Addressing Social Impact

Social impact reporting increases long-term business viability and results.

Empowering Trust®

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Introduction

As environmental, social and governance (ESG) reporting continues to gain momentum globally, companies have made significant progress tracking and documenting environmental and governance practices. Heightened awareness of issues like wealth disparity, discrimination, unhealthy and unsafe workplaces, and violations of fundamental human rights escalate the need for companies to address the social pillar of ESG.

However, corporations find that analyzing the social impacts of their business activities and supply chains is a more complicated, abstract endeavor; its consequences reverberate tangibly through the supply chain yet can be difficult to track and quantify. The 2021 ESG Global Survey from international banking group, BNP Paribas, indicated that 51% of respondents ranked social factors as the most challenging to analyze and integrate. Challenges associated with social reporting include lack of standardization, difficulty obtaining meaningful data and lack of supply chain transparency.

The global pandemic further complicated matters, triggering supply chain disruptions, labor shortages and healthcare problems that have aggravated instances of social injustice and disrupted efforts to improve supply chain visibility. Unfortunately, a survey from Refinitiv found that under mounting pressures during the COVID-19 pandemic, 65% of organizations took shortcuts with Know Your Customer (KYC) and due diligence with the supply chain partners.

In light of changing marketplace demands, savvy organizations will begin establishing plans and frameworks for social impact analysis and reporting.

In this white paper, UL will:

- Explore the components and drivers of social impact reporting.
- Consider the benefits of addressing the social aspects of ESG.
- Propose strategies for increasing visibility into social impacts across the supply chain.
- Identify resources to support the social portion of ESG reporting.

By initiating efforts to investigate, remediate, document and report on the social impact of your organization, you can position yourself as a leader among key stakeholders and firmly establish your position as a champion of critical social issues.

Social impact: What it is and why does it matter?

The social pillar of ESG performance considers a company's impact on individuals, societies and economies based on their manner of conducting business, treatment of employees and choice of supply chain partners. Among the three ESG pillars, social impact is perhaps the hardest to evaluate due to factors like lack of standardization, the breadth of activities social impact encompasses, and the fact that this assessment often involves qualitative rather than quantitative analysis. A glimpse at some of the different social impact factors that companies should evaluate, address and report on demonstrates the complexity of this endeavor. These factors include:

Employee/labor rights, diversity and inclusion

- **Justice, equity, diversity and inclusion (JEDI) policies**
- **Fair pay and equitable treatment for all**
- **Universal access to fundamental rights like healthcare and education**

Human rights

- **Provision of a safe, healthy work environment**
- **Rejection of child labor and slavery**
- **Delivery of environment where people are free and equal**

Local economies

- **Invest in welfare of local communities**
- **Support the provision of clean water, food and shelter for all**
- **Support physical and mental health of local populations**
- **Minimize negative impact of harvesting of raw materials on local economies**

Organizations face complexity when documenting social impacts. Gaining visibility into the labor practices and human rights records of Tier 2 and Tier 3 suppliers can be extremely difficult. Even understanding how corporate policies are implemented across multiple office locations or even within departments can be a demanding task.

Yet failure to identify and address social impact can result in negative financial performance or compliance failures, including but not limited to:

- Damage to the brand image and company reputation based on negative news coverage or employee reviews.
- Loss of revenue from consumers who choose to support companies that practice social justice.
- Expensive lawsuits generated from unfair treatment of employees or damage to regions where raw material extraction took place.
- Failure to comply with a growing number of regional regulations which may result in legal and/or financial consequences, or suspension of sales in key markets.
- Inability to attract and retain talent for your company.
- Failure to earn investment dollars from environmentally and social impact minded investors

Successful social reporting requires visibility, processes for the evaluation and escalation of potential problems, identification of representative metrics, and a culture that promotes responsible business.

Stakeholders driving social impact reporting

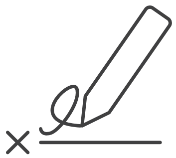
The prioritization of reporting on the social component of ESG performance results from increasing pressure driven by a number of stakeholders

Investors

56%

of private equity firms surveyed have refused to enter general partner agreements or turned down investments on ESG grounds.

