2022 SUSTAINABLE INDUSTRY BAROMETER

Assessing the maturity and integration of social risk in European business

CSR EUROPE

Moody's | ESG Solutions

Contents

Foreword from CSR Europe

Within Europe, COVID-19, conflict, the energy transition, food security, youth unemployment and digitalisation are just some of the key factors impacting social cohesion and well-being.

The COVID-19 pandemic exposed and magnified pre-existing inequalities elevating discussions about social risk across the continent. As a result of the conflict in Ukraine, supporting refugees and tackling food and fuel poverty have rapidly emerged as major challenges for Europe to address. On the energy transition, many countries in Europe have set net-zero targets that, by default, will require significant restructurings of industries and economies. This transition will introduce new social risks for specific sectors, the people who work there and the surrounding communities. Finally, the digitalisation of our working and social lives is bringing new challenges in managing data privacy, freedom of expression, children's rights as well as mental health and well-being.

With all this in mind, it is unsurprising to see 'Social Cohesion Erosion' ranked by the World Economic Forum as the 4th most severe risk on a global scale over the next ten years[1]. Companies are deeply affected by these changes but at the same time are investing in tools to transform these challenges into opportunities. It is with this wider context in mind that we have produced the 2022 Sustainable Industry Barometer (2022 Barometer) in collaboration with Moody's ESG Solutions. The report shows how European sectors are positioned in terms of contributing to and managing social risks. The findings underscore the prevalence of social risk in Europe, the impacts of macrotrends such as digitalisation and the poor levels of preparedness of key sectors to support a just transition. The 2022 Barometer also acts as a wake-up call for businesses, industries, social partners, policy leaders, investors and civil society not only to reduce social harm, but also increase social resilience.

That is also why CSR Europe released the European Business Roadmap (the Roadmap) for Just Transition at its flagship SDG Summit in October 2022. By setting strategic directions and providing practical business examples, the Roadmap helps businesses to find new pathways to enhance their impact on people, by investing in more quality jobs, skills and talents, inclusive communities, resilient supply chains, and more affordable services and products for customers that are in vulnerable situations.

It is CSR Europe's ambition to build with the support of the European Commission, a European Business Alliance for Just Transition, using the 2022 Barometer and the Roadmap as accelerators for business awareness, engagement and collaboration at local, European and international levels.

Stefan Crets, Executive Director, CSR Europe

[1] Source: The Global Risks Report 2022, 17th Edition, World Economic Forum

Summary of findings from Moody's ESG Solutions

Social risk is prevalent in Europe and increasingly digital -

Social controversies account for 64% of all ESG controversies faced by European companies, outpacing environmental and governance controversies. The social controversies identified in Europe account for 22% of all the ESG controversies recorded globally by Moody's ESG Solutions. Communities and customers are more frequently impacted than employees and suppliers. There are a rising number of social controversies related to online interactions between companies and their stakeholders (privacy breaches, freedom of expression, inappropriate marketing etc). Looking forward, the greatest challenges for companies will be in monitoring and managing the digital dimensions of social risk alongside traditional social impacts on workers, communities, and suppliers.

European sectors demonstrate a limited capacity to support a just transition -

Across high carbon and labour-intensive sectors where action around the energy transition is most urgent, social risk management practices are considered by Moody's ESG Solutions to be "Limited" at sector level [2]. The clearest area of concern is the lack of transparency over how workforce reorganizations are managed as they ensure transparency and dialogue. They also serve to build social resilience amongst the workers and communities that are impacted by business.

Social risk management is improving incrementally in Europe -

Over the last five years (from 2017 to 2021), Moody's ESG Solutions has recorded a steady increase in European companies' scores on the topics of Human Rights, Labour Rights and Supply Chain Labour Standards integration. European scores on these topics are higher than other regions. However, the pace of improvement within the region appears slow but inbound regulations, particularly around supply chain due diligence, may provide headwinds for further and faster improvements.

The due diligence gap appears large and needs to be closed -

Looking at how European companies are addressing human rights in their operations as well as their supply chains, our findings revealed a clear supply chain due diligence gap. Policy commitments are more extensive than disclosures over actual due diligence practices. Whilst strategy and direction setting are important, there is limited evidence that companies are prepared to respond to various regulatory initiatives related to supply chain due diligence that are on the horizon in some European countries.

The Sustainable Development Goals (SDGs) are not consistently used as a holistic framework for action -

Corporate contributions towards the SDGs showed uneven progress, demonstrating a lack of consistency in how the framework is being utilised. On the socially tilted goals, SDG2 'Zero Hunger' and SDG 4 'Quality Education', only a limited number of companies from a handful of sectors are finding ways to contribute. With less than a decade left to meet the UN's deadline for achieving the SDGs, and in the context of increased economic hardship in Europe, companies face several challenges to find new and more innovative pathways to support SDGs.

Social Controversies in Europe

Since 2012 Moody's ESG Solutions has monitored the exposure of companies to different types of environmental, social and governance (ESG) controversies[3]. In 2021, we recorded a 62% increase in the total number of ESG controversies compared to 2020[4]. The impacts of the global pandemic and media coverage over themes such as inequalities, climate change and corporate tax practices were just some of the factors increasing the level of public scrutiny on corporate conduct.

At the time of writing this study, we identified 3,583 ESG controversies in Europe with approximately 64% of these classified as social. This shows the degree to which stakeholders are already raising concerns about how companies are handling their social responsibilities.

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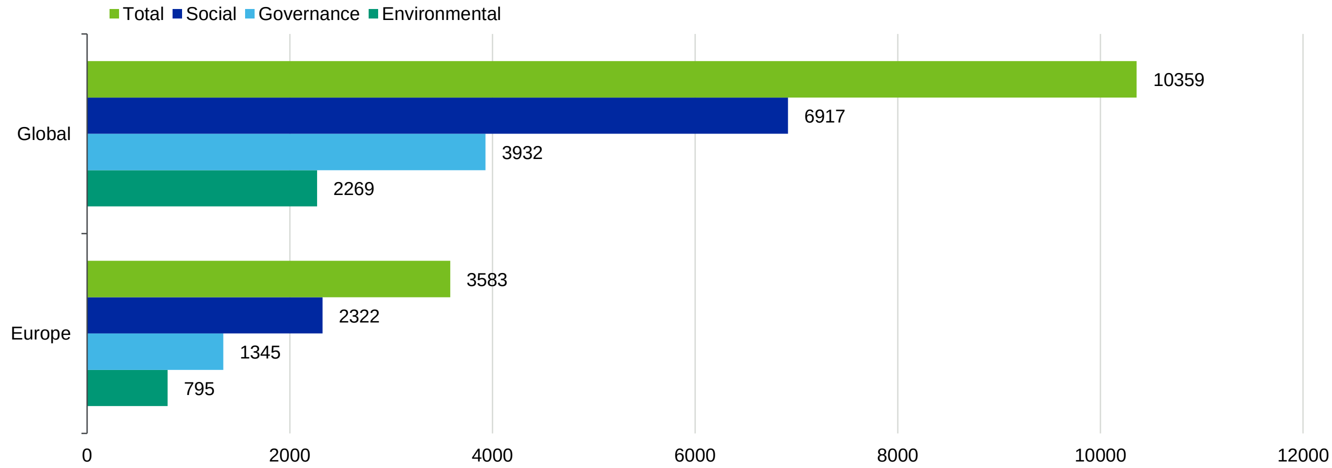
2 More information about Moody's ESG Solutions products and methodologies is available in the appendix to this report

3 Please see Appendix 1 for more information on Moody's Controversy Risk Assessment.

4 Source: Rising incidence of ESG Controversies – Moody's ESG Solutions – 17 February 2022.

Fig 1a: Breakdown of all active ESG Controversies at Global and European level[5].



