

# HR INSIGHTS

# Environmental, Social & Governance

Researched and compiled by:



REFRESHING LAW

*Down to Earth*

---

March 2022

## ESG: An Overview

ESG stands for Environmental, Social & Governance, categories of interest for socially responsible investing. It looks to keep in mind the most important topics affecting our society before choosing to make decisions and investments. It helps companies remain ethical as they continue their business practices. Think about it as "doing the right thing" in an overarching umbrella of ideas.

Investors are looking at where they put their money in the markets and starting to make decisions based on their environmental impact. This filters down into the companies, as what they ask for starts to affect managers and what they can do to keep the shareholders happy.

Has ESG been on your radar? Has your organisation set any environmental or sustainability targets and what steps have people begun to take around these issues? ESG can often mean what organisations want it to mean, choosing to focus on many different areas. Organisations can move at the pace that suits them and use as much as they want to.

### What's Leading the Conversation?

There are many things driving a focus on ESG. #MeToo and Black Lives Matter has brought conversations about diversity & inclusion to the forefront and has spotlighted employers and what they're doing for inclusion. Cultural and structural barriers exist in both socially and in the workplace - a core part of ESG is about what we can do to make things fairer and equitable.

The pandemic put employers under scrutiny about how they behave as organisations and how they treat their staff. As a recent case seen in the news, P&O has been on the minds of many for firing 800 workers without notice, and employers that have abused furlough and behaved unfairly have come under the spotlight. Social media brings a company's transgressions to the front and centre of conversation. From a recruitment perspective - the Great Resignation, as coined in America, has shown how people want different things from their jobs and not as interested in money as they are in what employers are doing for their employee's wellbeing.

Toxic working cultures and the resulting turnover of staff is said to be one of the leading causes of the Great Resignation. People are looking at the terrible behaviours displayed and has resulted a public demand for organisations to treat people more ethically and fairly. On the other hand, organisations getting it right are seeing younger generations interested in joining their workforce.

Other things driving the conversations around ESG and making change include increasing regulations surrounding tax evasion, modern slavery and bribery, and the current war in Ukraine, where businesses are making new decisions about who they have as clients and whether they'll work with the people they've previously done business with.

### Legally Binding Agreements to Help the Environment

As a planet we're supposed to be trying to avoid the rise in temperature such that it causes knock on effects. A commitment was made at COP26 to keeping the increase in temperature to just 1.5% rather than 3-5.5% as predicted in previous years. This means phasing out coal completely across the planet, halting and reversing deforestation and a shift away from diesel for vehicles. **90% of world currently has net zero targets and equates to a huge shift in the world economy.** The world as we know it needs to change dramatically to hit targets. Since 2008, there has been a legally binding duty on the government to reduce the UK's Carbon Emissions by 100% by 2050.

For a number of years, there have been big government projects looking at parts of the economy and the things that need to happen to achieve green targets. The Welsh government have had new regulations brought in in 2021. There are 4 different sets about how Wales is going to hit various targets and one of the main differences between Wales and England is that it is now enshrined in law that decisions must factor in the impact on future generations.

In 2015, the bank of England did a project looking at what the environmental changes will do for the economy. The level of shock to the economy is estimated to dwarf the 2008 banking crisis and the pandemic, so it's worth paying attention to. It has been broken down into a few different areas of risk:

- ✔ **Physical risk** – like flooding. Environmental risks makes insurance more costly and energy more expensive
- ✔ **Economic transition risks** – The shift towards electric vehicles predicts an increase in costs, associated with a rise in carbon pricing, revenue profiles and the changes in technology within industries and cost associated
- ✔ **Litigation risks** – the effects on insurance profiles, and access to resources becoming more difficult and supply chain issues that come with it.
- ✔ **Reputational risks** – where the organisations that don't change quick enough becoming out of step with what their customers want, and organisations having stranded assets.

The Financial Stability Board created the Task Force on Climate Related Financial Disclosures, a set of recommendations on how businesses can survive and thrive in different scenarios and has filtered through into standards going up across the board, including accounting and quality of product.

## Managing Waste

Do households or businesses make more waste in the UK? It may surprise you to learn that businesses are responsible for 41.1m tons of waste per year, vs households creating 31m tons.

