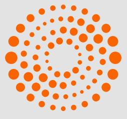

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Staying the course with ESG:

Why now is the time to double-down on investing in underserved communities

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INTRODUCTION

When the global economy struggles, corporate cost-cutting measures kick in: finance departments look for savings, supply chains are scrutinized, and, more recently, commitments made under the broad environmental, social, and governance (ESG) banner are reconsidered.

Market volatility is further complicated by recent political pushback in the U.S. against sustainability initiatives. Critics of so-called 'woke' or conscious capitalism argue that it overly prioritizes corporate activism at the expense of profit.

Despite these challenges, there remains a compelling case for ESG and equitable capital deployment as drivers of long-term business growth. Equity-centered capital plans focus on meaningful investments in programs, products, and services that benefit historically under-resourced communities.

> ***"We are at an inflection point. Economic and sociopolitical uncertainty is forcing many businesses to cut back on ESG initiatives, yet society demands that the commitments companies made in the post-George Floyd era have substance."***
>
> **- Eric Eve, Founder and CEO, Ichor Strategies**

The idea of conscious capitalism has steadily grown over the past 15 years. Competitive growth, inclusion, and societal impact can no longer be seen as incompatible. Today's leaders must balance all three while answering to a multitude of stakeholders, from employees and shareholders to regulators and communities.

This whitepaper will assess the challenges that equity and sustainability leaders face and offer insights into how companies can sustain momentum with ESG to advance competitive growth.

Decision-makers must clearly reinforce the importance of operating equitably and start to rethink ESG roles within their businesses, ensuring the resources and leadership buy-in required to meaningfully contribute to major business decisions.

As Eric Eve, founder and CEO of New York-based management consultancy, Ichor Strategies, says, "We are at an inflection point. Economic and sociopolitical uncertainty are forcing many businesses to cut back on ESG initiatives, yet society demands that the commitments companies made in the post-George Floyd era have substance."

LONG-TERM THINKING

"The equitable deployment of capital means institutions must consider often ignored communities in decision making," continues Eve, whose firm, since 2015, has leveraged market research and engagement to help organizations achieve sustainable growth. "It's about the long term, allowing investment to bring benefits to the community as well as financial returns to the business."

Importantly, deploying capital in this way is not about philanthropy, he underscores: "This is not about taking a set amount of money and writing it off as charitable, or doing it just because somebody thinks it's the moral thing to do."

The right approach is exponentially greater than any philanthropic contributions the business can make, he continues, because "equitably deploying capital aligns profit

with purpose and helps to address the pain points of the society. By using their business models to solve systemic issues across healthcare, education, or criminal justice, companies earn the trust of communities and the governing bodies that serve them. This, in turn, enhances reputation, mitigates litigation risk, and creates goodwill, which cannot be bought or even easily quantified. The kind that sets companies apart from their competitors."

Stakeholders are also demanding that economic capital address the needs of marginalized segments of society that have long been ignored. To do this, companies must focus on creating enduring value to ensure continued success.

As Carolyn Berkowitz, chief executive of the Association of Corporate Citizenship Professionals (ACCP) says, "Dismantling centuries of inequity is a long-term endeavor. In 2020, many companies made bold commitments in regard to advancing racial equity and since then have launched new programs, made changes to their hiring practices, and implemented equitable practices into their corporate giving programs. But much more work is to be done and it's critical that companies don't dial back these efforts due to down economic cycles and partisan politics. There is concern that corporate America's commitments to advancing racial equity will wane in the current environment. While many companies are staying the course, some are adjusting how they communicate about the work due to the realities of today's divisive political landscape.

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THE PUSH BACK

A recent report from the Thomson Reuters Foundation, "ESG under Strain", pointed out that many Republican-led states are adopting laws that seek to exclude banks that support ESG measures "on issues ranging from gun control and abortion to diversity and climate change." Furthermore, the challenging economic climate is driving some companies to ditch substantive ESG initiatives in favor of a PR-oriented approach that is big on optics but short on impact. The combination of political and financial pressures is placing a strain on organizations' commitment to deploy equitable

business strategies. According to the second annual Google Cloud sustainability survey, conducted last year, ESG initiatives dropped from the top spot to third in business priorities, with a third of CEOs citing economic reasons for cutting back on sustainability initiatives and a need to prioritize income-generating projects instead. The survey covered 1,476 executives from 16 countries.

"It's more surprising to see sustainability so close to the chopping block because CEOs rated it as a top strategic priority for the first time in 2022, and ESG disclosures are increasingly becoming enshrined in legislation."

