



# Corporate Social Responsibility: The COVID-19 Stress Test

A report prepared by V.E  
Sustainability Focus —

OCTOBER 2020 UPDATE

**No.001 SF**

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## Introduction

The effects of COVID-19 have provided an unprecedented stress test of corporate social responsibility. As the pandemic has evolved, our teams have been monitoring companies to assess their exposure to ESG controversies. In our first issue of this study published in April 2020, we indicated that ESG risks are spread across the full scope of the social value chain, from employee protection to customer support and supply chain management to privacy concerns. In this paper we will provide an update of the evolving risks faced by companies during the second phase of the pandemic with the reopening of most business activities.

## Updated Findings

Since the start of the pandemic<sup>1</sup>, V.E experts have recorded a total of **292**<sup>2</sup> COVID-19 related controversies (involving 434 events), impacting more than **150** companies from **33** different sectors. Most of the controversies concern **European** and **North American** companies<sup>3</sup> and focus on **Social** factors.

Examples of the concerns raised include:

- Inadequate protective gear for staff
- Inadequate policies or processes for consumer protection
- Complaints about salary cuts of employees
- Disputes over forced, unpaid leave
- Restructurings
- Increased strikes and social conflicts on working conditions
- Concerns over data management and privacy rights
- Providing misinformation about the COVID-19 pandemic

Overall, we see an overrepresentation of sectors and companies with most **blue-collar workers in more vulnerable employment positions**.

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<sup>1</sup> COVID-19 was officially declared a pandemic by the World Health Organisation (WHO) on January 30<sup>th</sup>, 2020.

<sup>2</sup> 7,700 companies were screened for controversies as of 26/10/2020.

<sup>3</sup> This is to be expected given the higher level of press scrutiny faced by companies based in | or operating in these regions.

At sector level, **Mining** companies appear now as the most exposed, followed by **Food** companies, compared to our findings in April 2020 where Hotel & Leisure Goods and Mining were the most exposed sectors.

Since our last study was published, we have noted a sharp increase in the number of companies reporting on planned **restructurings**. Whilst these are not controversies by themselves, they represent major ESG challenges for companies, employees and governments to manage in the coming months.

**Figure 1:** Sector distribution of controversies on COVID-19.

Top 10 Sectors	N° of controversies as of 21/04/2020 (reminder)	N° of Controversies as of 26/10/2020
Mining & Metals	9	59
Food	10	30
Health Care Equipment & Services / Pharmaceuticals	6	27
Insurance	10	22
Specialised Retail	6	19
Hotel, Leisure Goods & Services	12	14
Software & IT Services	10	14
Supermarkets	8	12
Travel & Tourism	6	11
Diversified Banks	6	9

Building on its high exposure, the **Mining** industry is under heavy scrutiny from NGOs and civil society over the way it is managing the COVID-19 crisis<sup>4</sup>: several controversies captured accusations of influencing governments to position themselves as essential services in order to remain active during the lockdown phase; leveraging on the crisis to hide environmental and human rights violations; and failing to provide sufficient protective measures for workers and local communities resulting in localised spikes in infection rates. V.E's Controversy Risk Assessment outlines how vulnerable communities, such as indigenous populations, have been increasingly at

<sup>4</sup> Mines are hotspots for spread of Covid-19, study finds - 05-06-2020 - The Guardian

risk, and how actors from the civil society and international organisations have been growingly vigilant and outspoken on companies' misbehaviours.

The **Food** sector is also heavily exposed to controversies. Companies are accused of failing to provide sufficient protection against COVID-19 whilst remaining operational. V.E's Controversy Risk Assessment recorded several controversies where family members of deceased workers have filed lawsuits against Food companies because of a reported lack of COVID-19 safety measures. Furthermore, companies have been forced to shut down plants after large numbers of workers tested positive for COVID-19. Companies have also faced accusations of exploiting workers (long working hours, low payment) and increasing prices of meat for American consumers during the coronavirus pandemic.

