

# Creating a Sustainable Future

The social aspect of ESG



# Introduction

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**For over twelve years, the Future of Work by HSM has explored trends shaping industries, organisations and careers.**

Organisations are expected to play a larger societal role, which has significantly heightened their responsibility to implement comprehensive social policies, leave a positive impact on society and create an environment where individuals can flourish in spite of the polycrisis.

Recent trends in the world of work have highlighted the need for organisations to develop an approach to the social aspect of ESG. Our research has shown that most focus has been placed around the environmental aspect of ESG because it has set targets and regulations and there are more clear-cut measurements. However, organisations have an increasing responsibility to consider their social impact and create a sustainable future for their people, customers, communities, and ecosystems.

**This Insights Report will provide you with actionable guidance on building your own signature approach to the social aspect of ESG within your organisation to create a sustainable future for your stakeholders.**

## **Our methodology**

The insights contained in this report are drawn from a thorough literature review, alongside primary research through the analysis of nine interviews, two focus groups, and two CHRO gatherings, speaking with over 30 participants across 29 organisations. This research was combined with insights from the HSM Advisory's Creating a Sustainable Future Masterclass event on 26<sup>th</sup> June 2023.

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# Key insights



**The social aspect of ESG is about building for the future.**

To create a more sustainable future, organisations need focus on two areas; building sustainable products and sustainable workforces. The social aspect of ESG is *how* organisations can do this, it is the catalyst for creating a social strategy that will take your organisation into the future and make a difference in the lives of your stakeholders by creating value for them.



**Agility and experimentation are critical.**

The notion of agility and experimentation is important in the social aspect of ESG. There is no framework or rulebook, so experiments offer a chance to be bold in your approach and try different strategies. Being agile in your approach to the social aspect of ESG allows you to remain responsive to the changing external world in which we live.



**Acknowledge the risk of neglecting the social aspect of ESG to incite action.**

Acknowledging risks helps bridge future challenges with present strategy, which the environmental aspect of ESG communicates very well, as it naturally makes us feel a sense of urgency and anxiety. In contrast, there is less urgency around the social aspect ESG, as we don't see the immediate risks. Nonetheless, *there is risk* in neglecting the social aspect as this is your organisation's licence to operate and effects the amount of support your organisation receives from its stakeholders.



**Build your signature approach and unique narrative to inspire your stakeholders.**

The environmental aspect of ESG has standardised regulations, whereas the social aspect does not, and organisations are struggling without a consistent framework. Organisations need to create their own framework and unique signature that is tailored to the industry you operate in, the views of your CEO, and the purpose of your organisation. Use this signature to tell a story of progress, understand the impact of your social initiatives, and bolster your narrative through qualitative data.



**HR leaders can leverage opportunity within the ambiguity of the social aspect.**

The social aspect of ESG is complex and cross-functional, which means initiatives may fall 'through the cracks' due to a lack of synchronisation across functions. But there is opportunity within the cracks to create something exciting, powerful and different to your competitors. HR should be the function to lead on the social aspect of ESG and address these gaps by aligning leadership, leveraging core capabilities, and using your purpose to drive your strategy.



**Aim for progress not perfection.**

The social aspect of ESG is a dynamic and ongoing process and requires organisations to be bold and proactive with their actions, even if they are small or incremental at first. On this journey organisations need to experiment, collaborate with key stakeholders, and leverage your core capabilities to create a sustainable future. No organisation has got this fully right, as this is a journey that requires progress and not perfection.

# Why are we looking at the social aspect of ESG?



# It is time for action

We are living in a polycrisis which is evident through the pandemic, social inequality, the cost-of-living crisis, and the climate crisis – which are only expected to increase over the next 10 years<sup>1</sup>. These crises are a result of our global connectivity which can increase resilience, but also increase fragility<sup>2</sup>. For example, the pandemic increased fragility because it overwhelmed our healthcare systems and impacted global economies through lockdowns, travel restrictions, and supply chain disruption.

As a result, this has highlighted the need for business to be a force for good, to create positive change amid these disruptions – using the social aspect of ESG as a catalyst for this change.<sup>3</sup> But, organisations are experiencing tensions around navigating the social aspect of ESG because of its complexity and ambiguity.<sup>4</sup>

People not only expect organisations to have a strategy around this social impact, but *trust* organisations more than any other institution to create positive change<sup>5</sup>. Therefore, organisations have a unique moment in time to have a positive impact on their people, customers, communities, and ecosystems, using the social aspect of ESG as a catalyst to create a sustainable future<sup>6</sup>.

