Restoring Trust in Business:

Models for Action

PR

Coalition

Preface

The need to restore trust in the minds and hearts of the public, employees and other stakeholders is one of the great challenges faced today by American corporations.

To help meet that challenge, the Public Relations Coalition, a partnership of 19 major U.S.-based organizations representing corporate public relations, investor relations, public affairs and related communications disciplines, has drawn on the collective wisdom of its more than 50,000 members to develop practical action models for restoring trust in business. (See list of organizations on back cover.)

They have challenged Corporate America to do three things: **adopt ethical principles, pursue transparency and disclosure in everything they do, and make trust a fundamental precept of corporate governance.** These core concepts flow from the belief that all businesses must enjoy public approval in order to succeed, with trust as the basis for that approval.

The process of developing consensus on issues of trust began when the leadership of the PR Coalition organizations — 55 senior communications, public affairs and academic professionals — held a one-day Summit at Fairleigh Dickinson University in Madison, N.J. They focused their discussions around three key elements of trust:

- *Ethics:* What You Believe and How You Act
- *Disclosure and Transparency:* What You Say
- *Trust:* What It Is and How It Is Measured

As a first step toward regenerating trust among key constituencies, the Coalition agreed upon three high-level concepts for restoring trust in corporations and issued a statement that called on corporate leaders to:

- **Articulate a set of ethical principles that are closely connected to their core values and business processes and are supported with deep management commitment and enterprise-wide discipline.**
- **Create a process for transparency and disclosure that is appropriate for their company and industry in both current and future operations. It should include a senior oversight committee, "culture" audits and consistent messaging.**
- **Make trust and ethics a Board-level corporate governance issue and establish a formal system of measuring trust that touches all parts of the organization.**

How these recommendations might be implemented is discussed at length in this document. They underscore the need for corporate leaders — CEOs in particular — to create or reinforce an "environment of accountability" in their organizations. Without a visible, concrete and measurable commitment, society will continue to mistrust corporate leadership.

James E. Murphy
Arthur W. Page Society
PR Coalition Chair
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Although there were many contributors, the following individuals played significant roles in the development of this document:

Richard D. Bagin, *National School Public Relations Association*
Catherine A. Bolton, *Public Relations Society of America*
Kathy H. Cripps, *Council of Public Relations Firms*
Michael B. Goodman, *Corporate Communications Institute*
Richard J. Martin, *Arthur W. Page Society*
Christopher Mykrantz, *Council of Communication Management*
Edwin F. Nieder, *Arthur W. Page Society*
Katharine Delahaye Paine, *Institute of Public Relations Measurement Commission*
Douglas G. Pinkham, *Public Affairs Council*
Louis M. Thompson, Jr., *The National Investor Relations Institute*
W. Ward White, *Institute for Public Relations*

A Road Map for Restoring Trust

Trust has become an overriding concern for business leadership around the globe. It has been identified as a key factor in successful leadership and management. By contrast, lack of trust in a business is seen as crucially debilitating.

In his book, *Trust: The Social Virtues and the Creation of Prosperity,* Francis Fukuyama argues that a nation's economic well-being is conditioned by a single persuasive factor and that is the level of trust inherent in a society. When a nation or society permits and supports a high level of trust, he says, prosperity and high economic results usually follow.

When that high level of trust has been breached as it has been over the last few years, distrust becomes widespread and in Fukuyama's view, "imposes a kind of tax on all forms of economic activity." Another social analyst, Amitai Etzioni, said, "Trust is pivotal to the economy ... It is hard to conceive a modern economy without a strong element of trust running through it."

When asked how corporate America can regain the public trust, Intel's Andy Grove told *Fortune,* "No single act can do it. But a collection of things — reporting requirements, corporate governance, a move away from the imperial CEO — will add up." While everyone agrees there is no easy solution, no quick fix, Jeffrey Garten, author of "*The Politics of Fortune: A New Agenda for Business Leaders,*" says, "It would take only a dozen major CEOs to give the business community a good chance of rebuilding its reputation."

