neighbourly

The 'S' in ESG: how social responsibility is shaping the future of business

The 'S' of ESG is maturing during uncertain times. How can businesses adapt, take advantage of the opportunities and drive change?

Introduction

The environmental, social and governance (ESG) landscape is evolving rapidly, and not all trends are going in the same direction: regulation is coming into force in multiple jurisdictions, while reports of criticism and 'backlash' are rumbling in the background.

Despite this, understanding of the concept is gaining maturity, as more businesses grasp that examining strategies from an ESG perspective is essential to maintaining stakeholder trust and a licence to operate in a rapidly changing world.

The World Economic Forum Global Risks Survey identifies the energy supply crisis, the cost-of-living crisis and rising inflation as the top "currently manifesting risks" for 2023. Each of these alone could represent a potential distraction from Sustainability and ESG strategies, not to mention a combination of all three. In the context of tighter budgets, businesses will be paying closer attention to value and risk exposure. But abandoning or rowing back on ESG targets, including community engagement, represent risks in themselves.

There is also a risk that ESG moves further into the realms of ratings systems and dense reports, meaning the impact struggles to reach beyond boardrooms. Meanwhile, recent research suggests the public are suspicious about corporate ESG claims, and are becoming more attuned to identifying greenwashing. This leaves businesses with a unique set of challenges: needing to balance cost-of-living concerns, maintain momentum on ESG while complying with changing regulations and retaining stakeholder trust.

Meeting these challenges requires businesses to connect the macro with the micro, the components of E, S and G with each other, and activity planned and tracked in the boardroom with what is happening in local communities.

Metrics matter: social impact measurement is gaining momentum

Building capability to report transparently and accurately on environmental, social and governance activity is a key development which is here to stay. Global bodies such as the Science Based Targets Initiative and the Taskforce on Climate-Related Financial Disclosures are helping to make environmental metrics more uniform, and are gaining legislative weight as they are introduced into national laws.

The focus is now widening to include the social components of ESG, which are in many ways even more complex than environmental metrics. The concept of social impact can vary considerably between sectors, responsibility may sit across multiple teams, and it can be complicated to identify uniform metrics for interconnected issues such as social mobility, community impact and financial inclusion.

For social enterprises and charities who may face the burden of reporting on their activities, the resources required can also be prohibitive.

But businesses cannot afford to use this complexity as an excuse for avoiding measuring social impact. Just like environmental metrics, regulators are creating – and responding to – a trend towards measurement, with preliminary frameworks appearing in the financial services sector. The EU has produced a social taxonomy to accompany environmental ones as part of their sustainable finance strategy, seeking to bring more transparency to investors on the social impact of investments. Here in the UK, the FCA now requires listed companies to disclose against targets on the representation of women and ethnic minorities on their boards and executive management teams, while the Social Value Act has introduced a codified framework for public sector contractors and suppliers which is being picked up across other sectors.

While these steps indicate a trend, there are huge numbers of businesses not yet required to report on their social impact. But tracking and demonstrating this activity is about much more than regulatory compliance. In the simplest terms, without recording and communicating ESG activity, audiences and stakeholders cannot be expected to know about it. And across key corporate concerns – whatever the sector – from attracting top talent to preparing for future regulatory change, from maintaining customer trust to effectively communicating with a younger workforce, reporting social impact transparently will help to meet these objectives.

At Neighbourly, our community-first approach guides the way we measure and report social and environmental impact, helping our clients deliver against sustainability and ESG objectives. The platform tracks actions and impacts as a result of businesses donating either time, money or resources and this data is then automatically mapped against local communities that have benefited. Metrics such as beneficiary charity type, population demographics and financial impact, along with research conducted directly with the charity network across the UK and Ireland, enable clients to go beyond simply tracking inputs to measuring tangible impact and value.

Avoiding unnecessary and time consuming manual data logging means the platform can act as a more reliable "source of truth" for the impact that has been created, providing crucial community impact stories that help to elevate activity from the realms of ESG measurement and reporting to demonstrate real change at a human level.

