Addressing Material ESG Issues:
Actions for Companies with High or Low ESG Risk

All businesses face material environmental, social, and governance (ESG) issues. An issue is considered material if including or excluding information about it in a company's financial reporting would likely influence the decisions made by a reasonable investor.[1] These ESG issues can have a substantial impact on a company's value.

To help companies better understand and address the material ESG issues (MEIs) they face, we highlight the MEIs impacting companies in industries with the highest and lowest average ESG Risk Rating. See below to explore how companies in different industries address the same issue and glean lessons from sector peers.

ESG Risk Ratings in Brief

First, we need to know what ESG risk is and how it is assessed. Sustainalytics' ESG Risk Rating represents a company's unmanaged ESG risk, based on its exposure or vulnerability to material ESG issues and its management of those issues. A low score represents less unmanaged risk and suggests better ESG risk management by a company than a high score.

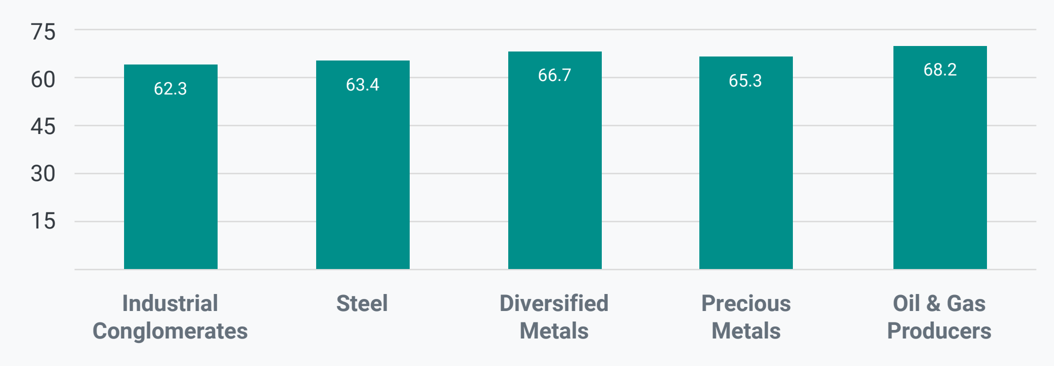
NEGLIGIBLE	LOW	MEDIUM	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

5 Industries With the Highest and Lowest Average ESG Risk Rating

Below, see the five industries with the highest and lowest average ESG Risk Rating, as well as their average ESG exposure and management scores.[2]

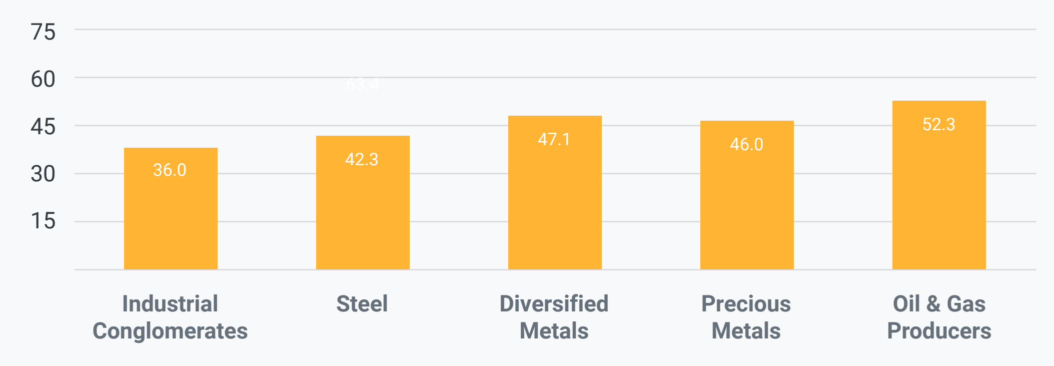
Highest ESG Risk Industries

AVERAGE OF OVERALL EXPOSURE SCORE 2021



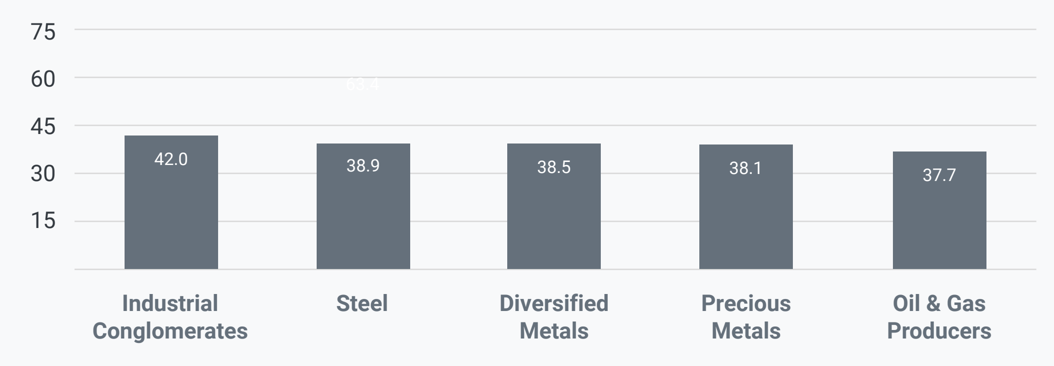
A lower score is better.

