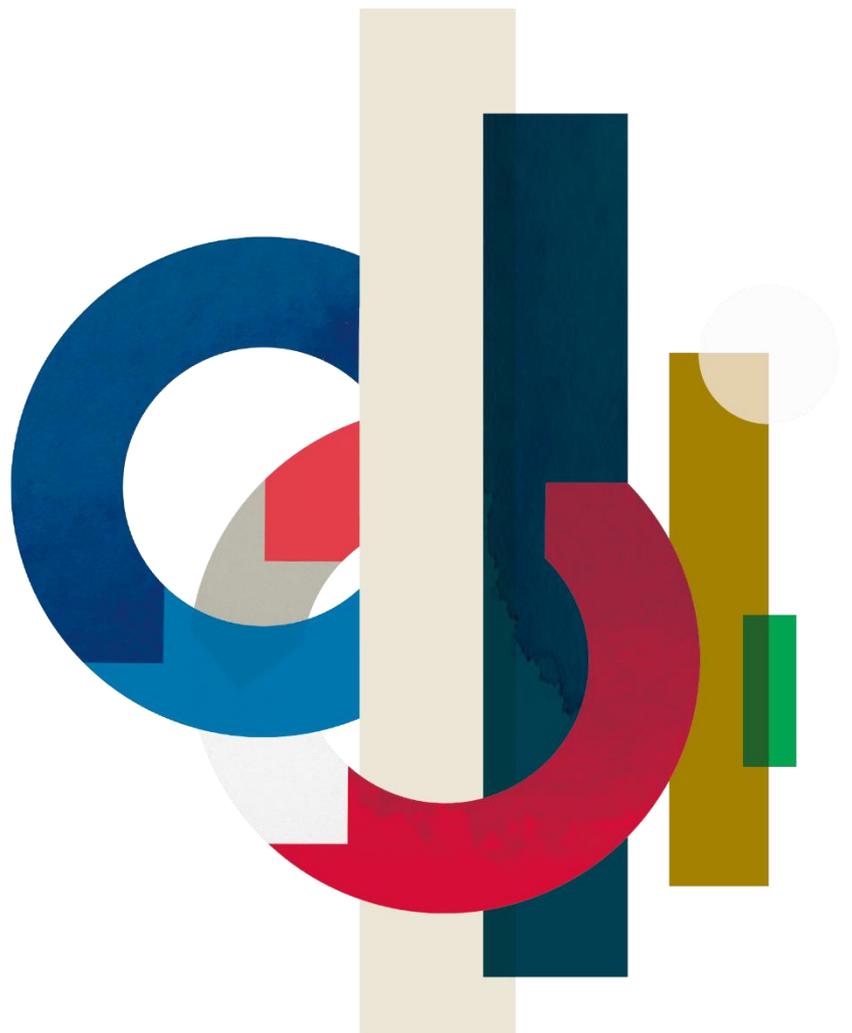


*Corporate Social  
Responsibility  
The COVID-19 Stress Test*



April 2020

## 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 susceptibility to ESG controversies. What we have identified are risks spread across the full scope of the social value chain, from employee protection to customer support and supply chain management to privacy concerns. Yet, in an era defined by isolation and social distancing, many corporations have been taking clear actions to “reach out” to their stakeholders and position themselves as valuable corporate citizens. In this paper we detail some of our observations from this initial phase of the pandemic.*

## Key Findings

Since the start of the pandemic<sup>1</sup>, we have recorded a total of **65**<sup>2</sup> COVID-19 related controversies impacting **57** companies from **22** different sectors. Most of the controversies concern **European** and **North American** companies<sup>3</sup> and focus on **social** responsibilities.

Examples of the concerns raised include:

- ✓ Inadequate protective gear for staff,
- ✓ Inadequate policies or processes for consumer protection,
- ✓ Misleading information on the pandemic,
- ✓ Concerns over data management and privacy rights.

At sector level, **service orientated sectors** appear to be the most exposed thus far, but we also found exposure amongst **extractive** and **construction sectors** as well. The controversies impact sectors that are ‘open’ as well as ‘closed’ in the current environment.

We have recorded a wide range of **positive CSR practices** aimed at protecting and enhancing brand capital during this testing operating environment.

<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 21/04/2020

<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.