While many corporations are dealing with the trust issue in a variety of ways, the Public Relations Coalition believes that it requires a widespread effort that is organized, visible and measured in order to accomplish real change in the public's perception of corporate leadership. It is recommended that the chief public relations officer report to the CEO on these matters and have access to the board of directors in order to provide the broad perspective needed to balance conflicting interests.

This document provides a road map for reaching that goal.

Ethics: What You Believe and How You Act

Ethical behavior is a sort of moral compass for a corporation and a key element in restoring trust. By ethical behavior, we mean actions aligned with a company's responsibilities to multiple stakeholders. Unethical behavior involves actions that disregard the legitimate interests of stakeholders.

As far back as 1996, a Wirthlin study showed that 95 percent of the American public believed corporations have an obligation to balance the interests of all stakeholders — customers, employees, communities and investors — and not just those of shareowners. A *BusinessWeek* study in 2000 showed equally high levels of public distrust. The study reported that 66 percent of the respondents believed that large profits were more important to big business than developing safe, reliable, quality products for consumers. In addition, 74 percent rated U.S. companies as only "fair" or "poor" at being straightforward and honest with consumers and employees.

The public today is telling us that business has become myopic in its focus on the short term and its fixation on stock prices. As a result of the scandals of recent years, this focus has also come under attack from the New York Stock Exchange, the Securities and Exchange Commission and the Congress, which have all recommended changes in the system of governance.

It is acknowledged that most ethical conflicts develop at the intersection of corporate and "community" interests. Arthur W. Page, the first corporate public relations vice president, expressed the view that "real success, both for big business and the public, lies in a large enterprise conducting itself in the public interest and in such a way that the public will give it sufficient freedom to serve effectively."

Achieving this balance means serving multiple stakeholder interests while operating within ethical as well as business and legal boundaries. To do so requires that corporate management — from the CEO down — see their jobs, not as creating short-term trading value, but as building durable institutions.

Some Causes of Ethical Conflicts in Corporate Decision-making

In deciding how to apply corporate values and ethics, decisions are frequently complex and fall between competing goals. Without a high-trust environment, this dichotomy can cause serious rifts in an organization.

Similarly, the line between ethical and legal considerations is not always as clear-cut as it should be. When this affects open communications, it can hurt the credibility of an organization.

Expectations that are set from top to bottom without clear and precise communications can be compromised by fear of failure and fear of criticism. When this happens, decisions can be influenced more by cultural behavior than by ethics.

Ethical conflicts also arise when there is a fixation on stock price. Unrelenting pressure to meet quarterly earnings forecasts along with executive compensation that is linked to short-term profitability can lead to unethical decision-making. A reward and recognition system without proper checks and balances is another recipe for ethical conflicts.

Ethics Can Be Taught

Ethical standards must be taught very early. In discussing the corporate misdeeds of some companies, Michael Dell said people "felt forced to come up with better and better results, and the way these companies decided to do it was obviously not the right way to do it." He added there are basic values that should have been learned early on: "Don't lie, don't steal, don't cheat, and tell the truth."

Ethical conduct must also be constantly reinforced. Business schools, which will provide the future business leaders, should be encouraged to provide more instruction in ethics. And while ethics may be part of every corporate values statement, it's not clear whether ethics is consistently emphasized in day-to-day operations. To create a culture that expects and demands ethical behavior, corporations must set standards that everyone can follow and provide ethics training for all levels of the organization. As part of this training, all employees should be required to sign letters endorsing the principles and values of the organization.

Encouraging and Promoting Ethical Behavior

To communicate evidence of a visible, concrete and measurable commitment to ethical behavior, four action steps are recommended.

1. **Boards of Directors must accept responsibility for monitoring a corporation's performance in serving all of its key stakeholders — customers, employees, the community and investors.**

To accomplish this, Directors must be provided a comprehensive and timely assessment of stakeholder relations, and a system for measuring corporate performance over time must be put in place.

2. **CEOs and senior management should make their corporate values explicit to all of their fellow employees and be willing to be held accountable if not adhering to them.**

Principles and values must be articulated and woven into all core business processes until they become part of the culture of the organization and the mindset of every employee. This will require training at all levels and a long-term commitment by the company.

