



Keeping good companies

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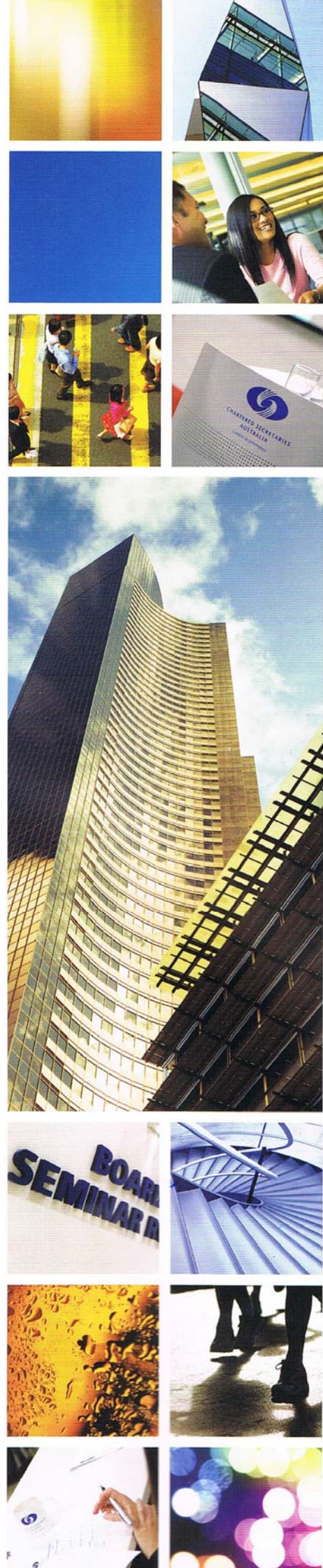
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Leaders in governance



The relationship between sustainability reporting and reputation

By David Van, Managing Director, The De Wintern Group

'Sustainability PR' is a new corporate communication discipline with implications for corporate reputation and broader organisational success. Many organisations are working hard to understand both the drivers for reporting and its potential implications. This article will assist companies to assess the opportunity or threat that comes with better sustainability disclosure.

The article briefly describes the science behind public relations and what drives reputation to show the importance of disclosure, and suggests that companies can benefit from reporting on their sustainability efforts, even where they are in the early stages of adopting sustainable practices and do not yet have a 'perfect score'.

'No man is an island' is an old aphorism that holds true for companies every bit as much as for individuals. Why? Social theory suggests that organisations require tacit approval from society, or a 'licence', to operate, which recognises that organisations require the support or consent of stakeholders to operate effectively. Resources companies were among the first to recognise the importance of their social licence to operate and factor this in across their operations.¹

A conditional licence to operate

The granting of the licence is influenced by factors such as acceptability and desirability of the company's activities and products, and determines whether an organisation can start up and then grow. This licence can be plotted on a sliding scale where the X axis is reputation and the Y axis a scale from 'survive' to 'thrive'. Stakeholders extend greater licence to companies whose reputation is positive overall.

De Wintern defines reputation as 'the expectation stakeholders have of how the organisation will impact them or their interests'. The impact of a company's reputation on its licence to operate is directly related to the fact that we all naturally extend greater

licence to entities which we think highly of. All licences are revokable and conditional with conditions extending from 100 per cent freedom to operate to restrictions on operations (such as regulatory control, media scrutiny, willingness to purchase and willingness to invest).

Word of mouth is critical

The impact of a company's reputation on its licence to operate may be positive or negative, but it is stakeholder expectation or perception that drives reputation. The other important factor is that reputation is transmittable — that is, one person's perception of an organisation will be affected by other people's recommendations and criticisms of that organisation — which makes reputation and reputation management even more powerful.²

These two factors underpin how and why PR works, at least when practised professionally. This can all be analysed and tracked using different models, such as Mitchell, Agle and Wood's theory of 'stakeholder identification and salience'³ which nicely balances the three drivers of effect on reputation: power (the stakeholder's ability to impact), legitimacy (reason to impact) and urgency (timing of impact).