Organisations focusing on the social aspect of ESG not only creates a positive impact on society but drives your organisation's licence to operate<sup>7</sup>. The social aspect of ESG is only becoming more crucial for organisations as 47% of investors considered the social aspect of ESG the most important factor when making decisions, overtaking the environmental aspect at 35%<sup>8</sup>.

An organisation's approach to social impact can make or break their brand, and as a result, they are reevaluating their approach to the social aspect of ESG<sup>9</sup>.

## The social aspect of ESG determines your licence to operate.



### Talent and retention

Employees who felt that their employer took a stand on ethical issues were likely to stay with the company for five years or longer.<sup>10</sup>



### Human rights and labour standards

Businesses that adopt human rights as their central operating principle manage resilience more effectively.<sup>11</sup>



### Brand reputation and public image

Global executives attribute 63% of their organisation's market value to their organisation's overall reputation.<sup>12</sup>



### Productivity and Output

90% of employees who work at organisations with a strong social impact say they're more inspired, motivated, and loyal towards their work.<sup>13</sup>



### Happy and Healthy Workforce

There is a positive influence of social responsibility on employees' wellbeing as a result of a responsible and ethical behaviour.<sup>14</sup>



### Inclusive People Experience

Organisations identified as more diverse and inclusive are 35% more likely to outperform their competitors.<sup>15</sup>

# There are tensions to navigate

During the research, you told us you were facing three key tensions ...

## Tension 1

Stakeholders have different needs and expectations; therefore, it is difficult to create long term value.<sup>16</sup>

The polycrisis, and the pandemic in particular, highlighted the need for you to prepare for the future by planning for the long-term.

This disruption required you to rethink your response to stakeholder needs, which include your present and future people, customers, investors, communities and wider ecosystem.

But this network of stakeholders is complex, as it is difficult to understand what each stakeholder group needs and expects and value creation for each group is dependent on another.

## Tension 2

There are a number of factors to consider within the social aspect of ESG, and measuring and tracking impact is complex.<sup>17</sup>

While the 'E' of ESG has an agreed upon taxonomy and regulations, the 'S' does not. Which makes determining the relevant social factors for your organisation more difficult.

The social aspect of ESG is complex because it is made up of varying factors and covers many different areas including career resilience, human rights, DE&I. These factors are often prioritised differently by organisations depending on the industry they are operating in.

To add to the complexity, organisations, investors, and boards are more comfortable with quantitative data that is easily comparable, while the social aspect of ESG usually deals in qualitative data making it more difficult to measure.

## Tension 3

HR should be playing a role in the strategy around the social aspect of ESG, but there is no clear way forward or coordinated response.<sup>18</sup>

The polycrisis has changed the role of HR leaders, which means you have different responsibilities.

You have become critical players in stakeholder management and building organisational resilience. You are responsible for managing the impact of the polycrisis on your people's wellbeing, promoting a positive work environment, talent acquisition and retention strategies, inclusive workplace policies, learning and development, and so much more.

These responsibilities are intrinsically linked to the social aspect of ESG and it is clear that HR leaders have a role to play, but because of the cross functional nature of the 'S', you are less clear what you should be responsible for.

# Taking action



# Make a difference by creating value for your stakeholders

**1** Organisations create sustainable futures for their stakeholders through value creation.

Your people, customers, investors, communities and ecosystems have varying needs, expectations, and interests.<sup>19</sup> These are all interdependent, meaning when you create value for one group, you create value for another. For example, when you create a positive work environment for your people, they are energised and happy, which then impacts their levels of customer service.<sup>20</sup>

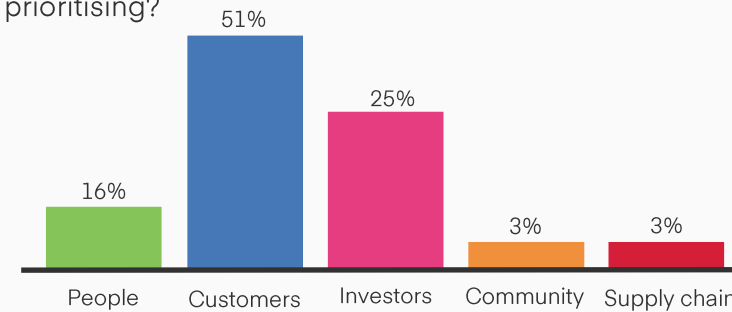
Creating value for your stakeholder groups is about building and maintaining long term, sustainable growth, which results in stronger economies, higher living standards and greater opportunity.<sup>21</sup>

