Understanding Materiality

Lessons From Industries With High ESG Risk

MORNINGSTAR | SUSTAINALYTICS

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Introduction:

Learning by Example by Looking at High ESG Risk

Almost all businesses face issues related to their environmental record, social engagement, and governance practices. Today's stakeholders are demanding that companies participate in the transition to a net-zero carbon economy, with growing scrutiny of organizations' contributions or harms to societal equality and well-being.

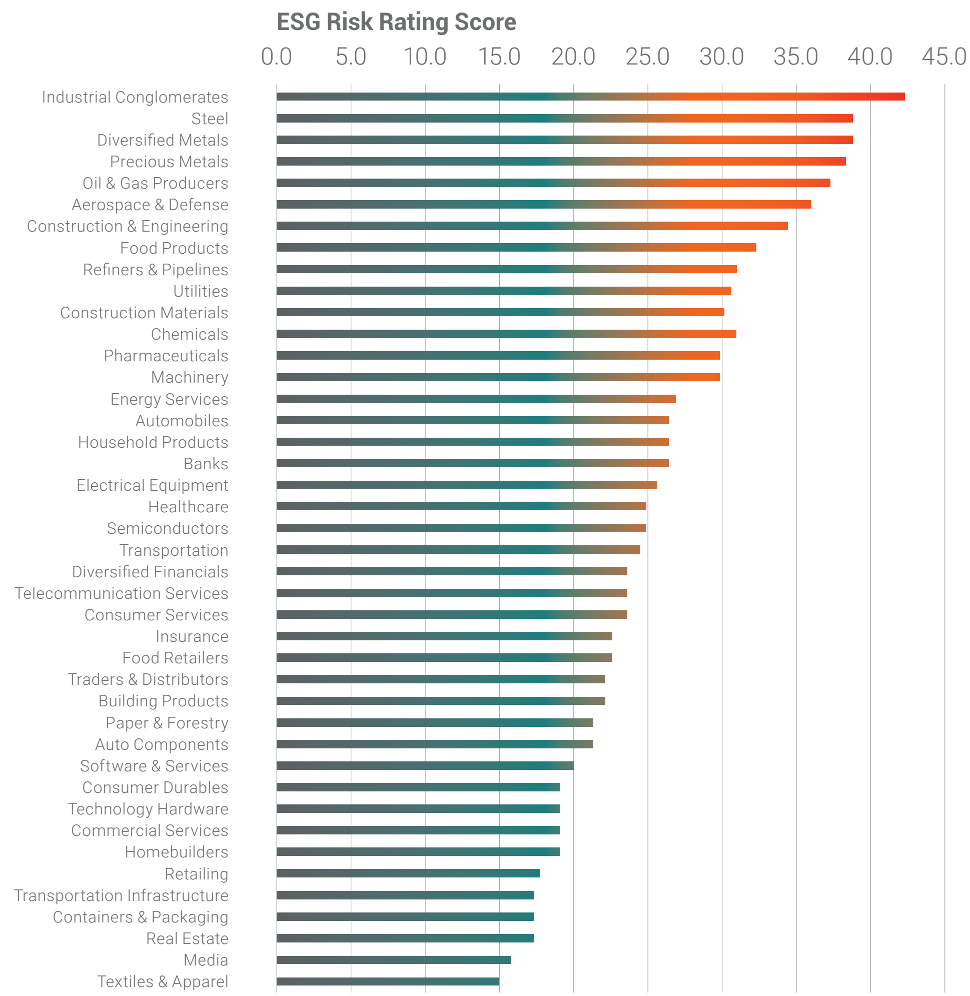
There are costs to companies for managing these issues poorly. Penalties can result from not adhering to increasing regulation and legislation around environmental, social, and governance (ESG) issues. Poor ESG management can lead to reputational damage, a loss of customers, and failure to gain project approval. Access to capital is now increasingly dependent on a company's ESG performance, and it's becoming recognized that sound ESG practices lead to operational resilience.

The five highest-risk industries in terms of ESG issues are industrial conglomerates, steel, diversified metals, precious metals, and oil and gas producers.[1] While it's important for companies in these industries to manage ESG risk, it should also be recognized that these industries are critical to global economic growth. Some also play an important role in the transition to a net-zero carbon economy through changes in processes and the supply of inputs necessary for products — such as electric vehicles — that will be instrumental in reducing greenhouse gas (GHG) emissions.

An ESG issue is considered *material* if it's likely to have a substantial impact on the value of a company and if its presence or absence in the company's financial reporting is likely to influence the decisions made by a reasonable investor.[2] For companies to manage ESG issues, they must first identify which of these issues are material to them and their stakeholders, and then understand the best practices for managing these risks while continuing to run their organizations.

In this ebook, we will look at how ESG risk ratings are determined, the material ESG issues (MEIs) that companies in high-risk industries are exposed to, and the current risk ratings for these industries. Companies in all industries can learn from these examples and find opportunities for improving ESG risk management.

