

# Frequently Asked Questions About The Openness Audit™

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- **BACKGROUND**

1. **What does 'openness' mean in the present context?**

The question might better be asked, "Openness in what?" The referent, in this case, is *business processing* and related *information outcomes*. Thus, it consists of the business processes in organizations through which business is transacted, as well as corresponding information outcomes, such as financial reports, business strategies, policies, plans, procedures, assessments, etc. Since behavior in business is nothing more than information or knowledge in use, the transparency of these processes and outcomes is of enormous importance to stakeholders of all walks.

2. **Why does openness in business processing matter?**

The degree of openness in business processing can be thought of as a form of quality control in management decision making and organizational performance. Ultimately, then, openness in business processing and related information is a necessary condition for maintaining quality in corporate governance, accountability, stakeholder reporting, social responsibility, ethics, and environmental sustainability.

On a more pecuniary front, openness in business processing also has impact on things like business innovation, competitive advantage, and agility. Each of these things, in turn, has material influence on shareholder returns; the livelihoods of countless workers; the stability of pension funds; and the general well being of stakeholders.

In what may now be called the post-Enron period of business, openness in business processing has clearly become a business ethics and governance issue – *a new fiduciary duty for corporate directors and managers in the twenty-first century!* The principle behind it is rooted in the importance and value we place on trustworthiness between people, and the quality and reliability of the information and knowledge they collectively produce, share, and use – both for their own benefit and for others'.

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### 3. What do you mean by ‘business processing’?

Business processing roughly equates to the performance of *business processes* found in the value chain. Any organization can be described in these terms, with such common terms as Finance, Human Resources, IT, Customer Service, Executive, Manufacturing, Logistics, Marketing, Sales, etc. being used to describe logically distinct process domains inhabited and carried out by workers with corresponding skill sets. Our method simply subjects each of these process domains to measures of transparency and openness in a systematic way. When taken together, these assessments can be used to express the overall level of transparency and inclusiveness (i.e., Openness) in a firm.

### 4. In what sense can business processing and information be more or less ‘open’ in an organization?

In two ways. First is the degree of visibility by which business processes and information can be seen or inspected by stakeholders. This is the *transparency* dimension of openness. Second is the degree of access through which stakeholders can participate or have impact of some kind on their execution and content. This is the *inclusiveness* dimension of openness.

More about these dimensions of openness in business processing is discussed below in the Openness Audit™ section.

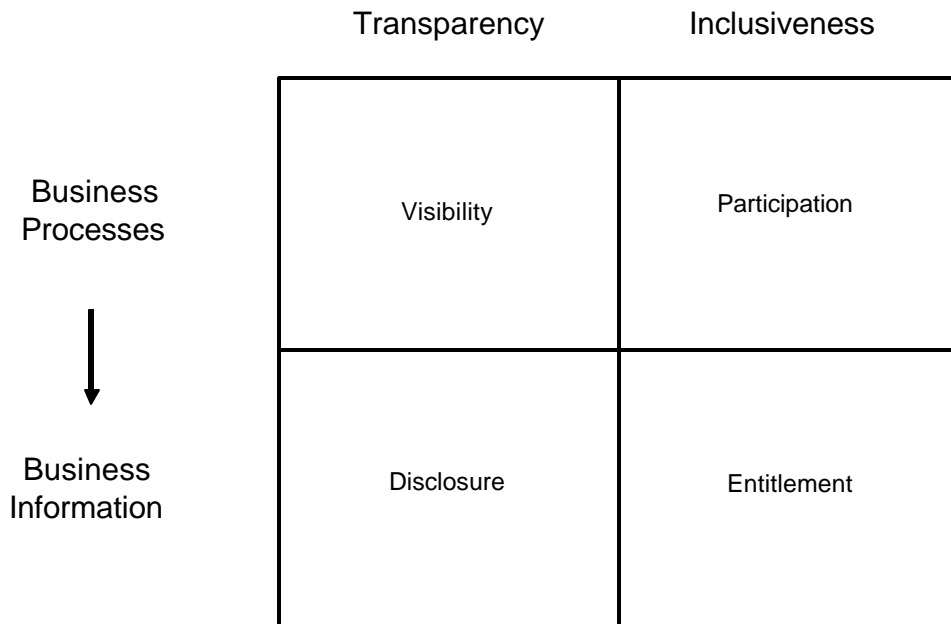
### 5. Can the degree of openness in an organization be managed or controlled?

