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The S in ESG

CPD 5

What is the S in ESG?

An Environmental, Social and Governance (ESG) strategy sets out the framework and measurable targets that demonstrate how an organisation contributes to the environment and society and how well it is run.

The accelerating climate crisis and associated stakeholder interest – especially from regulators and investors – mean that businesses and organisations are beginning to understand and report on their environmental and governance standards. However, until recently, social factors failed to receive the same level of recognition.

Driven by the experience of the COVID-19 pandemic, the #MeToo movement, and Black Lives Matter, social commitments have now become a pressing issue. Inequality is now recognised as a systemic risk to the resilience of business models, operations, and value chains. There is also a growing recognition that environmental actions and social outcomes are closely linked, and acting on one without considering the other is not only a missed opportunity to have a positive impact but can create unforeseen consequences.

The success of any business or organisation rests on whether it can be trusted to behave fairly and appropriately in the way it treats everyone whose life it touches. That is how it wins the support of stakeholders including consumers, employees, and its community neighbours, locally, nationally and globally. The 'S' in ESG refers to those social commitments, effectively providing an organisation with a social license to operate.

How are social commitments embedded within an organisation?

An organisation's starting point is to set out its social priorities, recognising the impact of its business model and strategy, and its day-to-day operations on its workforce, communities and consumers.

Typically, this includes:

- Leadership and a healthy corporate culture
- Workforce wellbeing and development
- Equity, diversity, and inclusion
- Human rights and modern slavery commitments
- Community engagement
- The social impact of products and services

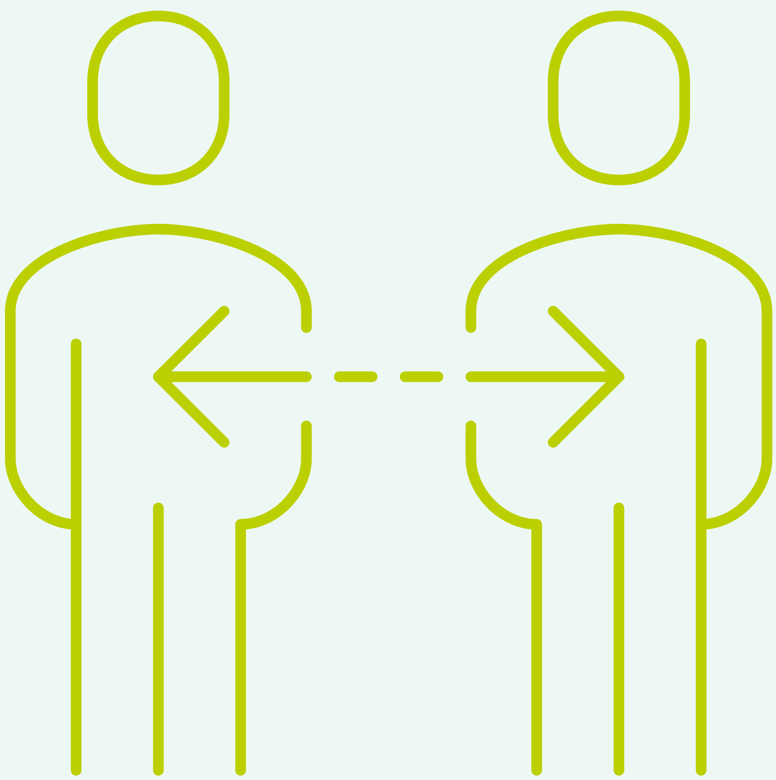
This demands a wide view of who **stakeholders** are and how they are affected. A stakeholder map will help to plot this. The most effective strategies look beyond the immediate organisation to its supply chain, in addition to direct impacts.

According to the Impact Institute, 90% of a business' impact is indirect. Some of the risk attached to that is managed by taking a value-chain approach, like knowing your manufacturer has several tiers of small suppliers below them.

However, if you take something like the customer microloans being facilitated by a supermarket, the direct social benefit is enabling people to feed their families, but the indirect impacts could include a corresponding drop in foodbank use, reduced use of loan sharks, better diets etc. They really need to be understood and measured too.

Defining and measuring **social commitments** can be more challenging than dealing with environmental and governance ones, as the latter tend to be more regulated with access to historical data. There is currently no single reporting system that focuses on social factors, but a combination of frameworks with complementary ambitions and standards. The **United Nations' 17 Sustainable Development Goals** (SDGs) are the most comprehensive, containing 231 targets, including specific social commitments.

Regulation is increasingly driving ESG behaviour, including **reporting** requirements on some social issues (for instance anti-slavery and gender pay gap legislation), and sits alongside voluntary disclosures, which are specific to particular reporting frameworks or business sectors. It is important to determine which new ESG-related regulations and reporting standards are relevant to your organisation to ensure **compliance** and this is particularly so for the social commitments for which there are no standard reporting guidelines.



How do we know if the 'S' in ESG is effective in an organisation?

An effective approach to social impact can be seen in:

Leadership and culture – visible responsibility for ESG at board level. Approachable management and willingness to invite and react to feedback.

Workforce – inclusive policies that prevent discrimination and promote a positive working culture; fair pay; benefits and working conditions; engagement, and development opportunities. From governance through to employment, succession planning, retention and recruitment. Compliance with health and safety and respect for human rights and modern slavery rules in all operations.

