



INSIGHTS

The Rise Of The 'S' In ESG: Social Practices Companies Can Implement To Improve ESG Performance

May 3, 2023

Highlights

- The importance of the “S” in ESG has increased in recent years for a number of reasons, including: changing consumer attitudes, greater attention to social issues, regulatory pressure, investor demand, and financial performance
- Companies can implement social practices to improve ESG performance, such as promoting diversity, equity, and inclusion; combatting forced labor and human trafficking; and applying responsible and ethical supply chain practices
- Implementation of effective social practices is integral to development of successful environmental and governance strategies

Environmental, social, and governance (ESG) criteria have become increasingly important in assessing a company's ethical and sustainability performance. While the environmental and governance aspects often receive the most attention, it is crucial not to overlook the “S,” or social, component – a company's impact on society and its stakeholders.

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Bruce White

Partner
Chicago

P 312-214-4584
F 312-759-5646
bruce.white@btlaw.com



Erika K. Powers

Partner
Southeast Michigan, Chicago

P 734-489-8006
F 734-489-8002
erika.powers@btlaw.com

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Historically, initiatives, policies and practices that companies can implement to improve their “E,” “S,” and “G” performance [intersect and overlap at various points](#). However, the importance of the “S” in ESG has increased in recent years for a number of reasons:

- **Changing consumer attitudes:** Consumers are becoming more conscious of the impact companies have on society and the environment, and are increasingly looking for products and services from companies that align with their values.
- **Greater attention to social issues:** Issues such as income inequality and human rights have received greater public attention in recent years, and are now seen as critical factors in determining a company's long-term sustainability.
- **Regulatory pressure:** Governments around the world are introducing new regulations aimed at promoting responsible corporate behavior, including rules related to labor practices, human rights, and environmental protection.
- **Investor demand:** Investors are becoming more interested in ESG factors and are increasingly using ESG analysis to make investment decisions. Many investors see companies that score well on ESG factors as being more sustainable and less likely to face reputational, regulatory, or financial risks.
- **The role of ESG in financial performance:** [Studies have shown](#) that companies with strong ESG practices, including strong social ESG practices, tend to have better financial performance and lower risk over the long-term.

In short, the increasing importance of the “S” in ESG reflects a growing recognition that a company's impact on society is a critical factor in its long-term success. Indeed, successful environmental and governance strategies are dependent on implementing an effective social sustainability strategy. This article discusses the kinds of practices that companies can implement to potentially improve their social performance and contribute positively to the ESG landscape.

Diversity, Equity and Inclusion

Promoting diversity, equity and inclusion (DEI) in the workplace drives innovation and creativity, leading to better decision-making and problem-solving. Companies can set diversity hiring goals and create targeted recruitment strategies to reach a wider pool of candidates, ensuring they have a more diverse and inclusive workforce. Employers can further promote DEI by creating an accessible and inclusive work environment for individuals with disabilities.

Companies can implement policies and practices that ensure their workspaces are accessible, provide reasonable accommodations, and offer targeted training programs to raise awareness and foster a culture of inclusion. Company leadership can also create employee resource groups focused on different dimensions of diversity, which can help foster an inclusive culture and provide networking opportunities for

underrepresented employees. Such actions, in turn, result in better overall ESG performance by aligning the company's values with societal expectations, while also attracting a broader range of investors interested in socially responsible practices.

Fair Labor Practices

Companies can establish and maintain policies that promote fair wages, benefits, and safe working conditions. For example, they can conduct regular wage assessments to ensure their compensation is competitive within the industry and provide adequate safety training for employees to minimize workplace accidents. By implementing such practices, employers can create a supportive and motivated workforce, leading to increased productivity and improved ESG performance. Implementing fair labor practices also signals a commitment to human rights and ethical business practices, which are essential for strong ESG ratings.

Employee Well-being

Prioritizing employee well-being can lead to increased employee satisfaction, reduced turnover rates, and higher productivity. To support their employees' physical and mental health, companies can establish comprehensive employee wellness programs that address and encourage various aspects of well-being. Such programs may include fitness classes, stress reduction workshops, parental and family support programs, and mental health resources.

By investing in employee well-being, companies demonstrate their commitment to the welfare of their employees and the social aspects of sustainability. These efforts not only contribute to improved ESG performance but also create a supportive work environment that attracts and retains top talent, ultimately benefiting the organization's long-term success.

