



# What HR Leaders Need to Know About ESG

By Kathy Cleary

HR leaders are increasingly expected to play a central role in organizations' ESG initiatives, particularly those that intersect with DEI. In taking on this role, HR leaders must understand the core concepts of ESG and how to embed them in talent processes.

Environmental, social and governance (ESG) programs are becoming higher priorities for organizations around the world, amid growing pressure from investors to be more transparent about their impact and sustainability.<sup>1</sup> Many ESG topics relate directly to HR (particularly, but not exclusively to diversity, equity and inclusion, or DEI), and ESG is now becoming a bigger part of HR and diversity and inclusion (D&I) functions. HR leaders must become familiar with ESG programming and embrace their role

in embedding ESG-related initiatives into their organization's talent management strategy, employee listening initiatives and employee value proposition.

To successfully meet these new expectations, HR and D&I executives must be able to answer three questions:

- Who are the stakeholders with whom I need to partner on ESG?
- How should I support my organization in setting priorities for an ESG program?
- What is my role in ESG reporting, action planning and improvement processes?

## Definitions

New terminology is emerging to describe corporate commitments to sustainability and mechanisms for measuring and reporting. HR leaders should understand the differences in these definitions and how they fit together. Many more new terms and phrases are emerging to describe sustainability and sustainability practices; these are just the three most important concepts to the HR and D&I functions.

### Environmental, social and governance (ESG)

refers to a set of criteria or standards used for measuring and reporting on an organization's impact on society, the environment and its own stakeholders. ESG reporting is sometimes described as a measurement of an organization's intangible assets or a corporate social credit score. In the ESG reporting process, the board and company leadership consider perspectives from various stakeholders, including investors, employees and the community, and provide them with relevant information.

**Corporate social responsibility (CSR)** entails the activities, policies and contributions an organization undertakes to give back to the community. Creating an infrastructure for CSR activities and integrating CSR initiatives throughout the business can tangibly contribute to measurable ESG factors.

**Sustainability** is a business approach focused on creating long-term stakeholder value by embracing opportunities and managing risks related to the organization's economic, environmental and social impact.

An ESG agenda expands on the sustainability and CSR work many companies have already been investing in, adding a more explicit focus on governance and taking on a wider range of social issues. An ESG reporting mechanism helps an organization manage and communicate its progress on sustainability and CSR, and many

organizations are integrating their CSR and ESG strategies to establish measurable long-term objectives. Understanding how these concepts intersect and support each other lays the foundation for the next steps in HR's involvement in the corporate ESG program.

## ESG Stakeholders

HR and D&I are among the many stakeholders responsible for the successful implementation of an ESG program. Other stakeholders typically include: corporate counsel, finance, investor relations, corporate communications, sourcing and procurement, supply chain, marketing, strategy, technology, analytics, philanthropy, employees, local communities, customers and shareholders.

Some, but not all, of the social and governance issues in the ESG framework fall within the purview of HR, and HR leaders are accountable for reporting data and improving outcomes in these areas (see Table 1).

- HR-related social issues can include DEI, women's empowerment, pay equity, employee well-being and corporate commitments to employee development and learning. Other social issues may include workplace and consumer safety, responsible innovation and marketing, economic development, and data protection and privacy.
- Governance issues that necessitate HR involvement include executive compensation, business ethics and integrity, advocacy and public policy as it relates to the interests of employees as stakeholders.

**Table 1. Examples of ESG Issues**

Environmental	Social	Governance
Carbon emissions	Diversity, equity and inclusion <sup>a</sup>	Decision transparency <sup>a</sup>
Water usage	Pay equity <sup>a</sup>	Share-class structure
Waste disposal and recycling	Workplace safety <sup>a</sup>	Shareholder relations
Renewable energy	Employee well-being <sup>a</sup>	Ethics and integrity <sup>a</sup>
Land use	Economic development	Public policy advocacy
Disaster management	Consumer safety	Board leadership <sup>a</sup>
Green products	Data protection and privacy	Executive compensation <sup>a</sup>

<sup>a</sup> Issues that fall within HR's purview or necessitate HR's involvement

Source: Gartner (November 2021)



Each area of HR and DEI accountability may warrant partnering with a different set of corporate stakeholders. For example, a pay-equity initiative often involves the legal and finance functions, business unit leaders, senior leadership, the CEO and even the board, along with multiple HR teams including D&I, total rewards and HR analytics.

