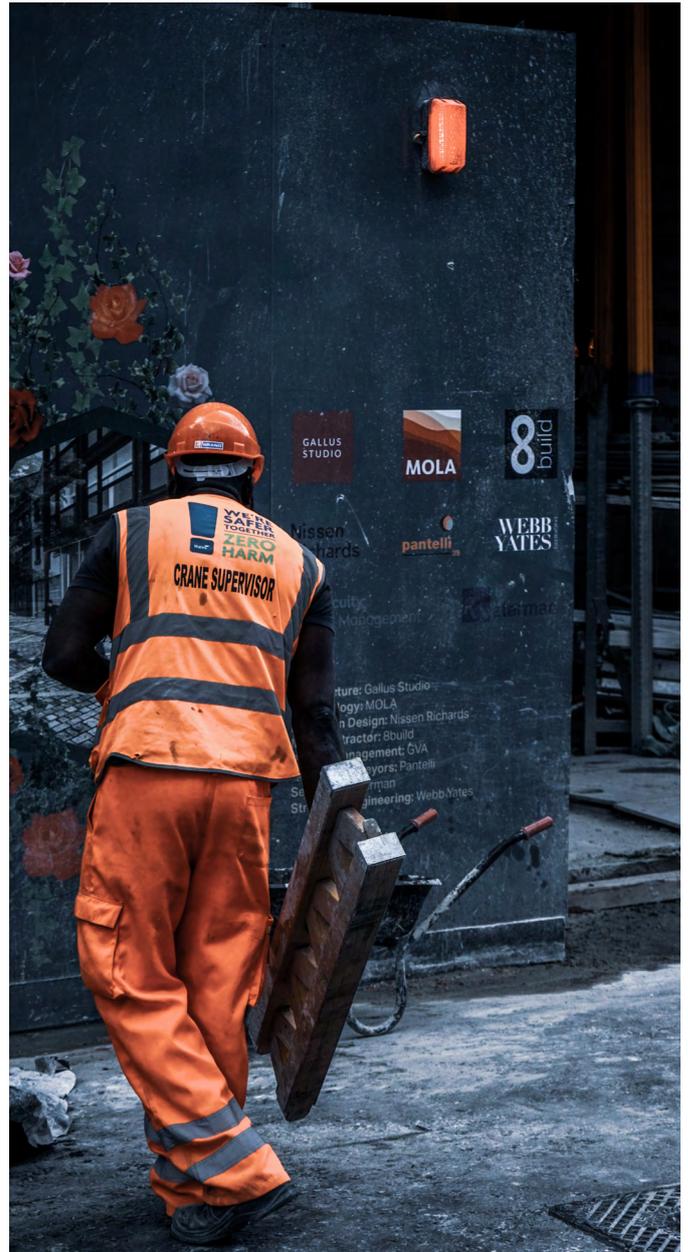


COVID-19 & ESG: Blessing for the E, Eye Opener for the S, & Heavy Duties for the G

This is the second article in the series of IdealRatings coverage about COVID-19 in ESG. Find the rest of the articles available at IdealRatings [latest publications](#).

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Despite the fact that COVID-19 is considered a major curse on humanity, with the current death tolls, it still could be considered a silver lining for the Social pillar in the Responsible Investment market. The virus came as an eye opener towards this aspect that seemed to face underestimated rights. To analyze the expected changes, it seemed important to walk through the main stakeholders in the social pillar; employees, customers, supply chain, and community. Numerous challenges will be faced by companies in these facets, and countless decisions will be made. Choices are considered limited and the ones that will be considered negative to any of the stakeholders can't still be considered an indictment given the current situation. However, companies' rapid reactions and the nature of such responses to all the underlying challenges will be the key benchmark to which companies are most likely to sustain.



