Building trust through authenticity

I information is the lifeblood of capital markets, the source of trust. It is the oxygen that keeps a trust as a trust gets thinner, the consequences for busi- ness and society can be hugely damaging. It’s hard to lock up the pipes and stop the leaks. 

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

Consider the case of a company that was intensely scrutinised by stake- holders for its working practices and 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 under scrutiny 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. 

Indirectly this requirement to present the true face of the business now encompasses much more than just transparency. It means not only revealing the essence of the company, but also ensuring that this essence itself is actually worthy of public trust. Stakeholders expect a demonstra- ble commitment to responsible growth, doing what’s right rather than what is legal. They are also increasingly keen to see a demonstrable 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 organisa- tions 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 can’t survive as a social entity without these responsibilities. The belief is important to balance the interests of different stakeholders, rather than focusing solely on shareholders and customers. But there is 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 in terms of financial impact and ignore their environmental and social impacts. That won’t suffice in the future. All organisations will have to factor broader, non-financial factors into their decision making 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 financial and economic effects, but also the social, environmental and reputational 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 drive companies to more trust, more busi- ness and thus more profit. 

Integrated reporting

An increasing number of companies are responding to these challenges – and opportunities – to bring the idea of value creation to the heart of the business. The International Integrated Reporting Council (IRC) published its guidance on integrated reporting in 2013. 

IRC encourages business leaders to think about how they can build a more sustainable, resilient business that delivers economic, social and environmental value. The IRC framework recommends that reports should be aligned to the interest of the company to the interests of stakeholders. This approach encourages a more integrated and accountable approach to reporting. 

IRC believes that the real value of integrated reporting is for stakeholders, not for the company. 

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Friend of engagements on the rise

of two percentage points over three years. Strategic reformers as a group, on the other hand, produced significantly better results. The companies in our re- search that undertook financial reforms (special dividends, share buy-backs and so on) outperformed their indices by a margin of 13 percentage points over three years. Those that revamped their business strategy or better aligned execu- tive compensation with performance saw similar gains. 

The most powerful activist activists typi- cally have had a strong and well-considered strategy which they have then pushed through management. These bring to bear relations and expertise. These cases also demonstrate what a difference they can make, even when companies are not willing to act in their own interests. 

Even more impressive were the cases where shareholders or management teams were more sophisticated in their approach to share- owners or divestitures. These M&A-based strategies, which produced three-year differential re- turns of 20 percentage points, typically in- volved a fairly precise set of well-researched recommendations. 

What this case demonstrates is ultimately not that surprising: Sus- tainable corporate performance is not a matter of wishing it were so. The corpo- rate activists who succeed in catalysing long-term growth in value do so through hard work. They analyse why a compa- ny’s share price may not reflect its true potential and then press management to sell assets more attractively. They also look for ways of tapping the hidden value within the business, for example by allowing shareholders to sell their stakes more easily. 

More and more management teams are now looking into the issues of structure and management that underpin their business model, and are changing their strategies to reflect these. 

So, who will take the responsibility for turning this school around – the community, a new prin- cipal or an education provider? For me, it remains a mystery. 

Richard Bedlow is executive director with PwC Malaysia’s assurance practice. He works with companies on helping them move to an integrated approach, whereby they report on the sustainability from the perspective of how it impacts the business. 

School left without leadership

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The surprises did not stop there – I was then told that actually, the principal had left the school, leaving it without leadership for close to three months. He had been trying to change the school for a decade and had given up, especially since the community continually blamed him for the state of the school. 

I couldn’t help but wonder how the school has been allowed to function like this for years and it seemed that at that point it that it would continue to do so, unless there was monadically, ready to administer the school. The school was known by the Ministry of Education for having got it wrong. 

So, who will take the responsibility for turning this school around – the community, a new prin- cipal or an education provider? For me, it remains a mystery. 

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