

GET BACK TO BUILDING TRUST

The debt crisis, executive pay, shrinking work opportunities and environmental mismanagement are increasingly impacting on corporate reputation. Yet corporate communication remains largely blinkered, focusing mainly on the financials. The 3rd Quarter Sustainability Coverage Monitor teases out the truth.

HOW IT'S DONE

An independent, unpaid-for survey

The Sustainability Coverage Monitor is an independent survey of corporate South Africa. No fees are solicited and no company or organisation has paid to be a part of this survey.

In order to analyse the media, Trialogue partners with The Media Tenor Institute of Media Analysis. Media Tenor scrutinises the news, opinion and business sections of leading South African print, broadcast and online media to provide a range of media intelligence to the corporate sector. Media Tenor uses its research data to compile the Sustainability Coverage Monitor (SCM), the results of which are published in this review every quarter. The data used is based on Media Tenor's comprehensive day-by-day analysis of all relevant company-related articles appearing in 30 broad-based national daily and weekly newspapers and TV news broadcasts.

For more information on the methodology and categorisation of the SCM, please visit www.mediatenor.co.za or www.trialogue.co.za.

The Sustainability Coverage Monitor for the 3rd Quarter of 2011 shows a further decline in media coverage of corporate sustainability issues. With about 14.5% of total coverage (based on 40 114 statements compared to 235 287 on non-sustainability coverage), the current figure is an almost 3% decline when compared to the full year 2010.

Does corporate communication match expectations?

This trend is at odds with increased calls for greater transparency in reporting and the widely discussed introduction of integrated reporting; it also raises serious questions about whether communication strategies employed by corporates are still in line with the expectations of the audience. By the end of September 2011, the overall share of corporate coverage in the media has already considerably exceeded the levels for the whole of 2010 (275 401 statements for the first three quarters of 2011, compared to 239 455 statements in 2010) – well on the way to reaching similar levels to those in 2006, prior to the global economic downturn.

Cynics might argue that this is a deliberate attempt by companies to refrain from making sustainability commitments to the wider public through the media, and perhaps channelling the information instead to investors through reports and investor relations meetings. In other words: keeping sustainability information at a bare (required) minimum, while at the same time pushing other (positive) issues to balance the impact on corporate

reputation. It would be easy to simply lay the 'blame' on corporates. However, the question that should rather be directed to the media is why they are not picking up on how corporates are responding to issues that are of increasing interest to society? By now the media should be capable of spotting sustainability trends. If journalists simply took the time to proactively assess a company's sustainability performance by scanning sustainability or integrated annual reports, they would be provided with a ready source of material of newsworthy status.

A few further observations from the overall assessment of the 3rd Quarter:

- The BEE/transformation discussion that forms a standard part of sustainability reporting is further declining and is now at 0.2% of total corporate coverage. Considering that BEE deals were the hot topic just a few years ago, this trend could be interpreted as early signs of a fading BEE debate. However, if one considers the current political discussion around nationalisation, unemployment and income-disparity, there may well be a resurgence of this topic as a major political issue impacting on the corporate 'licence to operate'.
- Environment as a corporate subject peaked in 2010 and is likely to retain its importance in the media in 2011. This is not (yet) related to a likely increase in reporting around COP17 in the 4th Quarter, but part of a global strategy where companies are increasingly challenged to communicate and demonstrate their green targets.

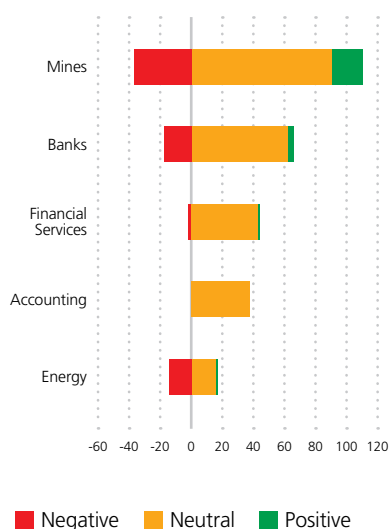
The less said, the less influence on the debate

The decline in sustainability coverage is indicative of a common trend by corporate organisations to be reactive rather than proactive in communicating their societal impact. This is not only a challenge from a communication point of view, but also has implications on the sustainability performance of business. Where there is deep-seated stakeholder dissatisfaction, on issues such as BEE performance or income gaps, companies seem to stay silent in the hope that the issue will not surface (or at least will not be associated with their own business).