Figure 1: Industries by Average ESG Risk Score – 2021



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Calculating ESG Risk:

An Overview of How It's Done

The ESG Risk Rating is a quantitative score that represents units of unmanaged ESG risk. A low score represents less unmanaged risk and suggests better ESG risk management by a company than a high score. Unmanaged risk is measured on an open-ended scale starting at zero (no risk) and, for 95% of cases, a maximum score below 50.

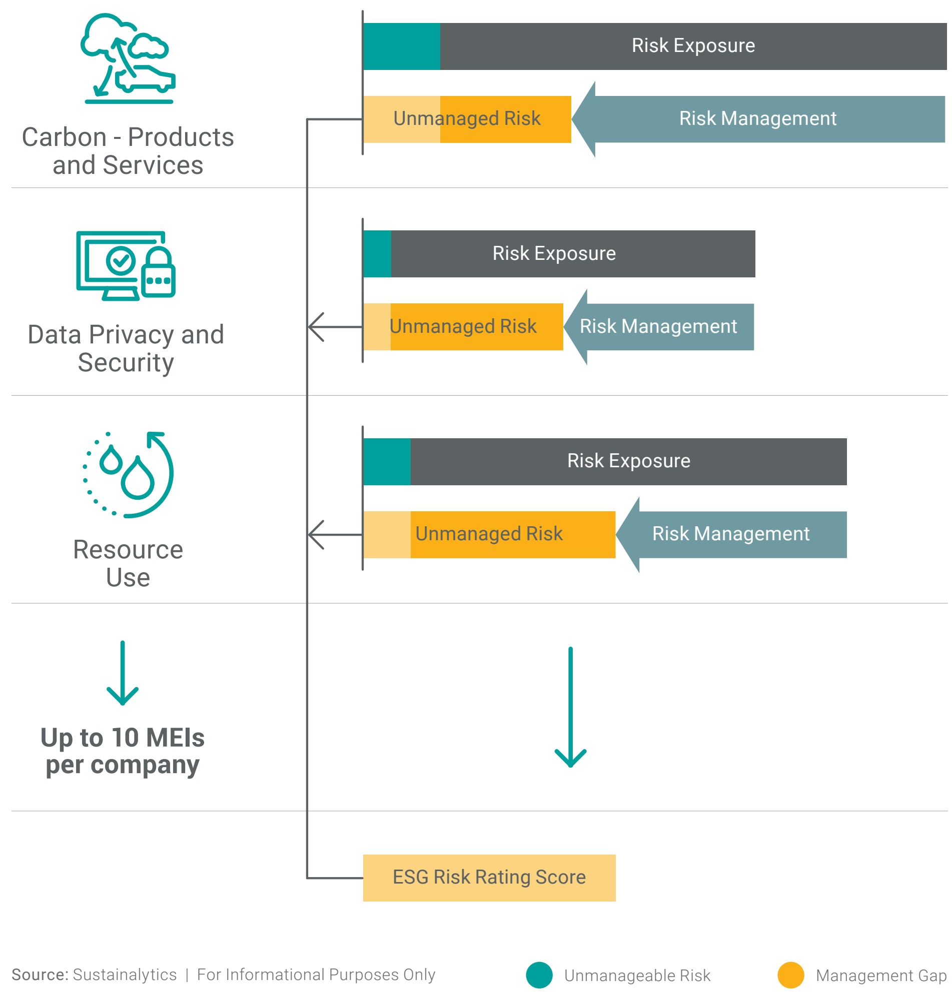
Based on their quantitative scores, companies are grouped into one of five ESG risk categories from negligible to severe. These risk categories are absolute, meaning that a 'high' risk assessment reflects a comparable degree of unmanaged ESG risk across all sub-industries covered. This means that a bank, for example, can be directly compared with an oil company or any other type of company.

A company's sensitivity or vulnerability to MEIs is referred to as its **exposure**. To calculate the ESG Risk Rating, Sustainalytics determines the company's exposure to material ESG issues, assesses the degree to which the company is managing the risk, and then calculates the unmanaged risk.

The **management score** measures what percentage of a firm's manageable risk has been managed, with a higher score reflecting better ESG management practices. It's derived from a set of management indicators, such as policies and management systems, and direct or quantifiable outcome-focused indicators that demonstrate how well a company is managing the ESG risks it's exposed to.

The final **ESG Risk Rating** score is the sum of each MEIs' unmanaged risk scores — which account for risks that cannot be addressed by company initiatives — and the management gap, which represents risks that could potentially be managed by a company but aren't sufficiently managed.

Material ESG Issues



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Key Terms and Definitions

ESG Risk Ratings
The ESG Risk Ratings are Sustainalytics' flagship ratings. They measure the degree to which a company's economic value is at risk driven by ESG factors or, more technically speaking, the magnitude of a company's unmanaged ESG risks. The quantitative score is measured on scale from 0 to 100 with lower scores representing less unmanaged risk (i.e., a lower ESG Risk Rating score is good).

