



# Driving Organisational Value through Sustainability & Reputation Risk Management

IRM ERM SIG

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# DNV in a nutshell

- Purpose: to safeguard life, property and the environment
- Extensive experience providing innovative Sustainability & Risk Management Solutions
- Leading and trusted independent third party
- Independent Foundation → No shareholders
- Over 300 offices in 100 countries with 9,000 employees
- Extensive R&D with labs in the Netherlands, Singapore, the USA and Norway



# Who we've worked with



# Introduction

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- Mismanagement of sustainability issues can have serious consequences for your organisation, including reputation loss and brand damage.
- Sustainability also represents important opportunities for growth and innovation
- Sustainability issues are becoming more mainstream and are being recognised as important by CEOs, focus of BoDs, mainstream investors as well as within ERM

Is your organisation controlling and managing its material sustainability risks (and harnessing sustainability opportunities) in a way that maximises value and addresses reasonable stakeholder concerns?

# What do business leaders think?

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**93%** of CEOs believe that sustainability issues will be **critical to the future** success of their businesses.

**72%** of CEOs cite “**brand, trust and reputation**” as one of the top three factors driving them to take action on sustainability issues. Revenue and growth and cost reduction is second with 44%.

**72%** of CEOs see **education** as the **global development** issue most critical to address for future success of their businesses. **Climate change** is second with 66%.

**96%** of CEOs believe **sustainability should be integrated** throughout their **operation** (up from 72% in 2007)

**88%** of CEOs believe sustainability should be integrated throughout their **supply chain** (only 54% think this has been achieved).

**91%** of CEOs report that their company will **employ new technologies** (i.e. renewable energy, energy efficiency, information and communication technologies) to address sustainability issues over the **next five years**.

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# Key Concepts / Assumptions

# Key Concepts: CR and Sustainability

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- CR is often defined as a **commitment** to a set of values that recognise the responsibility of business to the societies, communities and upon the environment in which it operates.

By adopting an effective **approach to CR**

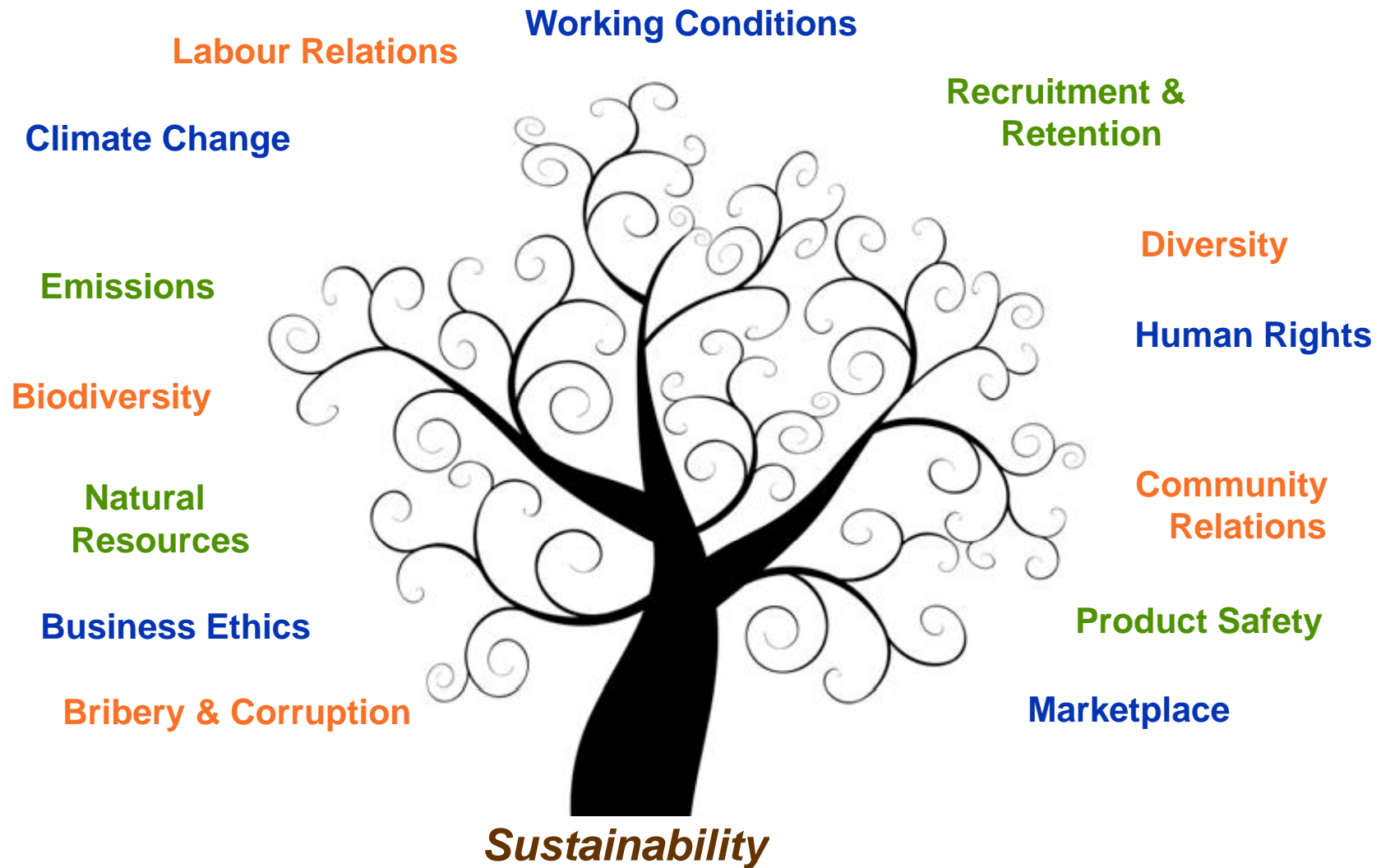
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Achieve long-term value for shareholders and broader stakeholders through sustainable environmental, social and governance practices