In addition, the Neighbourly platform is unique in enabling businesses to track and report on operational performance of programmes. Across employee volunteering, financial and surplus donations, the robust financial measures quantify impact across the UN SDG-aligned themes, using regional filters - all the way down to store and local community level.

"At WSP in the UK, we've set an ambitious target to generate £120m in additional social value by the end of 2024. It's important that we measure and report our progress in a robust and meaningful way, but this is easier said than done in the ever-changing landscape of measurement and verification. At the same time we also have to align with the different measures and tools our clients expect us to use on their projects. And we must ensure that we're not being unreasonable in what we ask our busy project teams to do. Ultimately, we'd like to be able to use technology to automate much of the measuring and reporting process, using a single tool for corporate teams to input and track data."

Emily Binning
Corporate ESG Director, WSP

The changing relationship between ESG and brand value

How brand and ESG interact is changing fast. Many trends around evolving customer expectation, talent attraction and stakeholder trust centre around the intersection between an ESG strategy and its communication, reception, and perception.

It may seem that there are now more potential pitfalls than ever when it comes to ESG and brand, with regulators such as the CMA and the European Commission gaining momentum in tackling greenwashing, ESG claims being met with customer suspicion, and the cost-of-living crisis demanding a more sensitive approach to advertising and marketing.

But this idea can be turned on its head, making the alignment between brand and ESG an opportunity. Brand and brand value have long been intangible concepts – difficult for a business to control and measure. ESG strategies, activities, and reports provide a route to making the indefinable definable, as well as helping business access talent, maintain trust, and build brand loyalty.

Key to this is collaboration between teams within a business. With responsibility for environmental, social and governance policy and activities often sitting across multiple departments, there is potential for information to fall through the cracks, creating greenwashing risks.

In 2023 and beyond, management, sustainability, communication and marketing teams will all need to adapt and work closely to respond to changing stakeholder expectation, as well as regulatory requirements, translating ESG activity and reporting into brand value.

Rather than seeing ESG and brand as uneasy bedfellows, viewing ESG activity through the lens of brand helps to keep activity focused and genuine. This can be achieved by aligning social impact and the communication of sustainability policies with the tone and values of a business.

The current cost-of-living crisis provides an unfortunate but real-time case study for the changing relationship between brand and ESG, purpose and responsible business behaviour. Emotions, trust and perception have always driven purchasing decisions, and how companies project their brand through responsible business strategies that support communities and staff during this crisis, is becoming increasingly important.

According to a Sensu poll, 34% of respondents said that brands offering genuine support to people would increase their loyalty, while 30% said that they would be suspicious that it is using the crisis to grow their business. This highlights the tightrope for brands to walk. Honesty and tone matter more than ever, as does showing – rather than merely telling – when it comes to demonstrating corporate community investment.

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Fostering inclusion and improving equity beyond the office

The landscape and acronyms surrounding Diversity, Equity and Inclusion shift and evolve rapidly, and commentators in the UK and the US are noting they expect the 'E' of equity to gain ground this year. Going beyond diversity, equality and inclusion, equity encourages companies to confront historical and socio-political barriers to fair opportunities and implement policies and an ethos that address these. Of course, many approaches to ensure greater workplace equity are primarily internal, but it is worth considering how equity is built within communities.

Meanwhile, hybrid working is set to last, with more than 80% of UK employees who worked flexibly in 2021 and 2022 now preferring a hybrid working model. The impacts of this on ESG approaches and workplace policies are considerable, from tracking home-working carbon emissions to creating and maintaining diverse and inclusive workplace cultures.

HR teams and managers will be recognising the positive outcomes for the levelling up agenda and looking for ways to foster trust and inclusion between employees working in different locations and settings, as well as counter issues such as proximity bias.

Local community volunteering and fundraising are part of the answer to both these equity and hybrid-working concerns. Participating in volunteering schemes and seeing the impact of donations creates and strengthens connections between employees and between employees and their local communities. These activities support a sense of belonging and value within an organisation. They help to create new career pathways for diverse communities, enabling people to interact with businesses in their local area, access new surroundings to shake up their routines and support their mental health, as well as forge connections which they may not otherwise access.

