

What Is ESG?

ESG refers to environmental, social and corporate governance considerations in relation to financial investments.

Environmental – Assesses a company’s impact on the planet and includes energy use, waste disposal, raw material sourcing, carbon emissions, water usage and recycling processes.

Social – Assesses a company’s impact on its workforce and the wider community. Issues include diversity, gender equality, employee rights, charitable activities, community work and the use of agency workers.¹

Governance – Looks at how a company is directed and controlled, for example, the composition of boards, independent directors, available share classes, interaction with shareholders, remuneration and shareholders’ rights.

Accounting for ESG factors is now the norm in the investment community. Concerns over climate change, issues of inequality and high-profile corporate scandals have led to calls from all quarters for corporations and investors to take a more responsible approach to business beyond shareholders and return on equity, also taking into account the interests of their customers, employees and wider society.

Whereas previously investors screened out “sin stock” like tobacco or arms from their investments, they now actively score a company on a range of factors, from carbon emissions to safety at work or gender mix in the boardroom. A favourable ESG score can help to attract investment, enable greater access to capital and open up opportunities on the stock exchange.

ESG Is Here to Stay

- **Investors’ duties** – The fiduciary duties of investors require them to incorporate ESG factors into their investment decisions and encourage high standards of ESG performance in the companies in which they invest.
- **ESG yields financial returns** – Research shows that investment strategies that consider ESG factors lead to better performance over the long term.² This has held true during the coronavirus pandemic with ESG stocks faring better than traditional stocks during the lockdown period.
- **Policy and regulatory frameworks** – There has been a shift in policy towards incorporating ESG into investors’ fiduciary duties. Globally, more than 730 hard and soft law policy revisions support, encourage or require investors to consider long-term drivers, including ESG issues.³

How Is ESG Relevant to HR?

Key ESG HR issues concern how a company engages with its workforce, with a strong focus on a culture incorporating inclusion and diversity, and how it looks at issues of pay and equality. While the spotlight has been on environmental issues so far, the coronavirus pandemic has turned the focus firmly on the ‘S’ in ESG, with Covid-19 having the greatest impact on people and employment.

There is public expectation for companies to ‘do the right thing’ by their workers during this crisis.⁴

Racial equality has become an urgent and pressing concern. Issues around flexible and homeworking, mental health and employee engagement during and after the extended lockdown period will require swift attention. This has landed the HR agenda squarely on the list of boardroom priorities and provides an opportunity for HR leaders to take the lead in recovery efforts. How companies do this in a way that embeds resilience for long term performance will be part of what investors will be looking at when making their assessments under the ESG lens.

Below are some of the HR issues investors consider in the context of ESG scoring.

Diversity/Equality

- Gender parity
- Ethnicity
- Age
- Disability
- LGBT
- Social mobility
- Neurodiversity

When Things Go Wrong

- #MeToo/investigations
- Bullying/harassment
- Grievances/disciplinarys
- Employment litigation
- DSARs
- Performance management
- Whistleblowing

Recruitment and Retention

- Multigenerational workforce
- Ageing population
- Millennials
- Gen Z
- Shrinking talent pool Immigration (UK)
- War on talent – purposeful agenda
- Automation/technology/AI

Mental Health and Wellbeing

- Happiness
- Absenteeism
- Sickness
- Menopause
- Hidden disabilities

Gig/Freelancers

- Employment status/IR35

Pay

- Gender pay gap
- CEO pay
- Minimum wage

Work-life Balance

- Family-friendly/parental leave
- Carer
- Grandparents
- Bereavement





The demand from investors and regulators for workforce data will continue.⁵ Investors want information about workforce skills, training and development, board and business culture, and how this relates to the “strategic value of the workforce”

With public appetite to ‘build back better’ post-pandemic, the scrutiny will continue. Social media, and platforms such as Glassdoor will only increase transparency on employers behind the scenes.