Materiality
Within the ESG Risk Ratings, an issue is deemed material if its presence or absence in financial reporting is likely to influence the decisions made by a reasonable investor. To be considered relevant in the ESG Risk Ratings, an issue must have a potentially substantial impact on the economic value of a company and its financial risk-and-return profile from an investment perspective.

Material ESG Issues
Material ESG issues are focused on a topic, or set of related topics, that require a common set of management initiatives or a similar type of oversight. For example, the topics of employee recruitment, development, diversity, engagement, and labor relations are all encompassed by the material ESG issue of Human Capital because they are all employee-related and require human resources initiatives and oversight. The common thread behind all Human Capital topics is attracting and retaining qualified employees.

ESG Exposure
Exposure can be considered as a set of ESG-related factors that pose potential economic risks for companies. Another way to think of exposure is as a company's sensitivity or vulnerability to ESG risks.

ESG Management
A set of company commitments, actions, and outcomes that demonstrate how well a company is managing the ESG risks it is exposed to. The overall management score for a company is derived from a set of management indicators (e.g., policies, management systems, certifications, etc.) and outcome-focused indicators measuring a company's performance (e.g., carbon dioxide emissions).

Manageable Risk
Manageable risk is the share of exposure to a material ESG issue that is deemed to be (at least theoretically) manageable by the company. For some material ESG issues, the risk cannot be fully managed.

Unmanageable Risk
The share of exposure to a material ESG issue that cannot be addressed by company initiatives.

Management Gap
The management gap represents risks that could potentially be managed by a company but aren't sufficiently managed according to our assessment.

Unmanaged Risk
The final ESG Risk Ratings scores are a measure of unmanaged risk, which is defined as material ESG risk that has not been managed by a company. It includes two types of risk: unmanageable risk, which cannot be addressed by company initiatives, as well as the management gap.

ESG Risk Category
The ESG Risk Rating distinguishes five categories of risk: negligible, low, medium, high, and severe. Companies will fall into a category based on their ESG Risk Ratings score.

Negligible	Low	Medium	High	Severe
0-10	10-20	20-30	30-40	40+

To learn more about Sustainalytics' corporate ESG risk assessments, visit
www.sustainalytics.com/corporate-solutions/esg-risk-ratings.

The Most Significant Material ESG Issues for High-Risk Industries

ESG issues are assessed for materiality and exposure at the sub-industry level and can be marked as inapplicable from an individual company's rating if they're not relevant to the company's business model. It's assumed that, all else being equal, the effective management of ESG risks will contribute to superior long-term enterprise value. Therefore, some ESG issues are considered material even if the financial consequences are not fully measurable today.

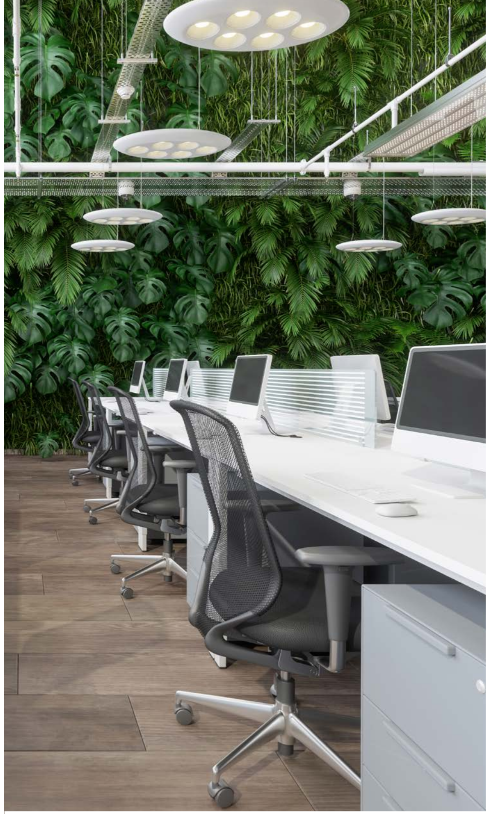
The most important MEIs affecting high-risk industries are:

Business Ethics
Business ethics focuses on the management of general professional ethics, such as taxation and accounting, anti-competitive practices, and intellectual property issues. Being involved in legal or ethical misconduct not only has potential negative financial impacts, but may also pose severe reputational risks that might change the operational outlook and market presence for a company.

Product Governance
Product governance focuses on how companies manage their responsibilities to clients, such as ensuring the quality and safety of their products and services. Companies that don't properly manage their responsibilities to clients face reputational, legal, and regulatory risks.

Carbon – Own Operations
Carbon – own operations refers to a company's management of risks related to its own operational energy use and GHG emissions.

Carbon – Products and Services
Carbon – products and services refers to a company's management of the energy efficiency and GHG emissions of its services and products during the use phase. As global carbon budgets are tightened, companies that aren't managing their carbon risk, or aligning to low-carbon business models, will face an increased regulatory burden and associated operational costs.




Community Relations

Community relations focuses on how companies engage with local communities, including Indigenous peoples, through community involvement, community development, and measures to reduce negative impacts on them.

