Corporate Reputation Briefing Part 2: Transparency's time has come

Posted by Oliver Balch [1] on Dec 10, 2012

Will 2013 be the year of transparency? Modern media facilitates it and public expectations demand it. Businesses would be unwise to ignore it

Michael Woodford is keeping a low profile these days. The former chief executive of Olympus was last in the news in mid-2012, when the Association of Certified Fraud Examiners decided to decorate him with a prestigious award.

A quiet period must be a welcome change. At the beginning of 2012, Woodford's name was splashed across the global media. That wasn't the plan when he took the top job at Olympus the previous April. The UK-born "salary man" and his bosses were hoping for a seamless transition. Japanese business culture, after all, is not big on surprises.

Once in the hot seat, however, Woodford had a hunch all was not right. Rousing his suspicions were a string of acquisitions by the camera and endoscopy manufacturer. Weirdly, none had anything to do with Olympus's core business. Even weirder was the price tag: more than $1bn.

Woodford asked Olympus's chairman for answers. None came. He requested PricewaterhouseCoopers, the company's auditors, to look into a multimillion-dollar bill for "advisory services", among other discrepancies. Within a fortnight, Woodford was out of a job. He took his story to the Financial Times. The next day, the whistleblowing fraternity had their highest-profile member ever. And the rest is history.

Can't keep quiet

Fraud watchers have lapped up Woodford's account, but what does it reveal about the direction of travel for corporate reputations and future crises?

The lesson of the Olympus saga boils down to a single word: transparency. Openness, receptivity, salience, accountability, probity, call it what you will – transparency in all its guises is here to stay. Brushing bad news under the carpet is no longer feasible. In an age of 24-hour news and employee Tweeters, word – eventually – gets out.

Of course, public expectations of transparency still vary hugely. Again, the Olympus case is illustrative. Foreign shareholders were up in arms at the company's proclivity towards fraud. Japanese institutional investors, in contrast, remained uniformly silent.

The tide is turning, though. Look at Mars Corporation. For years, this privately owned US food giant guarded its privacy jealously. Now, the GoodGuide [2] gives the Virginia-based firm a transparency rating of 8.2 and 8.7 out of 10 for its environmental and social performance respectively. That places it among market leaders, such as Patagonia (8.5/10 average), Seventh Generation (7.9/10) and Green & Black's (7.3/10).

Whistleblowing provides the starkest proof of the rising transparency agenda. US federal law is helping. Under new rules, informants can expect handsome pay-outs for spilling the beans.

In September, for example, former UBS employee Bradley Birkenfeld pocketed $104m from the US Internal Revenue Service. The fee came for details about the assistance that the Swiss bank provided to wealthy Americans looking to squirrel away millions of dollars in secret accounts. The UK government is believed to be considering a similar incentive policy.

Regulation is the key to understanding the upshot in disclosure. Transparency does not come naturally to most corporations, as the ongoing furore over corporate tax avoidance goes to prove. Again, exceptions exist. Rio Tinto, for instance, now publishes a voluntary account of its tax payments worldwide. But, in general, such openness needs some arm-twisting from legislators.

Emerging issues

One related area to watch out for in 2013 is executive remuneration. New reporting rules will oblige UK-listed companies to provide clearer and more consistent details on hot topics such as directors' pay, shareholdings and related-party transactions. "That will make it easier for activists to see and jump on opportunities where they see a disconnect between the performance of a share price and the compensation of directors," predicts Melvin Galpion, head of Kroll's business intelligence practice in London.

Professional services firm KPMG concurs. The so-called shareholder spring of 2012 saw 10 "serious" revolts among FTSE 100 firms. This is a mere "flexing of shareholder muscle", says David Ellis, KPMG's head of reward and co-author of the firm's Guide to Directors' Remuneration 2012. "2012 may well be a rehearsal for what is to come," he adds.

Non-financial issues have so far escaped such regulatory attention. Calls to incorporate non-financial details into mandatory annual reporting have, as yet, come to nothing. That could change. Under the provisions of the Climate Change Act 2008, for example, the UK's largest listed companies will be obliged to report on their annual greenhouse gas emissions.

Many large corporations are pre-empting such demands through voluntary transparency, as initiatives such as the Carbon Disclosure Project and Global Compact prove. Issuing a stand-alone social and environment report has become standard for most large FTSE and Fortune 500 firms. The database of the benchmark Global Reporting Initiative (GRI) now counts reports from 4,860 businesses.

Transparency is a double-edged sword, though. The more information you provide, the more questions it raises. This presents companies with two major challenges. The first surrounds scope.

GRI and similar reporting methodologies have done much to systematise criteria for non-financial reporting. Yet much more needs to be done. Tricky issues such as tax, lobbying and supplier (and sub-supplier) performance are either ignored or fudged in most corporate responsibility communications. As long as that remains the case, the press and public will continue to probe.

The second challenge centres on accuracy. "The way people think about what is a good piece of sustainability data just needs to take a fundamental shift towards higher quality," warns Vincent Neate, head of KPMG's climate change and sustainability service in the UK. More decimals and deeper analysis are needed. His message is simple: be vague and you can expect trouble.

Trouble from important quarters, too. For a long time, sustainability data-miners have comprised a niche bunch of activist campaigners and environmental wonks. This is changing. Questions about environmental and social risks are beginning to crop up in analyst calls. And not just among Bloomberg's ESG team, says Nelson Switzer, leader on sustainable business at PwC Canada.

"These are analysts worried about water shortage and catastrophic weather events," he says. If mainstream investors begin staking big money on sustainability trends, then companies had better make sure their numbers stack up. If not, the liability lawyers will soon come knocking.

