

## Another Lesson from the Financial Crisis Transparency has Become a Governance Issue

Transparency occurs when you build your products, organization structure, systems, work processes, information flows and management processes so your stakeholders can easily see what is happening. Transparency is the opposite of secrecy, whether intentional or accidental.

Lack of transparency was one of the fundamental causes of the current financial crisis. It happened at all levels. Banks and other mortgage companies offered homebuyers products that were poorly designed and difficult to understand, with explanations that were often neither clear nor true. Mortgages were bundled into securities in ways that made it difficult and sometimes impossible for investors to understand fully what they were purchasing. This lack of transparency also allowed the companies creating these securities to make them look better than they actually were.

One of the main problems with a lack of transparency is that secrecy or opaqueness always makes it easier for bad behavior to occur.

When you look at our industry, our effectiveness in implementing transparency policies has been generally good -- but different, depending on your viewpoint. Viewed from the outside, customers and agents believe that their insurance companies generally do a good job. Our policies, bills and other communications are easy to read. We make it easy for customers to contact us if they need assistance. Most companies believe in "one-stop processing," so the person the customer contacts can usually handle the request without delays or referrals. Internet websites are generally well designed and user-friendly. In general, customers tend to give us high marks in customer satisfaction.

Internally, most companies do a poorer job. When this happens, it is frequently because a company does not really understand the benefits they can have nor do they have a clear vision of what their world would look like if they really embraced the idea of transparency. Let's take a real life example of what one of our clients has accomplished to demonstrate the power of this concept.

We have a client where you can literally ask any employee you meet how their team, department or company is doing and they will tell you . . . and be correct. They can also tell you why their team or department is getting its results and what they are doing to make things better. This is because they have team meetings every week where they talk about what is working and not working and what they need to do better. They also have access to all the information they need to make sound decisions. They are able to get new and customized computer data quickly and easily to help them better analyze specific situations, problems and opportunities. They have the knowledge and power to change things when it makes sense. Think about the transparency needed to cause this result. It involves almost every area of the company and hundreds of modifications to get to where they are -- and the result is astounding.

Our consulting firm has believed in and recommended transparency since we started our company fifteen years ago, but our reasons were always because of the positive benefits clients would receive. We never looked at the negative side. Now we are. We are concerned that transparency has become a governance issue and companies and Boards who do not aggressively ensure they promote transparency may have future problems. We strongly urge you to look at this.

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