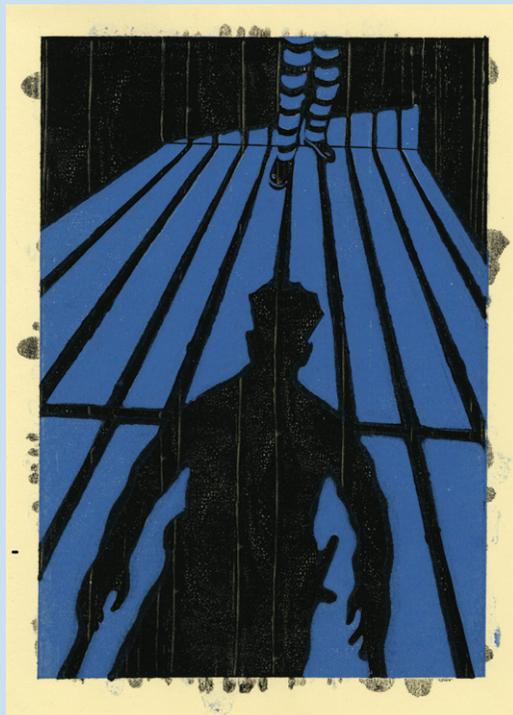
**T**HE BIZARRE and terrible events at the Abu Ghraib prison in Iraq caused social psychologist Philip Zimbardo to reexamine the famous and controversial prison experiment he conducted at Stanford in 1971. In *The Lucifer Effect*, he reviews how the experiment got out of hand:

Young men had been assigned to play the roles of guards and inmates in an ersatz jail in the basement of a campus building, but the participants took their playacting so seriously that the scheduled two-week experiment had to be aborted at midpoint, after the student guards had begun to psychologically and physically abuse the student prisoners.

Zimbardo reanalyzes the experiment, along with the horrors that occurred in Nazi concentration camps, My Lai, Jonestown, and Rwanda (and currently are happening in Darfur), in light of two decades of social psychological research. He concludes that almost all of us are susceptible to being drawn over to the dark side, because human behavior is determined more by situational forces and group dynamics than by our inherent nature. Thus it is horribly easy to create situations and systems in which good people cannot resist the temptation to do bad things. But, on a more hopeful note, we can just as readily design systems that lead to virtuous behavior.

Zimbardo's conclusion illuminates the roots of unethical corporate behavior better than most published analyses of that topic. He demonstrates that ethical problems in organizations originate not with "a few bad apples" but with the "barrel makers" – the leaders who, wittingly or not, create and maintain the systems in which participants are encouraged to do wrong. The managerial implications are enormous. Instead of wasting millions of dollars on ethics courses designed to exhort employees to be good, it would be far more effective to create corporate cultures in which people are rewarded for doing good things.

What's more, Zimbardo's findings shed light on the common organizational problems of peer pressure and the



reluctance to speak truth to power. In all groups, there's a powerful desire to belong. Everybody wants to be liked, to be part of the "family." Hence, the pressure to conform in organizations is almost irresistible. And nobody wants to be the skunk at the party, the one who tells the boss that his fly is open or that she has peanut butter on her chin. These same organizational forces hamper a company's capacity to innovate, solve problems, achieve goals, meet challenges, and compete.

The only effective antidote is to create an unimpeded flow of information and an organizational climate in which no one fears the consequences of speaking up. By broadening the perspectives that leaders consider, transparency deters groupthink. But its real value is that it keeps the leaders of organizations honest with others and, perhaps more important, honest with themselves.

company's financial deception. Or, even the courage required by a GE employee simply to question the company's former CEO Jack Welch. According to *Fortune*, former GE employees reported that "Welch conducts meetings so aggressively that people tremble. He attacks almost physically with his intellect – criticizing, demeaning, ridiculing, humiliating."

In the early 1970s, Albert O. Hirschman posited that employees who disagree with company policy have only three options: exit, voice, or loyalty. That is, they can offer a principled resignation (exit), try to change the policy (voice truth to power), or remain team players despite their opposition (loyalty). Most people choose option three, the path of least resistance. They swallow whatever objections they may have to questionable dictates from above, concluding that they lack the power to change things or, worse, will be punished if they try. Most executives expect their people to be good soldiers and not question company policy, but a great leader will welcome alternative viewpoints.

**Reward contrarians.** Companies with healthy cultures continually challenge their assumptions. That work can seldom be done by one person sitting alone in a room; it requires leaders who listen to others. An oft-told story about Motorola during its heyday in the 1980s concerns a young middle manager who approached then-CEO Robert Galvin and said: "Bob, I heard that point you made this morning, and I think you're dead wrong. I'm going to prove it: *I'm going to shoot you down.*" When the young man stormed off, Galvin, beaming proudly, turned to a companion and said, "That's how we've overcome Texas Instruments' lead in semiconductors!" During that period, there were no rewards at Motorola for people who supported the status quo; managers got ahead by challenging existing assumptions and by pointing out imperial nakedness. In later decades the company lost those good habits. Alas, sustaining a culture of candor is even harder than creating one.

**Practice having unpleasant conversations.** Beneficial as candor may be, great unintentional harm can be done when people speak honestly about difficult subjects. That's why managers find it so hard to give performance appraisals to subordinates whose work is not up to par. And since offering negative feedback upward – to one's boss – is even harder, that occurs even more rarely. There is no way to make giving feedback fun for the bearer of a bad assessment or for the recipient.

