ANALYSIS

Trust in business today goes hand in hand with transparency. **Miranda Ingram** reports...

The new CSR equation: transparency + good governance = brand trustworthiness

Corporate reputation is hard to gain and easy to lose, but any company that deserves to be in business in the 21st century knows that your corporate reputation rests on your corporate behaviour – is it ethical?

Positive statements, colour brochures and appealing web pages trumpeting your corporate social responsibility (CSR) no longer cut it. Today's stakeholders and a maturing Millennial generation are too sophisticated to be blinded by PR. There have been too many examples of companies winning awards for a glossy CSR report or initiative only to appear on the front pages weeks later accused of wrongdoing.

Today, you have to prove your ethical commitments, which means living them, not just stating them. Your stakeholders need to see you are a responsible corporate.

"Transparency is an essential component in the building of trust between an organisation and its stakeholders, yet it is a principle with which many still struggle," says Leo Martin, director of business ethics advisors at GoodCorporation. "Contrary to what appears to be the widely held belief, stakeholders don't expect organisations to be perfect, but they do expect them to be honest. Transparency is therefore vital."

For some this is a scary prospect, says Martin. However, given the power of social media, organisations are realising that while they might chose not to disclose something, there is an increasing possibility that someone else will do it on your behalf. And bad news has a habit of going viral. "This doesn't mean that corporates should publicise everything that goes wrong, but there are certain steps that companies can take to demonstrate openness and transparency."

Organisations that understand their business risks and what they are doing to mitigate these risks are best placed to manage this with confidence. It also helps to have an open door policy that encourages 'speak up', ensuring that management hears first of any concerns and can take steps to address the problems.

It is worth remembering, Martin points out, that legislation such as the Companies Act, the Modern Slavery Act, and the EU Non-Financial Reporting Directive are placing a greater onus on companies to report on management practices such as antic-corruption procedures, mitigating human rights abuses, prompt payment of bills, environmental impact, employee relations and board diversity.

"There are also growing calls for greater transparency on payment of taxes and pay ratios," he adds.

"Organisations wishing to demonstrate real transparency and openness will need to understand their operations, how they do business and who they do it with. Not only that, but good reporting should reflect objectivity, acknowledging any issues found and make it clear how these were managed and any future risks mitigated."

DOING THE RIGHT THING

Trust goes hand in hand with transparency. Hard to explain and in many senses an intangible, brand trustworthiness is essential if a company is to grow and its reach stretches way beyond the obvious stakeholders.

Take one of the UK's biggest employers, Heathrow Airport, for example. Since most air travellers buy tickets according to flight schedules rather than airports, why should it matter to either flyers or pilots, that Terminal 2 is a 'green' building, that the vast amounts of de-icer employed in winter are treated in natural reed beds (pictured left) and that 70% of waste will be recycled or composted by 2020?

"On the contrary," says Matt Gorman, Sustainability and Environment Director, "social and environmental commitments are core to the airport's business. Firstly, we are geographically rooted—fifty percent of our employees come from the five boroughs bordering Heathrow. We need a licence to operate and being a good neighbour is vital to that.

"European airspace is in the process of being modernised and this will mean a change in flight patterns. The local community, as well as the political

'Computerised' reed beds at Heathrow, part of the airport's environmental commitment

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> **Simon Webley, Research Director at the Institute of Business Ethics**

decision makers, need to trust our commitment to reduce noise levels and carbon emissions, trust us to grow responsibly. We know, like any other company, that there is an increasing interest in sustainability and our environmental initiatives demonstrate that we too care about these issues. We need our neighbours to believe that when we add new connections we will not do this at any cost – we can't expand without their belief in us."

Secondly, says Gorman, as many companies are recognising, Millennial employees are increasingly reluctant to work for companies that do not do the right thing. "Without engaging in social and environmental challenges we would find it difficult to attract and retain talent," he says. "Similarly, our passengers trust us to do right on their behalf, knowing that we will tackle the environmental impacts of their journeys."

A brand is based on its key brand assets. The Heathrow brand is: British; Britain's connection to the world and the global economy; the front door to the UK; responsible and sustainable. 'Living our responsibility commitments is crucial to building trust in our brand as a whole.'

But while an increasing number of companies have impressive CSR departments staffed by social and environmental experts, a corporate reputation rests ultimately on good governance. There are two sides to corporate governance, one governed by law and regulations and the other very much discretionary, a company's statement of 'how we do our business'.

STAKEHOLDERS

"It is about the way business is conducted both externally and internally and about how the board helps and guides the company to enact its ethical commitments," says Simon Webley, Research Director at the Institute of Business Ethics. "And it is about communicating your company's attitude. Your five stakeholders – shareholders, employees, customers, suppliers and financiers/investors – all expect to be kept informed. They have a choice about whether to continue doing business with a company or not."

The key tenets of good governance are integrity and openness, and the board's job is to communicate this code of ethics—ideally drawn up in consultation with staff—to employees at all levels and show how these apply to your stakeholders. For example, one commitment might be: 'we pay our invoices on time'. "Make this a part of your statement and make sure that everyone is aware that this is a core value," says Webley.

But while code of ethics statements are becoming more user-friendly, they are not sufficient on their own, he warns. "It must be real, applied and embedded. It must be accompanied by good internal processes for raising issues, asking questions, encouraging 'speak up'. It involves internal awareness-raising and training as well as an open culture."

In addition, the board must monitor and report on these issues: are people speaking up? What issues were raised? What did we do about them?

Corporate governance has to come from the top, Webley stresses.

"If your ethical statements are really to be part of the way your company operates then this is a boardroom issue – if it is subcontracted to other departments not only will be seen as just an add on but the board may not be aware of what is going on."

Good governance is not just about doing good and enhancing your reputation. Good governance benefits your corporation. It is a way of catching problems early and not getting any nasty surprises. "You can't insure against risks to your reputation," says Webley, "so think of good governance as self-insurance." ■