While zero waste is not realistic, we can acknowledge that we need to be doing more about what we generate as waste. We should look at waste in the broadest terms – it's not just cardboard for recycling. We often waste time, energy and creating things that go to landfill.



Globally, lawyers are starting to mobilise. There was an exercise in 2021 where 650 lawyers got together and held a hackathon-type event to think about the type of clauses organisations need to think about in their contracts to help achieve net zero goals. The Climate Contract Playbook was created as a result of this. The clauses are of most interest for procurement colleagues, though there are HR related ones.

## ESG - the Social Aspect

### A Focus on Diversity & Inclusion

**What is your impact as an organisation on your employees and wider society?**

The key themes that come up in the Social part of ESG is Diversity & Inclusion. In recent years, we've seen a move towards gender pay reporting for the largest organisations. There has been debates on ethnicity pay reporting and whether it should happen by law. While not mandatory, some organisations have been going above and beyond what the legislation says.

A recent analysis from TUC revealed women effectively work 56 days a year for free compared to male colleagues in terms of the gender pay gap and it's no good if people from ethnic minority backgrounds are also paid less than their colleagues. When looking at pay gap issues, we should be looking more deeply than just by gender and race, but by disability and social mobility. More employers have been thinking about how they can recruit people from diverse backgrounds that might not have a current interest in their organisation.

People generally think the pandemic has made social mobility worse and young people are now looking into prospective employers' records on D&I and making decisions about where they want to work based on this.

## Unfair Working Practices

There has been lots of criticism over some of the contracts we're seeing in the labour market, such as the gig economy with Uber and cycle couriers like Deliveroo. As a society, are we creating jobs that give people the stability they need or are we creating an unsustainable model?

Employers of over 250 must report on the ratio of the pay between the highest and most low paid workers. There was an outcry during the pandemic due to organisations asking staff to take pay cuts or furlough where senior management weren't.

Work practices are coming under scrutiny – in mainland Europe, some countries have created a right to disconnect to help work-life balance. Between the right to disconnect and the surveillance cultures that TUC says runs the risk of spiralling out of control without stronger regulations we should ask ourselves – because we can do something, should we?

Hybrid working raises the potential issues that consider if people who work remotely have the same opportunities for training and promotion. Unfair fire and rehire practices have been spoken about prior to P&O with Tesco's proposals blocked by the high court. Organisations do need to change contracts for staff where times change but should give more thought to whether they're acting humanely or not and keeping the best interests of their colleagues in mind.

## Employee Wellbeing

Wellbeing will be a big theme in the coming years. It's supposed that half of all employees have not had any wellbeing check in over the last year. Are businesses say they will do things but not help the employees? Employees are asking specifically what employers going to do to look after them.

It is important for businesses to have stress management standards and risk assessments in place. MIND have work related action plans for stress, focussing on an approach of talking about mental health and what organisations can do to help.

If you don't think cleverly about work and workload and what it's important to be achieving, you can overload people and organisations should think closely about these issues. Are people receiving reasonable targets themselves or are they being pushed to excess? It's important to think about job design and how we treat our colleagues.

### Governance & Self Management

There is a big overlap between governance and how organisations are managing themselves. What tends to happen is the regulation of the biggest companies, and what they do eventually filtering down into smaller organisations. Corporate governance at the highest level is about **what we do to create trust in organisations**, that businesses are well managed, and fraud isn't going on. In the conversations surrounding diversity and inclusion and the reporting under the Companies Act, directors must take staff into account when making decisions and have to explain in reporting when headcount is over 250 people.

Company cultures and their values and purpose have come into focus with ESG, and whether the lived experience in the organisation match? We should consider what can we do to seek out and filter out those lived experience issues. Focus on what workforce engagement looks like and the effect that it has on employees has grown, though there is a tendency to treat staff engagement as a sideshow in reporting and a disappointment in the quality of reporting.

#### Where Governance Meets Social

There have been lots of discussions about strengthening employee voice. The advice large companies are giving in their practice is an employee appointed director on the board, or a non-executive director. One of the ways organisations have achieved ethnicity targets on the boards is to have people externally join as non-executive directors. Progression has been made but is it good enough to have a non-exec? There is an improvement on different ethnicities and the inclusion of women on boards, but there is criticism that change is happening at a slow pace. While these two protected characteristics are seeing improvement, many are not and businesses can do more.