Social controversies impact a wide range of sectors. This mirrors the diversity of stakeholders that are captured by the term social (customers, suppliers, communities, and employees). The Diversified Banks, Mining and Metals, Automobiles and Telecommunications sectors rank as the most exposed to social controversies at both a European and Global level. The actual types of social controversy that they face differ. Among Banks, we identify social controversies related to both direct impacts (interactions with their customers) and indirect impacts (impacts on human or community rights through project financing activities). Within the Telecommunications sector, cases related to customers are also prominent alongside reported breaches of privacy rights.

Table 1b: The five most exposed sectors to social controversies[6]

GLOBAL 5 MOST EXPOSED SECTORS TO SOCIAL CONTROVERSIES		EUROPE 5 MOST EXPOSED SECTORS TO SOCIAL CONTROVERSIES	
SECTOR	Percentage of Social Controversies	SECTOR	Percentage of Social Controversies
Mining & Metals	9%	Diversified Banks	13%
Diversified Banks	7%	Mining & Metals	9%
Software & IT Services	6%	Automobiles	6%
Automobiles	5%	Telecommunications	5%
Telecommunications	5%	Home Construction	4%

The most common types of social controversy in Europe were on the themes of Social and Economic Development (*507 cases*), Customers Relations (*489 cases*), Fundamental Human Rights (*396 cases*) and Information to Customers (*332 cases*). These findings reflect the robust levels of consumer protection that exist across many European countries as well as rising concerns about corporate tax contributions (which is categorised by Moody's ESG Solutions as a Social and Economic Development controversy). More and more people in Europe purchase goods and have their personal data shared and stored online. The digital environment is also the focal point of most corporate marketing and communication practices. Complaints over marketing practices, breaches of personal privacy rights and failures to tackle hate speech were visible and show how digitalisation is changing the way in which social risks materialise. Negative impacts to the workforce and suppliers were visible but at a lower rate when compared to impacts to customers and communities.

[5] Source: Controversy Risk Assessment data from Moody's ESG Solutions as of May 2022.
[6] Source: Controversy Risk Assessment data from Moody's ESG Solutions as of May 2022.

Fig 1c: Most common types of social controversy at a European level[7].

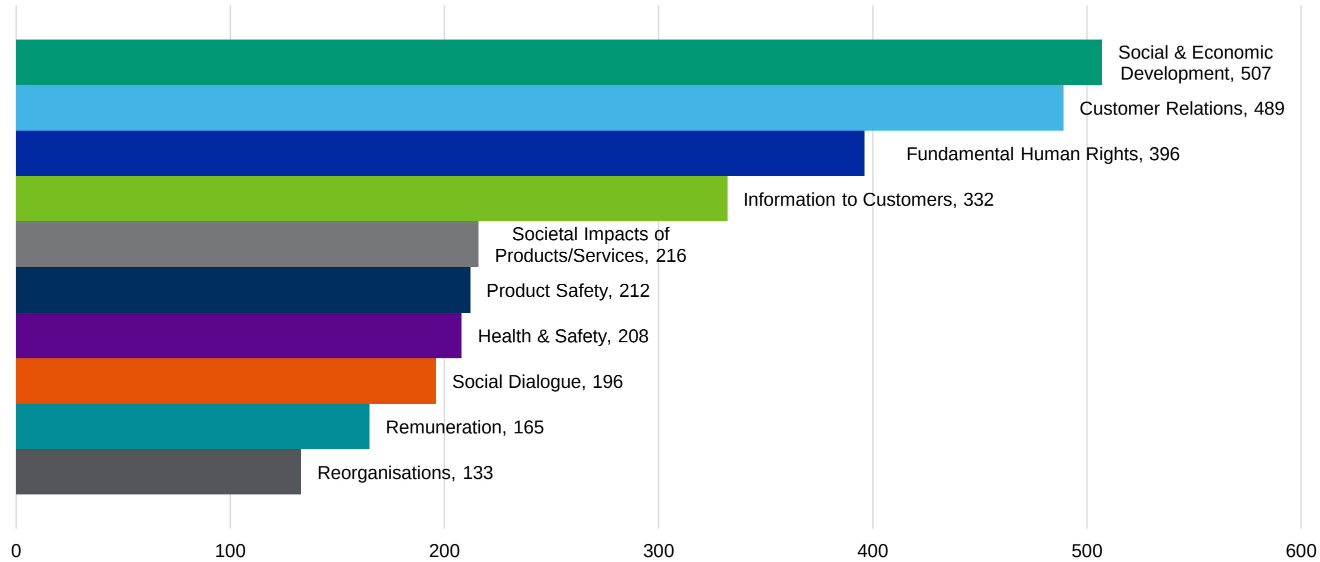


Table 1d: Examples of the types of controversies recorded.

CONTROVERSY AREA	CONTROVERSY EXAMPLES
Social & Economic Development	Negative impacts to community livelihoods, to community land rights. A lack of stakeholder consultation during planning and operations. Report of tax avoidance/evasion.
Customer Relations	Breaches of contractual agreements with customers, reported abuse and/or misuse of power.
Fundamental Human Rights	Direct or indirect (through financing), violations of property rights, indigenous people's rights. Involvements in inhuman or otherwise degrading treatment of persons by employees or contractors (security forces). Breaches of fundamental privacy rights and rights to freedom of expression.
Information to Customers	Misleading, discriminatory marketing practices. Inadequate product and service labelling practices. Inappropriate marketing towards vulnerable customer groups (e.g children).

