

Restoring Trust After a Scandal

Blog • [October 23, 2017](#) • Reading Time: 5 min

Robert G. Eccles and Tim Youmans

When Swedish telecommunications company Telia issued an announcement of its new commitment to sustainable business practices, the shift in strategic priority renewed shareholder trust.

At the end of 2016, Stockholm-based Telia Co. AB — a telecommunications company with more than \$9.6 billion in revenues (2016) and 21,000 employees — was recovering from a five-year-old bribery scandal that ultimately resulted in \$965 million in fines, the resignation of the company's CEO, the removal of board members, shareholder divestments, and lost public trust.

As the company finalized its latest annual report, Telia's CEO Johan Dannelind was deciding whether to recommend to the board of directors that they include a bold statement about the company's ongoing commitment to sustainable business practices. Such a statement had been made by only one other company in the world. It was not immediately clear whether the risks of including such a statement were worth the reward.

The Scandal

In 2012, investigative journalists in Sweden alleged that Telia had paid bribes to the daughter of the president of Uzbekistan to secure a license to operate in that country. After receiving heavy criticism in the media and from its owners and the general public,

advertisement



Telia called on local law firm Mannheimer Swartling to determine the truth behind the journalists' allegations. While the review did not conclude that bribery had taken place, it did conclude that the company's own ethical guidelines had been violated.

The CEO resigned the day the review was presented, and a few months later, most of the board of directors was replaced. Several senior executives, including the CFO, former acting CEO, and the former head of the Eurasia business unit, were dismissed in the following months. Lack of confidence in the company's risk management led to several large Swedish owners divesting, and removing the company from various ethical mutual funds.

Initial Steps to Recovery

In September 2013, a new management team led by Dannelind (previously at Vodacom Group Ltd.) was brought in. After an extensive strategic review, the company decided to exit its business in Eurasia and focus its operations in the Nordic and Baltic regions.

"It is our belief that it is possible to do business in Eurasia, which is both profitable and sustainable — but it is important to enter markets in a correct way," says Dannelind. Reflecting on mistakes made in Eurasia, he states that, "This was not surprising given how the company was managed in the past. There was no compliance officer nor 'speak-up-line.' There was only one sustainability person, and there was no stakeholder management agenda."

The new management team and the board of directors quickly realized that the crisis was broader than the problems in Uzbekistan; a much larger and longer-term change program was required to regain the trust of the market and investors. Dannelind and his team set about building a sustainable corporate strategy that took account of the needs of its major stakeholders, starting with its 21,000 employees.

Telia developed a long-term-oriented, sustainable corporate strategy based on two elements: an "all-in strategy for shared value creation" and a set of "responsible business programs to ensure sustainable operations and ethical business practices." Both objectives aimed to build the company's purpose into the fabric of the organization, so that all employees truly understood Telia's role in the societies where it operates.

This strategy was aligned with several UN Sustainable Development Goals (<https://sustainabledevelopment.un.org/?menu=1300>) (SDGs), especially SDG3: Good health and well-being; SDG4: Quality education; SDG9: Industry, innovation, and infrastructure; and SDG13: Climate action. The company also committed to several international principles and charters.

Responsibility for the company's commitments was embraced at the highest levels of the organization. The new chair of the board of directors, Marie Ehrling, assumed direct responsibility for oversight of the elements and commitments at the core of the company's sustainable strategy, and the board took responsibility for material sustainability issues through its Sustainability and Ethics Committee and Audit Committee.

RESEARCH UPDATES FROM *MIT SMR*

Get semi-monthly updates on how global companies are managing in a changing world.

[Privacy Policy](#)

Communicating the Strategy

With its new strategy and governance structure in place, Telia executives sought a new approach to its external reporting. Henrik Weinestedt, sustainability director/corporate development, noted that, “We can’t say we’re running a responsible business and have separate financial and sustainability reports. It’s a credibility issue.” However, he also recognized that [doing integrated reporting properly](http://sloanreview.mit.edu/article/get-ready-mandated-integrated-reporting-is-the-future-of-corporate-reporting/) was a difficult step, so the company started with a more modest “combined report” in 2014. Weinestedt saw this as a way to [communicate to investors](http://sloanreview.mit.edu/article/six-reasons-why-companies-should-start-sharing-their-long-term-thinking-with-investors/), the primary audience of the report, how the company was “moving from a corporate strategy with sustainability programs to a sustainable strategy.”

