

THE INTERSECTION OF ESG AND HR

MARCH 2023 EN:INSIGHTS FORUM
EXECUTIVE SUMMARY



The March EN:Insights Forum looked at the effects of environmental, social and governance (ESG) initiatives on corporate goals, performance and HR effectiveness. The session explored the impact of these goals and offered advice for HR leaders looking to make their organizations responsive and effective, as well as profitable.

The session included an exploration of new SHRM Research data on the state of ESG goals in business today, beginning with an overview of what types of programs fall under each component of ESG.





RAGAN DECKER PH.D.
LEAD RESEARCHER FOR SHRM

“We define ESG as an organization’s corporate financial interests that focus mainly on sustainable and ethical impacts, and their role is to ensure accountability and systems to manage a corporation’s impact,” said Ragan Decker, Ph.D., lead researcher for SHRM.

“As an environmental factor or initiative, we might point to reducing waste and pollution or addressing climate change or increasing energy efficiency. Examples of social initiatives include improving health and safety for employees, establishing training and education programs, and ensuring human rights. And lastly, governance initiatives can include addressing executive compensation, ethics and board diversity.”

Many organizations have ESG goals—but workers want more:

Almost half (48%) of executives surveyed say their organization has established ESG goals, but many workers say they'd like their employers to go further. “Now, 48% seems like a high number on its own, but when we ask U.S. workers about ESG, we learned that about two-thirds (66%) wish their organization was more concerned about ESG, particularly younger workers,” said Decker. “Three-quarters (75%) of older Millennials wish their organization was more concerned about ESG, and 71% of younger Millennials and Gen Z wish their organization was more concerned.”

PREVALENCE OF ESG GOALS IN ORGANIZATIONS

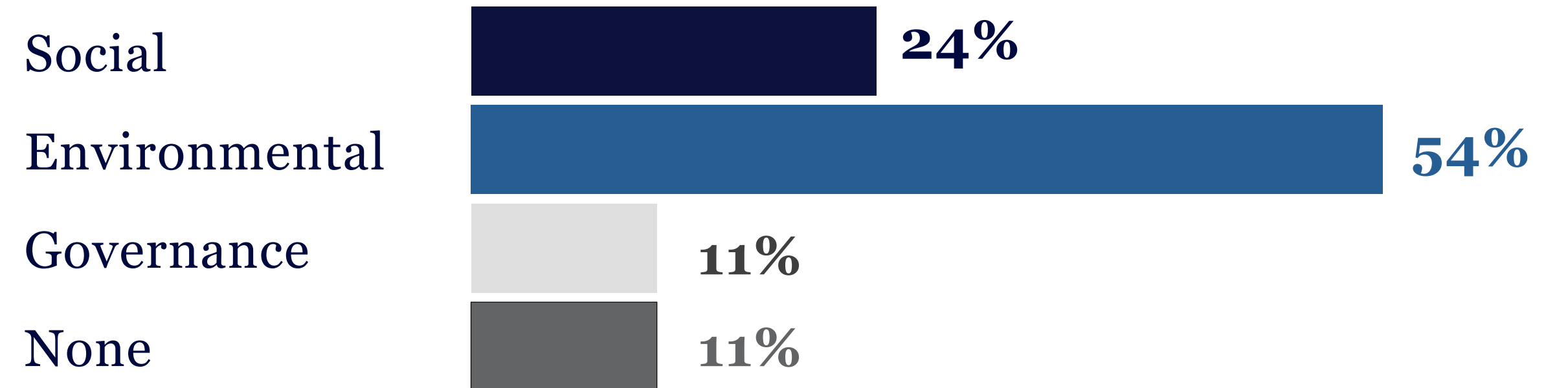


ESG priorities differ between organizations and workers

FACTORS ORGANIZATIONS INCLUDE IN THEIR ESG STRATEGY



THE ESG FACTOR MOST IMPORTANT TO U.S. WORKERS



While many organizations are most likely to focus on the social piece of ESG, that doesn't necessarily line up with the values of the workforce, including the **11%** of U.S. workers who said none of the ESG factors are important.

