



# Why executives need to take the leap on ESG and corporate purpose

In a post-pandemic world, consumers won't just accept brands at face value. To succeed, companies must demonstrate their commitment to positive ESG practices that support corporate purpose—or risk failing

**T**he COVID-19 pandemic has been more than a health crisis. This black swan event has brought the consequences of climate change, growing income inequality, societal inequity, labour issues, and related social injustices to the forefront, and they are poised to dramatically change business and consumer relations.

While discussions around environmental, social, and governance (ESG) issues and corporate purpose have been trendy speaking points in the last few years, many companies have been slow to follow through. But stakeholders may no longer have the patience to wait for companies to shift their values and take concrete action.

For businesses looking to remain competitive and thrive post-COVID-19, employing good ESG practices and

demonstrating a strong corporate purpose has become the new business essential, says Faith Goodman, CEO of Goodman Sustainability Group and founder of VeriStell Institute—a not-for-profit think tank that was one of the first to link the two concepts and is working to mainstream them globally. Committing to both ESG practices and corporate purpose simultaneously is vital for a company's internal strategy and its outward communications.

According to Goodman, a company's corporate purpose should tangibly contribute to at least one of the United Nation's seventeen Sustainable Development Goals (SDGs). As firms focus on creating value for both shareholders and society at large, they need to find ways to use their organization's inherent capabilities to help solve pressing

social concerns related to injustice and inequity (such as poverty and hunger), human-rights issues (such as child welfare, racial inequality, and gender-based discrimination), and climate change.

"A shift toward purpose is underway—inspired, instigated, and amplified by socially conscious consumers, responsible investors, and newly empowered employees who are seizing this moment to drive fundamental change," says Lamia Kamal-Chaoui, director of the OECD Centre for Entrepreneurship, SMEs, Regions and Cities.

Kamal-Chaoui also highlights the important role that small businesses play in this shift: "In Canada, small businesses make up 98 percent of all businesses and employ 8.4 million workers. They can have a huge impact

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in driving the adoption of more responsible business practices—not just because of their collective scale, but also because of their roots and relationships in local communities.”

Large, publicly-traded firms like Fortis Inc., a leading North American electricity and gas distributor, have already leaned into this shifting sustainability model and created value for both shareholders and society. “Our focus on sustainability and ESG in particular is many decades in the making. Gender diversity, both at the board level and within our executive teams, has been a priority, and we are proud of the progress we have made,” says Nora Duke, executive vice-president of sustainability and chief human resource officer at Fortis. “We engage with our stakeholders on ESG priorities and focus on our purpose: delivering a cleaner energy future, as demonstrated by our partnership with twenty-four First Nations in Ontario on the largest majority-owned First Nations construction project in Canada’s history, which provides reliable electricity, socio-economic benefits, and lower carbon emissions.”

Society and governments are now moving in unison, urging—and, in some cases, regulating—firms to do better. Consumers, employees, and investors are demanding that companies take demonstrable action on incorporating ESG and corporate purpose into their operations and conduct. Trust in businesses has

## How ESG creates value for your business

**E**

### REDUCE YOUR ENVIRONMENTAL FOOTPRINT.

Taking climate change seriously, limiting pollution and waste, and finding renewable energy sources helps build consumer trust.

**S**

### SHARE YOUR SOCIAL PRINCIPLES.

Customers and employees have faith in brands that publicly champion—and take action on—diversity and inclusion, tackling injustice, and building equitable conditions across the business and its supply chain.

**G**

### COMMUNICATE YOUR GOVERNANCE STRUCTURE.

Help build investor and stakeholder confidence by showing transparency around board diversity, executive compensation, and how your business operates.

now surpassed trust in governments, according to this year’s Edelman Trust Barometer report, and when it comes to fixing social problems, more than two-thirds of people (68 percent) say they want companies to step up and “fill the void” left by governments.

Historically, companies have adopted a profit-first model to serve shareholders, while creating real societal value has come a distant second, if at all. But, says Goodman, “a global shift is redefining the contract between businesses and their communities, from simply ‘being responsible’ to creating real social value. Defining and owning your corporate social purpose is the most critical competitive advantage of our time.” In the new sustainability frontier, she adds, “companies need to define why their brand exists beyond a profit-only model.”

Brands that don’t articulate and deliver on a clear, meaningful purpose or take tangible action on ESG issues are primed to face increasing public pressure and risk losing out to competitors, especially as consumers take back brand power by boycotting products and services from companies with values opposing their own. What the pandemic has made clear is that social issues no longer exist solely outside of the boardroom. Instead, leaders need to ask themselves: What courageous actions can I take to embrace ESG issues and corporate purpose imperatives? ■

## What is the difference between the S in ESG and corporate purpose?

The “S” (for social) in ESG often plays second fiddle to environmental (E) and governance (G) issues. But now is the time for boards and executives to take a stand on equity, diversity, and inclusion, the future of work, supply chain accountability, employee compensation, and other social justice and

humanitarian concerns.

Corporate purpose or corporate social purpose, on the other hand, refers to the clear articulation of why a brand exists and how its particular expertise can help solve societal challenges. Taking this strategic, long-term view gives a brand the best chance of success

by keeping it competitive, attracting consumers, and retaining loyal employees and suppliers.

If a company hopes to survive and thrive post-pandemic, social goals—such as paid sick leave, diversity in senior leadership, and fair and equal pay—must inform and guide its ESG efforts.