

Opening Up:

The Role of
TRANSPARENCY

in Corporate
Public Affairs

By Dana Wilkie and Adam Korengold



FOUNDATION
FOR PUBLIC
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Designed by Bonnie Moore



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Opening Up:

The Role of Transparency in Corporate Public Affairs

INTRODUCTION

When Cecily Joseph at California-based Symantec Corporation first approached company executives back in 2007 about publicly disclosing the firm's carbon emissions and setting goals for their reduction, some leaders were reluctant to sign on.

Their concern?

“The pushback was, ‘We’re a software company, we’re not a huge (carbon) emitter, and we don’t use a lot of energy compared to other industries,’” recalls Joseph, director of corporate responsibility for the company, which is best known for its consumer antivirus software. “I think folks initially didn’t see the business value to disclosing this and why we should invest resources to be more transparent on this issue.”

How to address it?

Joseph, working with the company's environmental stewardship council, researched how the company's counterparts had approached the same issue — including Hewlett-Packard, IBM and the Software Working Group — compiled testimonials from non-governmental organizations (NGOs), investor groups and customers concerned about carbon emissions, then reported back to executives.

“We demonstrated that folks think it's very important that a company like Symantec be transparent on a variety of topics, including energy consumption,” Joseph recalls. “It was a way to say, ‘You know what, this is what our stakeholders are expecting of us. What are the issues you have around this so we can explore them further? Because we don’t see that there have been any negative repercussions. We see that it’s been positive.’”

Today, Symantec discloses its emissions through the Carbon Disclosure Project, posting them on the company website, publishing them in its Corporate Responsibility Report and setting public targets for company-wide energy and carbon reduction goals. The internal and external response, Joseph says, has been tremendous.

At a time when the recession, corporate scandals, company bailouts and a new presidential administration have led to heightened scrutiny of businesses, it can be challenging for corporations to navigate an era in which the public, politicians and investors are demanding more openness about everything from executive pay to lobbying activities to social responsibility.

Webster's New World Dictionary defines “transparent,” in part, as: “1) capable of being seen through; 2) so fine in texture or open mesh that objects on the other side may be seen relatively clearly; 3) easily understood; very clear 4) easily recognized or detected; obvious 5) without guile or concealment, open, frank, candid.”

Certainly it is difficult, if not impossible, to coin a definition for transparency as it applies to corporations — simply because “corporate transparency” as a concept is subject to the parameters each company is willing to erect for itself beyond what laws and regulations require. With that in mind, Harvard Business Review crafted perhaps one of the best working definitions in its June 2009 article titled “What’s Needed Next: A Culture of Candor.”



Cecily Joseph of Symantec helped convince executives that it was important to be more transparent about the company's energy consumption.

“When we speak of ‘transparency,’ we mean much more than the standard business definition of the term — full disclosure of financial information to investors,” the *Review* wrote. “While such honesty is obviously necessary, that narrow interpretation produces an unhealthy focus on legal compliance to the exclusion of equally important ethical concerns, and on the needs of shareholders to the exclusion of the needs of other constituencies.... (W)e define transparency broadly, as the degree to which information flows freely within an organization, among managers and employees, and outward to stakeholders.”

This definition perhaps best captures the concept that this report aims to explore. The report, which relied on nearly 30 interviews and a review of existing research, does not examine the merits of political advocacy, sustainability, social responsibility or other corporate initiatives *per se*, but instead seeks to shed light on how freely businesses tend to share information — internally and externally — about these topics.

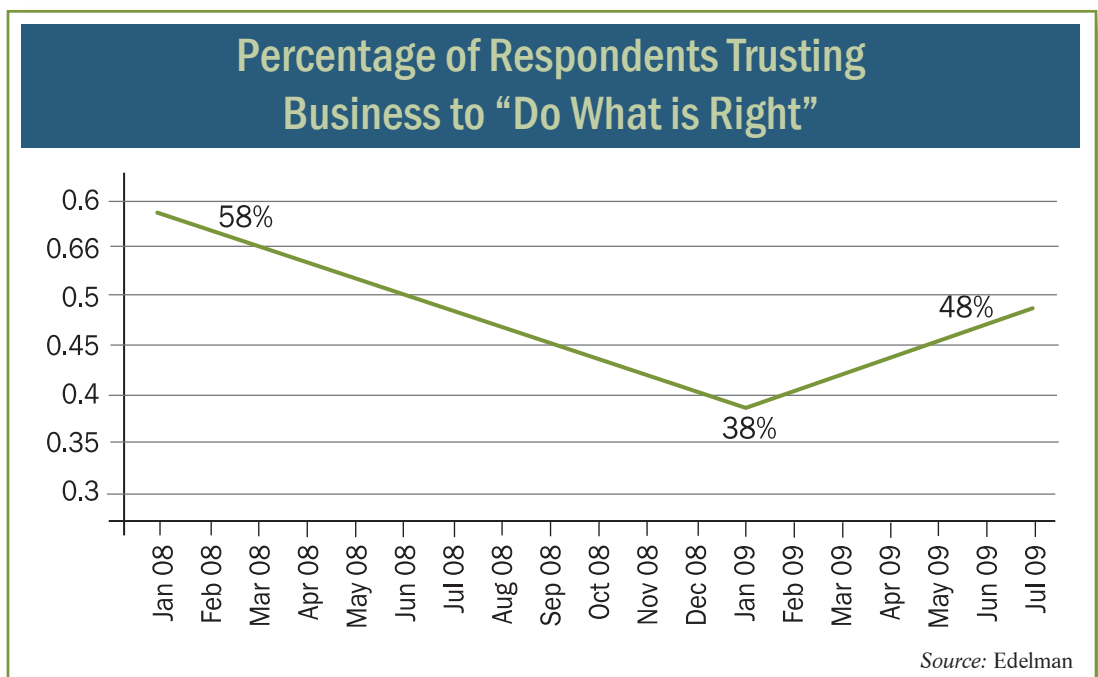
Higher Expectations

Recent expectations for openness have been fueled largely by public distrust, which has helped propel the issue of transparency high on the public agenda.

According to an Edelman Trust Barometer study conducted in the summer of 2009, 48 percent of Americans trust U.S. businesses to do what’s right. While that’s an improvement from a January survey that found only 36 percent of Americans felt this way, the man who created the Barometer warned that “we are in a tenuous recovery, just like the economy.”

“Trust in business is still very shaky,” said Richard Edelman, president and CEO of Edelman Public Relations Worldwide, who added that Americans believe businesses are not doing enough to address the economic crisis and that they have yet to fully embrace “soft power” assets such as treating workers well and communicating honestly.

Doubtless, this lack of confidence is the result of major developments over many years: corporate scandals such as those involving Enron, WorldCom and AIG; congressional bailouts of faltering companies; instances, however isolated, of criminal collusion between lobbyists and lawmakers; and revelations of lucrative executive pay packages at a time when the unemployment rate began climbing steadily, the stock market tanked and the real estate market crashed.



Trust in business began to recover in 2009 — but it is still far below pre-recession levels.

The result has been tremendous pressure on the business community — from the public, politicians and the White House — to be far more open about company operations, pay packages, political activity, lobbying, environmental protection, philanthropy, community involvement, domestic job creation — and even their impact on poverty in the developing world.

How to meet this demand — where to be transparent, how to be transparent, what to hold back, how to make transparency part of a company’s culture — seems to come naturally to some organizations, is an ongoing process for others and remains a huge challenge for still more.

History of Transparency

The recent explosion of corporate responsibility reports and shareholder proposals involving executive pay and political involvement may suggest otherwise, but the surge in interest in corporate transparency is not a new development in the relationship between business and society. On the contrary, companies have been wrestling with the challenges and opportunities of transparency for decades.

In fact, philosophical reflection on how leaders balance virtuous governance with the needs of their people dates back to Niccolo Machiavelli, the 16th-century Italian civil servant and author of “The Prince,” who understood the quandary that government, as well as business, leaders find themselves in:

“...It would be most laudable,” he wrote, “if a prince possessed all the qualities deemed to be good... But, because of conditions in the world, princes cannot have those qualities, or observe them completely. So a prince has of necessity to be so prudent that he knows how to escape the evil reputation attached to those vices which could lose him his state, and how to avoid those vices which are not so dangerous, if he possibly can; but, if he cannot, he need not worry so much about the latter. And then, he must not flinch from being blamed for vices which are necessary for safeguarding the state.”

CEOs may not be heads of state, but they face similar challenges of balancing the needs of their corporations against outside demands — such as those of the general public. How they achieve that balance can have a major impact on whether they will “lose” a company in the manner that a prince might once have lost his state.

In the early 1900s, muckraking journalists and other writers began revealing unethical or dangerous corporate practices that trained public and political attention on the need for more corporate openness. In the most notable cases, the reports led to the creation of regulatory bodies and guidelines to hold companies to greater account.

In 1904, Ida Tarbell’s “Rise of the Standard Oil Company” was published after having been serialized in *McClure’s* magazine between 1902 and 1904. It profiled Standard Oil’s rise to prominence, and its dubious business practices. The book brought greater attention to the giant firm, which was sued by the U.S. Department of Justice in 1909 and broken up into 34 separate companies in 1911.

Upton Sinclair’s “The Jungle,” serialized in 1905 and published in 1906, was a fictional work that nonetheless exposed dangerous practices in the meat processing industry. The book led to the passage of the Meat Inspection and Pure Food and Drug acts that year, and the establishment of the Bureau of Chemistry, the precursor to today’s U.S. Food and Drug Administration.

Similar exposures of companies with questionable consumer-protection policies occurred throughout the 20th century. Rachel Carson’s 1962 book “Silent Spring” profiled the effects of the industrial chemical DDT on the environment. Ralph Nader’s “Unsafe at Any Speed,” published in 1965, examined the effect of U.S. auto companies’ designs on driver, occupant and pedestrian safety.

Beginning in the 1980s, company executives were forced to answer stakeholders’ questions about their operations with greater frequency. In a case discussed later in this study, the shoe



In the 1900s, the meatpacking industry changed significantly in response to criticism raised in books such as Upton Sinclair’s “The Jungle.”

and apparel manufacturer Nike came under scrutiny for its labor practices. Other examples during the same period include criticism of McDonald's for its packaging practices, and Nestlé for its marketing of infant formula in the developing world.

In these examples, it was largely outside pressure, and the resulting public outrage, that convinced companies to begin grappling with the notion of openness. Still, faced with such reputational challenges, the typical response of many companies was to hunker down and to say as little as possible about their performances or activities if the Securities and Exchange Commission (SEC), other governing bodies or regulations did not require disclosure. Corporate legal departments, sensitive to any action that might leave a company liable, avoided any but the most essential disclosures.

“As companies engage in voluntary initiatives or adopt voluntary standards in the areas of human rights, labor, environment or anti-corruption, those affected want to know that these efforts are genuine.”

— Susan Coté-Freeman, program manager for enhancing anti-corruption standards for Transparency International

But increasingly over the years, society began demanding even more candor from companies, for several reasons.