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

Sector	Number of Controversies Recorded
Hotel, Leisure Goods & Services	11
Mining & Metals	7
Software & IT Services	6
Food	5
Insurance	4
Business Support Services	4
Specialised Retail	4
Telecommunications	4
Heavy Construction	4
Building Materials	3
Broadcasting & Advertising	2

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

ESG Themes	Number of Controversies Recorded
Health and Safety	36
Information to Customers	17
Social Dialogue	11
Social and Economic Development	8
Supply Chain	3
Fundamental Human Rights	3
Anti- Competitive Practices	3
Customer Safety	3

**Figure 3:** Severity distribution<sup>4</sup> of controversies on COVID-19.

Case Severity	Percentage Distribution
Critical	0%
High	24%
Significant	68%
Minor	8%

**Figure 4:** Companies' response<sup>5</sup> to controversies on COVID-19.

Company Responsiveness	Percentage Distribution
Proactive	8%
Remedial	14%
Reactive	35%
Non-Communicative	48%

The immediate impacts for companies are focused around managing health and safety concerns, social dialogue related to workforce management and the dissemination of information to customers. Whether you are open or closed for business, there appear to be challenges. Companies facing rising demand (for example home delivery services) face exposure to concerns over their health and safety practices. The same is true for extractive and infrastructure companies that remain operational in this period. Our expectation is that as the world emerges from the immediate crisis and begins on the road towards economic recovery, the *types* of controversy that we are recording will start to change. Difficult questions around reorganizational management, remuneration policies, mental health and privacy rights appear as likely topics to come to the forefront in a second phase. This is by no means a negative or pessimistic prediction. The operating landscape has been fundamentally changed by this pandemic and so it is natural that exposure to challenging feedback from stakeholders rises in accordance.

<sup>4</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.

<sup>5</sup> Vigeo Eiris' Controversy Risk Assessment categorizes the responsiveness of companies to controversies using 4 levels: Non-Communicative, Reactive, Remedial and Proactive.

## Corporate Social Responsibility

With countries around the world implementing a policy mix of social distancing and the suspension of non-essential services, it is complicated for many companies to generate financial capital and to be close to their stakeholders in the traditional sense. Faced with these challenging operating conditions, many have taken the opportunity to deepen their corporate social responsibility practices to ensure that they are engaging in a meaningful manner with their stakeholders during a period in human history defined by isolation.

### Employees

**Danone**<sup>6</sup> has stated that the employment contracts of its 100,000 employees worldwide will be secured and their salaries guaranteed through June 30th. The company has also guaranteed exceptional COVID-19 health coverage (including childcare) to all of its employees worldwide. **Verizon**<sup>7</sup> has implemented a comprehensive coronavirus leave of absence policy. Those who contract the virus are eligible for up to 26 weeks paid leave. For employees caring for someone who's been infected, for employees directed to stay home<sup>8</sup> due to an underlying medical condition and for employees who have trouble finding childcare at

this time, Verizon has committed to provide 8 weeks of leave at full pay and, if needed, an additional 6 weeks with 60% of their base wage.

### Customers

**NIB Holdings** and **Medibank Private** have allowed members to retain usage of their health-insurance policies and access relief on premium payments. They have expanded coverage on chest, lung and other treatments related to COVID-19 at no additional cost. Many **supermarkets** have adjusted their operations to ensure that the most vulnerable people within this crisis have dedicated access to their services at specific hours of the day.

### Supply Chains

**Unilever**<sup>9</sup> has committed to protect its workforce including contractors and part time employees from sudden drops in pay as a result of market disruption or inability to perform their role, for up to 3 months. The company plans to offer 500 million EUR of relief to support small and medium-sized suppliers as well as small-scale retail customers across its extended value chain. Danone announced that it will provide the 15,000 SMEs within its global network (farmers,

<sup>6</sup> Danone responded to Vigeo Eiris on 01/04/2020

<sup>7</sup> Verizon responded to Vigeo Eiris on 10/04/2020

<sup>8</sup> NIB Holdings Gives Some Customers Relief on Premiums - Dow Jones Newswire - 27/03/2020

<sup>9</sup> Helping to protect lives and livelihoods from the Covid-19 pandemic - Unilever - 24/03/2020

suppliers, and service providers) with 250 million EUR from its own funds.

### Remuneration

CEOs of companies such as **Delta Airlines, Marriott and Allegiant**<sup>10</sup> have all decided to forgo their salaries and docked executives' salaries in order to avoid employee layoffs. In the United Kingdom, a survey indicated that one in four FTSE 100 Chief Executives had accepted salary and bonus reductions in response to the pandemic<sup>11</sup>.

### Sustainable Finance

In recent weeks, banks have begun issuing COVID-19 social bonds with the aim of channelling capital to alleviate the social and economic impacts of the virus. **The Nordic Investment Bank (NIB), European Investment Bank (EIB), and The Council of Europe Development Bank (CEB)**<sup>12</sup> have all issued bonds to provide funds to European nations in order to keep healthcare and financial systems afloat and manage the impact of the ongoing crisis.

### Societal Support

Distillers such as **Pernod Ricard** and **Anheuser-Busch**<sup>13</sup> as well as luxury brands such as LVMH and Burberry are just some of the companies that have shifted to manufacturing hand sanitisers and other healthcare equipment.

