



# **PROFIT** THE ESG ADDENDUM **PURPOSE**

EXECUTIVE SUMMARY

**NEXT STAGE** 



# EXECUTIVE SUMMARY

When we published “The Social Good Report: Profit & Purpose” in mid-2021, we knew the conversation around corporate social good was changing fast - and the pace of that change has only increased. Throughout the 80+ interviews and pages of research we read prior to publishing that report, ‘ESG’ showed up as a minor character. It appeared in our interviews and the report exactly five times - almost exclusively in relation to environmental sustainability.

Eighteen months later, ESG is everywhere.

In our recent work with companies on their social impact strategies, we’ve continued to research and interview business and CSR leaders across a range of industries.

While the challenges vary, the sentiment is the same – ESG continues to evolve faster than anyone expected. In this report, we hope to break down those changes and examine the impact on our communities, our businesses and our nonprofits.

Companies who ignore the merits of ESG do so at risk to their profitability and sustainability. As we noted in the last report, your business has already changed because of the myriad of generational and social factors at play in the world today. Paying attention to the Social part of ESG will drive your bottom line through greater employee engagement, talent recruitment, workforce development, marketing, sustainable supply chains and more.



ESG has long been viewed as a risk management concept for companies - but what if it also holds opportunities and solutions to some of today's most pressing corporate challenges?

### THE EVOLUTION OF ESG

CSR stands for 'corporate social responsibility,' a concept that suggests that companies have an ethical responsibility to improve the communities in which they operate.

The big disruptive shift has come more recently as the private sector manages the increased expectations of shareholders. Socially responsible investing has existed for decades but has been significantly reactivated through Millennial and Gen-Z generations building socially responsible portfolios including ESG-aligned mutual funds for their retirement investments. Likewise, younger employees and buyers are broadening the definition



#### ENVIRONMENTAL

How a company interacts with the Environment. This area considers the environmental impact of the products and services a company produces, their supply chain, and their sustainability practices, including facilities management.



#### SOCIAL

How a company cares for its employees, communities and buyers. Corporate Social Responsibility initiatives fit well into this piece of the puzzle, and Diversity & Inclusion and Racial Justice are also incredibly important aspects of this topic.



#### GOVERNANCE

Considers how a company governs itself, conducts business and manages against conflicts of interest.

Most public companies and some private companies have formal CSR strategies that typically include a percentage of revenue invested back into the community. But over the last two decades - and especially over the last five years - this responsibility has evolved into a broader, more comprehensive approach known as ESG. The framework is comprised of three key areas: Environmental, Social and Governance.

While some have suggested ESG is the new expression of CSR, we believe it is actually an evolution to something far more powerful. And much of it is tied to generational change.

of company stakeholder with expectations that their favored brands significantly engage in social support and change.

Lest you think this is just a topic for publicly-traded companies, think again. Increasingly ESG practices are being used to make supply chain decisions. If you sell goods or services to a public company, you are just as likely to find this shift disrupting your business too.

In this way, we believe ESG is like a snowball rolling down a hill. It is a trend that will eventually impact every private sector company - and nonprofits will likewise need to respond to these trends.



# KEY INSIGHTS

**THE NEXT ESG HORIZON IS THE 'EXTERNAL S' - HOW COMPANIES WILL LEVERAGE THEIR RESOURCES TO MAKE A BIGGER IMPACT OUTSIDE THEIR COMPANY'S WALLS.**

- The ESG movement began with an increased focus on environmental sustainability. Rather than wait for regulators to force change, corporate leaders recognized that getting ahead of it would lead to increased profitability in the long run. Governance initiatives focused on internal practices such as supply chain management and hiring practices.

**COMPANIES WILL HELP LEAD MOVEMENTS - FUELED BY COLLECTIVE OWNERSHIP.**

- I think this might be best stated as: "The rapidly evolving expectations of stakeholders are creating a paradigm shift that will challenge companies to adapt, either embracing the need to change or embracing the status quo and getting run over by it. Proactive leadership will position companies to help solve problems that have long plagued our communities, if they are willing to harness that power.

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## 95%

**"Of employees believe businesses should benefit all stakeholders—not just shareholders—including employees, customers, suppliers, and communities they operate within."**

- While complex in nature, the 'E' and 'G' are more straightforward concepts, with clear measurement. As companies turn their attention to the 'S' in ESG, the current focus has largely been internal, with a focus on diversity, equity and inclusion (DEI) and the well-being of employees.
- The next frontier for 'Social' will be external. How can companies leverage their big systems and people to express and measure social impact? Beyond financial investments, this will show up as the 'people power' and influence of a company - driven by the stakeholder expectations that make 'taking a stand' a corporate mandate.
- Customers, employees and shareholders are shifting their expectations and beliefs about brands they love and invest in and embracing a 'collective ownership' philosophy. We either feel the brands we engage with express us or they don't – and increasingly that determination is being made not only through regulatory processes but in the court of public opinion.
- The 'External S' is the most flexible and expressive element of the ESG construct. Companies of all sizes can design social impact engagement by knitting together resources in a way that engage the full company's strengths and passions.



**SAVVY COMPANIES WILL TAKE PRACTICAL STEPS TO DEFINE AND MEASURE AN IMPACT STRATEGY THAT SETS THEM APART - WHILE FUELING MAJOR COMMUNITY CHANGE.**

- Every company should assess their own materiality and determine which levers they can use to make an impact both inside and outside their company's walls. The first step in effective activation of a company's impact is an honest assessment of resources and impacts that clearly identifies the 'levers' a company is able to help move on behalf of community - and then building a plan to get there.
- For years, companies and nonprofits have equated activities with impact. In this new ESG construct, it is critical to establish a plan for data measurement, working with community partners to determine the effectiveness of investments.
- Companies that can effectively manage this change will be seen as innovators and social change agents. Shifting to this highly collaborative approach may be difficult for many corporate departments. Beginning with small, meaningful changes can serve as a gateway to a comprehensive ESG plan that lives across business units and creates large-scale change.

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# 46%

**"Of executives say their organizations currently operate with a strong sense of purpose."**