

# Unleashing the Power of “S” in ESG

## Moving towards strategic social investment in communities for construction companies

### Introduction: What is ESG?

ESG stands for environmental, social, and governance or non-financial factors that show how a company’s sustainability strategy is being implemented and measured.

Why has this system of reporting become such a powerful tool in winning business and building the right relationships with stakeholders in the homebuilding sector? Investors, employees, governments and other stakeholders look carefully at how companies define and manage ESG commitments and investments in order to identify a company’s risks and growth areas – and to rate a company’s overall value.

But it takes a lot of scrutiny to clearly understand how well a company’s ESG strategy is doing. Unlike the financial reporting required of companies, ESG reporting is less structured, still evolving. ESG factors are also often deeply integrated across operational silos. So measuring them and giving them a dollar value can be challenging.

Yet, because stakeholders seek and expect it, companies are increasingly disclosing these commitment and investment metrics in annual reports. Fortunately, a set of standards for just the homebuilding sector exists. And there is an effort underway to ensure that they are routinely updated and more widely used.

Each industry faces an array of sector-specific sustainability issues. However all industries have rapidly worked to develop new ESG strategies that sustain their operations and stakeholder relationships during the pandemic.

Responding to supply chain, health, societal, and workforce challenges posed by the pandemic requires companies also to reinvent how they report out ESG progress.

## What is the “S” in ESG?

Let’s take a closer look at one ESG category, the “S” factor that most-directly reflects companies’ response to pandemic and societal upheaval. The “S” in ESG addresses sustainability and adaptiveness across social systems, among the different groups of stakeholders that a company interacts with.

Specifically, the way a company manages and relates to its suppliers, workforce, talent pool, school, at-risk residents, legislators and regulators, etc. are all considered “S” issues. In this context, a construction company would specifically audit how these relationships enable or prevent their taking an intentional role in improving local economies in the context of public prosperity, health, job creation or labor, tax and human rights laws.

In an ESG framework, each company’s “S” impact is a measure of its respective level of investment in communities it carries on business operations, to improve the wealth, safety, and health of local residents. As an example, construction companies may invest its own resources to build a community’s infrastructure (roads, bridges, sidewalks and parks, etc.) or donate to its schools, at-risk youth programs, veterans.

According to the Chief Executives for Corporate Purpose, more than 585 multi-billion-dollar companies<sup>1</sup> over nearly 19 years, have invested \$312 billion in corporate social investments.

In turn, investors, potential employees, supply chain vendors, and external stakeholders at large use “S” data to help determine whether a company sufficiently invests and commits to advance its relationships with stakeholders. Those stakeholders will ask: “Is the company able to effectively partner with local training organizations to hire local workers?”

A construction company’s “S” benchmarks and standards are, to an increasing degree, also scrutinized by financiers and insurers. For example, insurers are likely to zero in on the impact and resiliency of projects before committing to providing coverage.<sup>2</sup>

### Modeling Best-in-Class ESG Reporting

#### PepsiCo<sup>3</sup>

Seek inputs from all stakeholders: shareholders, customers, consumers, employees, suppliers, governments, NGOs on ESG strategy execution

Measure progress against clear KPIs

Use metrics aligned with the United Nations’ sustainable development goals (SDGs)

Integrate sustainability goals into business strategy.

Establish an ESG leader, ie: chief sustainability officer role

### ROI Generated by Social Investing

Tax benefits offered through public-private job training partnerships.

Reinforcing the economic vitality of a community where homes are being built ensures their market rate will appreciate.

Build resilience against market fluctuations such as inflation or recessions.<sup>4</sup>

Partnering with local job training organizations saves training costs.<sup>5</sup>

## The Role of “S” in Homebuilding

Homebuilding impacts economic sustainability on a sweeping scale. For example, building 1,000 average single-family homes creates 2,900 full-time jobs and generates \$110.96 million in taxes and fees for all levels of government to support police, firefighters and schools, according to NAHB’s National Impact of Home Building and Remodeling report.<sup>6</sup>

“New home development can bring economic growth and workforce opportunities, while moderating cost-of-living increases, and can provide communities with safe and vibrant neighborhoods,” according to SASB’s Home Builder’s Standard.<sup>7</sup>

The SASB standard ties the homebuilders’ “S” role to providing access to public transportation and/or not overburdening existing transportation or utilities infrastructure, providing access to green spaces, developing mixed-use spaces, and creating more walkable communities.