As the Internet emerged in the 1990s as a fundamentally democratizing means of communication and information dissemination, government agencies were creating frameworks for their own transparency and accountability. The Internal Revenue Service, for instance, established public websites that were user-friendly. The Government Performance and Results Act (GPRA) required federal agencies to create strategic plans to increase accessibility and document the results of their efforts. As federal agencies became more transparent to the public, it became increasingly apparent that companies could do the same thing — if they wanted to.

Meanwhile, the growth of the corporate social responsibility movement was encouraging greater community involvement and corporate philanthropy — as well as a need for employee buy-in. This, in turn, created even greater expectations for openness. It was no longer enough for companies to say that their products were manufactured or sourced ethically and responsibly. Stakeholders — including employees, but also an ever-growing set of external stakeholders — demanded that companies offer proof.

Large companies began to experiment with greater openness — around efforts to promote sound manufacturing or sourcing practices, for instance. In some cases, such as in the textile and food industries, companies found they could build or maintain a competitive edge by disclosing their performance against sustainability or other nonfinancial goals. Because of growing consumer awareness of these issues, several apparel companies found that their unwillingness to embrace transparency made it more difficult to reach certain markets, such as sales of clothing at universities.

“As companies engage in voluntary initiatives or adopt voluntary standards in the areas of human rights, labor, environment or anti-corruption, those affected want to know that these efforts are genuine,” says Susan Coté-Freeman, program manager for enhancing anti-corruption standards for Transparency International, an international watchdog organization that addresses corporate, government and political corruption.

The Current Climate

Societal and political changes in more recent years have helped nurture a growing public perception that transparency that moves beyond compliance with laws and regulations ought to be the norm, rather than the exception.

These changes include:

- A shift in the demographics of consumers, who are more eco-minded and community-minded than ever. Eight in 10 Americans believe global warming is happening and poses a threat to future generations, and about six in 10 think it's caused mainly by things people or businesses do, according to an August 2008 ABC News/Planet Green/Stanford University poll. Seven in 10 saying they're trying to reduce their carbon footprint. Fully 96 percent of

North Americans polled in the 2009 Edelman Trust Barometer say businesses should partner with government and advocacy groups — or work on their own — to help solve global challenges such as high energy costs, the financial credit crisis, global warming and access to affordable healthcare.

- The increasing reach and power of the Internet, which has allowed individuals and groups to begin calling powerful companies, agencies and political figures to account. Through the Web and social media, activists have been able to post public and private information about companies in ways that have fueled anti-corporate sentiments. (See the Foundation for Public Affairs' 2000 study "Cyber Activism" and its 2006 study "Activists in the Boardroom.") This level of scrutiny has further raised stakeholders' expectations for transparency. Since large companies can't be trusted to do what is right, say activists, firms ought to release more information about their business practices to ensure that they can be held accountable for their actions.
- Political scandals (especially the Jack Abramoff scandal), which spurred Congress to tighten ethics and lobbying disclosure rules and laws. While information about campaign contributions by individuals and political action committees has been publically available for decades, attention in recent years has focused on the documentation of lobbying activities.
- The election of Barack Obama, who promised during the presidential campaign to make the federal government and the political process more transparent. Since he took office, Obama has instituted new transparency rules for lobbyists dealing with executive branch agencies, invited greater public input on policy-making, began to release the names of all White House visitors and started an official White House blog.

Finally, in response to the Enron and Worldcom scandals, the United States and other countries passed national laws mandat-



Distrust of business has provoked public anger, as illustrated by this 2009 protest at London's Bank of England.

Corporate Codes of Conduct

Companies have increasingly turned to codes of conduct to state fundamental principles used to govern their operations and activities. While some of these codes have been around for many years, all have become more detailed in an effort to anticipate ethical, environmental, labor or other issues that may be encountered. Some notable codes of conduct are listed below. Each of these is posted on the company's website so it can be distributed broadly to company employees and outside stakeholders.

Caterpillar's Worldwide Code of Conduct

First published in 1974, Caterpillar's Worldwide Code of Conduct specifies its principles in four key areas (Integrity, Excellence, Teamwork and Commitment). (<http://www.cat.com/code-of-conduct>)

McDonald's Code of Conduct for Suppliers

McDonald's Code of Conduct for Suppliers is part of its set of Responsible Purchasing standards, including mandates for supplier conduct as well as animal welfare, food safety and toy safety. (<http://www.mcdonalds.com/usa/good/products.html>)

Nike's Code of Conduct

Nike's Code of Conduct dates from 1992, when it was first distributed to its contract manufacturing facilities. In addition to requiring its suppliers to observe the Code of Conduct, Nike now provides audit tools to its suppliers to make sure that they are in compliance. (http://www.nikebiz.com/responsibility/workers_and_factories.html#code_of_conduct)

Cisco's Code of Business Conduct

Cisco requires each of its employees observe its Code of Conduct, which governs personal behavior, use of resources, avoidance of conflicts of interest, gift policies, intellectual property protection and financial and business ethics. Each employee's knowledge of the Code of Conduct is recertified annually. (<http://investor.cisco.com/documentdisplay.cfm?DocumentID=3263>)

Verizon's Code of Conduct

Verizon's Code of Conduct governs work environment, avoidance of conflicts of interest, protection of intellectual and physical property and privacy. (<https://www22.verizon.com/about/careers/codeofconduct.html>)

ing greater transparency and accountability for companies, such as the Sarbanes-Oxley Act, passed by Congress in 2002, that introduced new financial reporting requirements for public firms. However, societal and political developments in recent years have nurtured a growing public desire for transparency that moves beyond compliance with laws and regulations. These changes include:



AP Photo

The Sarbanes-Oxley Act required greater financial transparency and accountability for publicly-held companies.

- Efforts by multilateral organizations to set standards for companies, such as: the OECD Anti-Bribery Convention (1997), which encouraged sanctions against bribery in international business transactions; the United Nations Global Compact (1999), which established principles for businesses to promote environmental, human rights and anticorruption efforts; and the United Nations Convention against Corruption (2003), which required member countries to implement laws against corruption.
- Independent moves by groups of companies or industries to adopt principles such as: the Global Reporting Initiative, one of the most prevalent standards for reporting a company's "ecological footprint," and the Equator Principles of 2003, a set of environmental and social guidelines that participating financial institutions use to guide financing decisions.

The playing field for business is clearly shifting and is forcing corporate executives to reexamine their approach to transparency and whether, in fact, it's possible to ever be sufficiently "open" to satisfy critics. Companies that thought they were ahead of the transparency curve have found themselves under increased scrutiny by customers, shareholder groups, employees, the news media and political leaders. At the same time, they face intense competition from other companies — including foreign-owned firms, government-owned companies and privately held corporations — that play by different rules, many of which don't require a high degree of openness.

Dealing with transparency expectations and implementing an effective strategy, whether out of a commitment to candor or pragmatism, is becoming one of the larger non-financial challenges facing companies today. Consequently, there is no "best practice" that applies to every firm in every industry. Instead, smart companies are finding ways to understand and manage expectations, communicate in authentic ways and stretch their willingness to talk openly about all aspects of their business.

Transparency in the Financial Realm

When Entergy CEO J. Wayne Leonard addressed shareholders in the company's 2008 annual report, he did not sugar-coat things.

After enjoying enormous financial success through most of this decade — for 10 years, Entergy had the best financial returns of any investor-owned utility company in the United States — the company in 2008 delivered a total shareholder return of negative 28.3 percent, thanks largely to stock market declines. The performance placed the company in the third quartile of its peer group.

While Entergy had returned about \$1 billion to shareholders through dividends and share repurchases and had demonstrated a record-setting response to two major hurricanes that hit within a two-week period, the man at the helm of the New Orleans-based energy company put things bluntly:

"Disappointing," he wrote, "doesn't begin to describe our 2008 financial performance." In short, he said, 2008 "was as frustrating and disappointing a year as I can recall."

“I don’t know how long the economic recession will last, or how painful it will ultimately be,” Leonard wrote. “I don’t know when the financial markets will return to normal, or if normal is forever changed. I don’t know what natural gas and power prices will be at the end of the year given the above unknowns. I don’t know when new nuclear development will become a reality.... I don’t know when we will have a smart power grid in the United States, what it will cost, or whether the customers we serve will make lifestyle changes needed to realize its full value. I don’t know what action, if any, Congress will take on climate change. It’s a long list. There are a lot of ‘I don’t knows.’”

It is typically painful for a company to share bleak financial news with shareholders and investors. How that news is presented is critical to creating an atmosphere of trust.

“We didn’t make excuses and we didn’t whine and complain about the sad state of the economy,” said Arthur Wiese, the company’s vice president of corporate communications. “We said, ‘It’s not acceptable.’”

What was the reaction?

“It builds loyalty, it builds confidence, it builds a sense of trust,” Wiese says. “There are very few downsides to being straightforward.”

Publicly held companies such as Entergy are required to be financially transparent, reporting their financial results quarterly and annually, subject to standards of materiality and the requirements of the Securities and Exchange Commission.

Yet Entergy conducts detailed quarterly briefings for financial analysts that are so candid that *Institutional Investor* magazine has ranked Leonard among the best CEOs in the country for six years running. The magazine wrote in April 2009 that those chosen for this recognition scored “high marks for being forthright and transparent with shareholders and smart with their companies’ balance sheets.”

Leonard in June 2009 was also ranked second among all Fortune 500 CEOs in the Rittenhouse CEO Candor Survey for the clarity and straightforwardness of his annual letter to shareholders. “Leonard isn’t afraid to be accountable,” said L.J. Rittenhouse, president of the investor relations consulting firm. “He lays out numerous performance benchmarks and tells readers how they are met. And he is the only CEO in the survey to consider how corporate actions would affect poor and middle-class consumers.”

For instance, Leonard once said publicly that Entergy’s safety record was “shameful.” Today, the company publishes on its website an annual sustainability report that compares its lost workday incident rates with those of peers such as Dominion, Duke Energy Carolinas, Gulf Power Company and others. For 2008, the incident rate was .21 annual lost workday cases per 100 employees, below those of 16 other competitors. The company also published statistics showing that since implementing its five-year safety plan in 2007, the rate has stayed about the same. The report also quantifies emissions and hazardous waste generation from Entergy-owned facilities.

The report, Wiese says, “candidly assesses where we have improved, and where we still need to, in terms of our environmental performance, social and philanthropic responsibilities and our safety record.”

Entergy has also been willing to own up to its financial mistakes or missteps. To this day, Leonard will say frankly that he regrets the company’s failed merger with Florida utility FPL Group Inc., a \$15.8 billion deal that would have created the country’s largest utility, but which fell apart in 2001.

“There were red flags early on,” Leonard told the *New Orleans Times-Picayune* last May, adding that he was caught up in the transaction without recognizing that the firms had two different cultures. Entergy maintains that FPL executives wanted to change the management structure by pushing out most senior Entergy executives, consolidating operations at the company’s headquarters in Juno Beach, Fla., and scrapping the decentralized organizational structure the two companies agreed to when they first announced the merger.



Entergy CEO J. Wayne Leonard displayed unusual candor about his company’s 2008 financial returns.

“We were upfront in explaining the differences in approach between Wayne and the CEO of FPL, as well as our allegations about things we were not told the truth about, including the fate of most of the employees after the merger,” Wiese said.