- Randeep Rathindran, Vice President, Gartner Finance

However, given that consumers are more likely to engage with sustainable brands, "looking at sustainability as a short-term cost instead of a long-term investment is a missed opportunity," warns Justin Keeble, managing director for global sustainability at Google Cloud, in a blog on the company's website.

This short-sighted approach is underlined in a 2022 Gartner Finance survey of CEOs and CFOs, which showed that sustainability initiatives were among executives' top investment areas to cut in the event of recession. The survey results prompted the company's vice president, Randeep Rathindran, to comment, "It's more surprising to see sustainability so close to the chopping block because CEOs rated it as a top strategic priority for the first time in 2022, and ESG disclosures are increasingly becoming enshrined in legislation."

INCLUSION NEEDS TO REMAIN A BUSINESS PRIORITY

Last year saw a string of public announcements that few could have foreseen so soon after the burgeoning of the Black Lives Matter movement. Companies including Netflix and Warner Bros. Discovery announced that high-profile diversity, equity, and inclusion executives were leaving their roles, moves which, The Wall Street Journal said, came after thousands of diversity-focused workers had been laid off throughout the U.S. A 2023 report by Revelio Labs, a workforce intelligence company, on the state of DEI found that DEI-focused roles "experienced a nearly 40% churn rate at companies engaged in layoffs, as compared to about 24% for non-DEI roles."

According to Tina Shah Paikeday, DEI Global Practice Leader at leadership advisory firm Russell Reynolds Associates, during the initial hiring wave, the appointments involving a chief diversity officer were far from strategic.

"When you are introducing a DEI function for the first time, it needs more than just a leader," Paikeday says. "It needs to be part of the business strategy, it needs resourcing in terms of teams and dollars, and it needs the governance and accountability, otherwise driving change is very difficult to achieve."

Paikeday adds that a properly adopted DEI function has evolved "from a cottage industry driven by passion to something where there is real commitment from the top. It has moved from the grassroots to something which is supported by the CEO and the board and that's made a big difference." HR Dive, an online resource dedicated to tracking trends shaping human resources, stated that as of 2022, all Fortune 100 companies have made a public commitment to diversity, equity and inclusion.

But those commitments, even by the executive suite, do not yet have staying power and, as the recent numbers show, are prone to wax and wane. Amira Barger, professor of marketing and communications and change management at California State University, East Bay, believes, "there is a large amount of DEI-doom-ism right now." Yes, she concedes, budgets are being cut and teams disbanded, but she sees this as an over-correction rather than a crash.

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"One of the reasons why there's been some rollback in DEI efforts is because many corporations have not seen both the immediate and far-reaching results, that they thought they would," she explains. "But in many cases those people – new Chief Diversity Officers (CDOs) – were not resourced with a specific budget or a team... it is really difficult to do this work in a silo of one person."

"To expect one CDO to upend and change the policies, practices, and behaviors of an entire institution is a big ask." She believes the normal business cycles have been ignored, and people expected instant results instead. But now is not the time to give up, she says, "this is exactly the time to double down on our investment, not to retreat."

REDEFINING ROLES, REALIGNING RESOURCES

So how do companies get back on track to meet their commitments around equity? The starting point is to rethink the structure of ESG roles and assess where the function sits within the business.

"Not enough companies are resourcing their corporate social impact functions appropriately or elevating them to positions of influence," says Berkowitz.

The association's latest CSR Insights Report reveals a profession marked by ongoing instability and change, which Berkowitz cautions, can hinder companies' ability to maintain momentum toward the goals of positively impacting society and meeting key stakeholder expectations.

The survey showed that responsibilities of corporate social impact teams continue to rise, with 86% of respondents saying demands on their team had increased and 58% indicating they needed more resources to meet expectations. "These trends are creating adverse consequences," says Berkowitz, with the survey citing impacts such as longer hours (61%), burnout (50%), fear of not meeting expectations (46%), and mental health concerns (19%).

"Company executives, sometimes not as well-versed in the specifics of CSR and ESG work, must understand these consequences, particularly in a tight labor market, and resource and elevate these important corporate functions appropriately," she adds.

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"When you talk about redefining roles, I think it is absolutely mission critical to get the mandate and scope of the role right," says Paikeday. "There is often a strategy for DEI, but it is not always connected to the business strategy. This work cannot rest on the shoulders of the CDO alone. The leaders of the organization need to embed it in the work they are doing, whether it's talent decisions, marketing, or product development. In order for them to prioritize this, it has to be connected back to the business."

She also maintains that the CDO role is cross-functional, touching legal and finance as much as it does HR and marketing.

