Building trust through authenticity

TRUST IN Resilience

BY RICHARD BEDLOW

If information is the lifeblood of capital markets, then trust is its oxygen. And, like oxygen, as trust gets thinner, the consequences for business and society can be hugely damaging. It's hard to look at a newspaper and not see headlines about yet another corporate scandal; be it accounting irregularities, tax evasion or allegations of corruption.

Against this backdrop, it is not surprising that the 2014 Edelman Trust Barometer survey noted that only 58% of people trust business globally, while in a recent PwC survey, half of CEOs interviewed identified lack of trust as a threat to their growth prospects.

Consider the case of a coffee company that was intensely scrutinised in relation to allegations of shifting profits to low tax environments to minimise its total tax bill. Disillusioned customers voted with their feet, which led to serious implications for the company's share price.

Was it unreasonable to expect "better" corporate behaviour from the company? Perhaps not, considering the commitment from the company's chairman in its annual report to balance profit with responsible actions for the greater good of society.

Living in a goldfish bowl

Businesses, like this coffee company, now find that their true DNA is revealed whether they like it or not. Instantaneous global communications and the internet mean that all businesses now operate in a goldfish bowl, constantly scrutinised by stakeholders, NGOs and media organisations ranging from global news providers to campaigning bloggers. Gone are the days of being able to manage the messages to different stakeholders and mould external perceptions of the business.

Indeed, the requirement to present the true face of the business now encompasses much more than mere transparency. It means not only revealing the essence of the company, but also ensuring that this essence itself is actually worthy of people's trust. Stakeholders expect a demonstrable commitment to responsible growth, doing what's right rather than what is legal. They are also increasingly holding businesses accountable for their actions.

To provide this level of insight, businesses will need to hold up a mirror to reality so that others can see it clearly for what it is. Initially, only organisations that are confident that people will like what they see may be willing to do this. But, over time, I believe organisations may well have no choice.

What does this mean for business?

Most executives already recognise that a business has social as well as financial responsibilities. They believe it's important to balance the interests of different stakeholders, rather than focusing solely on investors, employees and customers. But there's a big gap between what they aspire to do and what they actually do.

Many companies only measure their financial performance, for example. Similarly, they define risk solely in terms of incidents that could upset their finances. That won't suffice in the future. All organisations will have to factor broader, non-financial considerations into their business decisions as the balance sheet will not be able to capture the significant components of a company's value (many of which are intangible).

They will have to measure the full impact of all their activities: not just the fiscal and economic effects but the social and environmental effects, too. This will enable management to understand the trade-offs between different strategies and make the best decisions for every stakeholder. Making the right decisions and reporting the results will also help companies earn more trust, more business and thus more profit.

Integrated reporting

An increasing number of companies are responding to these challenges — and opportunities — through integrated reporting. IR is the means by which broader value drivers of a business are managed internally and then communicated to investors and other stakeholders. It involves a widening of focus from traditional models, which look mainly at financial and manufactured resources. It also involves a more connected approach — understanding how the other resources a business uses (for example, human, social and relationship, and natural) interact and impact on the financials and each other.

The International Integrated Reporting Council (IIRC) refers to IR as the "language for resilient business" as it puts a spotlight on the company's ability to create value in the short, medium and long term. In a study conducted by communication consultants Black Sun, 92% of early IR adopters reported an increased understanding of how their business creates value.

IR connects the internal management of a business's value drivers to its financial performance, and in doing so, creates a shared business language for management and investors. However, approaching IR through a compliance mindset and a focus on the external report will not help to demonstrate authenticity. In fact, it may do more harm than good if seen as propaganda or spin by stakeholders.

Companies who have given serious thought to the issues of trust and a more integrated approach to their stakeholder dialogue recognise that in today's connected and web-enabled world, even the smallest gaps between the positive words and the hard actions to back them up will be quickly exposed and probed in the global media. However, when these commitments are seen to be genuine, they earn trust.

So, how can companies bring authenticity to their reporting? Just as the majority of communication is non-verbal, I think reporting is no different:

- Body language: Strategy should provide the backbone of a company's reporting and provide a linkage between the business model and performance measures. For example, key performance indicators should make sense considering the strategic priorities of the organisation and link to the remuneration of senior executives. Without this connectivity, which is a fundamental principle of IR, reporting is as credible as a greeting given with a scowl.
- Tone (from the top): Make it personal. It is important that boards reassess and critically question what they disclose about their own activities in the knowledge that too much of today's reporting focuses on the form rather than the substance of what boards do. For this aspect of reporting to be meaningful, it needs to reflect the business's underlying principles, the personality of its leadership and the manner and tone in which the business is run.
- Words: Cut the clutter from your reporting by focusing on what is material to your value creation. Having a clear understanding of your value creation story will provide a single version of the truth that can be used across multiple platforms, reinforcing its credibility and demonstrating the resilience of your business.

In the final analysis, trust legitimises business to do what it does, and many would argue the best barometer of trust is an organisation's transparency and the quality of the stakeholder engagement that follows. For many stakeholders, the annual report is their main window into the organisation, and investors tell us they use it more than any other information source when compiling their analyses.

What this means is that reporting matters. Companies that make the commitment to go beyond regulatory compliance, who can articulate the resilience of their business model and demonstrate authenticity in their reporting will be able to differentiate themselves from their peers. They will also take an important step towards building a fund of trust that will provide resilience in the face of future uncertainties. E

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