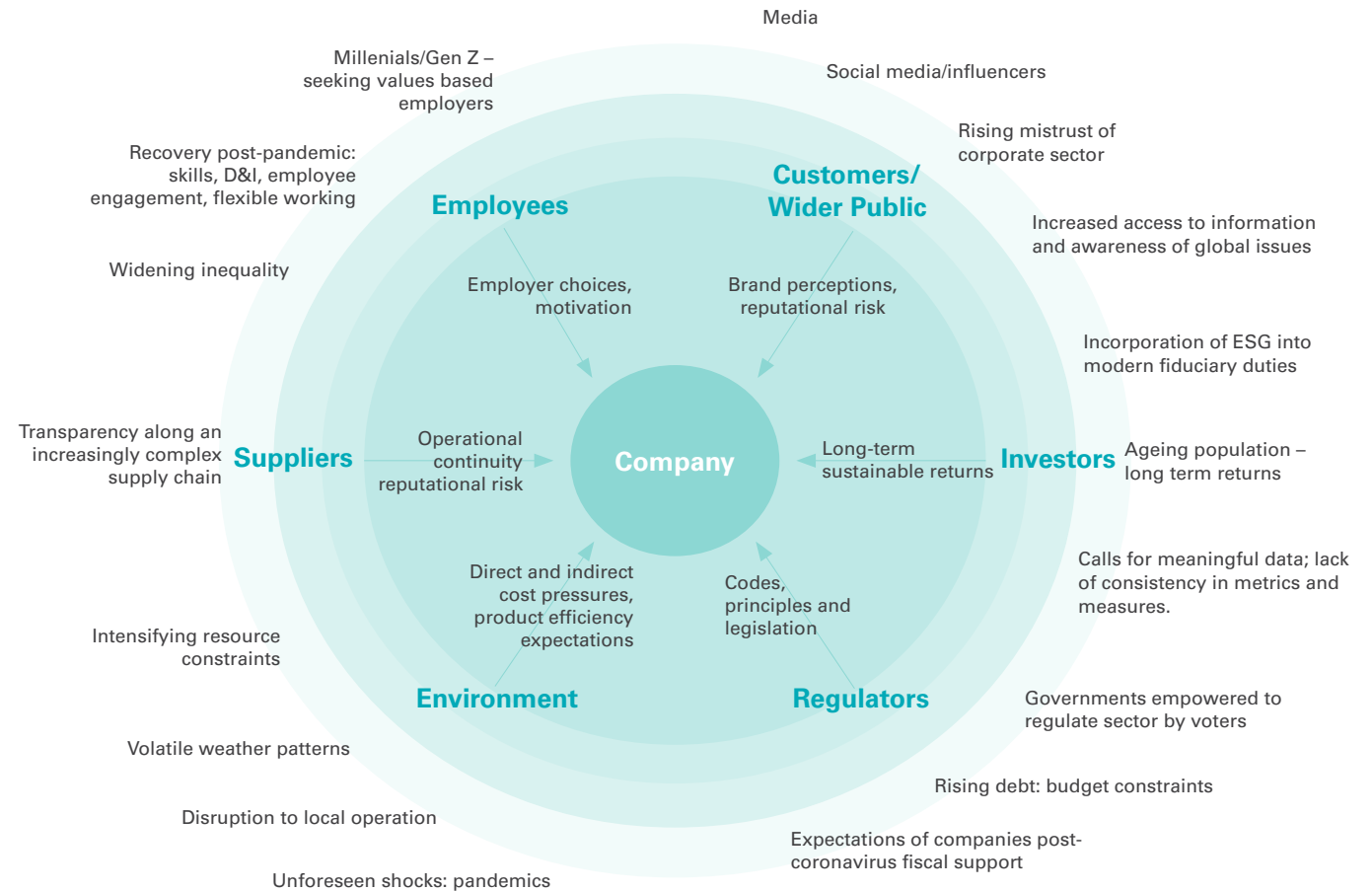
In addition, the burgeoning inequality gap exposed by the coronavirus pandemic, in particular with regard to BAME communities and following the death of George Floyd, has catapulted the issue of racial equality to the top of the agenda, with the UN Principles for Responsible Investment (UN PRI) galvanising action on the part of investors and calling for disclosure on racial diversity and related metrics.⁶

Data, metrics and definitions underpin this effort. However, measuring human issues that are complex, multidimensional and sometimes intangible can present a challenge. Therefore, it is no surprise that ESG-related disclosure remains fragmented and sparse. There have been calls for policymakers to develop uniform standards and disclosure requirements for corporates and incentivise investment in sustainability on a global scale to enable greater transparency and consistency in approach.⁷

Further Reading

- CIPD report, *Investor perspectives on workforce data*
- *New corporate reporting rules: will they help restore trust in business and make them a better place to work?*

ESG at a Glance



- 1 <https://www.plsa.co.uk/Portals/0/Documents/Made-Simple-Guides/2019/ESG-Made-Simple-2019.pdf>
- 2 [https://institutional.dws.com/content/_media/K15090_Academic_Insights_UK_EMEA_RZ_Online_151201_Final_\(2\).pdf](https://institutional.dws.com/content/_media/K15090_Academic_Insights_UK_EMEA_RZ_Online_151201_Final_(2).pdf)
- 3 <https://www.unpri.org/download?ac=1378>
- 4 <https://www.edelman.com/research/covid-19-brand-trust-report>
- 5 <https://www.frc.org.uk/getattachment/59871f9b-df44-4af4-ba1c-260e45b2aa3b/LAB-Workforce-v8.pdf>
- 6 <https://www.unpri.org/pri-blog/responsible-investors-must-unite-for-racial-justice/5876.article>
- 7 <https://blogs.imf.org/2019/10/10/connecting-the-dots-between-sustainable-finance-and-financial-stability/>