Eye Opener for the 'S'-Part 1

Prior to the pandemic, the number one topic of interest for investors in the social pillar was human rights in companies' human capital. Now with the current vicissitudes, re-orientation towards other topics is projected to take place. Among these are; employees' working conditions, safety & health and benefits. Based on a survey done by [PWC](#) for 305 companies in the US, results showed that 77% are expected to adjust workforce safety measures after transitioning back to on-site work. This crisis has raised the value of human beings

and confirmed that business is managed by and for humans. Various companies have acknowledged that their real assets are "employees" and plenty of CEO letters have been sent to them to maintain trust, continuity, collaboration...etc.

Employment statistics are witnessing major changes; companies are faced with one of two decisions to retain or not to retain their employees. Unemployment rates have already spiked as a results of business

tension and lockdowns. [International Labor Organization \(ILO\)](#) has created several scenarios regarding unemployment rates while setting the 2008/9 global financial crisis as their benchmark; 22mn unemployed back then. The best-case scenario is 5.3mn and the worst-case scenario is up to 24.7mn with a loss of worker's income of around \$3.4tn, for the last setup. Accordingly, underemployment and informal economies are expected to increase. The list of companies that laid-off people is quite lengthy; Halliburton,

Hertz , etc. [CNBC survey](#) of more than 250 companies, from different sectors and sizes, showed that companies are considering conducting layoffs in the coming three months, already conducted permanent layoffs, and have conducted temporary layoffs, with 49%, 11% and 7% respectively.

Underemployment is another aspect that is forecasted to grow, causing a downward shift in wages and working hours. Some companies took the choice of cutting costs as a mean of protecting its financial health and retaining its employees. Such curtains came in various forms; pay cuts, furloughs, salary reductions, revisiting executives' payments, decreasing working hours, halting promotions, postponing bonuses etc. again the list of companies that went this way is quite extensive, such as DELL, EMC², Walt Disney, Tesla, Volkswagen, etc. Around half a million German companies have opted for such solutions and decided to curtail its payroll costs through short term working schemes. Workers almost receive two third of their payments and are considered officially employed, despite sending them home.

These are not the only changes when it comes to employees, given that safety & health of employees is becoming a top priority for companies, the regular working day will also witness some transformations. Working from home is no longer a luxury, now with social distancing it's becoming a necessity. Flexible arrangements should be done for employees to accommodate the new situation providing all technical support needed during lockdown to maintain communication, motivation and productivity. Monitoring employees under such circumstances is another test employers have to face. Daily meetings with direct teams are highly recommended

to keep the pace and flow of work as is. Also, assisting working parents with childcare solutions, as recommended by the UNICEF, adjusting their working hours, or providing paid leaves to these employees affected by school closures is another important aspect to cater for. However, remote work is not an option for all sectors, such as healthcare, retailers, and other industries. More stern health and safety measures are very important in these sectors that are highly dependent on daily people encounters.

support social-distancing, etc. Such list has to be mandatory for all companies especially with the recent calls of returning back to normal lives in support of the economy. ILO, UNICEF and other employee-related institutions published adequate policies and guidance to mitigate negative consequences and facilitate economic recovery. To brief, the main new strategies focus on social distancing, flexible working arrangement, teleworking, sick leave policies, increase hygiene awareness, accommodative monetary policy, financial



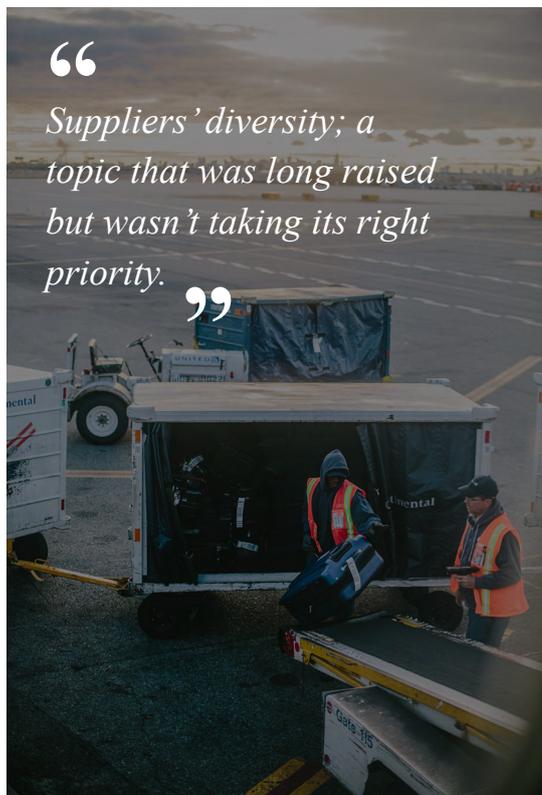
New norms will be imposed on professional life in terms of working conditions. A check-list of all necessary safety & health procedures has to be set, articulated, documented and communicated to all employees. This shall include essential requirements such as wearing gloves, masks, sanitizing hands, temperature checks, random check-ups, re-organizing offices to

