

ESG and the evolving role of employees



Previously, the ESG Council of KPMG in India's Board Leadership Centre (BLC) has shared perspectives on operationalising ESG, navigating the business landscape post COP26, Board's role in shaping the company's ESG agenda and insights into the Business Responsibility and Sustainability Report (BRSR). This edition outlines the elements required to leverage human capital for embedding ESG across the organisation.

In the recent years, there has been an increased focus on the social realm of ESG, particularly employee wellbeing. This focus is stimulated

by high attrition rates, lack of psychological safety-nets and the post-pandemic race in talent retention and attraction. Additionally, several mandatory and voluntary reporting frameworks such as BRSR, Global Reporting Initiative (GRI) Standards and World Economic Forum (WEF) have increased emphasis on human rights centric metrics which have pushed ESG integration to the top of the C-suite agenda. Consequently, ESG has emerged to be a strategic imperative for integrating sustainability beyond just the corporate strategy to rebuild a responsible business model.

Integration of ESG in human capital



When it comes to the evolving workforce demographic, Millennials and Generation Z (Gen Z) appear to be considerably more ESG conscious than previous generations and would demand greater corporate social and environmental efforts. According to a report, 55 per cent of employees would choose to work for a responsible company, even if the salary offered was lower¹. While working for a purpose-driven organisation, employees are likely to stay 1.4 times more

engaged and three times more likely to continue working with the organisation.² Additionally, 58 percent of employees consider the organisation's environment and social commitment as one of the deciding factors to work², further urging implementation of relevant schemes for creating a positive working atmosphere and social image. The diagram below demonstrates the pivotal role of employees and leadership to drive ESG in the organisation's mainstream agenda.



Of the world's workforce in 2029 will be made up by Millennials and Gen Z³

1. Engaging your people as the advocates and enablers of ESG change. wtw, 2020

1. Engaging your people as the advocates and enablers of ESG change, wtw, 2020
2. Human capital is the key to a successful ESG strategy. World Economic Forum, 2021

3. ESG as a workforce strategy. Marsh and McLennan Advantage. 2020.



In combination with this approach, the proposed levers below can accelerate the formation of ESG as an integral part of the company's fabric.

Key levers for leveraging human capital in embedding ESG



A sustainability nexus of purpose, culture and strategy must be developed along with a robust governance structure, to propel optimal board oversight for percolating sustainability across the organisation. This can

be achieved through the right people-oriented commitments, policies, values, metrics and mechanisms. The suggested framework below articulates areas which can expedite integration of ESG in the company's DNA.

These transformational and functional changes will elevate overall ESG strategy and provide opportunities to gain competitive advantage, effectively manage risk and increase stakeholder value creation.



- ESG objectives must become a "north star" for redrafting a meaningful purpose
- Companies must envision a shared purpose in accordance with employees' ESG aspirations.



- Setting 'the tone at the top' is vital. Leaders must embrace ESG in both letter and spirit by bringing gravitas to discussions around environment, social and governance elements
- Leaders must be more considerate in ensuring the nature and execution of work to be in tandem with the lifestyle of each employee to improve mental well-being and performance.



- People-oriented policies such as whistle-blower, diversity and inclusion, Code of Conduct, human rights, among others, further embed ESG in the company's culture, and business practices
- An organisational culture that imbibes diversity and inclusion parameters must also be set on the foundation of strong emotional intelligence, present across leadership roles.



- Meaningful synergies between top management and the employees must be developed to bolster the ESG agenda
- ESG communication cannot only be driven from senior management but must reflect a two-way communication framework to ensure that the voice of all employees resonate across the organisation's initiatives.



- Companies must invest in training and development of employees and the leadership team to build ESG skill sets and knowledge
- Enhance focus on improving mental and physical well-being through effective training programs and initiatives.



- Identify and implement ESG centric metrics in line with the company's strategy, purpose and culture for measuring value creation
- Human capital can be evaluated across certain widely accepted ESG metrics including employee well-being, diversity, pay equity, health, and safety, hiring and retention, productivity and career development, among others.



- Companies must further evoke ESG sentiments among employees through continuous articulation of ESG value proposition and progress
- Incorporate ESG in employee incentive arrangements and total rewards strategy. For example, establish performance management systems, which align employee/ executive/department bonus with the achievement of ESG goals.

Additionally, technology enabled ESG solutions such as data collection tools and productivity application or devices have the ability to strengthen employee involvement, motivation and mobilisation. Digital sustainability levers can underpin efficient employee learning, improved ESG performance visibility and corresponding employee incentivisation.