Investors perform more due diligence when it comes to organizations' social performance. Much like environmental performance, social impact informs financial performance.

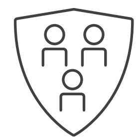


Consumers

76%

of consumers said they would discontinue their relationship with companies that treat the environment, employees or the community in which they operate poorly.

Consumers believe that businesses have a responsibility beyond achieving profitability and choose to support organizations that have a positive impact on communities and the world.



Regulatory bodies

There are more than

600

ESG reporting provisions globally,
348 of them mandatory.

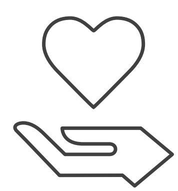
A growing number of regulations impose human rights due diligence, and many have reporting or disclosure requirements. Examples include the California Supply Chain Transparency Act, the U.K. Modern Slavery Act, the Australia Modern Slavery Act, French Duty of Vigilance Law, German Supply Chain Due Diligence Law and the E.U.'s draft human rights due diligence directive. These institutions will increase the demand for social rights due diligence and reporting as a part of regular business operations.

Employees

58%

of (U.S.) employees today say they hold their employer to a higher standard than other companies when it comes to social justice issues.

Employees want to be part of an organization that has a positive impact on local communities and the world. Millennials and Gen Z employees want to be associated with companies that champion their own ethics and causes.



Benefits associated with social reporting

Many businesses are constructing competencies around social impact investigation and reporting and realizing excellent results. As has been the case with environmental action, investors and organizations have found that superior social performance reveals itself in outstanding long-term financial performance and enterprise resilience.

Greater visibility/operational insight	93% of executives believe that social programs make a positive long-term contribution. 2/3 say social programs add value in the short-term.
Increased customer loyalty	54% of consumers have reduced or stopped altogether purchasing from organizations they believe acted inappropriately on environmental or social issues.
Reduced brand risk	78% of executives think ESG efforts have an impact on the company's brand and reputation.
Increased employee satisfaction and retention	83% of employees said they were more likely to work for a company that stands up for social issues.
Increased resiliency	In Q3 2020, after the COVID downturn, 45% of ESG-focused funds outperformed their index (Morningstar, 2020) due to greater resiliency.
Premium investment	When comparing hypothetical merger and acquisition deals, 25% of executives and investment professionals said they would be willing to pay a 20-50% premium for a company with an overall positive ESG record.
Meet regulations	93% of respondents are pushing for mandatory human rights disclosures.

Building social impact visibility in your organization

Companies often handle their immediate social impact, understanding their policies for hiring, compensation, diversity programming, equality, etc. The complexity increases as companies reflect on their supply chain partners, particularly Tier 2 and Tier 3 suppliers, where distance may obscure conditions. But by taking a few foundational steps, companies can gain greater visibility into their social impact. Here's what you can do:

- **Map your supply chain**
  To assess social impact, you must first have a clear understanding of all the stakeholders in the supply chain. While most enterprises have a clear view of their Tier 1 suppliers, a surprising number don't have visibility into lower tiers, including raw material suppliers or other high-risk actors such as labor suppliers. This means that they may not understand the unique social impact related to each supply chain tier that helps produce their end products. A supply chain map represents the first step in comprehensively addressing social impact components by identifying and documenting all the key players.

- **Conduct a risk assessment**
  Once you have a supply chain map, conduct a risk assessment that evaluates areas that represent a significant risk. Risk may be associated with a lack of knowledge about a supplier, or with the location or industry of a Tier 2 or Tier 3 supplier. Such risks can include a range of issues from wage exploitation to serious health and safety concerns, child or forced labor. Risk may also be associated with a prior incident or a particular raw material potentially harvested at the expense of the local economies.

