



HARNESSING HUMAN CAPITAL IN THE QUEST FOR SUSTAINABILITY



Introduction

ESG and sustainability are highly relevant imperatives for any company today.

Whatever the big picture, the concept of ESG is not going away: the EU regulations on ESG reporting, for example, will not disappear.



Initially much of the focus within ESG has been on the E (Environment), particularly emissions and net zero pledges. And Governance is already subject to tight regulations in most jurisdictions. Now, increasingly sophisticated scrutiny has forced a greater emphasis on the S (Social) and it is no longer enough for S to just report on gender and diversity ratios. The focus on S must be about improving business performance and harnessing human capital to sustain long term success.

In this paper we review the potential of human capital in the quest for sustainability, identifying key trends and providing

illustrative examples. Finally, we provide actionable recommendations for companies to use S to differentiate themselves within the sustainability discourse.

It is clear that the companies that have a strong North Star harness internal human capital and build external stakeholder goodwill. Having social responsibility at the core of a business strategy has been proven to lead to increased consumer trust, employee retention and in turn business performance. It is very clear that harnessing the power of human capital brings rewards, whether that's employees, stakeholders or the local community.

Methodology

We examined the following core developments shaping ESG landscape globally, from both regulatory and media perspectives:



Status quo of current regulatory environment regarding ESG, with a focus on the US and Europe



Analysis of the global and regional regulatory and media / digital landscape evolution



Impact of changing economic and political landscapes

In particular, we looked at the following aspects:



Zooming in on the evolution of the S aspect of the ESG



The growing importance of S in the corporate environment



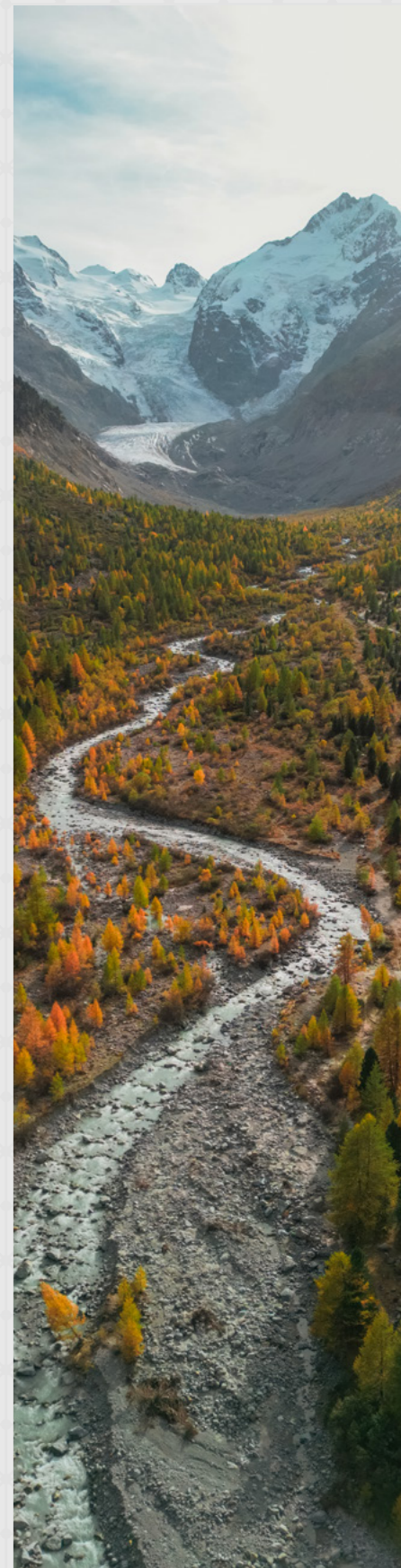
Mapping emerging trends and challenges in the broader social sustainability space



Mapping key companies present in the discourse with a special focus on concrete examples of actions and impact



Actionable recommendations for leaders and companies



ESG is non-negotiable



It was once treated as a “nice to have” but is now the bedrock of the global dialogue on corporate governance, management and investment. It is also used as a common denominator for all discussions about sustainability and the broader discourse.

