The Pandemic Lessons

The Future of ESG and How It Will Define Business Success

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Summary

The rapidly increasing importance of a company's environmental, social and governance (ESG) performance to its business value, has been a critical trend leading into 2020. The COVID-19 pandemic has now forced companies to think very differently about every aspect of their businesses, in particular ESG. What new ESG risks and opportunities are now in play? How will issues such as worker health, community engagement and equitable management of distributed workforces influence companies' purpose and strategy? And what steps will those businesses that will thrive in the post-pandemic world start to take now to mark them as tomorrow's leaders?

A group of 25 business leaders from multiple sectors and countries convened in a series of 14 focus group discussions during the Spring and Summer of 2020 to answer these questions. Participants imagined ESG success in terms of company purpose; in terms of applying new solutions related to technology, risk assessment, workplace and relationships; and ultimately in terms of outcomes. This paper highlights the new ideas, organization models, and competencies that businesses will need to thrive as leaders amidst ever-more important ESG drivers.

Introduction

Though the COVID-19 pandemic has had an enormously destructive impact, business leaders now have a once-in-a-lifetime opportunity to take advantage of the hard lessons the pandemic offers to build environmental, social and governance (ESG) systems and practices that are resilient enough to drive exceptional business performance in the years to come. Learning such lessons at a time of political and societal disruption requires a safe place for communications about future risk, possible near-term strategies, and long-term game changing ideas. Over the Spring and Summer of 2020, a group of leaders from diverse backgrounds, professions, and locations found that safe place, and the ideas flowed[1].

Drawing on the exchanges shared by these focus groups and the analysis of their hosts, this paper articulates considerations, risks, strategies, game-changing ideas, and ESG attributes that will assist companies in setting a course from the uncertainty of this pandemic to leading business performance in the new normal. The key themes are:

- Reimagining Company Purpose
- Building Tomorrow's Systems
    - Risk Modeling
    - Technology
    - Workplace
    - Relationships
- Measuring Results
    - Data
    - Profitability

After the primary discussions the group were complete, the tragedy of George Floyd's death occurred, catalyzing protests both in the United States and in solidarity around the world. In the wrap-up discussions, these events influenced the leaders' later discussions on post-pandemic ESG directions, and those perspectives are included in this paper. More discussion of the concepts raised here are warranted as the rapidly developing trends around social responsibility and activism on behalf of racial justice continue to unfold.

1. Reimagining Company Purpose

For years, we have heard about a 'shrinking, increasingly interconnected world,' and the pandemic has clearly shown us how these trends are accelerating. **Investors, governments, external organizations, internal stakeholders and the general public are increasingly looking toward the business world to take an active role in the social, and environmental issues facing society today**. The monumental public/worker health, social and economic disruptions brought on by the pandemic have obliterated the confines of traditional expectations for public-private responsibilities, raising an appreciation for what businesses can and should do in crisis to maintain the well-being of their stakeholders as well as their bottom lines. While public corporations are founded on principles of providing goods and services of value to customers and optimizing shareholder returns, **increasing demand for social responsibility (and, more broadly, ESG performance) from customers, employees and investors poses a dual purpose for businesses that look to thrive in the emerging marketplace**.

[1] This paper was prepared by focus group facilitators from Acorn International, LLC and Vinson & Elkins, LLP - Dean Slocum and Clarita Montant from Acorn International and Tom Wilson from Vinson & Elkins - with inputs and editing by focus group members. Efforts were made to incorporate comments and opinions from all group members, but the paper does not necessarily represent all points of view.

Successfully defining and executing strategies that balance the emerging dual purpose of business can drive leading ESG performance, resulting in higher stock prices and investment opportunities, higher talent retention, and lower compliance and public relations risks. And yet, it is clear that the challenges that arise from an interdependent world are enormously complex. The complexities involve issues like inconsistency or absence of data on ESG performance and results, technological and cultural barriers to communications and data management, and even the rapidly changing definitions of important social factors. No single company, organization, or government can address these challenges with narrow visions or viewpoints. Interdependent challenges require interdependent thoughts, innovations and solutions.

"No longer should ESG be considered separately from business strategy and value creation; it should be fully integrated into strategy and execution to deliver overall value to stakeholders."