FACTORS HR EXECUTIVES CONSIDER WHEN MAKING ESG DECISIONS

Long-term strategy	31%
Societal impact	30%
Organizational reputation	17%
Employee reactions	11%

“We can see that ESG priorities can differ and that many organizations are focusing on social factors while workers really prefer emphasizing environmental issues,” Decker said. Yet the study showed that employee reactions are rarely considered when organizations are making ESG decisions.

“Interestingly, only **11%** of HR executives are considering employee reactions when making ESG decisions,” Decker said. “This might help explain why there’s such a disconnect in the factors that organizations are focusing on versus the factors that are considered most important by employees.”

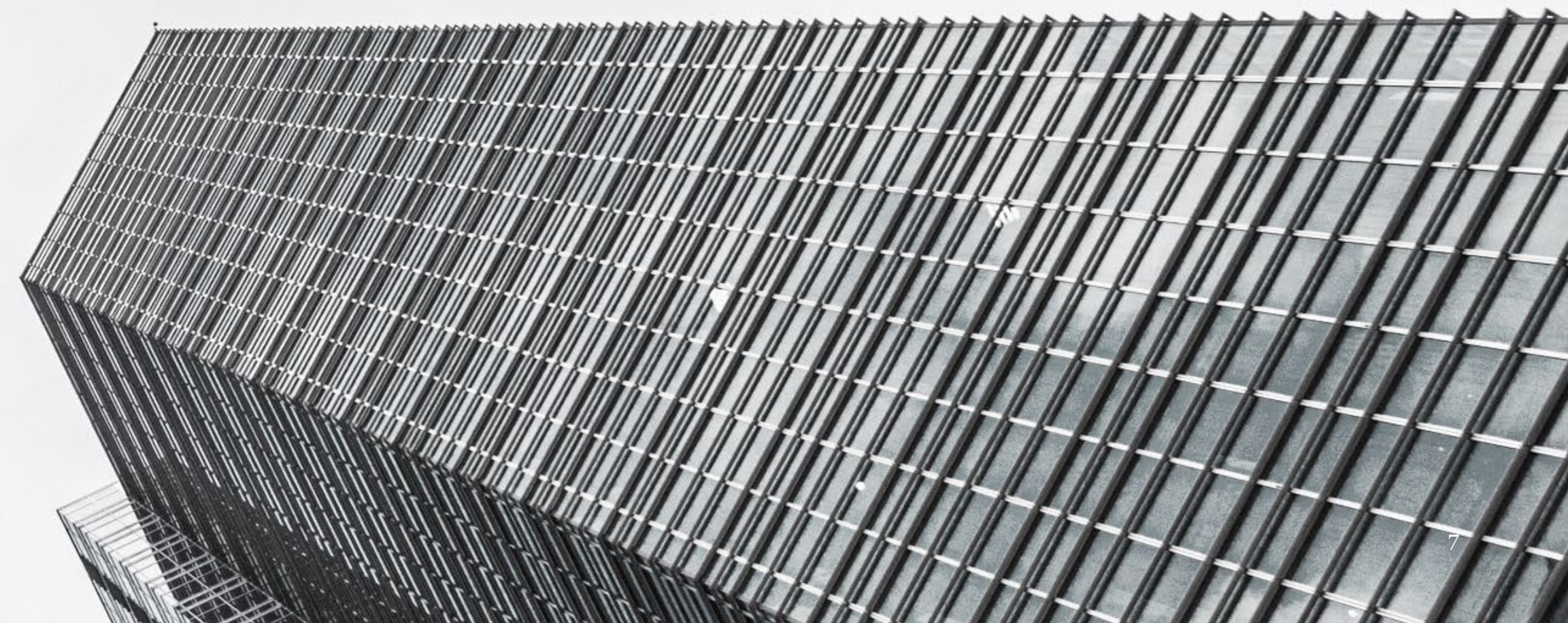
HOW ESG STRATEGIES REFLECT ORGANIZATIONAL PRIORITIES:

The study also shows that ESG plays into some of HR leaders' top concerns, including recruiting and retaining talent in today's exceedingly tight labor market.