Absolutely. And in these times, the importance of doing so couldn't be more urgent. Openness in business is an environmental set of conditions in organizations, which can be determined (at will) by the content of policies, programs, and practices in related areas. Of these, policies and programs can be directly controlled by managers by edict. Actual behaviors, or practices by workers, however, are less determinable, since they involve endless acts of individual choice made by autonomous individuals in a company. But policies and programs can, nevertheless, be defined and enforced from ‘above,’ if you will.

Thus, managing openness in business processing has two sides to it: (1) crafting and adopting related policies and programs, and (2) enforcing and/or amending them over time in response to observed or actual behaviors in order to achieve desired ends. Openness, then, is an eminently manageable aspect of organizational life. Indeed, the first and most important step an organization can take to enhance its openness is to develop and adopt an **Openness Strategy**. It is within such a strategy that an organization's policies and programs can be formally expressed.

## 6. What are the dimensions of an Openness Strategy?

There are four. The first two, as we have said, relate to openness in **business processes**, on the one hand, and **business information** on the other. These are the *targets* of openness management – its referents. Next, there are two senses of openness that apply to each of the two targets: *transparency* and *inclusiveness*. See Figure 1 below for a view of this framework.



**Figure 1 – Openness Strategy Framework**

Very briefly, here is a description of each of the openness issues represented in the framework above:

- *Transparency of Business Processes* – This quadrant deals with the visibility of business processes in terms of how apparent and accessible they are to inspection and scrutiny from stakeholders. The question we ask is, ‘*Are business processes sufficiently revealed to all stakeholders in an organization, or are they unduly hidden from view?*’
- *Inclusiveness in Business Processes* – This quadrant refers to the extent to which business processes in an organization are open to participation by its stakeholders in one way or another. The question we ask is, ‘*Are business processes unduly closed or constrained in a firm, or are related processes sufficiently open to participation by stakeholders?*’

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- *Transparency of Business Information* – This quadrant relates to the degree of access stakeholders have to corporate information and knowledge – i.e., the outcomes of business processing. It is the most commonly thought of aspect of openness and transparency in organizations, since it deals with the information and knowledge content that stakeholders so often wish to see or have access to. Thus, the issues covered by this quadrant encompass the *disclosure* duties of a company, and the extent to which managers live up to related expectations – or not.
  - *Inclusiveness in Business Information* – This quadrant deals with the extent to which entitlements to information are openly shared with stakeholders in an organization, versus being closely held by management or the employer. Such entitlements may include sharing of intellectual property rights with employees; equitable distribution of profits arising from the performance of intellectual capital; non-title to private or confidential information; and other such matters. The key issue here is the extent to which access and entitlements to ownership, privacy, and other benefits derived from business information is open to all, or only some, of the stakeholders involved in an organization's affairs.
- **THE OPENNESS AUDIT™**

### 1. What is the Openness Audit™?

The Openness Audit™ (OA) is a method that makes it possible for managers to assess and report on the degree of transparency and inclusiveness found in the business processing and information affairs of an organization. It may be used as a precursor, or first step, in the development of an *Openness Strategy*, or simply as a tool for profiling the current state of openness in a company. Once an *Openness Strategy* is in place, it may also be used incrementally as a way of continuing to monitor and refine related policies, programs, and practices.

**The Openness Audit™ may also be used as a tool for demonstrating compliance with statutes and/or regulations that call for evidence of openness or transparency in the management and governance of private or public organizations.**

The Openness Audit™ is an application of Macroinnovation Associates' patent-pending Policy Synchronization Method.