In spite of any defined barriers, it is possible for companies to take proactive and consistent approaches to defining and executing on their dual purpose by embracing the concept of public capitalism. Public capitalism is a concept by which companies recognize and embrace both their profit and purpose while seeking to have those goals live symbiotically. In building this through a meaningful and exacting way, companies can create positive reputational impact as model corporate citizens, who thoughtfully and purposefully give back to the communities in which their operations have local impacts, demonstrating more fully that they are a powerful force for good.

Coherently describing a company's approach to public capitalism is crucial in beginning to develop and build this kind of reputational impact. The company's approach to public capitalism, in turn, depends on a clear articulation of its ***purpose***.

In what way exactly does the company contribute to society, apart from being financially successful? Who is the company helping? What communities does the company support? Which societal wrongs has the company been battling? How a company decides to answer this question will vary from business to business, but most fundamentally, the company needs to determine what issues are material to its stakeholders[2] are and direct its definition of purpose from there.

Defining business purpose starts with providing distinctive value to customers, but now more than ever extends to understanding and carefully listening to both the commercial and the broader ESG performance interests of its stakeholders. As with many disruptions, what the pandemic has shown us is how little we know of the interests of those on whom our business success depends. **Companies that thrive in the years ahead will be those that commit now to better understanding, bridging communications and creating open, transparent dialogues with their stakeholders to truly understand their interests.**

Case Study:

One of the 25 Focus Group companies has a critical operation in a severely socioeconomically depressed community on the US Gulf Coast. Driven by the sudden need to shift to online education, and fueled by the company's elevated awareness of the need for taking action on racial inequality within the community in light of the George Floyd killing, the company is working with the public schools to promote free Wi-Fi and technology access for all residents. Beyond being a good neighbor, the company is investing in building the more resilient workforce and the more reliable, less distributed supply chain that it will need to thrive in the "new normal".

[2] Stakeholders include employees, shareholders, suppliers, customers, host communities, regulators, NGOs, partners and generally any group or person that has an interest in the business of the corporation. Stakeholders are self-defined and can have varying degrees of influence on the success of the corporation, so identifying and understanding stakeholder interests and influence can be a complicated - but critically important - task.

Once armed with an understanding and importance of its stakeholders and their interests, a company will be better positioned to develop or enhance a purpose that is meaningful to its business and all their key stakeholders. However, the communication of its purpose must not just be a slogan or slick advertising campaign, nor will flowery words be enough. Instead, a company must align its strategy, performance metrics and incentives with their stated purpose and back this up with ***action*** to demonstrate it is truly a purpose-driven organization.

One key lesson business is learning while striving to regain productivity during the pandemic is that **one size doesn't fit all in terms of how to fulfill a redefined purpose**. There are a variety of actions – from those related to managing management, to applying technologies, to strengthening working conditions and relationships - that companies can take to act on their desired purpose-driven outcomes. The following sections offer perspective of the focus group discussions on some of the actions businesses may consider starting to take to position themselves to thrive in the post-pandemic future.

2. Building Tomorrow's Systems

2.1 Risk Modeling

The pandemic has reminded us how critical it is to understand and be prepared to manage ESG risks. Businesses that thrive as we emerge from this disruption will have mastered and institutionalized agility, humility, imagination, and boldness. In doing so, they will have built core competencies and systems throughout their organizations to better recognize, assess and respond to unexpected but not unimaginable, high impact/low likelihood ESG risks.

"While 'E' was a big focus pre-COVID-19, the pandemic has refocused us on the 'S' and 'G' ".

Companies will find that an institutionalized capacity to more clearly recognize and respond to ESG risks and mitigate these risks more readily will enhance their business resiliency to risks in the near, mid and long term.

Effective risk modeling begins with the appropriate recognition of enterprise-wide risks facing the business. Managers and leaders will need to **better visualize and plan for risk outcomes rather than only planning for the cause** – for example by retuning decision-making and planning around the risk assessment to focus on the flooding and evacuation rather than just on the hurricane or other event. Companies will also need to **build awareness of trends in their supply chains and host communities as early warning signs** of potentially crippling ESG and associated business risks. Astute companies will evaluate the impacts of evolving geopolitical risk in their supply chains and diversify access when critical components and supplies can be restricted or impacted by global events. This is particularly true for businesses that operate or have key suppliers in distressed communities – both in the US and developing world – where deplorable health and education conditions can be fertile grounds for disease, human rights abuses, crime and unrest that undermine operational efficiency, reputation and ability to attract investment.

