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ESG in a Post COVID-19 World

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Tracking corporate responses to COVID-19: Trackers launched, companies focus on social issues

As companies face unprecedented challenges, **JUST Capital** launched the COVID-19 Corporate Response Tracker to explore the actions CEOs and corporate leaders of America's 100 largest public employers are taking to support and protect their workers, among others. According to the tracker, the most common actions taken by companies during the pandemic include offering special accommodations to customers such as discounts (64% of companies) and allowing remote or modified schedules (also 64%). Other key metrics and results include [as of April 20th]:

Key metrics	Results	Example
Corporate Leadership	**28%** announced executive pay cuts and **10%** also cut board pay, of which **4** announced 100% pay cut.	Delta announced a CEO and Board pay cut by 100% for the next six months. Officers, directors and managers will see their pay reduced by 25 or 50% until June 30.
Health and Safety	**48%** took measures to protect their employees, of which **29%** provided free personal protective equipment (PPE).	Comcast committed $500m to support employees with continued pay and benefits. Workers that can work from home are doing so. They also introduced measures to protect customer-facing employees, such as masks, temperature checks and social distancing.
Paid sick leave	**48%** granted paid sick leave to infected or quarantined employees ranging from 10 to 40 days.	Aramark provides up to 21 additional days if an employee is infected or quarantined and guarantees 100% of the salary.
Relaxed attendance policies	Announced by **11%.** Among these, only **5** grant paid sick leave.	Walmart is one of the only companies which has waived its attendance policy and grants paid sick leave to some employees. They have created a special COVID-19 emergency leave policy to protect their employees.
Furloughs or unpaid leave	Response by **26%**, of which **77%** maintained employee health care benefits.	Disney World in Florida has furloughed 43,000 employees but maintains health care benefits during the period and provides additional employee assistance programs.
Layoffs	Announced by **6%** of companies.	GE Aviation announced that they will reduce their total U.S. workforce by approximately 10%.

Extra spotlight on Business Roundtable companies: Attention on the purpose of the corporation

Last year, the **Business Roundtable** released a new Statement on the Purpose of a Corporation signed by 181 CEOs who committed to lead their companies for the benefit of all stakeholders – customers, employees, suppliers, communities and shareholders. Some of these companies are already tracked by Just Capital, and below are extra examples from HMI research on how these companies are responding to COVID-19:

- Health insurance company Anthem is expanding employee benefits and offering 80 hours of leave to employees experiencing symptoms of COVID-19, caring for young children whose schools have been closed, or caregiving related to COVID-19 [March 19th].
- Telecom companies, including Comcast and AT&T, are waiving late fees, suspending service disconnections and assisting low-income families with internet connections, as well as opening Wi-Fi hotspots to non-subscribers [April 27th].

- Financial institutions including American Express and Bank of America and electric companies including Edison are also waiving late fees and interest payments [May 1st], [March 19th], [April 20th].
- CVS, which is looking to temporarily increase its workforce during the pandemic, has partnered with Hilton and Marriott to provide temporary jobs for employees laid off or furloughed due to COVID-19 [March 23rd].

Latest investor views: Engagement continues, ESG Outperformance, social metrics matter

- Despite COVID-19 turmoil, Blackrock assured that it will continue pushing companies to make progress on key ESG issues such as executive pay and climate policies [March 18th]. In case there was any doubt about the importance of ESG going forward, the world's largest institutional investor reiterated "we see ESG as an enduring market theme" and said companies will be remembered and rewarded on their actions during this crisis [April 13th].
- Could ESG ratings predict outperformance? Research by Fidelity found companies with stronger sustainability characteristics have been more resilient during the crisis. They find a strong positive correlation between a company's relative market performance and its ESG rating over this turbulent period [April 16th].
- During market collapse, do investors distinguish between companies on their human capital, supply chain management and crisis management responses? Timely research by State Street Associates and Harvard Business School found that companies with more positive sentiment for the way they respond to the COVID-19 pandemic exhibit higher institutional investor money flows and less negative returns than their competitors [April 17th].

Sustainability expert view: How investors should respond and how ESG funds perform in the crisis

- The PRI issued new guidance on how responsible investors should respond to COVID-19, encouraging engagement with companies that fail to ensure workers' safety and their financial security, and companies prioritizing executive pay and short-term shareholder returns [March 27th].
- Morningstar data shows sustainable funds clearly outperformed during the first quarter of 2020. Nearly all ESG index funds outperformed the closest relevant market-cap-weighted index fund, and the main reason, based on attribution analysis, was their ESG stock selection [April 21st].

Challenges: Two steps forward, one step back

- **Short-termism:** Despite increasing attention on a possible green recovery, political energy in many countries is still focused on returning to business as usual to restart and boost the economy. According to TIME, this is not only jeopardizing climate action and the success of the Paris Agreement, but it might also increase fossil fuel consumption [March 10th].
- **Inequality and unemployment:** The WEF reports that costs associated with coronavirus (including treatment, testing and access to a future vaccine) might be devastating for countries without universal healthcare. For those who cannot afford healthcare, COVID-19 could further increase extreme poverty and widen the inequality gap. On top of that, the pandemic will put many low-income workers at risk of losing their jobs [March 13th].
- **E gives way to S?** Before the pandemic, investors had been doubling down on environmental issues. As the crisis evolves, social issues are increasingly in the spotlight and might become the focus in a post COVID-19 world. Morningstar kindly reminds us that it is important to not lose sight of the E and G (especially climate change) as all ESG factors are interconnected [April 24th].

Thinking ahead: The HMI View on Navigating the Future

How is COVID-19 changing the expectations for business?

Business will not be the same after COVID-19. The crisis will likely accelerate the shift to stakeholder capitalism as business leaders adapt to what has been a crash-course on balancing the interests of employees, shareholders and society at large. Transparent leadership will be more important than ever, given that key decisions made during the crisis will inevitably be put under the spotlight. The ability to navigate uncertainty while keeping employees engaged and motivated will be the hallmark of an effective leader. A close eye will also be on how leaders plan for the recovery from COVID-19. Many of our usual activities are on hold, and when we restart, we could choose to do things differently. The UN Secretary-General has called for a recovery built on a green economy, tying future expenditures to the creation of green jobs and sustainable growth.