**Sustainability** is an active process of **managing risks and seizing opportunities** arising from environmental, social and governance practices, at both strategic and operational levels  
**CR** can be seen as a consequence of being sustainable

# Scope of Sustainability

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# Case Studies

# Chevron: Environmental issues ...in the news this week!

## **Problem**

- Allegations that Chevron (Texaco) deposited 18.5 billion gallons of petroleum waste and wastewater into waterways and waste pits
- Crops were damaged, farm animals killed and local cancer rates have increased
- A class action lawsuit was filed against Chevron in 1993 (still ongoing)



## **Response**

- US Court ruled that the case should be heard in Ecuador and any damages awarded would be honoured in the US
- Chevron insists it complied with Ecuadorian environmental laws at the time & that payments were previously made to Ecuadorian Govt for remediation

## **Result**

- Ecuador court has fined Chevron £5.3bn
- Chevron have refused to pay the damages, making accusations of fraud and corrupt officials
- Chevron's reputation, particularly in sustainability matters, has taken a hit

# Toyota: Safety problems

## Problem

- In 2009/10, Toyota recalled 9.2 million cars for unintended acceleration problems and sticking gas pedals
- Toyota's brand was built on quality and safety



## Response

- Delayed response to the recall & poor communications within company, to regulators and customers
- Flawed study used to dismiss the notion that computer issues could be at fault

## Result

- Allegations surfaced that top executives knew about the problems and either failed to report them in a timely manner or attempted to cover them up.
- Shares dropped by 14% (equivalent of \$21 billion market value) in one week
- \$16.4m fine for violation of US laws & potential liability suits that could cost billions of dollars
- Toyota brand value fell from \$30 billion to \$24 billion in 2010\*

\* Source: leading brand study by BrandZ

# Coca-Cola China: Worker rights issues

## Problem

- Media reports that workers at Coca-Cola bottling plants in China had not received wages. This inspired an undercover investigation by student group.
- The investigation reveals serious working condition infringements, including excessive working hours (ex. over 300 hours a month), pay below minimum wage, contractual irregularities, discrimination and unsafe working practices.