Unfortunately, once these risks are recognized, companies may find it impossible to assess and determine exactly how to mitigate them in a timely, cost effective and politically/reputationally sound manner. In many cases, companies may not have the quantifiable models or standardized risk likelihood/consequence criteria established to measure sociopolitical risks such as those they do, for example, for safety and environmental risks. However, COVID-19 has taught us that in order to be more resilient, successful businesses **need to develop mechanisms and aptitudes to evaluate risks with equal parts rigor and imagination.**[3]

[3] "Failure of imagination" has been cited as the root cause of disastrous accidents since the Apollo 1 fire over 50 years ago. Our groups agreed – we are too often continuing to fail to imagine and prepare for high consequence risks.

Tools developed in other ESG contexts can help drive this effort. Driven by the pressure of emerging international pressure and legislation, many businesses have already learned how to conduct systematic human rights risk assessments that are reliable enough to identify, measure and report on increasingly important but hard-to-measure social risks throughout their global operations and supply chains. **Leveraging lessons learned from these human rights risk assessments** can help companies apply rigorous but flexible risk assessment models to measure and manage broader social risks. This will allow teams to see through facades, such as in complex supply chains, to accurately identify, interpret and manage risks related to the too-often ignored "middle child of E**S**G". The ability of companies and their employees to credibly do so can make the difference between restored public trust or a global boycott.

Ultimately, companies' development of their ability to recognize and assess risk must lead to the development of an effective response to future "black elephant" events.

In the focus groups, we referred to "black elephant" risks as those that are a blend of alleged, extremely unlikely "black swan" events and the too-uncomfortable-to-recognize "elephant in the room" occurrences.

The focus groups predicted that the leaders of tomorrow's most successful and resilient businesses will need to be able to:

- **Integrate workers and host communities into incident response and contingency planning**, through the provision of transparent technologies and systems for rapid feedback to ensure local knowledge of sensitivities are built into responses.
- **Be nimble/agile in enabling rapid response** – learning from our ability to adopt learnings from across the world, and pivot quickly in response to COVID-19;
- **Be brave and be bold – but also be humble** – Companies should not be afraid to try and fail with new and better responses, particularly when transparently engaging stakeholders in response efforts. Leaders of the future are expected to be more open with their stakeholders about what is working and what isn't and will strive for more inclusive problem-solving.
- **Build more resilient risk management programs** – relying on experience, simulations and technologies that are outcome based and large scale and scope (example: emergency response plans for pandemics likely did not envision the scale and scope of the risk; but the outcome of global shutdowns could also be caused by other events than a pandemic.).

2.2 Technology

The world quickly turned to technology to not only survive but also recover from the global pandemic. From advanced lab testing that is finding cures, to contact tracing apps that are helping us control transmission, to videoconferencing and on-line sales that are permitting commerce to roll forward, we are relying on technology and its capabilities now more than ever. As the technology application wave continues to evolve, we are confronted with new or increased technology challenges, such as:

- How will businesses manage the transition from their reliance on technology for survival-mode to leveraging technology for superior ESG and business value performance?
- How do businesses increase engagements with their stakeholders and communities in segments of developed and developing countries where there is acute digital poverty due to lack of adequate infrastructure?

Specifically, what will the leaders of the future need to start doing now to ensure they are applying technology as they showcase and promote more safe, equitable, transparent and resilient businesses? Two examples of industries with critical workflows that could be drastically changed to add far more value and eliminate inefficiencies are in education and healthcare. These two industries could radically change workflows, collaboration, and leverage technology in a way that would minimize the impacts of pandemics in the future. The potential transition available to these industries and others is made possible by a stunning explosion of new and improved technologies. The focus groups imagined that we can foresee the start or increased use of:

- **Artificial Intelligence (AI) and automation** to improve workplace environments and maintain a more safely dispersed workforce;[4]
- **Augmented reality glasses**, as a technology substitute method for improving worker safety and providing for reduction in costs for gathering data during inspections and auditing;
- **On-line simulations** for flexible, effective and low-risk training, knowledge sharing and skill development, and
- **Integrated IT systems** to monitor worker well-being and provide critical workplace information updates as personnel enter, exit or move about the workplace, plant, warehouse, etc.

"Using digital technology/apps and data analytics to enhance stakeholder communications and better understand the patterns in stakeholder feedback can help companies become more resilient and "see around corners" to better predict future disruptions."