"The true work of DEI is not on one end of the spectrum, as many might think, but it's about bringing everyone along on the journey. That's what CEOs are being called to do right now. If we can focus on the future benefits of DEI, those leaders who succeeded in bringing along both ends of the spectrum will actually see positive change for the long haul."

STAYING ON TRACK IN A CHANGING WORLD

Companies must also stay focused on their values to avoid being swayed by transient external pressures, such as political campaigns.

Consider the widely reported dispute between Disney and the state of Florida, which prompted the world's second largest entertainment company to withdraw plans for a $1 billion office complex in the state. Disney accused Florida Governor and former presidential hopeful, Ron DeSantis, of a "targeted campaign of government retaliation" following the company's opposition to the contentious so-called "Don't Say Gay" law, which restricts the teaching of sexual orientation and gender identity in schools.

But while it might be easier for a corporate giant like Disney to make a stand when it comes to advocating for their values, how can other businesses stay on track in the face of a political backlash?

Ichor Strategies works with CEOs and general counsels to help them understand where there is convergence among their stakeholders, especially on the ground. Eve says that "by showing a deep understanding of historic pain points, companies can build trust, decrease litigation, and create new relationships."

This work is not about simply achieving a short-term bump in media coverage through a town hall or press release. It is about creating long-term impact by designing initiatives that solve specific problems.

By using hyperlocal insights to align values and capital flows with stakeholder demands, Ichor has worked with numerous businesses to help them anticipate risks, measure the impact of ESG investments, and achieve better outcomes.

Ichor recently advised a Fortune-25 tech company on the deployment of billions of dollars of capital across dozens of cities. Using data-based strategies, highly targeted initiatives, and community dialogues that served as early warning signals designed to flag potential public opposition, Ichor reduced friction in capital deployment, helped greenlight local projects, and mitigated risks.

A community-centric risk mitigation strategy based on dialogues was developed for each location, with hyperlocal analyses identifying specific pain points in individual markets. The dialogues also boosted employee engagement and deposited goodwill with grassroots organizations historically adverse to corporate capital.

Establishing relationships with hundreds of partners meant less angst and more political support, ensuring capital deployment was completed on time and litigation was kept to a minimum.

TURN AND FACE THE CHANGE

Every stakeholder group has a perspective on how a company should define and deliver financial and societal value. Leaders must understand nuanced perspectives and address them.

This includes understanding the changing demographic landscape in the U.S. Dubbed the Great Wealth Transfer, over the next 20 years, Millennials, Gen Z, and Gen Alpha are set to inherit trillions of dollars from their parents and grandparents. They have strong views about how this money

should be used, and companies that prepare for this stand to gain.

According to the 5WPR 2020 Consumer Culture Report[1], twenty-one percent of Baby Boomers say buying from brands that share their values and ideologies is important. With Generation X-ers, this number rises to 50%.

This trend relates to young investors, too, with Stanford Business School[2] reporting that while the average investor in their twenties or thirties is willing to give up between six and 10% of their investments to see companies improve their environmental practices, the average Baby Boomer was unwilling to give up anything.

Furthermore, many communities that have faced systemic barriers to equity now have more resources to push back against the "same old, same old" business practices and are better aware of the opportunities that they have been missing out on. They are more likely to participate in broader economic activities that have long been a mainstay of the middle and upper-middle classes. Research from the University of Chicago[3] shows that minority populations have much higher participation rates in the stock market, for example, than just a decade ago. In fact, the growth rate at which Black and Latinx households are becoming stockholders, according to Bloomberg, is higher than that of their white counterparts.

The data points to one conclusion: organizations that adopt an expansive approach to customer acquisition stand to gain an advantage over competitors.

CONSUMER POWER AND EMPLOYEE DYNAMICS

As Berkowitz points out, "Investing in community is no longer just the 'right thing to do'. There is a strong business case for corporate social impact programs as corporate stakeholders of all kinds expect it. Consumers and investors increasingly make purchase decisions and investment decisions based on a company's reputation and actions regarding environmental, social, and governing practices."

Companies' reputation and communication strategies are as important as regulatory compliance. A case in point comes from Ichor's work with a health retailer seeking to acquire a competitor and increase its market share. Ichor helped the company overcome problems communicating to regulators and the public about how the proposed acquisition would reduce costs and provide better pharmacy care for end-users.

To meet antitrust regulation, the company had to disinvest from over 1,000 stores, while minimizing the closures in economically depressed areas in order to avoid labor union pushback and negative media coverage.