Community relationships – positive interaction with local communities, expanding beyond commercial relationships with a genuine intention and actions to create impact.

Products and services – policies that identify and ensure good social outcomes, from the sourcing of raw materials, through production, manufacturing, logistics, retail, use and end of life.

Philanthropy – businesses may choose to adopt a strategic approach to philanthropy, building charity relationships that play to the existing knowledge.

10 principles to consider in order to pursue best practice:

1. 'S' themes span **customer** relationships, your **workforce** and **supply chain**, and the **communities** you impact through your organisation's operations.
2. Social themes are inextricably linked with the organisation's approach to environmental and governance issues, in a holistic approach to ESG.
3. The most effective social initiatives are **aligned** with the vision and mission of the company – and leverage its core competencies.
4. Themes are developed from a **materiality assessment** that identifies which social issues are most significant, both to the organisation and its stakeholders.
5. It is critical to determine which ESG-related regulations and reporting standards are **relevant**, to assure **compliance**.
6. **Two-way communication** with stakeholders is an important way to identify key issues and potential solutions.
7. In addition to understanding which **metrics** are already in place, new approaches, including **proxy metrics** (for instance using parental occupation as a measure of someone's socio-economic background) may need to be introduced.
8. The indicators that are being **measured** and reported on are meaningful, comparable, and consistent, with the methodology clearly explained.
9. **Social impact reporting** is audited by a specialist organisation or carried out independently, and impact is benchmarked with peers and industry leaders.
10. While greenwashing is a growing topic of concern **'social washing'** must also be actively avoided in communication.

A strong S strategy can be transformational. It tells the story of how an organisation prioritises positive and impactful relationships with its stakeholders. By doing so, it creates long-term value for all and brings everyone along on the journey.

Resources

- https://ssir.org/articles/entry/fixing_the_s_in_esg
- https://assets.kpmg.com/content/dam/kpmg/uk/pdf/2021/06/irsg-kpmg-accelerating-the-s-in-esg-report.pdf
- https://www.pwc.co.uk/industries/financial-services/understanding-regulatory-developments/what-does-the-s-of-esg-mean-to-your-organisation.html
- https://www.wbcsd.org/contentwbc/download/15809/228471/1
- https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/emphasizing-the-s-in-esg

Introduction to the ESG Panel

ESG is now at the top of boardroom agendas everywhere. Organisations are expected and required to communicate and report on their environmental, social and governance activities. The impact for the communication professional working in this environment today is significant. The journey to becoming a more sustainable organisation cannot be managed by one department but the role of public relations will play an increasingly important role.

The CIPR's Environmental, Social and Governance (ESG) Expert Panel will bring together public relations and ESG specialists to articulate and reinforce the role of communications in shaping, delivering and expediting organisational sustainability, while combating greenwashing.

The panel aims to identify and promote the roles and responsibilities of the public relations professional, support the industry with continuing professional development and understanding of ESG and build key networks between stakeholder groups and markets.

Contributors to this guide

Anjali Patil

With over twenty years of experience managing communications for financial services firms, Anjali Patil is, currently, the Head of Brand & Communications for Southeast Asia at BNP Paribas, based out of Singapore. Her responsibilities include managing corporate communications, sponsorships, events and corporate philanthropy. Previously, she has held similar roles with BNP Paribas India, Fidelity India, Morgan Stanley India and Singapore. She was also Senior Partner – Corporate and Financial Practice – at Ogilvy PR India.

Anjali is a Member and an Accredited Practitioner with the Chartered Institute of Public Relations (CIPR) and a registered member of the Commission on Public Relations Education's (CPRE) research panel.

Hilary Berg

Hilary is Head of Strategy, M&C Saatchi LIFE and has spent more than 25 years supporting corporate, public and third sector organisations to integrate purpose into strategy and to campaign for change, with a focus on climate and social justice, and social innovation.

As Head of Strategy at M&C Saatchi Life – a global strategic and creative consultancy, she is working with corporates and household-name brands on transformative sustainability strategies.

Previously Head of Sustainability at UK supermarket Iceland Foods, she worked alongside Executive Chairman Richard Walker to devise and lead its award-winning 'Doing it Right' strategy; involving brand activism campaigns; social innovation projects on food insecurity, family poverty and financial inclusion; and reduction of carbon, plastic and food waste. Prior to Iceland, she was Director of Communications and Marketing at Alder Hey Hospital, the biggest and busiest children's hospital in Europe, and the Alder Hey Children's Charity.

Hil is also a charity trustee at the Rothesay Foundation; Alder Hey Children's Charity; and Feeding Britain.

Laura Sutherland FCIPR Chart.PR FPRCA

After running her own consultancy, Aura, for 15 years, Laura has been enticed back into agency as development director at 3x1 Group, using her big picture thinking and bringing decades of expertise and contacts to the business.

Her portfolio is primarily corporate and spans aquaculture, finance and sustainability. Issues and crisis management is a fundamental part of client work as is integration of communication across businesses and organisations.

Laura leads the CIPR's Fellows Forum, is Chair of the PRCA's Climate Communication Group and a member of the CIPR's ESG Panel. She's also a former CIPR Board Director and Council Member.

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