Revamping workflows and implementing new technologies should not wait until after the COVID-19 global pandemic is behind us. **Demonstrating the ability to consistently protect employee/contractor safety now will be critical for businesses to attract and maintain talent – and capital – in the future**. In addition to new protocols (*e.g.*, testing, screening, cleaning, contact tracing, etc.), leading businesses will need to make sure to accurately, immutably and anonymously track their number of COVID-19 cases, as an example, within their workforces in order to communicate the efficacy of their controls to investors, banks, and other invested stakeholders.

Case study:

A large US food industry introduced integrated worker health and safety technology at key meat-packing plants in response to COVID crisis. The program included both centralized sensors to read worker temperatures upon entrance and exit and to inform them of real-time workplace risk profile and management updates, as well as decentralized, 2-way messaging by mobile apps.

> **"Cybersecurity is our roadmap for understanding many ESG investment cases. In 2012 you could not speak to venture capital firms about the security regime in your app. In 2017 you could not get funded without a cyber-physical security regime. What was thought to be adding cost and friction and complexity and risk became entrance fee to the game."**

Companies should also be prepared to manage **added risks of cybersecurity** on top of the current crisis. While more government regulation of systems security is anticipated, even more stringent controls may be needed to satisfy market demands. Reckoning the potentially high up-front cost of implementing such controls in a cost-constrained environment, businesses will need to find ways to manage these costs, recognize that this front-loaded investment may now be a required entry-fee for access to customers and capital, and extend the time horizon for return on investment expectations.

Advances in technology too-often benefit those with sufficient training and bandwidth, and that can broaden the divide between employees who are economically advantaged and those who are not. For employees with limited access to connectivity and effective home office solutions, increased technology deployment without a matching commitment to increased equality of access could move business in the opposite direction of where the Pandemic Lessons are leading us. Talking and messaging about making this shift is simple but putting consistent and impactful practices in place and delivering change is another matter.

> **"We need to get more creative with technology and learning, particularly for vulnerable stakeholders like the elderly."**

If you believe like we do that the leaders of tomorrow will be distinguished by the measurable social performance and benefits they are delivering, first movers on **applying technologies that are designed and managed to be uniformly accessible, useful to *all* employees and affected stakeholders** will deliver the superior societal and financial results craved by increasingly selective customers, investors, talent and host communities.

Practices that companies may take to make this shift include:

- Designing and managing programs **and mobile apps that provide easy access to workers in the field** or operating levels rather than only favoring those in headquarters or investing in employees home office capability and offer other support for those working from home
- **Creating portals for public information and feedback** that are simple, easily accessible and useable, which are practical and transparent; and
- **Prioritizing AI solutions that make workers more valuable, not replace them**
- **Proactively investing in capacity building for vulnerable stakeholders** who may not have the equipment, background or knowledge needed to access the systems, technologies or understand the new flow of information.

While many of the technology applications introduced to support safety and social responsibility/equity in response to the COVID crisis, businesses can expect that employees and host communities will expect them to be continued and improved upon even as the crisis passes.

2.3 Workplace

In delivering on their emerging dual purpose, employers will increasingly need to consider actions they can take to enhance the safety, health, and welfare of their workforce both during and after the COVID-19 pandemic. Businesses worldwide shifted quickly to put systems in place for employees work from home in response to the crisis, but as time passes, it is clear that **a greatly increased capacity and expectation for remote workplaces is here to stay**.

The difficulties that slowed employers on the migration to remote workplaces before the pandemic still exist, including concerns about regulatory compliance, employee productivity, and evaluations. Despite these issues and the lack of clarity on how remote work would work for a large portion of the workforce, in a matter of days, employers across the world were able to flip a switch to an experiment on how to overcome all that lack of clarity. What is not yet fully appreciated is the mental challenge and disproportionate burdens placed on families without childcare and schooling; often a dual responsibility that may be disproportionately assumed by the working mother. Many companies have kept metrics to measure how this great remote work experiment has fared for their particular workforce will have a view to the future that may change their workforce forever despite this lack of clarity prior to the pandemic.

Employers must answer for their own circumstances the question of whether remote and more dispersed workforces are safer, and whether they can create new workflows to build high performing collaborative teams while working in isolation. Pre-COVID-19, companies needed to locate where they had best access to talent and provide an environment that was highly attractive to work. We don't know how these behaviors will change. It may very well be the case that technology and access to that technology will allow larger businesses to combine work centers with smaller, more dispersed communities of workers, in which the health of these workers may be protected from the impact of dense population.