Among executives at organizations with ESG strategies, ESG was seen playing a major role in maintaining employee morale and engagement, retaining top talent, and finding and recruiting talent with the necessary skills. These three concerns match HR executives' top three organizational priorities for 2023, as revealed in SHRM's most recent [*State of the Workplace Report*](#).

- **Maintaining employee morale and engagement:** 75% of HR executives say ESG strategies have a positive impact on employee engagement.
- **Retaining top talent:** 60% of HR executives say ESG strategies can have a positive impact on retention.
- **Finding and recruiting talent with the necessary skills:** 64% of HR executives say ESG efforts have a positive impact.

This “suggests that ESG may not only have benefits for society at large, but also important organizational outcomes,” said Decker.



ESG goals boost retention, employee engagement and a sense of purpose

As for workers, the impact of ESG initiatives can be quite powerful, Decker said. The research found that **29%** of workers would accept a job with lower pay if the organization's ESG strategy aligns with their values and beliefs, while **30%** said the same for benefits.

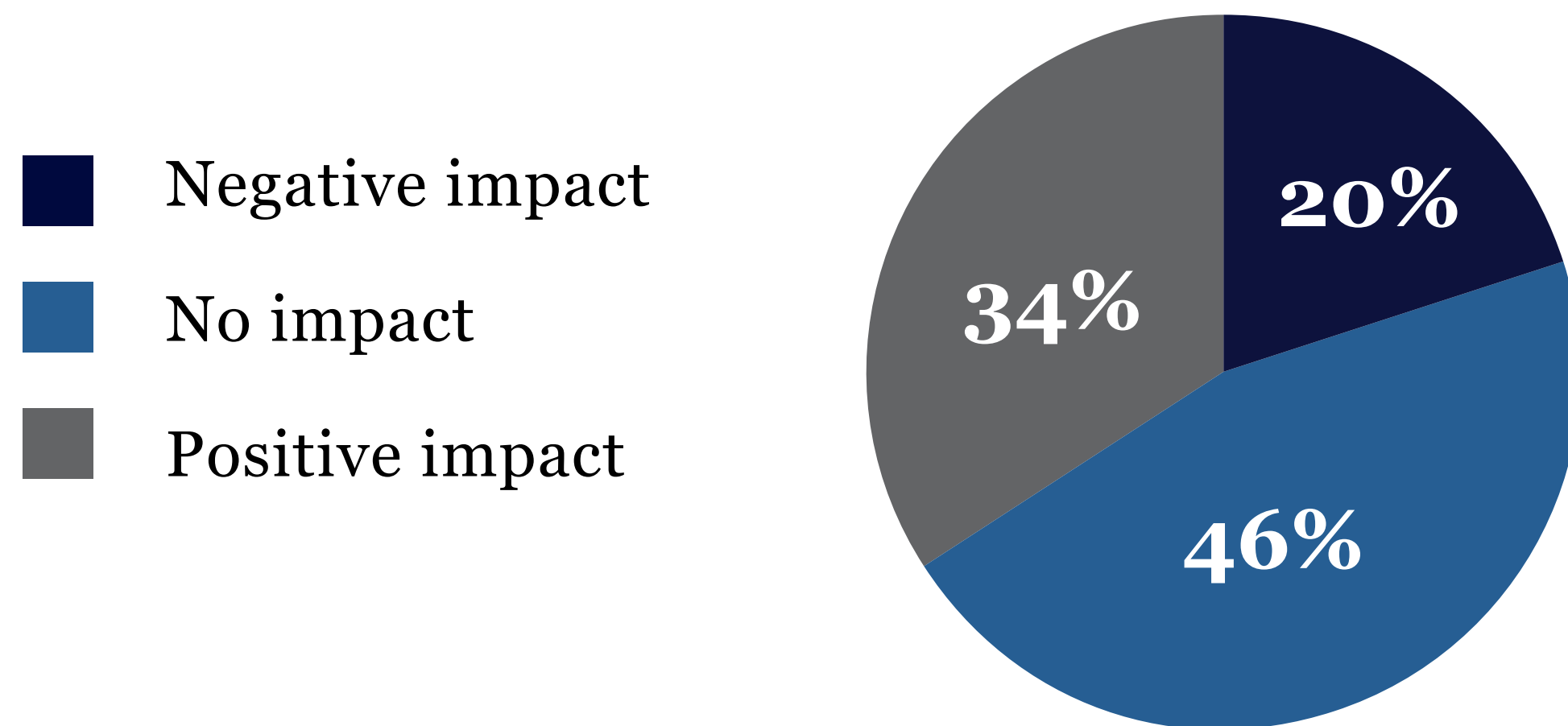
“These numbers are powerful and show the kind of impact ESG goals can have on employees.”