### 2. What's the difference between an Openness Audit™ and an ethics audit?

Ethics audits generally deal with the moral or value implications of behavior. In other words, they are chiefly concerned with the manner in which morals and values are actually applied and reflected in business, and especially whether such morals, values, and behaviors are consistent with legal and fiduciary

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obligations. Ultimately, their goal is to enhance an organization's capacity to avoid illegal and illicit behaviors, thereby minimizing misconduct and the associated exposure to lawsuits, penalties, and declines in shareholder values (financial values).

An Openness Audit™, by contrast, is only focused on the degree of transparency and inclusiveness in business processing and information. Whereas in an ethics audit the factors of interest to us are *propriety* and *lawfulness*, in an Openness Audit™ they are *transparency* and *inclusiveness*.

To help illustrate this distinction further, consider the possibility that a company could be, at once, both *ethical and closed* – that is, there could be an utter absence of illegal or illicit behavior going on in the midst of total *non-transparency* and *exclusiveness*. On the other hand, a company could be both *unethical and open*, but presumably not for long, since its very openness would sooner or later reveal its unethical behaviors, which of course is one of the reasons why we seek openness in the first place.

That all said, we do believe that an Openness Audit™ can be a very valuable extension or adjunct to the performance of an ethics audit, or to the fulfillment of ethical policies. Why? Because we believe that organizations have an ethical duty of sorts to be open to their stakeholders' scrutiny and involvement, especially in government and publicly-traded companies. It should also be clear, of course, that openness makes it possible to determine the extent to which people in organizations are actually operating in conformance with their ethical policies and obligations – it does that and much, much more. Thus, the *Open Enterprise* is the more ethical enterprise, the sustainable enterprise, and also the more innovative one.

### **3. Are there standards for openness? If not, in what sense is the Openness Audit™ relevant or useful?**

There are no standards for openness, per se, that we know of. Still, there is plenty of social science on hand which tells us more than enough about what the kinds of conditions are in organizations that enhance business processing and related outcomes, versus those that do not. Much of the same science also tells us about the kinds of policies and programs that actually dampen or suppress learning and innovation, and which also work to block or undermine transparency and corporate accountability. We don't need standards to understand these things, and we certainly don't need standards to be motivated to do all that we can to help reduce corporate corruption, improve our capacity to learn, innovate, and adapt., and to generally operate in more sustainable ways.

That said, different jurisdictions around the U.S. and other parts of the world are increasingly turning to statutory and regulatory measures as a way of adding new levels of quality control to the ideas and practices employed in

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business. In the UK, for example, new *Freedom of Information* legislation has been passed that will take effect in 2005, but which many government agencies there are already moving to adopt. In the U.S., similar statutes are popping up on several industry fronts where corporate scandals in the past three years have appeared in unfortunate numbers. As in the UK, Freedom of Information and 'sunshine laws' in place at federal, state, and local levels are also receiving new levels of attention around the country.

Closely related to all of this is the general increase in interest in shoring up business ethics and corporate governance. Sooner or later, these initiatives, too, must deal with openness issues, since without openness in business processing, there can be no way of ensuring compliance with ethical guidelines or new corporate governance rules. All of these efforts and initiatives generally share the imperative of being more transparent, more accountable, and more inclusive of stakeholders in the conduct of business affairs.

In sum, companies and their boards are finding themselves increasingly subject to growing pressures from market exchanges, government regulators, and private watchdog groups to operate in more open and transparent ways. While the 'standards' of conduct here may be less than formal or normative, per se, the need to take action in response is no less real. The Openness Audit™ is a tool that can help managers do so!

### **4. What is the underlying body of social science upon which this method is based?**

The Openness Audit™ method is informed by the fields of Organizational Development, Organizational Learning, Complex Adaptive Systems Theory, Political Science, Knowledge Management, Epistemology, and others. Taken together, these disciplines have converged into a new field that some refer to as *Corporate Epistemology*, the study of how people in organizations collectively produce and integrate information and knowledge as a means of solving problems in the pursuit of common goals. In a business context, however, the discipline of interest to us is *Transparency Management*.