Separate from the need to go remote, the pandemic has forced new skills on many workers that were necessary to respond effectively to the disaster. It is safe for us to say that **training employees to be prepared for disruptions in operations is now part of the necessary risk matrix of every company**.

As the world of training for risk mitigation expands, employers must also consider what work will disappear in the future and retrain workers who may be impacted by that loss in order to develop a sustainable workplace. The debit on the social aspect of ESG that comes from the simple approach of dismissing workers whose skills are no longer necessary is not one that should be incurred if forethought and planning can avoid that outcome. As noted under "Technology", we need to promote tech that makes employees more valuable, not dispensable.

The question now is whether companies acting on their own can truly achieve the overall societal goal of creation of a flexible workforce that is prepared for the future disruptions of the workplace. What if this work was shared by different industries? For example, can operators of technology in the energy industry be 'super cross trained' to provide similar technology-based work to the health industry? **It may be time that the design of a flexible workforce be planned on a cross- industry scale rather than pursued within each single company separately**.

Additionally, many employees may see their greater flexibility in skill sets as a benefit in itself toward their own career sustainability, but others may see it as time spent more for the benefit for their employer. Employers will need to design compensation systems to reward worker flexibility, preferably incorporating a view to instill in employees the need for a lifelong pursuit of learning. Relatedly, a new stakeholder for employers will be educational and training institutions - extending beyond four-year degree programs, community colleges and trade institutes to include third-party remote learning services. Any such educational organizations that have learned the ability to quickly train for future skills through remote access and with efficiency will be prime partners for the forward-looking company. Continuing to do this more efficiently than a company can develop and execute training in-house will be an on-going challenge. The focus groups predicted that **the most successful businesses of the future will be those that leverage relationships with educational institutions to design training programs at the right level of skills required and that fit the workforce for the intended purpose.**

"Flexibility" will become a critical term attribute of future HR departments. Successful businesses will need to create systems to determine and adjust to interests of the workforce and increase inclusion of many diverse skill sets. HR departments will also need to have a clear communication plan and process. The successful business of the future, regardless of its size, geographic scope or length of supply chain will recognize the workplace segment of the "S" of ESG and design its HR department structure, C-Suite communications and goals accordingly.

A flexible workforce will be particularly meaningful to those businesses plagued by frequent boom and bust cycles, in which thousands of workers are pulled into and expelled from the industries during their market and economic fluctuations highs and lows. **Employers in certain industries need to recognize that frequent disruptions in employment drive young talent from the industry, especially those looking for careers in more steady-state industries.**
Technology may help guide how to flexibly train a particular workforce, since it is evolving to provide for greater operations to be conducted by fewer employees. However, remote ability to control operations has been improving for years and the post-pandemic outcomes may reveal through data that this will only accelerate that process. The company with the best training systems will ultimately win the race for talent, particularly if that training includes an element of broadening the scope and capability of the employees, giving them greater flexibility for current and future employment opportunities.

Through the first half of 2020, businesses also were thrust into the process of categorizing employees as either essential or non-essential. Over the course of just a few days, distinguishing between essential and non-essential personnel even left employees grappling with what their future identity in the workplace would really mean. Managing these workforce challenges was particularly difficult because, at the same time, companies were also dealing with stabilizing their economic and financial outlooks.

As numbers of essential workers testing positive for COVID-19 increased, it became common for workers to ask, "Am I essential, or just expendable?" A great workplace divide had begun.

Essential office employees who could not work remotely (*i.e*., on-site workers) found themselves in a very different world where many of their fellow commuters were no longer present, either because they were working remotely (off-site) or had lost their jobs, at least temporarily. For many of these essential on-site workers, social distancing at work was not necessarily an option until their employer either redesigned their workplace to provide for the same if at all. As numbers of essential workers testing positive for COVID-19 increased, it became common for workers to ask, "Am I essential, or just expendable?" A great workplace divide had begun, and the tensions driven by this divide may force employers to provide greater health protections – and compensation – for our essential workers even after the crisis has passed.[5]

During the wake of a global pandemic, society has experienced major upheavals socially, environmentally and economically. Not to mention the mental health toll that a global pandemic has created and will continue for many months to come. And if working and living through a global pandemic was not enough, the suddenly increased confrontation of racism and racial injustice brought on by the killing of George Floyd has forced families – and businesses – to try to understand their roles in rethinking and acting on the racial divide in America and beyond.