“These strategies can help increase the overall demand for and selling prices of homes as well as reduce the risks related to permitting and community or stakeholder opposition related to current or future developments. When companies use development strategies that inadequately integrate their new communities into the pre-existing surrounding communities, they risk insufficient sales prices, excessive costs related to infrastructure needs and assessments and risk permitting approvals, delays and/or community support for future developments.”

## Tracking “S” Factors GRI-SASB-WEF

The ESG indices Global Responsibility Index (GRI) and Sustainability Accounting Standards Board (SASB)<sup>8</sup> provide disclosure checklists and materiality risks for an array of “S” standards and investments.

### Recommended Industry Actions to Unleash the Power of “S”

To identify materiality issues (ESG priorities), engage, listen and consider input from all stakeholder groups.

Set clear short-, medium- and long-term targets for “S” priorities.

Decide how progress against targets will be measured, monitored and managed.

Implement community impact initiatives by carefully choosing and collaborating with partners.

Appoint a Chief Social Impact Officer to build a steering committee that examines and updates “S” disclosure requirements and/or recommendations to ESG index agencies.

Build in grievance mechanisms that enable stakeholders to hold companies accountable for the effectiveness of their ESG strategies.

The World Economic Forum (WEF) is leading the development of a core set of common metrics and disclosures on non-financial factors to simplify the process for corporate stakeholders. Companies can use its Stakeholder Capitalism Metrics<sup>9</sup> to align their routine performance reports against ESG indicators. These new metrics were also created to help companies align ESGs with sustainability development goals (SDGs). Without universal metrics in place, a company's stakeholders are in a position to subjectively interpret social risks and value.

"S" reporting can also enable a firm to detect and address specific social risks, such as labor strikes or consumer boycotts of a product or service that could hurt a company's ability to operate or that might demonstrate workforce sustainability and resiliency.

The Global Reporting Initiative (GRI) economic disclosures<sup>10</sup> for the construction and real estate sector – G4 economic indirect impacts – covers job creation and training opportunities for local and national workforces.

Non-discrimination aspects involve training and awareness programs and grievance mechanisms designed to build equitable access to job training across a community.

Unlike the formal line-item environmental and governance disclosures found in ESG reports, social updates tend to be less structured. Geopolitical issues that shape a corporation's social context and greatly impact the sustainability of its external relationships are unique by region and so they are hard to standardize to apply universally.

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"In making the case for infrastructure, social benefits tend to fit the 'nice to have' category. In part, this is because they are harder to measure – making success harder to claim," reports AECOM<sup>11</sup>. "But when it comes to extending value for communities looking to rebuild and adapt to our new normal, social returns are essential."

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The valuation of social factors has been intensifying. We see governments – mindful of an inextricable link between physical infrastructure and public benefits – setting terms during their procurement processes that require greater social value considerations, such as developing new skills in local populations."

Workforce diversity and equity standards and human rights issues have legal implications and, as a result, are reported out systematically<sup>12</sup>. However, the competitive and challenging nature of investing in communities and external populations with the intent to upskill and recruit local talent has been less well-documented. Also, corporations often manage community investment and upskilling initiatives via their foundations and external partnerships with nonprofit partner

organizations. Line-item foundation reporting on external upskilling investments is not required by ESG indices.

Yet each ESG matrix has specific metrics for company disclosures that should be reviewed carefully.

For example, direct economic value generated and distributed (EVG&D) data shows how a company creates wealth for stakeholders through its products and services, wages paid, taxes and community investment, according to the WEF's "Measuring Stakeholder Capitalism" report<sup>13</sup>.

Several metrics cited in the WEF report value social contributions, including "prosperous society" impacts, that companies make, such as the monetary value and long-term value of a company's infrastructure investments. Another metric on total social investment captures the multiple ways companies invest in "S" factors beyond charity donations.

## **Aligning Community Programs to Corporate Objectives**

While standards on "S" data are still being solidified, the nature of partnerships that companies maintain demonstrate how to align a community program with corporate objectives.

### **CEMEX**

<https://www.cemex.com/documents/20143/52528892/IntegratedReport2020.pdf>

A building materials company headquartered in San Pedro, Mexico, with more than 40,000 employees recently issued new scaling targets for its job training initiatives, hit new milestones and overall has been able to scale a strong blend of tech and soft skilling with entrepreneurial thinking. Last year, it trained nearly 30,000 youth in its New Employment Opportunities program and hired more than 5,000 of these trainees. Separately through virtual programs, it trained 59,000 youth and adults in physics, sustainability and R&D. Junior Achievement Mexico and Valencian Institute for Youth are among its partners.