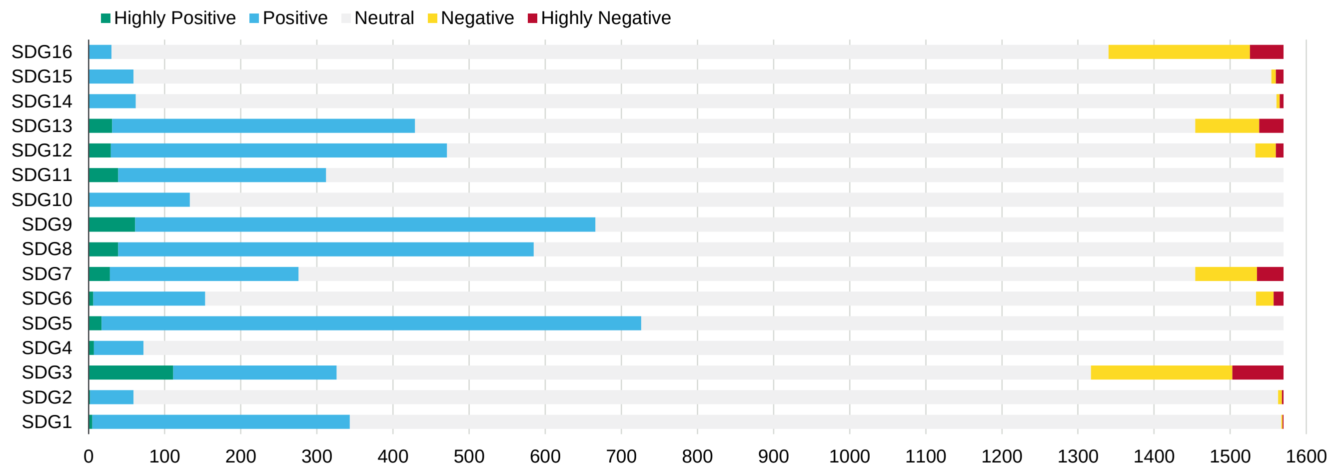
Overall social issues are the dominant area on which European businesses are facing negative stakeholder feedback with customers and communities appearing particularly exposed.

Contributing to Sustainable Development Goals

Though created as a framework for governmental action, the United Nations Sustainable Development Goals (SDGs) provide a blueprint for private sector actors to contribute towards widely adopted sustainability targets. The United Nations has set a deadline for achieving these goals at 2030 but the global pandemic has set progress back[8]. The United Nations continues to call for accelerated action from both the private and public sector in what it has called the 'Decade of Action'. Moody's ESG Solutions analyses the 'Net Contribution' of companies to these goals by assessing their outputs (products and services) and their potential to contribute to each of the 17 SDGs. Based on the share of revenues associated to these, companies are qualified along a 5-point scale (from highly positive contributions to highly negative[9]).

[7] Source: Controversy Risk Assessment data from Moody's ESG Solutions as of May 2022.
[8] Source: 'Leaving No One Behind: Impact of COVID 19 on the Sustainable Development Goals, UN Development Programme, 13/08/2021
[9] The interconnected nature of the SDG framework means that a singular product or service can contribute to multiple goals simultaneously. As an example, a company providing finance for small and medium sized enterprises contributes to SDG1 'No Poverty' and SDG8 'Decent Work and Economic Growth' at the same time.

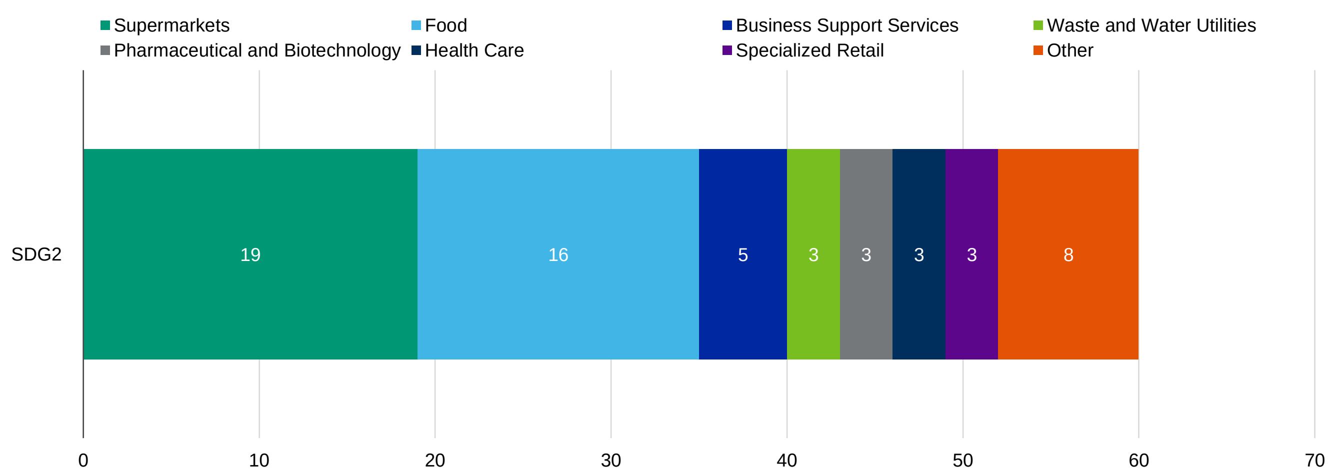
Fig 2a: Number of European companies and their level of Net Contribution to the SDGs[10].



Across the SDGs, our research identifies positive contributions from European companies (represented in blue and green on Fig 2a). However, the current levels of contribution are unlikely to ensure that the SDGs are met by 2030[11]. The large sections in grey represent a neutral opinion and indicate that most companies are unable to support all the SDGs through their product and service offering. This raises questions about how the private sector can accelerate progress particularly on some of the socially focused goals such as SDG2 'Zero Hunger' and SDG4 'Quality Education' which appear particularly poorly addressed.

Within Europe, 60 companies from 12 sectors are identified as contributing to Zero Hunger. Most contributions are linked to companies from two sectors, Supermarkets (19 companies) and Food (16 companies). The European Supermarkets sector consists of a total of 19 companies, and it is encouraging to see full sector alignment in contributing to this goal. The European Food sector consists of 38 companies and over half of the companies in the sector are not visibly reporting on how their products and services can support SDG2.

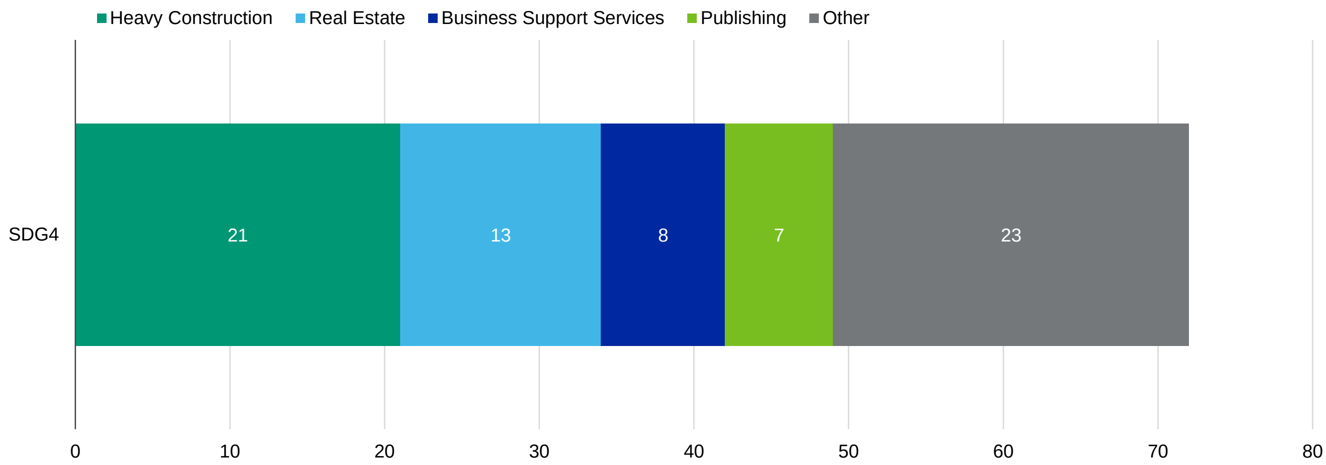
Fig 2b: Number of European companies and their level of Net Contribution to the SDG2 Zero Hunger[12].



