Strategies

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Public Relations in the Era of Sarbanes-Oxley

Seven Ways That Communications Can Rise to the Challenge

The Sarbanes-Oxley Act of 2002 (the Act) has changed the tone of business discourse forever. Five years ago, corporate governance was rarely discussed outside the boardroom and investor relations departments. But following the wave of highly publicized business scandals, corporate governance – in the form of fairness, transparency and accountability – is in the spotlight. The old "inside/outside" paradigm – that an organization, public or private, could conduct its business internally without fear of any information getting out – is dead. Public relations professionals face an unprecedented yet pivotal responsibility to nurture a vital culture of transparency. But where do you start?

Gaining a general knowledge of the Act is essential to understanding your role in the new environment. The Act encompasses the roles of board members and audit committees, work performed by auditors, management's treatment of whistleblowers, and the responsibility of senior management for the accuracy of financial statements and the internal control structure. The guiding principle is the importance of upholding positive values and forthright behavior. To realize this principle in practice means executing your job with an eye toward creating greater transparency. Here's how.

1. Create and maintain a strong IR-PR partnership.

In the era of the 24-hour news cycle, no one questions the fact that corporate image, executive conduct, business performance, and stock price are interrelated. It is also acknowledged that every publicly disclosed action has a visible impact on multiple stakeholders. A divestiture, for example, may be viewed positively by investors and analysts, but get mixed reviews from the press, employees, the local community, and organized labor.

"We take corporate governance seriously, expecting to achieve the same continuous improvement as in all of our business operations."

– Andrew Grove
Chairman, Intel Corporation

In this light, a close working relationship between corporate IR and PR functions would seem necessary. Yet, since the IR professional reports into finance and PR into marketing, these functions do not always interact effectively.
As you craft messages and campaigns, it is essential to understand the perspectives of every stakeholder group, and the link between corporate action and credibility. This calls for a close working relationship between IR and PR professionals, day in and day out.

2. Empower Boards and Audit Committee members with information.

The Act raises the bar on the independence and performance of board and audit committee members. These individuals must be attuned to financial developments and play a more visible role in overseeing ethics and corporate compliance. They must have the information necessary to effectively execute their broader responsibilities. Again, breaking down established "silos" is important. Investor relations, corporate communications and public relations professionals should work collaboratively on board meeting agendas and briefing books. For example, if a prospective agreement is on the table to outsource certain functions offshore, board and audit committee members should discuss communications strategy, along with more traditional

“Managers that always promise to ‘make the numbers’ will at some point be tempted to make up the numbers.”

– Warren Buffet
2002 Berkshire Hathaway Annual Report

considerations of internal controls and cost-saving opportunities. Any major announcement on displacing operations must address the concerns of employees, external auditors, investors, regulatory bodies, employees, labor, and the press, and related implications for the company. This is an excellent example of a situation in which communications professionals can make a meaningful contribution.

3. Institute ongoing internal CEO communications that reinforce awareness of internal controls and ethics.

The Act mandates that senior management sign off on an organization’s internal control structure and financial reporting processes. While traditionally, attention in this area has focused on finance and accounting, the successful implementation of internal controls – and good business practice overall – is the responsibility of the entire organization.

All employees – regardless of function – need to understand how they contribute to a “compliance culture.” This may encompass processes to ensure and document on-time delivery of products and services, gauging customer/client satisfaction, and the accuracy – and when appropriate, confidentiality – of information shared with employees and external stakeholders.

The Enron debacle demonstrates the ultimate consequences of an environment where a drive for profits trumped any concern for ethics. Section 406 of Sarbanes-Oxley requires public companies to institute a Code of Ethics for senior financial executives to promote honest and ethical conduct. Yet today, many companies’ ethics communications efforts begin and end with the distribution of a glossy brochure. This is clearly insufficient in light of the challenges and risks that arise in today’s high-stakes, high-pressure business environment.