AMONG U.S. WORKERS WHO WORK FOR ORGANIZATIONS WITH ESG GOALS:

- 86%** feel proud to work for their organization.
- 86%** find their job more meaningful.
- 86%** want to to continue to work for their organization.
- 85%** feel they are contributing to a greater cause.

But what about profits? While ESG initiatives are often seen as “doing the right thing,” executives must still keep an eye on the bottom line. While quantifying the business benefits of ESG efforts can be difficult, SHRM’s research found that in **80%** of cases, HR executives said these initiatives don’t reduce profitability.

WHAT IMPACT DO ESG STRATEGIES HAVE ON PROFITS, ACCORDING TO HR EXECUTIVES?

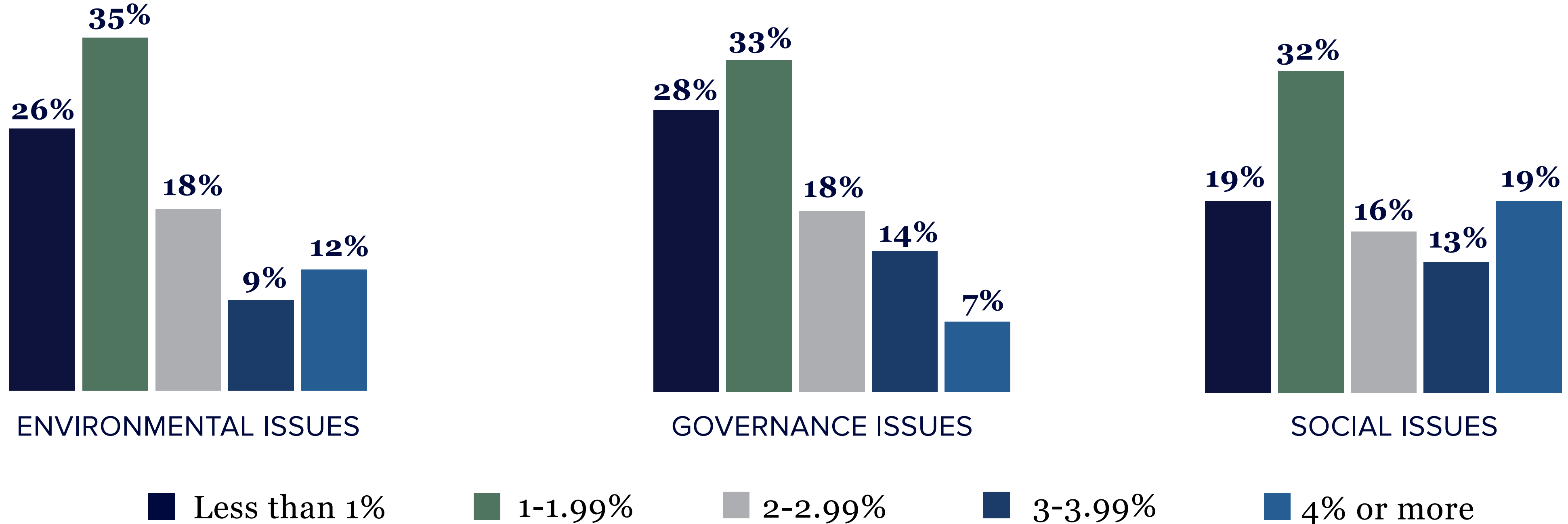


“When we specifically asked which factors their organizations might be more willing to sacrifice profits for, executives said they would be more willing to sacrifice profit to address social and environmental issues, as compared to governance issues,” Decker noted.