Within Europe, 72 companies from 19 sectors are identified as contributing to Quality Education. Contributions are mostly linked to companies from the Real Estate (13 companies) and Heavy Construction sector (19). These companies are involved in the construction or upgrading of educational facilities.

[10] SDG Alignment data from Moody's ESG Solutions 2022_05.
NB – Moody's ESG Solutions does not provide Net Contribution data on SDG17 – Partnership for the Goals.
[11] 'Accelerated investor and corporate action is critical for SDG Alignment – Moody's ESG Solutions – August 2021
[12] SDG Alignment data from Moody's ESG Solutions 2022_05.
NB – Moody's ESG Solutions does not provide Net Contribution data on SDG17 – Partnership for the Goals.

Fig 2c: Number of European companies and their level of Net Contribution to the SDG4 Quality Education[13].



In contrast, European corporate activity around SDG5 'Gender Equality' appears further advanced. A total of 709 companies from 39 sectors are identified as having a positive or highly positive contribution to this goal. Companies are supporting this goal by providing reproductive health services as well as providing access to fundamental services (water, energy, healthcare, education, micro-finance and insurance etc).

Looking ahead, tackling poverty and hunger, advancing education and ensuring healthy working conditions will remain as core priorities for Europe. However, to date, only a limited number of companies from a handful of sectors are finding ways to contribute to the SDGs.

Supporting a Just Transition

The transition to a net-zero global economy will be one of the defining challenges of the coming decade. Achieving a net-zero global economy requires a radical rethinking of how our economies are structured, how people live and work and how we generate, consume, and distribute resources. Given the upheaval associated with such profound changes, ensuring that the transition is fair (so that workers and communities are accompanied through these changes) as well as fast (so that the most negative impacts of climate change are mitigated) is vital.

Moody's ESG Solutions have assessed 374 European companies in eleven sectors across seven, just-transition relevant criteria[14]. The criteria selected cover core challenges that companies will need to tackle if they are to adequately manage the social risks posed by the energy transition. This includes the management of impacts to the workforce (Reorganisations, Career Management, Labour Relations, Non-Discrimination), impacts to communities (Fundamental Human Rights, Social and Economic Development) and climate action (Energy Use).

[13] SDG Alignment data from Moody's ESG Solutions 2022_05.
NB – Moody's ESG Solutions does not provide Net Contribution data on SDG17 – Partnership for the Goals.

[14] The sector selection is based on those with moderately or highly material weighting in terms of greenhouse gas emissions coupled with high labour intensity – both elements resulting in elevated just-transition risks.

Table 3a: Average scores across just transition-relevant indicators across select European sectors[15]

	Reorganisations	Career Management	Labour Relations	Social & Economic Development	Non-Discrimination	Fundamental Human Rights	Energy Use	Sector Average
Automobiles	28	42	45	35	56	47	46	42
Building Materials	22	34	31	42	41	43	48	37
Electric & Gas Utilities	38	49	57	52	60	55	41	50
Energy	27	43	41	51	53	49	36	42
Food	14	32	32	37	46	45	46	36
Forest Products & Paper	37	47	60	57	62	50	56	52
Heavy Construction	26	38	43	46	56	54	51	44
Industrial Goods & Services	16	33	30	29	47	41	36	33
Oil Equipment & Services	19	36	27	38	47	50	37	36
Transport & Logistics	27	41	42	39	54	49	53	43
Travel & Tourism	24	38	41	32	48	50	42	39

The Forest Product and Paper and Electric and Gas Utilities sectors have the highest scores with an average 50 and 52 respectively[16]. These scores are considered as "Robust" by Moody's ESG Solutions (between 50-59/100) and indicate that most companies from within those sectors have strategies and systems incorporating social impact management alongside decarbonization initiatives. All other sectors have average scores ranging between 33 to 44 which are considered as "Limited" (scores between 30-49/100).

Our analysis also identifies "Limited" performances across most of the underlying criteria[17]. This indicates that at sector level, practices are uneven. The management of reorganisations by European companies appears as a particular blind spot today with the majority of companies failing to provide information on the strategies and measures put in place to reskill, outplace or compensate impacted employees.

Even without the overarching context of the energy transition, respecting fundamental human and labour rights are important actions for companies, as they ensure transparency and dialogue. They also serve to build social resilience amongst the workers and communities that are impacted by business. A just transition will require deepening commitments to these fundamental concepts and accelerating action.

Respecting Fundamental Human Rights

Human rights are continually evolving. The Universal Declaration of Human Rights (1948) initially positioned human rights as a set of rights for states to uphold. It was not until 2011, that the Guiding Principles on Business and Human Rights (2011), established a corporate duty to respect them and provide remedies where breaches occur. In July 2022, the United Nations established a new human right to a healthy environment[18]. The move not only reflects the ongoing evolution of these rights but also the growing understanding of the interconnection between the natural environment and social needs.

Respect for fundamental human rights, is one of the elements assessed by Moody's ESG Solutions within its ESG Assessments for corporates[19]. Overall, scores have been steadily improving over the last five years (2017-2021). The trend in Europe appears particularly positive with a +8-point increase which is well above other regional averages.

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15 ESG Assessment data from Moody's ESG Solutions 2022_07