### **5. How does the Openness Audit™ work?**

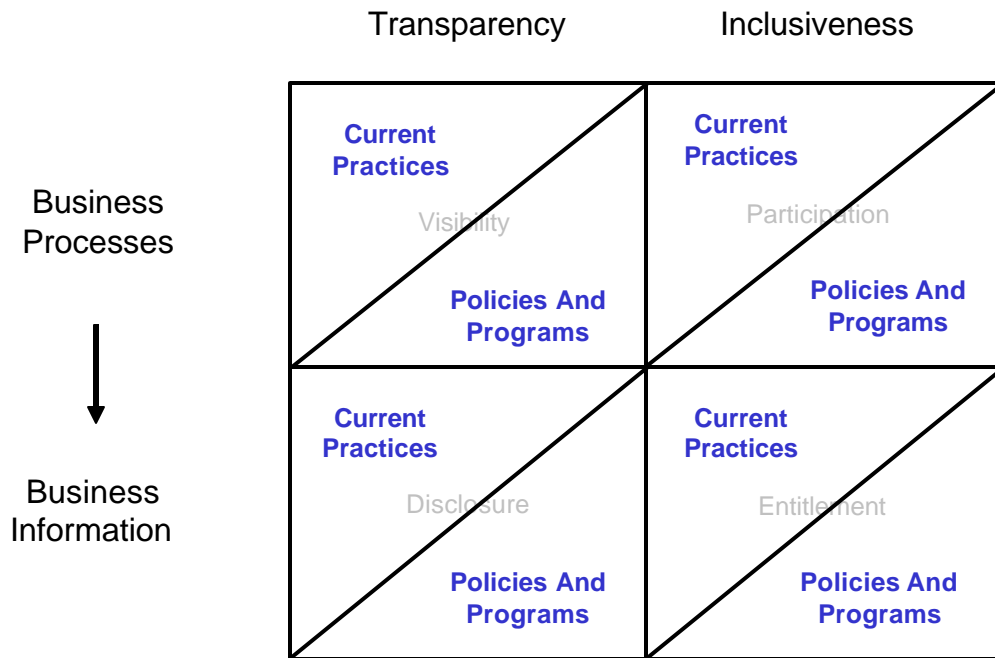
The Openness Audit™ is carried out with the strategy framework shown in Figure 1 as its backdrop. It consists of a process aimed at capturing an understanding of the current openness environment in an organization in each of the four quadrants depicted therein. To do so, it focuses on gathering data in two areas of importance: (1) current practices, and (2) current policies and programs (see Figure 2).

Tools and techniques used to gather related information range from inspection and analysis of current formal policies and programs; to interviews with key personnel; to interviews with cross-sections of stakeholder groups; to group

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discussions; to ‘opinion surveys.’ Each audit is customized to the needs of the client, and tools are drawn from a variety of sources, including many third-party affiliates of our firm.



**Figure 2 – Openness Practices, Policies and Programs**

The Openness Audit™ process itself consists of three phases:

- **Phase 1 – Artifactual Data Collection**

- Business Processes
- Business Process Information

This phase includes the collection and analysis of organizational artifacts (documents, on-line policy statements, etc.) that express current policies in the areas of interest to us. In addition, it focuses on profiling related programs, including the use of technology to support them (i.e., websites, other IT applications or systems, etc.). It is in the context of conducting this aspect of the Openness Audit™ that assessments are made relative to both the transparency side of the issue (the Transparency Audit™) and the inclusiveness side (the Inclusiveness Audit), the combination of which add up to a full Openness Audit™.

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- **Phase 2 – Subjective Data Collection**

- Business Processes
- Business Process Information

This phase entails the collection of subjective, opinion-based information from management, employees, customers, and other stakeholder groups of interest to the audit. Tools used can include individual interviews, group discussions, and opinion surveys.