What's it worth?

Even though most organizations haven't seen a decline in profits because of their ESG efforts, most HR executives said their organization would be willing to accept a decline in profitability of at least **1.99%** in exchange for progress on ESG goals. Respondents were most willing to forgo maximizing profit in the name of social issues.

HOW MUCH PRETAX PROFIT WOULD YOUR ORGANIZATION SACRIFICE FOR ...



CHROS ARE VITAL
TO MAKING ESG
EFFORTS WORK



MICHAEL
FRACCARO

Chief People Officer,
Mastercard



The new SHRM research on ESG issues in the workplace resonated with Michael Fraccaro, Mastercard's chief people officer, especially in the context of his efforts in driving cultural transformation and creating a company that is "most valued to work for."

"The points from the research about what ESG does for engagement, retention and a sense of belonging to the organization—that pride in an organization that's focusing on these issues—they're certainly things that we live with on a day-to-day basis," Fraccaro said.

In terms of surprises, "One thing that struck me were the findings about the extent to which companies would sacrifice part of their profit on ESG. That was surprising," Fraccaro said. "At Mastercard, we wouldn't look at it as sacrificing—this is a long-term strategy."



HIGHLIGHTS FROM MICHAEL FRACCARO'S Q/A

Q: **When did you become interested in the idea of companies having formal ESG goals, and how has your thinking about ESG evolved?**

A: “I’ve been fortunate enough in my career to work with organizations that have always focused on some form of sustainability. In the early days, it used to be called CSR [corporate social responsibility], and it’s evolved in so many ways from then. With Mastercard, we’ve continually asked what else can be done to further our role in society and around the world. In fact, when Mastercard became public in 2006, it actually allocated 10% of shares to create the independent Mastercard Foundation, now one of the world’s largest foundations. It does a lot of work with developing countries around education, job skills, financial literacy and a range of other things.”



“For me personally, I’ve been involved in a variety of initiatives. One particular partnership we have is with the World Food Program. As well as raising money through partnerships and programs, we also send employees on missions for four weeks in a developing country. I was assigned to go to Ghana, and our group looked at how we could create an ecosystem with schools, farmers and the local government, to support the whole community. The idea being, kids would go to school motivated by education, but their nutritional needs would also be met.

“At Mastercard, we now look at ESG through the lens of People, Prosperity and Planet. Planet is about what we can do from the environmental perspective. For example, we have an initiative called the Priceless Planet Coalition, which is our effort to bring partners together across the world to drive collective action and plant 100 million trees around the world. Prosperity focuses on our unique ability to drive financial inclusion. Since we’re a company in the payments space, we spend quite a lot of time, alongside our Center for Inclusive Growth, looking at how we can bring marginalized groups into the digital economy. We’ve got tremendous goals for financial inclusion supporting individual consumers, as well as small businesses and minority groups.”



Q. Mastercard announced the company is linking bonus compensation for all employees to ESG goals. How did you decide to go forth with that?

A: “This has been a multi-year journey for Mastercard. In 2021, we felt it was an important way to create a level of accountability across the executive leadership of the organization. For us, it was the executive vice presidents, the top 200 in the organization. We created a scorecard, and we set up particular metrics within the ranges that we needed to achieve. One was around carbon neutrality; another was around financial inclusion, which is a five-year goal to bring in 500 million consumers into the digital economy, in addition to the 500 million we’d already done, so a billion people by 2025; and the last one was around median gender pay.”



“The really quick answer to why we do this is because we believe in it. It’s fundamental to our mission and our purpose as an organization. Driving this level of accountability across the executive population was important because they were the individuals who could have the most influence in advancing our efforts those areas.

“In 2021, we set ambitious targets, and we achieved or exceeded all the goals. Now we’ve made it part of the compensation plan for everyone in the organization. We have around 30,000 employees, and for every employee there is a metric that goes into our bonus pool calculation around ESG. Last year, we met or exceeded all of the goals.