Corporate communications professionals should work hand in hand with management in human resources and corporate compliance to ensure that the code penetrates the organization and is readily understood by employees at all levels. Group discussions and roleplaying workshops can go a long way to help employees understand the practical implications of a commitment to ethical behavior. As spelled out in the “whistleblower protection” provision of the Act, employees must be able to raise issues confidentially without fear of retribution. For example, Lucent publishes an “Audit Hotline” number on its website. Callers can anonymously report concerns regarding what they believe to be questionable accounting, accounting controls, financial reporting or auditing practices. All such calls are handled confidentially and referred directly to the audit committee chairman. Work with your investor relations and employee communications professionals to make sure that employees understand their protections and responsibilities under the whistleblower statute.

4. Publish governance practices in annual reports and on company websites.

A few companies take a “broadband” approach to communicating governance practices. This is in stark contrast to the typical annual report, which still merely lists the names of directors, their corporate affiliations, and the board committees on which they serve. Perhaps in response to scrutiny related to unfair overseas labor practices in the industry, The Gap Inc. posts its governance practices prominently on its company website, as well as a highly detailed description of the responsibilities of each board committee. Cinergy Corporation went even further in its widely recognized 2002 annual report, which presents a highly detailed, 16-page feature on board members and their role, each sharing his or her views on the company’s governance practices. Cinergy CEO Jim Rogers writes, “We believe that few people really understand the role that directors serve in an organization and what governance means … We hope you will come away with a better understanding of corporate governance practices, as well as the spirit of accountability that we choose to nurture.”

In the same vein, presentations to both sell-side analysts and business media should address the company’s commitment to corporate governance, including its attitude toward Sarbanes-Oxley compliance. (The media report that many CEOs view the regulations as a necessary evil that will result in increased audit costs. How much more productive and forward-thinking are those senior executives who understand the value of the new standards in generating greater trust and respect for business!)

"When transparency becomes part of the corporate vision, it can produce many long-term benefits."

"Restoring Trust in Business: Models for Action,"
The Public Relations Coalition, September 2003

5. Cascade the compliance message throughout the organization.

Management is consistently challenged to communicate information on key strategies and initiatives so that it is effectively absorbed by all employees. Today, effective "cascading" of the management message is more important than ever. Professional communicators must have a seat at the table, across from senior management and human resources, to hammer out an ongoing framework that supports timely and meaningful information flow to all employees. Managers should have tools and templates that help them cascade the compliance message to their teams. Webcasts can be useful as a top line communications technique. As a follow up, managers can discuss the same topics with their teams in monthly department meetings, supported by FAQs and other discussion aids.

6. Champion clarity in press and marketing materials.

As part of improved corporate governance, the SEC has called upon business to convey information in the clearest possible way. In the era of transparency, disclosure means providing intelligible facts that reflect the interests of your audience. Review your press kit. Do press releases prominently spell out the strategic importance of the news? Have you packaged the information so it can be readily understood by multiple audiences? If the information is complex or highly technical, have you provided a supporting list of FAQs to help readers understand the details? Finally, it always helps to put yourself in the position of the journalist reading your materials. Imagine it is his or her day to switch beats with another reporter. How clearly is your message coming through?

7. Raise the bar on media relations.

Good journalists are skeptics by nature, and their suspicion of corporate management is fed by the unrelenting news of corporate scandals. The press has had its own share of scandal – for example, the Jayson Blair matter and the resulting change of leadership at *The New York Times*. Consequently, there is an even higher level of awareness regarding the importance of accuracy in the newsroom. All the better reason for companies to take the pulse of their media relations programs to understand whether their organization is viewed by the media as open and accessible, and a source of timely and truthful information. Companies that are forthcoming in sharing information – as long as the disclosure is appropriate within the bounds of regulatory requirements – will gain the respect of the press, and can expect balanced coverage as a result. With the passage of the Sarbanes-Oxley Act, professional communicators have an unprecedented opportunity to evaluate current tactics and move toward best practices in every aspect of their communications. This seven-point "transparency checklist" may be a starting point in what promises to be a groundbreaking decade for business communications.

Transparency Checklist

Review the following components in light of their relevance to accountability and good corporate practices:

1. Create and maintain a strong IR-PR partnership.
2. Empower board and committee members with information.
3. Institute ongoing internal CEO communications that reinforce awareness of ethics and internal controls.
4. Publish governance practices in your annual report and on company websites.
5. Cascade the compliance message throughout the organization.
6. Champion clarity in press and marketing materials.
7. Raise the bar on media relations.

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can make a difference for your company.

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