And Leonard is not shy about pointing out what he considers the company’s “mistake” in failing to buy more nuclear plants at low prices when the utilities market became overbuilt.

“In hindsight, it would have been something we would have been enormously successful at,” Leonard told the newspaper. “Those are big numbers that you think you could have had and you didn’t.”



Ted Helms of Petrobras finds that his company’s openness with stakeholders results in a lower cost of capital than the company’s peers pay.

“Having financial information on a prompt and regular basis... gives (financiers) the confidence to place their capital with Petrobras.”

— Ted Helms, executive manager of investor relations for Petrobras

Petrobras — rated by Transparency International in 2008 as one of the oil and gas companies with the highest levels of revenue transparency — began learning lessons about disclosure in 1997, when the Brazilian oil market opened up to other oil companies and Petrobras lost its monopoly status, having to face new challenges and opportunities on a competitive basis. In an effort to encourage the development of public capital markets, Brazil’s current and previous government regimes have structured corporate regulations to encourage greater transparency. As one of the largest and most visible companies in Brazil, Petrobras recognized the necessity of openness.

The company created a new corporate structure designed to respond to the expectations of all its stakeholders — including customers, communities, suppliers, investors, business partners, public authorities and journalists — for greater transparency and open communication channels. The company developed a process for gauging the expectations and opinions of each group and the degree of dependence on, participation with and influence each has on the company. An “Integrated Communication Plan” swiftly delivers information to these groups about the company’s activities, products and services.

“This is part of the culture of Brazil,” said Ted Helms, executive manager of investor relations for Petrobras. “As the largest and most visible company in Brazil, being the dominant producer refiner and distributor of oil products, we recognized the importance and necessity of openness and transparency.”

For Petrobras, the payoff for such openness is a business edge, Helms says, noting that the international oil company often pays less for its capital than other national oil companies from emerging markets.

Why?

“Because (financiers) trust and understand our direction and our commitment to them,” Helms says. “And having financial information on a prompt and regular basis — both in Brazil and the U.S. — gives them the confidence to place their capital with Petrobras.”

Nell Minow, editor and co-founder of The Corporate Library — an independent source for information on corporate governance and executive compensation — calls this a “cost of capital” issue.

“Markets run on information, and anything you do that detracts from the efficiency of markets — the availability of information and the ability of all actors to access an equal amount of information in the same amount of time — will cost your company in dollars,” Minow says. “So it will be more expensive to get loans and issue debt and their share prices will be lower.”

Minow also warns that “you can’t talk about transparency at all without talking about generally accepted accounting principles. They’re based on the 18th and 19th century economies — how many oxen do you have, and how long are they expected to live? Retooling the business culture around risk assessment is very important.”

In early 2009, when Target Corp. faced one of the most contentious proxy battles in corporate history, the retail giant had to counter accusations that the fight had distracted Target from meeting customer and investor needs. It also had to convince stakeholders that its board of directors still had the relevant experience to help the company thrive in the years ahead.

William A. Ackman, the activist hedge fund manager whose Pershing Square Capital Management owned 7.8 percent of Target through stock and options, tried to convince fellow shareholders that the company needed new faces on the board to better navigate the company through the recession and compete against Target's arch-rival, Wal-Mart.

In late May, Target shareholders soundly defeated Ackman's plan to install five nominees on the Target board, choosing instead to retain the company's four incumbent directors and supporting a plan to cap board seats at 12 rather than follow Ackman's suggestion to expand the board to 13.

But before ending its first proxy fight since 1987, Target had spent millions on high-priced lawyers, bankers, public relations advisers and proxy solicitors. It also had spent valuable time countering Ackman's accusations and persuading shareholders of its position that its stock had performed well given the downturn.

"There were financial media asking a lot of questions," said Nate Garvis, Target's vice president of government affairs. "In our world, like everybody else, you define yourself, or someone defines you for you."

Half the battle in defining Target during the proxy fight, Garvis said, was being willing to openly acknowledge legitimate criticism.

In Target's case, that meant candidly telling shareholders and the media that the company was aware of its financial standing and weaknesses — but also its strengths and prospects, even in a time of economic uncertainty. For instance, the company focused on its plan for pumping up its grocery sales in an economy where food would sell a lot better than clothes.

"It's the whole idea that you're conscious of the changes — that you're not blindsided by this stuff and that you know what's happening and why it's happening," Garvis said. "Part of it is talking about what you're doing in response. So when they said, 'Your sales aren't great,' you can say, 'Well, they're not great, but nobody's is right now, and here's what is working.'"

That Target won its proxy fight, Garvis said, was testament to the success of the openness with which it discussed its challenges. "We convinced a lot of folks that this is still a very well-run company, and we knew the world had changed, and that we were changing, too," he said.

Transparency and Social Responsibility

A few decades ago, it was possible for most senior executives to do their jobs "blissfully unaware" of how business affected surrounding communities, environmental degradation, the health and lives of workers, or the economies and human rights of developing countries, states the Center for Corporate Citizenship at Boston College in its 2008 survey of 330 companies.

"They were largely unaffected by activist NGOs and shareholder resolutions, the threat of boycotts and protests, not to mention calls for greater transparency and the dramatic increase in exposure provided by the Internet," the center concludes in a report titled "Profile of the Practice 2008: Managing Corporate Citizenship."

No more. These days, most public companies and many private ones hire specialists to address the increasing demand — from within the company and without — for openness about a wide range of corporate activities.



Nate Garvis (right) of Target notes that the company won a proxy fight in part by being more open about business challenges.

“ In our world... you define yourself, or someone defines you for you.”

— Nate Garvis, Target's vice president of government affairs

When potential customers visit Symantec Corporation, executives are hearing more questions about the company's commitment to climate change, hiring diversity and whether it requires suppliers to adhere to a socially responsible code of conduct. In fact, some potential customers have a "score card" that rates suppliers based on these factors — cards that ask questions such as "Have you measured your corporate greenhouse gas emissions?" "Have you set publicly available water use reduction targets?" and "Do you know the location of 100 percent of the facilities that produce your products?"

This trend has convinced Symantec to talk openly about some practices that previously were only discussed in-house.

"Yes, product quality matters, and yes, price matters, but the behaviors surrounding corporate social responsibility also matter, because that dictates how those products are made, how the employees who work in those companies are treated," says Symantec's Joseph. "What happens because of transparency is that customers are more apt to choose you over another supplier."

When the Aberdeen Group, a Boston-based research and consulting firm, worked recently with a company that handles chemicals and plastics — and therefore must address many environmental issues — the group discovered that the relatively young and diverse staff cared a great deal about initiatives involving people. "It's hard to get people to sign up for (a highly technical improvement program like) a lean Six Sigma initiative," says Aberdeen's sustainability and corporate social responsibility specialist, Jhana Senxian. "But do anything involving people, and you have a waiting list."

“ You always try to balance required disclosure with providing more – what do shareholders, non-governmental organizations, customers and other stakeholders want with what the (reputational, legal or other) exposure will be.”

– Megan Janis, director of public affairs,
PG&E

Transparency about a company's environmental policies is key not only to customers, but increasingly to investors, politicians and others. Companies that treat this expectation lightly risk losing business to those that openly demonstrate their community consciousness, or they risk alienating citizens or lawmakers whose support they need to conduct business.

Pacific Gas & Electric, a California-based company, was among the first utilities in the nation to publish an annual report examining its environmental goals, policies and practices. Today, the company produces a comprehensive responsibility report and lets external stakeholders — investors, environmental organizations, public interest groups and others — provide feedback by working with Ceres, a national nonprofit organization.

"You always try to balance required disclosure with providing more — what do shareholders, non-governmental organizations, customers and other stakeholders want with what the (reputational, legal or other) exposure will be," says PG&E's Megan Janis, director of public affairs.

British Petroleum's annual sustainability report — a summary of which is published online — includes volumes of data about the company's efforts to minimize adverse impacts on the natural and social environment, as well as details on the company's attempts to improve the environment. The report is audited by Ernst & Young, and it uses a similar standard of materiality as its financial audit — that is, whether the issue could affect BP's share price.

"It's a response to the world we've found ourselves in," says Sheldon Daniel, director of corporate responsibility for BP, who notes that this use of materiality is critical for BP's ability to report nonfinancial information in a credible way. "The aim is to provide information — in print and online — on the environmental, social and governance issues that affect our key stakeholders. We try to provide the information in a way that's most useful for them. They can then make their own judgment, because no one will take what you say at face value."

Corporate social responsibility tends to be an area in which transparency is frequently demanded. In recent decades, many major companies have felt compelled to disclose information on supply-chain management and sourcing policies as globally conscious consumers questioned where — and under what conditions — products were grown, made, packaged and shipped.

The apparel industry has long been at the center of social change and controversy, largely because the supply chain that feeds the industry is tied up with some of society's most pressing global challenges: international trade, workers' rights, equitable pay, the environment, poverty and worker safety.

At Levi Strauss & Co., the life of a pair of jeans involves everything from the designers who create the latest styles, to the fields where cotton is grown, to the factories where the jeans are

“After Levi Strauss began publicly sharing its supplier information, NGOs ‘would come to us first about (an issue) they saw in a factory, rather than go public, so we could deal with it constructively and collaboratively.’” – Anna Walker, manager for worldwide government affairs and public policy, Levi Strauss

made. With 600 factories in 45 countries, supply-chain issues inevitably crop up, especially if Levi Strauss contractors fail to comply with national laws or the company's own code of conduct for suppliers.

Four years ago, the company began publicly listing information about all its factories and contractors, which is updated every six months. Within the organization, there were initial worries that sharing such information could lead to competitors “poaching” Levi Strauss contractors. This didn't happen, company officials say. There were also concerns that NGOs might use the list to target campaigns against the company for sourcing with particular factories. That scenario didn't play out either.

“They saw this as open and transparent, and so instead, it led to a constructive engagement with NGOs, where they would come to us first about (an issue) they saw in a factory, rather than go public, so we could deal with it constructively and collaboratively,” said Anna Walker, senior manager for worldwide government affairs and public policy at Levi Strauss.



Apparel companies have become more open about supply chains to show compliance with child labor laws and human rights policies.

Standards for Social Reporting

As expectations for corporate citizenship increase, standards have been developed to document that business practices are socially responsible. The following is a list of major sustainability principles and organizations that set reporting guidelines.