- **Phase 3 – Report Generation**

- Pre-release verification of key observations and conclusions
- Report preparation and delivery

### **6. What are the benefits of an Openness Audit™?**

There are many. Some relate to fulfilling duties owed to stakeholders or regulatory bodies. Others relate more to internal needs, such as improving levels of trust between workers, enhancing organizational learning, innovation, and agility. Yet additional benefits pertain to levels of employee satisfaction, and related impacts on the recruitment and retention of top quality personnel. Here is a more structured listing of benefits to be had from use of the Openness Audit™:

- Key Benefits to Boards of Directors
  - Provides clear and demonstrable evidence of a board's exercise of its fiduciary duty to safeguard the integrity and security of a company's operations.
  - Helps protect boards against potential accusations of dereliction of duty or laxity of oversight.
  - Constitutes an affirmative tool that boards can use to establish, maintain, and enforce guards against corruption and malfeasance on the part of managers and other employees.
  - Allows boards to establish, maintain, and enforce appropriate degrees of transparency in business transactions and management policies.
  - Can be used in support of related Business Ethics initiatives.
  - Helps boards comply with statutory or regulatory rules related to openness and transparency, where needed.
- Key Benefits to Managers
  - Provides valuable assessments and feedback that can be used to either demonstrate compliance with openness policies, or as a basis for actions required in order to become so.

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- Helps protect managers against accusations of inconsistency or caprice in their decisions about the privacy and/or disclosure of corporate affairs.
  - Helps managers maintain and enforce openness expectations and behaviors at all levels of the organization.
  - Helps attract and maintain high quality staff who are attracted to a firm's commitment to openness and transparency.
  - Helps managers comply with statutory or regulatory rules related to openness and transparency, where needed.
  - Helps to enhance overall levels of organizational learning and innovation by measuring the conditions that drive and encourage employee inspiration to identify and solve problems.
  - Can be used in support of related Business Ethics initiatives.
- Key Benefits to Shareholders
    - Helps protect investments by holding companies more accountable to disclosure and transparency standards, thereby helping to guard against corporate corruption and malfeasance and the erosion of capital that follows.
    - Helps enable the flow of information to shareholders about their investments and the decisions taken by related managers and boards, as well as the thinking behind them.
  - Key Benefits to Employees
    - Helps improve overall levels of trust between workers due to greater levels of transparency and inclusiveness in information and knowledge processing.
    - Offers more satisfying and enriching employment by permitting employees at all levels to be part of the corporate conversations that revolve around key business issues and the development of solutions.
    - Provides valuable insight into management's expectations re: openness and transparency rules, and how employees should carry out their duties in response.
  - Key Benefits to Other Stakeholders
    - Helps enable the flow of information to stakeholders impacted in various ways by the performance and integrity of the organization's operations, such as trading partners, customers, and local communities.
    - Helps guard against the damaging effects of corporate corruption and malfeasance at the level of whole industries or economies.
    - Helps regulators or other authorities independently assess the degree of compliance with related codes of behavior or statutory rules.

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- Helps guard against environmental offenses by making unsustainable business policies, programs, and behaviors more detectable and transparent.

### **7. How long does the Openness Audit™ take?**

An Openness Audit™ can range from weeks to months, depending on the size of the organization involved.

### **8. What are the key deliverables of the Openness Audit™**

The primary deliverable is the Openness Audit™ Report at the end of each engagement. Included within this report, however, are subsidiary deliverables that provide:

- A summary of a client's current policy and program environments (including IT systems) using artifactual evidence;
- Subjective (but structured) assessments of their effectiveness;
- Results of the Transparency Audit™, a subset of the overall process that deals with the disclosure aspects of the assessment, alone;
- Results of the Inclusiveness Audit; and
- Detailed recommendations for improvement, the content of which can be used as a basis for follow-on implementation and transformation efforts.

### **9. What are the costs involved in having an Openness Audit™ performed?**

Again, this depends on the size and scope of the effort. But fees are computed on an hourly basis, with expenses added as well.

### **10. How do I learn more about the Openness Audit™ or request a proposal?**

By contacting our firm's CEO, Mark W. McElroy, directly, either by e-mail at [mmcelroy@vermontel.net](mailto:mmcelroy@vermontel.net), or by phone at (802) 436-2250.