But Northrop Grumman found a way to teach executives to handle it gracefully. The company's recently retired chief ethics officer, Frank Daly, established a program wherein managers can practice having unpleasant conversations. It helps them learn how to deliver negative messages constructively, without being hurtful. The good news is that such exercises appear to be increasingly common in large corporations.

**Diversify your sources of information.** Leaders have to work hard to overcome the tendency to lock themselves up,

## The Challenges of Transparency

**COMPLETE TRANSPARENCY** is not possible, nor is it desirable. Corporations have a legitimate interest in holding competitive information close: The imperative for transparency doesn't mean that Coca-Cola should reveal its secret recipe or that Microsoft should let its competitors in on the specs of its next generation of software. Strategic secrets are necessary and reasonable, as is protecting the privacy of individual employees and customers. Where to draw the line between what information must be revealed and what should be withheld is one of the most important judgments leaders make. Unfortunately, the reflex reaction in most companies is to treat all potentially embarrassing information as the equivalent of a state secret. The alternative, and we believe more prudent, default position is "When in doubt, let it out."

An emerging challenge in the age of the internet and corporate intranets is the increasing risk of misinformation, those unsubstantiated accusations that spread like wildfire. Hence, managers today need to learn how to use technology to counter misinformation with facts and to convey honest corporate messages. Internal corporate blogs can especially be thorns in the sides of executives, but technology-savvy managers know how to use the medium to defuse false rumors. The wisest executives view even nasty online critiques of top management as a mechanism that prevents tunnel vision and reminds the powers that be that they don't have a lock on all useful information.

Used proactively, technology can harness expertise from the bottom of organizations. There is always someone buried down the hierarchy who has information or insights needed by those at the top, and the new technology is the best way to tap that knowledge.

All in all, there are some unpleasant things about transparency that managers simply have to learn to live with but can turn into opportunities.

figuratively speaking, in hermetically sealed C-suites. They should remind themselves of the secret that all well-trained journalists, consultants, and anthropologists learn: When you're setting out to understand a culture, it's best to seek diverse sources of information that demonstrate a variety of biases. This is a simple and obvious point, but rare is the leader who regularly meets with – and listens to – employ-

ees, reporters, shareholders, regulators, and even annoying critics.

**Admit your mistakes.** Wise leaders do this. It once was said about Gandhi, “He makes no compromise to admit having been in the wrong.” And President Obama’s admission during his third week in office – that he’d “screwed up” by appointing top officials who had played fast and loose with the IRS – sets the contemporary standard for how executives should right their mistakes. Admitting that you’ve goofed not only disarms your critics but also makes your employees more apt to own up to their own failings.

**Build an organizational architecture that supports candor.** This task begins with creating norms and structures that sanction truth telling. Such organizational practices as open-door policies, ombudsmen, protection for whistle-blowers, and

ethics was just one factor the board had considered. Boards are the last line of defense against ruinous self-deception and the suppression of vital truths. If they’re not vigilant in the pursuit of honesty, the organizations they serve are unlikely to have a free internal or external flow of information.

**Set information free.** Corporate managers tend to keep a great deal of information private that could easily – and usefully – be shared widely. For the past 20 years every employee at SRC Holdings, a diversified remanufacturing company based in Springfield, Missouri, has had access to all financial and managerial information, and each is taught how to interpret and apply it. The net effect, in the words of the company’s CFO, “is like having 700 internal auditors out there in every function of the company.” The firm has extremely high ethical standards and has been a financial marvel, generating impressive profits,

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internal blogs that give voice to those at the bottom of the hierarchy can help. Ethics training can also be useful, although too much of it in corporations is “CYA” legal compliance.

The executive selection process is potentially the most powerful institutional lever for cultural change because the tone is set by those at the top. As we have seen, transparent behavior is unnatural among those in positions of power. In fact, executives are seldom chosen for their ability to create a culture of candor. (The habit of listening to contrarians is not a trait that most companies or executive recruiters seek in future leaders.) Most of the time, they’re selected not for their demonstrated teamwork but for their ability to compete successfully against their colleagues in the executive suite, which only encourages the hoarding of information.

Changing that system is the responsibility of boards of directors. Truly independent boards would go a long way toward providing a needed check on executive ego and a source of objective truth telling. Errant executives will not begin to act virtuously so long as boards continue to reward their misbehavior. Raytheon’s board, for example, recently claimed that promoting ethical behavior was a criterion it used in setting executive bonuses. Yet shortly after the company’s CEO admitted that he had plagiarized large parts of a book he claimed to have written himself, the board voted him a \$2.8 million bonus. When pressed, a Raytheon spokesman explained that

creating jobs, and spinning off new businesses sustainably year after year.

As this example illustrates, extensive sharing of information is critical to both organizational effectiveness and ethics. That’s why exemplary leaders encourage, and even reward, openness and dissent. They understand that whatever momentary discomfort they may experience is more than offset by the fact that better information helps them make better decisions. Unfortunately, there is no easy way to institutionalize candor. Honesty at the top is the first step, but true transparency, like a healthy balance sheet, requires ongoing effort, sustained attention, and constant vigilance. 

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