

Earn a return on your reputation

Restoring public trust and the new fundamentals of corporate value: reputation, transparency and corporate social responsibility, by Margery Kraus, president and CEO, APCO Worldwide.

Over the past two years, much has been said about the decline in reputation and public trust of our institutions, particularly big business. Restoring trust and enhancing reputation has been a focus of corporations across the world and especially in the US. After the dust has settled on both extensive and expensive legislative and regulatory actions, are these institutions any more respected and trusted than before? After millions of dollars have been devoted to compliance and companies have taken initiatives to restructure their boards, are stakeholders any more confident in business?

A society's expectations of good corporate behaviour define the specific attributes of corporate reputation

PricewaterhouseCoopers, in its Annual Global CEO Survey 2003, says: 'CEOs are engaged in the issues of restoring public trust, improving corporate governance and increasing transparency. Less clear is any consensus on how to achieve those goals – aside from increasing the role of the CFO and devoting more resources to improving risk management procedures.'

Studies conducted in more than 15 countries around the world by APCO Insight, our in-

house research group, show that expectations for major multinationals have indeed changed. Stakeholders, from government regulators to customers, expect companies to move from a compliance mode to that of affirmative and proactive interaction with their various audiences, which goes beyond what they are required to do under the new rules. Companies that will be among the most respected and trusted will do just that.

The role of the CEO

How does this affect the CEO and why should resources – both time and budget – be allocated to this effort? Over the past three years, there have been a number of studies that demonstrate that non-financial factors (such as corporate reputation) have become increasingly important in determining corporate value. Through our research we have deconstructed the factors that constitute corporate reputation, to better understand what specific steps companies can take to increase and strengthen their reputations.

Underlying the determination of this intrinsic value is the notion of trust. What are the expectations from various constituencies for a company? How do you build trusting relationships with these key stakeholders? How can you leverage your corporate communication and external relations so that they become a vital part of the corporate suite and an essential weapon in the CEO's arsenal? How can you build value, not

only through your ROI, but also through your return on reputation (ROR)?

What is corporate reputation?

To understand the expectations for well-respected corporations, we conducted opinion research throughout North America, Latin America, Europe and Asia over the past three years. Our research examined the expectations of the general public (including the most attentive and active segments of the public) and senior officials in government, media, NGOs and financial institutions.

Our paradigm of corporate reputation asserts that a society's expectations of good corporate behaviour define the specific attributes of corporate reputation; in other words, a company's reputation is based



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Figure 1: Areas of expectation for good corporate behaviour

upon what society expects of it. Furthermore, while many have tried to ‘fit’ standard measurement tools to assess corporate reputation, we believe that what defines a company’s reputation is unique for each and every company.

Our extensive research for a wide range of companies in major industries, such as packaged goods, pharmaceuticals, oil, public utilities and financial services, identified several

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broad areas that are consistently cited as expectations. They were surprisingly consistent across geographies and segments of society, as reflected below.

Of these areas, what is heard across the world is that transparency, which includes honesty and ethical behaviour and is a part of good corporate governance, is a critical element of reputation. It is not limited to publishing annual reports, but rather, the expectation is that it is infused in the full range of actions and policies of a company, everything about how a company operates, from products and services and employment practices to philanthropy and financial reporting.

Beyond disclosure

Furthermore, transparency includes an affirmative obligation for corporations to openly

and honestly talk about their corporate social responsibility initiatives in a proactive and responsible way. This means that it is not enough to provide complete and honest information – there is also an obligation to ‘find me and tell me’. Thus, the need for consistent, open and frequent communication is essential to building or rebuilding trust.

Obviously, one cannot proactively communicate about corporate responsibility in a transparent manner unless it is a fundamental part of how business is conducted. So what role does the CEO play in building trust and determining corporate reputation? How can the CEO use his or her position to create the ‘reputation edge’ a company needs, and develop both its ROI and its ROR?

The CEO is the chief decision-maker for the company. The CEO’s role in determining corporate policy, making business decisions and assuring compliance is very clear. However, the CEO also needs to be the chief ethics officer of the company, leading the company from a culture of compliance (shaped by lawyers) to a culture of ethics (a sharing of values of people who want to do the right thing). It is obedience to the unenforceable – what I ought to do, not only what I have to do – that builds trust.

Corporate values

It is up to the CEO to build organisations where employees embrace the values of the company and leadership sets the example that there is an open culture of truth, responsibility, fairness and respect. This has to be the fabric of communication between the leader of the firm and employees. This not

only is the right and important thing to do to build reputation and trust, but studies have shown that adherence to ethical values grows revenue, profits and stock price; increases

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employee loyalty; boosts recruiting and generally improves performance.

Building trust is also like putting a deposit in the bank. In good times, interest grows. In times of crisis, having a strong reputation gives you some ability to draw down your deposit without draining the account. Building and/or restoring public trust is not optional for any business. Companies and leaders must become adept at placing equal value on building their ROI and ROR, and move their role from assuring compliance to asserting ethical leadership. The difference will be which CEOs can learn to unleash the power of proactive and effective communication.

All business in a democratic society exists by public permission and public approval. Trust is communication-based by its very nature. The most respected (and highly valued) companies of the future will be those who ‘find me and tell me’.