3 ways to make ESG more meaningful – with focus on the ‘S’ in ESG

Over the past ten years, the concept of Environmental, Social and Governance (ESG) has become mainstream for businesses in many industries. While the environmental (especially climate change) and governance aspects were spearheading the ESG movement, the ‘S’ or social is now quickly catching up. The social aspect of ESG covers a range of factors related to the company’s interaction with society, employees, customers and other stakeholders.

ESG frameworks can be used to assess corporate performance in line with indicators, while ESG strategies can help develop corporate level plans to achieve target performance indicators. ESG indicators can also be used to screen portfolios to ensure we avoid high-risk investments and prioritise sustainable options. ESG in general is a combination of mandatory legal requirements (think labour code) and voluntary standards (energy efficiency measures or waste recycling) that usually reflect the company’s macro or corporate level commitments.

The main issues I see with my client's ESG approaches include the lack of well-defined scope, no differentiation of voluntary and mandatory aspects and highlighting indirect impacts to inflate positive social outcomes. Let's take a look at 3 easy hacks you can apply to your company's sustainability agenda to make your effort more meaningful when it comes to social impacts.

1. Labour and working conditions

Workforce management was standard practice even before ESG. Nowadays, when I read my clients' sustainability reports, I find information about the number of employees, their wellbeing, diversity and inclusion initiatives and the perks the company provides.

To make the reporting more meaningful, mark the elements of your employee engagement and wellbeing that are mandatory requirements by law and put the emphasis on the extra mile you can go as an employer to make your people feel valued. In practice, this could be reporting on your actions to achieve a more diverse and inclusive workplace as opposed to only mentioning your DEI policy. For example, are you championing parental leave and providing extra time off, on top of the basic legal requirements? If so, shout about it from the rooftop!

One thing to note, however, is to be careful about reporting the impact your policies may have, especially for companies that have programs to employ marginalised groups. Please be real in your reporting. For example, the few people you employ will not be the reason why the level of unemployment rate for this group is decreasing. Yes, you are contributing indirectly but don't take credit where credit is not due.

2. Supply chains and human rights

This was a hot topic for late 2023 with the EU's new package requiring more transparency and reporting on human rights risks in the supply chain. The management of supply chains used to be a tick box exercise which basically meant having a policy statement. This is no longer sufficient as consumers and shareholders get more educated on practicalities of the management of supply chains and contractors. To make your supply chain management meaningful you need to map your primary, secondary or tertiary supply chains, identify sectors or raw materials that have a reputation for human rights risks and set up a system to manage these risks. In practice this means supplier screening pre-contracting, contractual clauses protecting human rights, audits of supplier premises and due diligence of supplier's management system. To understand which human rights are within scope for your operations, you need to look at where you have a direct or indirect impact, as well as leverage. Typically, human rights risks refer to the potential of child labour, forced labour, modern slavery, unsafe working conditions, discrimination, wage and working hours violations, lack of freedom of association and collective bargaining, land and resource rights to name a few. Don’t just have a policy, have a management system in place!

3. Communities and stakeholder engagement

My personal pet-peeve is the lack of definition of communities in ESG. While transparency is there for some companies who report their communities being their customers, other companies remain vague about who they refer to in their reports. In my line of work as a social performance practitioner, the community is defined as the group of people directly affected by projects or operations. For example, the closest villages to a new mining site. While this might not be applicable to every company, I almost always see corporate social responsibility (CSR) initiatives listed as community support or community engagement. There should be a clear distinction between legal requirements for impact mitigation and voluntary community support through CSR.

Stakeholder engagement is often referring to informing shareholders about the company’s initiatives and disclosing the annual ESG report to the public. In my line of work, we refer to stakeholder engagement as the continuous dialogue with project affected stakeholders. It relates to the communities’ aspects in a way that if our stakeholders are not defined, our engagement with them will be less meaningful Another general practice we implement is an informal complaints procedure that is free, easily accessible to people with the intention to swiftly resolve issues with locals. While ESG includes indicators for complaints management, it is often referenced as customer service.

The conclusion here is define your communities and stakeholders. Some are directly affected by operations so your engagement should focus on understanding concerns and providing solutions for risk mitigation, while others are indirectly affected by the company and your efforts will be information disclosure and proactive positive impact creation through CSR.

In conclusion, define what you are trying to measure; be upfront as to whether it is a legal compliance matter or a voluntary positive impact creation strategy: define your beneficiaries, communities and stakeholders and be honest if you are only an indirect contributor to a positive impact.

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