Delivering ESG objectives through local action

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The pressure is growing on businesses to meet the ambitious ESG objectives they have set to fulfil stakeholder commitments. Focused, measurable community action at a local level holds the key.

The swift rise of the environmental, social and governance (ESG) agenda has rewritten the rules of business.

Keeping company shareholders happy is no longer enough – organisations also need to sufficiently consider customers, employees, local communities and the environment in their decision-making, or risk long-lasting reputational damage to their brands.

What began as an investor movement, with prominent institutions divesting from companies that score poorly on ESG metrics, has spread rapidly. Disconnected CSR activities have subsequently morphed into mainstream ESG programmes which business leaders understand need to be ingrained in the heart of the organisation and aligned to its core purpose and values.

But while awareness of the need for a holistic, embedded ESG strategy is higher than ever, execution is yet to fully mature. Though many companies are keen to spotlight ESG, many lack a natural home for it. Even if specific roles are established to lead the ESG agenda, they can sometimes be impeded by internal stakeholder management. This is because the various aspects, from sustainability to governance, D&I to community engagement, are often dealt with by different teams.

Only 50% performing effectively against environmental objectives

As a result, ambitious ESG objectives set to drive critical change are in many cases not being met. Despite **81%** of large companies recently surveyed by NAVEX Global confirming they have a formal ESG programme, just half said they are performing very effectively against environmental objectives. Governance and social performance was lower still, at **39%** and **37%** respectively.

Falling into traps

Growing regulatory interest in corporate responsibility toward social and environmental issues is driving an increasingly complex reporting landscape, which can trip up companies whose actions do not back up their vocal commitments to ESG. For instance, UK public sector employers, as well as private organisations with 250 or more employees, are now legally required to report annually on their gender pay gap, but it is estimated 550 companies missed this year's deadline.

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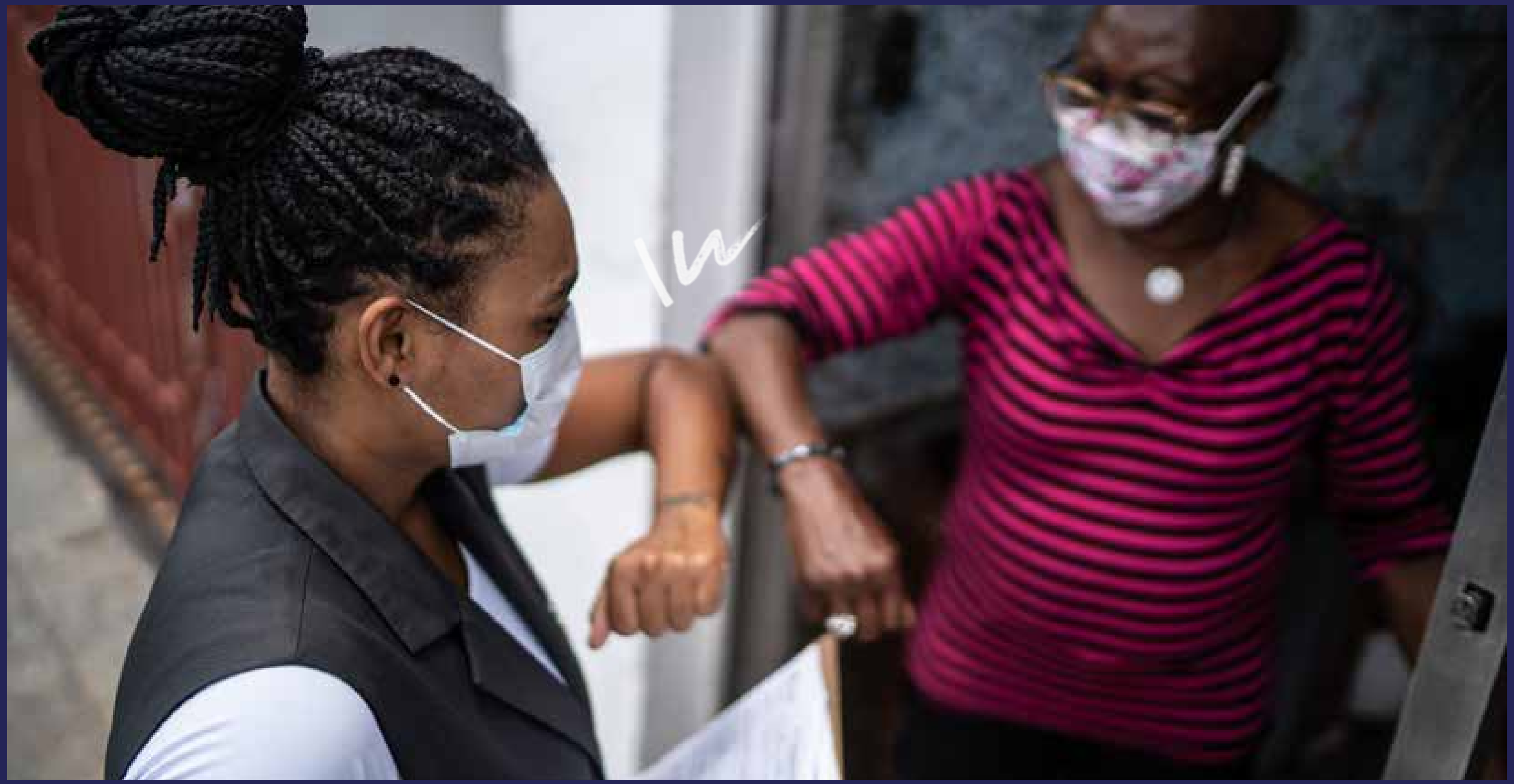
Other ESG commitments are self-imposed, albeit amidst stakeholder pressure. Around three-fifths of FTSE 100 firms have now signed up to the UN's Race to Zero campaign, yet the Corporate Climate Responsibility Monitor 2022 concluded that many climate policies in global companies are "ambiguous" or "fall well short" of what is actually required to achieve net zero.