## Response

- Coca-Cola's immediate reaction was to deny the claims
- Chinese Ministry of Labour and Social Security (MLSS) announces own investigation
- Coca-cola takes action in light of the widespread media coverage & MLSS investigation

## Result

- Coca-cola has introduced widespread changes including:
  - Review of work practices / processes in light of the report
  - Long-term agency workers converted to full time employees
  - Revision of discriminatory policies and food quality issues

# Assessing Sustainability Risk

# Reputation / brand value is just one element

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- In order to manage your organisation's sustainability risks and opportunities you need to know what they are
- You also need to know how material the risks are and what their likely impact is
- Risk to reputation and reduction in brand value is just one consequence of mismanaging sustainability issues
- There are other areas in which sustainability risks can affect your organisation

Think of the factors that drive value for a business or organisation

What are these?

# What drives organisational / business value?



Human Capital



Access to Markets



Reputation / Brand



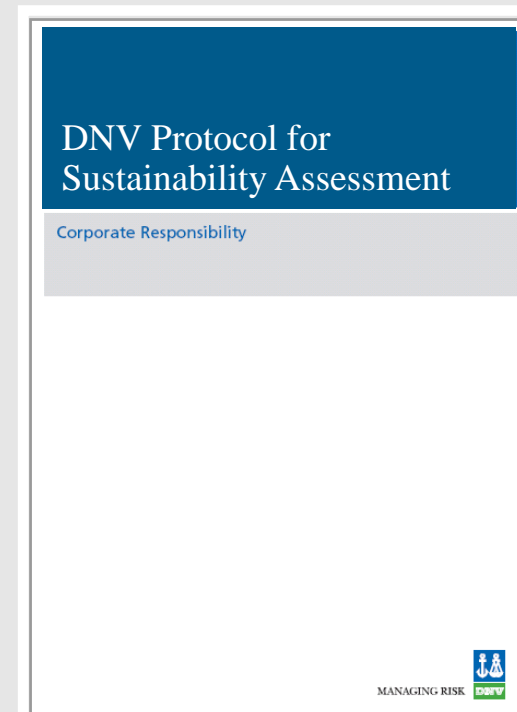
Regulation / Litigation



Organisational Efficiency

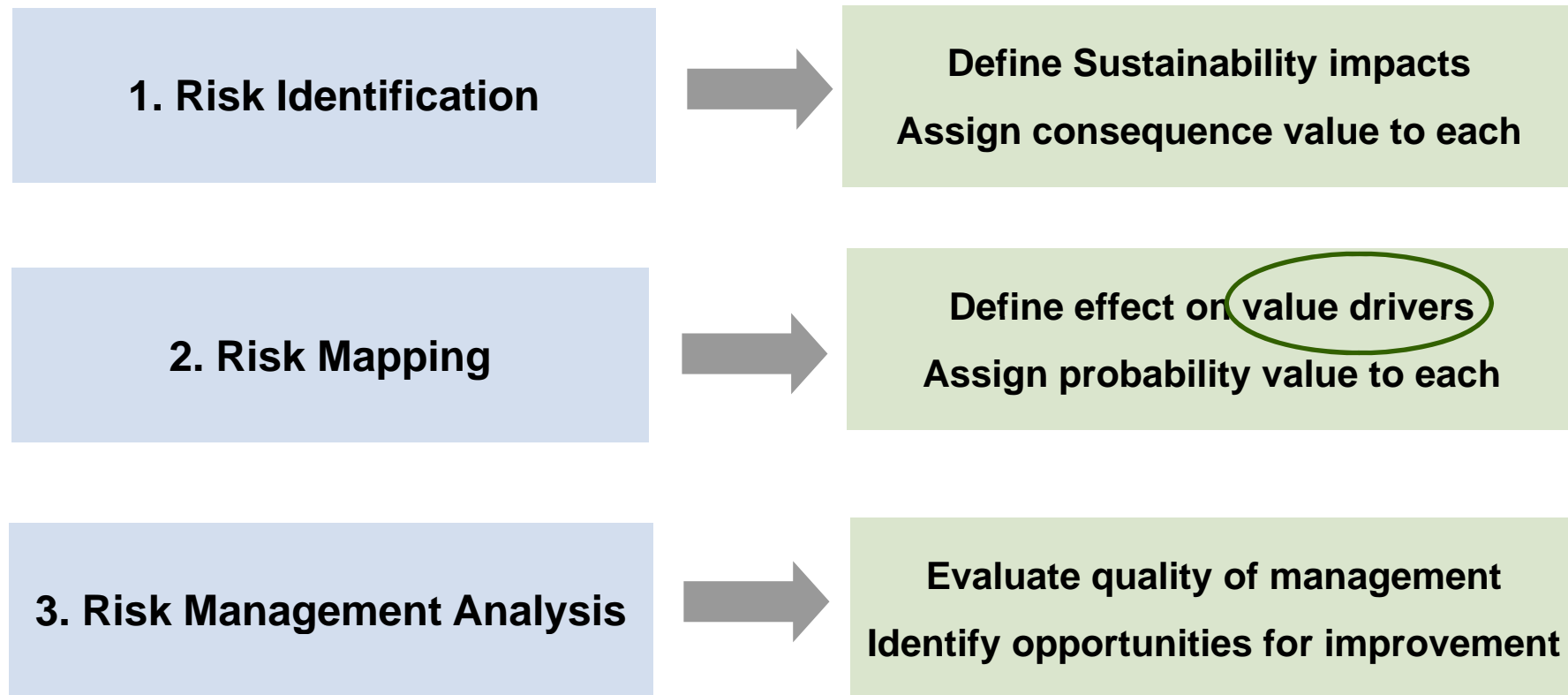
# DNV Model for Assessing Sustainability Risk