Companies increasingly face pressure to reduce their environmental impacts to help preserve a community's way of life and to provide support for sustainable local development. Production interruptions due to community opposition can amount to millions of dollars in lost revenues daily.

Emissions, Effluents, and Waste

Emissions, effluents, and waste focuses on the management of emissions and releases from a company's own operations to air, water, and land, excluding GHG emissions.

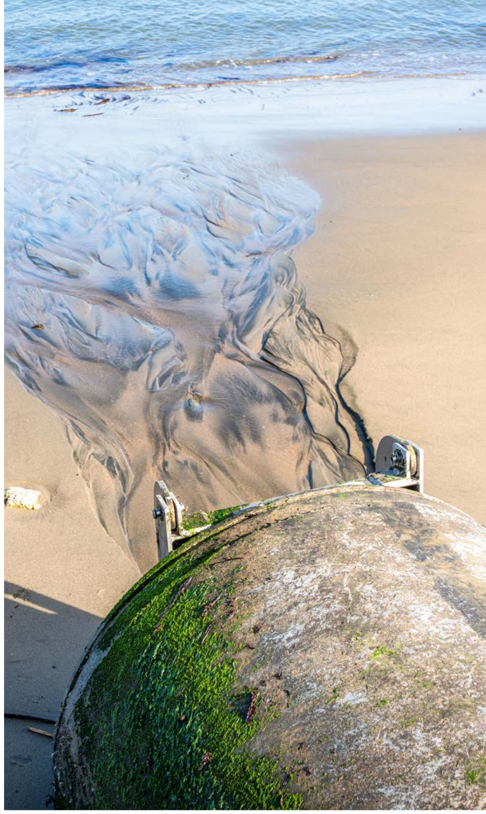
As societal standards related to pollution continue to increase, pollution issues will become even more important for companies to address. The trend toward stronger and broader regulations and greater enforcement means that companies are likely to face stiffer penalties for environmental pollution.

Occupational Health and Safety

Occupational health and safety focuses on the management of workplace hazards affecting a company's own employees and on-site contractors. Businesses need to ensure they manage the elements of health and safety in the workplace that they can control to minimize operational disruption and other negative impacts.

Resource Use

Resource use focuses on how efficiently and effectively a company uses its raw material inputs (excluding energy and petroleum-based products) in production and how it manages related risks. Water use is a focus of this MEI. Responsible water use isn't only important to ensure the continued availability of a key input, but also to prevent punitive actions by stakeholders, including governments and investors.



Looking at Industries Through the Lens of ESG Risk

Analyzing industries through the lens of ESG risk entails examining the MEIs specific to the sub-industry and the industry's exposure to these MEIs, assessing how well companies are managing their ESG risk, and determining the amount of risk that's unmanaged by the companies in the sub-industry.

There are 20 MEIs that are underpinned with more than 300 ESG indicators. The analysis begins with determining, based on the nature of the sub-industry's business, the degree of exposure to each MEI. This is reflected in the **average exposure score** for a sub-industry, with higher scores representing higher exposure to MEIs.

Then, the percentage of ESG risk that is being managed by the companies in the sub-industry is determined to arrive at an **average management score**, with a higher score suggesting better management of ESG issues.

Finally, an **average ESG Risk Rating score** is determined, which shows the amount of unmanaged ESG risk at companies in the sub-industry, with a lower score representing less unmanaged ESG risk. This score is absolute so it can be compared between sub-industries.





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Industrial Conglomerates

Avg Exposure Score	Avg Management Score	Avg ESG Risk Rating Score	Key MEIs (Highest to Lowest Impact)
62.3	36.0	42.0	1. Business Ethics 2. Product Governance 3. Carbon – Own Operations 4. Resource Use 5. Emission, Effluents, and Waste

The industrial conglomerates industry is the highest-risk industry and has the lowest average management score. The average ESG Risk Rating score is 42.0 (category: severe), with 59% of companies scoring in the severe risk category. The average management score is 36.0 and, as can be seen in Figure 2, a high percentage of companies with management scores below 50 come from the industrial conglomerate sector. This means companies in the sector could do a better job managing their ESG risks.

Industrial conglomerates — which are predominantly located in the Asia-Pacific region — are involved in business activities across a wide range of sectors such as aerospace, chemicals, mining, healthcare, and electronics. Companies in the industry are diversified by nature and, as a result, have high exposure to multiple MEIs.

