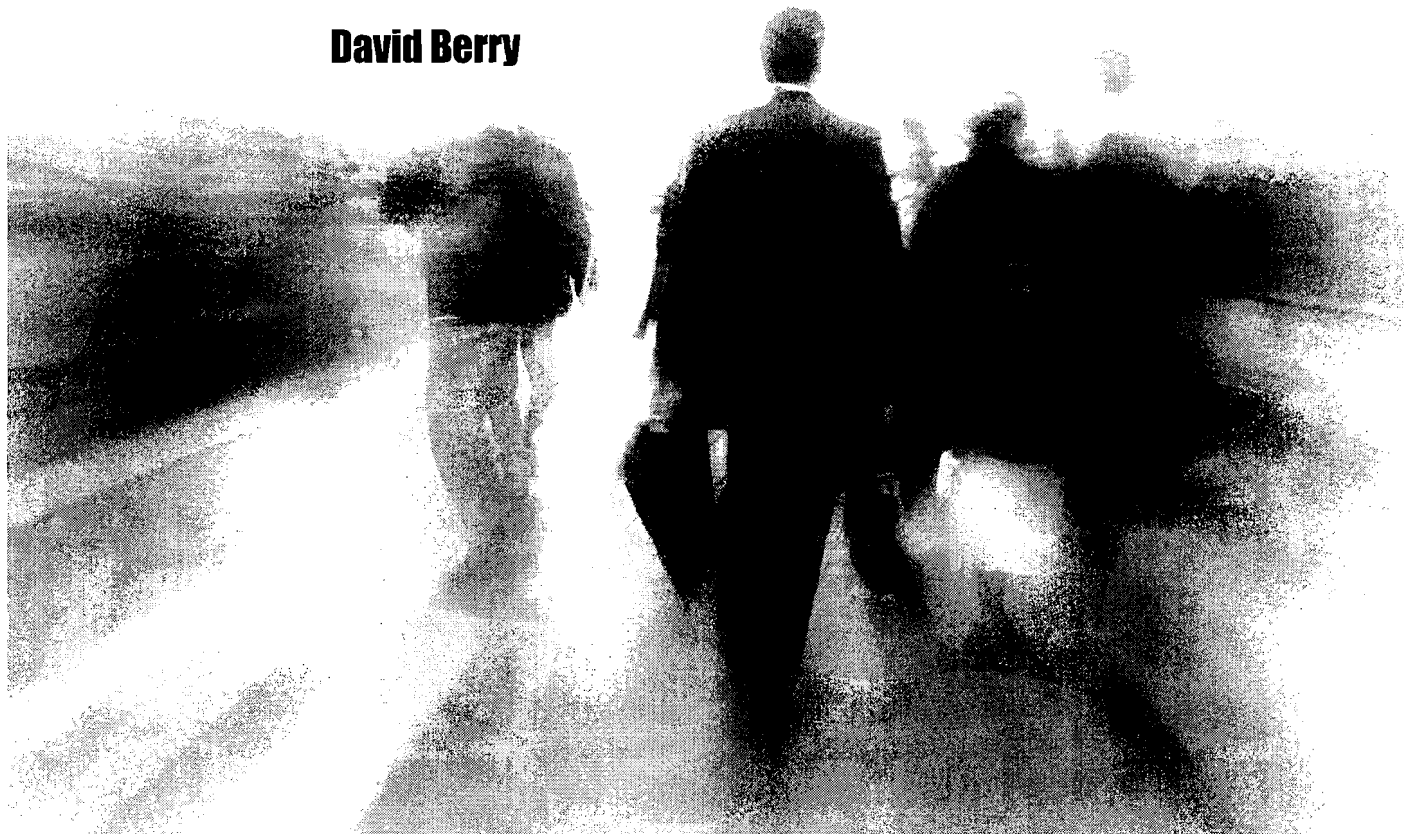


Corporate Transparency: It's more than data

David Berry



Much noise is made about corporate transparency - the need for open, honest and timely communication by a company. Governance codes everywhere admonish companies to adopt policies to create a two-way dialogue with shareholders and other stakeholders. Fairly representing the company to the audience and accommodating feedback is the ideal, and some progress is being made. But, is it widespread and is it real progress?

We have issues in Asia when it comes to transparency. It simply isn't okay to be openly demonstrative, or to show too much of yourself. In family controlled companies, and many public listed companies that continue to have members of the founding family represented on the Board and in management, as well as appearing in the shareholder register, the norm is to play the company cards very close to the

chest. Competition is intense and the light of transparency is regarded as a means of showing too much to commercial opponents.

Of course, with regulators continually raising the bar on governance and best practice driving disclosure improvements, things are changing. But it is too fast and too much for many.

For those who want to keep resisting the pressure, however, there is some bad news: "It's not going to get any easier over time."



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Shareholder activism is on the rise. With the advent of the Minority Shareholder Watchdog Group, activism has become institutionalised, and it enjoys the support of the authorities. All the signs are there; companies should expect to be criticised in public if they mislead the market, or are less than open and honest in their communications with shareholders. Some once prominent local companies and industry captains have already learned to their cost what happens when credibility with the market is lost.