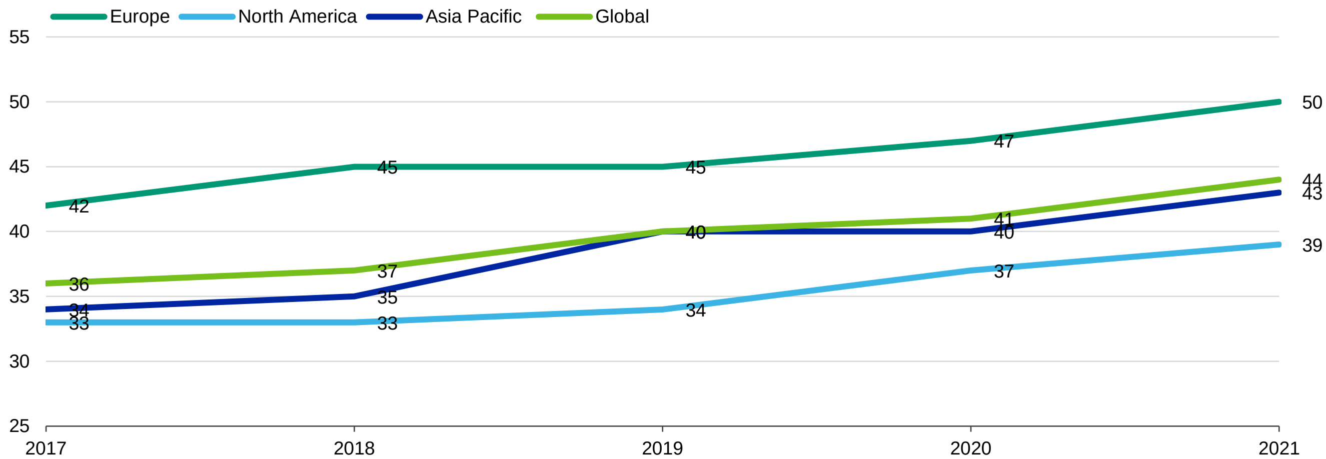
16 All scores are out of 100.

17 European scores are above the Global average. Please see the following Moody's ESG Solutions report for more information: 'Rising focus on just transition will raise risks for the most exposed companies', Moody's ESG Solutions, December 2021.

18 Source: 'In historic move, UN declares a right to a healthy environment', UN Environmental Programme, 28/07/22

19 NB: Moody's ESG Solutions' analysis of Fundamental Human Rights does not include the integration of these rights into supply chains. This is assessed in another part of our ESG Assessment framework and is shown in chapter 6 of this report.

Fig 4a: Fundamental human rights score progression from 2017 to 2021[20]



Digital sectors, (Software and IT, Technology and Hardware, Telecommunications) appear as the leaders in terms of average sector scores. All of these sectors achieve "Robust" to "Advanced" scores (scores over 50) driven by clear policy commitments as well as improving levels of disclosure on their practices.

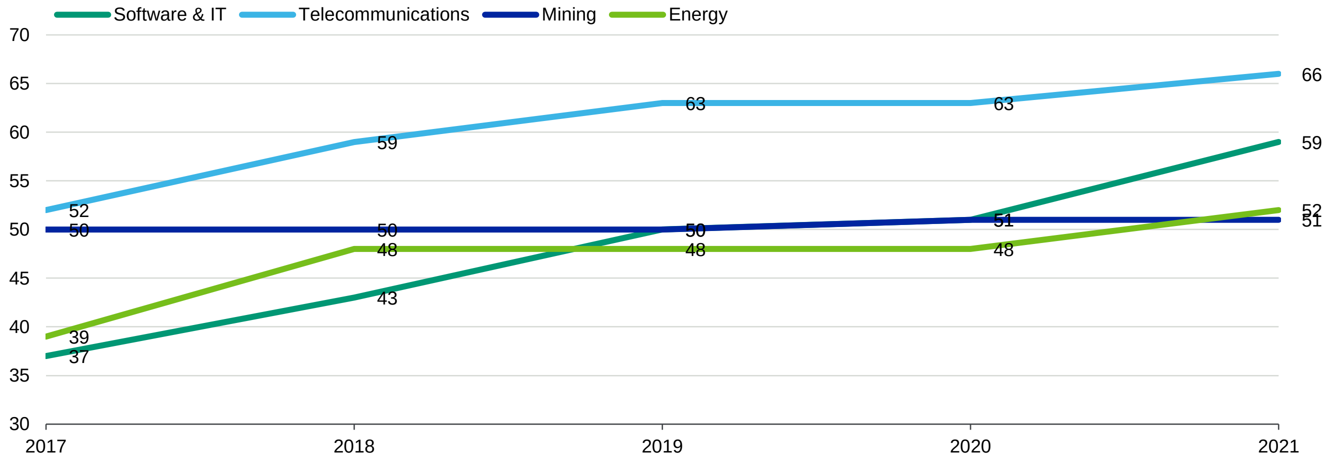
Table 4b: Fundamental human rights score distribution across select European Sectors[21]

Sector	Average[22] Score	Average Leadership Score	Average Implementation Score	Average Results Score
Telecommunications	64	72	67	51
Software & IT	59	64	49	64
Technology & Hardware	52	54	38	62
Mining	50	48	52	51
Energy	47	51	33	56
Automobiles	46	47	35	57
Retail & Specialized Banks	44	39	31	62
Food	44	41	31	61
Pharmaceuticals & Biotechnology	43	46	18	64
Building Materials	42	36	31	60

Historically, extractive sectors (Mining and Energy) were the leading performers within our research universe on this topic. The higher average scores in those sectors were reflective of their high exposure to (and maturity on) issues such as indigenous people's rights, the responsible use of security forces and land rights. Whilst their exposure to these challenges still exists, our research shows the extent to which macro trends around digitalization are reshaping sector maturity levels. This is visible in table 4c where you can see the pace at which digital sectors appear to be improving practices compared to the flatter trend lines for extractive sectors.

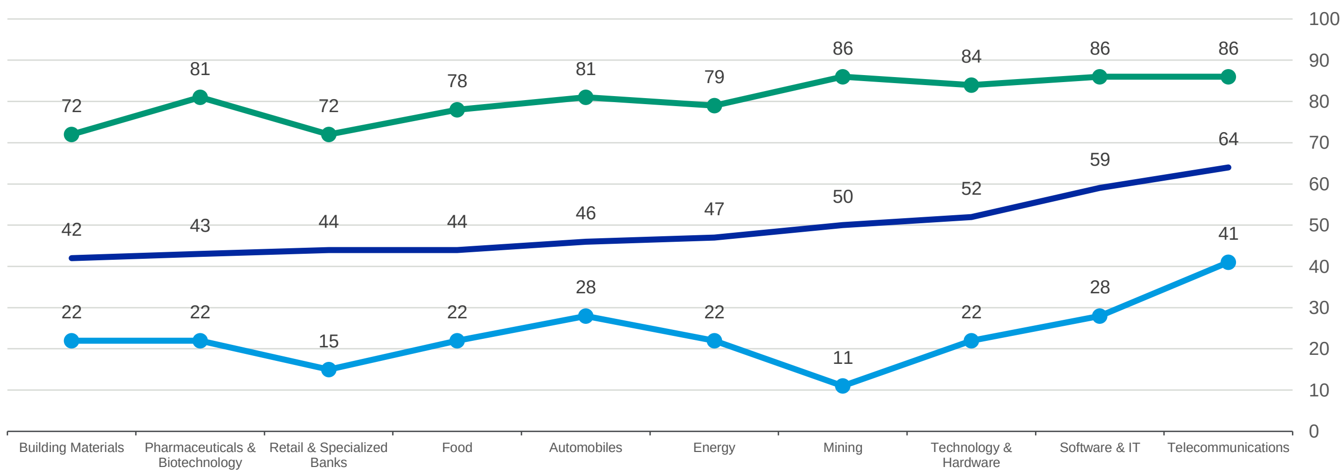
[20] Source: ESG Assessment data from Moody's ESG Solutions from May 2022.
[21] ESG Assessment data from Moody's ESG Solutions 2022_05
[22] For a summary of what the Leadership, Implementation and Results scores capture – please see Appendix 1

Fig 4c: Fundamental human rights score evolution across digital and extractive sectors[23]



Whilst the overall trend for Europe appears positive, there is substantial room for improvement. The common drag factor on scores is the lack of systematic reporting from companies across these sectors on due diligence systems. This is reflected in the persistent gap that is visible between leadership scores and implementation scores (see table 4b). Finally, in Fig 4d we noted that when looking beyond sector average scores, "Advanced" performers were identifiable across all sectors (scores of over 60/100). However, we also identified 'Weak' performers in each sector, typically reflecting companies that provide no public information on their approach towards human rights. This underlines a key challenge for these sectors going forward namely, collaborating, and sharing best practices in order to improve sector level approaches towards human rights.