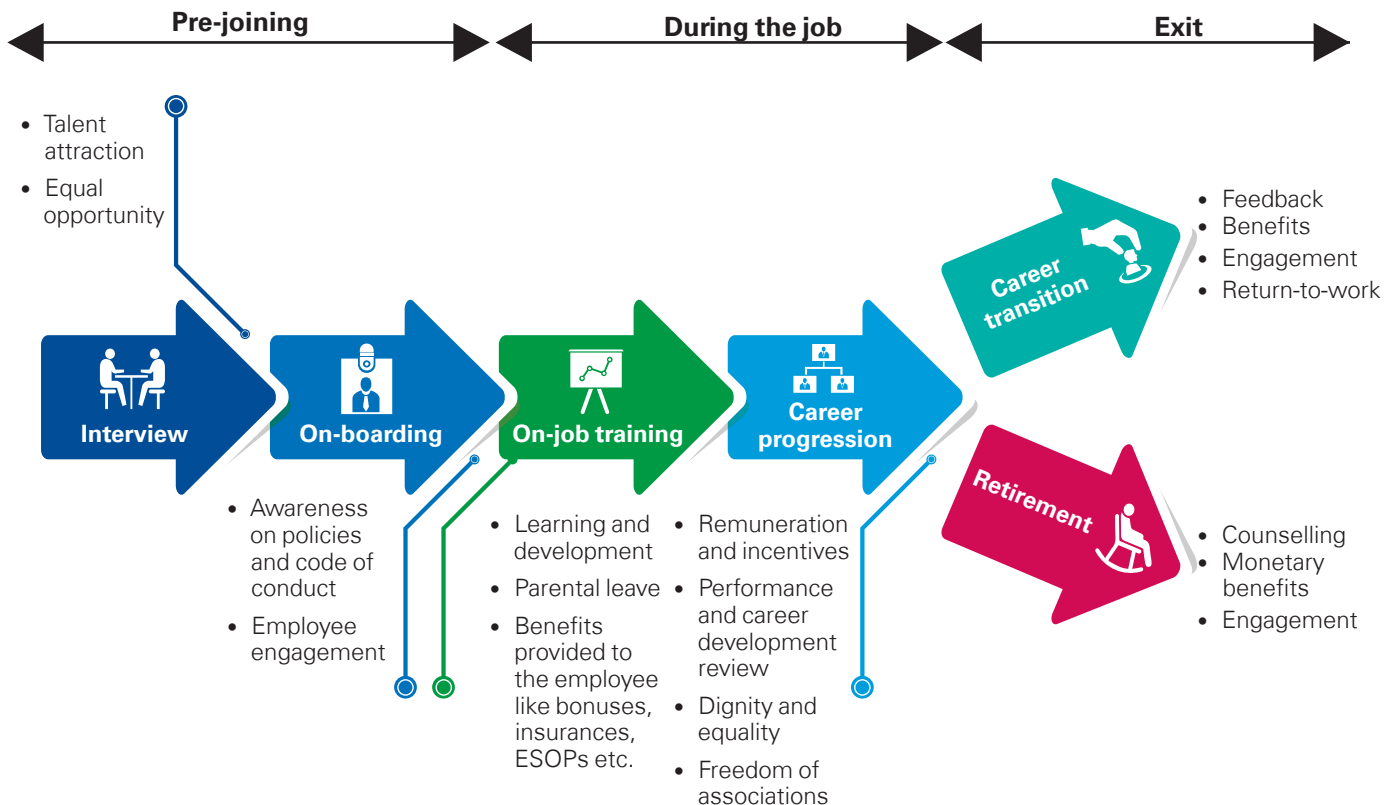


Employee lifecycle through ESG lens



In their quest to achieve personal aspirations as well as contribute towards the company's growth, employees spend a majority of their time and energy at the workplace. It is therefore crucial to recognise them as a critical element to advance the company's social, ethical and responsible practices throughout their corporate journey.

Forward-looking companies can integrate ESG into the employee lifecycle through the suggested pathway.



Commencing with the interview stage, companies can articulate and exchange ESG aspirations between themselves and their potential employees. During the onboarding stage, companies can educate new joiners and create awareness regarding the company's ESG vision and corresponding policies as well as programmes. As employees become a part of the company, aspects such as encouraging employee volunteering towards social initiatives, linking remuneration and rewards with ESG success factors and showcasing the company's efforts towards translating ESG vision into action can help motivate and drive the ESG agenda forward. Compensation committees can

align management's interests with the achievement of relevant ESG priorities through appropriate performance management, incentive plans and leadership development while prioritising diversity and inclusion throughout. In FY 2020, it was observed that one-third of the largest 100 S&P 500 companies formally include culture, as well as employee relations and engagement in their compensation committee's charter.⁴ Furthermore, 51 per cent of S&P 500 companies utilised ESG metrics to reward executives in their annual incentives⁵, thereby signifying the growing momentum of incorporating corporate culture as a key metric for ESG-linked remuneration.