- Provides strategic intelligence and rating scores to improve understanding and performance in four areas: Business Ethics, Environment, Society and Employment.
- Analyses how sustainability risks affect your organisation's value drivers (e.g. human capital, reputation), using DNV's proprietary protocol.
- Prioritises sustainability risks and identifies where to concentrate resources
- Evaluates how well your organisation is managing its material sustainability risks and disclosing performance (transparency).
- Provides overall report and (if desired) publishable rating.
- Methodology recognised by MISTRA/Sustainability in 2004 as 'Best Practice/Innovative Approach'

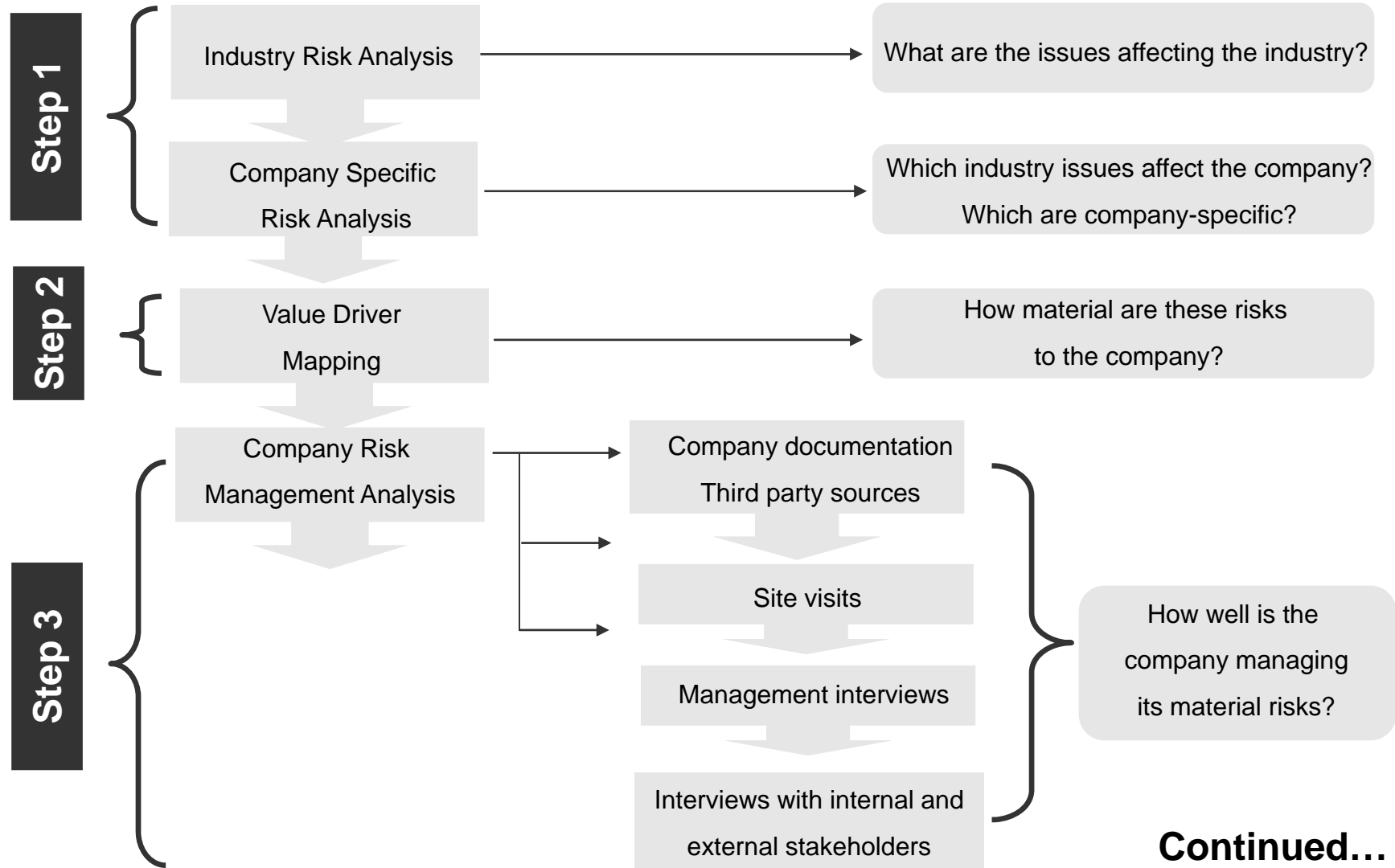


# Three Basic Steps to a Sustainability Assessment

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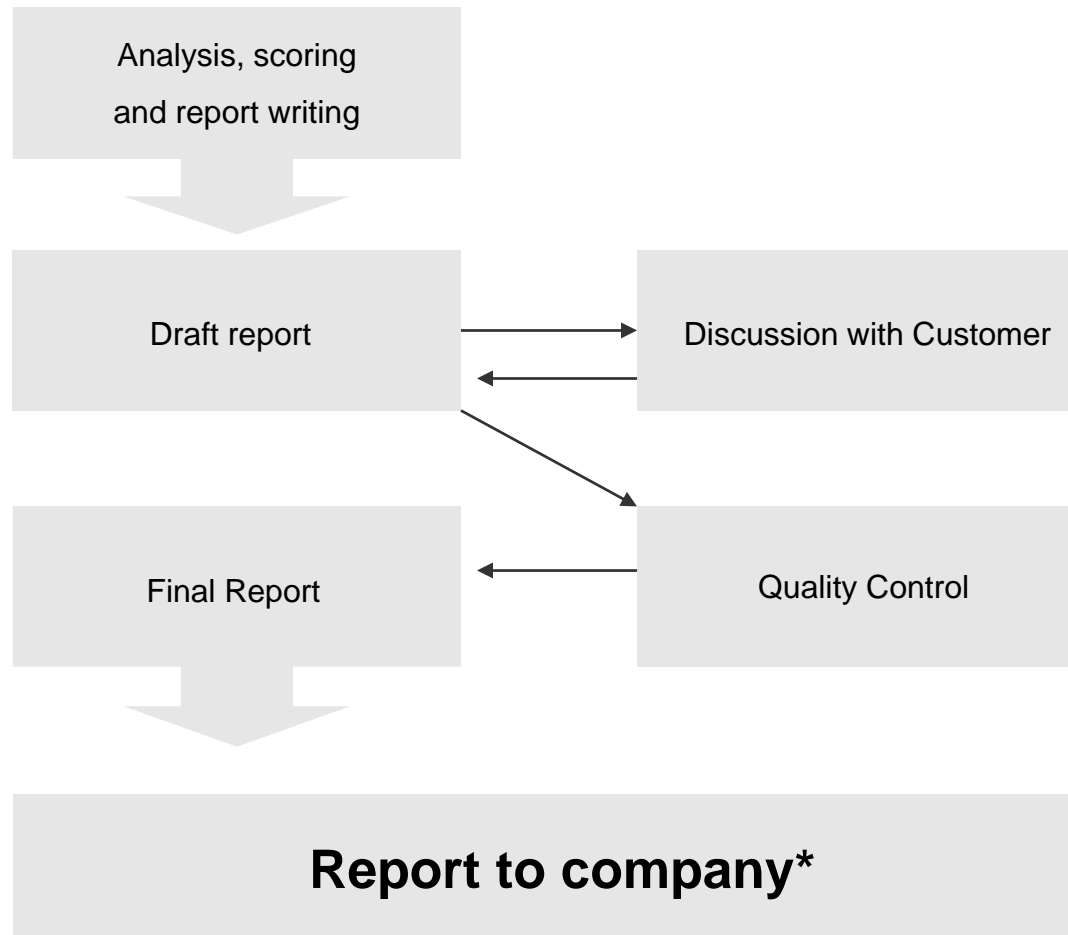