Labor's opposition to the acquisition centered on the potential impacts on public health services. To mitigate this, Ichor initiated public policy discussions with leading think tanks on opioid abuse prevention. This helped position the business' positive public health efforts before elected officials at an important time, quelling labor opposition and allowing the acquisition to go ahead.

This approach can also support a business' license to operate, says Eve: "When governments see you have their constituents in mind, you are also beginning to build trust." Policymakers may also look to that business when they have a new problem to solve.

According to a global survey by the IBM Institute for Business in 2022[4],

44%

of consumers – the largest segment – are purpose-driven and choose brands that align with their values

Another shift businesses must understand is that pay is no longer the only primary factor people use when choosing where to work. According to Berkowitz, "Employees want to work for companies that represent their values and increasingly make employment decisions based on a company's social impact priorities and actions. A research study conducted by Qualtrics in 2022 shows that "More than half of U.S. employees (54%) would be willing to take a pay cut to work at a company with better values, and even more – 56% – wouldn't even consider a job at a company that has values they disagree with."[5]

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In addition to aligning with employees' social values, investing in underserved communities, according to Berkowitz, particularly in regions where a company operates, helps identify untapped talent as well as build trust.

When new factories, created by the Inflation Reduction Act (IRA) investment, begin production in a few years, companies need to make sure their employees are ready too, and that means an investment in training and apprenticeships.

"It's happening now," says Eve. "The smart companies are doing the hard work now because they know that if they stop, they will have lost the disruptive advantage when the hiring begins again. They will have both substance and narrative behind them that makes them attractive to new consumers and investors."

Businesses also need to respond to growing urbanization. By 2050, 89% of the U.S. population is projected to live in urban areas[6]. Organizations will need to shift their strategies for deploying capital and engaging with communities. This influx of people will increase the concentration of spending power and necessitate large capital improvements and infrastructure projects.

CAPITALIZING ON NEW OPPORTUNITIES

Passed in August 2022, the breadth and reach of the IRA is huge, touching every state, bolstering new and existing businesses, and supporting projects ranging from roadbuilding to clean water to high-speed internet.

The law provides billions of dollars in tax credits to help companies produce renewable energy, consumers buy electric vehicles, and the U.S. economy decarbonize. It includes a raft of social measures, too, such as helping seniors pay for prescription drugs, an expansion of some elements of Obamacare, and a rise in taxes for corporations and the wealthy. More than $60 billion has been ring-fenced to support underserved communities, addressing long-standing inequities around jobs and healthcare.

There is hostility from conservatives to the IRA, with accusations that its prioritization of equity is tantamount to social engineering, as well as right-wing resistance to the use of ESG parameters when it comes to public pension investments. Supporters of the IRA argue that this approach is a win-win, allowing for a much needed spending on infrastructure and green energy, while creating opportunities for historically marginalized communities to improve their economic standing.

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The Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act – a bill intended to strengthen domestic semiconductor manufacturing – has been heralded as a chance to uplift people who have been traditionally left behind. The $280 billion bill includes subsidies and tax credits for companies to build and modernize factories, $4 billion of which is earmarked for historically marginalized communities, helping to draw the private sector into new collaborations.

The business incentives of the CHIPS program will encourage linkages to underserved regions and populations to draw in new participants to the semiconductor industry in particular, and STEM-based job ecosystem in general, as currently Black Americans hold only nine percent of all STEM jobs, while Latinx Americans hold just 8%.

The Department of Commerce has mandated semiconductor manufacturers vying for a share of the incentives to include a strategy for workers to access affordable and high-quality childcare services. Given the well-documented challenge in finding childcare, this mandate will help to attract new talent to manufacturing jobs.

This focus on childcare, says Eve, "will allow more women to be able to train and take advantage of high-wage opportunities, while opening the businesses up to a whole new talent pool."

UNDERSTANDING STAKEHOLDER NEEDS

With government and corporations pledging billions to address economic disparities, capital deployment must be as close to the consumer as possible. That means using in-depth data to identify areas that have been impacted by discriminatory policies.

Ichor worked with a leading global payment technology company seeking to develop its North American market and provide greater support to the unbanked and underbanked. Stakeholder mapping in target cities identified experts who understood their communities' pain points.

The next step was to transform the company's engagement model, shifting away from outsourcing market research and stakeholder management to meeting with business, civic, and faith leaders in the communities.

By capturing insights, Ichor uncovered recurring issues and emerging trends at the neighborhood level, such as the prevalence of gig economy, income stagnation, and a lack of non-predatory credit facilities. With an informed strategy, the company was able to sharpen its impact program on underserved populations and drive higher acceptance of its payment cards in growth markets.

