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Why ESG Should be a Critical Part of Your Business and People Location Strategy

With increased pressure for companies to address environmental, social and governance (ESG) risks and opportunities, it's time to add new considerations when looking at your location strategy.

Setting and delivering on ESG strategy is currently a top priority for business leaders and boards of directors. Proper oversight of a firm's human capital is a key step towards this. Specifically, people risks and opportunities are material to the ESG plans of companies of all sizes and industries. Firms that embrace ESG in their processes and plans often see decreased turnover, productivity gains and a stronger employer reputation.

This also holds true when considering ESG risks associated with your organization's location strategy. From assessing job candidates in diverse talent pipelines to helping companies rethink where to set up shop based on more meaningful measures, there are many factors to weigh in determining your physical footprint. This article shares new approaches for using location strategy plans to help manage ESG risks and opportunities for your firm.

Approaching location strategy through an ESG risk lens

Before moving your operations to a new country or even within a current country, it's important to evaluate ESG risks and their business implications. Consider environmental factors, such as location-specific climate and catastrophe risks that contribute to the overall physical and climate transition risks for your company. Resilience should be front of mind when choosing where to set up new operations or when contemplating acquisitions.

The world faced a number of significant natural disasters over the course of 2021 that caused more than $343 billion in economic damage. In the United States alone, economic loss for the past year landed at $169 billion — 93 percent above average since the year 2000.[1] Acute risks like droughts and floods, as well as chronic risks associated with rising temperatures, should inform your location strategy. From a people perspective, mental health, respiratory illness and access to vital support are all affected by growing volatility in the natural world. With employee wellbeing initiatives on the rise, this is especially important to gauge when deciding where to place your workforce. The costs to mitigate these risk exposures is expected to grow over time and, in some cases, could render a location inoperable in the future. One must also consider the environmental regulatory requirements such as annual disclosures, which are becoming the norm for publicly traded companies.

Social risks should also be examined when determining your location strategy. Evaluating the country's human rights track record, which includes labor rights and employment conditions, is a business imperative. While more challenging to measure, social risks pose operational, compliance and

[1] Aon's 2021 Weather, Climate and Catastrophe Insight Report

reputational risk to your company. The United Nations Human Rights Office of High Commissioner publishes a Universal Human Rights Index, which businesses can refer to for a detailed country-level analysis and recommendations across dozens of key social issues.

Finally, businesses need to consider governance risks with their location strategy, including political risk and terrorism, corruption and bribery, and risks associated with weak legal and regulatory controls. There are many indexes and indicators that provide valuable insights regarding where countries rank on these risks. For example, the corruption perceptions index (CPI) uses assessments and surveys to rank countries by their perceived levels of public sector corruption. Before finalizing any plans, be sure to know the location's record on CPI and make adequate provisions to ensure your company is not exposing itself to additional risk.

Depending on nature and severity of a country's ESG risks, consider effective ways to mitigate or transfer the risks. For instance, for governance-related risks, you may expand oversight over weak governance controls, implement audit programs and roll out governance-improvement trainings. However, ask yourself — is this additional investment worth it, knowing that your company will continue to have some level of unmanaged location-based risk? Or should companies instead seek locations with less ESG risks from the start, but pay more for their talent?

The pressure for businesses to take action on ESG is clear. Operating in a country or region that reflects your company's ESG priorities, from energy targets to human rights safeguards, creates an enabling environment for your firm to achieve its ESG goals.

Developing the right kind of talent

Within ESG, climate transition and future skills planning are two areas forcing companies to assess their job roles and determine if their current positions in their current locations support future business needs. This is where location strategy comes into play. When choosing where to put your next facility and knowing which skills will be required, consider a locale that has demonstrated success in partnering on meaningful education and training programs. While the region in question may not yet have the workforce capabilities needed for tomorrow, a willingness by the government and/or partners to create a center of expertise represents a significant human capital opportunity. Developing strategic talent from the ground up to support future jobs is not only beneficial for your company, but also for the region. This approach allows location strategy to have a meaningful impact on both the business and society.

BP launched what it calls "an ecosystem that serves the greater good." Like many other organizations, the energy company is on a transformative path, pioneering efforts of carbon neutrality and ensuring it has the skills needed to do so — even if the jobs do not yet exist. As part of this process, BP is engaging current students as they navigate career options to drive awareness of the company's new values of sustainability. Identifying individual strengths, providing training, and encouraging young people to capitalize on this and gain the skills needed to make a positive difference in society is the ultimate goal.

External talent development creates opportunities for underrepresented populations to gain necessary skills for the future of work. Therefore, organizing educational programs like this, particularly in economically emergent nations, is a win-win for the company and community. To expand your talent pipeline and create a meaningful impact for the communities in which you operate, be sure to integrate educational partnerships into your location strategy.

Next Steps

The spread of remote work in the past two years has placed more emphasis on where people can and should work. These factors, along with continued attention on ESG, necessitate the consideration of environmental, social and governance risks in location strategy decisions.

With ESG risks considered, an effective location strategy has the power to enable growth, boost productivity and increase efficiency while making a positive economic, social and environmental impact for the communities in which you operate.

To speak with one of our human capital experts about how we can help organizations develop effective location strategies for the future of work, please write to humancapital@aon.com. You can also read our recent white paper here.

For additional insights on governance related topics, including ESG, please visit our website here.

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