

**Making Waves in ESG Controversies  
Assessments: Evalueserve's C.A.S.E.  
approach**





When detecting earthquakes, seismographs are indispensable for measuring and recording seismic waves. They aid in understanding the location, intensity, and duration of seismic activity diverting from the norm. However, the data these tools produce requires experienced and knowledgeable analysts to interpret and deduce the details about an earthquake, such as its magnitude and distance. Understanding ESG controversies requires a similar application of tools and expertise to properly assess the magnitude of the controversies to determine the potential impact on a company's sustainability performance.

Much like a seismologist considers an earthquake's geological and geographical context, ESG controversies analysis demands consideration of factors including industry norms, regulatory frameworks, and company-specific circumstances for accurate interpretation.

**Importance of Monitoring and Understanding ESG Controversies.** Investors need to be aware of controversies related to environmental violations, labor practices, human rights issues, corruption scandals, and other ESG-related concerns, as these controversies can significantly impact a company's reputation, brand value, regulatory compliance, and shareholder value. Companies embroiled in ESG controversies have been shown to experience negative financial impacts, including a decline in stock price and increased volatility, with lower aggregated performance relative to their peers.<sup>1</sup> Meanwhile, companies with strong ESG performance and reputations tend to have lower costs of capital and are more likely to attract and retain customers, employees, and investors.<sup>2</sup>

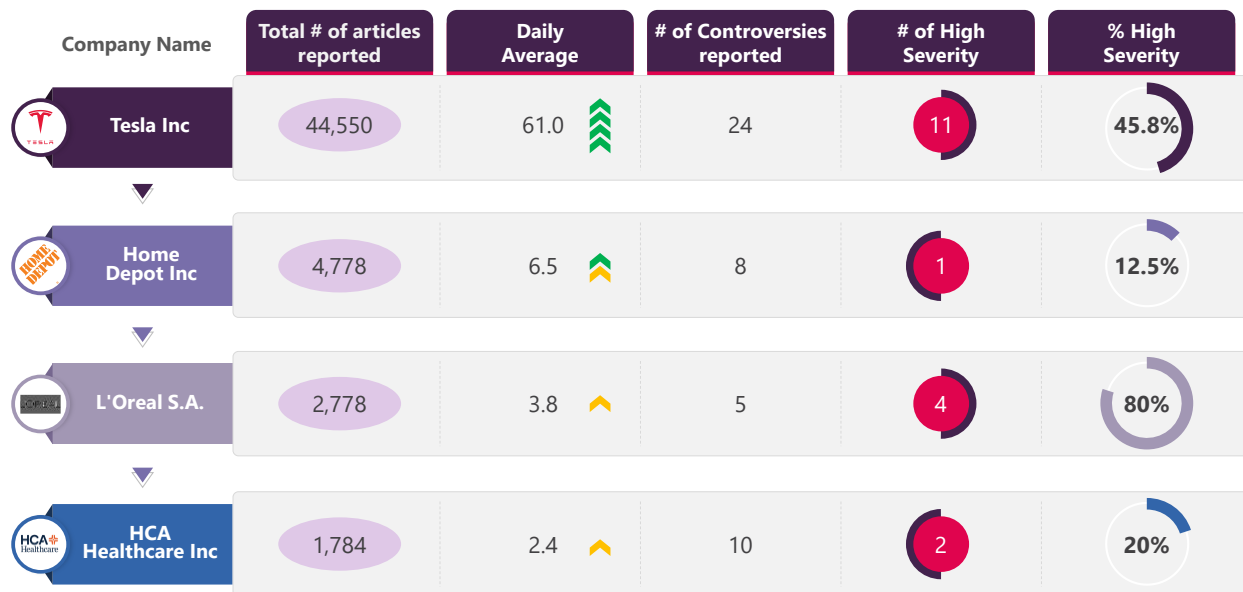
Accordingly, investors must monitor and understand ESG controversies with diligence and depth. Integrating ESG controversies into due diligence is considered a best practice for investors to assess the risk and potential impact of such controversies on their investment portfolios. Indeed, investors, banks, and other stakeholders are increasingly investing resources to access and analyze such data, with controversies monitoring being a part of the estimated over \$1 billion ESG data market.<sup>3</sup>

**Challenges abound.** While ESG information and the availability of controversy monitoring products are more widely reported than ever. Nevertheless, banks and investors continue to struggle with this essential task for several reasons.

First, the volume and velocity of news cycles can be overwhelming. The vast amount of information reported on a given company in a single day can be, with very few relating to ESG controversies. Yet, these needles in a haystack can be critical. As Figure 1 shows, although the number of ESG controversies is a small percentage of the total news, these stories are significant given the severity of the reported event.



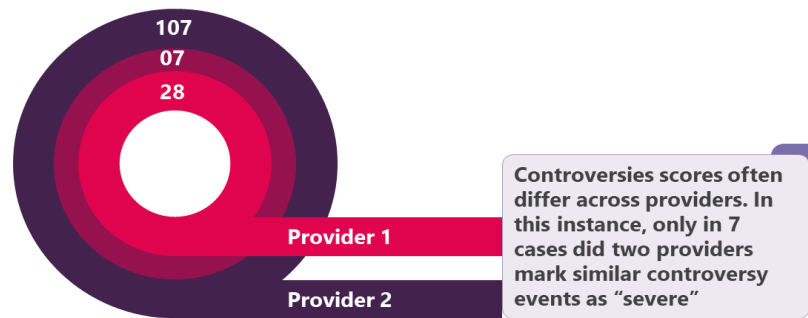
**Figure 1. ESG Controversies as Part of Total Company News (over two-year period)**



Second, Industry knowledge is critical to assess the context and complexity of ESG controversies. The specific industry, geography, and stakeholder perspectives are important as what is relevant and key in terms of ESG varies across industries. A mining company faces different ESG controversies as compared to a technology company. Meanwhile, the social and environmental impacts may vary depending on the company's location.