### Whistleblowing Policies

Good whistleblowing policies should be a core part of any business. In 2018, Barclays faced a fine of £12m after senior management attempted to unmask a whistleblower regarding concerns about governance, controls and corporate culture. Barclays rightly faced criticism over that behaviour. Modern day organisations are alive to the fact that good working cultures rely on a sturdy whistleblowing function to correct problems when they arise.

In Europe, there is a recent announcement for a new directive – many organisations owned by European companies need to know what their UK bases are doing within the supply chain and reassured that the actions taken are good ones. The focus of this directive is to firstly enshrine that organisations have been doing their due diligence in supply chain and looking

for human rights issues and environmental impacts.

It brings into focus the climate transition and how large companies are expected to have plans where they publish how they get to the 1.5-degree commitment from COP26. It also provides clarification on directors' duty to act in the best interest of the company, and that to act in the best interests of the company would be to take into account of human rights and environmental consequences of their decisions.

Within the EU, individuals will be able to bring conversations to their national courts against companies in respect to the failure to do any of those things. Ursula von der Leyen, President of the European Commission's speech about this focussed on the human-centred future of work, for example banning products made from forced labour. Do no significant harm is the principle on which organisations should be working towards. It encourages businesses to think about who is in the chain? **Are the kind of jobs we're creating valuable and meaningful, and treating people with decency and respect?**

## Accountability

### What can HR do?

Employees, stakeholders, supply chains and regulators all want businesses to take action. So, what can HR do?

We think that regardless of your position within the company, you can put pressure on those in leadership positions. Ask the questions and lead by example. For example, **"What are we doing in the organisation to manage risks and be strategic on ESG issues?"** We also encourage engaging staff and gathering their ideas on CSR helps raise awareness and support for ESG initiatives.

Forward thinking employers are going to go above and beyond the legal requirements. The Climate Contract Playbook contains ideas about clauses to put in your CSR policies, like sabbaticals and garden leave. Other things you can do is to review policies and handbooks tied into wider corporate objectives, for example:

- ▶ Only reimbursing travel expenses on green travel or public transport
- ▶ Encouraging online interaction as opposed to travelling to meetings
- ▶ Making sure uniforms come from sustainable suppliers, ethically made or from recycled materials
- ▶ Amending whistleblowing policies to make people feel empowered to raise ESG issues

We can also look at our recruitment processes, training and induction and anti-corruption and procurement training as documents and processes to amend.

## Linking ESG to Pay

We can also link ESG to pay. By linking executive pay to sustainability, we can make leaders more likely to drive change for the better and measure this by setting ourselves challenging targets, such as:

- ▶ Increase underrepresented workforce
- ▶ Closing age ethnicity and disability pay gaps
- ▶ Creating meaningful and secure jobs
- ▶ Flexible working policies
- ▶ Providing living wages and financial security
- ▶ Sick pay at levels where people can afford to rest and recover
- ▶ Wellbeing

### Question from the Audience

**Q.**You mentioned Carbon Reduction Plans – do you have any advice for first steps of getting that underway within a business and how you get that built from the ground up?

**A.**My advice would be do your research – what’s available? But make it employee lead. There’s no point in importing a solution from outside, it has to come from staff and ideas coming together. We saw in the pandemic a huge shift because we had to. We can do these things, it just requires a different way of thinking.

### Further Information & useful links:

[Mind’s Work Related Action Plans](#)

[The Right to Disconnect](#)

[The Climate Change Playbook](#)

[The Climate Change Act 2010](#)

- ▶ To join our HR Insights mailing list which covers upcoming events, new HR podcast episodes and new guides, [please contact us by clicking here](#).
- ▶ Listen to York’s HR podcast, which includes an episode on this guidance, on [The York Podcast](#)
- ▶ You can join our [Linkedin community here](#).



02920 220 078  
[info@yolkrecruitment.com](mailto:info@yolkrecruitment.com)  
[yolkrecruitment.com](http://yolkrecruitment.com)



07977 545 480  
[adenton@refreshinglawltd.co.uk](mailto:adenton@refreshinglawltd.co.uk)  
[refreshinglawltd.co.uk](http://refreshinglawltd.co.uk)