The principles that the company adopts must be enforced without exception. There should also be periodic audits of all processes and personnel to assure that there is compliance.

3. **Companies need to de-emphasize short-term earnings objectives in favor of metrics that enable investors to better understand the drivers of long-term value creation.**

A key element will be to demonstrate the bottom-line value that ethics and strong leadership can bring to an organization. There is, for example, evidence that institutional investors are now looking at the quality of management instead of financial performance in making their investment decisions.

4. **To encourage and promote ethical behavior in the company and its operating environment, there needs to be a shared responsibility involving all key constituencies.**

A re-education process should be implemented that involves shareholders, analysts, media, and the general public. This should encompass not only what the company is doing, but also how it benefits those stakeholders.

Adhering to Ethical Standards

To develop the will and desire of people to adhere to ethical standards, the standards must be consistent with organizational values as well as personal values. To accomplish this, some companies are establishing corporate ethics offices, ombudsmen programs and employee ethics hotlines. Examples of outstanding ethical behavior (best practices) should be promoted. Reward and/or incentive programs may also have to be put in place.

Disclosure and Transparency: What You Say

The demand for more corporate transparency is coming from many directions including institutional investors, anti-globalization protestors and, of course, governmental and regulatory bodies. The SEC's approval of Regulation Fair Disclosure in 2000 was intended to ensure that financial analysts and large investors would no longer receive privileged access to key information. Following the corporate scandals, Congress passed the Sarbanes-Oxley Act and the New York Stock Exchange issued new rules for corporate governance. Globalization protests, meanwhile, have focused attention on human rights abuses, perceived trade injustices and environmental damage. In such instances, increased corporate transparency has been seen as a deterrent to illegal or unethical behavior.

While it remains to be seen whether new rules will bring about significant change, the current environment poses some tough questions for corporate leaders, especially their communications and public affairs counselors.

1. Can we comply with the laws and keep up with the public's expectations?

2. How far is this push toward greater transparency going?

3. Will greater transparency build trust in our company or will it merely open the door to further harsh scrutiny?

Exceeding Expectations for Financial Disclosure

The National Investor Relations Institute (NIRI) has issued guidelines that show how to comply with new laws on accountability and transparency, including providing an analysis of disclosure regulations and directives and guidelines for earnings releases. But mere compliance is not enough. Corporate management needs to create an open environment.

Some companies will be leaders in making information available to investors. Others will reluctantly comply with these new rules as their lawyers counsel that being too progressive involves too much risk.

Openness must begin with corporate boards. Management should provide board members all relevant analysts' reports, favorable and unfavorable, and let them see the most frequently asked questions from analysts or institutional investors. This can provide early warning of potential problems. It can also provide evidence as to whether the company's strategy is understood. In addition, the board must know how the company is ranked by the various corporate governance rating services. Many institutional investors are already using these services.

Shining A Light on Corporate Operations

Meeting or exceeding public expectations for operational transparency is a more difficult challenge. It is made more complicated by the many proposals put forth to standardize corporate accountability such as the Global Reporting Initiative that was established in 1997 to disseminate sustainability reporting guidelines that cover the economic, environmental and social dimensions of a company's business practices.

At one time, accountability issues could be addressed on a case-by-case basis, depending on the laws of the host country and the willingness and ability of a corporation to release operational data. Now both the expectations for greater transparency and the capability to be transparent have increased. The Internet has enabled activist groups to publicize their grievances and not only gain public support but also raise expectations for more disclosure. At the same time, corporate Web sites provide great capacity for transparency.

To keep up with public expectations on transparency, many corporations are diligently trying to prove they have nothing to hide. This strategy can certainly improve a company's reputation, and, if sustained, help to rebuild trust. But it can also raise the bar of expectations and lead to a higher level of scrutiny.

Nonetheless, there are many benefits from such corporate transparency. They include improved relationships with stakeholders, early awareness of emerging problems, and greater business efficiency. Because openness creates opportunities for dialogue with key stakeholders, it can help a company engage its critics and possibly correct problems before they get out of hand.