It is also important commercially. Half of the businesses believed that failing to manage decarbonisation risks will lead to negative commercial performance, with 60% expecting around 10% of annual revenue to be at risk. In some cases, up to 30% of annual revenue could be at risk for failing to comply with net-zero regulations.²

And almost one-third of businesses have already cited a fall in share price from failing to respond to net-zero pressures. Overall, 96% of businesses have been negatively impacted due to their sustainability record in recent years.³

Although ESG has been mostly associated with E and G, S has been steadily gaining importance and recognition. Instead of

focusing on simply reporting their carbon footprint, companies are now expected to address societal issues and prove their role as responsible global citizens. This is driven in large part by regulation, including the EU’s Corporate Sustainability Reporting Directive (CSRD).

However, it is also influenced by the intensification of consumer commitment to sustainable development, which continues despite economic and political uncertainty. More than half (51%) of respondents to IBM consumer research say the cost-of-living increases have made sustainable decisions more difficult in the last 12 months, still around 6 in 10 say at least half of their purchases were branded sustainable or socially responsible.⁴

One small detail suggests ESG could be more important in the board room. CEOs were pinpointed as being ultimately responsible for a company’s ESG performance 32% of the time, almost double the amount in 2023 (18%).^{5,6}

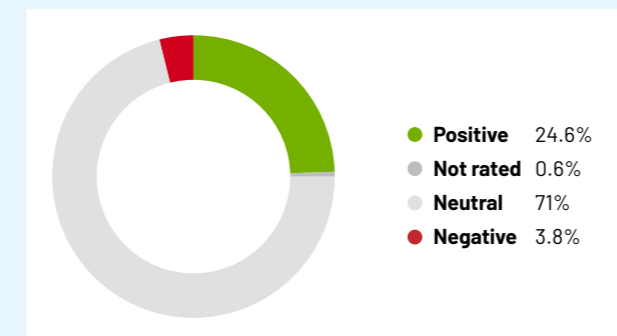
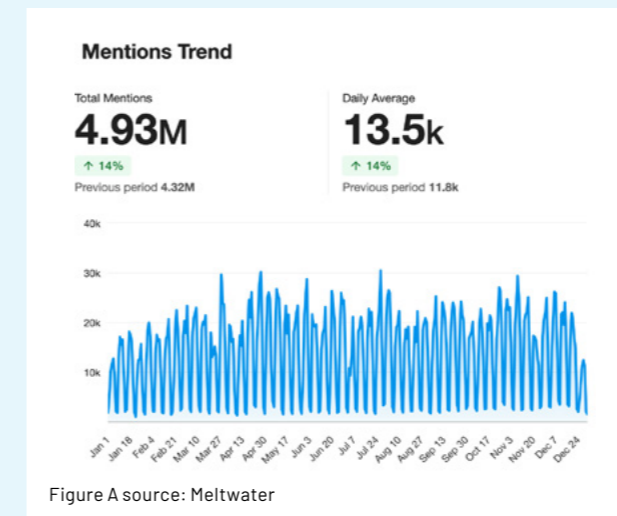
Is there any indication of ESG losing its shine?

Using sophisticated analysis tools we examined the attention to ESG in global media during 2023 and 2024.

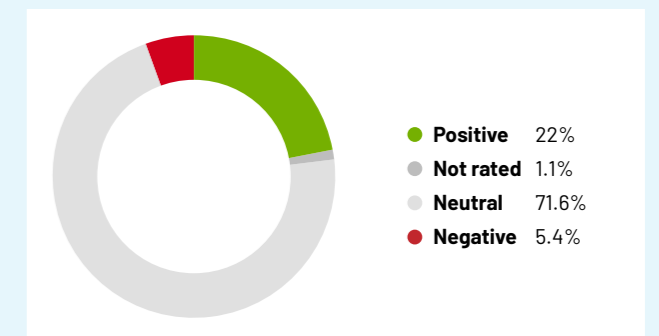
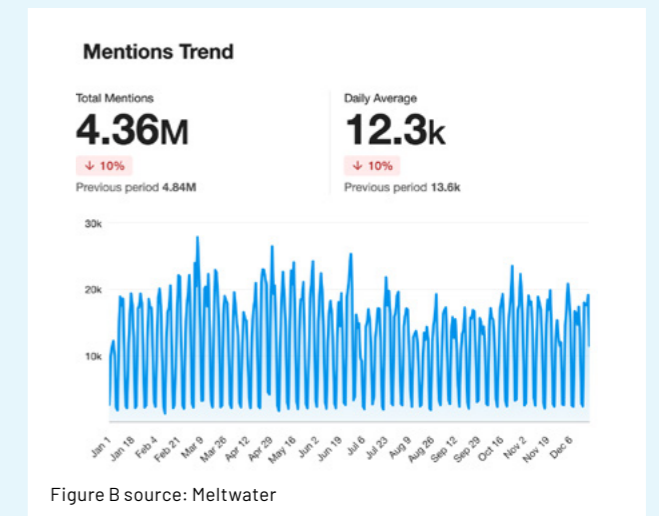
The data shows consistent trends of decrease both in terms of positive associations with ESG and the attention paid (volume of mentions). But the changes are too small to speak of a trend, but if this picture continues in 2025 it can be indicative that ESG has peaked in terms of attention. With the entry of the new Trump administration, it will be interesting to follow what the trend is with US-based businesses.