Identifying the "enemy"

For KPMG's Neate, transparency requires a shift in corporate mindsets. "People in business tend to think about transparency as, 'I've got a story so what am I going to tell'," he says. That position requires a 180-degree turnaround. Companies' fundamental "starting point" needs to be "openness, not privacy", he argues.

That attitude feeds into how companies engage with their detractors. Neate advises against categorising groups such as the Occupy Movement as the enemy. As a rule, business people aren't generally bent on spreading evil and destroying the world, he insists. "So why is it that we are seen like this?" That is the question that a transparent company asks – not "how do we silence/counter/ignore them?", as the traditional default position might have it.

Transparency also behoves honesty. It will require a cultural shift, but companies need to be more upfront about their failures. Not the inconsequential confession box stuff. When was the last time a company put its hand up and said its pollution controls failed miserably or its efforts to introduce an ethical label backfired? "When companies are transparent about what they are doing … and whether or not they've succeeded in doing it, then that definitely plays into their credibility and reputation," says Sabrina Vigilante, director of sustainability initiatives at the Rainforest Alliance.

Positive examples are hard to find. Consumer goods company Unilever gives a taste of what such frankness might look like. The latest performance report for its Sustainable Living Plan clearly spells out which targets have been missed (eg "improve heart health") and which are running behind (eg reducing water in the laundry process, reusing packaging, and others).

Likewise, UK retailer Marks & Spencer's latest report for its Plan A programme admits to struggling on a dozen of its 180 commitments. "This is only going to boost the good feeling of people towards a company," Vigilante reiterates.

Smart engagement

Living in an ever more transparent age has repercussions for how companies identify reputational risks too. Used well, social media can act as an "early alert system of sorts", says Peter Roberts, head of issues and crisis management at Bell Pottinger. He advises all his clients to be assiduous in monitoring Facebook, Twitter and the like.

While this will help companies familiarise themselves with emerging reputation issues, it won't help them in managing them. To influence the conversation, he says, companies must be part of the conversation. "[Companies] need to win trust among the protagonists of the debate … which is not an overnight thing," Roberts says.

Get it right and companies can gain valuable online advocates. Vigilante cites the example of the Sustainability Consortium [3], which comprises more than 90 retailers and manufacturers. All have committed to increase product transparency, among other pledges. "Word is getting out to the public through advocacy groups, such as Greenpeace," says Vigilante. "Their news is so well distributed that you can't help but hear their messages."

On the flip side, companies need to temper their enthusiasm for using social media for reputational ends. Too many organisations are "incredibly slavish" to it, notes Roberts. As such, they fail to focus on the most legitimate commentators and material issues. In short, "they say too much".

Eric Dezenhall agrees. A US crisis management expert, Dezenhall observes that any Tweet or Facebook entry is admissible in court. He says: "Whenever I hear people evangelising about how great social media is, I like to press them, 'to what end?'."

Woodford is certainly not taking any chances. He'll be back in the news soon thanks to the release of a book about his journey, entitled "CEO to Whistleblower". Every word went through three sets of lawyers before publication. For transparency's sake, he's upfront about his "amicable agreement" with Olympus: a cool £10m. Oh, and since his address became public knowledge, he's reinforced his front door, too.

Traditional techniques remain effective

Whenever I hear 'engage our stakeholders', I laugh *writes Eric Dezenhall*. What happens if they don't want to be engaged? I'm not saying that you should never engage. I'm saying you have to be smart about it. Just because a 25 year-old with little rectangular glasses tells you that social media is the answer doesn't mean that it has necessarily been thought through. It is a technique, a device. It's not a strategy. Sometimes it works and sometimes it can backfire and inflame a controversy.

Everything can be found on email. Even if it’s not significant, it can be made to look significant and indicative of full awareness of wrongdoing. Yet any effort to stop people sending emails fails miserably. Sending emails is an involuntary reflex … which is great for journalists and litigants and government investigators because everything can be found on email.

Any idea that there is a crisis management playbook is naïve and ancient. Every case is different. Do not believe any of the rules of thumb, whether it’s to apologise or engage your stakeholders. There is no definitive right or wrong. There are different outcomes for clients in different situations based on who they are, what’s been alleged and the context in which things happened. I think that people need to be very sceptical in this new age about the dogma out there especially around social media, which is a very unstable atom.

Companies can survive crises. Toyota survived but it took a while. They did that by communicating with their base – with customers who liked their products. Preaching to the choir is often the answer, rather than trying to get everyone to be convinced of something.

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Big whistleblower payouts of 2012

1) **UBS: $104m, September 2012**

The US tax authorities award to Bradley Birkenfeld made him the most richly rewarded whistleblower to date. However, he spent 40 months in prison for his own complicity in the tax fraud he said his former employer UBS had perpetrated.

2) **GlaxoSmithKline: $94m, July 2012**

Dating back to claims originally made in 2003, pharmaceutical company GSK finally settled with Cheryl Eckard. The company denied wrongdoing. Eckard had alleged that manufacturing faults existed at one of Glaxo’s plants.

3) **Abbott Laboratories: $84m, August 2012**

Whistleblowers stand to receive some $84m under the False Claims Act in a settlement by Abbott concerning off-label promotions of its anti-seizure drug Depakote.

4) **Bank of America: $25m, March 2012**

BofA agreed to pay fines to settle a federal probe of alleged underwriting and mortgage fraud involving subsidiary Countrywide Financial. Whistleblower Kyle Lagow made $14.5m for helping bring the case to light.

Source: National Whistleblowers Centre (USA) www.whistleblowers.org *[5]*

Links:
[1] http://www.ethicalcorp.com/users/oliver-balch
[2] http://companies.goodguide.com
[3] http://www.sustainabilityconsortium.org
[4] http://www.dezenhall.com
[5] http://www.whistleblowers.org