Fig 4d: Fundamental human rights score distribution across European sectors (leaders, laggards, average)[24]

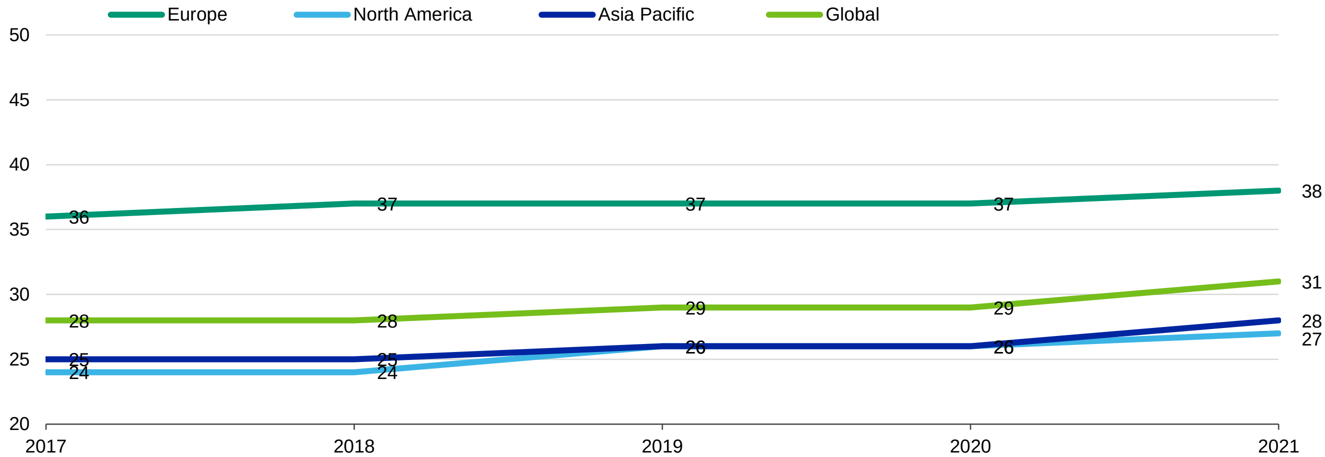


Respecting Fundamental Labour Rights

Globalisation, digitalisation and the energy transition are impacting wages, workplace wellbeing and job security. Respecting and promoting fundamental labour rights ensures that companies create work that allows people to work with dignity, with safety, in freedom and with reward. This is assessed by Moody's ESG Solutions within its ESG Assessments of corporates[25]. Whilst the average score for European companies (38 in 2021) is higher than other regions it remains "Limited" in absolute terms. In comparison to the trends on Fundamental Human Rights, Moody's ESG Solutions has been unable to identify any substantial shifts in practices at sector or region level over the last five years.

[23] ESG Assessment data from Moody's ESG Solutions 2022_05
[24] ESG Assessment data from Moody's ESG Solutions 2022_05
[25] NB: Moody's ESG Solutions' analysis of Fundamental Human Rights does not include the integration of these rights into supply chains. This is assessed in another part of our ESG Assessment framework and is shown in chapter 6 of this report.

Fig 5a: Fundamental labour rights score progression from 2017 to 2021[26]



Moody's ESG Solutions have not identified large number of controversies on this theme and as such, the Result scores across European sectors appear higher across the board. However, the "Weak" (scores less than 30/100) implementation scores indicate that across European industry, few companies are disclosing on how they ensure that these rights are protected and promoted in the workplace. As we show in the subsequent chapter, European businesses appear more adept at reporting on how they integrate labour standards into supply chains than within their own operations.

Table 5b: Fundamental labour rights score distribution across select European sectors[27]

Sector	Average Score	Average Leadership Score	Average Implementation Score	Average Results Score
Supermarkets	42	43	20	62
Automobiles	42	44	19	61
Specialized Retail	24	27	9	64
Telecommunications	38	38	16	62
Electric Components & Equipment	39	38	16	63
Food	33	32	5	63
Mining	41	44	27	53
Building Materials	35	31	13	61
Technology & Hardware	36	27	16	65
Pharmaceuticals & Biotechnology	33	27	7	64

Integrating Labour Standards into Supply Chains

As well as respecting labour rights in their own operations, companies are also expected[28] to integrate labour rights within their supply chains. Within Europe, there are regulations on the horizon that will look to accelerate company practices related to supply chain due diligence. The German Supply Chain Act will come into effect in 2023 and will require large companies to identify, prevent and address human rights and environmental abuses within their own and their direct suppliers' operations[29]. Within the European Union, the European Commission has adopted a proposal for a directive on 'Corporate Sustainability Due Diligence'. The directive establishes a duty to address negative human rights and environmental impacts and will apply to larger companies.

[26] ESG Assessment data from Moody's ESG Solutions 2022_05
[27] ESG Assessment data from Moody's ESG Solutions 2022_05
[28] These expectations come in part from customers but also from regulations. In the European Union, a Conflict Minerals Law is already in place required due diligence for companies importing specific minerals. This is likely to be supplemented by the broader Corporate Sustainability Due Diligence regulation that is under review.
[29] In 2023, The Supply Chain Due Diligence Act will apply to companies based in Germany with more than 3,000 employees or German registered branches of foreign companies with more than 3,000 employees. In 2024, its scope will be expanded to cover companies based in Germany with more than 1,000 employees or German registered branches of foreign companies with more than 1,000 employees.

The integration of labour standards into supply chains, is one of the elements assessed by Moody's ESG Solutions within its ESG Assessments of corporates[30]. At a regional level, performance trends over the last five years show a mixed picture. In North America and Asia Pacific, we can see substantial increase of +6 and +10 points respectively. Within Europe, the trend is muted with a smaller improvement of +4 points from 2017-2021. The absolute level of performance for all regions is qualified by Moody's ESG Solutions as "Limited".