Industrial conglomerates have the highest exposure to the business ethics MEI followed by product governance and carbon – own operations. Several of the industry's most important MEIs, such as business ethics and product governance, are highly manageable, meaning that through strong management programs and policies, companies could meaningfully mitigate ESG risk from these MEIs. Not acting on manageable ESG issues can negatively affect stakeholders, as seen in the case of a Japanese conglomerate which has been involved in several business ethics incidents in recent years. Its measures to reform company culture appeared ineffective as it was involved in two high-profile accounting scandals within two years. The company reported a JPY 966 billion (US$8.6 billion) loss for fiscal year 2016 and was removed from the Tokyo Stock exchange, but was later approved to be reinstated to the first sections of the Tokyo and Nagoya stock exchanges in January 2021.[3]

Figure 2: Average ESG Management Scores Compared to Universe

Source: Sustainalytics | For Informational Purposes Only

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Steel

Avg Exposure Score	Avg Management Score	Avg ESG Risk Rating Score	Key MEIs (Highest to Lowest Impact)
63.4	42.3	38.9	1. Carbon – Own Operations 2. Occupational Health and Safety 3. Emissions, Effluents, and Waste 4. Community Relations 5. Resource Use

The steel industry is the second riskiest, with an average ESG Risk Rating score of 38.9 (category: high). The industry has an average management score of 42.3 with many companies demonstrating strong management of ESG issues. As seen in Figure 3, more than 50% of companies in the industry have a management score of 40 or better.

Most companies in the steel industry produce crude steel, but the industry also includes iron mining companies, vertically integrated companies that also pursue mining activities, and value-added operations that include a wide variety of secondary steel processing in advanced alloys and specialized steel products.

Gaps remain in managing large carbon emission footprints and air pollution, and the industry's highest MEI exposure is carbon – own operations. Occupational health and safety issues are a key area of risk for companies in the industry, with almost half involved in a related event. Integrated companies with mining operations face additional risks due to water use and contamination with community relations implications.

To improve their MEI management, companies might consider emissions reduction measures such as renewable energy, hydrogen as a fuel, and carbon capture and sequestration. Some companies have adopted net-zero by 2050 and intensity reduction targets. Reduction of large-scale accidents, such as explosions, as well as the elimination of fatalities, are also key improvement opportunities for the industry.

ResponsibleSteel, an industry standard and certification initiative, has published recommendations for a net-zero steel pathway. These recommendations will be considered when the Science Based Targets initiative (SBTi) begins developing target-setting methodologies and guidance for steel companies to reduce their GHG emissions. Currently, companies in all sectors (except oil and gas) can set science-based targets to reduce GHG emission, aligned with the SBTi criteria.

Figure 3: Average ESG Management Scores Compared to Universe

Source: Sustainalytics | For Informational Purposes Only

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Diversified Metals

Avg Exposure Score	Avg Management Score	Avg ESG Risk Rating Score	Key MEIs (Highest to Lowest Impact)
66.7	47.1	38.5	1. Emissions, Effluents, and Waste 2. Community Relations 3. Carbon – Own Operations 4. Resource Use 5. Occupational Health and Safety

The diversified metals industry is the third riskiest, with an average ESG Risk Rating score of 38.5 (category: high). The highest MEI exposure for the industry is emissions, effluents, and waste, but the industry is significantly exposed across the spectrum of ESG issues, with the second-highest exposure score (66.7). It's in the 12th percentile for management, with an average management score of 47.1, and more than half of companies have a score above 50, as shown in Figure 4.

The diversified metals industry is composed of the aluminum and diversified metals mining sub-industries. Companies are involved in both the extraction and processing of a variety of metals including coal, iron, nickel, cobalt, and rare earth metals. Within the industry, copper producers face higher contamination risk due to the use of sulphuric acid in ore extraction. More than half of the companies are headquartered in Asia-Pacific.

Gaps remain in terms of managing the high risk of negative environmental impact and community relations challenges. Tailings dam management continues to be a focus for best practice management, with recent catastrophic dam failures leading to additional scrutiny and resulting in substantial compensation and restoration liabilities for the companies involved. Water use and contamination are the leading cause for community opposition while failures to meet expectations, such as job creation, have led to blockades. Decarbonization is also an important issue for the industry.

The biggest opportunities flow from balancing environmental and social impact with the role some metals play in the transition to a low-carbon economy. The industry produces the key metals necessary for building infrastructure and products to support GHG reduction globally, such as electric vehicles, solar panels, and wind turbines.

Figure 4: Average ESG Management Scores Compared to Universe

Source: Sustainalytics | For Informational Purposes Only

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Precious Metals

Avg Exposure Score	Avg Management Score	Avg ESG Risk Rating Score	Key MEIs (Highest to Lowest Impact)
65.3	46.0	38.1	1. Emissions, Effluents, and Waste 2. Community Relations 3. Resource Use 4. Occupational Health and Safety 5. Carbon – Own Operations

The industry is the fourth riskiest with an average ESG Risk Rating score of 38.1 (category: high). The industry ranks seventh for management of its ESG issues, but the number of issues it's exposed to (10) increases the riskiness of the industry. Virtually all companies in the precious metals industry (90%) have high exposure to material ESG issues (scores >55).

The precious metals industry is composed of companies that extract and process a variety of precious metals including gold, silver, the platinum group metals, and diamonds. The industry also includes five royalty and streaming companies, which provide financing to companies that mine for precious metals.

