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keeping a watchful eye on business reputation

Covalence has ploughed an unusual furrow by giving companies ethical ratings based on often subjective media coverage. Mike Scott talks to Antoine Mach about its aims and methodology

A good reputation is an increasingly important asset to big businesses – and this is the underpinning of the Swiss firm Covalence, which runs a 'reputation index based on quantifying qualitative data'.

The firm gathers publicly available data on more than 500 companies in 18 sectors from a variety of media across the world. 'We also receive information from the companies themselves, blogs, trade unions, government and NGOs,' says Antoine Mach, head of research. 'Our approach is not to go to companies and ask them to answer questions. Instead we monitor what other people are saying about them.'

Some would say that such an approach is questionable given that much of the information, whether from the companies themselves or their critics, is inherently flawed. But Mach says: 'We have to approach the complex reality that is the ethical performance of a company, which cannot be measured directly. We know we have to be careful with the information. When you deal with ethics, you are dealing with culture, with people's opinions.'

The firm assesses companies on 45 criteria, ranging from working conditions to the social and environmental impact of the product. There is also a weighting system to reflect the relative size of the companies in the firm's EthicalQuote ranking.

The company, founded in 2001, was disappointed to discover when it started that for 80 per cent of the stocks it covered, there was no correlation between its ranking and share prices. But closer analysis revealed that for some criteria there is a link, Mach says. 'Those aspects linked to products show a positive correlation – for example when the scandal over the drug Vioxx broke, Merck's share price suffered, while on a more positive note, Toyota's share price saw a lift when it launched the Prius. There is a strong link for eco-innovative products.'

However, for more operations-related

measures such as downsizing or corruption, the correlation was negative – when the ethical grading went down, the share price went up. 'This may be because cutting jobs is seen as a good thing for the business, or the mentions of corruption coincide with new orders.'

At the moment, about three quarters of clients are the large multinational companies that appear in the rankings in sectors ranging from pharmaceuticals to mining to financial services. They are mostly from Europe and North America, with the other 25 per cent being government and NGOs. 'Some companies with a poor rating are interested to know why, while the NGOs want to know about the ethical performance of potential partners.

'We hope in future that the financial community will integrate such non-financial information into their analysis,' Mach adds. However, there is an inherent conflict, he says, because 'the financial community is a short-term audience and ethical issues are long-term. It is a challenge to communicate this long-term message to the finance community, but if we manage it, they are more likely to take ethical issues into account in their decisions.'

To that end, Covalence plans to launch a new service, offering short company profiles that are updated monthly.

In the latest quarterly rankings, the top five companies were IBM, Intel, HSBC, Marks & Spencer and Unilever. The bottom five were Electronic Data Systems, Syngenta, Ryanair, Grupo Mexico and Freeport-McMoRan.

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www.covalence.ch

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^ back to top ^