Fig 6a: Supply chain labour standards score progression from 2017 to 2021[31]

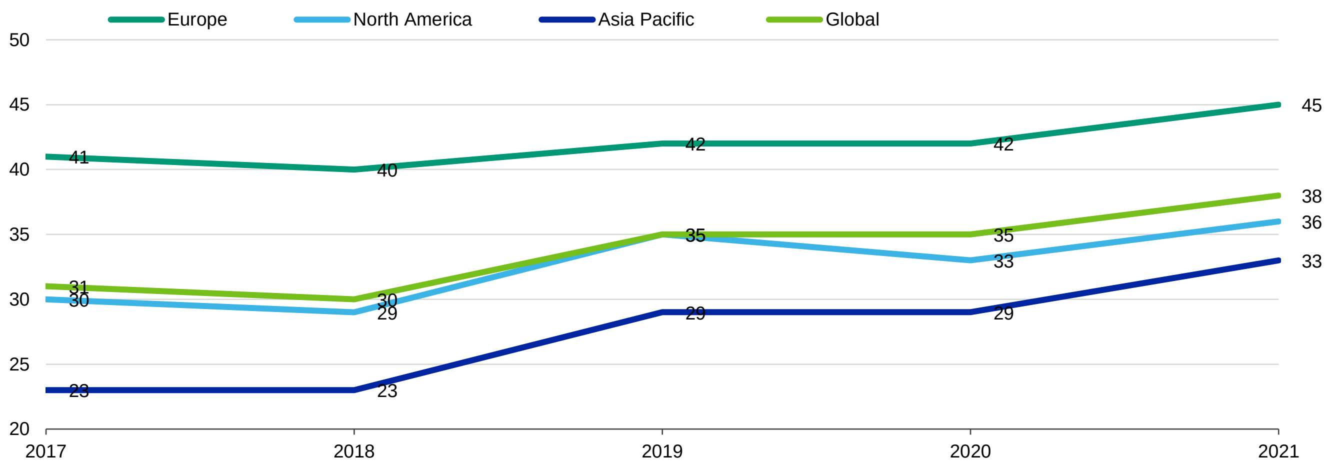


Table 6b outlines provides the average scores across ten European sectors as well as the breakdown in terms of leadership, implementation, and results scores. The leading sectors come from 'Business to Consumer' sectors (Supermarkets, Automobiles, Specialized Retail and Telecommunications) where reputational impacts are more closely tied to customer brand value and reputation[32]. The higher scores are linked to the comparatively higher levels of public commitments (visible in the higher leadership scores) when compared to the other sectors.

Table 6b: Supply chain labour standards score distribution across select European sectors[33]

Sector	Average Score	Average Leadership Score	Average Implementation Score	Average Results Score
Supermarkets	56	72	53	44
Automobiles	52	68	45	41
Specialized Retail	52	71	50	35
Telecommunications	52	65	42	48
Electric Components & Equipment	48	58	42	46
Food	47	60	51	31
Mining	46	60	37	43
Building Materials	46	54	44	40
Technology & Hardware	35	46	32	27
Pharmaceuticals & Biotechnology	33	41	23	34

Table 6b also outlines the significant gap that exists between policy statements (that are reflected in the leadership scores) and actions (as reflected in the implementation scores). This indicates that due diligence practices are rarely reported on in depth across many sectors. Similarly, the lack of consistent reporting on supply chain audit KPIs is reflected in the lower results scores. As new regulations come into play across Europe, this outlook should evolve more positively with larger companies facing a direct regulatory stimulus to undertake and report on supply chain due diligence.

30 NB: Moody's ESG Solutions' analysis of Fundamental Human Rights does not include the integration of these rights into supply chains. This is assessed in another part of our ESG Assessment framework and is shown in chapter 6 of this report.
31 ESG Assessment data from Moody's ESG Solutions 2022_05
32 B2C is an acronym for businesses that conduct commerce directly with consumers (as opposed to business to business (B2B)).
33 ESG Assessment data from Moody's ESG Solutions 2022_05

Fig 6c: Supply chain labour standards performance distribution within select European Sectors[34]

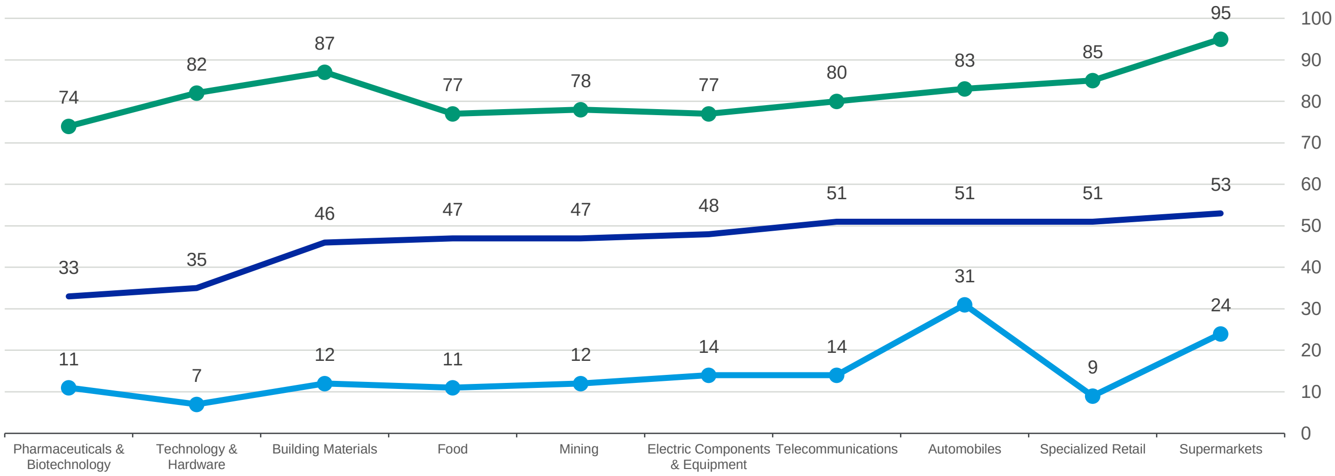


Fig6c shows the range of scores visible within a selection of European sectors. The line in green represents the top scoring company and indicates that there are "Advanced" performers (scores over 60) across all the sectors. However, there are still companies across all these sectors with very weak levels of performance (visible in the blue line). These low scores are mostly reflective of a lack of visible disclosures over strategies for integrating labour standards into supply chains. A challenge for European business in the coming years will be in working collaboratively to reduce the gap between leaders and laggards.

Overall, European scores have shown only marginal increases over the last five years and there is ample room for improvement. Demonstrating concrete activity around due diligence is the main missing factor and simultaneously, the area around which regulatory initiatives are likely to increase pressure on larger companies in the short term.

[34] ESG Assessment data from Moody's ESG Solutions 2022_05

Policy Recommendations from CSR Europe[35]

Increasing inequalities are one outcome of the geopolitical, demographic, digital and energy transformations across Europe and the world. These are already changing the way we live, move and work. The findings from the 2022 Barometer highlight the prevalence of social risks in Europe as well as the considerable room for improvement in social risk management practices. To drive progress, more creativity and collaboration between business, investors, public authorities, and civil society is necessary. CSR Europe is keen to further explore with the EU decision makers and stakeholders the following pathways for strategic and systemic policy change[36].

