

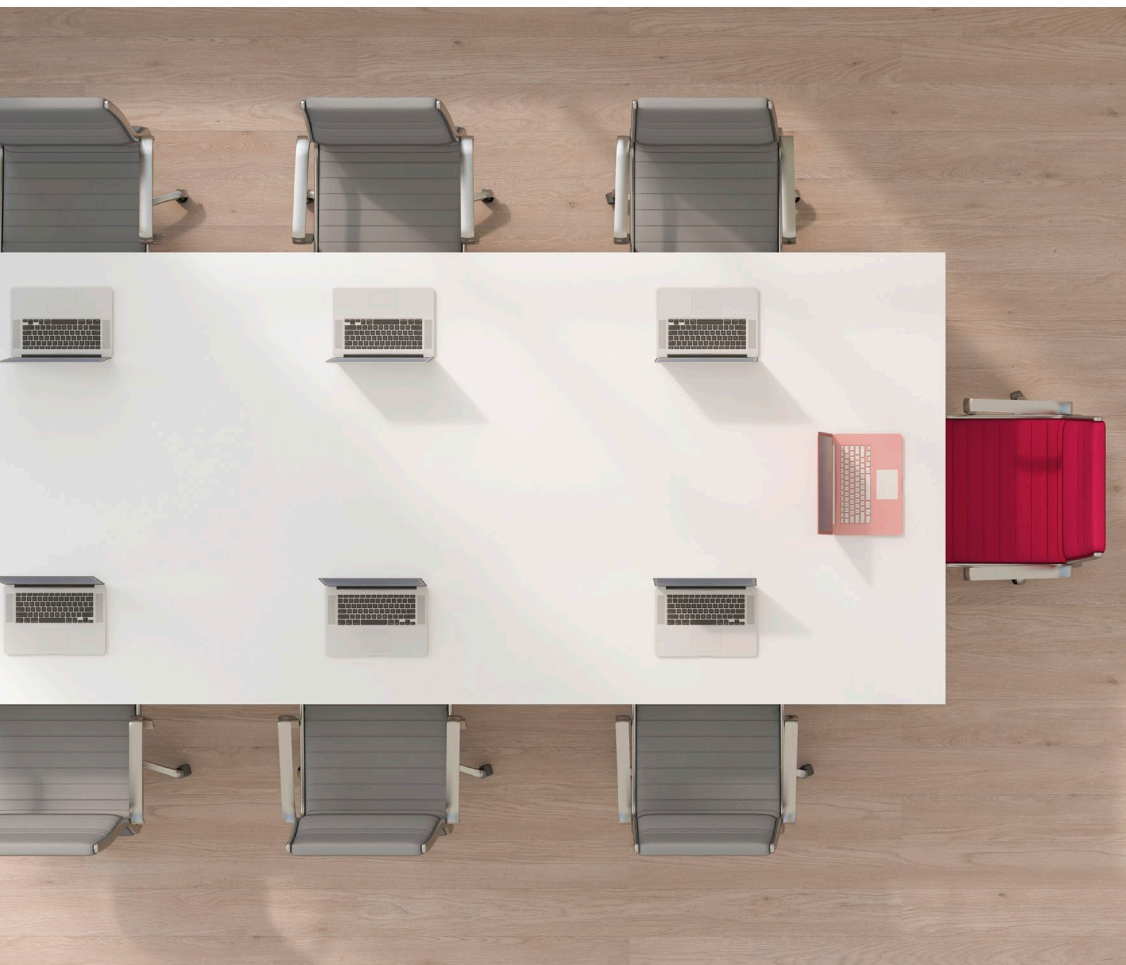
ESG Materiality Map

Business Services

Oct. 19, 2022

The business services sector is very diverse, therefore only a few social factors are material for the overall sector and materiality varies by subsector. Privacy protection is material for both stakeholders and credit. Employment practices and working conditions are examples of factors currently more material for stakeholders than credit.

This report does not constitute a rating action



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ESG Materiality Map

Business Services

In line with the research report “[Materiality Mapping: Providing Insights Into The Relative Materiality Of ESG Factors](#),” published on May 18, 2022, S&P Global Ratings is publishing research on the ESG materiality map for the business and consumer services sector. We provide an illustration of our current view of the relative materiality of certain environmental and social (E&S) factors, from both the stakeholder and credit perspectives, for the sector. The materiality map does not represent any new analytical approach to the treatment of E&S factors in our credit ratings. See our ESG criteria for more information on how we incorporate the impact of ESG credit factors into our credit ratings analysis.

