CORPORATE SCANDALS AND PUBLIC HOSTILTY TO BUSINESS

WHAT CAN BE DONE TO PUT THINGS RIGHT?

November 2017

The SIFA Forum hosted a round table discussion examining the threat to business from low levels of public trust and the scepticism which exists towards the conduct of big business. Participants were from the governance, communications, legal, research and investor relations professions and represented companies from a broad range of sectors.

"Big business is seen as toxic and so far removed from the man and woman on the street that we don't know how far removed we have become."

The SIFA Forum discussed how business is increasingly seen as part of a system which isn't perceived to be working for a number of important audiences. Against a background of corporate scandals such as Volkswagen, Rolls Royce, Tesco, GSK, Sports Direct; tax avoidance; excessive executive remuneration and exploitative labour practices, it was agreed that business is now facing a wake-up call. A survey for the Institute of Business Ethics, conducted earlier this year, showed that less than half of the population believe that British companies behave ethically.

Unless business takes action to address the threats to its collective licence to operate, it will face increasingly disruptive stakeholder action. Senior Directors must start to see ethics, values and corporate behaviour as elements of value creation, rather than the traditional viewpoint that they are elements of risk. Boards need to interrogate relevant indicators of corporate culture to better understand and demonstrate that what they say is supported by how they behave. The ability for audiences to identify gaps between true behaviour and the corporate message is increasing and will be accelerated by growing regulation and reporting requirements.

Greater transparency will not necessarily lead to greater trust. However, the change in how information is shared and digested, the ever-present risk of hackers, externally focused whistle-blowers and the expectation of 'freedom of information' make growing transparency inevitable.

The main theme of the Government's proposed corporate governance reforms is improved stakeholder engagement, especially with regards employees. Companies will need to be more systematic, be able to show that their processes are rigorous and that they use the input to improve their horizon-scanning. As part of this, business will need to find its own way to understand and address its ethics, behaviour and engagement.

The SIFA Forum discussed a number of challenges to businesses as they navigate these changes:

BUSINESS IS LOSING THE SOCIAL PURPOSE DEBATE

- The licence to operate for business is becoming ill defined. There is now a question over the profit motive, which is often not seen as a social benefit. If share prices go up there is no clear sense of that being good for pensioners or for continuing employment. Too often it is examined in the prism of executive remuneration.

- There is no clarity of purpose for business. What the purpose of business is to society is not being clearly communicated. Business has the challenge to move the agenda forward to its economic and social purpose.

- The challenge is being magnified by the shallowness that elements of the media demonstrate. External stakeholders are also having a huge influence, leading to changes in public policy, which are being made in part on how the public feels about business as a whole. Governments will continue to make changes if they believe they will gain electoral reward.

- The sense of inequality is growing and will continue to grow and drive more frustration, in part aided by technological advancements and globalisation. It is the responsibility of business to look to address this sense of inequality.

- There is an opportunity for the communications profession to become more assertive in identifying how a company behaves and how this relates to communication, and to deliver stakeholder engagement in a professional and holistic way. Communications will need to be more critical in creating narrative and choosing which successes get celebrated.

