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# Transparency Trends: Expectations rising

By Eric Brotten and Jessica Tjornehoj

**Eric Brotten** (eric.brotten@optum.com) is Director of International Compliance Programs at Optum in Eden Prairie, Minnesota, USA. **Jessica Tjornehoj** (jessica.tjornehoj@usbank.com) is Assistant Vice President and Manager of Global Ethics Strategy and Framework at U.S. Bank in Minneapolis, Minnesota, USA.

- linkedin.com/in/ericbrotten
- linkedin.com/in/jessicatjornehoj

Around the globe, stakeholders from consumers to regulatory bodies are looking for new ways to drive ethical behavior within corporations. Whether it's transparency about hotline trends, invoicing practices, gender pay gaps, CEO/worker wage disparities, or government payments, companies are being asked to report more and more previously unshared metrics. The result is a new level of corporate transparency that can better equip individuals and companies to make employment and business transaction decisions. These expectations are also shaping corporate ethics and compliance programs in what they prioritize and act upon internally and share externally. Because of the trends we describe throughout this article, you have an opportunity to help your organization address transparency strategically and proactively before it becomes a requirement.

## Transparency demands from stakeholders

Stakeholder transparency demands vary by stakeholder type and, with thoughtful consideration and response, an organization can effectively manage competing demands.

### Regulators

Transparency has entered the regulatory landscape full force in Europe. This past April, the United Kingdom passed a law that requires employers with more than 250 employees to publicly report the gender pay gap disparity between men and women across several pay measurement metrics. Similarly, the Transparency of Remuneration Act (Entgeld-transparenzgesetz law) in Germany requires employers with more than 200 employees to release, on employee demand, pay data for a pool of at least six employees of the opposite sex in a similar position.[1] A bill currently sitting in Ireland's senate is expected to require the same. In all, 12 EU member states have gender pay gap reporting requirements. A U.S. bill for gender pay disparity reporting has been delayed, but U.S. companies nonetheless are required to report CEO pay gap information under the 2010-2015 Dodd Frank requirements.[2]

Other recent transparency reporting requirements are rolling out worldwide. These include the payments practices reporting requirements (i.e., amount of time a company takes to pay vendors), tax strategy and/or tax evasion reporting requirements, human trafficking reporting requirements, supply chain and/or environment/sustainability reporting requirements, and more. In many cases, compliance enforcement may include fines.

Aside from transparency expectations and enforcement actions from regulators, the court of public opinion can be the toughest critic. Numerous non-government stakeholders, such as customers, investors, and employees, are demanding more transparency from companies. In some cases, these demands come with a hefty lift for organizations in terms of the time and resources required to respond.

## Customers

In a world of interconnectedness, organizations are collecting vast amounts of data about their customers. Not surprisingly, customers increasingly want a say in how organizations can use their information. In response, legal infrastructure (e.g., General Data Practices Regulation in Europe and movements in California, Brazil, and the Philippines) is being built to support user rights in this regard. Customers need to know how their data is being stored, used, and protected — and they are demanding transparency in this area.

The Facebook debacle is proof of this trend. CEO Mark Zuckerberg testified before Congress this year on Facebook's data collection and usage practices, receiving more than 2,000 questions from Congress throughout the course of his two-day hearing.[3] Facebook's 2 billion users can now request a copy of their data from Facebook, to be sent to them within 48 hours via email. In the wake of Facebook's visit to Congress, Mark Zuckerberg promised to hire thousands of employees, doubling the content management team to 20,000 employees, according to *Business Insider*.[4] Facebook's Trust and Safety team also saw rapid job openings. *Fast Company* reported that Facebook could face Federal Trade Commission fines in the trillions over sharing user data with Cambridge Analytica, the now infamous political consulting firm.[5]

Finally, worth mentioning are the demands younger generations of customers are placing on organizations. *Forbes* estimates millennials' consumer spending to be at $600 billion each year.[6] Millennials also currently constitute the largest population of consumers. They are purchasing from brands that contribute positively to the world, and they are looking for information from companies that demonstrates support for causes they care about. This trend is not one to be ignored as younger generations rise in importance to our economy.

## Employees

Research shows that potential (and current) millennial employees want to join companies engaged in social causes, and they want to know that businesses are driving change.[7] In making employment decisions, they (along with other generations in the workforce) look to their company to prove that the brand is trustworthy, authentic, and stands for something that aligns with the values and causes that are important to them. As part of this push, companies are increasingly taking a stand on issues crossing the headlines — something which most have avoided in the past. Now, two-thirds of U.S. internet users surveyed want brands to take a stand on social and political issues.[8] Aside from the #MeToo movement, companies have recently spoken out on gun violence, immigration, race and gender, and environmental issues. A company's stance on social issues and politics, and how these issues align with organizational values and commitments, is just another illustration of employees and customers expecting more information and greater transparency.

## Investors

Institutional investors and shareholder activists are also seeking more information from companies. For example, BlackRock CEO Larry Fink's annual letter to CEOs this year joined customers and employees in noting the importance of social purpose and contributing to society on top of financial performance. Fink noted the increased responsibilities that companies face and hinted at the importance of transparency in company interaction, saying "[w]e must be active, engaged agents on behalf of the clients invested with BlackRock, who are the true owners of your company ... If engagement is to be meaningful and productive ... then engagement needs to be a year-round conversation[.]"[9]

For years, institutional investors like BlackRock have been demanding more information from organizations. The threat of these investors scaling back if they don't see an increase in transparency looms large. Corporate scandals have only contributed to the focus on more information, more quickly, and more often. This comes along with an increasing focus on good governance practices generally.[10]

Shareholder activists are no exception, demanding direct interaction between shareholders and boards instead of through investor relations.[11] Activist campaigns can lead to more robust disclosures and increased transparency. However, according to a May 2018 *Harvard Business Review* article, activist investors "really only have power when they have a lever to persuade other shareholders ... [and] should engage early to learn whether the activists' concerns resonate with the rest of the shareholder base."[12] The authors recommend truth and transparency, especially around important strategic initiatives, as the antidote to "unnecessary toxicity" in relationships with activist investors. This can admittedly be difficult, but it's necessary as institutional and activist investors become more engaged.