**2** Our research showed these were the key areas of value creation across your stakeholder groups.<sup>22</sup>

PEOPLE	CUSTOMERS	INVESTORS	COMMUNITY	ECOSYSTEMS
Career resilience	Addressing privacy concerns	Long term returns	Corporate philanthropy	Human rights
Sustainable performance	Sustainable products	Reporting and transparency	Community partnerships	Anti-corruption
Building good work	Customer service	Social investment	Volunteerism	Ethics

**3** **Spotlight : What stakeholder groups is your organisation prioritising?**

During our global masterclass on 26<sup>th</sup> June 2023, we asked you which stakeholder group is your organisation prioritising?



**Organisations are overwhelmingly prioritising customers and investors.<sup>23</sup>**

Your stakeholder system is interdependent, so when you place less focus on your people, it has negative repercussions across all stakeholder groups.

**4** **What can you do about this?** There are three areas of focus within the social aspect of ESG to create long term value for your people.<sup>24</sup>

**Build career resilience**  
Building career resilience for your people allows you to build careers which adapt to shifting priorities, which will become especially important with the advancement of AI.

**Create sustainable high performance**  
Driving sustainable high performance helps you ensure your people are showing up their happiest and healthiest selves.

**Provide good work**  
Providing good work allows you to help your people stay challenged, feel rewarded, and build networks and structures for support and development.

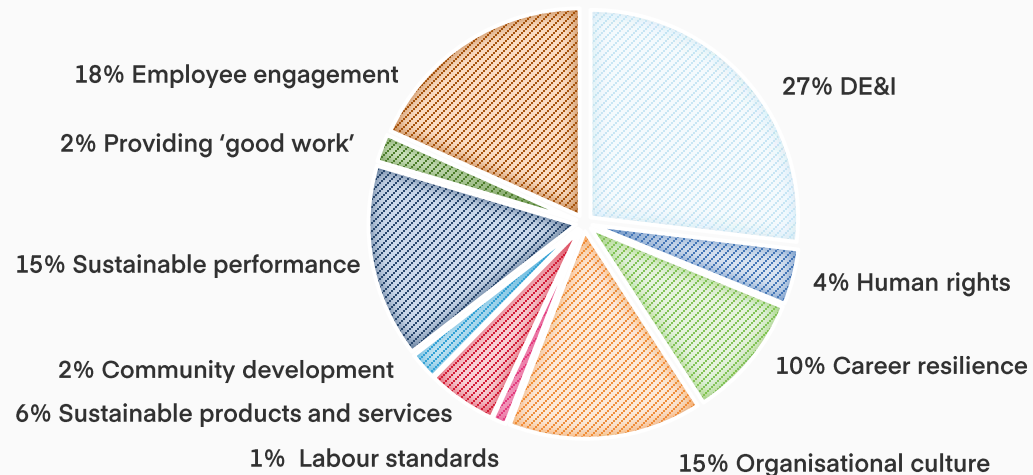
# Understand your impact to tell a story of progress

## Measuring and reporting the social aspect of ESG is complex.

The social aspect of ESG does not have an agreed taxonomy and is made up of many different factors.<sup>25</sup> These factors are difficult to measure as they are mostly qualitative concepts, and organisations are not yet fully confident in presenting qualitative data to our Boards, CEO and investors. As outlined below, you told us that DE&I was the social factor your organisations are prioritising. This may be because it is easier to describe due to its quantitative nature.<sup>26</sup>

### Spotlight : What social aspects of ESG are you measuring?

During our global masterclass on 26th June 2023, we asked you which three social factors of ESG your organisation was thinking about. You told us the factors most relevant to you were DE&I, employee engagement, organisational culture, and sustainable performance.<sup>27</sup>



## Tell a story about striving for progress, not perfection.

Despite these complexities, organisations need to determine their social signature. This will guide the story they tell with regards to the social aspect of ESG that helps them communicate their focus areas and data in a way that encourages and inspires their various stakeholder groups.