Corporate scandals in the US (Enron and WorldCom) and in Europe (Parmalat and Ahold) were drivers behind the push for greater transparency. They were dramatic cases with sweeping consequences. In the US, federal legislation resulted, with the Sarbanes-Oxley Act of 2002 addressing both governance and disclosure issues. Other regulators and legislators world-wide are examining the provisions of Sarbanes-Oxley to determine what can be done in their own countries to tighten disclosure and compel companies to be more transparent.

For some, it will mean publishing more and more data, but data alone is not the answer. Volume amounts to little more than noise, and it is clarity that is needed. Perhaps we will see the Malaysian GLCs lead the way here, with some of them voluntarily publishing their headline KPIs. If they now give performance data in a form which allows investors and other stakeholders to measure actual results against targets, then there will be transparency.

That said, complying with disclosure requirements is not necessarily the answer either. If there is a criticism of Sarbanes-Oxley which rings loudest, it is that it seeks to solve problems with rules. It is the nature of rules and many of those who live by them, that compliance is sufficient. Ask any professional sportsman. The proper driver is principle. This means it is what lies behind the rule that counts; it is the spirit.

If a company believes in the principle of transparency, rather than just its trappings, then it will show in times of crisis. Few

other circumstances challenge so heavily disclosure as the correct course. The most compelling choice is silence or carefully manufactured smoke-screens. Rarely, of course, do examples of good and bad handling of such situations occur at the same time and in the same market, but that is what happened in Australia in 2003.

Southcorp, then Australia's largest wine maker, and Coles Myer, Australia's largest retailer, both suffered downgrades by rating agency S&P. There were different backgrounds admittedly. There was a rapid earnings decline at Southcorp, while it was the acquisition of operating rights over a chain of petrol stations which gave rise to concern at Coles Myer. However, it was noticeable that each company handled their own situation rather differently, with significantly different outcomes.

The trading problems at Southcorp were quite severe. A series of profit warnings were issued and the Chief Executive was replaced, but this was regarded as data rather than information. Investors, and the market as a whole, lost confidence. The share price dropped by over 16% and the ratings downgrade was announced.

The company's response was to request suspension of trading in its shares, just before it announced half-year results showing a 97% fall in profit from A\$210,0 million a year earlier to a mere A\$5.7 million in 2003. Southcorp did not offer any convincing analysis of what lay behind the problems. More importantly, they did not provide investors with a coherent strategy for turnaround. They failed any test of transparency, and their action in suspending the shares was perceived as evading the consequences of obvious management shortcomings.

Shareholders were furious, but it is likely the suspension was the only way to ward off the disaster their fury might have brought.

At Coles Myer, the rating downgrade occurred because S&P became worried that financial risks had increased following the acquisition of operating rights over a chain of 584 Shell petrol stations nationwide. S&P felt management's time and attention might be diverted by this new business line and the company was just emerging from a period of restructuring and debt reduction. Coles Myer chose to refute the analysis.

Speaking to the market on the day the downgrade was announced, Coles Myer politely thanked S&P for their opinion, but suggested S&P "have misjudged our business." They pointed to improvements in some of their previously problematic businesses and gave a detailed description of where they were meeting or beating expectations. They described on-going initiatives in almost all of their major business sectors, giving a strong message, backed by data, that they knew what they were doing when it came to retail businesses. The assertion was that they also knew exactly what to do in running petrol kiosks and convenience stores.

To add further credence, Coles Myer demonstrated that it had successfully reduced debt levels, improved its key financial ratios, and had strong cash flows and a balance sheet to match. They expressed confidence in meeting their profit guidance numbers "at the upper end" of their range.

The downgrade would not hurt their cost of capital, they said, and the market was obviously convinced - Coles Myer's share price actually rose by the end of the trading day.

Obviously, Coles Myer spoke from a position of strength, but they spoke clearly and with confidence. The market picked up on the confidence. Southcorp did neither and, given somewhat more problematic circumstances, the market's response was predictable. Even when bad news piles upon bad news, speaking with clarity, telling the audience exactly what is happening and what is being done to reverse the situation is the key to effective communication. You may be under the threat of extinction, but if you run around like a headless chicken before time, the market will think you are already dead.

Speaking with clarity can even help with retrieving the confidence of investors when it has been damaged, especially when the company's actions show a return to the virtues once admired by the market. In the late 1990's, Sime Darby, the venerable plantations and trading group, announced that it was abandoning its foray into banking. It had struggled with Sime Bank over a quite a period, and there had been a series of adverse situations arise at the bank. The market believed Sime Darby had lost its way. So, when they "came clean", as it were, and announced they were selling the bank and were going back to what they knew best, the market applauded. Sime Darby's reward was an improving share price, despite the announcement of a substantial immediate provision and warnings of the possibility of further provisions.

Data on its own is of little benefit unless it is set in a context which shows its relevance. Then it becomes information. When information is communicated in a straightforward manner, when it is delivered with clarity and is supported by actions, transparency occurs. As we have seen, it works well. Perhaps those who feel they should not shine a light for the fear of giving their opponents an advantage, would be better considering that showing how good they really are might transfer the fear to their opponents. ■

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