“This creates a tremendous amount of visibility for the organization, as well as instilling it into the hearts and minds of the employees. This isn’t something that just sits on the side of the desk of an individual, or something that’s just the job of the chief sustainability officer.”



Q. How can we advertise and broadcast ESG and other benefits as part of the overall employee package?

A: “This gets back to the employer value proposition and the fact that, in a very tight labor market, we all can’t compete just on compensation. Where we can compete is around other differentiators. One of those is purpose and values, and for us that is a real brand differentiator. When we go to university campuses or if we’re talking to potential candidates, they will want to know what we are doing around ESG to have a positive impact on the world. Elevating the work you’re doing as a company around social and environmental challenges is hugely important in terms of attracting and retaining talent, which goes back to some of the new data from SHRM.”

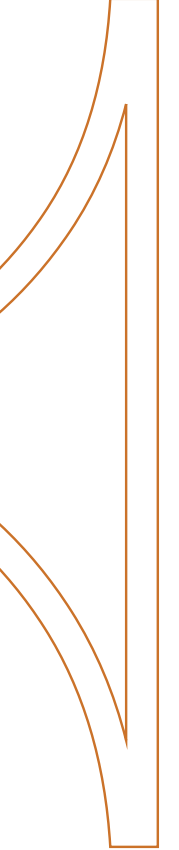
“Internally, we have a company talent marketplace called Unlocked. Our employees put their skills, aspirations and their interests into the Unlocked profile, and then we match their interests and aspirations to particular projects or mentors in the company. Our Center for Inclusive Growth leads a lot of the work around sustainability and puts numerous projects onto this platform. They are always full or oversubscribed, with individuals looking to allocate 10% or 15% of their time to work on projects that are helping communities, society or the environment.

“It’s one way people can get involved in a purpose-driven project, without having to make a career move. The engagement has been fascinating to watch. We see individuals who may have a data science background stepping in to help with a small community project to help build the business case for financial aid to flow to the most underserved neighborhoods. Being able to leverage those skills and see the direct impact they can have on communities has a huge effect in terms of this pride and retentive value. Your employees can be the biggest advocates for what you’re doing.”





Q: What do you see as the role of the CHRO in advancing ESG goals?



A: “This is just a huge area for CHROs, not necessarily to become experts in but certainly to play an active role. One thing is becoming very familiar with the latest discussions around ESG, such as what’s the difference between Scope 1, Scope 2 and Scope 3 emissions, because there’s a whole language that CHROs need to understand. Educating yourself on ESG standards and building that acumen across the team is important.”

“Another dimension is thinking about how ESG really connects to your brand, your purpose and your value proposition. From my point of view, this will continue to grow in importance. Particularly with the generations that are coming through universities now, their level of awareness and literacy on ESG issues is only going to increase. Looking at how you build ESG into your people strategy and into recruitment, branding and reward programs should be top of mind.”



“There’s also the need to consider well-being and mental health. These are areas that have become more critical to attracting and retaining talent, with demand and desire for well-being services from employees increasing over the last couple of years.

“If you think about sustainability in the broader sense, one role of the CHRO is to answer the question, ‘How do you create a sustainable workforce?’ And one aspect is making sure that you have training programs, succession plans, and that you have an approach to upskilling and reskilling that aligns to the growth and values of the company. That’s hugely important, and that’s the role of the CHRO in creating a productive and safe workspace and work environment.”

“Finally, depending on what stage your organization is in in terms of ESG, is becoming a provocateur. You should encourage leadership to look at ESG not just because an investor or regulator is telling you to do it, but because it’s something that’s embedded into the flow of work, into your strategy, into your culture. That is ultimately where you want to be.”

The logo for SIRM Executive Network. It features the letters 'SIRM' in a white serif font, with the 'I' and 'R' overlapping. This is enclosed in a white rectangular border. To the right of this box is a registered trademark symbol (®). Further right, the words 'EXECUTIVE' and 'NETWORK' are stacked in a white, bold, sans-serif font.

SIRM® EXECUTIVE
NETWORK