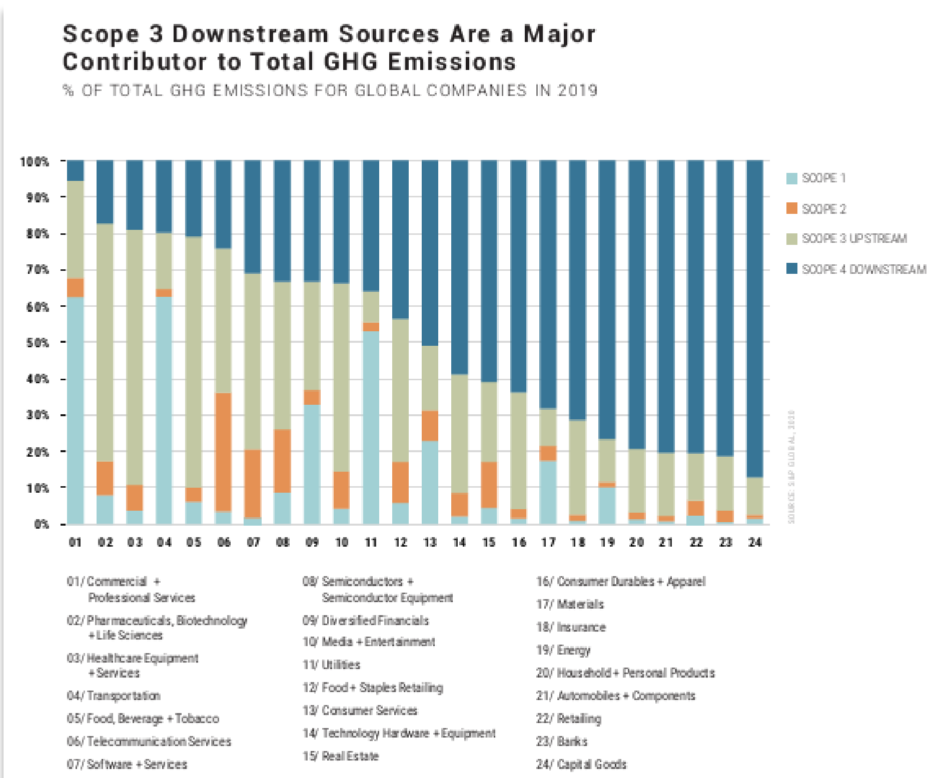
KILPATRICK TOWNSEND

My Company Does Not Manufacture Products. Why Does My Company Need to Worry About ESG?

By Todd Roessler

There are three letters in ESG. Although different sectors will be weighted differently, every company—big/small, public/private, manufacturing/services/some other sector—touches each component of ESG.

Starting with the "E," it is widely known that some sectors, including manufacturing, oil and gas, metals and mining, power, chemicals, and agribusiness, will have a larger environmental footprint than other sectors. However, it's important to note that other sectors also impact the environment. For example, when we think about GHG emissions, we need to think about not just Scope 1 (direct GHG emissions that occur from sources that are controlled or owned by an organization) and Scope 2 emissions (indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling), we need to also consider Scope 3 emissions (GHG emissions from upstream and downstream activities).



Source: S&P Global, State of Green Business 2021

Some of the highest Scope 3 emissions come from sectors outside the traditional "manufacturing" sector, including capital goods, banks, retail, automobiles and components, and household and personal products. These sectors indirectly have a significant contribution to GHG emissions and are facing increasing public scrutiny. While chemical manufacturers score high for solid waste pollution, retailers are a significant source of solid waste, including packaging/shipping materials, unsold goods, single-use plastics, and food waste. Consumer goods companies are exposed to material environmental risks across their value chain. Waste associated with the end of life of the product and its packaging is likely to be impacted by new regulations and substantial compliance costs. Consumer goods companies are also exposed to environmental risks in their supply chain, including sourcing raw materials from the agricultural, mining, forestry, chemicals, and oil and gas supply chains.

Social issues are not limited to manufacturing. Similar to other sectors, technology companies face issues related to gender inequality, workforce diversity, and health and safety and human/labor rights issues related to working hours, conditions, and labor shortages. Companies within the media sector face significant social risks, including IP theft, data privacy, content regulation, social media activism, and talent retention. Consumer goods companies are exposed to material social risks across their value chain, including exposure to consumers' changing preferences and growing demand for sustainable products, transparent labelling, and responsible advertising. Product safety is also a growing risk. Harmful components or improperly manufactured products can impact the health and safety of employees and consumers, resulting in significant reputational and financial costs.

Although often overlooked, the governance factor impacts all sectors of the economy. Substandard corporate governance practices have resulted in some of the biggest corporate scandals.

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