The recent report by the UN's Intergovernmental Panel on Climate Change (IPCC) calls for "rapid, deep and immediate" cuts in CO_2 emissions to avoid the worst impacts of climate change. Global emissions must peak in the next three years to stay below 1.5 degrees target. UN Secretary General Antonio Guterres said: "Some government and business leaders are saying one thing – but doing another. Simply put, they are lying. And the results will be catastrophic."

The same can be said for the companies guilty of greenwashing, green hushing or, what is perhaps most common, setting underwhelming targets. Aside from the reputational damage when people recognise ESG inadequacies, affecting customer and talent acquisition, businesses will also need to contend with increasing compliance costs and possibly even climate-related litigation, which is on the rise.



The most traditional business stakeholders – shareholders – are perhaps holding companies to account to the greatest degree.

49% of investors surveyed by PwC expressed willingness to divest from businesses that don't take sufficient action on ESG issues

79% said the way companies manage ESG risks and opportunities is an important factor in their decision making.

Big vision, small actions

Creating and successfully executing a holistic ESG strategy is challenging because the largest issues, including climate change and diversity and inclusion, are extremely difficult to drive material progress on in a short period of time. Businesses should absolutely remain committed to these crucial goals but while understanding they will rely on a long-focus lens that won't necessarily earn them the brand equity they need to achieve to meet shorter term objectives.

Just like a government needs to balance large, macro agendas such as climate change with local, domestic issues that citizens feel closer to, businesses should apply the same principle to their ESG strategy. Though the former might capture the most attention in the mainstream media, it is often the smaller community issues that resonate most with people. Indeed, research by YouGov found greater brand equity with local causes, with 69% of people agreeing that they are more likely to trust a company which contributes to the community where they live or work.

Local causes are tangible – and trust is bred when businesses show they are a vested citizen of that community. Former Unilever CEO Paul Polman stated that: "Businesses cannot succeed in societies that fail." A community that is resilient and sustainable is not only better for the people living in it but also the businesses, and even more so if they engage in the issues the people care about. On the other hand, if a neighbourhood is breaking down due to a lack of resources, robust networks and trust, businesses will struggle to operate in that environment. It is a symbiotic relationship.

The Covid-19 pandemic, while a global crisis, amplified the importance of local issues because people could see the tragic impact on their neighbours and neighbourhoods. The heightened sense of community increased local volunteering, and businesses which sought to help and support the community were rewarded with greater brand equity. The subsequent cost-of-living crisis has shown that issues affecting local communities continue to capture hearts and minds.