Recommendation 1. A European Business Alliance for a Just Transition with local footprint

Sharing the same ambition, the European Commission and leading business organisations like CSR Europe, the World Business Council for Sustainable Development and Business for Inclusive Growth (B4IG), powered by the OECD are uniquely placed to build a European Business Alliance for a Just Transition. The purpose of this Alliance, also open to social partners and industry associations, would be to equip companies, large or small, with strategic directions, examples, tools and training materials to embed the Just Transition into their respective strategies, value chains, sectors, and local eco-systems.

Recommendation 2. An integrated science-based approach

With respect to climate change, the global community has recently engaged in a science-based approach to limit and adapt to global warming. There is a similar need to establish a systemic and shared science-based approach of human factors to facilitate behavioural changes at all levels (states, business, investors, consumers) for a sustainable and inclusive society.

Recommendation 3. A European Integrated Taxonomy

A Just Transition depends on the extent to which businesses will be able to unlock public and private sustainable finance to support short to long-term transformations and collaborative efforts. Therefore, it is crucial for Europe to reward actors that are proactively mitigating social risks linked to accelerated transitions. To that end, the European Commission has a central role to play in delivering an integrated and meaningful Climate, Environment and Social Taxonomy consistent with other forthcoming EU Regulations and Standards on sustainable corporate governance and transparency.

Recommendation 4. Policy support for intra and cross sector collaboration for impact

Achieving a European Green and Social Deal is beyond the reach of any single company. It is vital that CEOs of leading companies together with the support of the European Commission, rally others to define a collective purpose, a clear strategy and timebound targets for their industry sector and federation. Together, they have a duty to collaborate in transforming their sector. In addition, given the speed at which the EU policy context is evolving on sustainability and Just Transition, the European Commission should empower European industry associations and platforms: e.g.

» To encourage, guide and offer new educational activities and collaboration opportunities, thereby reducing the gaps between frontrunners and laggards within European sectors.

» To analyse and concentrate on collaborative action where the negative social impacts are most likely, severe, and urgent.

» To support enterprises in working together on multisector impact projects with a view to unlock real solutions to the challenges the Just Transition represents.

» To support companies in understanding and implementing EU policies and regulations in their business, as well as in aligning with long-term sustainability goals and targets.

Recommendation 5. Forging the European Sustainability Dialogue

We need to learn from each other and strengthen cooperation to accelerate progress in reaching those who are left behind and decoupling economic development from environmental degradation and social exclusion. Building upon the success of the European SDG Platform, the time has come to establish - next to the European Social Dialogue - a European Sustainability Dialogue, connecting top-down EU policy with bottom-up intelligence of civil society. Leaders of civil society can help enhance coherence among EU sustainability-related policies, clarifying the inherent interconnections between climate, environmental, social, economic, and geopolitical ambitions in Just Transition plans.

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[35] The Policy Recommendations included within this report come solely from CSR Europe and are not attributable in any way to Moody's

[36] For further information see the Policy Manifesto on Financing an Inclusive Transition by CSR Europe: https://www.csreurope.org/library.

Appendix

The following section provides summaries of the products from which data has been featured in the 2022 Barometer. For any additional information, please contact MESG@moodys.com .

ESG Assessments

ESG Assessments cover approximately 5,000 companies on their management of ESG factors that are material to both their business and their stakeholders.

- They are built using publicly available information
- Companies are assigned scores on a range of 0-100 at Overall level, E-S and G level and at criteria levels (e.g.: anti-corruption, biodiversity, labor rights etc).
- Scores are developed through a management assessment including:
  - Leadership: the policies, targets and organizational structures put in place to manage specific ESG risks and opportunities
  - Implementation: the actions taken to support commitments (trainings, risk assessments, monitoring etc)
  - Results: the trends of any disclosed KPIs
  - Controversies: analysis of negative stakeholder feedback as well as the company's response to them.

Controversy Risk Assessments

The Controversy Risk Assessment screens approximately 10,000 companies for their involvement in Environmental, Social and Governance controversies. Controversies are classified under a taxonomy of 38 ESG themes. All controversies are systematically assessed in terms of;

- **Severity**: qualified on a four-point scale ranging from "minor", "significant", "high" and "critical",
- **Frequency**: qualified on a four-point scale ranging from "isolated", "occasional", "frequent" and "persistent",
- In addition, the **Responsiveness** of a company is assessed on a four-point scale ranging from "non-communicative", "reactive", "remediative" to "proactive"

These three factors, (Severity, Frequency, Responsiveness) are then used to determine a controversy risk mitigation opinion for the company on specific events and at aggregated levels.

Sustainable Development Goals Alignment Screening

The Sustainable Development Goals Alignment product screens approximately 5,000 companies. The product applies a dual lens of analysis to each of the 17 SDGs.

- A **'Net Contribution'** lens analyzes the positive and negative contributions that a company makes to the SDGs based on their products and services. For each SDG, a company is qualified on a five-point scale: Highly Positive, Positive, Neutral, Negative, Highly Negative
- A **'Net Behaviour'** lens assesses a company's disclosures on policies and systems as well as its exposure to and management of controversies. For each SDG a company is qualified on a five-point scale: Highly Favourable, Favourable, Marginal, Negative, Highly Adverse

The data findings presented in the Sustainable Industry Barometer 2022 are not related to any credit rating or analysis performed by Moody's Corporation's rating agent subsidiary, MOODY'S INVESTORS SERVICE, INC.

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About CSR Europe

CSR Europe is the leading European business network for Corporate Sustainability and Responsibility. With our corporate members, National Partner Organisations (NPOs) and Associated Partners, we unite, inspire and support over 10,000 enterprises at local, European and global level. We support businesses and industry federations in their transformation and collaboration towards practical solutions and sustainable growth. We are for systemic change. Following the SDGs, we want to co-build with the European leaders and stakeholders an overarching strategy for a Sustainable Europe 2030. In 2020, CSR Europe inaugurated the European Pact for Sustainable Industry. The Pact acts as a communication and sharing platform for industry federations to develop and implement a holistic strategy: engage in peer-to-peer learning: conduct materiality assessments: define SDGs, priorities and much more.

About Moody's ESG Solutions

Moody's ESG Solutions is a business unit of Moody's Corporation serving the growing global demand for ESG and climate insights. The group empowers organizations to make better, more sustainable decisions. By providing data, analysis, analytical tools and intelligence, Moody's ESG Solutions enables leaders to assess ESG risks and opportunities, strengthen sustainability action plans and communicate with key stakeholders. The group also complements Moody's long-established record in risk management expertise. Its comprehensive offering includes ESG scores, climate data, Sustainability Ratings and Sustainable Finance certifier services that help fulfil the broad spectrum of ESG-related goals in risk management, equity and credit markets.