For consumer-oriented organizations, especially those operating on regional and national scales, effective local engagement is critical when deploying capital. Public and private entities must work with communities to avoid repeating failures of the past. Barger, the professor of marketing and communications and change management at California State University, East Bay, believes companies need to engage on a hyperlocal basis in order "to meet the express needs of a community...(and) avoid the saviorism mentality... You have to have the local knowledge and the local voices," she adds. "Involving local leaders is how you'll gain the trust of the local community."

As Ichor's lead for the public sector practice, Ken Lovett, has written, "It [working locally] also means building trust by engaging with communities in meaningful ways. It will take not just legally required public hearings but actual conversations to hear ongoing concerns and work together to help devise the most impactful ways to address them."

This strategy was deployed in Ichor's work for a leading healthcare provider, which looked to increase COVID-19 vaccination rate uptake during the pandemic. A particular area of concern for the company was the vaccine adoption in 31 underserved neighborhoods, several of which were outside the retailer's existing footprint. Vaccination rates had been thwarted by vaccine hesitancy, medical mistrust, and systemic barriers to access among Black and Latinx communities.

Ichor developed a hyperlocal engagement strategy, speaking to community leaders about problems from the past and finding advocates to help promote the vaccine rollout. By increasing its understanding of the nuances and challenges facing Black and Latinx communities, the healthcare retailer pivoted its distribution strategy to significantly advance vaccine equity and form long-term partnerships to create inroads for future initiatives.

SERVING THE COMMUNITY

Local engagement is a core strategy behind the 1,000 Starbucks Community Stores to be launched worldwide by 2030. The new store model is designed to boost employment opportunities in rural and urban areas and serve as a space for collaboration within communities.

Starbucks uses the American Human Development Index to identify where its Community Stores could provide the most value and better serve vulnerable populations in the U.S. Programming is tailored to local needs across education, food security, health, and economic security.

As Danielle Winslow, social impact communications manager at Starbucks explains, "with more than 38,000 Starbucks stores across the globe, we use our scale to create positive impact in the communities we serve, including economic development, environmental and social change."

She adds, "As a people-focused company, inclusion and diversity will continue to be integrated into our business practices and Mission. It's our responsibility. Real inclusion requires intent, and diversity creates stronger communities and workforce. As such, we will continue to pursue programs, policies and investments that foster growth for our partners (employees), customers and communities."

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KEEPING THE FAITH DESPITE STRONG OPPOSITION

A recent report by the Conference Board, a not-for-profit think tank that helps businesses improve performance and better serve society, expanded on the importance of maintaining equity commitments and ESG goals in the face of ongoing backlash.

The Conference Board noted that while opposition to ESG can be difficult to navigate, responding to the criticism represents an opportunity for companies to clarify their ESG priorities.

The most effective response to the backlash, it continued, is to ensure the company's ESG goals align with core business strategy, are supported by empirical evidence, and serve the long-term wellbeing of the company, stakeholders, and consumers. Companies need to keep the backlash in perspective and remember why they focused on ESG in the first place.

The report echoed Ichor's approach of proactively engaging with policymakers to explain ESG strategies and how they serve the interests of the business and constituents. It highlighted how equitable deployment of capital can foster strong relationships with governments and communities.

The report urged businesses not to retreat from public discussions about ESG, as by doing so they forfeit the opportunity to tell the company's story to the world. Greater collaboration can also help make the business case for ESG. Trade associations can be effective vehicles for reaching policymakers, while smaller firms, which are a critical part of the U.S. economy, can be especially useful allies in explaining the benefits of ESG.

The silo mentality also needs to end, with DEI and ESG consolidated under one team. Companies' DEI-ESG efforts must look at data across the whole organization to assess if capital is being deployed equitably. The teams need to be multi-skilled, with individuals well versed in data analysis and public policy, talent expertise, and financial skills. Some industries must consider a regulatory component, too.

Post-Floyd, there was a huge, global swell of support for movements such as Black Lives Matter, and the C-suite was more than happy to fund ESG initiatives. More recently, the pendulum has swung in the opposite direction, as organizations pulled back, whether to economize or to curry favor with anti-DEI proponents. This turning of DEI into a political football, says Ichor's Eve, only proves that this type of approach is nothing more than an ineffective transactional exercise that is bound to fail.

"The old way saw companies invest capital where they could get a return from the smallest number of consumers, and in the shortest space of time," he adds. "That's an outdated view: times have changed, and successful businesses look to deploy capital over the long term, with the creation of profits and competitive advantage, as well as a more equitable society as their ultimate aim."

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