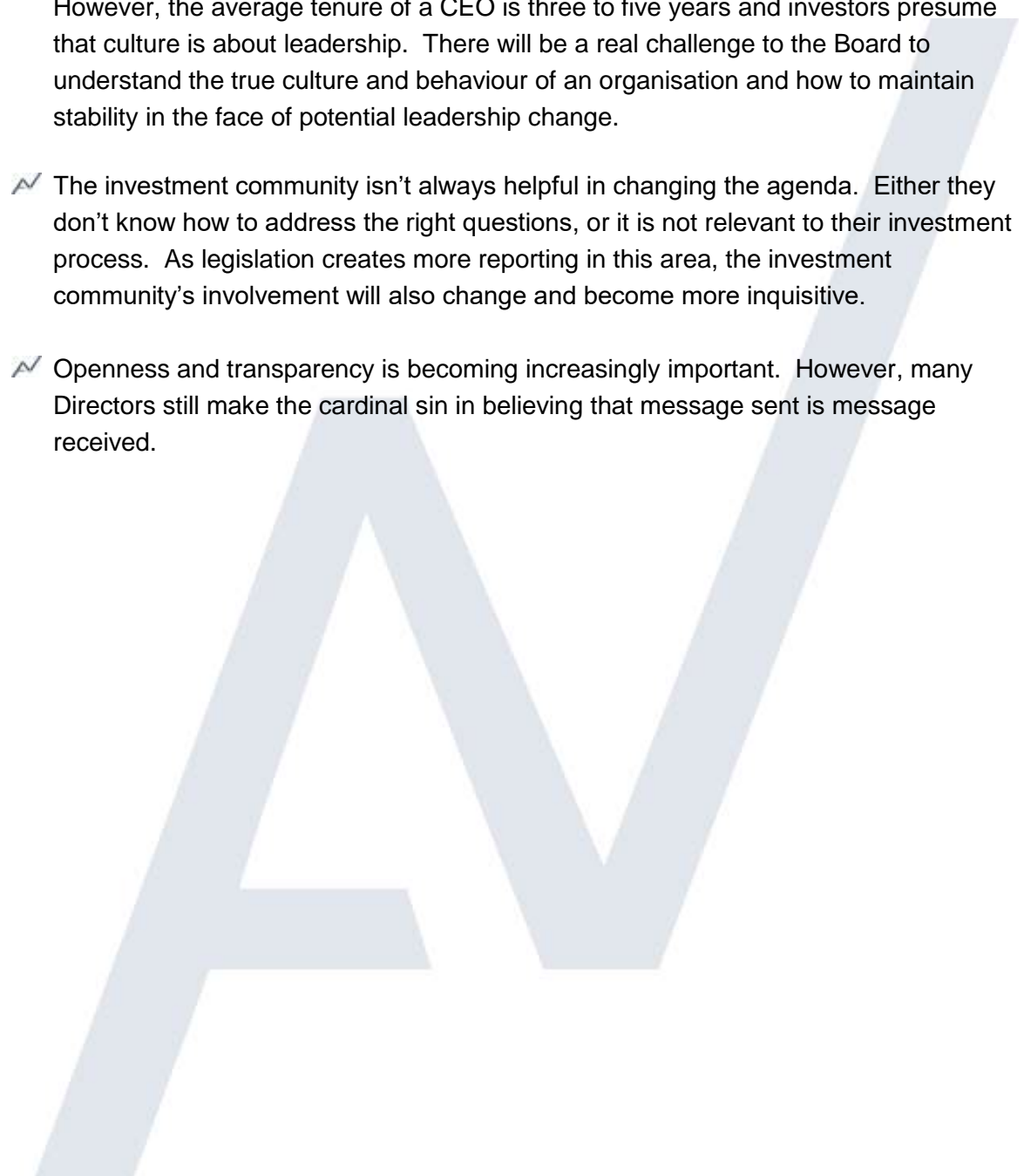## PRESSURE AND IMPLICATIONS OF LEGISLATION LANDSCAPE

- With the expected changes in corporate governance and other legislative frameworks, the pressure is building on business to identify and justify its values, ethics and behaviour. Directors have the decision to do so before the changes in corporate governance are expected to be implemented in June 2018 to lead best practice or after when they will be required to do so.

- There has been a lot of legislative development such as the Modern Slavery Act, the Equality Act, the Companies Act and more, putting pressure on business to demonstrate and prove their responsibility towards multiple stakeholders. As this continues, business will increasingly have to address any inconsistency between what they say and what they do.

STAKEHOLDER ACCOUNTABILITY

- Business still has different perspectives on who matters to them. Directors need to understand that they now operate in a broader, interconnected, stakeholder environment.

- With the forthcoming changes in corporate governance, Directors will need to decide on how they take into account wider stakeholders' voices and set out how stakeholders are identified, how engagement is done and how it influences decisions together with the methods used.

- If business works on its purpose effectively and sets out where it stands, then it can be used for clear differentiation on that basis. Business will need to work to unify, empower and enthuse external and internal stakeholders.

INCREASING RELEVANCE AND ACCOUNTABILITY OF CULTURE, VALUES, ETHICS AND BEHAVIOUR

- Corporates will have to fully understand their values and behaviour, not just as statements for reporting, but how they are integrated into their business strategy and management implementation.

- Boards are becoming increasingly "bothered" about culture and behaviour. They are more interested in understanding culture and identifying red flags. As they do so, the gaps between "say" and "do" will become apparent, especially as external stakeholders hold up a greater mirror to companies.

- There is a governance and information challenge. Boards are predominantly non-executive, and the Board may have a culture of its own. The Board will discuss and view culture and behaviour through the executive – namely the CEO or CFO. However, the average tenure of a CEO is three to five years and investors presume that culture is about leadership. There will be a real challenge to the Board to understand the true culture and behaviour of an organisation and how to maintain stability in the face of potential leadership change.

- The investment community isn't always helpful in changing the agenda. Either they don't know how to address the right questions, or it is not relevant to their investment process. As legislation creates more reporting in this area, the investment community's involvement will also change and become more inquisitive.

- Openness and transparency is becoming increasingly important. However, many Directors still make the cardinal sin in believing that message sent is message received.