Community Investment and Volunteerism

Investing in local communities fosters goodwill and builds positive relationships with stakeholders, which can enhance a company's reputation and contribute to a company's overall ESG performance by demonstrating a commitment to social responsibility and community engagement. Companies can collaborate with local nonprofits and organizations to identify opportunities for employee involvement, ensuring that their efforts align with both the company's values and the needs of the community. This can also facilitate stronger relationships with stakeholders, as investors increasingly prioritize ESG criteria when making investment decisions.

Supply Chain Responsibility

A responsible and ethical supply chain [demonstrates a commitment to sustainability](#) and social responsibility, which can contribute to improved ESG performance. Companies can collaborate with their suppliers to develop and enforce codes of conduct that outline expectations for labor rights, environmental stewardship, and responsible sourcing practices. Companies can also provide training or resources to help suppliers

improve their own ESG performance, thereby strengthening the entire supply.

By prioritizing supply chain responsibility, companies can mitigate risks associated with labor and environmental violations, leading to stronger long-term financial performance and increased investor confidence.

Combatting Forced Labor and Human Trafficking

Preventing forced labor and human trafficking within a company's operations and supply chains helps improve overall ESG performance by demonstrating a commitment to human rights and ethical business practices. Companies can establish and enforce policies that require suppliers to provide evidence of compliance with local and international labor laws.

In addition, companies can look to establish strict supplier screening and audit processes to ensure they only work with ethically compliant partners, thereby mitigating risks associated with forced labor and human trafficking, including reputational and legal risks that can negatively impact financial performance and investor relations.

Stakeholder Engagement

Engaging with stakeholders and soliciting feedback allows companies to better understand the social impact of their operations and address concerns proactively. Companies can adopt a multi-faceted approach to stakeholder engagement that includes various channels for communication and interaction. This may involve conducting surveys, hosting town hall meetings or webinars, forming advisory boards, and engaging with stakeholders through social media platforms.

By employing diverse methods of communication, companies can reach a broader range of stakeholders, including employees, customers, investors, suppliers, and community members. This can lead to improved ESG performance by fostering trust and transparency between the company and its stakeholders, while also ensuring that the company's actions align with societal values and expectations.

Support for Education and Skill Development

Investing in education and skill development programs contributes to a company's overall ESG performance by empowering employees and communities. By investing in their workforce, companies can maintain a competitive edge in the industry and foster a culture of innovation and personal development. Developing a skilled workforce can help drive sustainable growth, while also demonstrating the company's commitment to social responsibility and long-term value creation.

Ethical Marketing and Advertising

Adopting ethical marketing and advertising practices can improve a company's overall ESG performance by promoting transparency and building trust with customers. Companies can prohibit deceptive marketing tactics and create internal guidelines and training programs to

ensure that marketing materials meet ethical standards and promote positive social values. In addition to mitigating the risk of greenwashing claims, such programs also signal a commitment to social responsibility and consumer protection, which can attract investors focused on sustainable business practices.

Data Privacy and Security

Protecting customer and employee data is essential for a company's social performance and overall ESG standing. Companies can conduct regular data security audits and invest in robust cybersecurity measures to safeguard sensitive information and maintain the trust of their stakeholders. Employers can also involve and invest their employees by providing training in data protection best practices.

By implementing strong data privacy and security policies, companies can reduce the risk of data breaches and demonstrate their commitment to ethical business practices, which can positively influence investor and customer perceptions.

Takeaways

Prioritizing the “S” in ESG is crucial for companies looking to improve their overall “E” and “G” performance. Implementing the kinds of practices outlined above can help foster a positive work environment, contribute to local communities, facilitate overall sustainability, and align companies' operations with socially responsible practices. This not only benefits the company's reputation but also promotes long-term positive human impacts.

As ESG continues to gain prominence in the business world, a strong focus on the social aspect will become increasingly important for companies striving to maintain a competitive edge and meet the expectations of investors, employees, consumers and other stakeholders.

For more information, please contact the Barnes & Thornburg attorney with whom you work or Bruce White at 312-214-4584 or bwhite@btlaw.com or Erika Powers at 312-338-5904 or erika.powers@btlaw.com.