## Consider these three actions when creating your signature approach to the social aspect of ESG.

### Track progress and understand its impact.

We heard from you that the main way you are measuring the social aspect of ESG is through global surveys – but this data is not telling you enough about the impact of change initiatives.

For example, turnover rates tell us people are leaving, but they don't tell us why.

To understand the impact of your data, supplement it with employee listening and experiment with new innovative ways of tracking progress and measuring its impact.

### Go beyond quantitative data.

While quantitative data provides important metrics, it often fails to capture the nuanced and qualitative details of the social aspect of ESG.<sup>28</sup>

Get comfortable with qualitative data to gain a deeper understanding of social issues, stakeholder perspectives, and the broader context in which organisations operate. This will allow you to create an open dialogue with your stakeholders to gain a richer picture of the social aspect of ESG within your organisation.

### Build a narrative around the numbers.

Use your data to inspire your stakeholders by building a narrative that tells the story of your organisation.

Provide your stakeholders with stories about how their contribution has contributed to the success of the organisation. And accurately report your data in a way that inspires your stakeholders to act.

Communicate transparently about the issues you face, your plans to address them, and your performance against the targets you set.

# Emphasise the role of HR in the social aspect of ESG

## The responsibilities of HR leaders have changed.

Amid the disruption brought on by the polycrisis, the role of HR leaders now encompasses a stronger focus on the social aspect of ESG – but HR leaders haven't fully embraced this.

## HR leaders – this is your moment.

You have a responsibility but also an accountability to create a sustainable future for your people. You are uniquely positioned to drive strategy within the social aspect of ESG because you are the vital connection between all of the organisation's stakeholders.

## Here are four focus areas to take action.



### Turn your *why* into your *how*

Employees thrive in purpose-driven organisations, they are three times more likely to stay and 1.4 times more engaged.<sup>29</sup> To foster this environment, embed purpose, engage stakeholders, and connect your purpose to your organisation's core capabilities. Keep purpose at the forefront of your employees' minds every day and measure its impact, using the results to drive positive change.



### Leverage your core capabilities

HR plays a pivotal role in leveraging core capabilities. Ask: What makes us unique? How can we use this to benefit our people? How can we bring value to customers and the community? By answering these questions, HR can unlock the potential for positive impact.



### Get your leaders on board

To secure leadership buy-in for social initiatives, align your agenda with your CEO's objectives and establish social KPIs and incentives. Educate and empower your leaders on the meaning of the social aspect of ESG and their role in fostering stakeholder engagement.



### Create cross functional teams

Cross functional teams ensure that the organisation's commitments, policies, and goals are translated into actionable plans across different functions. These individuals can take responsibility for deciding relevant social factors for their function, monitor progress, measure impact, and hold the organisation accountable for its social performance.

## Spotlight : Know your CEO.<sup>30</sup>

### Legacy CEO:

The social aspect of ESG is their life's work and legacy, they are heavily involved in the social strategy.

### Compliance CEO:

Understands the need to focus on the social aspect of ESG from a compliance perspective.

### Hands-off CEO:

The social aspect of ESG is not on their agenda and they hand off this work to other colleagues.

# The social aspect of ESG in practice

Organisations are experimenting with the social aspect of ESG right now. Here are three key examples of organisations putting the social aspect of ESG into practice.



## Leadership accountability at Mastercard

Mastercard wanted to hold leaders accountable for the social aspect of their ESG efforts.

Leadership announced that compensation for its executives would be tied to social ESG goals, specifically DE&I efforts.

As a result, Mastercard regularly reviews compensation models to address different areas of the social aspect of ESG, including employee engagement, culture, and talent development.



## Leveraging core capabilities at Bupa

Bupa wanted to leverage their core capability of providing healthcare solutions to create a positive social impact for their stakeholders.

They created the 'Healthy Cities' app whereby completing activities and challenges participants can unlock investment from Bupa into the restoration of the environment in urban areas.

Bupa leveraged their core capability providing healthcare to create impact for their stakeholder groups and start their journey towards greater physical and mental health.

## cultureX



## Measuring culture with AI at CultureX

CultureX in partnership with MIT wanted to measure culture in a scientific and meaningful way.

CultureX developed an AI-powered system for measuring culture by scraping and classifying Glassdoor data.

CultureX benchmarked and identified areas of strength or opportunities to improve culture, as well as ranked the top performers on Glassdoor in terms of organisational culture.

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Additional participants:



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