With the massive growth of media over the past century and especially in the past decade, stakeholders have been given easy access to vast amounts of information that affects their assessment of an organisation's reputation. Stakeholders assess that reputation using the metrics most applicable to their 'stake', such as financial performance, quality of offering, customer service, price, brand, social responsibility and sustainability among others. The growth of non-government organisations (NGOs) acting as public watchdogs has added a further imperative for organisations to perform above perceived minimum social standards.

The growth of international quality management standards (ISO 9000 series, ISO 14000) and mandatory reporting of financial

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and corporate information (Sarbanes Oxley, etc) has educated stakeholders to expect higher standards of not just performance, but also of reporting.⁴

The benefits of reporting

The process of reporting can also lead to the identification of opportunities for improving business performance. Reporting has two further useful components: visibility and scrutiny. Better reporting leads to better expectations, as visibility and scrutiny allow stakeholders, including regulators, to test their expectations against reality. In the absence of mandatory reporting NGOs and the media consider it part of their role to provide this service.

In this light, organisations are factoring into corporate and marketing strategies the competitive advantage gained (increased trust and improved reputation) by generating recognition of their environmental and social initiatives. This is in the form of reporting (formal and informal) and through entering competitions for the many awards that exist.

The recognition that being more 'green' leads to a better reputation and in turn provided a competitive advantage was seized upon by hundreds of companies and 'green, greener, greenest' claims flooded advertising channels. This overstatement of environmental benefit highlighted the lack of robustness behind claims and opened businesses to regulatory and stakeholder scrutiny leading to the accusation of 'greenwashing'. False or overstated claims of contribution to environment and society destroyed trust and reputation of organisations that overstepped the mark.

Most companies genuinely try to improve both their environmental performance and their contribution to society as there are strong top and bottom line reasons to do so above any moral obligation. However, it is simply not always possible for organisations to be perfect in their environmental or societal efforts, and many perceive that if they miss the mark even by a small amount they will be accused of greenwashing.⁵

Missed opportunities

As a result, many companies have reacted in the opposite way and have decided not to report on their sustainability efforts, fearing that any failure to meet the highest standards might lead to claims of greenwashing. This has sadly been an overreaction and a missed opportunity as reporting (versus marketing claims) provides a real platform for building trust and reputation even if companies do not achieve perfect scores.

However, companies that adopt this attitude greatly limit their ability to build reputation and garner stakeholder trust. We suggest that reporting is essential for all companies, regardless of their sustainability scores, as it facilitates transparency and generates stakeholder trust.

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Good reporting is about honest communication of your efforts towards achieving better standards. It is still very early days in the world's sustainability efforts and most stakeholders understand that organisations are still dealing with legacy equipment and processes that won't allow them to be 100 per cent sustainable. In return for this dispensation, stakeholders expect to see clear goals, as well as processes and timetables for improvement and reporting against progress.

Acknowledge the issue

At least from a reputational standpoint, it is perfectly acceptable for a sustainability report to say 'we achieved XX out of 100 however we missed here, here and here and this is how we think we can improve'. The expectation at this early juncture is continuous improvement, not perfection. This dispensation will not last forever; at some point it will be reasonable for stakeholders to say 'you have had enough opportunity to improve, so why haven't you?'

It is because of this we encourage and work with clients to embark on a program of sustainability disclosure, regardless of where they are at with the adoption of sustainability practices. This disclosure should be open, honest and owned by the highest level of management. There is, after all, redemption from confession.

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Notes

- 1 For instance, see Cransberg A, 2009, 'The need for corporate social responsibility to be part of a company's 'DNA'', *Keeping good companies*, Vol 61 No 5, pp 272–274
- 2 For more detail about the nature and practice or reputation management, see Creedon B, 2011, 'Protecting your most valuable asset — reputation', *Keeping good companies*, Vol 63 No 4, pp 213–217
- 3 Mitchell R, Agle B, and Wood D, 1997, 'Towards a theory of stakeholder identification and salience: defining the principle of who and what really counts', *Academy of Management Review*, Vol 22 No 4, pp 853–886
- 4 For more information about the practice of sustainability reporting, see Hurley H, 2010, 'Sustainability in action — measuring what matters', *Keeping good companies*, Vol 62 No 10, pp 591–596
- 5 Also refer to the article by Michael Adams and Marina Nehme, starting on p 419 of this issue of *Keeping good companies* ■