[5] As articulated in a July 14, 2020 "Exchanges at Goldman Sachs episode "Sustainable ESG Investing - Turning Profits into Performance", we know from history that, once earned, the expectations and adoption of programs to support environmental protections, human rights and workplace health improvements generally only increase over time.

As we grapple with the cumulative impacts during and after the global pandemic, employers will have the added burdens of:

- Determining how to attract and import large workforces for construction programs while isolation bans are in place between countries and states; and
- Revamping stakeholder engagement protocols rebuilding trust all while socially distancing and being respectful of personal safety.

Advanced planning for developing detailed workforce and work plans will need extensions in both time and effort – as well as creativity – to ensure the safety and health of both the workers and host communities for large development programs.

2.4 Relationships

In light of the Pandemic Lessons, leading companies have already started improving and strengthening their relationships with their workforces and external stakeholders. Use of innovative technologies and Artificial Intelligence will become increasing more important to a segment of the business that is largely left with small budgets and minimal resources in which to manage and overcome external non-technical risks, obstacles and challenges.

For the most part, employees with stakeholder relationship responsibilities have been able to foster needed and key relationships while enabling more **direct lines of communications** between line-level employees and the C-suite by using already existing simple technologies like virtual town hall meetings and real-time feedback apps. Additionally, these simple technologies have enabled **more equitable prioritization of access and engagement while aggregating inputs from multiple voices** and providing reliable feedback.

Considering internal stakeholders, the pandemic has created a need and opportunity for employers to develop clear messaging with their staff and understand how they are coping with the situation on a more personal level, in order help **retain workforce and increase productivity from afar**. Going beyond 1-800 number systems, leaders are taking this unprecedented time to put systems and innovative technologies in place that allow them to pick up on and adjust to what their employees care about and **build upon the company purpose while being more inclusive of the needs of their workforces.** Indeed, this increased communication has allowed managers and executives to hear firsthand from their employees about the issues they would like their company to focus on as well. This is helping companies "see around corners" to understand and plan for future risks, and to grow stronger by empowering their workforce and better understanding their workers' needs and aspirations.

Likewise, the pandemic has been an important time for companies to focus on their surrounding communities and other influential external stakeholders. It has provided an opportunity for them to **build the capacity of host communities and others to engage**, including by utilizing technology to access critical information and share early warnings and risk assessments. Transparency and creativity have been key throughout the entire process for those that have started to see stronger relationships emerge. Transparent engagement may seem an obvious objective, but implementation can be very challenging, particularly in a time of crisis. Key considerations include:

- Companies have had to **identify safe spaces to meet in their communities and reinforce the role of community and/or liaison officers** to shift towards a more decentralized and distributed engagement.
- As important as transparency has been and continues to be, **privacy** regarding the infection of COVID-19 has also been an increasing concern in the workforce and in communities.
- There is a risk of working with vulnerable and distressed communities, particularly given an increased **fear of foreigners** during the pandemic.

Furthermore, allowing safe face-to-face engagement with vulnerable communities has remained especially crucial. This is particularly true in places when the communities don't have the connectivity, the required equipment, or the necessary energy to hope to have wider technological access. Failing to take these limitations into account runs the risk of passing by or excluding vulnerable populations, creating a case of inequity of digital literacy/access.

Across communications with all stakeholders, companies should note that the ability to remotely communicate visually has become a hot but rare skill. **There needs to be significant improvement in the business capability to provide remote, face-to-face communication**. Mastering visual communication will allow a company to reach a broader scope of stakeholders and to communicate in a fashion that is safe and overcomes access issues.

This improvement will be especially important to communicate the purpose of a company, as it sees itself, to the broader society. We have all seen the "we are not a (*fill in the blank*) company, we are a people company" advertising campaigns, to which we have likely responded with a fair amount of skepticism. **The central focus of purpose-oriented engagement with stakeholders must be to build trust**, and visual, face-to-face communication, supported by concrete action is much more persuasive than a well-meaning email that gets lost in hundreds of other messages from other companies that look exactly the same.