Third, the lack of a uniform methodology means differing schemes used by providers can treat identical events very differently (see Figure 2). This means ESG controversy scores are not comparable. The lack of standardized definitions and scoring methodologies for controversies makes comparing and benchmarking companies accurately challenging, leading to assessment inconsistencies.<sup>4</sup>

**Figure 2. Inconsistent Controversies Assessments Across Providers**



Source: [Avia Investors. "Living in the Past: Why are controversy scores so controversial?"](#)

A better approach to assessing ESG controversies is to focus on a more comprehensive and horizontal assessment of ESG controversies. One that considers the specific issues at hand, the company's actions and responses, the severity of the issue, and the company's exposure and impact. Such an approach allows for a more nuanced and context-specific understanding of a company's ESG performance and controversies and can facilitate more effective engagement and decision-making.

### **The Solution: Evalueserve's C.A.S.E. methodology**

**A new approach to Controversies.** Evalueserve's ESG Controversy **C.A.S.E. (Connection, Action, Severity, and Exposure)** methodology, powered by our embedded Mind+Machine™ solutions approach, promotes complete and transparent ESG controversy assessments. The C.A.S.E. assessment methodology is based on a thorough evaluation of several fundamental criteria, broken down into four driving elements:

- Connection – what is the Role/involvement of the company?
- Action – what response /action was taken by the company to resolve the issue?
- Severity – what is the severity of the incident based on the nature and scale of impact?
- Exposure – exposure of the incident based on media coverage, audience, and circulation.

As a key advantage, this methodology provides flexibility for the users to evaluate the facts without the prejudice of any scores. The user has control over the quantity of assessments and the flexibility to customize the output to reduce confusion by either keeping the raw data or converting it into an aggregated metric that best suits their investing objectives and purpose.

**Figure 3. The C.A.S.E. Assessment Framework**

|   |            |   |                         |
|---|------------|---|-------------------------|
| C | Connection | Role/ Involvement of the Company                              | Direct                  |
|   |            |   | Indirect                |
| A | Action     | Response / Action taken by the company to resolve the issue   | Adequate                |
|   |            |   | Adequate to some extent |
|   |            |   | Not Adequate            |
| S | Severity   | Severity of the incident based on nature and scale of impact  | Low                     |
|   |            |   | Medium                  |
|   |            |   | High                    |
| E | Exposure   | Exposure of the incident based media coverage, audience, etc. | Low Reach               |
|   |            |   | Medium Reach            |
|   |            |   | High Reach              |

Evalueserve’s analytical framework organizes ESG controversies across the three pillars, recognizing distinct themes and sub-themes, resulting in complete coverage of all critical material ESG risk issues. For each sub-theme, our subject matter experts curated a comprehensive dictionary of keywords. Then using our proprietary AI based algorithm a wide variety of sources are scanned and tagged. Combining human domain expertise and machine automation ensures that all information related to the ESG topics covered by the C.A.S.E. methodology is captured.

Once tagged a controversy event is evaluated by applying the C.A.S.E. criteria. This analysis drives inquiry on the questions that matter most when assessing the nature and extent of a controversy. These key drivers include:

- How is the company related to the specific entity responsible for the wrongdoing (subsidiary, affiliate, joint venture, supplier, contractor)?
- Is the incident the result of failed procedures/processes/controls by the company?
- Does the company recognize and take responsibility for the incident?
- What remedial measures did the company take, if any?
- Is the incident’s impact - local or global?
- What is the degree of reputational or financial impact on the company?
- What is the nature of the news coverage - source, audience, circulation?
- How negative is the media coverage?

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The resulting output of the C.A.S.E. methodology offers users a deeper analysis presenting a comprehensive understanding and context-informed view of the events, surrounding issues, and the company's involvement and subsequent action. Users can thereby customize their experience and leverage qualitative and quantitative information by offering an open, transparent, and flexible output. Rather than just a score, users can select the criteria that best inform their decision-making process in determining how a reported controversy impacts a company's ESG standing. Analyzing ESG controversies is like reading a seismograph in many ways. Just as a seismograph measures the intensity of earthquakes and provides insight into their causes and effects, analyzing ESG controversies provides valuable information on how companies address environmental, social, and governance issues. Moreover, both require properly gauged tools combined with expert know-how to detect trends and make accurate predictions.

Using Evalueserve's C.A.S.E. assessment methodology combined with over two decades of industry experience, investors can better gauge the impact of environmental, social, and governance factors on organizational stability and sustainability. By interpreting the tremors of ESG controversies, we can make informed decisions, hold companies accountable, and foster positive change. As with earthquakes, ESG controversies can have significant consequences, and understanding and responding to them is essential for building resilient and sustainable investment portfolios.

To learn more about how Evalueserve's C.A.S.E. approach to ESG controversies can benefit your company, contact us at [ESGsolutions@evalueserve.com](mailto:ESGsolutions@evalueserve.com) to schedule a demonstration.



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