Business Services Sector

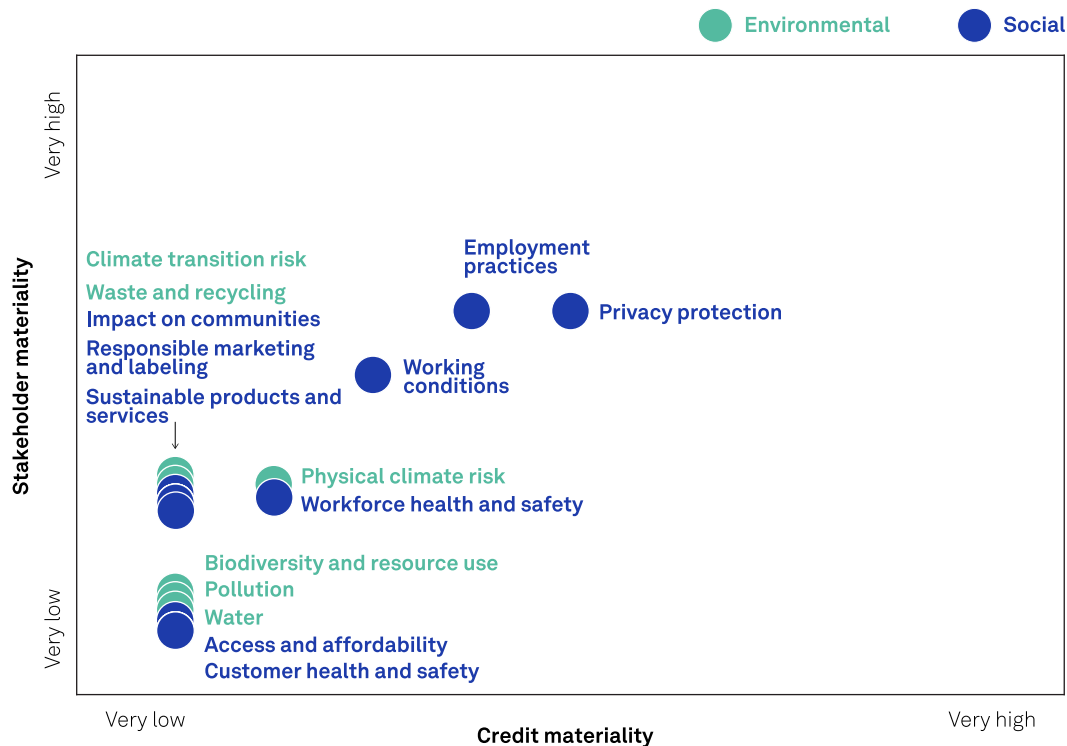
The sector includes companies that derive most of their earnings from services that help businesses carry out non-core activities or provide consumers with a variety of services. These include companies that provide services related to, facility maintenance, insurance, human capital management, business outsourcing, safety and security or information related services. Typically, the sector has very little--if any--manufacturing operations.

Key Takeaways

- The business services sector is very diverse, therefore only a few social factors are material for the overall sector and materiality varies by subsector. Environmental factors are generally less material to the sector for both stakeholders and credit.
- Privacy protection is material for both stakeholders and credit, especially for companies with access to sensitive information, such as payroll or human resources services. There are inherent risks and adverse consequences if a company fails to protect sensitive information or its critical infrastructure and applications.
- Other material factors for stakeholders include employment practices and working conditions, given the labor-intensive nature of many business services companies. The materiality of these factors for credit is currently lower as negative events have not yet carried any financial penalties.

See materiality map on the following page.

ESG Materiality Map For The Business Services Sector



The materiality map provides an illustration at a point in time, of our findings on the relative materiality of certain environmental and social (E&S) factors, from both the stakeholder and credit perspectives, for the sector. It does not represent any new analytical approach to the treatment of E&S factors in our credit ratings. See our ESG Criteria for more information on how we incorporate the impact of ESG credit factors into our credit ratings analysis. Source: S&P Global Ratings.

How To Read The ESG Materiality Map

The stakeholder materiality (Y axis) reflects our assessment of the relative level of impacts and dependencies of the sector on the environment, society, and economy.

The credit materiality (X axis) reflects our assessment of the relative level of potential and actual credit impact for the sector. The credit implications for the factors positioned on the left side to the middle of the X-axis would be more limited and absorbable. On the right side, there is higher potential for these implications to be more disruptive. We assess credit implications for an entity based on its individual characteristics.

Assessing E&S factors' materiality: We consider both the likelihood of the impact from a given factor, as well as the magnitude of the impact. The materiality of the factors varies depending on the perspective (stakeholder or credit) as well as the evolving and dynamic interactions between these two dimensions.

The main areas of the map:

- The upper-right quadrant displays the most material, on a relative basis, E&S factors identified for the sector from both a stakeholder and credit perspective.
- The upper-left quadrant presents factors that are more material from a stakeholder than credit perspective. These factors have the potential to become more material from a credit perspective.
- The bottom-left quadrant shows factors that are less material for both stakeholders and credit. Their materiality may evolve over time and this dynamic may not be linear.

Examples Of Material Factors

Below we provide the rationale of some of the material factors to illustrate the above findings.