support for specific sectors to protect enterprises, employment retention, tax relief, and income and smoothing measures to support business continuity.

Based on the above, certain sectors will be on rise mainly; healthcare, pharmaceuticals and tech. Preliminary Q1 2020 figures showed software, pharmaceuticals and

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biotechnology sectors with positive weighted average stock prices, compared to a long list of negative stock prices, showing 0.14%, 2%, and 6%, respectively. Some sectors need to bring themselves up to speed with market changes and start deploying new methods in their day-to-day operations. For example, retailers can take advantage of the, previously mentioned, rise in the tech sector by creating apps and online portals for their merchandise. If this is not done at a timely manner, then it's expected that such business will be facing hard times and/or be out of business.



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Suppliers’ diversity; a topic that was long raised but wasn’t taking its right priority.
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These variations, whether on the industrial or the company levels, come with their direct effects on the second stakeholder; customers. Safeguarding customers’ satisfaction remains a key priority in this aspect especially with lots of contracts’ termination are on stake. Be it a company that is downsizing or even a company that is facing high demand, these days due to industrial transformations, this will be an integral topic for companies’ sustainability. Companies facing higher mandates are in no better position, given the challenge of coping with this

surge and maintain the expected quality level which requires time, effort, and plans. Also, with the shift towards more online presence, data privacy comes as an essential part to cater for; companies are recommended to enhance and upgrade their online security measures to avoid any possible cyber-attacks. Related to this, it’s worth highlighting the tech’s role in controlling misleading information about the COVID-19. Tech giants such as Facebook, Twitter and Google started connecting people to trustful information centers via featuring links to institutions that provide high quality information about the virus.

Similar to the employees’ vicissitudes, supply chain key topics seem to be witnessing alterations. Investors’ focus is expected to move from human rights to suppliers’ diversity; a topic that was long raised but wasn’t taking its right priority. Manufacturing processes across the globe were disrupted after the pandemic outbreak, global lockdown, and the halt of commercial aerospace due to their high dependence on foreign suppliers, with China being on the top of this list. Even with China and other places starting to get back to semi normal life there are still problems due to, the slowdown in transportation, changes in some main business lines to support communities facing COVID-19, preventive measures still being set, and lockdown in certain rural areas. As such, suppliers’ diversity became a pressing matter with companies checking for alternatives where local and secondary suppliers turned as an appealing option. Shifting to local suppliers and MSMEs (Micro, Small, Medium Enterprises) and minority owned projects can be of various benefits on different aspects such as; lower carbon footprint, assistance to economies that are facing looming recession, employment opportunities amidst the increasing unemployment rates, meeting surging demand in certain industries, etc. A study done by [The Hackett Group](#) in 2016 about suppliers’ diversity showed positive results in meeting buyers’ expectations and annual sales. Again, the role of technology re-appears, as big suppliers started shifting towards automating some parts of the manufacturing process instead of being dependent on full human power, which comes as a contingency plan too for later on.

Co-authored by Eglal Hassan; Research Director at IdealRatings, Inc. she can be contacted at ehassan@idealratings.com and Mahinaz El-Aasser; ESG Product Manager, she can be contacted at melaasser@idealratings.com

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