Ceres is a coalition of U.S.-based companies that have agreed on a set of sustainability principles. These companies commit to producing regular sustainability reports. Ceres has led in developing new documentation tools and platforms, including the Global Reporting Initiative, reports on individual company plants and an awards program jointly administered with the Association of Certified Chartered Accountants (ACCA) to recognize outstanding corporate sustainability reports. (www.ceres.org)

The Global Reporting Initiative is an international non-governmental organization affiliated with the United Nations Environment Program (UNEP). It grew out of an initiative by CERES. In the decade in which it has been operating, it has established its Sustainability Reporting Guidelines as the pre-eminent global standard for corporate sustainability programs. Most companies that produce sustainability reports do so using the GRI framework. (www.globalreporting.org)

The United Nations Global Compact is a set of 10 principles aimed at protecting human and labor rights and the environment, and fighting corruption. The Compact and its principles were announced by the United Nations in 1999, and several UN agencies guide their implementation. (www.unglobalcompact.org)

The Global Sullivan Principles of Social Responsibility are a set of principles defined by the Rev. Leon H. Sullivan, a former director of General Motors, and introduced to the global corporate community by former UN Secretary General Kofi Annan in 1999. (www.thesullivanfoundation.org)

The Dow Jones Sustainability Index is a series of stock indices, managed by the Dow Jones company, tracking the financial performance of leading sustainability-focused companies. Companies on the indices are tracked carefully and may be dropped if their performance against key sustainability indicators declines. (www.sustainability-index.com)

In recent years, Levi Strauss and several major apparel brands and retailers have committed to working with labor and human rights groups to remove Uzbek cotton from their supply chains because of forced child labor in the harvesting of cotton in the former Soviet Republic. One of Levi Strauss' latest "transparency" initiatives was to trace the origin of cotton from farm to consumer, so the company can target sustainability initiatives at the source of the company's cotton supply.



Jason Dorsey

Author Jason Dorsey advises companies on how to deal with Generation Y — a cohort that demands greater transparency.

“The whole concept of privacy is very different than it was in my generation, ...Nowadays, people are making decisions based more on what a lot of other people think.”

— Cecily Joseph,
director of corporate responsibility,
Symantec Corporation

Internal Transparency

Transparency is also an important consideration internally, as more and more employees — an increasing number of them young people reared with the Internet, social networking, environmentally friendly behaviors and community-mindedness — express a desire to work for companies that operate in a similarly open manner.

To attract the “best and the brightest,” Joseph says, her company has become more transparent with potential employees and those already on board — not only about its practices, but also about its challenges. The company produces a quarterly “green” newsletter for employees and has an active social-networking site where workers can discuss diversity, community relations and environmental initiatives. Symantec also created 26 “green teams” made up of employees at its facilities around the globe who work to improve the company’s commitment to the environment.

“For the younger generation, it’s much more important that they work for companies that are socially responsible,” Joseph says. “Because of that, it’s become much more important that companies talk about what they’re doing.”

To some observers, public affairs managers in their 20s and 30s tend to be more comfortable with the concept of corporate transparency than their older counterparts.

“My work with Gen Y has shown that our trust in an organization is best earned through open, honest, two-way communication — in person or online,” says Jason Dorsey, a frequent speaker on “Generation Y” and author of “Y-Size Your Business: How Gen Y Employees Can Save You Money and Grow Your Business.” “This is particularly true in large organizations where we feel disconnected from leadership. I’ve seen time and again that organizations that deliver and promote their transparency have a competitive advantage when engaging Gen Y.”

Dorsey believes this mindset developed in part because of high-profile corporate scandals that his generation witnessed at a critical point during adolescence and early careers, and in part because of the generation’s comfort with using the Internet to find information.

Entergy’s Wiese also believes that younger public affairs professionals are far more comfortable than their older counterparts with the notion that openness is the best policy.

“I don’t find much secrecy being recommended on the part of (these) public relations people,” he says. “Society has changed. We have had, just in this decade, Enron and a number of other scandals — far too many examples of clandestine, secretive companies keeping their investors and the public in the dark about what’s really going on. That’s a pretty powerful lesson.”

The younger generation, Symantec’s Joseph agrees, “just act in a more transparent way to begin with.”

“They’re constantly communicating with each other — using MySpace, Facebook,” she says. “The whole concept of privacy is very different than what it was in my generation, when we tended to keep information more to ourselves. Nowadays, people are making decisions based

more on what a lot of other people think. If they're deciding what type of car to buy, or what type of clothing is in, oftentimes they look to the social network to weigh in."

To retain good employees, Symantec practices transparency in another arena: It publishes — for all workers to see, whether good or bad — a companywide employee satisfaction survey.

"We want to know, how happy are you with your job?" Joseph says. "How likely is it you would recommend the company to a friend? We ask, 'Do you think we're an ethical company, committed to diversity, committed to corporate social responsibility?' If employees said, 'We want to see you do more,' or rate us low in a particular area, we publish that, too."

Petrobras' employees played a major role in the revision of Petrobras' code of ethics in 2006, which adapted the code to requirements in the Sarbanes-Oxley Act — the U.S. law that introduced new financial accountability requirements for public companies. Revisions had to be made to portions addressing the balance of power between company administrators and shareholders, formal whistleblower procedures, conflict of interests, confidential information, the proper use of assets and disciplinary measures.

The company opened a suggestion channel on its intranet site, through which all workers could provide opinions and suggest improvements. During the revision process, the company held 16 seminars with more than 500 employees, who used the company's intranet to send more than 1,000 suggestions — many of them on subcontracting and moral harassment.

The company has a "Corporate Image Monitoring System" known as Sismico, which assesses the degree of satisfaction of external and internal publics with Petrobras' performance. It also has an ombudsman's office to sift through complaints and suggestions, as well as accusations of fraud and violations of moral principles. This communication channel has a direct link to the board of directors.

Events as a Catalyst for Transparency

Sometimes, it's not competition, or more business, or a push to hire the "best and brightest," that compels companies to become more open. Sometimes there is a catalyst — a disaster, unsavory news, a reputational challenge, a public outcry, or the desire to head off a potential crisis — that provokes more transparency.

The melamine contamination events of the past few years provide two good examples of transparent and nontransparent approaches to the same crisis.

Melamine is used to make plastics, including floor tiles, whiteboards and kitchenware. It was considered minimally toxic until veterinary scientists concluded it was the cause of possibly thousands of dog and cat kidney failures and deaths after pet food was contaminated with the industrial chemical. Melamine has also been discovered in livestock feed that more than a million hogs and chickens are believed to have eaten.

When melamine was found in the products of the SanLu company — a Chinese producer of milk and milk products — a New Zealand firm with an ownership stake in SanLu recommended privately to SanLu executives that they recall the products. SanLu did not initially follow this advice. While the New Zealand company, Fonterra, eventually notified its own national government — which led to eventual action by the Chinese government — customers continued consuming melamine, and some suffered health damage.

"Fonterra's reputation has suffered a considerable blow — all the more so because the company continued to defend its silence," said Dr. Peter Sandman, one of the nation's preeminent risk communication speakers and consultants.



Peter Sandman

Peter Sandman is one of the foremost experts on risk communication and crisis management.

“ Keeping secrets is very risky behavior... If nobody ever finds out, you win. But if a whistleblower or investigative reporter reveals your secret, it does your company enormously more harm than if you had revealed it yourself.”

— Peter Sandman,
risk communication expert

When King Car — a large food company in Taiwan that sells a popular prepackaged coffee — discovered it had been buying milk products for its coffee that contained melamine, it immediately announced the discovery.

“Rather than blame its supplier, it went out of its way to blame instead its own failure to police ingredient quality sufficiently, and announced new programs to check more carefully for adulterated ingredients,” Sandman says. “It recalled all coffee that might contain the melamine-contaminated milk, and quickly started selling melamine-free milk — with a new label that said so.”

“ We quickly learned the value of communicating externally the work we were quietly doing internally, and we were motivated to do more, faster.”

— Anna Walker, manager for worldwide government affairs and public policy, Levi Strauss

“Keeping secrets is a very risky behavior,” Sandman adds. “If nobody ever finds out, you win. But if a whistleblower or investigative reporter reveals your secret, it does your company enormously more harm than if you had revealed it yourself.”

Several years ago, law enforcers approached Target executives and suggested the company might be an unwitting accomplice in the increased use of methamphetamine, because store customers were able to buy or steal large amounts of pseudoephedrine — a key ingredient in the manufacturing of methamphetamine. Before the law required it, Target put all pseudoephedrine products behind pharmacy counters to make them less accessible. The company notified the public about its new policy.

“That was a few hundred million dollars worth of product that overnight we made less convenient to our guests,” Garvis said, noting that the company made a similar decision years ago when it banned the sale of tobacco products in its stores, even though cigarettes were among the company’s most profitable products. “We told the public what we were doing, and the response was fabulous. No one said, ‘Damn, now I’m going to have to wait in line.’ Instead, everybody said, ‘You did the right thing.’”

The lesson learned?

“Doing it openly was part of the tactic and was the real victory we were looking for,” Garvis said. “We not only were seeking credit from the public — which we did get in the form of good media — we were looking for credit from law enforcement.”

By weighing in openly and publicly on the issue, Target was able to help shape state bills that required pseudoephedrine products to go behind pharmacy counters.

When major newspapers in 2007 reported that Levi Strauss had earned rock-bottom scores on an annual report card from Climate Counts — an environmental watchdog that holds companies accountable for their public communications and actions to address global warming — company executives took notice.

The survey rates companies on a scale of 0-100 based on the extent to which they measure their climate “footprint,” reduce their greenhouse gas emissions and support “progressive” energy and climate policy.

“Our CEO saw it and called a group of us into his office and said, ‘What do we need to do to fix this?’” recalls Walker.

The company began disclosing its emissions with the Climate Registry and issued a Climate Disclosure Project that includes plans for reducing emissions in the future.

In its 2008 survey, Climate Counts gave the company a score of 22 — a considerable improvement over the score of 1 that the company had earned just a year earlier. Climate Counts noted that Levi Strauss was now reporting its companywide impact on global warming and had created goals for reducing energy use.

“We quickly learned the value of communicating externally the work we were quietly doing internally, and we were motivated to do more, faster,” Walker said.

One final — and well-documented — example of a company’s awakening to issues of transparency and accountability because of outside pressure is the case of the athletic shoe and apparel maker Nike, which came under intense pressure in the 1990s for the management of its supply chain. Like many clothing and shoe companies, it outsourced manufacturing of its shoes to Asia. Initially, in the 1970s, it contracted with a Korean manufacturer, but then during the 1980s subcontracted its supply chain to manufacturers in low-cost countries across Asia. Already criticized for moving manufacturing outside of the United States, Nike’s supply chain began to be exposed in the 1990s as a prime example of what was wrong with global companies.

First, pay practices at Nike’s Indonesian factories were called into question by NGOs and labor activists, which reported that employees in these facilities were paid less than the minimum daily wage of about \$1. Next, media exposés revealed that children were working in stitching centers in Pakistan that produced soccer balls for leading sporting goods makers, including Nike. Finally, working conditions in Nike’s Vietnamese factories, which included high concentrations of poisonous chemicals, were made public through information leaked from auditors’ reports through NGOs.

Initially, Nike sought to diminish the impact of the reports. However, over time, it significantly changed the way it communicated externally about its supply chain operations. As early as 1992, it developed a code of conduct for its suppliers requiring them to adhere to labor, health and environmental standards, which the company posted in suppliers’ facilities. The code has been revised and strengthened over time. Next, Nike created internal departments focused on labor practices and environmental compliance, and stepped up its monitoring and inspection processes to ensure that suppliers were adhering to mandated practices. Finally, Nike joined international organizations committed to similar causes, including the United Nations Global Compact, the Global Alliance for Workers and Communities and the Apparel Industry Partnership, since named the Fair Labor Association.