Privacy protection

Privacy protection is moderately material for both stakeholders and credit, especially for companies in the sector with access to sensitive information. There are high inherent risks and adverse consequences (reputational damage, legal/regulatory fines, and operational disruptions) if a company fails to protect personally identifiable information (PII). We believe companies entrusted to protect PII--such as payroll providers--are prime targets for cyberattacks. From a credit perspective, the risk stems from potential data breaches that expose the client information that often result in large settlement payouts and significant investments to rearchitect IT infrastructure. Conversely, these threats create opportunities for cybersecurity and consumer fraud-protection providers with respect to the mission-critical importance of human resources and payroll services to clients and their employees.

Employment practices

Employment practices are more material for stakeholders than credit. Service companies are often labor-intensive, and in certain subsectors, may rely on specialized skilled labor. Accordingly, considerations associated with recruitment, retention, and competitive wages and benefits directly affect a large number of stakeholders such as employees, contractors, customers, and local communities. While currently less material for credit, we observe potential for materiality to increase over time given the importance of brand and reputation for services companies, and the increasing use of and dependence on services providers for managing essential functions. The business proposition of many services companies is the knowledge, creativity, and efficiency of the workforce, and difficulty attracting and retaining skilled and unskilled labor could affect service quality, growth, and profitability. This may also become more material from a credit perspective if labor market trends result in cost and scarcity pressures or if an inability to retain a high-performing workforce affects demand or profitability.

Working conditions

Working conditions are generally of greater materiality to stakeholders than for credit in this sector. While the types of businesses operating in this sector vary widely, there are generally well-developed laws, regulations, and corporate policies that ensure companies respect local laws and norms regarding employee rights to minimum wage levels, legal working hours, and the right to organize. Nonetheless, incidences of non-compliance can have a profound impact on employees, their families, and local communities. The risks may be higher for lower-skilled labor, such as facilities management and catering services, and particularly for subsectors more heavily reliant on labor recruitment agencies, contractors, and/or temporary labor. It is rare that legal penalties for such a violation would have sufficient financial consequences to yield a material credit impact. Nevertheless, the evolving regulatory environment is placing greater responsibility on entity management of upstream and downstream worker rights, so this may become more credit material over time.

Workforce health and safety

Workforce health and safety is of low materiality to stakeholders and credit. We view this factor as more material to employees and contractors working for more labor-intensive operators and subsectors such as security providers and facilities management. Some front-line employees in these subsectors experience high-risk situations. Moreover, some employees expected to work long hours may face physical and mental health issues. Companies in the sector generally have protocols to manage relevant health and safety exposures, through training, safety protocols, and provision of PPE, yet incidents still occur. There is less materiality tied to credit and incidents are often isolated, but there can be a negative impact for some companies that operate in high-risk regions or subsectors, which could compromise brand reputation and lead to legal exposure.

Sustainable products and services

While sustainable products and services have low materiality for both stakeholders and credit overall, the factor can have a significant impact on select subsectors. For many subsectors such as payroll management, their role in business operations is relatively neutral from a sustainability perspective, although stakeholder groups (such as employees) have a vested interest in reliable performance. However, where provided services help a company or consumer operate more sustainably by managing energy consumption, improving access and affordability to essential services, or helping to develop a more highly skilled workforce, this can benefit a range of stakeholders and potentially create a competitive advantage.

What is our approach to research on the ESG materiality map?

Referring to the research report “[Materiality Mapping: Providing Insights Into The Relative Materiality Of ESG Factors](#),” published on May 18, 2022, this research is built on the ESG materiality concept that considers ESG issues as material when they could affect stakeholders, potentially leading to material direct or indirect credit impact on entities. It considers that all businesses, through their activities and interactions, impact and depend, directly or indirectly, on stakeholders such as the environment (natural capital), society (human and social capital), and economy (financial capital). Using this ESG materiality concept, S&P Global Ratings has worked toward identifying a common, global, cross-sector set of E&S factors that we believe are material to stakeholders, and either are already, or have the potential to become, credit material for entities. The materiality map we propose provides an illustration at a point in time, of our findings on the relative materiality of those factors, from both the stakeholder and credit perspectives.

How does the sector ESG materiality map relate to credit ratings or ESG evaluations?

The sector materiality map is a visual representation of the factors that we consider impactful to the sector from a stakeholder and credit perspective for the purposes of this research. It does not represent any new analytical approach to the E&S factors in our credit ratings.

The relative materiality of the factors indicated on the materiality maps may inform the E&S Risk Atlas scores and the weights of the E&S factors used in ESG evaluations.

They may also inform our discussions with issuers on those factors’ existing or potential credit materiality.

Related Research

- [Materiality Mapping: Providing Insights Into The Relative Materiality Of ESG Factors](#), May 18, 2022
- [Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [ESG Evaluation Analytical Approach](#), Dec. 15, 2020

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