Several pharmaceutical and biotechnology companies have donated compounds with the potential to treat the novel coronavirus for emergency use and clinical trials. **Merck & Co., Eli Lilly** and **Pfizer**<sup>14</sup> have launched or expanded volunteer programs for their medically trained staff to help fight COVID-19 and others are exploring ways to use existing technologies that provide the ability to rapidly upscale production once a potential vaccine candidate is identified.

Companies such as **Disneyland** have donated the leftover food supplies from their idled operations to food banks.

<sup>10</sup> CEOs are giving up their salaries to help employees amid coronavirus pandemic - Miami Herald - 26/03/2020

<sup>11</sup> One in four top bosses have taken a pay cut in the wake of COVID-19 - People Management - 15/04/2020

<sup>12</sup> Development banks launch financial response to COVID-19 pandemic – BNP Paribas - 03/04/2020

<sup>13</sup> Distilleries and Breweries Pivot to Producing Hand Sanitizer - Bloomberg - 24/03/2020

<sup>14</sup> Merck, Eli Lilly, Pfizer free medical employees to join front-line pandemic fight - Fierce Pharma - 02/03/2020

## *Investor Reaction*

In rapid response to the pandemic, we have seen parts of the investor community come together to position themselves in support of businesses that are looking to find socially responsible pathways to recovery. The clearest example of this is the investors statement<sup>15</sup>, organized by Domini Impact Investments, the Interfaith Centre on Corporate Responsibility and the New York City Comptroller's Office. This has been endorsed by investors representing over 8.2 trillion USD in assets under management. There is a growing consensus amongst the investor community that companies should ensure the following steps during the crisis:

- **Provide paid leave:** make emergency paid leave available to all employees, including part-time, subcontracted, and temporary workers.
- **Prioritize health and safety:** protect worker and public safety through measures such as, remote work, closing locations if necessary, rotating shifts, adopting the occupational safety and health guidelines, and enhanced cleanings, trainings, or protections.
- **Maintain employment:** take every measure to retain workers. If considering layoffs, be mindful of potential discriminatory impact and the risk of employment discrimination lawsuits.
- **Preserve supplier and customer relationships:** maintain timely or prompt payments to suppliers and work with customers facing financial challenges.
- **Exercise financial prudence:** maintain the highest level of ethical financial management and responsibility, including suspending share buybacks and limiting executive and senior management compensation for the duration of this crisis.

In addition, the United Nations Principles for Responsible Investment<sup>16</sup> (UN-PRI) have identified the following investor actions:

- Engage companies that are failing in their crisis management
- Engage where other harm is being hidden behind, or worsened by, the crisis
- Re-prioritise engagement on other topics
- Publicly support an economy-wide response
- Participate in virtual AGMs
- Be receptive to requests for financial support
- Maintain a long-term focus in investment decision making

<sup>15</sup> Investor Statement on Coronavirus Response – 14/04/2020

<sup>16</sup> How responsible investors should respond to the COVID-19 coronavirus crisis - <https://www.unpri.org/covid-19> - 27/03/2020

The European Leverage Finance Association (ELFA)<sup>17</sup> has produced a set of Reporting Best Practice Guidelines to support discussions between investors and company management during this period. The guidance document covers questions on ESG as well as cash generation, liquidity and debt incurrence, capacity to incur additional priming debt, covenants, and protecting employees during the pandemic.

## Conclusions

*Social risks have taken somewhat of a backseat to environmental concerns<sup>18</sup> in recent years. In dramatic fashion, the materiality of the “S” has been placed centre stage by COVID-19. What started as a health crisis quickly created an economic one that is now defined by major social challenges, not least unemployment levels. Yet, in every crisis there are risks and opportunities and this is what we see in our research thus far. Week by week, we have seen a rising number of companies facing exposure to stakeholder criticism over their social practices. Simultaneously, we have seen companies across all sectors taking the opportunity to further embed themselves into the social fabric of the communities where they operate. The actions taken act as signals. They indicate that the corporate has a purpose beyond the pure generation of financial capital and can still function in an environment where revenue generation is either restricted or not possible. In this context, CSR presents a pathway to protect consumer trust, investor confidence and workforce loyalty. If there is a simple lesson that we can relearn, it is that CSR practices can act as powerful tools when responding to a crisis.*

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<sup>17</sup> ELFA Covid-19 – Best Reporting Practice Guidelines – 04/2020

<sup>18</sup> Since 2015, action on climate change has been well framed and supported by initiatives such as the Paris Agreement and the TCFD reporting standards alongside an increasingly mature appreciation of the financial impacts of the climate emergency. The European Unions' Taxonomy has been launched with a preliminary focus on green aspects. Within the sustainability bond market, Green Bond issuances outpace, by some distance, social bonds.

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