“In fairness, transparency during a quickly evolving crisis is especially difficult, because often, you’re not sure of your facts,” Sandman says. “It’s awkward enough to reveal embarrassing information you’re certain is so. When the embarrassing information is also tentative, the temptation to hide behind uncertainty is strong.”

The solution, Sandman suggests, is to abide by two ground rules.

First, make sure your standards for revealing bad news are no tougher than your standards for revealing good news, because the consequences for being wrong about good news are much worse than the consequences of being wrong about bad news.

“‘It’s worse than we thought’ arouses more recriminations than ‘it’s not as bad as we feared,’” Sandman says. “I advise clients to err on the alarming side and the self-critical side when they’re unsure of their facts.”

Second, make sure your tentative statements sound tentative. Although the word “speculation” has negative connotations, in a real crisis, it’s essential to say things you’re not sure are so — which is what “speculation” means.

“You can’t just say you’ll have a report out next year when you’ve completed your detailed study of the crisis,” Sandman says. “What gets companies into trouble isn’t speculating; it’s speculating over-confidently and over-optimistically.”

“...Transparency during a quickly evolving crisis is especially difficult, because often, you’re not sure of your facts. It’s awkward enough to reveal embarrassing information you’re certain is so. When the embarrassing information is also tentative, the temptation to hide behind uncertainty is strong.”

— Peter Sandman, risk communication expert

Transparency and Political Activity

Interest in making corporate political activity more “transparent” dates back many years. The Federal Election Campaign Act of 1971 (FECA) mandated tougher disclosure rules for federal candidates, political parties and political action committees (PACs). Then, following the Watergate scandal, Congress set limits on campaign contributions and established an independent agency, the Federal Election Commission (FEC), to enforce the law and ensure adequate disclosure. Congress further amended FECA in the late 1970s to streamline the disclosure process.

Since that time, a host of third parties — in particular, the Center for Responsive Politics (CRP) — has sliced and diced contributions and lobbying registration data to help the public learn about the relationship between money and politics. CRP’s website, www.opensecrets.org, provides 30 years’ worth of data on federal candidates, political action committees, parties, individual contributors, corporations, labor unions and interest groups. With this trove of information, users can:

- Research individual contributions — including date, amount and recipient
- Sort PAC contributions by industry
- Review contributions to leadership PACs
- Read personal financial profiles of politicians
- See which firms spend the most on lobbying
- Review receipts and expenditures of section 527 groups
- Draw conclusions about how contributions drive issues, and vice versa

Though CRP is non-partisan, it encourages voters, journalist, activists, students and interested citizens to use its data to “count cash and make change.” It also urges passage of legislation and rules mandating even greater transparency.



OpenSecrets.org is a public website that tracks political contributions.

Another group, the Center for Political Accountability (CPA), has taken a different approach to the subject of transparency. It has followed a shareholder activism model to force companies to publish contributions data on their websites and be more accountable in other ways for their lobbying positions. The CPA’s founder — former Senate investigator and newspaper columnist Bruce Freed — was concerned not only that companies could still limit their disclosure — in part by running contributions through trade associations — but that such spending was not listed in any one place, making it difficult for shareholders to get a full picture of corporate political spending.

Since starting CPA six years ago, Freed’s aim has been to protect voters and shareholders by pressuring companies to adopt conduct codes for political spending that emphasize board oversight and public disclosure. So far, at Freed’s urging, 66 publicly traded companies have done just that.

The code requires companies to report about their adherence — online and every year. The center provides links to firms’ “transparency and accountability reports” on its own website and checks for compliance.

“CPA has encouraged companies to become more open about their campaign contributions,” says Public Affairs Council President Doug Pinkham. “Even though these expenses are already publicly disclosed, it’s easier to get a complete picture of a company’s political involvement when contributions are listed on a corporate website.”

Taking the proactive step to list these contributions has the added benefit of giving a company the credibility to head off unreasonable activist campaigns that tap into the public’s basic dislike of politics, says Pinkham. For instance, the Center for Political Accountability also claims that companies put themselves at serious financial and legal risk by making any political contributions, or even by belonging to trade associations. “This is just not true,” says Pinkham. “Companies are extremely vigilant about how they run their PACs, how lobbying disclosure forms are filled out and how decisions are made to support various candidates.”

“The Public Affairs Council holds regular seminars on these subjects and the room is invariably filled with people trying to make sure they understand the intricacies of campaign finance and lobbying laws. They are also extremely cautious about contributing to section 527 advocacy groups and other funds that appear to be ‘black holes’ for political involvement. But, let’s face it, the public assumes the opposite. That’s why it’s important to demonstrate political transparency where you can. You want to earn the trust of the public and your own employees so you gain the benefit of the doubt.”

Transparency surrounding lobbying is a particularly hot topic these days, in part because President Obama early in his presidency singled out lobbyists by restricting their communication with executive branch officials and in part because of scandals involving politicians and those who influence them. The nature of today’s media — instantaneous, far-reaching, highly graphic, somewhat sensational — has fed such calls for transparency by leaving the public with the mistaken idea that a bad actor defines an entire industry. Witness the stigma associated with lobbyists following the conviction of former lobbyist Jack Abramoff in January 2006 on charges related to the defrauding of Native American tribes and the corruption of public officials.

“We have this feeling that every politician is on the take, every CEO is greedy, every priest is a pedophile, because that’s the story being published,” Garvis says.

Explains Verizon’s director of federal public affairs, Tom Maguire: “When somebody mentions (political) transparency, they mean, ‘I have the sense that I don’t trust you. You have the potential to be doing something that is wrong, and I need validation to believe that you are not.’”

Even among nonprofit associations, it can be difficult to address members’ skepticism about the role of lobbying.

“I do think there are some who question what we do and what our motives are,” said Mike Aitken, a registered lobbyist and director of government affairs for the Society for Human Resource Management. “I blame that partly on the fact that we sometimes don’t clearly articulate (the advocacy role) because we’re trying to get attention with short sound bites, and we don’t have the time to fully explain why we support or oppose something.”

It’s for that reason that Aitken hosts webcasts for members — one in September 2009 attracted nearly 8,000 participants — where he explains the role of advocacy.

“I am a registered lobbyist, and I’m very clear with our members on that,” Aitken said. “I always tell people that part of my role is to advocate on behalf of the human resource profession, but part of my role is also to be an educator. As knowledgeable and worldly as congressional staff are, they can’t know everything about everything. Putting them in touch with a conduit such as me helps them, we think, make better public policy decisions.”

““ When somebody mentions (political) transparency, they mean, ‘I have the sense that I don’t trust you. You have the potential to be doing something that is wrong, and I need validation to believe that you are not.’”

— Tom Maguire, director of federal public affairs, Verizon

In 2009, when healthcare reform topped the national agenda, Sharon Ladin of the National Association of Children’s Hospitals and Related Institutions found it important to tailor her message about healthcare lobbying to three different hospital audiences.

In a single September day in Detroit, the association’s director of legislative advocacy programs made presentations to the Children’s Hospital of Michigan’s board of directors, to senior managers at the hospital and to a parent advisory board about the importance of lobbying Congress on health care.

“The conversation with the board is ‘You need to be paying attention to this because it will impact the way money comes and goes to the hospital,’” Ladin says. “Doctors have a different set of interests and parents have a third perspective. A lot of this is customizing (the message) so people understand the important role they can play in advocacy.”

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Hewlett Packard’s Global Citizenship page outlines corporate policies and achievements in areas such as ethics, environment and privacy.

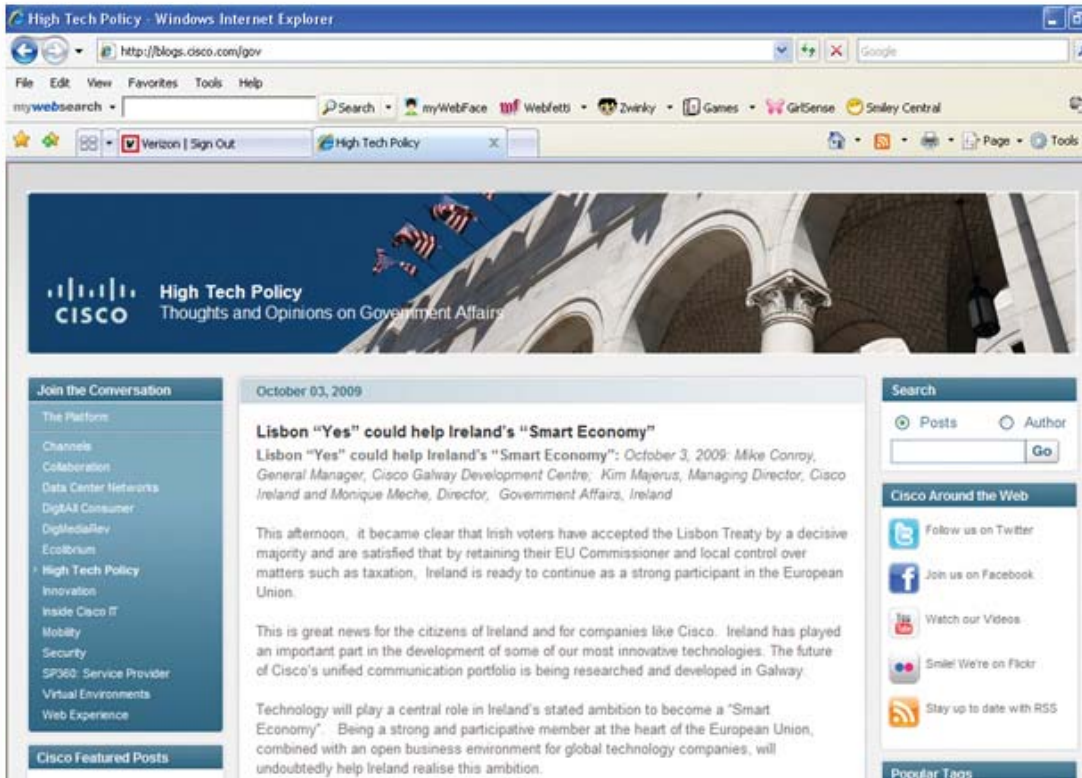
As for corporations, some firms began experimenting with greater transparency by publicly discussing their advocacy work before most big companies did.

Hewlett Packard’s “Code for Political Giving,” adopted in December 2006, requires the company to disclose: separate totals for its corporate and HP political action committee contributions; an itemized list of corporate and PAC donations, including recipients, amounts and dates; political payments made to trade associations; and any other corporate payments used for political purposes.

“HP’s global government affairs team builds relationships with key officials around the world to discuss emerging issues, understand their thinking, offer HP’s unique expertise and insight, and describe the company’s positions,” the company explains on its website, which provides complete information on U.S./global public policy priorities, association memberships, political engagement and global citizenship programs. “We are committed to active participation in the global public policy dialogue in accordance with laws and our Standards of Business Conduct.” The website also has a link to the standards.

The networking company Cisco distinguishes itself by using social media to promote transparency around its public policy activities. The company's government relations website includes a high-technology policy blog covering major issues facing tech companies. The blog — which is easy to navigate, includes archived analyses of issues no longer on the company's agenda and offers links to Twitter, Facebook and RSS feeds — is available to the public, explicitly states the company's positions and indicates whether Cisco has a business interest in the matter. It features posts from Cisco's senior public policy executives about Cisco's public policy work, but also from business unit line managers — an indication that Cisco trusts its employees to communicate with the outside world. Finally, the blog invites visitors to comment.