Creating an Open Company

When transparency becomes part of the corporate vision, it can produce many long-term benefits. Here are steps that a corporation can take to become more transparent.

1. **Set your own social and environmental performance targets. Define what transparency means to you and build a case for your approach.**

2. **Proactively engage your stakeholders in dialog, with particular emphasis on employees and middle management.**

3. **Monitor your external environment so that you can understand stakeholder expectations and prioritize your responses.**

4. **Publish your corporate governance policies and other relevant information on your Web site.**

5. **Form an internal committee to ensure that your Board is getting a complete picture of your company's performance. Establish a Disclosure Committee to evaluate internal controls, review disclosure policies and practices, determine the materiality of information that might need to be disclosed, and review public communications and SEC filings.**

6. **When addressing issues of public concern, localize the message by involving company employees in affected communities and enlisting the help of independent, objective third parties.**

7. **Be willing to disclose all of your business, social and political activities, as long as doing so does not raise legal issues or jeopardize your competitive position in the marketplace.**

8. **Address the tough questions (e.g., CEO compensation) directly and completely. Talk candidly with employees about how and why you do business the way you do.**

9. **Conduct an internal audit to ensure there is not an unwritten code of conduct within the company and that employees believe they are being rewarded for positive behavior.**

In building a company's capacity for openness, the senior public relations, investor relations and public affairs executives have an important role to play. They can integrate all external engagement strategies, from media relations to government affairs to financial reporting. They can make sure the company's communications are clear and consistent.

The concept of openness throughout the corporation must be championed to make sure employees understand the upside potential of this strategy. Bridges must be built between business units with different products and markets so everyone is linked to a common cause.

Trust: What It Is and How It Is Measured

Rebuilding trust is a long-term undertaking. It requires injecting a philosophy of social responsibility and ethical behavior into the company's culture and then demonstrating a willingness to open up the company to scrutiny.

Making trust a Board-level precept is in keeping with the new corporate governance guidelines. It is an issue that touches all parts of an organization and has a powerful influence on corporate reputation.

Because it is a basic component of relationships, trust can help build or renew relationships with all kinds of constituencies. Strong relationships with key stakeholders can reduce the costs of litigation, regulation and legislation. A high level of trust can also help cultivate relationships with consumers, shareholders and others who are needed to support organizational goals. Trust from the financial community is critical to an organization's access to capital and its ability to grow.

While we intuitively know that trust can have an impact on the financial health of an organization, there is not yet a consistent methodology for measuring the public's trust of an organization. Companies have relied on their own surveys to determine how customers and employees feel about the company. Research organizations measure different aspects of trust and provide benchmarks of public opinion about corporations. But these studies and surveys do not specifically focus on trust nor do they measure the trust level of a specific organization.

While a standard approach for measuring trust has not been agreed on, there are guidelines that will enable organizations to set up specific, actionable and quantifiable systems for measuring and improving trust. Recognizing that organizations have different constituencies, objectives and cultures, a trust measurement program has to be tailored to the individual company.

Two Coalition members, the International Association of Business Communicators (IABC) Research Foundation and The Institute for Public Relations, have research projects that study organization/public relationships. They can be useful resources for organizations seeking to implement a trust measurement program.

Guidelines for Measuring Trust

Trust measurement is designed to determine and quantify the relationship an organization has with its various publics. It can assess the success or failure of efforts to improve or enhance relationships with key constituents. Trust measurement is also a way of providing a precise, quantifiable dimension to questions such as: Have the behaviors, programs or activities an organization implemented changed what people know, what they think about the organization, and how they actually act?

For trust measurement research to be credible, five components need to be considered.

1. Define the publics with which you have or want to have relationships.

Because trust is an element of a relationship, specifically identify those groups or individuals whose relationship you want to measure.

2. Set specific, measurable goals and objectives.

What are the goals or objectives of the organization? What did you want a program or activity to accomplish?

3. Establish the criteria or benchmarks to which you want to compare results.

Measurement is essentially a comparative tool and you need something to compare results to, such as your own trust over time or a comparison to another company.