We analysed the volume of articles featuring the word ESG in 2023 against 2024; there was a tiny decrease, of just 4%, in the total number.⁷ Similarly, when we included both the human and AI elements, the 2024 result was 3% lower.⁸ The main sources of the articles did not change significantly. For both years, they were the European Union, United Nations and US Securities and Exchange Commission, with BlackRock supplementing the ranking in 2024.

2023



2024



2023

North America statements
 Securities and Exchange Commission
 actual results commitment
 industry SEC Twitter
 Europe U.S. **ESG** information
 China Inc. report clients
 risks world customers Canada
 US United States Facebook LinkedIn

2024

PR Newswire actual results
 U.S. securities and exchange commission
 growth Middle East United Nations
 UK world **ESG** risks commitment
 customers information Europe SEC India
 services U.S. the group management
 China Canada North America LinkedIn report
 United States statements businesswire.com

In the world clouds, “ESG” became a little less prominent in 2024, with the word “growth” appearing as an addition to the discourse. There is a clear need to link sustainability with commercial viability. This brings an additional challenge in communicating the shift towards different groups of stakeholders. On the flip side, it allows companies combining culture of performance with the culture of impact.

The positive approach towards ESG is slightly declining, or becoming more realistic aligning business priorities, regulatory requirements and stakeholder expectations. There are many potential sources, including a growing lack of belief in environmental commitments, which increased following the watered-down COP29 results and the associated emphasis on fossil fuels. There are also political implications in a number of changes, most noticeably in the US, painting ESG in a negative light.

Is it the same when we look at the ESG reports themselves? In September 2024, the Harvard Law School published its fourth report on the “State of US Sustainability Reports,” analysing 250 reports that S&P 500 companies produced in 2024.⁹ The

word “sustainability” appeared in 39% of the reports, compared to ESG’s 24%, which was down from 35% in 2023. And most companies dropped “ESG” from their 2024 report title, albeit continuing to use it within their reports. While the language might be changing, it is important to remember that “sustainability” applies to the long-term sustainability of the business as much as the environment and that includes S and G.

There are already signs that 2025 could see an increase in this diminution. BlackRock, for example, has recently scaled down its climate commitments and withdrawn from the Net Zero Asset Manager initiative. And according to the Financial Times, six of the largest US banks, JPMorgan, Citigroup, Bank of America, Morgan Stanley, Wells Fargo and Goldman Sachs, have also quit a similar group for banks, the Net-Zero Banking Alliance, in recent weeks.¹⁰

A confusion of social measures

The social aspect of ESG broadly refers to the social impacts of a business. While environmental and governance elements are much easier to define, the S category can embody anything that affects people, both inside and outside the company. It covers, of course, employees, as well as the communities the company operates in, and its supply chains. It includes community impact measures, employee training programmes, diversity, equity and inclusion initiatives, non-discrimination, living wage programmes, volunteering opportunities or forced labour monitoring, among other measures and initiatives.

It is confusing that different reporting standards measure Social differently. While the Global Reporting Initiative (GRI) measures employee training in part by dollar amounts invested in training, the Sustainability Accounting Standards Board (SASB) measures it by training hours.¹¹ Another difference is in the emphasis that those standards put on different social aspects. GRI focuses on diversity, non-discrimination and equal opportunity, but SASB underscores workforce diversity, inclusion and engagement.