AVERAGE MANAGEMENT SCORE 2021



A higher score is better.

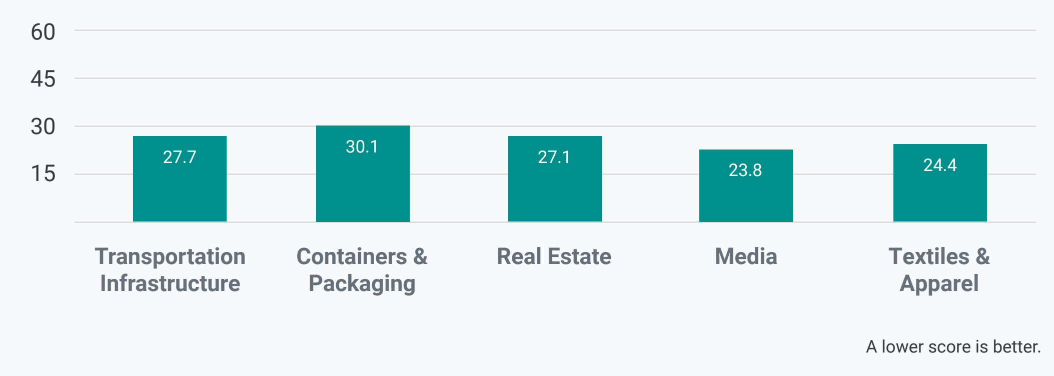
AVERAGE ESG RISK SCORE 2021



A lower score is better.

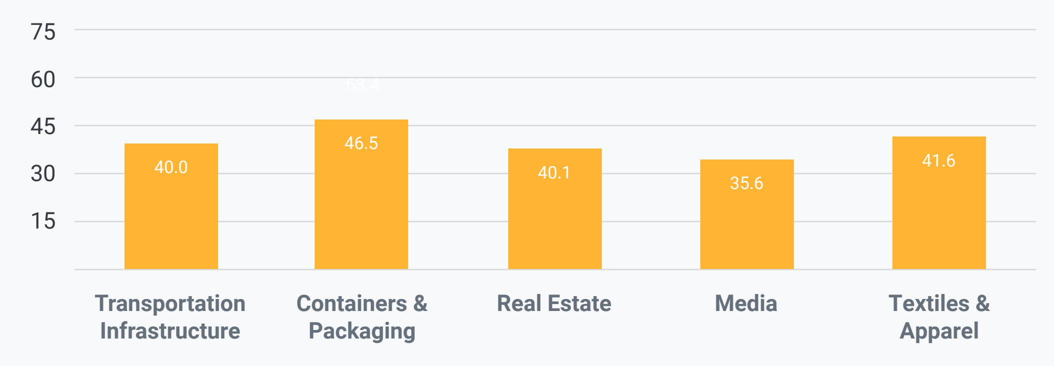
Lowest ESG Risk Industries

AVERAGE OF OVERALL EXPOSURE SCORE 2021



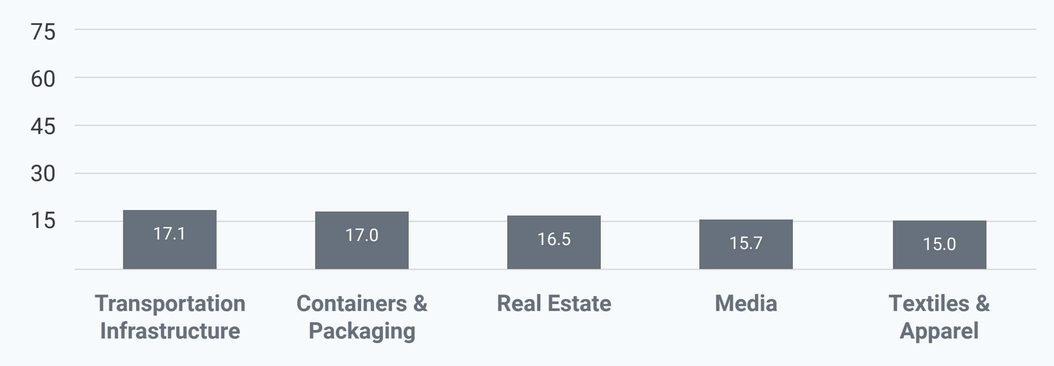
A lower score is better.

AVERAGE MANAGEMENT SCORE 2021



A higher score is better.