Relationship-building with government stakeholders will also require greater care than in the past, and this starts with re-examining the different motivations of government bodies across countries, states and levels of government. Success in doing so will help companies evaluate opportunities to form more **private-public partnerships** to help build sustainable systems for critical infrastructure, local content and supply chains. These systems will become especially important as businesses become more engaged in broader societal challenges to secure the resiliency of their operations – for example, food and water security, health systems and supplies, education systems, teacher access and materials, and access and infrastructure for technology and sufficient levels and reliable utilities and energy providers. These kinds of partnerships can also help **balance the disruption or impact of operations within communities and encourage continuity and reliability of business plans.**

Finally, focus group members indicated that many companies had been re-evaluating relationships with the stakeholders in their supply chains as a result of the pandemic and have started moving towards a more decentralized approach to supply chain risk management. Indeed, when major brands using centralized strategies cancel contracts that are filled in developing countries (*e.g.*, as is happening in the textile industry), they are externalizing risks and shifting impacts and costs to already marginalized and vulnerable communities and workforces, essentially limiting the communities' economic forward momentum. With the support of digital literacy and transparency as well as clear, strong and consistent mechanisms to protect workers, **decentralized supply chains offer better business resilience by empowering the edges of their stakeholder networks to identify risks before they manifest into black elephant issues.** This approach will help leaders of the future build the critical emerging resiliency principles of inclusion, vulnerability and humility into core business models.

3. Measuring Results

3.1 Data

Apart from meaningful stakeholder engagement, "*it's all about the data*" has become the new mantra of investors looking for ESG alpha as an indicator of businesses that will deliver both superior financial returns and societal benefits over the long-term. Many ratings agencies are also beginning to develop ESG data comparisons without full regard for the importance and meaning of the data. In order to implement an effective ESG program, it will be necessary for companies to provide meaningful data on ESG attributes, and over time, the most relevant data will be comparable. As more resilient, socially responsible strategies are rolled out, these **ESG metrics must be both meaningful and aligned with company purpose and strategy**. For example, a company that relies on a decentralized global supply chain may choose metrics that drive progress in assuring human rights are respected by its suppliers, in alignment with its purpose to reliably and responsibly deliver superior products and its strategy to do so by leveraging its superior strengths in managing a diverse supply chain to promote consistent flow of product that meets evolving customer demands.

Accelerating demands for racial justice on top of the pandemic have only amplified the importance of these social metrics as drivers for companies to demonstrate real progress on racial equality and worker health, for investors to quantify positive societal impacts, and for communities and customers to monitor and judge when business efforts to do good are good enough. Businesses that are investing today in careful analysis and development of meaningful social performance indicators will be recognized in the months and years to come as partners of choice to customers, employees and communities. They will also be building competitive advantage with investors as highly investable businesses.

"The leaders of tomorrow will be those that understand, put into practice and measure/report on what their stakeholders define as material."

The investment in analysis and data should not be random - ESG data should be collected in those areas that will have the most impact on each company's business. In this regard, business that thrive in the future will:

- Focus on data that is most **meaningful to employees and other stakeholders**, not just what is requested by investors;
- **Start with the end in mind** and plan ahead of time for how any data will be used; and
- **Seek local data that can be reliably aggregated** to reflect multiple voices.

At the highest level, **companies will ultimately have to embrace an approach that defines and measures data at the intersection of three emerging needs**:

1. Investors' need for long term resiliency
2. Businesses' need for long term alliances with social stakeholders
3. Social stakeholders' need to see social progress/results

If we are to develop good "S" metrics related to ESG performance, they will have to focus on the intersection of these needs.

Once the appropriate data and information management set is identified and collected, companies that thrive during and after the pandemic will need to have resilient, transparent and inclusive/participative systems for managing and reporting ESG performance results. These systems must:

- Be consistent, verifiable, and auditable;
- Include sophisticated technologies and Artificial Intelligence infused into the process of collecting real-time data from a variety of sources, while validating the credibility and integrity of the data from all sources used;

- Maintain simple and transparent real-time meaningful reporting to a range of both internal and external stakeholders;
- Accommodate any devised partnerships with local governments or agencies to enhance the sharing of information, especially items such as health and well-being of all affected and key stakeholders; and
- Be calibrated to remove biases that could undermine benefits for minorities or most vulnerable groups from the workforce to host communities and any other critical external stakeholders with which it conducts its business.

Lastly, while the current mantra may be *"it's all about the data",* metrics don't always tell the full story. The most trusted and admired companies – and those with most flexible licenses to operate – will **ensure meaningful and credible data is accompanied by a honest narrative** that tells the story of how the company is progressing toward its mission, purpose and its accompanying values.