### **3M**

<https://multimedia.3m.com/mws/media/20060660/2021-sustainability-report.pdf>

Like CEMEX, 3M works to reduce the STEM skills gap globally. It has pledged to create 5 million unique STEM and skilled trade learning experiences for underrepresented workers by 2026. In a partnership with PYXERA Global, diverse sets of 3M employees spend two immersive weeks in various countries collaborating with a local nonprofit organization, social enterprise, or government agency to solve a social or environmental issue. 3M also partners with Science at Home to build STEM thinking into millions of elementary school students.

# Case Studies

The below sections illustrate how global companies synthesize their social progress, generated by a wide range of initiatives. While some companies, such as CEMEX, are defining social issues affecting their operations as material issues and customizing metrics to track the impact of these issues, others rely on storytelling to define their social progress.

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## Quanta Systems<sup>14</sup>

- **Sector:** Infrastructure
  
- **Social Objectives:**
  - Build lineman training center on Puerto Rico to foster economic growth
  - Attract businesses and industry investments to Puerto Rico
  - Advance missions of CI partners
  
- **Community Investment (CI) Yardstick:**
  - Create 50 jobs during construction
  - Create 12 full-time employment opportunities
  - Upskill thousands of technical workers across Puerto Rico
  
- **Partners (Past, Existing, or Target):**
  - Junior Achievement
  - Electrical Transmission & Distribution Partnership
  - American Association of Blacks in Energy,
  - Association of Women in Energy
  - National Hispanic Corp Council
  - Women s Energy Network Colorado
  - Texas Diversity Council
  - Veterans in Energy
  
- **CI Programs (Past, Existing, or Target):**
  - LUMA College for Technical Training in Puerto Rico / Northwest Lineman College
  
- **Recent Highlights:**
  - Launch of LUMA College

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## Boise Cascade<sup>15</sup>

- **Sector:** Engineered wood products
- **Social Objectives:**
  - Employees participate in community investment in all company locations
- **Community Investment (CI) Yardstick:**
  - Provide housing, food or other basic resources for neighbors in need
- **Partners (Past, Existing, or Target):**
  - United Way
  - U.S. Army's Partnership for Youth Success (PaYS)
  - Rochelle Rescue Mission in Chicago
- **CI Programs (Past, Existing, or Target):**
  - Oregon wildfire recovery
  - Hurricane Laura aid
- **Recent Highlights:**
  - HQ activity:
    - 28 non-profit activities
    - 400 volunteer hours by 66 associates
    - 20 employees served on community boards
    - Oregon
    - 1 million plus donated meals

- **Sector:**
  - Biofuels
  - Pulp/paper products
  - Forestry management
  - Industrial machinery and goods
  
- **Social Objectives:**
  - Generate long-term, dependable financial value for communities and partners
  - Invigorate under-employed rural markets with renewable energy jobs
  
- **Community Investment (CI) Yardstick:**
  - Projected economic impact of current planned projects is \$2.7B, to support more than 4,200 jobs
  - Each new Enviva job creates 2-plus local jobs (ie: loggers, truck services, retail/hospitality)
  - Forestry-related businesses support 1.3M-plus jobs (\$55B in payroll and \$50B in GDP in US South)
  
- **Partners (Past, Existing, or Target):**
  - National Alliance of Forest Owners (NAFO)
  - African-American Land Retention Program
  - County police and fire departments and United Way branches in Mississippi
  
- **CI Programs (Past, Existing, or Target):**
  - RAMP East job training at Halifax Community College in North Carolina
  - STARZ24 Boys & Girls Clubs center in South Carolina
  
- **Recent Highlights:**
  - Planning \$250M new wood pellet production plant in Mississippi with 120 FT jobs and 300 indirect jobs creation



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## CEMEX<sup>17</sup>

- **Sector:** Building materials
  
- **Social Objectives:**
  - Education and capability development
  - Community infrastructure programs and housing
  - Community employability skills and well being
  