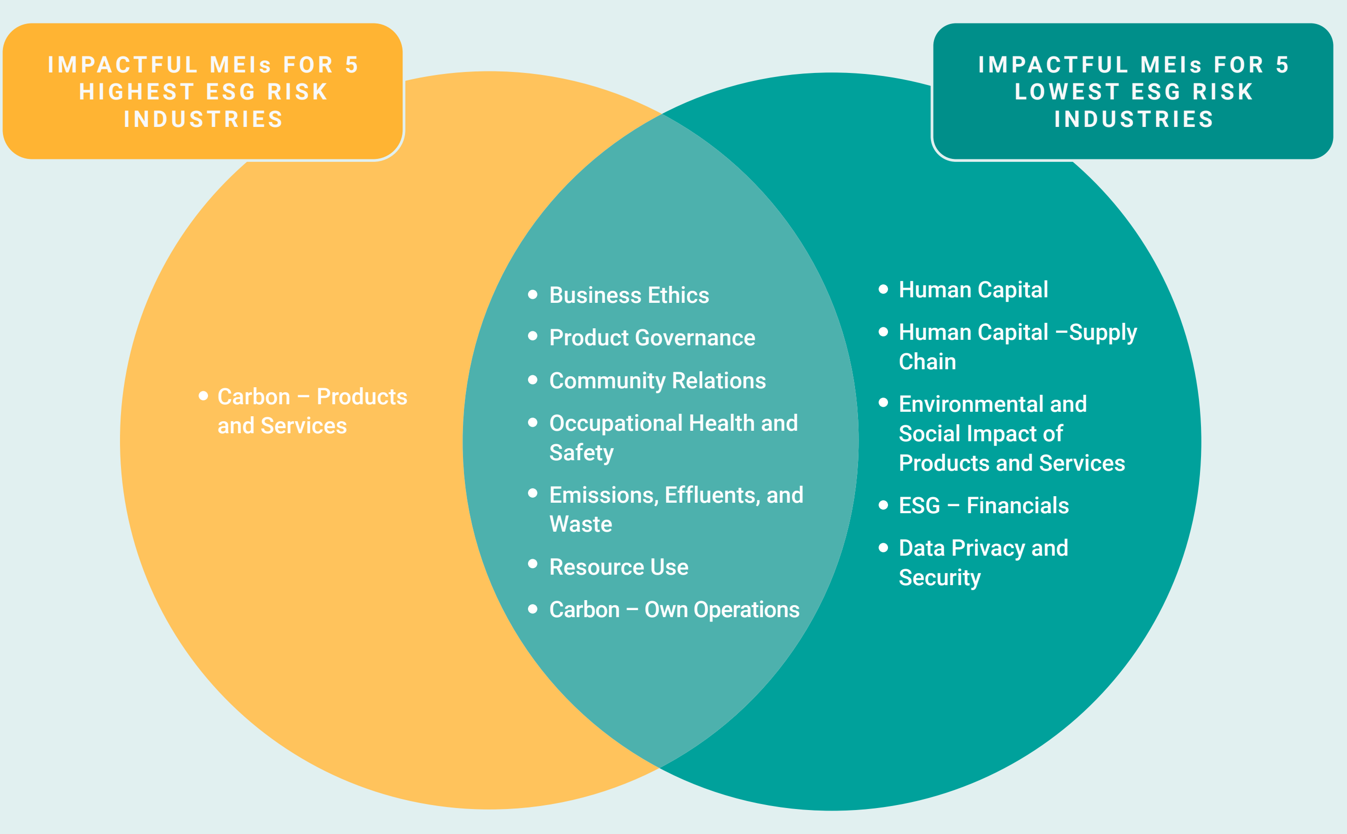
AVERAGE ESG RISK SCORE 2021



A lower score is better.

Material ESG Issues for High and Low Risk Industries

The types of material ESG issues a company faces and their impact will vary depending on the company's business model and the industry it is in. Nonetheless, companies in industries with high and low ESG risk share some material ESG issues in common.



Actions to Address Common MEIs Across High and Low Risk Industries

How companies address MEIs can be as unique as they are, but some approaches can be applied regardless of your sector. Below are the MEIs that the highest and lowest ESG risk industries have in common and some actions any company can take to manage them effectively.

Business Ethics

- 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 correcting actions.

Carbon – Own Operations

- Set net-zero and science-based targets for greenhouse gas emissions.
- Institute climate-related governance structures and procedures with assigned management responsibility within the organization.
- Disclose 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.

Community Relations

- 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.

Emissions, Effluents, and Waste

- 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.

Occupational Health and Safety

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

Product Governance

- 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.

Resource Use

- 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.

Learn more about ESG materiality and how companies are managing in our ebook, **Understanding Materiality: Lessons From Industries With High ESG Risk**.

DOWNLOAD NOW

[1] See Sustainalytics' ESG Risk Rating Methodology.
[2] 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.

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