3.2 Profitability

While the pandemic has taught the focus group members that thriving in the future will require new outlooks and actions regarding ESG risks and opportunities, it is clear that the fundamental goal of business remains intact: companies need to generate profit to be sustainable in the long term. In this context, it will be **helpful to view ESG performance as an increasingly important contributor to a company's ability to generate sustainable profit and share price value**, for example by recognizing and managing risks that, if ignored, would lead to lower returns. As investor and shareholder interests increasingly value a company's dual purpose in the wake of the pandemic, ESG performance will become more important to making a company investable.

Unfortunately, progressing on each element of ESG will have associated costs. These **ESG costs must be correlated as payments on the organization's social, regulatory and legal licenses to operate. Additionally**, **it will also become imperative that companies design metrics to measure any qualitative and quantitative benefits associated with those cost**. With these metrics, companies will have a greater capability of demonstrating return on investment, including their financial return and purpose driven ESG outcomes.

As with any metrics, companies may need additional resources to fully articulate that value of ESG efforts. Specifically, how does a company demonstrate to stakeholders, particularly shareholders and investors, how ESG actions lead to social and financial success? The example of the company using metrics to drive a more reliable of respect for human rights in its distributed global supply chain as a critical path to succeeding in its purpose and strategy may be a useful model for businesses to consider as they define their own metrics, direct their own futures, and tell their own stories. Another model to consider can be drawn from companies that have chosen to link their social goals to the United Nations Sustainable Development Goals.

Overall, companies should continually strive to frame their ESG strategies based upon current and prospective stakeholder interests as well as on driving greater profitability and shareholder value over time, in line with company purpose. By framing ESG strategies in practical terms, the company can remove internal bias either held by or against certain stakeholder groups or ideas. This approach will more likely also find its success appropriately measured against its stakeholders' definition of materiality. And by ensuring the strategies are directly tied to promoting profitability, businesses that are committed to operate more responsibly in the post-pandemic years will also ensure that their ESG advances are sustainable.

4. Conclusion and Direction Forward

The monumental public health, socioeconomic and cultural disruption brought on by the COVID-19 pandemic has forced us to re-examine what is essential in our personal and business lives – and created an opportunity to redirect for a better future. One of the key emerging challenges for business has been to understand the ESG risks and opportunities are now more imaginable to us, and to foresee what those businesses that will thrive in a post-pandemic world should be doing now to manage those risks and opportunities.

Our group of 25 business leaders from across multiple industries and countries gathered virtually in four related focus groups to imagine the impact, demands and opportunities for business related to the increasingly important influence of ESG performance in a post-pandemic world, and to define some basic principles for what it will take to thrive in this future. Key take-aways include:

- The disruptions brought on by the pandemic have obliterated the confines of traditional expectations for public-private responsibilities, raising an appreciation for what businesses can and should do in crisis to maintain the well-being of their stakeholders as well as their bottom lines.
- The trend to ensure business is purpose-driven started well before 2020, but the pandemic has accelerated the importance of purpose to business and opened eyes to the benefits of setting and following dual purpose of profits *and* social responsibility.
- Businesses that thrive in the future will:
    - Enhance abilities to predict and manage future high consequence-low likelihood incidents by recalibrating risk assessment and response models now – to be more agile and resilient, more open to a balance of imagination with rigor, and more inclusive of employees and host communities that can help provide early warning signals.
    - Apply technology more to strengthen the resilience of businesses, improving the accessibility of critical business information throughout the workforce and supply chain, and enabling rather than replacing employees.
    - Make workplaces, workflows and organizations will become more flexible – allowing for increasingly remote work execution – and redesign HR systems, training and compensation will reward that flexibility.
    - Start now to build stronger, more agile and more resilient relationships with employees and other stakeholders, including promoting more direct communication between employees and the C-suite.
    - Consider the resiliency advantages of decentralized and simplified supply chains.
- Employees, customers, investors and other stakeholders will increasingly expect business to deliver results on social responsibility, so businesses will need to better develop ESG metrics that are both meaningful to stakeholder interests and aligned with company purpose and strategy. Getting the S metrics right will be particularly challenging and impactful.
- Ensuring that initiatives and programs designed to promote better ESG performance have a clear linkage to increased profitability will be critical to the sustainability of those advances.

Thriving in the wake of the pandemic will require businesses to be resilient, humble, transparent and flexible when it comes to managing increasingly important ESG matters. The most successful businesses will be more purpose-driven and will consistently strive to better engage their employees and other critical stakeholders. The leaders of tomorrow are starting now to apply the Pandemic Lessons.

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