



ARTICLE

Build back better

Embrace the 'social' opportunity

In the third article of FTI Consulting's ESG series, their Strategic Communications experts highlight how companies should focus on engaging with key stakeholders to truly embrace the 'Social' opportunity and strengthen their efforts towards building back better than ever.

Appetite for impact investing has increased globally as investors have grown more eager to align with a higher purpose and show that profit can go beyond the financial. Combined with the fact that COVID-19 has increased the need for Boards and management teams to deliver on their ESG commitments, there is now an urgent imperative to ensure a more holistic and integrated approach to ESG is embedded in your corporate strategy.

ESG issues have all grown in importance for years, however higher attention was paid to the environment and governance, while social criteria were often put on the backburner. That is all changing now.

In recent weeks, management teams have had to regroup to respond to the most severe public health and economic situation many of them have ever faced. Investors are now more articulate with their view on where the emphasis of the 'S' in this new world should lie, and what it should mean for companies. Legal & General Investment Management ('LGIM'), encourages companies¹: *"not to only focus solely on their shareholders but to focus*

on stakeholder primacy and include all stakeholders, especially their employees, supply-chain relationships, the environment and communities in which they operate."

As the COVID-19 pandemic works its way through countries, companies are being forced to assess internal and external operations, to ensure they're well positioned to bounce back from the ongoing negative impact on the global economy - therein lies the 'Social' opportunity.

Part of this assessment entails organisations diving deeper into the ESG element of their corporate strategies and identifying how they can contribute to make positive changes, not only within their respective organisations, but also to their local communities and economies, and really engage with stakeholders, as opposed to investing in the local communities for financial gain. In order to do this, they are aligning themselves with the United Nations' Sustainable Development Goals (SDGs) – 17 high level goals designed to address major sustainability concerns such as climate change, water availability, and poverty.

¹ *Financial Times, Attracta Mooney, UK's top asset manager urges companies to take care of employees*

According to the UN Secretary-General's Roadmap for Financing the 2030 Agenda for Sustainable Development, "achieving the SDGs could open up \$12 trillion of market opportunities and create 380 million new jobs by 2030," which has become the framework upon which companies are positioning themselves as differentiators.

Internally, the focus will shift towards greater diversity across organisations. A [Forbes report](#)² revealed that "diversity is a key driver of innovation and is a critical component of being successful on a global scale. When asked about the relationship between diversity and innovation, a majority of respondents agreed that diversity is crucial to encouraging different perspectives and ideas that foster innovation, as well as attracting and retaining top talent."

Furthermore, employee health and safety should be the critical consideration of any business. However, one challenge is understanding the needs and circumstances of employees who are not only diverse in all the traditional measures, but are also affected by widely varying life, work, and family circumstances, which are all exacerbated during times of crises. The presence of diversity and the practice of inclusion during these periods, becomes essential to challenge us to look at problems differently and consider solutions that we otherwise might not have.

A growing chorus of investors now insist that companies prioritise employee welfare, especially as the pandemic brings to light the hardships faced by employees. More recently, the Investor Alliance for Human Rights, which constitutes a group of 105 international investors representing \$5 trillion in assets under management, called on governments to conduct "human rights due diligence." The Alliance made a case for regulatory measures that

ensure corporates are held accountable for human rights breaches, particularly where voluntary corporate measures leave significant gaps in human rights protections. Alice Evans, Co-Head and Managing Director, Responsible Investment at BMO Global Asset Management states³, "from a global perspective, mandatory human rights due diligence brings opportunities to improve economic productivity, reduce inequalities, and improve livelihoods."

Companies are increasingly being required to listen to and align community needs with their corporate strategies. This includes contributing to the local content mandates set out by governments, which aim at creating more high skilled jobs, and addressing the shift of economies towards low-carbon, resource-efficient and socially inclusive bases. Particularly important following the aftermath of the 2008 financial crisis, this job creation imperative has led many developing countries to revisit the use of local content requirements. This is to boost the local economy, foster domestic growth and mitigate the negative impact and risks associated with a troubled global economic climate, should we face another economic downturn.

Unlike environmental and governance issues, social issues have less data to measure impact on a company's performance. But change is coming! Issues such as human rights, labour standards and gender equality are gaining prominence. Combined with the right mindset, those companies that proactively tackle these ESG issues and challenges, will come out more resilient and better equipped for a post-pandemic world.

Part four of FTI's series will focus on the "G" of ESG, and how recent market developments have created a mandate for companies to address corporate governance, in line with the push towards global sustainability.

² [Forbes Insights, Global Diversity and Inclusion: Fostering Innovation Through a Diverse Workforce](#)

³ [Investor Alliance for Human Rights, Investors with US\\$5 trillion call on governments to institute mandatory human rights due diligence measures for companies](#)

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