By the end of 2016, Dennelind and Telia general counsel Jonas Bengtsson were considering how to demonstrate to stakeholders Telia’s commitment to principled business practices. They discussed whether to include in the company’s annual report a formal [statement of materiality and significant audiences](http://www.roborteccles.com/docs/JACF_Materiality_in_Corporate_Governance_070116) — aka The Statement, a short document that puts the company’s pursuit of profits and shareholder value into the broader context of Telia’s engagement with stakeholders and society.

Weinestedt knew that another Swedish company, [Atlas Copco](http://sloanreview.mit.edu/article/the-board-that-embraced-stakeholders-beyond-shareholders/) was the first company to issue such a statement. Dennelind agreed that The Statement would be a natural extension of their strategy, but he wondered, “What does this mean formally? What risks are we taking in producing such a statement?” Bengtsson was initially dubious, as was Telia’s CFO; but Bengtsson overcame his doubts, reflecting that:

The purpose of a corporation is to generate profit for shareholders. But the more I understood the idea of the statement, the less concerned I was about it. The board and management have the right and obligation to think about how profit is generated in a sustainable way. The statement is a very clear and straightforward discussion of how we aim to run our business anyway.

Bengtsson subsequently discussed this idea with his counterparts at other major Swedish companies. He concluded that The Statement was a “modern interpretation of the Swedish Companies Act” and represented “an evolution, not a revolution” in terms of company commitments and their communication to stakeholders. His interpretation was supported by Mannheimer Swartling, which had analyzed whether The Statement fit with Swedish law.

The board agreed, and signed off on the 360-word [Statement of Materiality and Significant Audiences \(http://annualreports.teliacompany.com/en/governance/corporate-governance-statement2/\)](http://annualreports.teliacompany.com/en/governance/corporate-governance-statement2/) that was included in the company’s 2016 Annual and Sustainability Report. The Statement noted that “[it] is Telia Co.’s firm belief that the best way of ensuring sustainable growth and profitability is by integrating sustainable, responsible business practices into all parts of business and strategy, to create long-term shared value for the company, its stakeholders, and society.” The statement also identified its major stakeholders, the importance of engagement with them, and the importance of the company’s contributions to the SDGs. According to Anne Larilanti, VP and head of group sustainability, “The statement simply made more formal what we were already doing.”

Looking forward, Dennelind hoped that Telia’s step in issuing The Statement would help encourage other Swedish companies, as well as companies around the world. “I believe that the statement can play an important role in helping the board to establish guidance for executive management on creating a sustainable corporate strategy in a world of changing expectations about the role of companies in society.”

ABOUT THE AUTHORS

[Robert G. Eccles](#) is a visiting professor of management practice at Saïd Business School of Oxford University, and [Tim Youmans](#) is the research director of CECP’s Strategic Investor Initiative. The statement idea was first published in Chapter 5: “Materiality” in Eccles’ recent book, *The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality* (Wiley, 2014), to which author Youmans was a significant contributor. They are research collaborators and global experts in materiality and fiduciary duty. They can be reached at tyoumans@cecp.co and robert.eccles@sbs.ox.ac.uk. The authors invite readers to submit comments below.



REPRINT #: W52958

Copyright © Massachusetts Institute of Technology, 1977-2017. All rights reserved.

Permission is required to copy or distribute MIT Sloan Management Review articles.

Buy permissions here:

<http://sloanreview.mit.edu/article/restoring-trust-after-a-scandal/>

FROM OUR PARTNERS

On the move?
Visit our **easy-to-use** self service page to update your address, check your expire date, or even confirm a payment.

click here now

ADVERTISEMENT

VISIT OUR EASY-TO-USE SELF SERVICE PAGE to check your account number, check your expire date, or change your address.

What's my account number?

Click here now.

MIT Sloan
Management Review

ADVERTISEMENT

Forgot your account#?
Look up your account via our **easy-to-use** self service page. You'll find your account number, payments, expire date, mailing address.

click here now

ADVERTISEMENT