# The Sustainability Assessment Process



# The Assessment Process (cont.)

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\*Company's decision to publish report and/or rating

# Outputs of Sustainability Assessment *(example)*

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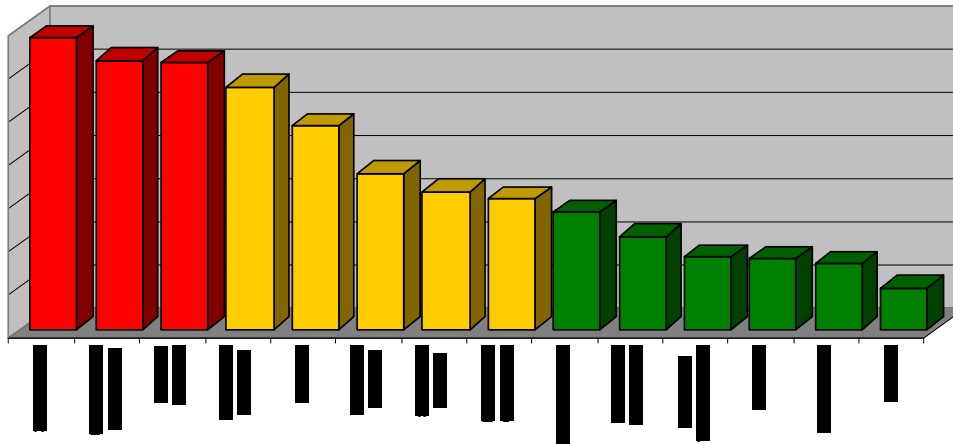
- **High** Significant or severe consequence for organisation's strategy or operational activities and/or Major stakeholder concern
- **Medium** Moderate consequence for the organisation's strategy or operational activities and/or Multiple/moderate stakeholder concern
- **Low** Negligible consequence for the organisation's strategy or operational activities and/or No or low stakeholder concern



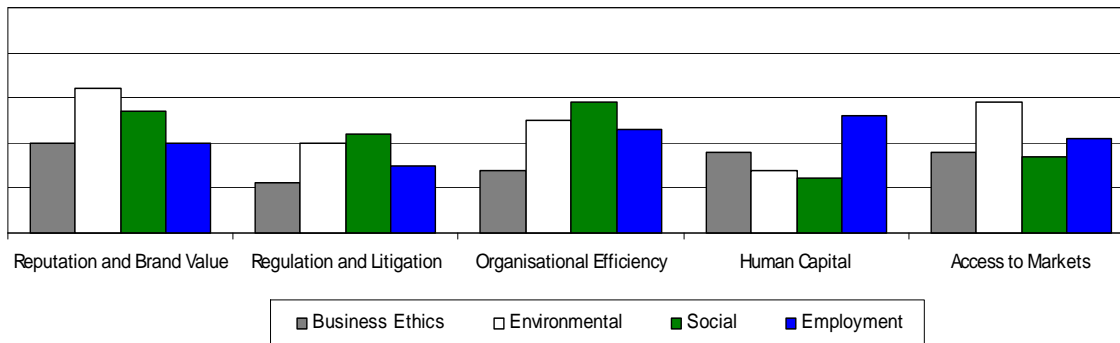
**Product Safety**  
**Marketplace**  
**Working Conditions**  
**Community Relations**  
**Corruption**  
**Business Ethics**  
**Recruitment & Retention**  
**Labour Relations**  
**Emissions**  
**Biodiversity**  
**Use of Natural resources**  
**Climate Change**  
**Human rights**  
**Diversity**