The industry is most exposed to the emissions, effluents, and waste MEI and has high exposure to community relations and occupational health and safety. Gaps remain in the management of emissions, effluents, and waste and community relations.

Decarbonization is an important issue for the industry and leading companies are investing in electric vehicles and renewable power. The push for increased energy efficiency and the reduction of fossil fuel consumption continues to shape the modernization of mines. Companies can learn from peers about best practices in ESG management through industry groups such as the International Council on Mining and Metals (ICMM), the Mining Association of Canada, and the World Gold Council.

Figure 5: Average ESG Management Scores Compared to Universe

Source: Sustainalytics | For Informational Purposes Only

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Oil and Gas Producers

Avg Exposure Score	Avg Management Score	Avg ESG Risk Rating Score	Key MEIs (Highest to Lowest Impact)
68.2	52.3	37.7	1. Carbon – Product and Services 2. Emissions, Effluents, and Waste 3. Carbon – Own Operations 4. Community Relations 5. Occupational Health and Safety

The oil and gas producers industry has the fifth-highest average ESG Risk Rating at 37.7 (category: high). While it has the highest overall ESG exposure score (68.2), it also has the best average management score among the group (52.3) with almost a quarter of oil and gas producers scoring above 65 on their management performance (see Figure 6).

The integrated oil and gas, oil and gas exploration and production, and coal sub-industries make up the oil and gas producers industry. Companies in this industry are primarily involved in the discovery and production of oil, natural gas, and coal.

The industry is most exposed to the carbon – products and services MEI and has high exposure to community relations and emissions, effluents, and waste issues.

Despite strong management, unmanaged ESG risk is high within the oil and gas industry because most MEIs have a meaningful degree of unmanageable risk. For instance, carbon cannot be completely eliminated from the oil and gas value chain and some community opposition will always occur despite a company's best efforts.

Strong GHG risk management practices, such as having clear organizational and board-level responsibility over climate-related transition risk, are considered the most significant elements of managing carbon – products and services risk. Companies can reduce risks relating to community relations by consulting with and including communities in decision-making processes at the early stages of projects and establishing clear ongoing consultation and dialogue with stakeholders.

Figure 6: Average ESG Management Scores Compared to Universe

Source: Sustainalytics | For Informational Purposes Only

Overview of Five High-Risk Industries:

ESG Exposure, Management, Risk Ratings Scores, and MEIs

Industry	Avg Exposure Score	Avg Management Score	Avg ESG Risk Rating Score	Key MEIs (Highest to Lowest Impact)
Industrial Conglomerates	62.3	36.0	42.0	1. Business Ethics 2. Product Governance 3. Carbon – Own Operations 4. Resource Use 5. Emission, Effluents, and Waste
Steel	63.4	42.3	38.9	1. Carbon – Own Operations 2. Occupational Health and Safety 3. Emissions, Effluents, and Waste 4. Community Relations 5. Resource Use
Diversified Metals	66.7	47.1	38.5	1. Emissions, Effluents, and Waste 2. Community Relations 3. Carbon – Own Operations 4. Resource Use 5. Occupational Health and Safety
Precious Metals	65.3	46.0	38.1	1. Emissions, Effluents, and Waste 2. Community Relations 3. Resource Use 4. Occupational Health and Safety 5. Carbon – Own Operations
Oil And Gas Producers	68.2	52.3	37.7	1. Carbon – Product and Services 2. Emissions, Effluents, and Waste 3. Carbon – Own Operations 4. Community Relations 5. Occupational Health and Safety

Source: Sustainalytics | For Informational Purposes Only

Managing High-Impact Material ESG Issues

For all companies, whether high-risk or not, understanding their exposure to MEIs and having effective programs and policies in place to address them are crucial elements for improving ESG risk management. The best practices of companies facing some key MEIs can help guide all companies in their actions to manage high-impact ESG risks.

Carbon – Own Operations and Product and Services

Key Actions for Companies

- Set net-zero and science-based targets for GHG emissions.
- Institute climate-related governance structures and procedures and have specifically assigned management responsibility for the issues within the organization.
- Include detailed disclosure on the resilience of the overall strategy and business model in the company's ESG reporting.
- Use sustainable finance options to help fund the costs of transitioning to low or zero-carbon operations.

As global carbon budgets are tightened, companies will need to manage their carbon risk or align to low carbon business models or they will face an increased regulatory burden and associated operational costs.

GHG emissions reduction targets, including net-zero and science-based targets, are being used by companies in the steel and oil and gas industries to reduce carbon risks — and companies at the leading edge ensure they're investing in innovations such as electrification of the modern mine.

The very best performers have instituted climate-related governance structures and procedures and have specifically assigned management responsibility for the issues within their organization. They also include detailed disclosure on the resilience of their overall strategy and business model in their ESG reporting.

Sustainable finance has opened the door for companies in carbon-intensive industries to contribute to the reduction of GHG emissions through the issuance of instruments such as transition bonds, green bonds and loans, and sustainability-linked bonds and loans. As part of these programs, issuers and borrowers need to have eligible green assets or assets that contribute to a low-carbon transition (in the case of bonds and loans) or set and monitor appropriate targets and performance indicators and develop a sustainability strategy (in the case of sustainability-linked instruments).