"It's not that we didn't want to be transparent before — Cisco strongly believes in transparency," said Kristan Gainey, manager of strategic communications for Cisco. "We just didn't have the technology that made blogging and collaboration easy.



Cisco discusses its public policy positions in a high-tech policy blog, whose contributors include Cisco's public affairs staff and leaders of relevant businesses.

"Now that we have the technology — including wikis, blogs, video, discussion forums and advanced tagging — this has increased our global transparency and collaboration on all levels. Now, everybody can be a blogger and share their insight with our stakeholders around the world."

Nike, which has made a strong commitment to transparency in all its communications, demystifies the process of lobbying by describing its criteria for supporting political candidates and its process for evaluating legislation. In one part of Nike's corporate social responsibility report, the company even explores the pitfalls of crafting a position on policy debates:

"We constantly grapple with the selection of issues to influence and the positions we take," the company states. "We face the age-old dilemma: there are risks and downsides to every position, including the potential of alienating a group of employees, a non-governmental organization partner or a political ally on another issue. To address this concern and bring some clarity to our decision-making deliberations, we have developed a process for systematic and timely policy decision making."

Pfizer explains on its website that “public policy affects our ability to meet patient needs and provide shareholder value.”

“Essential aspects of our business are being challenged by barriers to access, counterfeits, illegal importation and challenges to intellectual property protection, the company states. “For this reason, we actively participate in public policy dialogues to explain our perspectives.”

Verizon provides full public documentation of its political donations, and produced a 60-page report at the end of 2008 detailing all political contributions.

“ Transparency is a part of our world, and it’s not going away. Having said that, you have to ask yourself, ‘What is the most efficient way to meet this need and not create incredible bureaucracy and cost.’” – Patricia Molino, vice president of public affairs and corporate citizenship, Johnson & Johnson

As Taylor Craig, Verizon’s PAC director notes, such an extensive report of political contributions is valuable for internal and external stakeholders. “We emphasize transparency in our company because our business is affected by a lot of policies. There’s a certain responsibility to our employees and shareowners to show that we think our political activity is an important part of the business.”

According to Craig, stakeholders sometimes remark that it’s valuable to have information about Verizon’s political involvement all in one place, rather than having to consult the FEC or numerous state agencies. Making such information easily accessible also helps prospective PAC donors understand Verizon’s political activity — and may even boost participation in the PAC.



Verizon

Verizon produces a full report of its contributions to national and state political action committees.

Johnson & Johnson’s U.S. pharmaceutical, medical device and diagnostics units began disclosing the results of clinical trials on www.clinicaltrials.gov before it became a regulatory requirement. During deliberations over Iowa Sen. Chuck Grassley’s Physician Payments Sunshine Act of 2009 — which would require more transparency about the financial relationships between physicians and the manufacturers of drugs, devices, biologicals, or medical supplies paid for by Medicare, Medicaid, or SCHIP — the company agreed to begin disclosing such relationships by June 30, 2010, for some of its businesses, and to do so for all relevant businesses by June 30, 2011, even if the final version of the bill doesn’t require it.

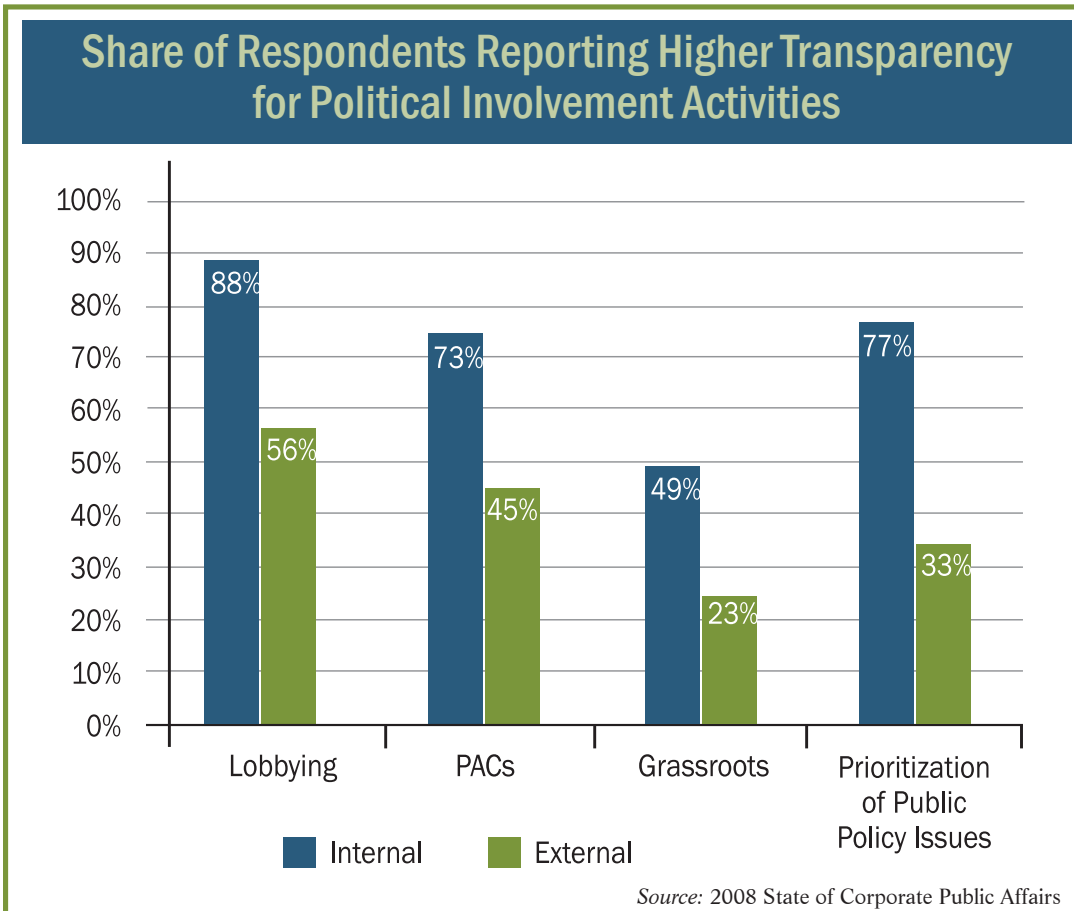
“Transparency is part of our world, and it’s not going away,” said Patricia Molino, Johnson & Johnson’s vice president of public affairs and corporate citizenship. “Having said that, you have to ask yourself, ‘What is the most efficient way to meet this need and not create incredible bureaucracy and cost.’”

In Johnson & Johnson’s case, the hope is that being voluntarily open about the company’s relationships with physicians — and supporting one federal bill that speaks to disclosure — may prevent each state from adopting “sunshine” regulations of their own.

“State government affairs experts will tell you, if you’ve talked to one state, you’ve talked to one state,” Molino says. “You can’t assume the other 49 are doing the same thing. Having 50 of these (regulations) is vastly more expensive and time-consuming and resource-intensive than having one. It becomes a very practical matter.”

In response to a shareholder proposal from investors affiliated with the Center for Political Accountability, The Dow Chemical Company decided to provide greater transparency of its political involvement activities. The center contacted Dow and about 100 other companies about the shareholder proposal, sharing a “Model Code of Conduct for Corporate Politi-

cal Spending” as a guideline for discussions. The code made several suggestions for making political activities at publicly traded companies more transparent, including creating a corporate code guiding political contributions, disclosing PAC and other political contributions and monitoring political spending by members of the board of directors. Many of the suggestions were non-controversial and, in many cases, were already in place at Dow.



According to the “2008 State of Corporate Public Affairs” study, companies report greater strides in increasing internal transparency than external transparency for political involvement activities including lobbying, PACs, grassroots and prioritization of public policy issues.

Another element of the proposal — to disclose Dow’s contributions to trade associations used for political purposes — required more discussion.

“I would say that’s probably the most controversial element of the Model Code for anybody,” said Brooke Beebe, Dow’s director of government and political affairs. “Our biggest concern is consistency. Because such disclosure is not required or regulated by law, we have found considerable variation in disclosures by companies that have already agreed to the Model Code or variations.

“As an example, two major pharmaceutical companies that have purportedly adopted voluntary disclosure report wildly different contribution amounts to (the industry association) PhRMA. So, although both companies claim to be reporting their contributions made to trade associations that are used for political purposes, they seem to be using different criteria in deciding what to report.”

Dow and CPA had a “good, constructive dialogue” she said, and CPA withdrew its shareholder proposal based on Dow’s willingness to release information about its trade association dues used for political purposes, create a corporate political involvement code, provide a consolidated report of PAC and corporate political contributions and monitor political spending by directors.

The Center for Political Accountability notes that there is often a “wide gap” between board members’ professed and actual knowledge of campaign finance laws and disclosure requirements, and it suggests this needs to change. A Mason-Dixon Polling & Research survey commissioned by the center found that 75 percent of directors said they were familiar with the laws, but on close questioning, fully 88 percent didn’t know companies weren’t required to disclose all political spending, while another 87 percent didn’t know trade associations weren’t required to disclose their members and the beneficiaries of their political spending.

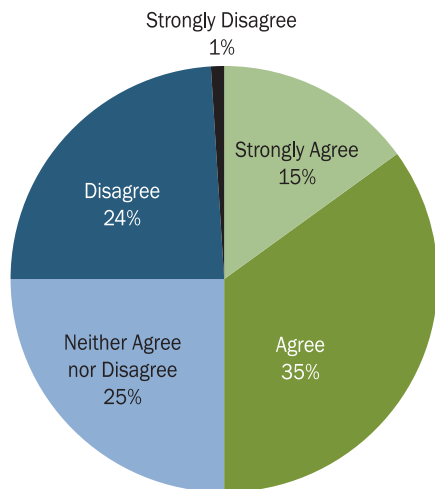
The center’s recommendations for directors: Insist the company adopt a code of conduct on political spending; provide active oversight of the company’s political involvement; ensure the company’s political disclosure practices comply with legal and regulatory rules; and ensure those practices are designed to provide the board and managers with a complete and accurate picture of the company’s political activity.

While it’s clear that some companies have embraced political transparency, it’s also apparent that many are just getting started. In the Foundation for Public Affairs’ “2008 State of Corporate Public Affairs” study (see the previous page), three-quarters or more of respondents reported a higher degree of *internal* transparency for lobbying, PACs and prioritization of public policy issues, and nearly half reported higher internal transparency for grassroots initiatives.

But for *external* transparency — visibility to external stakeholders and the general public — percentages were significantly lower. “The level of external transparency is clearly increasing,” says Pinkham, “but it’s going to take time for every company to become comfortable with being open. This is where innovative firms like HP and Cisco can help so much. They’ve thought through the language and strategy of transparency, and others can learn from their example.”

Transparency and Grassroots

“Most identical form communications campaigns are sent without the constituent’s knowledge or approval.”



Source: Congressional Mgmt. Foundation, “Communicating with Congress: How Capitol Hill is Coping with the Surge in Citizen Advocacy” (2005).

