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EXECUTIVE PERSEPCTIVE: Communicating on Environmental, Social and Governance Issues: Proactive Better than Reactive



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By Anna Tuson, Media and Communications Lead, and Alexandra Mihailescu Cichon, Head of Business Development, at RepRisk AG | 9 May 2014

As stakeholders gain better access to increasingly sophisticated information, they are demanding more informed decision-making and transparency around environmental, social and governance (ESG) issues from corporations.

With NGOs on the ground and the lightning-speed spread of grassroots information that social media allows, there is nowhere too remote or technologically under-developed to show up on the radar. This means that companies, now more than ever, must be upfront about ESG issues that affect them. And they have to confront those issues head-on if they want to avoid a publicized scandal leading to loss of reputation and the potential financial repercussions from unhappy customers and shareholders.

It's not just the greater accessibility to information brought by the Digital Age – there has also been a change in thinking. Many consumers have started to take responsibility for the consequences of their seemingly simple everyday decisions. They have more opportunity than ever to stand up for what they believe in – whether they choose to talk with their dollars or by publicly denouncing objectionable companies in street demonstrations or online petitions. Investors are doing the same, with a large and increasing number of asset managers and asset owners signing on to the UN Principles of Responsible Investing, expressing their commitment to addressing ESG issues in their investment decisions.

Accountability has also recently extended from a company's own operations into its entire supply chain, thereby adding an additional layer of complexity. The relationship between multinationals and the factories to which they outsource is now viewed as one ecosystem, where a company must also take responsibility for the ESG impacts associated with their suppliers, including labor rights, worker health and safety, as well as effects on the local environment and community.

Before the advent of social media and the increase of NGO power, multinational corporations could get away with violations of international standards and norms, but those days are, for the most part, over.

RepRisk CEO Philipp Aeby says: “Expectations towards companies have changed and are continuing to change. These expectations are then amplified by the unprecedented access to information that exists in today's world. Previously, potentially controversial practices and activities took place unnoticed, but we now live in a hyper-transparent society where those activities are brought into the spotlight.”

Just a few decades ago, a company quietly drilling for oil in the Arctic, for example, could have done so in relative isolation, with few people not directly involved with the company or the industry ever finding out about it. Now, arctic drilling has become headline news due to protests and professionally run PR campaigns by Greenpeace and other NGOs who make clever use of both social and mainstream media to highlight the environmental risks posed by the practice.

After Greenpeace spotlighted Shell and Gazprom's arctic drilling activities, the companies were confronted with a slew of unflattering publicity. In January 2013, Shell was awarded the annual “Public Eye Award,” coordinated by a collection of NGOs that highlight poor performance in corporate responsibility. The following year Gazprom won the same award, also due to its involvement in the Arctic. In particular, it was alleged that Gazprom asked the Russian authorities to intervene in a Greenpeace demonstration last year. This was compounded by the fact that, last September, thirty activists – since dubbed “the Arctic 30” – were imprisoned for their protest activities against a Gazprom oil platform in the ice-filled waters of the Arctic.

As stakeholder pressure mounted, so did the attention of international agencies and government bodies – and the consequent reputational risk that Shell and Gazprom faced. In February last year, an appeal to global oil companies by the UN Environmental Program to leave the Arctic alone was followed by a call for the development of safety and emergency response standards from the US Department of the Interior. Last summer, Norwegian environmental agencies even warned that total or partial drilling bans in the Arctic were needed. In spite of all of this, Shell and Gazprom did little to proactively communicate about their intentions and activities in this sensitive area, leaving the crafting of the story to NGOs and journalists.[1]

Hot topics such as arctic drilling have become increasingly salient, making it crucial for companies to understand the specific issues affecting their sector as well as each of the countries in which they operate, invest in or supply from. Clearly, this is no small or simple task.

And recognition is only the first step – this must be followed by implementing strategies and management systems, mitigating risks and then clearly communicating all of this to stakeholders. In this era of transparency, proactive communication is often better than reactive: hiding is no longer an option, while leaving an issue to the angle of an NGO or journalist may be risky. Chances are that stakeholders will find out regardless – and when they do, reticence is unappreciated and ignorance is indefensible.

[1] <http://www.theguardian.com/environment/2013/dec/13/gazprom-arctic-oil-protest-climate-change>; <http://www.thetimes.co.uk/tto/business/industries/naturalresources/article4054370.ece>

Note: RepRisk AG (<http://www.reprisk.com>), is a provider of ESG business intelligence on environmental, social and governance (ESG) risks.

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