Emissions, Effluents, and Waste

Key Actions for Companies

- Establish an environmental management system based on industry best practices and certified by the International Organization for Standardization (ISO).
- Set ambitious targets to eliminate, reduce, recycle, or reuse emissions, effluents, and waste from operations.

As societal standards related to pollution rise, pollution issues will become more important for companies to address. The trend toward stronger and broader regulations and greater enforcement means that companies will need to make concerted efforts to ensure they are managing emissions, effluents, and waste to avoid being penalized for environmental pollution.

Within the steel, diversified metals, and precious metals industries, two key factors stand out among companies that are best at handling emissions, effluents, and waste. First, they have an ISO-certified environmental management system; second, they have adopted the ICMM Global Industry Standard on Tailings Management Targets.

For companies in those sectors, targets for performance improvement include transitioning to dry tailings and waterless ore extraction and increasing the proportion of alternative uses for solid mineral waste such as backfilling and road construction. Key for many of companies for which emissions, effluents, and waste is a significant MEI is to prevent accidental emissions to avoid penalties and reduce day-to-day pollution to avoid community opposition.

Business Ethics

Key Actions for Companies

- Implement strong ethics, anti-bribery, and anti-corruption programs.
- Perform regular risk assessments, train employees on ethics on an annual basis, establish clear operating guidelines, and put in place mechanisms for investigating incidents and for correcting actions.

Organizations need to develop an ethical culture supported by programs, procedures, and governance. Companies involved in legal or ethical misconduct face potential negative financial impacts and may suffer severe reputational risks that might change their operational outlook and market presence.

Companies that are leading in the management of business ethics have strong ethics, anti-bribery, and anti-corruption programs. These include regular risk assessments, annual training of employees, clear operating guidelines, and mechanisms for investigating incidents and for correcting actions.

Community Relations

Key Actions for Companies

- Adopt a comprehensive community engagement and development program based on transparency and open communication.
- Institute a formal Indigenous rights policy with a commitment to respect the right to free, prior, and informed consent.
- Prioritize hiring local workers and using local businesses to provide goods and services.

Companies increasingly face pressure to reduce their environmental impacts to help preserve a community's way of life and to provide support for sustainable local development. It will be imperative for them to manage their community relations to avoid community opposition that may lead to production interruptions and lost revenues.

The diversified metals, precious metals, and oil and gas industries face elevated exposure to community relations risk. Companies achieving superior management of this risk are adopting comprehensive community engagement and development programs based on transparency and open communication. Leading companies are engaging communities in all stages of operations — before operations begin, during operations, and during closure — to listen to concerns and share information such as air and water quality data. These companies have a formal Indigenous rights policy with a commitment to respect the right to free, prior, and informed consent.

Companies that are adept at managing community relations prioritize hiring local workers and using local businesses to provide goods and services. The new best practice management does not end when operations end, but provides training and fostering of local businesses that can sustain the community even post-project.

Occupational Health and Safety

Key Actions for Companies

- Use education, training, and external certification of safety management systems to achieve behavioral and corporate culture change.

Businesses need to ensure they manage the elements of health and safety in the workplace that they can control to minimize operational disruption and other negative impacts. Steel, diversified metals, and precious metals companies with superior occupational health and safety records use education and training and external certification of safety management systems to achieve behavioral and corporate culture change. The most innovative companies in high-risk industries are reducing health and safety risk through the use of unmanned equipment.

Resource Use

Key Actions for Companies

- Develop disclosure and management practices related to resource use, especially water or scarce, difficult to access raw materials.
- Explore industry-specific recycling, material substitution, and/or eco or circular-design methods.

The use of water as a resource is a focus for many industries. For water-intensive industries, responsible water use is important for maintaining operations as well as maintaining good stakeholder relations. The overextraction of limited freshwater resources can cause people within regions to be displaced, and lead to potential conflicts within and among regions and nations.

Given the localized and geopolitical nature of water resources management, it's important that companies develop their disclosure and management practices to the highest possible level. For companies in highly exposed industries, the responsible and effective management of critical raw materials that are either scarce or difficult to access should be a top priority. Reusing water from tailings dams and costly desalination plants are two innovative ways companies in the precious metals and diversified metals industries are addressing water scarcity. For steelmakers, water recycling is common, resulting in overall strong water management and performance. For other industries, responsible resource use can be done through recycling programs, the substitution of less scarce materials, or eco-design.

Product Governance

Key Actions for Companies

- Achieve external certification of product quality and safety programs with ISO 9001 or similar industry-specific variants.
- Assign management clear responsibilities for ensuring the quality and safety of products.
- Perform assessments to identify product safety hazards and critical points within production processes.

It's important that companies ensure the quality and safety of their products and services and manage their responsibilities to clients. Failure to do so can subject them to reputational, legal, and regulatory risks.