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There is also a very clear lack of priorities that make up the core of S. This was shown up by IMD research into key performance indicators (KPIs) across the major social indices, including the Dow Jones Sustainability Indices (DJSI), MSCI ESG, FTSE4Good, S&P Global ESG Scores, SASB, and Stoxx Global ESG Leaders.¹²

One of the key points made at the 2024 Aspen ESG Summit was that S still lacks a unifying core metric.¹³

Yet despite these mixed signals, common themes can be identified: employee engagement, workplace safety, gender diversity, human rights, and the broader impact on the value chain.¹⁴

In addition, external assurance increasingly includes “Social” data points. The percentage of companies obtaining external assurance of at least one ESG data point held steady at 62% in 2024. However, more companies added social data points when getting environmental data assured 32% of the time in 2024, up from 22% in 2023.¹⁵

Because Social has not yet stabilised in the same way as Environment, it continues to provide opportunities for differentiation.

Regulatory compliance back in focus

According to research by Reporting Exchange, 1,255 ESG regulations were introduced across the world between 2011 and 2024.¹⁶ And the European Union is currently the undefeated champion of ESG regulation. Among instruments such as Fit for 55 and the EU taxonomy, the CSRD and the CSDDD have a clear focus on the social dimension:

The **CSRD** requires companies to disclose information on workforce diversity, respect for human rights, and community engagement



The **CSDDD** aims to improve living conditions for people affected by companies' operations and value chains

In November 2024, the European Council adopted new regulations on ESG rating activities aimed at increasing consistency and transparency, to boost investors' confidence in sustainable financial products.¹⁷

This increase in regulatory requirements is a clear signal that governments and regulators are finally paying more attention to setting harder rules around human rights due diligence, pay equity reporting and data protection.

However, as with the US banks, there has also been some pushback in Europe, with Member States beginning to say the reporting

obligations are excessive and a hinderance to innovation. In December 2024, the German government wrote to Brussels seeking to roll back some of the reporting requirements due to "unreasonable administrative burdens" to companies. In response, the Commission President announced new "omnibus" legislation, to "ensure consistency and alignment on across different pieces of legislation in terms of definitions, requirements, because there are certain inconsistencies, there are certain overlaps".¹⁸ It is a trend going hand in hand with the deregulation promised by the new Trump Administration.

Making it real and tangible

Despite the beginnings of negative pressure, plenty of companies both understand the benefits of aligning Social activities with their core business and, more importantly, are actually doing the work, showing the way:



MICROSOFT ACCOUNTGUARD

Microsoft AccountGuard is a cybersecurity service that adds an extra layer of protection to the high-risk, highly-targeted organisations that underpin a healthy democracy, covering political parties, election administrators, journalism, thinktanks, human rights and nonprofit sectors.¹⁹ Microsoft has also issued a Global Human Rights Statement, describing its approach to advancing human dignity and respecting human rights.²⁰



WARBY PARKER

Offers eye examinations and distributes glasses to those in need through their Buy a Pair, Give a Pair programme.²¹



JOHNSON & JOHNSON

Supports Kenya's community health workforce and, in collaboration with Mental Health UK, supports Mental Health Navigator Pilot in the UK.²²



GOOGLE'S "20% TIME"

This programme allows employees to spend 20% of their working time on passion projects. It has led to innovations like Gmail and Google Maps4, as well as giving employees the satisfaction of having free rein.²³



NESTLÉ

Nescafe Plan, with investment of over one billion Swiss francs by 2030, aims to improve the livelihoods of coffee farmers through training and resources.²⁴ Nestlé also works with suppliers to improve working conditions, and has implemented a human rights due diligence process.



PATAGONIA

It is in many ways a leader in ESG, implemented many programmes, including Fair Trade, Fair Labour Association, a programme for migrant workers, as well as a living wage programme.²⁵ It has also implemented fair labour practices within its supply chain, and works closely with suppliers to improve working conditions. It donates 1% of its sales to environmental causes, and has launched circular economic initiatives, such as the Worn Wear programme, which encourages customers to repair and reuse their clothing.

It is no accident that these are some of the world's leading companies. It seems very clear there is close correlation between Social programmes and business strength. At the end, the human capital is something that can't be replaced by the technology and investment in the S of ESG is an investment in business resilience.

Conclusions

The landscape of corporate sustainability is maturing. With a growing number of binding standards, companies can no longer compete in "indicators shopping". The E of ESG reporting is increasingly a hygiene factor, but an important one because of regulatory requirements. Given the intensity of investment required for reporting tangible results, it is difficult to showcase "quick wins" in environmental sustainability. Other areas of ESG, in particular Social, create additional opportunities to engage and stand out.