This is also the case in the growing debate around nationalisation. Clearly an important aspect in terms of long-term sustainability for some industries, Media Tenor's research shows that the current debate in the media is 95% driven by the political and governmental sphere, with business only having a 5% share of participation. The accompanying graph shows the focus of the nationalisation debate on the various industries and highlights that the mining industry, receiving the most focus, has now woken up to the debate (expressed in the share of positive and negative coverage), while the banking industry for instance, the second in focus, remains largely ambivalent – clearly a failure by the industry to influence the debate.

GRAPH 1

Industries linked to nationalisation coverage



Top performers in Q3

The 2nd Quarter was largely dominated by media coverage on the Massmart/Walmart deal, dragging other retailers into focus. With the deal concluded (despite continued legal objections from government), the 3rd Quarter shows a return to 'normal' sustainability focus arenas. Of the top 10 companies in terms of their positive sustainability coverage, four are banks (Absa, Standard Bank, Nedbank in the first three places and First National Bank in sixth) and one a mining company (Coal of Africa (CoAL)). CoAL was on the receiving end of some bad publicity in the past year, as a result of operations in close proximity to the Mapungubwe cultural site being shut down. The subsequent resumption of activities, made possible by the signing of a memorandum with SANParks and the Department of Environmental Affairs, contributed to the Australian company's improved sustainability rating. Absa, the top performer in the 3rd Quarter, managed to deflect fears of possible retrenchments with a proposal of its restructuring and business strategy that included an assertion from CEO Maria Ramos that costs were being brought within sustainable levels. Absa's presentation of the half-year results provides a good example of how potentially negative sustainability coverage can be dissipated through balanced reporting of other sustainability issues.

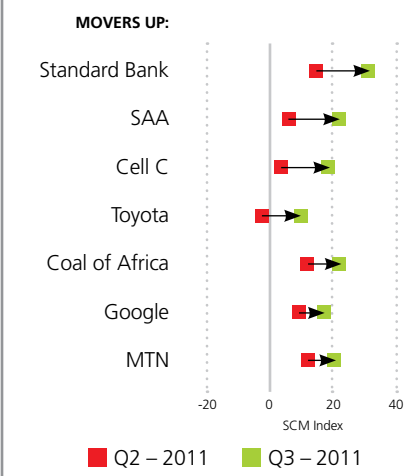
TABLE 1

Top 10 sustainability scores

Q3	Q2	Q1
ABSA	Walmart	MTN
Standard Bank	Massmart	Vodacom
Nedbank	Vodacom	Massmart
Coal of Africa	Absa	Absa
SAA	Glencore	Eskom
FNB	SAB Miller	Walmart
Coca Cola	New Clicks	First National Bank
MTN	Apple	Apple
Liberty	Woolworths	Anglo Platinum
Daimler	Discovery	BHP Billiton

GRAPH 2

Top movers up – Quarter 3 – 2011



Standard Bank received particularly positive coverage through the announcement that it intends to extend its operating hours at spaza shops, allowing customers to deposit money in addition to buying airtime or transferring money.

MTN, eighth in the 3rd Quarter, built on First National Bank's success by introducing its own app store. MTN went one step further by announcing a competition for software developers with interesting apps to offer MTN's 150 million customers. Through its networks in Africa and the Middle East, this not only added to MTN's innovation coverage, but also sends investors the message that it is more than just a telecommunications provider: it is a trans-continental sales platform.

Liberty (positioned ninth) chose a similar path to Absa by announcing improved growth strategies at the company's interim result presentation in June in Sandton. CEO Bruce Hemphill used the opportunity to reiterate that the company was dropping its strategy of chasing market share by cutting costs, to focus instead on sustaining existing business and writing quality new business. This strategy provides the promise of improved performance against a backdrop of poor performance in 2009.