Companies in the industrial conglomerates industry that are leading the way in the management of product governance have given management clear responsibilities for ensuring product quality and are performing assessments to identify product safety hazards and critical points within production processes. Top companies achieve external certification of product quality and safety programs with ISO 9001 or similar industry-specific variants considered a best practice.

Conclusion:

High-Risk Companies and Industries Can Improve Their Business Through ESG

There are many opportunities for improving the management of MEIs, regardless of industry or level of industry exposure. Understanding how high-risk companies are managing ESG risks provides insight and guidance for all organizations in managing any mix of MEIs and exposures.

High-risk companies that are successfully managing MEIs are taking steps to understand the MEIs that most impact them and how much exposure they have to these issues. They are setting targets for improvement and creating specific programs, processes, and reporting structures to manage MEIs. Where possible, they are also seeking external certification of the processes. They understand that ongoing, consultative communication with stakeholders in the community is imperative.

Successful organizations are making MEIs a management responsibility and creating governance structures to ensure that the company is following procedures and meeting targets. These firms are training and educating their employees with the goal of creating a culture of identifying, managing, and monitoring MEIs.

The most innovative companies are seeking out technological solutions to address some key issues. Others are employing financial innovations in the form of sustainable finance to help fund relevant green, social, or low-carbon transition projects.

To support future ESG decisions, drive internal performance improvements, and close the gap between managed and unmanaged risks, companies are increasingly looking to assess their competitive position in the market with respect to ESG and sustainability performance.

Even companies that meet the highest ESG performance standards may have suppliers and partners that don't. These companies can perform a supply chain assessment to evaluate suppliers and better understand the potential material ESG risks in their supply chain.

While the riskiest industries face outsized exposure to certain MEIs, there's a clear business case for continued positive momentum — and even high-risk companies in high-risk industries can take meaningful steps that benefit not just society and the environment, but the business as well.

Helping You Understand the Material ESG Risks Affecting Your Company

Whether your company is highly exposed to ESG risk factors, or is from a low-risk industry, being aware of the ESG issues affecting your company is critical. Sustainalytics Corporate Solutions can help you understand your company's current ESG position to support target setting and performance monitoring, as well as corporate sustainable finance activities.

ESG Performance Analytics

Receive an in-depth evaluation of your company's ESG Risk Rating and compare your performance to industry peers. Learn about your company's exposure to ESG risk factors, understand our assessment of your company's management of those risks, and see examples of industry best practice. Learn more here.

Competitive Insights

With this online benchmarking tool, view a high-level comparison of your company's ESG performance relative to five peers of your choice. In addition to overall ESG Risk Ratings, gain insight into yours and your peers' ESG exposure and management, and the material ESG issues contributing to the overall rating. Learn more here.

ESG Assessment Platform

Our ESG Assessment Platform helps procurement and sustainability professionals assess the ESG risk profiles of the organizations they work with, from customers to suppliers to partners. Gain a better understanding of the potential ESG risks within your supply chain. Learn more here.

Corporate ESG License

Sustainalytics' ESG Risk Ratings License allows companies to use the ESG Risk Rating and reports for various internal and/or external corporate purposes. Companies are increasingly leveraging their ESG performance data as part of their capital raising activities, marketing and promotion programs, investor relations outreach, and employee communications initiatives. Learn more here.

Second-Party Opinions for Bonds and Loans

For issuers addressing material ESG issues through sustainable finance instruments such as labeled or sustainability-linked bonds and loans, Sustainalytics offers market-leading second-party opinion reports. Provide investors with assurance that your framework is aligned to accepted market principles (e.g., the Green Bond Principles or the Green Loan Principles) and that the proceeds of the bond or loan, as set out in the framework, are aligned to market practices and expectations from the investment community. Learn more here.

Inquiries

For inquiries regarding the ebook, please email contact@sustainalytics.com

Notes

1 Determined by Sustainalytics ESG Risk Ratings as of November 2021. All subsequent references to risk ratings, exposure scores, management scores, etc. refer to Sustainalytics methodology and research universe.

2 Sustainalytics (2021). ESG Risk Ratings Methodology, access at https://connect.sustainalytics.com/esg-risk-ratings-methodology.

3 Company ESG Risk Ratings report, Sustainalytics Global Access

About Sustainalytics

Sustainalytics, a Morningstar Company, is a leading global ESG research, ratings, and data firm supporting corporations and their financial intermediaries to consider sustainability issues in their policies, practices, and capital projects. As the leading second-party opinion provider in the market, Sustainalytics offers issuers credible verification on the use of proceeds for sustainable finance products. Corporations also leverage Sustainalytics' ESG Risk Ratings to understand and promote their ESG performance with their internal and external stakeholders. The firm has received awards in recognition of its ESG solutions and opinion services, most recently from Climate Bonds Initiative, Environmental Finance, and GlobalCapital. With 17 offices globally, Sustainalytics has more than 1,200 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups. For more information, visit www.sustainalytics.com

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