- **Community Investment (CI) Yardstick:**
  - SDGs: No. 8 Decent Work and Economic Growth
  - No 11 Sustainable Cities and Communities
  - Net value to society methodology is the monetary value based on available studies to most material positive and negative ESG impacts. Adds/subtracts these figures to determine the total value that CEMEX creates
  
- **Partners (Past, Existing, or Target):**
  - UN Global Compaq in Mexico
  - Valencian Institute for Youth
  - Junior Achievement Mexico
  
- **CI Programs (Past, Existing, or Target):**
  - CEMEX-TEC Awards
  - CEMEX United Volunteering program
  - New Employment Opportunities
  
- **Recent Highlights:**
  - 2020 net value created resulted in US \$3.7B, 2.3 times the benefit CEMENT retained in the same period
  - Last year, it trained nearly 30,000 youth in its New Employment Opportunities program and hired more than 5,000 trainees

- **Sector:** Infrastructure
  
- **Social Objectives:**
  - Promote social equity, D&I in supply chain and communities through small and minority-owned businesses
  - Developing project teams that reflect its clients and communities
  
- **Community Investment (CI) Yardstick:**
  - Equitable infrastructure principles<sup>19</sup>: participatory decision-making with impacted communities, diversity of decision-making, social benefits
  - Per community, routine reporting on social inclusion for city councils
  - Equity-Based Project Prioritization Tool
  
- **Partners (Past, Existing, or Target):**
  - City councils
  - City departments tied to infrastructure development
  
- **CI Programs (Past, Existing, or Target):**
  - Blueprint Travel Grant program
  - Water for People
  - Engineers Without Borders
  
- **Recent Highlights:**
  - Virtual consultation tool with clients<sup>20</sup>

- **Sector:** Construction
  
- **Social Objectives:**
  - Design/build to reduce physical segregation and improve accessibility and inclusion (with emphasis on people with special needs)
  
- **Community Investment (CI) Yardstick:**
  - UN SDG No. 9 on industry, innovation and infrastructure
  - UN SDG No. 11 on sustainable cities and communities
  - Exploring LEED pilot certification on social impact of green design
  
- **Partners (Past, Existing, or Target):**
  - LEED
  - Ceequal
  - Envision
  - WELL
  
- **CI Programs (Past, Existing, or Target):**
  - Construction Management Building Blocks (CMBB)
  - BoKlok
  
- **Recent Highlights:**
  - Since 2007 launch, CMBB for small and diverse businesses, 700 companies have graduated, and more than \$250 M grants awarded to graduates

- **Sector:** Materials manufacturer
- **Social Objectives:**
  - Science for community: Create a more positive world through science and inspire people to join us.
  - New goal: Advancing equity in STEM and skilled trades.
- **Community Investment (CI) Yardstick:**
  - Create 5M unique STEM and skilled trade learning experiences for underrepresented workers by 2026
  - Invest \$50M to address racial opportunity gaps in the US through workforce development and STEM education initiatives by 2025
  - Invest cash and products for education, community, and environmental programs by 2025
  - Donate 300,000 skills-based work hours worldwide by 2025
  - Invest \$87.9M in total global giving by 2025
- **Partners (Past, Existing, or Target):**
  - United Nations Global Compact
  - SDG Ambition
  - National Association for the Exchange of Industrial Resources
  - SkillsUSA
  - United Way
  - Heart of America Foundation
  - Congressional Black Caucus Foundation
  - Project Scientist
- **CI Programs (Past, Existing, or Target):**
  - PYXERA Global
  - 3M Impact
  - Science at Home
  - 3M Young Change Agents for Road Safety (India)
  - City Cycling in Wuppertal (Germany)
  - 3M Community Coalition (Twin Cities)
  - 3M Foundation Social Justice Awareness Program
  - 3M Twist
- **Recent Highlights:**
  - Employee donations matched by 3M Foundation totaled \$5.80M directed to community needs
  - Expansion of 3M Manufacturing and Academic Partnerships (MAP) initiatives in St. Paul Public Schools
  - Since 1953, 3M and 3M Foundation have invested \$1.81B in cash and product contributions in communities where 3M operates

## About the Author



Marsha Barancik is a transformation consultant. She builds and implements breakthrough strategies that inspire new mindsets and behaviors across an organization's teams by aligning organizational leaders. Marsha also writes about business and industry transformation, with a special focus on workforce trends, supply chains and environmental, environmental social governance (ESG) and diversity, equity, inclusion (DEI) strategies.

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