## ESG Programming and Priorities

An ESG materiality assessment is an initial step for each organization to determine which measures should be included in its ESG disclosures. A materiality assessment ranks the importance of specific environmental, social and governance issues by their importance to stakeholders and business impact. Employees are vital stakeholders in the ESG framework, and HR plays an important role in gathering employee input into these assessments.

To support ESG programming prioritization, HR should integrate a broader set of employee opinions into corporate listening initiatives and then into materiality assessments. To do so, HR leaders need to capture employee sentiment regarding ESG activities, such as sustainability, climate risk and action, racial equity and social justice, corporate social responsibility, volunteerism and DEI.

Giving employees a voice in this process can not only strengthen the ESG framework but also drive improved talent outcomes. Our 2021 Post-Election Survey found 68% of employees would consider leaving their employer for an organization that takes a stronger stand on societal and cultural issues.<sup>2</sup> We also know employees who feel a sense of shared purpose with their employer are more engaged, loyal and likely to stay.<sup>3</sup> These positive talent management outcomes, combined with the growing demand for ESG reporting, are driving the urgency to develop comprehensive listening programs that give employees a voice in setting the organization's ESG priorities.

## ESG Reporting

HR leaders should also be familiar with the metrics that are included in an ESG report, as well as the narrative that accompanies the numbers. Many ESG metrics are part of HR's mandate, and they need to be prepared to gather the relevant data and communicate what it means to stakeholders.

There are multiple ratings frameworks for ESG reporting maintained by organizations, such as the Global Reporting Initiative (GRI), the United Nations Sustainable Development Group (UN SDG) and the Sustainability Accounting Standards Board (SASB). Investor interests, internal stakeholder inputs, benchmarking of peer companies, media reports and other factors can also influence which ESG metrics organizations choose to report.

Here are just a few examples of ESG metrics that fall within HR's purview, drawn from GRI's comprehensive list of reporting standards:

- Employment — New hires and attrition broken out by gender, and racial and historical underrepresentation status; benefits and parental leave policies
- Training and education — The number of hours employees spend on training annually; programs for transition assistance; the percentage of employees receiving regular performance and development reviews
- Diversity and equal opportunity — Diversity, defined as gender, age, and other vulnerable and historically underrepresented groups, of the corporate governing bodies, leadership and workforce; pay equity throughout these dimensions as well
- Nondiscrimination — Incidents of discrimination and corrective actions<sup>4</sup>

Most HR functions are already actively pursuing improvement in some or all of these areas, but those efforts are not always apparent from the data alone. The HR and D&I functions should participate in shaping the narrative that



accompanies these metrics to communicate the activities and strategies in place to improve outcomes.

For example, the number of training hours per employee is not necessarily reflective of a company's commitment to employee development. Training and development can take the form of mentorships, sponsorships, informal shadowing, and peer or social learning, to name a few. These and other forms of learning may not be counted toward the official hour counts of formal training. The corporate position and strategy on learning and employee development must be described as a part of the ESG reporting narrative. Doing so ensures stakeholders have a complete picture of the role development plays in the employee value proposition and the sustainability of corporate workforce practices.

## Conclusion

As HR and D&I functions are called upon to contribute to ESG reporting, they must have a seat at the table when deciding how ESG is embedded in the organizational talent management strategy and employee value proposition. To earn those seats, they must build up their expertise in ESG, understand the metrics they will be accountable for and know how to tell a compelling story about the work they are doing to improve outcomes. They must also ensure employees' voices are heard as the organization sets ESG priorities and reports to stakeholders. The employee perspective is vital to shaping ESG priorities, and an organization's impact on the world beyond is an increasingly important driver of employee attraction and retention. In taking on a larger role in ESG initiatives, HR has much to offer as well as much to gain.

<sup>1</sup> "An ESG Reckoning Is Coming," Harvard Business Review.

<sup>2</sup> Gartner 2021 Post-Election Survey. Conducted February 2021; n = 3,000 employees in North America, Europe, Australia and New Zealand.

<sup>3</sup> Gartner 2021 EVP Employee Survey. Conducted December 2020; n = 5,000 employees worldwide.

<sup>4</sup> Global Standards for Sustainability Reporting, GRI.

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