# Outputs of Sustainability Assessment (example)

Materiality of impact areas



Impact on value drivers (aggregated)





## Corporate Responsibility Rating

### Commercial Bank of Ceylon Ltd.

Analyst - Det Norske Veritas  
 Rating Scale: A+, A, A-, B+, B, B-, C+, C, C-, D  
 Date: February 9, 2007

B+

**DNV's APPROACH**

A Corporate Responsibility (CR) Risk Mapping outlining the main business conduct, environmental, social and employment risks for the Bank was undertaken. Using our proprietary methodology the identified risks were mapped against their potential to affect defined value drivers:

- Brand and reputation
- Regulation and litigation
- Human capital
- Operational efficiency
- Access to markets

The rationale behind our methodology is to provide an estimate of the potential effect on the value of Commercial Bank that individually identified impact areas may have. This means each impact area is weighted according to its likelihood to affect value; risks with high potential value impacts are weighted more highly than others making the need for a proactive management approach apparent.

Following the Risk Mapping, the quality of the management approach to each risk area is assessed and an overall rating on a scale of A+ to D is given.

**RISK ASSESSMENT**

Our assessment shows that the majority of Commercial Bank's exposure to CR related risks relate to direct impacts that lie within the Bank's boundaries. The main direct impacts derive from its banking operations in their entirety. The Bank has direct influence over its employment policies, the provision of services and its business conduct. These impacts all have a significant potential to affect the reputation of the Bank, its competitive advantage and its operational efficiency.


**RATING SUMMARY**

The Bank has identified most of its significant CR risks and is starting to actively manage them at a corporate level. Key risks relating to market-place, business conduct and human resources are all being individually managed as a matter of good business practice. These key risk areas all have strong policy definition and awareness throughout the organisation.

Commercial Bank is a signatory to the UN Global Compact. This internationally recognised set of principles is a suitable vehicle for a company of Commercial Bank's size to use as an overarching policy for the management of CR risks. However, despite awareness of the UN Global Compact being raised through internal publications, interviews within the organisation indicated that attentiveness to the existence of the UN Global Compact and how key areas such as credit policy could be used to address the aspirations of the UN Global Compact do not appear to have been explicitly made.

Commercial Bank has itself identified that it could lose potential business opportunities if it fails to properly evaluate situations with consideration for non-financial aspects. This is the key to strategic consideration of CR and the realisation that decisions

**Weighting of Risk Categories**



A	Governance	19%
B	Environment	16%
C	Social	26%
D	Employment	40%

Commercial Bank Assesd Report 2006, Page 97

# Benefits of Sustainability Assessment

- Clarify sustainability ambitions and help define/refine strategy for sustainability risk management
- Prioritise sustainability risk management activities and align with business aims and strategy
- Cost-benefit balance by systematic focus on material risks to drivers of business value
- Set the framework for future identification of sustainability risks
- Embed sustainability throughout operations
- “Peace of mind” that all material sustainability risks are being managed adequately across the organisation
- Maintain control of company’s CR profile → enhance reputation management



# Conclusion

# 3 Things to think about when you get back to the office

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- Is sustainability integrated throughout your organisation's operations? What about your supply chain?
- What are your organisation's material sustainability risks and how are these managed?
- What's the risk to your organisation's reputation and brand value (+ other value drivers) due to sustainability issues that are not being controlled or managed?



# Safeguarding life, property and the environment

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MANAGING RISK