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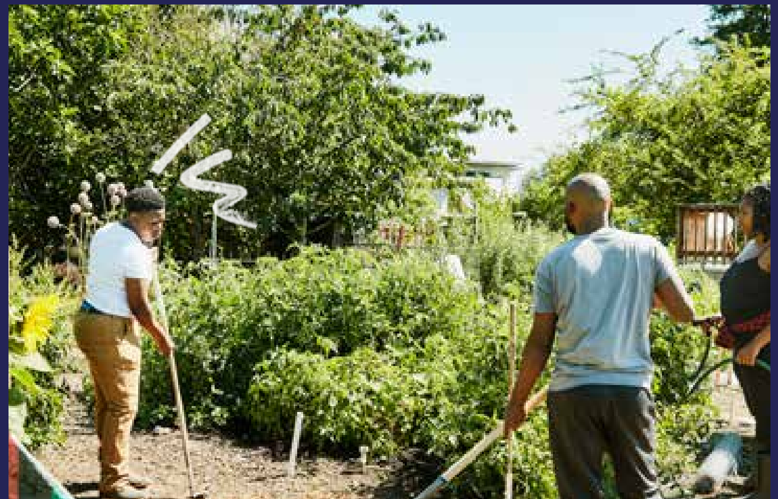
Though the benefits of putting local community action at the heart of ESG strategies are clear, historically it has been far easier for businesses to support one or two large national charities than lots of small local ones. Due to their size and lack of marketing resources, local causes are harder to discover in the first place. And even if companies are willing to invest in finding and connecting with potentially hundreds of local causes, vetting them is extremely onerous.



Breaking Point

Crucially, measuring impact is essential to any ESG strategy. But small local causes are often unable to invest time or resources beyond frontline activities at the best of times, let alone during times of significant demand, exacerbated by the effects of a pandemic, economic crisis and European conflict. Earlier this year, the Neighbourly Community Survey found that local good causes are supporting on average 378 people per week, an increase of 160% since the beginning of 2020. Despite this, 44% reported a drop in income in the past three months, stretching their services to breaking point.

Meanwhile, charities are facing much of the same scrutiny as businesses. And amidst the continued need to engage in the more global governance issues like climate change, businesses increasingly require the charities they work with to adhere to ESG standards. However, a study by RSM International found charities with annual incomes of less than £5m are six times less likely to publish ESG performance than those with an income of over £25m.

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Due diligence when working with any partner is important, which has historically made larger charities a 'safer' bet. Though local causes clearly need more support, and businesses can see the value in supporting them to meet ESG goals, without a holistic platform connecting the two, and filling gaps in vetting, reporting and measurement of impact, both sides can struggle to scale their efforts.

Neighbourly is that platform, acting as a data aggregator and matchmaker while connecting businesses with over 20,000 vetted local good causes across the UK and Ireland. Neighbourly shows exactly where those causes are located and the services they deliver, brokers the relationship with corporate partners that want to support them, and facilitates the communications between them.

20,000

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Measurement meets impact

By facilitating the transactions, Neighbourly's sophisticated tools are able to provide the measurability that companies require to meet their ESG objectives. The digital platform eliminates the impracticalities of a localised ESG strategy and facilitates maximum transparency, enabling businesses to make a positive impact in local communities at scale by donating time, money and surplus products. All while achieving a holistic, measurable view of their activity.

Importantly, by capturing multiple local data points, Neighbourly can map all of the local good causes on its platform against impact themes and the UN's Sustainable Development Goals. This allows businesses to achieve a more focused and holistic ESG strategy which aligns with their specific values, purpose and objectives. The platform not only provides a highly granular level of reporting, but also then aggregates it up, presenting a clear picture of the overall impact.

Local good causes, meanwhile, also benefit enormously, not just through the connections with businesses that want to help but by taking onerous reporting out of their hands so they can focus on their core frontline activities. They do not need to be chased by businesses for various pieces of data because it is all visible across different touchpoints through the platform.

In the coming years, the pressure on businesses to improve their ESG performance will amplify, while disclosure and reporting requirements are only going to become more taxing and plentiful. Organisations that aren't able to establish and deliver a holistic ESG strategy, which aligns with their purpose and values, will quickly fall behind as customers, employees and local communities demand better. Local community action – designed, executed and reported carefully against the central business goals – is a critical component in meeting ambitious ESG objectives.

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