According to the Congressional Management Foundation, half of polled congressional staffers believe grassroots communications that appear identical are not genuine.

No discussion of transparency in corporate or association political activity would be complete without a discussion of grassroots.

While some forms of non-disclosure in grassroots activities are entirely benign, there can be risks associated with not being entirely transparent in one’s political programs — simply because a lack of openness can lead some to assume that a company or association is up to “no good.” For example, even though grassroots has become a mainstream strategy in American politics, many in government assume that some letter-writing and email-writing campaigns are “Astroturf” — political or public relations campaigns planned and carried out by an organization but presented as if they were generated from individual citizens or allied groups.

Such perceptions are not helped when the mainstream media report on the unsavory practices of a few, as happened in the summer of 2009 when a public relations firm representing the coal industry’s agenda sent a series of fake letters to Capitol Hill. While the firm fired those responsible for the letters and went public with the news, the damage to the image of even legitimate grassroots movements had been done.

A report by the Congressional Management Foundation found that fully half of congressional staffers polled doubt that letters and emails that seem identical in form are actually sent by real constituents.

Among the comments to the foundation was this from an unnamed House chief of staff: “It’s very frustrating for offices to go through a lot of time responding to form letters, only to find out the constituents didn’t even send the letter.” Said a House correspondence staffer: “Stop sending form letters/faxes/emails that the constituent doesn’t even know he/she is sending. It’s a waste of time and resources and does not influence the member’s stance on the issue in any way.”

Fair or not, such comments demonstrate a widespread perception that many “grassroots” efforts are not that at all.

It is always wrong, points out Council President Pinkham, to send out fake communications or to use someone’s name and contact information in correspondence without their permission. Dubious practices, he says, include supporting public policy groups that don’t disclose their sources of funding and pretend to have a wide base of support, and portraying yourself to be a regular, concerned citizen when you are actually an employee or agent of an advocacy group, firm or political party.

Aware of public skepticism surrounding grassroots activities, the Natural Products Association spells out to lawmakers and regulators precisely who is involved in the “roots” of any such movement.

One tactic the association uses is to create color-coded maps that pinpoint where companies opposing or supporting a law or regulation — health food retailers, manufacturers, distributors — are located in a legislator’s district.

“The staffer or legislator sees an aggregate number for representative businesses in the district (and) where they’re located,” said Tracy Taylor, senior vice president of public affairs and strategic initiatives for the association. “This helps to reinforce that these are real people — and a lot of them — in a given district who vote and who are willing to go to bat for our issues.”

If the association is part of a coalition advocating for a common cause, the company spells this out on its website, and ensures that the coalition “clearly identifies who we are, how we’re supported and what we stand for.”

Some ways to be upfront about the origins of a “grassroots” movement are to state: whether it involves groups of influential people who share a common cause; enlists the help of other organizations with whom you share the same policy goals; or creates an informal organization that coordinates and uses the resources of its members to achieve a public policy goal.

When the U.S. Minerals Management Service revisited which areas of the country should be leased for offshore oil and natural gas drilling, BP circulated among its employees a sample letter urging regulators to open new areas of the federal Outer Continental Shelf.

The letter makes it clear that the writer is a BP employee, and the company also makes it clear that employees should edit the letter to reflect their personal stand on opening more areas to drilling, even if it doesn’t comply with BP’s stance. To ensure employees feel free to be as open as possible, “we don’t ask for email addresses, we don’t ask for what’s in the letter,” says Liz Castro, director of civic affairs for BP.

“Our sole mission is to get employees engaged in the political process,” Castro says. “When I go out and do presentations, we even tell them they can use our civic engagement tools (sample letters, using home zipcodes to locate elected officials, or tips on writing letters to the editor) to contact legislators on any issue of their choosing.”

After the healthcare reform “town hall” meetings of 2009, NACHRI’s Ladin faced questions from her members about the origins of such grassroots movements. She had a candid response for members who wanted to know, “was that real grassroots, or was it Astroturf, and what led to it?”

“I respond by saying I think that those people at the town hall meetings really did very much personally believe in the issue of health care reform,” Ladin says. “I also tell them that, even if they weren’t plants, they were fed bad information from organizations” opposed to some versions of healthcare reform.



BP America

Liz Castro of BP has worked to strengthen the credibility of grassroots communications.

“Our sole mission is to get employees engaged in the political process. When I go out and do presentations, we even tell them they can use our tools (sample letters, for instance) to contact legislators on any issue of their choosing.”

— Liz Castro, director of civic affairs, British Petroleum

There may be times, of course, when a company or advocacy group is not entirely comfortable with complete transparency about political advocacy. For example, companies are guarded about giving away their political strategies. “But in most cases it’s better to lean toward openness,” Pinkham says. “It’s what the public expects. When people already don’t trust politics and politicians, you’ll gain more support for your cause by disclosing who you are, what issues you support and why.”

Transparency and the Internet

Few dispute that the advent and growth of the Internet contributed enormously to the public’s demand for increased corporate transparency. Not too long ago, learning about a company’s political contributions required a hike to the local elections office or secretary of state and several hours digging through piles of paperwork. That such documents are now instantly available — posted electronically and enthusiastically distributed by advocacy groups — puts pressure on companies to be the “first” to explain their political-giving principles before someone else tries to.

“A fundamental reason why there is a demand for information today is that it’s possible to get it,” says J&J’s Molino. “Prior to the Web, it would not have been possible to get this information, and as a consequence, the requests were not made.”

In fact, Molino argues that two developments — the Internet and corporate scandals that left the public skeptical of the business community — probably contributed more than anything else to “create the environment for much more focus on transparency.”

“The Web is one of the fundamental changers of everything,” says Molino, whose company publicly discloses online the grants that its various divisions make to professional education and charitable causes, as well as the results of clinical trials of marketed products. “Because it is possible to provide the information, the information is now requested.”

Writes the *Harvard Business Review* in “A Culture of Candor:” “What executives are learning, often the hard way, is that their ability to keep secrets is vanishing — in large part because of the Internet.... Today, anyone with a cell phone and access to a computer could conceivably bring down a billion-dollar corporation.”

Two cases well illustrate that point:

In the first, the Guidant Corporation decided against publicizing a defect it discovered in some models of its defibrillators. Although the flaws caused a few implanted heart regulators to short-circuit and malfunction, company executives didn’t tell physicians about the flaw for three years. Only in the spring of 2005, after the device was implicated in the death of a college student, did some doctors contact the *New York Times* about the story. Guidant didn’t recall the devices for nearly a month, and only after another death connected to the product. Guidant’s share of the defibrillator market dropped from 35 percent to about 24 percent.

By contrast, Kent Thiry, CEO of DaVita, a dialysis-treatment operator, maintains a “no secrets” policy to build trust among all stakeholders. Thiry asks for candid feedback from employees and even ex-employees, as well as from customers and suppliers. Moreover, he actively seeks out “bad news” and rewards employees who provide it — all in an effort to head off problems before they hurt the company.

Charlene Li is principal of the Altimeter Group and co-author of “Groundswell,” a bestselling book that gives companies practical strategies for harnessing the power of social technologies such as blogs, social networks, and YouTube. Li notes that “in the past, you weren’t held accountable because there wasn’t a venue for anybody with a bone to pick with you to air their grievances.

“Now, one person with a Twitter account can make you do that. There is no place to hide. Anything you do or say is fair game. You can’t hunker down anymore or close the gates. So the question becomes, how much do you need to open up?”



Altimeter Group

Charlene Li of the Altimeter Group is a co-author of “Groundswell,” which explores the implications of new and social media on business and communication.

The growth of “Internet 2.0” featuring blogs and other social media means that information has become democratized — and people are able to call companies to account with much greater ease. As Torod Neptune, senior vice president of Waggener Edstrom Worldwide noted in the Foundation’s 2008 study, “When Disaster Strikes: A New Guide to Crisis Management,” “...if you had a beef with Coca-Cola, the worst thing you could do to them was harass a secretary on the phone or stand outside with a sign. The average Joe or Jane couldn’t buy time on CNN or take out a full page ad in the *New York Times*. These days, everyone’s a publisher. Anyone can say anything about anyone in real time, whether it’s true or false.”

Granted, such technology — especially social media sites — can make it difficult for a public affairs professional to control what’s being said about his or her company.

“If I look at the last election, the most outrageous, fear-mongering lies didn’t come from the mass media and the candidates, but from my friends who passed things along on Facebook,” Target’s Garvis says. “That’s really dangerous media. It’s not mass media, but it’s authentic media, because it came from someone I know and trust.”

Companies, however, can use these new technologies to counter misinformation with facts.

“Internal corporate blogs can especially be thorns in the sides of executives, but technology-savvy managers know how to use the medium to defuse false rumors,” the *Review* writes. “The wisest executives view even nasty online critiques of top management as a mechanism that prevents tunnel vision and reminds the powers that be that they don’t have a lock on all useful information.”

Minimizing Internal Conflict

Sometimes, resistance to greater transparency can come from a company’s or association’s legal department, its CEO, or elsewhere.

Entergy’s Wiese acknowledges that there can be in-house impediments to corporate transparency, including a CEO’s personality and clashes with company lawyers.

“Human personality might be a major impediment for some corporate leaders,” Wiese says. “They don’t like to be evaluated, or to have their decisions second-guessed.”

When Symantec’s Joseph encounters resistance from senior executives who aren’t convinced the company should divulge certain information they think should remain private, peer pressure proves a useful tactic.

“The question is usually, ‘Why do I need to give this information?’” Joseph says. “They think it should be private, or sometimes they’re thinking they have to invest money and create a whole new business process around this.”

In such instances, Joseph researches how company peers have approached a similar issue “transparently” so she can demonstrate the results — as she did when some Symantec leaders

Linking Responsibility with Business Processes

The Center for Corporate Citizenship at Boston College has profiled ways in which companies integrate their corporate social responsibility programs with business processes:

Baxter International employs a two-tiered governance structure to ensure it is accountable to its principles. This includes a Public Policy Committee under the Board of Directors that reviews and oversees policies across the business that affect its reputation as a socially responsible company. In addition, a management-level Sustainability Steering Committee, comprised of vice presidents of functions across the business, develops and prioritizes the company’s sustainability activities.

Verizon maintains a Consumer Advisory Board, a 25-member panel comprised of customers, advocacy groups, government officials and other external stakeholders. It advises the company on quality, privacy, marketing and customer service policies. The board originated at New York Telephone, a legacy Bell operating company, and has continued to advise the firm across a number of mergers and acquisitions. In particular, the Board was key to creating a comprehensive corporate citizenship program at Verizon.

Nestlé reports, through its “Creating Shared Value” program, on ways in which its business makes a positive impact in coffee production, service to Africa and Latin America, and the resourcing of water. This documentation helps create greater accountability for the company in markets where it operates and can potentially have a positive impact on resource management and sustainable economic development. The report is audited by Bureau Veritas, a global testing and certification firm, to ensure the accuracy of the information.