4. Select a measurement instrument and/or tool.

Usually, a combination of different measurement techniques is needed. Some of the tools to measure trust include surveys, focus groups, before and after polls, and qualitative and quantitative research techniques.

5. Analyze results, make recommendations and measure again.

Once you have the data, analyze it and make recommendations regarding its meaning and implications. Help management understand that certain decisions may have an adverse effect on the public.

6. Determine the value of trust for an organization.

When trust helps build relationships with key constituencies, there is almost always a measurable benefit to the organization.

Research has found that measurement of trust can demonstrate success that equates to the bottom line. Conversely, lack of trust can limit your power to do the things you want to do. Trust measurement can also provide benchmarks that show the value of trust and allow you to know where you are in the continuum of change. In short, if you don't measure trust and apply it to all parts of the organization, you may find that you're not getting the benefits that trust can produce.

Putting Trust Into Practice

The purpose of the Public Relations Coalition Summit was to collect the views of the participants — the most senior professionals in the country — and turn them into action models for restoring trust in business. The initiatives are directed at corporate leaders throughout America but also to the memberships of the Coalition participating organizations, their clients and ultimately, to the public at large.

The essential recommendation is that organizations need to articulate a set of ethical principles that are closely connected to core business processes and are supported with deep management commitment and enterprise-wide discipline. In other words, managements should create an "atmosphere of accountability." To help create that atmosphere, these basic principles need to be backed up by the recommendations identified in this white paper.

Creating a Scorecard for Restoring Trust

Corporate leaders who agree with and support this effort to restore trust in American business can see where they stand in the process by reviewing this checklist of actionable steps.

ADOPTING ETHICAL PRINCIPLES

- ☐ Has the Board of Directors accepted responsibility for monitoring a corporation's performance in serving all of its key stakeholders — customers, employees, the community and investors?
- ☐ Have the CEO and senior management made their corporate values explicit to all employees, making it clear that they are willing to be held accountable for adhering to those values?
- ☐ Has the company de-emphasized short-term earnings objectives in favor of metrics that enable investors to better understand the drivers of long-term value creation?
- ☐ Have we encouraged and promoted ethical behavior in the company and its operating environment, making it a shared responsibility involving all key constituencies?

PURSUING TRANSPARENCY

- ☐ Have we created a process for transparency and disclosure that is appropriate for the company in both current and future operations?
- ☐ Have we set our own social and environmental performance targets, defined what transparency means to them and built a case for our approach?
- ☐ Have we proactively engaged our stakeholders in dialog about transparency and disclosure?
- ☐ Have we monitored our external environment so that we can understand prioritize, and respond to expectations?
- ☐ Have we published our corporate governance policies on our Web site?
- ☐ Have we formed an internal committee to ensure that the Board is getting a complete picture of the company's performance? Have we established a disclosure committee to evaluate internal controls, review disclosure policies and practices, determine the materiality of information that might need to be disclosed, and review all public communications and SEC filings?
- ☐ Do we require employees to take ethics training and sign letters upholding our business principles?
- ☐ When addressing issues of public concern, do we localize the message by involving company employees in affected communities and enlisting the help of third parties?
- ☐ Are we willing to disclose all of our business, social and political activities, as long as doing so does not raise legal issues or jeopardize our competitive position in the marketplace?
- ☐ Do we address the tough questions (e.g., CEO compensation) directly and completely and talk candidly with employees about how and why the company does business the way it does?
- ☐ Have we conducted a "culture audit" to ensure that employees believe they are being rewarded for positive behavior?

MEASURING TRUST

- ☐ Do we have a program to measure trust that is tailored to the constituencies, objectives and cultures of the company?

In conclusion, these action steps that the Public Relations Coalition has put forward are intended to provide a range of ways to create or improve communications programs that will start the process of restoring trust in corporations.

The need is great, but so are the opportunities.

