Managing ESG reputation can benefit corporate value

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– MAY 23, 2014 POSTED IN: CORPORATE REPORTING

Managing a company’s reputation when it comes to environmental, social and governance (ESG) issues can strengthen intangible assets, corporate and financial experts said.

Speaking at a panel discussion at the recent GTQ International Annual Australia ESG Conference, sustainability reporting experts told an audience of corporate and investment professionals that managing sustainability issues is part of managing intangible assets, and that managing a company’s reputation with internal and external stakeholders is part of business strategy.

“One of the key benefits of sustainability is really increasing the value and strengthening those intangible assets,” said Jill Riseley, expert counsel – sustainability at REA Group. “Whether it’s culture, whether it’s reputation, whether that’s brand, goodwill, or all those areas. … One of the ways we can start thinking about the reputation as a service is by measuring the performance, measuring the strength of those sustainability credentials, whether that be an employee whose survey increased, or whether that is energy efficiency, those programs are really important.”

There should be more focus on drawing connections between the value of a strong reputation and its concomitant impact on asset values, Risely said.

“What we’re actually doing, and this is one of the areas where we really need to join the dots with measurement, is by strengthening those assets like culture, reputation and brand, we’re actually strengthening the intangible assets of company,” she said. “Just because we can’t do one plus one equals two, doesn’t mean it shouldn’t have the same level or prioritisation and importance.”

Reputation can impact on valuation of a company, said Philipp Aeby, chief executive officer of RepRisk, a provider of data on ESG risks for companies and projects. While company boards consider core business failure to be the biggest risk, when it comes to reputation, the biggest impacts over the last eight years have not been from core business failure, but rather ESG-related issues, such as failures of corporate ethics like bribery and corruption, labour and human rights violations and environmental disasters, he said.

Aeby noted that when analysing the severity of ESG-related allegations against a company or project, they consider the credibility of the source reporting the violation, the severity of the level of any legal violations and the novelty of the violation – i.e., is it a new incident.

Sandra McCullagh, head of utilities, infrastructure, and ESG Research at Credit-Suisse cited the coal seam gas industry as an industry in which reputation has a major impact on a company’s social license to operate, with concomitant impacts on financial costs and return. She cited incidents at three companies in which ability to communicate with stakeholders as having tremendous impact on community and government relations, and social license to operate.

“The concern the industry has, and this comes from talking to people – I mean I’ve know some of these guys for 25, 30 years - is that the coal seam gas industry is only as good as the weakest link and there is frustration by certain senior people about their peers,” McCullagh said. “How do we change it? I think the problem is that various companies have always left it to the industry body, [the Australian Pipeline Industry Association]APIA, to be their spokesperson in the past, and I think that’s a huge mistake. If you can’t hire inside your company the right people to articulate your strategy and how you deal with community, and landowners and environmental
issues, and if you abdicate that responsibility to an industry body, and then [you can't] sit and wail and gnash your teeth because [ABC news programme] *Four Corners* did you a disservice and you didn't even appear on *Four Corners.*"