- **Evaluate labor practices**
  An organization's labor practices reveal a lot about their treatment of people. Evaluate your suppliers' labor practices and policies by conducting your own on-site audits or reviewing existing assessment data. Also, investigate the practices of hiring partners and/or recruiting agencies as these outsourced resources may be engaged in unfair labor practices.

- **Ensure traceability**
  The ability to trace raw materials back to their original source facilitates social impact evaluations. Some industries, like food services and mining, have mastered their tracing capabilities to maximize its critical benefit in instances of foodborne illness or product recalls. While other industries have long lacked traceability that could reveal a company's social impact, UL now offers technologies and frameworks that make traceability possible.

- **Prioritize action**
  Similar to environmental and sustainability action, the massive scope of social action demands a structured approach to offset limited time and resources. For this reason, deliberate prioritization of possible social action is crucial and is accomplished using metrics to identify the areas of most significant risk. The result is then weighed against several factors ranging from your brand promise to where the most significant dollars are spent, or the strategic importance of the materials sourced.

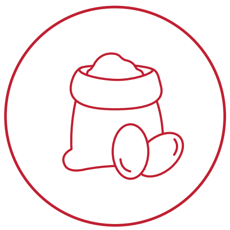
- **Enact remediation measures**
  When human rights impact components have been identified, the company should respond with remediation measures addressing the root problem. Stepping away to disassociate with human rights violations may be warranted in limited cases. Ideally, companies will invest resources in addressing the situation to eliminate the violation all together. Often companies find that simply shifting supply chain partners to avoid a social problem simply leads to acquiring another. Partnerships with other industry players, civil society and local experts can apply pressure that encourages suppliers to pursue good social practices. Investments in training, education and other resources locally can also help address unacceptable social practices.

Apparel

The apparel industry typically sources material and low skilled labor globally. This can result in inadvertent support of unfair labor practices in regions that may use child labor or offer unfair payment for female laborers.

Mining

Safety is a critical social concern for the mining industry, which involves inherently dangerous work in rugged environments. Failure to have appropriate safety measures in place can endanger people.



Agriculture

The agricultural industry may inadvertently rely on migrant labor as crops are harvested and handled on the way to store shelves. This may promote unfair pay, practices related to trafficking or discriminatory labor practices.

How UL can help

UL's experienced professionals are experts in ESG and supply chain and offer an array of services to help you gain the insights necessary to complete robust social impact reporting.

UL's Responsible Sourcing Solutions help manufacturers, brands and retailers advance their sustainable business practices with global supply chains. Our six pillars of Responsible Sourcing are designed to support companies as they develop and implement the ESG's S for social in their businesses and generate meaningful reporting data.

DEVELOPING RESPONSIBLE SOURCING PROGRAMS

- Code of contuct review
- Benchmarking codes and program elements
- Environmental policy benchmarks
- Specialized standard development
- Supplier manuals
- CSR manuals
- Program manuals

SUPPLY CHAIN RISK AND DUE DILIGENCE

- Supply chain mapping
- Risk identification
- Risk analysis
- Research
- Due diligence

IMPROVING AUDIT PROGRAMS

- Development or customization of audit tools
- Grading tools
- Scoring methodology
- Harmonizing social compliance program audits

SPECIALIZED AUDITS

- Third-party audits
- Code of conduct audits
- Technical audits
- Traceability audits
- Investigations
- UL social labor audits
- UL CTPAT security audits

AUDIT ALTERNATIVES

- Using existing audit reports to provide regrades, waivers, and exemptions
- Specialized desktop document review

IMPROVING SUPPLIER PERFORMANCE

- Training (eg. root cause analysis & management systems training)
- Correction action & preventive action (CAPA)

In addition, UL's Advisory Services can support efforts like goal prioritization, milestone setting or supply chain scorecard implementation to support continuous improvement.

Conclusion

As social issues gain increasing attention in a world that champions fairness, equality and universal access to fundamental human rights, companies in all sectors will receive greater pressure to both understand and report on the social impact of their business activities. This complex endeavor requires transparency, dedication to responsible business practices and social justice as well as systems and processes to capture and address social issues across the supply chain.

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