The PR Coalition

Arthur W. Page Society
32 Avenue of the Americas
6th Floor
New York, NY 10013
212-387-4259
212-387-4028 (fax)
exec@awpagesociety.com
www.awpagesociety.com

Center for Corporate Citizenship at Boston College
The Wallace E. Carroll School
of Management
55 Lee Road
Chestnut Hill, MA 02467-3942
617.552.4545
617.552.8499 (fax)
mailto:ccc@bc.edu
www.bc.edu/centers/ccc/index.html

Corporate Communication Institute at Fairleigh Dickinson University
285 Madison Ave., M-MS3-01
Madison, NJ 07940
973-443-8709
973-443-8713 (fax)
cci@corporatecomm.org
www.corporatecomm.org

Council of Communication Management
65 Enterprise
Aliso Viejo, CA 92656
866-463-6226
949-330-7621 (fax)
membership@ccmconnection.com
www.ccmconnection.com

Council of Public Relations Firms
100 Park Avenue, Suite 1600
New York, NY 10017
877-773-4767
877-773-2937(fax)
kcripps@prfirms.org
www.prfirms.org

Foundation of Women Executives in Public Relations
FDR Station, PO Box 7657
New York, NY 10150-7657
212 859-7375
212 859-7375(fax)
foundation@wepr.org
www.wepr.org/foundation_general.asp

Global Public Affairs Institute
420 Lexington Avenue, 2nd Floor
New York, NY 10016
212-297-6108
212-481-3904 (fax)
gpainy@aol.com
www.gpai.org/mission.html

Institute for Public Relations
PO Box 118400
2096 Weimer Hall
Gainesville, FL 32611-8400
352-392-0280
352-846-1122 (fax)
iprre@grove.ufl.edu
www.instituteforpr.com

Institute for Public Relations – Commission on Measurement & Evaluation
PO Box 118400
Gainesville, FL 32611-8400
352-392-0280
352-846-1122 (fax)
iprre@grove.ufl.edu
www.instituteforpr.com/measurement_
commission.phtml

International Association of Business Communicators
One Hallidie Plaza, Suite 600
San Francisco, CA 94102
415-544-4706
415-544-4747 (fax)
service_centre@iabc.com
www.iabc.com

IABC Research Foundation
One Hallidie Plaza, Suite 600
San Francisco, CA 94102
415-544-4706
415-544-4747 (fax)
service_centre@iabc.com
www.iabc.com/fdtnweb/index.html

International Public Relations Association
Cheltonian House
Portsmouth Road, Esher
Surrey KT10 9AA, United Kingdom
+44 1372 461 188
secretariat@ipra.org
www.ipra.org

National Black Public Relations Society
6565 Sunset Boulevard, Suite 301
Hollywood, CA 90028
323-466-8221
323-856-9510 (fax)
nbprs@aol.com
www.nbprs.org

National Investor Relations Institute
8020 Towers Crescent Drive
Suite 250
Vienna, VA 22182
703-506-3570
703-506-3571 (fax)
info@niri.org
www.niri.org

National School Public Relations Association
15948 Derwood Road
Rockville, MD 20855
301-519-0496
301-519-0494 (fax)
ed@nspra.org
www.nspra.org

Public Affairs Council
2033 K Street NW
Suite 700
Washington, DC 20006
202-872-1790
202-835-8343 (fax)
pac@pac.org
www.pac.org

Public Relations Society of America
33 Irving Place
New York, NY 10003-2376
212-995-2230 x 200
212-995-0757 (fax)
pr@prsa.org
www.prsa.org

PRSA Counselors Academy
33 Irving Place
New York, NY 10003-2376
212-995-2230 x 200
212-995-0757 (fax)
pr@prsa.org
www.prsa.org

PRSA Foundation
33 Irving Place
New York, NY 10003-2376
212-995-2230 x 200
212-995-0757 (fax)
foundation@prsa.org
http://www.prsa.org/_About/
prsafoundation/index.asp?ident=prsa1

Women Executives in Public Relations
FDR Station, PO Box 7657
New York, NY 10150-7657
212 859-7375
212 859-7375(fax)
info@wepr.org
www.wepr.org

Contact information for anyone interested in the PR Coalition:

James E. Murphy
917-452-4598
james.e.murphy@accenture.com

Paul Basista
212-387-4238
exec@awpagesociety.com