According to research from the British Psychology Society, employee volunteering leads to an enhanced sense of belonging and accomplishment, better job satisfaction and performance and overall wellbeing. By contributing to meaningful projects, interacting and problem solving, employees are practising many of the skills which will enable them to do their job better.

With Neighbourly, businesses can ensure the good causes they give to and volunteer with are aligned with what matters to employees, and meet a business' DE&I goals. As well as matching companies with community organisations according to goals or impact themes, such as gender equality, zero hunger, or quality education, Neighbourly can assist with tailoring programmes to meet the needs of diverse groups of employees.

Employee volunteering leads to an enhanced sense of belonging and accomplishment.

Addressing equity and fostering a sense of belonging and value through employee volunteering and donations amount to much more than "nice-to-have" activities. Done right these schemes support talent development, recruitment, employee wellbeing and overall company performance – none of which businesses will want to sacrifice, particularly during a cost-of-living crisis.

Meeting the global cost-of-living crisis with investment in local communities

How businesses respond to the cost-of-living crisis will be as decisive in securing a social licence to operate as their ESG commitments, if not more so. A PwC poll mirrored findings from Sensu, noting that 33% of the UK public believe companies have a role in mitigating the crisis' risks, and that not being seen to 'do the right thing' could damage trust and reputation. And these concerns are global, as the WEF's Global Risk Report finds, with the cost-of-living crisis in the top spot for the next two years according to their international survey of academia, business, government, and civil society.

Within the Neighbourly good causes network, it is clear how the crisis is impacting charities and community groups. Our research in Autumn 2022 found that 61% of surveyed charities within the Neighbourly network had already seen a drop off in financial donations, while a survey by the Charities Aid Foundation found that the number of people giving fell by 4.9 million in 2021 compared with two years earlier.

Responding effectively to this need and expectation requires businesses to consider a longer time-horizon. Instead of seeing the cost-of-living crisis as a 'now' problem and reducing corporate environmental impact or furthering ESG efforts as a 'later' problem, leaders must look to ways to address the challenges together. This is particularly important for businesses looking to attract millennial and Gen-Z customers and employees, with the annual Deloitte survey focusing on these demographic groups finding that the cost-of-living and climate change are the top two concerns for these groups. Recent research shows that millennials are not following the traditional pattern of becoming more conservative in their beliefs and priorities as they age. Past models can no longer be relied upon to predict behaviour.

While not a panacea, thinking locally about ESG impact and CSR can help make the escalating challenges feel more surmountable. Neighbourly's research shows that trust is highest in companies that contribute to small local charities (63%), as compared to national (47%) and international causes (31%).

Beyond priorities around wage and job security, employee volunteering and financial support channelled into local communities in a visible and tangible way enables companies to maintain trust and secure long-term social licence. And providing this support via the Neighbourly platform means the risks and time associated with identifying, vetting, and liaising with local causes is taken on by experts with an understanding of business' priorities and local need.

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> "These are uncertain times and the winter months have been particularly challenging for so many people in our local communities. Our colleagues come face to face with people every day experiencing serious difficulties and they do their best to support their local community partners who are struggling to meet demand. Supporting Neighbourly's Warm Communities Fund enabled us to get much needed funding to charities and community groups across our region quickly, helping them to support those most in need."

Gemma Lacey
Director Sustainability & Communications, Southern Co-op

Conclusion

For 2023 and beyond, ESG will remain at the forefront of strategic business decisions, and companies will be judged on their ability to bring their commitments to life in ways that support their communities at a time of increased economic hardship.

Businesses that embrace the transparency required by evolving regulations, by finding ways to translate and communicate their ESG data and commitments, will access brand value and trust benefits. And despite a move towards more hybrid ways of working, businesses' local context, and how they invest in their communities– whatever their sector – is likely to become more important rather than less.

Rather than allowing community engagement, employee volunteering and charitable donations to be at the edge of the ESG strategy, companies must see investment in their local communities as integral to meeting DE&I goals and ultimately key to securing long-term social licence.