Individual company performances in the 3rd Quarter, as described above, clearly show that the bullish growth strategy announcements of the previous years have changed to a more balanced focus on cost management and restructuring. These, as well as a particular focus on innovation, have led to a much improved assessment by South Africa's media.

An industry perspective

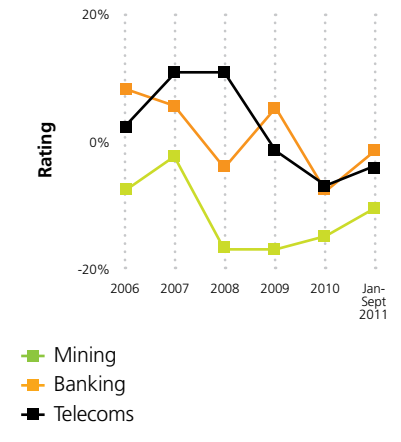
Banks and mining companies continue to dominate the sustainability focus in South African media, comprising over one-quarter of total reporting.

Both industries have been the core focus of sustainability reporting in South African media over the past five years – and both industries continue to battle negative sentiment. As the accompanying chart shows, the sustainability outlook for the mining industry was negative back in 2006, dropped in 2008 and is now slowly recovering. But it is the banking industry that has to be particularly careful. From an exceptionally positive 10% in 2006, this sector's rating dropped sharply in 2008 (-3%). More recently results have been uneasily volatile, the international loss of trust in the financial industry not having left the South African industry unscathed.

The sustainability profile of most industries has a negative bias, with a particularly negative outlook on the energy, media, oil/gas and transport industries. Amongst the more positive industry highlights are IT (boosted by continuous positive reporting on Apple and Google) as well as the Massmart-fuelled retail market. The biggest positive industry coverage experienced was the brewery sector, largely due to SABMiller overcoming its M&A hurdles. Although three major telecommunication companies (MTN – 8th, Vodacom – 13th, Cell C – 14th)

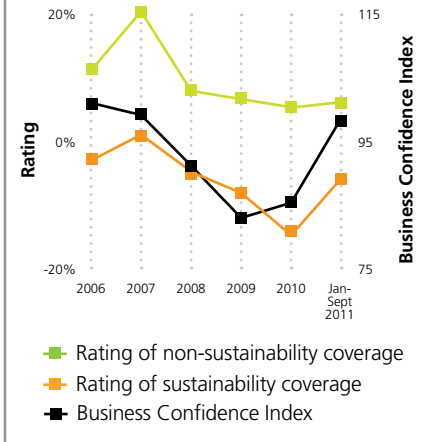
GRAPH 4

Rating of sustainability coverage on the Banking and Mining industry



GRAPH 5

Rating of sustainability and non-sustainability coverage compared to the Business Confidence Index (BCI)



are among the top 10 companies most favourably reported on in Q3 as far as sustainability is concerned, the industry in general displays some volatile reporting. Coverage is dominated by regulatory discussions, customer relations backlashes and technical difficulties – all of which impact on the long-term sustainability outlook for the sector.

Sustainability versus 'other issues'

The decline in the share of sustainability coverage over the past few years has been picked up by other areas of corporate reporting. For most companies analysed, sustainability coverage is more negatively biased than reporting on other issues. For example, Dutch company Shell, currently involved in a fracking debate in the Karoo, received a 20% negative sustainability reporting, while at the same time a positive 20% for coverage of 'other issues'.

A brief review of the nature of non-sustainability reporting by industry sector was undertaken. For mining companies, a renewed focus on reporting hard financial facts has generated considerable positive coverage, while in the banking industry the focus was on new and innovative products. There is no doubt that positive reporting on financial results and financial strategies will improve investor and business confidence. However, this reporting alone does not provide a complete picture of the reputation drivers for business.