Source: “Structure and Strategies — Profile of the Practice 2008: Managing Corporate Citizenship.” Boston College Carroll School of Management, Center for Corporate Citizenship (2008); Nestlé S.A., Creating Shared Value Report 2008.

were uncertain about disclosing the company’s carbon emissions. Joseph demonstrated how such disclosure has had a positive impact on other companies — everything from helping them set targets to lowering their energy usage and costs to building trust with stakeholders and employees.

“We said, ‘Well, this is what companies are doing that we consider leaders, even in our own industry,’” Joseph recalls. “We demonstrated — from socially responsible investors to customers — that folks think it’s very important that a company like Symantec be transparent on energy consumption. I think as a leader in the software industry, and as a company committed to sustainability that wants to build trust with stakeholders, our executives could see the value of transparency.”



Megan Janis of Pacific Gas & Electric has successfully used an incremental approach to build support for greater transparency in her organization.

“When we see that other companies are revealing certain information, it encourages us to consider doing the same.”

— Megan Janis, director of public affairs, PG&E

The Altimeter Group’s Li notes that successful transparency requires considerable organization, and that means extra work. Too often, companies that lack transparency aren’t that way because they choose to be, Li says, “but because they are not prepared to be” more open.

For instance, she says, imagine that a CEO decides one day that his or her company needs to be more transparent by creating an external blog. The public relations department may want to see all posts to make sure they are consistent with the company’s mission and message. The marketing department may not want to talk about new ad campaigns. The legal department may get nervous that a loosely worded blog might open the company to liability.

“It takes a lot more work to be transparent, to be ready to engage in a conversation, than to simply shut out the world,” Li says. “Many companies are not ready to expend the effort because they don’t understand the benefits.”

The reason that Sandman’s corporate clients most often give him for not being transparent is the fear of lawsuits. While it is true that many attorneys recommend keeping mum about corporate misdeeds, even when the secret is already out, such advice, he insists, is mistaken. He says a growing body of evidence indicates that tort litigation is motivated mostly by outrage, not by greed. Transparency and contrition reduce outrage, he says, and therefore reduce the motivation to sue. When doctors apologize for bad medical outcomes, for example, patients or their families are much less likely to file malpractice suits — and in the remaining suits punitive damages are essentially off the table.

Nonetheless, many malpractice lawyers continue to advise their clients to stonewall — advice that serves the lawyers’ interests, but not necessarily the client’s.

“I doubt that their lawyers’ bad advice is central to the tendency of many companies to stonewall about bad news,” Sandman says. “Much depends on how the question is put to the lawyer. ‘We can’t admit that, can we?’ elicits a very different legal opinion than ‘How can we admit that without opening up the floodgates of liability?’ Too often it’s the former question that gets asked.”

Some companies have found that there can be a happy medium between complete disclosure and full opacity — and that it may be possible to convince the legal department to support greater transparency.

One tactic is to approach transparency gradually, rather than make leaps to greater transparency in a short period.

PG&E found that an incremental approach helped encourage those within the organization, such as the general counsel's office, to support transparency.

"The legal department is key to balancing what information is legally required against what certain stakeholders may desire," PG&E's Janis says. "Rather than come to the general counsel to ask for a wholesale 'opening up,' there is incremental movement toward greater disclosure each year. The posture is generally, 'we opened up a little bit last year and it was fine — we can afford to open up even more this year.'"

According to Janis, it helps a great deal to review what other leading companies are disclosing and compare that with PG&E's transparency goals.

"When we see that other companies are revealing certain information," she notes, "it encourages us to consider doing the same."

The Altimeter Group's Li suggests that the legal function may not be the group most nervous about transparency. In some cases, marketing or customer service staff may be less supportive because they are wary of affecting key customer or supplier relationships by releasing too much information.

In his practice consulting on executive compensation, Longnecker and Associates President Brent Longnecker finds that "97 percent of companies are ethically great... but 2 or 3 percent of corporate America doesn't or won't get it."

"I still see companies that ask, 'Is there any way we don't have to disclose this?'" Longnecker says. "I was just listening to a presentation by two consultants explaining how to get around the TARP restrictions on executive pay. Some companies don't like full disclosure."

Transparency International's Coté-Freeman suggests the reasons for resistance to any transparency initiatives include: reluctance to go public on a difficult issue; concerns about costs and staff commitment; the risk of legal liability stemming from public statements; and fear of setting a standard that the company cannot attain.

"Think of companies such as Nike, which championed the child labor issue and was then found to have factories that were in contravention of child labor standards," Coté-Freeman says. "Failing to meet self-proclaimed standards can be damaging, so some companies may feel shy about 'tooting their own horn.'"

Finally, consultant Peter Wilkinson finds that the biggest impediment to companies may not be the actual decision to become more transparent, but the implementation of such policies.

"In very large, global companies, the challenge is to make sure that everyone, including those in the furthest reaches of the organization, are familiar with the policies and know how to apply them," says Wilkinson, senior adviser for private sector programs at Transparency International. "This requires a major commitment of time and resources."

Assuming local laws do not require transparency, Wilkinson says, what is the best way to introduce change? If it's a public company, he suggests, then the responsibility lies with the non-executive directors, who should assess the need for transparency and reporting and, if necessary, make the need for transparency — and the way to go about it — clear to the board and managers. If the non-executive directors don't respond, then change must come from external pressure. This could be investors and fund managers, civil society and the media, and increasingly, through peer company actions.

“ In very large, global companies, the challenge is to make sure that everyone, including those in the furthest reaches of the organization, are familiar with the policies and know how to apply them.”

— Peter Wilkinson, senior adviser for private sector programs at Transparency International

When Transparency is Tricky

Moving beyond what is required by law or regulation can be difficult, and not just because someone in-house resists transparency. There may necessarily be different “transparency” expectations for different industries. In addition, a company’s notions about transparency might be narrow or flawed. Finally, some issues might be — for legal or proprietary reasons — necessarily “off the table.”

“**Strategic secrets are necessary and reasonable, as is protecting the privacy of individual employees and customers. Where to draw the line between what information must be revealed and what should be withheld is one of the most important judgments leaders make.**”

— “What’s Needed Next: A Culture of Candor,”
June 2009, *Harvard Business Review*

Chris Pinney, director of research and policy for Boston College’s Center for Corporate Citizenship, notes that cherry-picking those areas where a company wishes to be transparent — while ignoring other areas that may attract public attention — only leaves the impression that the company is trying to hide unfavorable information. Moreover, companies must acknowledge that societal expectations surrounding “transparency” are constantly in flux, he says.

“BP found this out the hard way when — after a decade of promoting itself as Beyond Petroleum and trumpeting its investment in green energy — its Texas refinery blew up and its Alaskan pipelines were proved to be corroded, calling attention to the fact that... BP was an oil business that was not being responsibly managed,” Pinney said. “In today’s Internet world, where information flows freely — whether from the company or a dissatisfied NGO or employee — the challenge for companies is to disclose fully and account for all their impacts on society.”

How much transparency is too much?

PG&E’s Janis worries that by reporting too much information without context, companies lose the ability to put that data in perspective and tell a coherent story. “We avoid providing a lot of data without context,” Janis says. “We want to make sure that the information tells a compelling story. It’s important to show the people who are making an impact — both within and outside our company.”

The Altimeter Group’s Li notes that it’s perfectly legitimate to remain mum about sensitive information — such as mergers and acquisitions or new products being developed.

“Every company shouldn’t be out there and be transparent to the Nth degree,” Li says.

In general, public affairs practitioners believe that other things that should be “off” the table including: proprietary information considered key to a company’s competitiveness; employee information protected by confidentiality laws; and in many cases the personal lives of company executives.

The *Harvard Business Review*, in “A Culture of Candor,” asserts that “complete transparency is not possible, nor is it desirable.”

“Strategic secrets are necessary and reasonable, as is protecting the privacy of individual employees and customers,” the *Review* reports. “Where to draw the line between what information must be revealed and what should be withheld is one of the most important judgments leaders make. Unfortunately, the reflex reaction in most companies is to treat all potentially embarrassing information as the equivalent of a state secret. The alternative, and we believe more prudent, default position is ‘When in doubt, let it out.’”

Finally, there will always be different expectations for different industries, as well as for different types of companies. In some industries, such as national defense, “transparency is not necessarily your friend,” says Chris Caine, president and CEO of Mercator XXI, a professional services firm advising clients on international economic issues, and IBM’s former head of government affairs.

For a multi-national company, being transparent when working closely with governments or businesses abroad can also be tricky, especially when a foreign country’s socio-economic development and governing systems are profoundly different than they are in the United States.

In some industries, for instance, an agreement with a foreign entity or government is not always publicly available. Even when financial data is public, it can be difficult to compare operations in two separate countries — the tax payments in a mature province, for instance, with those in a developing region.

The most effective approach, some say, is for all stakeholders to first agree on the rationale for transparency, then on the form it should take. Those agreements should reflect localities, but also international sensitivities and practices.

Conclusion: Building Trust

Ultimately, transparency is merely a tool that corporations and associations must use to achieve one important end — trust. Trust from shareholders, from customers, from employees, from competitors, from the media and from the general public.

If one is to rely on the classic definition of trust — “firm reliance on the integrity, ability, or character of a person or thing” — then simple reporting on what a company does, whether it’s on political activity, social responsibility or financial health, doesn’t by itself create trust.

Just because companies are more inclined to report activities and policies that they didn’t before, for instance, doesn’t mean the reporting is actually useful. A paper by Graham Hubbard of Australia’s University of Adelaide titled “Unsustainable Reporting” surveyed 30 large global companies in three industries to see how they report on the main issues typically covered in a sustainability report. “Even for these large companies, much of the information reported is not material, not assured, not comparable and provides favorable, rather than balanced reporting,” the paper concludes. “U.S. companies in the sample are noted particularly for their relatively poor objective reporting.”

“Transparency is about where you are trying to get to,” says Boston College’s Pinney. “When you take it to the next level, how do you demonstrate accountability? Because in the end, it’s not about transparency — it is about accountability.”

Trust is created when companies and associations exceed expectations for openness — when Entergy’s Leonard reports candidly on bad financial news, when Taiwan’s King Car takes the blame for its coffee milk products containing melamine, when Levi Strauss shares its factory and contractor lists with NGOs that could use those lists to hurt the company.

In all these instances, company executives made a conscious choice to go well beyond a simple regurgitation of facts and to take risks — Leonard by acknowledging his own disappointment with financial returns; King Car by blaming itself and creating a product policing program; Levi Strauss by risking NGO demonstrations at its factories. In such cases, the company’s willingness to engage in a dialogue with stakeholders and critics — to genuinely include them, converse with them, address their questions and concerns — led to the sort of trust that can create favorable media coverage, understanding shareholders and a sympathetic public.

“Transparency is like buying insurance: It costs you something upfront, but the cost is predictable and lower in the long term than the cost of periodic, uninsured disasters,” Sandman says. “It is humiliating and uncomfortable to admit mistakes and misbehaviors, to let aggrieved stakeholders berate you, and to apologize for what you did wrong. But these behaviors do in fact nurture the bottom line more than secrecy and stonewalling.”

“Transparency is like buying insurance. It costs you something upfront, but the cost is predictable and lower in the long term than the cost of periodic, uninsured disasters.”

— Peter Sandman, risk communication expert

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