

Social: The S in ESG

The “S” in ESG stands for Social. Unlike the letter that precedes it (Environmental), Social is much harder to define. Different research houses and institutions have different definitions for it, and some include specific criteria while excluding others. It’s a loose but flexible term that essentially covers all things that could (or should) influence a company or portfolio’s overall *social good* factor.

“Social good” is also a pretty vague term that gets bandied around quite often, and it’s used to cover a wide variety of things. From a citizen’s perspective, social good can be defined by any positive actions taken to improve the overall well-being of those around them. This can include anything from litter-picking and sweeping the streets to looking out for one another. It’s pretty obvious. However, from the perspective of a company CEO, an asset manager, or a portfolio manager, the term “social” can mean so much more.

It’s more than just doing good for your surroundings. It also means standing by your employees, tenants, and neighbours, supporting them in every possible way, and making their living or working environment as healthy and comfortable as possible. It means supporting local businesses, causes, and charities, building better communities, and improving society in general.

It’s a broad and often misunderstood topic, but it’s worth learning more about. Many ESG professionals would consider the Social element of ESG to be the most important. Its ambiguity is what makes it so important. Unlike [Environmental](#) and [Governance](#), which can be measured by science or guided by policy respectively, Social depends on trustworthy relationships that can be difficult to forge but will pay dividends in the future. So, what does Social include?

What Does “Social” Really Mean?

As mentioned above, the Social part of ESG is a broad topic that covers a wide range of social issues. A good way to categorise Social issues is to imagine a business or portfolio’s relationship with its stakeholders. By stakeholders, we mean everyone from the shareholders and employees to tenants, neighbours, and business relations. How a business interacts with these stakeholders is very important to potential investors, and managing these social relationships should be at the heart of any ESG strategy.

Here are some examples of what could influence a Social ESG score:

- Diversity and inclusion: inclusive policies that prevent discrimination and promote a positive working culture.
- Fair pay: employee pay is often assessed as part of the Social element of ESG. Workers who are valued with higher pay or better benefits or retirement plans than the industry standard often score well.
- Education: educating staff, or providing enrichment budgets, is another way to improve Social scores.

- Flexible working hours: ever since the COVID-19 pandemic, offering relaxed or flexible working conditions has helped employees improve their work/life balance and build trust between employers and employees.
- Employee turnover: the frequency of employee turnover is often used as a metric to determine a Social score.
- Company relationships: how a company interacts with local businesses, charities, and causes reflects the company's commitment to ESG principles, and this extends beyond business relations. How a company behaves towards its neighbours is just as important.
- Company hierarchies: approachable management and willingness to react to feedback is a key feature of the Social element.
- Tenant relationships: from a real-estate perspective, how a landlord treats tenants is vital. Landlords that look after their assets and keep the best interests of their tenants in mind at all times often have happy, long-term tenants who are likely to sign longer leases, which is key to the Social side of ESG in real estate.
- Company ethics: a socially responsible mission statement that's both relevant and beneficial is a good way to build a good reputation for social good. However, it needs to be supported with positive actions, such as regular donations to charitable causes, a democratic and inclusive political stance, or a proven history of addressing environmental concerns.
- Reputation: at the end of the day, a company or portfolio is only as good as its reputation. Tackling social concerns and championing social equity, equality, and forward-thinking business strategies are core parts of ESG.

How Can Social ESG Strategies Add Value?

A strong Social focus as part of an ESG strategy can protect a company's reputation, protecting its value while attracting new investors at the same time. If a company's social standing reflects its reputation, it will also act as a reflection of the ethics and morals of its investors. A company that can demonstrate a solid commitment to improving the lives of its employees and other stakeholders is a more attractive prospect than another that doesn't take social concerns into account. It's as simple as that.

However, there's more to Social than just being *good* for the sake of a reputation. If a company or portfolio can operate within a framework of respectable social morals, it forces it to make practical decisions that can help protect shareholders' investments. For example, suppose a company is discovered to have sourced materials from a protected area or conducts business with organisations or governments with questionable ethics. In that case, it will often cause long-term damage to the value of that company. By following a code of social good, any potentially risky or volatile business decisions will be avoided, both adding value and protecting existing value at the same time.

Why You Should Make "Social" a Priority

When it comes to ESG, the Environmental pillar has long been at the forefront of most ESG strategies. However, times are changing. While it's true that the built environment is responsible for a significant portion of the planet's energy consumption, it is well-documented, and many

Environmental principles are now part of a company or portfolio's everyday operations. The Social aspect, however, has long been neglected.

It doesn't grab headlines quite like the Environmental aspect. Because of that reason, it has fallen behind both Environment and Governance, and that's why it's crucial to make it a priority. It's harder to quantify, but it can be the most rewarding ESG pillar. Here's why.

At its core, the Social element is about building trust. All business transactions are built around trust, and by promoting social good and forging healthy relationships, that level of trust between all stakeholders will grow, and investor confidence will grow with it.

For the real estate industry, trust and confidence are crucial metrics. Houses are the building blocks of communities, and communities grow into cities and, eventually, nations. Promoting social good on a local level, addressing social challenges and promoting equality can have far-reaching effects that benefit everyone. By creating homes and workplaces that people want to live and work in, with rewarding community projects, managed with healthy relationships, and positive thinking, it's possible to add significant social value that will pay dividends in the future.

Future of Social Good

As you can see, the "S" part of ESG is open to a wide range of interpretations, but that doesn't mean you can simply ignore it or only focus on a small part of it. For real-estate portfolio managers, it's essential to understand the growing link between assets and occupant satisfaction. There is a significant upward trend, and as that trend grows, the definition of "value" is evolving with it. In this case, value is more than just short-term financial profits. Instead, it's a broader, holistic term that prioritises social good for the benefit of all stakeholders.

Measuring the impact of Social strategies in terms of ESG is no easy feat, but it must be done. As transparency and honesty are at the heart of the Social element, finding an accurate measurement of your Social status quo is essential for all businesses and portfolios looking to forge ahead with a game-changing Social strategy that promotes inclusion and equity that drives profits and adds value at the same time.