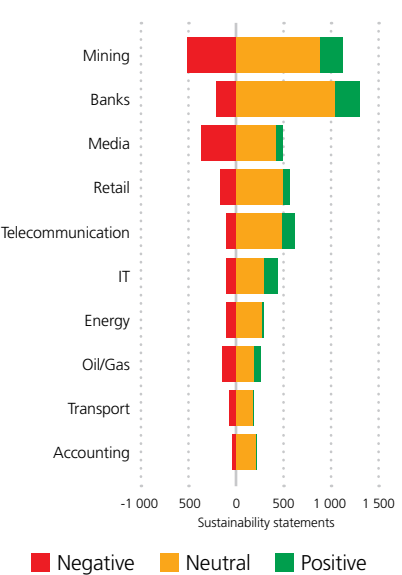
In this light, it is interesting to observe that the development of the Business Confidence Index (BCI), as communicated monthly by the South African Chamber of Commerce and Industry, correlates much more closely with the reporting of corporate sustainability issues than 'other issues' (see chart above). This correlation could imply that overall business sentiment is guided by a broader set of sustainability issues, rather than on financial information alone. Furthermore, financial performance has lost a degree of trust following the global economic downturn. The lesson here is that the credibility of results may be improved if presented within a context of how a business interfaces with all societal stakeholders. Note that while corporate social investment (CSI) has a role to play as a driver of corporate reputation, it is just one of a variety of sustainable business issues. To be effective in this role, it is preferable to link CSI to the company's overall sustainability profile, rather than relegate communication of CSI to the shallow publicity associated with cheque handovers and the like.

Does a better life indicate a more sustainable business?

In light of some of the observations above, it seems clear that for most companies and industries sustainability issues remain a challenge – not just from a communication point of view but also in terms of integrating with business strategy. Over the past few years, more

GRAPH 3

Sustainability coverage per industry



Better Life Index

The OECD (Organisation for Economic Co-operation and Development) has recently invested considerable funds and energy into the development of a 'Better Life Index' (www.oecdbetterlifeindex.org/). The Index is based on online submissions about lifestyle preferences and expectations within the OECD countries and highlights what is important to people when living in a particular country. For the OECD, the investment into this research is not just a CSI or public relations exercise, but is exceptionally useful towards the formulation of economic and social policies within the member states.

and more research has emerged globally (and been discussed at international conferences) pointing to a link between 'happier people' and 'better business'. Initially, these observations were made by city planners and regional development specialists, who observed that cities that invested in lifestyle, environment and effective transport infrastructure managed to attract more business activity and consequently better citizens. Clearly, the link between 'nice place to live' and 'happy employee' has led to an improved sense of sustainability in regions and

towns that might otherwise have faced challenges to survive.

Many organisations have long sought to redefine their brand proposition around this 'happy people' theme in the search for the holy grail of sustainability. Lifestyle branding started amongst lifestyle products, but there must be something in the trend when a company like GE, known primarily for power generation and jet engines, now operates under the tagline, 'imagination at work'. Apple used to be about productivity applications, now it's an entertainment company.

While complete reinvention may be one route past the general distrust in corporate intentions, a more credible and sustainable strategy for most companies, both locally and abroad, may be to consider investing in long-term community-based projects, without looking at immediate ROI. Really cheap mobile banking, for example, or innovative solutions to bridging the educational divide. As media analysis has indicated, a company's reputation will remain volatile as long as it fails to make the link between sustainability issues (i.e. long-term) and purely financial issues (often short-term and self-serving), both in terms of its business strategy, as well as in how effectively it is communicated to its stakeholders.

Outlook 2011

South Africa will be on the receiving end of environmental coverage when global governments and NGOs meet in Durban at the end of November for COP17. This is probably the largest gathering of international bodies since the 2002 World Summit on Sustainable Development and will place much emphasis on the role of developing countries in terms of climate change. As such, there is a likelihood of intensified coverage on South African companies, particularly those who already receive scrutiny around their environmental policies. Mining, petrochemical and energy companies will be at the centre of media attention, but the opportunity exists for all businesses to showcase their commitment to a more sustainable environment. Traditionally, media tends to focus on shortfalls in environmental performance, rather than new ideas or policies. (One exception worth noting is Nedbank, showcasing that their corporate colours are reflected in their internal workplace policies.) It will be interesting to observe, in the 2011 annual review of the Sustainability Coverage Monitor in January, to what extent companies have managed to use the event not only to showcase their environmental commitment, but also to link it to their future sustainability. ☉

Yet again, **1ST** place in Ernst & Young's 2011 *Excellence in Sustainability Reporting Awards* with Bidvest's Integrated Annual Report.