The impact of higher scrutiny and better reporting also affect how environmental action is communicated. Stakeholders, regulators and consumers are interested in a story and action rather than distant targets. In addition, ESG as a concept is coming under some pressure by becoming

increasingly politicised. However, the focus on people is and will remain very important. It is also supported by an alignment between the functions and further integration of sustainability into corporate affairs and strategy.

As ESG reporting toolkits become universal and more uniform, the C-suite must embrace the reporting standards and align metrics with their North Star. In our view, a purpose must be tied to how an enterprise adds value to the society and all its stakeholders. The vision, mission and values form the cornerstones of the North Star and must be harmonised with the purpose and activate the human capital in the quest for sustainability. ESG is increasingly becoming the way to measure the long term viability of a business, especially if the focus is aligned with the North Star of the enterprise.

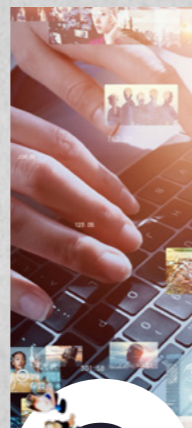
HERE ARE OUR RECOMMENDED STEPS FOR COMPANIES TO HARNESS HUMAN CAPITAL AND BOOST THEIR SOCIAL IMPACT:



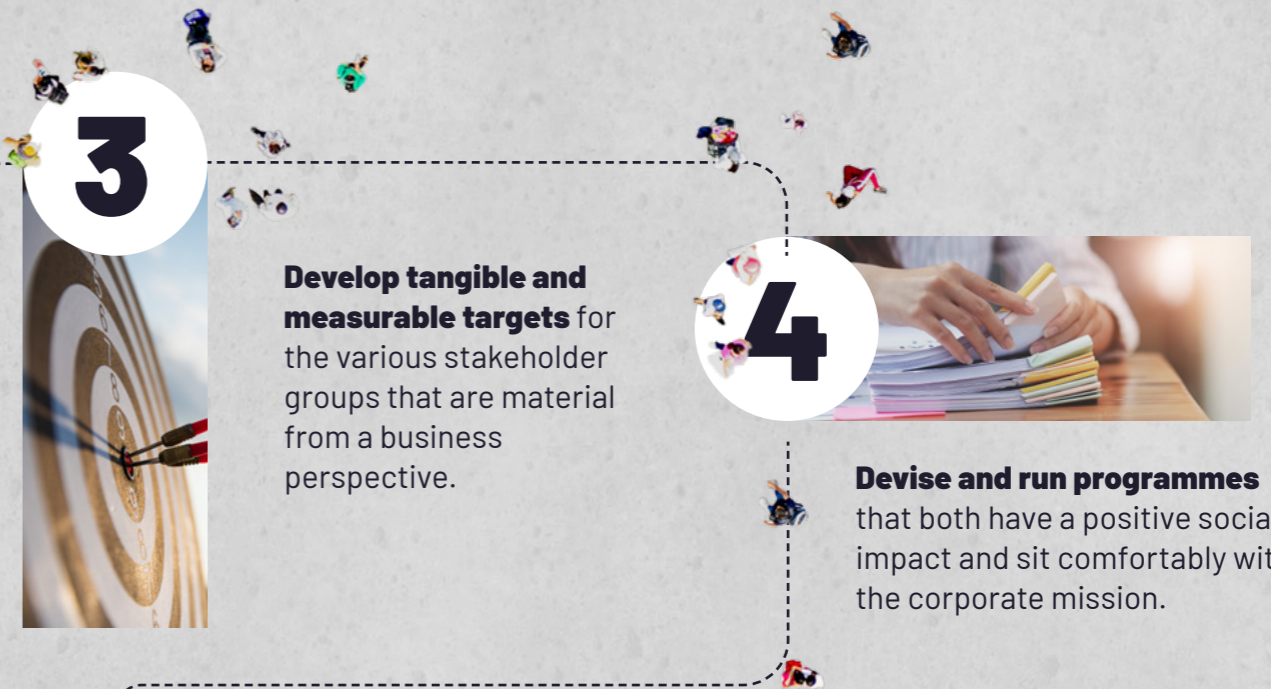
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Make human capital a dynamic asset through focus on motivation and commitment. Use the North Star to engage stakeholders and create motion in the quest for sustainability.