**Figure 2:** Thematic distribution of controversies on COVID-19.

Top 10 ESG Themes	N° of controversies as of 21/04/2020 (reminder)	N° of Controversies as of 26/10/2020
Health and safety	58	112
Customer relations	33	67
Social Dialogue	24	55
Remuneration	18	49
Social and Economic Development	10	35
Reorganisation	11	25
Fundamental human rights	1	25
Protection of Water Resources	0	16
Working hours	0	16
Non-discrimination	1	14

**Figure 3:** Severity distribution<sup>5</sup> of controversies on COVID-19.

Case Severity	Distribution as of 21/04/2020	Updated Distribution as of 26/10/2020
Critical	0%	1%
High	28%	29%
Significant	61%	57%
Minor	11%	13%

<sup>5</sup> Vigeo Eiris' Controversy Risk Assessment categorizes the severity of controversies using 4 levels: Minor, Significant, High, and Critical depending on the impacts to both the company and its stakeholders.

**Figure 4:** Companies' response <sup>6</sup> to controversies on COVID-19.

Company Responsiveness	Distribution as of 21/04/2020	Updated Distribution as of 26/10/2020
Proactive	2%	2%
Remediative	12%	15%
Reactive	41%	46%
Non-Communicative	45%	37%

## The Next (Social) Challenge

Traditionally, the Sustainable Finance agenda prioritised environmental challenges, namely related to climate change risk, due to the high investor maturity and media coverage affiliated on these topics. However, it is worth outlining how the COVID-19 pandemic and its consequences raised new attention to social risks and to the need of a balanced ESG strategy by companies. This was recognized by the new European Commissions' Taxonomy Guidelines where, in addition to strict environmental criteria, companies need to prove they integrate 'social safeguards' based on the OECD guidelines and ILO conventions in order to be considered as 'green.'

The COVID-19 pandemic is leading to high unemployment rates, declining household income, declining working hours, increasing poverty rates, health and safety challenges and increased tensions in social dialogue.

Across sectors and markets, a growing number of companies report on planned and often large-scale restructurings. These will likely lead to wider risks related to individual financial security in both developed and developing markets. Governments will face pressure to manage the demands of both corporates and citizens on dedicated fiscal and supporting policies.

The global scale of the crisis brings long-term social risks into the global economy. Companies will need to navigate carefully in order to protect their human capital, brand capital and ultimately

<sup>6</sup> Vigeo Eiris' Controversy Risk Assessment categorizes the responsiveness of companies to controversies using 4 levels: Non-Communicative, Reactive, Remedial and Proactive.

their financial performance from the increasing risks if social factors are not sufficiently taken into consideration in their business model.

Finally, the high materiality associated with this shift is mirrored by V.E's Controversy Risk Assessment, crowning the Social Pillar as the most exposed, with the highest percentage of controversies.

## Conclusions – Back to the Fundamentals

The COVID-19 pandemic poses serious challenges to companies in terms of resilience and reputational management. An increasing awareness of social risks and the presence of a growing number of controversies related to the pandemics captures the actualities of this phenomenon.

In addition, workplace health and safety, social dialogue and the respect of fundamental labour rights are all enshrined within the ILO Core Conventions<sup>7</sup> and reiterated within the scope of the UN Global Compact<sup>8</sup> and the framework of the Sustainable Development Goals<sup>9</sup>. As a result of massive government investment programs, stimulus packages and increased investor maturity on social issues, we see this increased interest being materialized through an explosive growth of social bonds issuance by companies and governments in order to tackle the social challenges created by the coronavirus pandemic.

In this new context, companies need to show a consistent strategy to avoid social risks and to profit from the approaching opportunities in order to be competitive players in their sectors.

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<sup>7</sup> ILO Standards and COVID-19" – International Labour Organization - [https://www.ilo.org/global/standards/WCMS\\_739937/lang-en/index.htm](https://www.ilo.org/global/standards/WCMS_739937/lang-en/index.htm)

<sup>8</sup> "The Ten Principles of the UN Global Compact" – United Nations Global Compact - <https://www.unglobalcompact.org/what-is-gc/mission/principles>

<sup>9</sup> "Goal 8: Promote inclusive and sustainable economic growth, employment and decent work for all" – UN Sustainable Development Goals - <https://www.un.org/sustainabledevelopment/economic-growth/>

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