Companies can reinvent and re-establish their total rewards strategy and benefits to be more purpose-driven. As an illustration, additional benefits can be offered to employees who exhibit sustainable lifestyles. Employee Resource Groups are also a valuable channel of communication for promoting ESG-linked initiatives such as diversity, pay-parity or inclusion of environment centric activities. During the career transition phase, employees can be given opportunities to accept roles within the organisation or outside while taking ESG perspective into consideration. Post retirement, employees can become brand ambassadors and further propel the organisation's ESG success stories across diverse platforms and public forums.

4. What are directors saying about ESG and human capital governance, WTW, Kuk. Ganu, September 2020

5. ESG Incentive Metrics, Willis Towers Watson's Global Executive Compensation Analysis Team, 2020

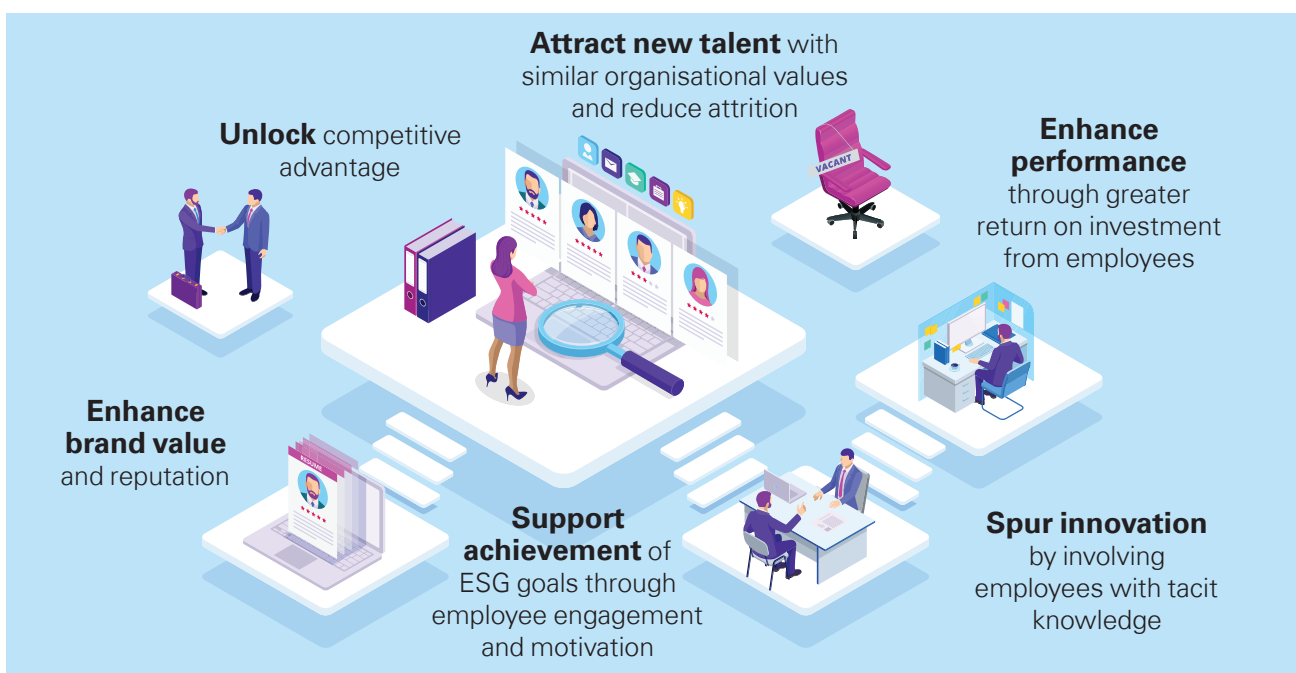
Why invest in harnessing the power of human capital?



Evidently, employees and leadership team are at the fulcrum of climate resiliency, diversity, equity and inclusion efforts, as well as employee well-being. They are also the ones who exhibit ethical

business practices and behaviour, and hence are emerging to be one of the most precious assets of the company. It was also observed that the company's intangible assets, incorporating human capital and culture are

estimated to comprise on an average of 52 per cent of a company's market value⁶. This indicates how embedding ESG in human capital can propose certain overarching advantages.



Leading companies are increasing focus on investing in their employees through an array of training and development programme. Some of them have even taken a step further to

determine Return on Training Investment (ROTI) to measure their overall value creation. Through ROTI, companies are realising the actual benefits accrued through employee

upskilling. An effective training can contribute towards increased employee productivity and innovation; while, the corresponding skilled workforce streamlines achievement of long term ESG objectives.

We would like to extend our gratitude towards the ESG Council members for their valuable time, insights and perspectives that have contributed towards the development of this document.

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6. How and Why Human Capital Disclosures are Evolving, Harvard Law School Forum on Corporate Governance, 2019 ESG Incentive Metrics, Willis Towers Watson's Global Executive Compensation Analysis Team, 2020

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