Keep focus on the North Star vivid with action and focus on differentiation factors in the external communication and engagement.



2



3

Develop tangible and measurable targets for the various stakeholder groups that are material from a business perspective.



4

Devise and run programmes that both have a positive social impact and sit comfortably with the corporate mission.



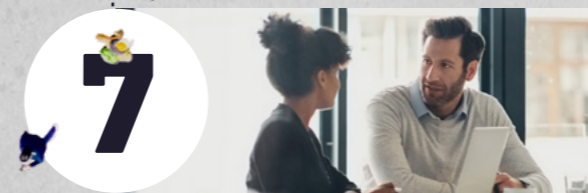
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Create internal functional alignment between strategy, measurement and communication functions of the organisation.

Refine sustainability priorities based on the business case defined USP.



6



7

Ensure alignment between internal and external communications, building the basis for resilient engagement.

Endnotes

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- 2 Edie, "C-suite eyes greater control of net-zero plans to protect revenues" <<https://www.edie.net/c-suite-eyes-greater-control-of-net-zero-plans-to-protect-revenues/#:~:text=edie%2025-,C%2Dsuite%20eyes%20greater%20control%20of%20net%2Dzero%20plans%20to,teams%20to%20help%20meet%20regulation>>
- 3 Ibid
- 4 IBM "The ESG data conundrum" <<https://www.ibm.com/thought-leadership/institute-business-value/en-us/report/esg-data-conundrum>>
- 5 Ibid
- 6 Harvard Law School (2004) Stand by ESG? The State of 2024 U.S. Sustainability Reports <<https://corpgov.law.harvard.edu/2024/09/20/stand-by-esg-the-state-of-2024-u-s-sustainability-reports/>>
- 7 Dow Jones 2023: 582,323; Dow Jones 2024: 605,706
- 8 Search: "ESG" AND ("human" OR "social") AND ("AI" OR "technology" OR "artificial intelligence" OR "digitalisation" OR "tech"); All 2023: 63'304, All 2024: 65,267.
- 9 Harvard Law School (2004) Stand by ESG? The State of 2024 U.S. Sustainability Reports <<https://corpgov.law.harvard.edu/2024/09/20/stand-by-esg-the-state-of-2024-u-s-sustainability-reports/>>
- 10 The Financial Times (9.01.2025) "BlackRock quits climate change group in latest green climbdown" <<https://www.ft.com/content/f0fb9841-db1d-442e-a757-1a1327497fb1>>
- 11 McKinsey "Does ESG really matter, and why?" (2022) <<https://www.mckinsey.com/capabilities/sustainability/our-insights/does-esg-really-matter-and-why>>
- 12 Luca Condosta, IMD "Don't ignore the S in ESG: strong social strategy is essential" (2004) <<https://www.imd.org/iby-imd/sustainability/dont-ignore-the-s-in-esg-a-strong-social-strategy-is-essential/>>
- 13 "Aspen ESG Summit Insights" (2024) <<https://www.aspeninstitute.org/publications/insights-aspen-esg-summit-2024/>>
- 14 Luca Condosta, IMD "Don't ignore the S in ESG: strong social strategy is essential" (2004) <<https://www.imd.org/iby-imd/sustainability/dont-ignore-the-s-in-esg-a-strong-social-strategy-is-essential/>>
- 15 Ibid
- 16 Dziennik Gazeta Prawna (20-23.12.2024) "Droga jest jedna, dylematow wiele"
- 17 Environmental, social and governance (ESG) ratings: Council greenlights new regulation <<https://www.consilium.europa.eu/en/press/press-releases/2024/11/19/environmental-social-and-governance-esg-ratings-council-greenlights-new-regulation/>>
- 18 Financial Times "Europe wrapped itself in a web of new rules. Can it reverse course?" (20.12.2024) <<https://www.ft.com/content/5d1e8180-c2dd-4f66-8884-4bbbeccc157>>
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- 21 <<https://www.warbyparker.com/buy-a-pair-give-a-pair>>
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- 25 Patagonia Social Responsibility <<https://www.patagonia.com/social-responsibility/>>

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This is Leadership Navigation.

We hope you have found this report useful.

If you would like further detail about the findings, or more information about changing perception of your brand's ESG credentials, please contact:



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